The Differences Between Life and Living Annuities

by O'Hagan Attorneys **| Dec 1, 2023 |** Retirement Planning **|** 0 comments

New beginnings

After working for forty years, the time has come to make really important decisions about how you'll manage your retirement funds to ensure that your golden years are all you'd hoped for.
When you retire, you must transfer two-thirds of your retirement funds to a Life Annuity or Living Annuity. Your retirement funds could include Pension or Provident Funds, Preservation Funds, or Retirement Annuities.
Choosing the right kind of annuity for your situation is often the foundation of a financially secure retirement.

What is a Life Annuity?

A Life Annuity is a contract with an insurance company that guarantees fixed or variable payments for the rest of your life. A Life Annuity transfers the risk of outliving your savings to the insurer.
A guaranteed Life Annuity is a product that pays a regular income to you for the duration of your life (it can also include your spouse). The initial income is guaranteed and will never decrease, and you can choose that payments increase by inflation every year. A guaranteed Life Annuity can also have a guaranteed period of 20 or, say, 30 years. If you pass away within that period, the income will be paid to your spouse until the end of the guarantee period.

The most significant advantage of a Life Annuity is that it is risk-free, but the disadvantage is that it does end.

And how about a Living Annuity?

A Living Annuity is a financial product that pays you a regular income when you retire from your pension or retirement fund. You can choose how much income you want to receive each year (between 2.5 and 17.5 % of the funds you've saved) and where to invest your savings. You have greater flexibility and control over your money but also bear more risk and responsibility. If your withdrawals are too high, you can run out of money.

It is extremely important to get the asset allocation right, so please do allow us to help in this regard. Usually, your financial planner will select low-risk funds to pay you an income for the first couple of years and then higher-risk funds, including equity, so your investments will grow. When you have your annual review, your advisors will most likely rebalance the funds and place an increased amount into the low-risk portion.

You can select to have your Living Annuity paid monthly or annually. The most significant advantage of a Living Annuity is that it can assist you in creating generational wealth as the investments do not cease on your passing. Furthermore, Living Annuities do not form part of your estate, so they don't attract estate duty or executor's fees.

Tax matters

Both Life and Living Annuities are taxed as income at your marginal tax rate. Living Annuities are taxed at source (by the provider), and you can select the rate to match your marginal tax rate so that you don't have to pay additional tax at the end of the year. When you rebalance the underlying investments in Living Annuities, Capital Gains Tax doesn't apply.

The best of both worlds?

You also have the option of choosing a hybrid annuity, which includes a Life and Living Annuity so that you get the best of both worlds. And do remember that you can change your Living Annuity into a Life Annuity at any point in time, but not the other way around. It is essential to fully understand the advantages and disadvantages of each type of annuity before purchasing one.

Please do call us to make an appointment to discuss this significant decision before you retire.

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