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# How to fund a retirement income for life

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When considering income products at retirement, members want:

- Access to good returns with some investment choice
- Protection against risk and, in particular, investment risk and longevity risk
- Access to capital, before and after death.

Given the combination of needs that individuals will have and risks that they will face throughout their retirement years, a single retirement product is unlikely to be appropriate.

Every financial product has advantages and disadvantages, benefits and costs. Incorrect product advice and a misunderstanding about the features of annuities may lead to mixed emotions and different opinions.

## Guaranteed life annuities

For all life annuities, pensioners carry no longevity or investment risk and some of the advantages of this cannot be understated:

- Income for life. Annuities provide an income stream that clients cannot outlive. This is more than just a marketing phrase; this is a promise for life. Insurers pool all annuity customers together, and although insurers do not know exactly when policyholders will die, they have a fairly good estimation of their lifespan by using mortality tables.
- Annuities can be tailored to meet specific family needs. For example, they can provide a benefit that equals 75% of the income of the main member to a surviving spouse or dependent child. Annuities give clients and their spouses the peace of mind that, no matter how long they may live, their payment stream will continue.
- Freedom from making investment decisions for clients. Insurers can invest in a wide range of assets. Not only do insurers offer products with attractive returns that annuity holders could not access on their own, but they also release pensioners of the stress of having to make their own investment choices. This is especially important when cognitive ability starts to decrease during old age.

However, the disadvantage is that guaranteed annuities offer clients an income for life, but no remaining capital is left as an inheritance or legacy after death. A guaranteed annuity also cannot be transferred to a living annuity.

## Living annuities

Living annuities provide pensioners with an income from their retirement savings, offering flexible investment choice and withdrawal rates. In exchange for this flexibility, pensioners take on the risk that they may outlive their savings or experience poor investment returns (known as longevity and investment risk).

**The pros of living annuities are:**

- Flexibility. Pensioners are allowed to make investment choices about the underlying assets in their portfolios, and can choose the annual withdrawal rates in a range of 2.5% to 17.5%.
- The remaining capital is not lost in the event of death after retirement and can be paid out to nominated beneficiaries.