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The cons are:

- Living annuities do not guarantee an income for life. People who live longer than average are significantly at risk of running out of cash. Statistics indicate that people are living longer and this leads to a rapid depletion of capital, and is currently the greatest risk for pensioners. Living annuities unfortunately offer no protection to those pensioners who may outlive their cash. Pensioners will carry this risk on their own.

- Release from the responsibility of ownership of your retirement outcome. Living annuities not only give pensioners more flexibility, but also more responsibility in making the correct investment decisions and withdrawal rates. This may be fine when you are 65, but it is not something you still want to worry about when you are 85.

In the same way that premium economy class addresses more than one need for passengers, by offering a more affordable spacious way of travelling, hybrid and composite annuities address retiree needs by way of access to good returns, protection of risks and access to capital.

Composite annuities are becoming a popular option in the market, with the following versions:

- Living annuity, phasing into a guaranteed annuity over time
- Buying a living annuity together with a deferred annuity at inception
- Buying a term annuity for the first 5-10 years and thereafter receiving income from a living annuity

When starting with a living annuity and switching into a guaranteed annuity later, the big question remains: When is the optimal time to do this?

Let's compare two options, namely:

1. Buying a 5% guaranteed escalation annuity at age 65;
2. Buying a living annuity at age 65 and then switching into a 5% guaranteed escalation annuity at age 70.

Option 1:

Our calculation shows that for a member retiring with R1 million into a 5% guaranteed escalation annuity, the starting annual pension amounts to R97 974 per annum.

Increasing this pension annually by 5%, the member will receive an annual income at age 70 of R119 088 per year.

Option 2:

This is compared to the alternative of buying a living annuity at age 65, then withdrawing the same income as received from the guaranteed escalation annuity now from the living annuity.

If a member then five years later, buys a 5% guaranteed escalation annuity of R119 088 per year (the same as the income in option 1 after five years), the member age 70 needs R1.053 million to afford this. The question is what return is needed in the living annuity after fees, during the first five years to afford the guaranteed annuity after five years?

And for those interested, all calculations are based on the PA90 mortality table without mortality improvements. You will know that with increasing age, the member becomes a select life and a guaranteed annuity is becoming relatively more expensive. The return needed to afford the same pension after five years is 13.9% per annum, which is a high return for a portfolio without investing in risky assets. Thus, if a member wants to be ultimately in a life annuity, the best time to do this is as soon as possible.

"The secret to living well is to die without a cent in your pocket. But I miscalculated, and the money ran out too early". Jorge Guinle