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THE ONE DECISION AT RETIREMENT YOU MUST GET RIGHT

CHARIZE BEUKES | CERTIFIED FINANCIAL PLANNER®, BRENTHURST PRETORIA

While hybrid annuities are designed to offer the best of both worlds, they still come with fine print – rules, fees and terms that need to be properly understood.

I'm always surprised by how many people don't realise that turning your retirement savings into income isn't just about picking a product. It's one of the most important financial decisions you'll make, and one of the most misunderstood.

People spend years building up their retirement funds. They save carefully, invest wisely and keep an eye on the long term. But when the time comes to start drawing an income, many rush into a choice that can't easily be undone.

And I get it. On the surface, the options seem simple. You can go for certainty with a life annuity. Or you can stay flexible with a living annuity. But what sounds obvious on day one doesn't always hold up five, ten or twenty years into retirement.

That's why this isn't just a product decision. It's a planning decision. One that deserves time, thought and advice.

IN THIS ISSUE

Choosing the right annuity at retirement is crucial, as it determines the sustainability and predictability of your income for the rest of your life. Opting for a guaranteed annuity offers stable, lifelong income, but lacks flexibility, while a living annuity provides investment control and potential growth, but carries the risk of outliving your funds if not managed carefully.

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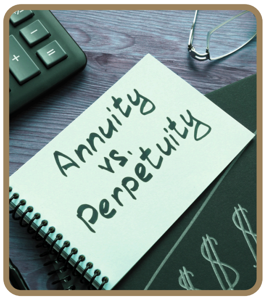
THE TWO MAIN CHOICES, AND THEIR TRADE-OFFS

If you're approaching retirement, you'll likely be offered two ways to convert your savings to income:

LIFE ANNUITY

A life annuity provides a guaranteed monthly income for life. It's steady and secure — you'll never run out of income, no matter how long you live. However, the trade-off is that your capital is no longer accessible. You typically can't change your income later, access the funds, or leave the capital to your family when you pass away.



LIVING ANNUITY

A living annuity keeps your money invested. You choose how much income to draw, and you can adjust this each year. If markets perform well and you draw down responsibly, your money can grow and even outlast you. But there's risk involved – market volatility, poor investment choices and drawing too much, too early can all eat into your savings over time.

At first glance, it seems like a choice between safety and flexibility, but the real picture is more complicated than that.

ONE-WAY DECISIONS AND CLOSED DOORS

Many people miss this: Once you choose a life annuity, you can't change your mind. It's an irreversible decision. You can't move the money back into a living annuity later, even if your needs or circumstances change.

On the other hand, you can move from a living annuity into a product that gives you guaranteed income later on, and this is where hybrid annuities come in.

WHY HYBRIDS EXIST, AND WHY TIMING MATTERS

A hybrid annuity offers a balance between the two. You split your retirement savings into two parts. One part buys a guaranteed income for life, enough to cover your essentials such as medical expenses, bills and food. The other part stays invested and flexible, just like a regular living annuity.

This gives you two layers of protection:

- A base level of income you can rely on.
- Investment growth potential for extra income, emergencies or your estate.

Yes, you can start with a living annuity and add a guaranteed income portion later, but it's not always as simple as it sounds.

The income you'll receive from the guaranteed portion depends on factors like interest rates and your age at time of purchase. If you wait too long, or if market conditions change, you might get far less value for the same amount of money.

Also, once you move funds into the guaranteed portion, that decision is locked in. You can't take the money back or move it elsewhere. So, while you do have some flexibility, it's not limitless.

SO WHY DOES THIS ALL MATTER?

Because what seems like a simple decision at retirement can have long-term consequences. If you take a life annuity too soon, you give up the flexibility that you might have needed. If you stick with a living annuity without a plan, you might run out of money or live with constant uncertainty.

While hybrid annuities are designed to offer the best of both worlds, they still come with fine print – rules, fees and terms that need to be properly understood.

WHAT I TELL MY CLIENTS

When I work with people approaching retirement, I often say: Don't make this choice alone, even if you've done your homework. Even if you think you're sure.

The truth is, this isn't just about what markets are doing or what products are available. It's about you – your goals, fears, family and plans for the future. It's about how much certainty you need, how much risk you can live with and what legacy you want to leave.

These are not simple questions, and there's no single right answer. But there is a better answer for you, and that comes from exploring your options carefully, while you still have all of them on the table.

Getting close to retirement? Let's discuss your income plan and build something that gives you confidence and control. You don't need to make this decision alone.

CHARIZE BEUKES | CERTIFIED FINANCIAL PLANNER®, BRENTHURST PTA

Charize joined the Brenthurst Wealth team in April 2021 as a financial advisor under direct supervision. She obtained her BCom (Hons) in Management Accounting from the University of South Africa (UNISA) and has been working in the finance industry for over 10 years.

She is registered with SAIPA as a Professional Accountant and Tax Practitioner and has completed her Class of Business and Postgraduate Diploma in Financial Planning through the University of the Free State. Charize is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA, and is fully qualified to provide advice on all investment matters.

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