

YOUR MONEY SORTED



ANNUITIES ASSESSED

By LETITIA WATSON

Send suggestions for topics and requests for info to yourmoney@you.co.za. We may answer your questions in this column but won't reply personally.

Choose the right annuity to provide you with a regular income when you retire

LIVING ANNUITY

You can choose the underlying investments and the withdrawal rate but the income you receive isn't guaranteed. Your income comes from the investment's returns. If it's too little the underlying investments are sold so additional money can be made available to you as an income. You can annually draw an income ranging from 2,5 percent to 17,5 percent of your capital, Deane Moore of Just Retirement South Africa says. You can later switch to a guaranteed annuity.

ENHANCED ANNUITY

An enhanced annuity also offers a guaranteed income for the rest of your life. But it's aimed at people whose health and lifestyle can shorten their life expectancy, for instance if you smoke, have a cardiac condition, diabetes or cancer. An enhanced annuity can then give you an income of 10 to 30 percent higher than many other annuities, Moore says. If you're already retired and have a living annuity you can switch to an enhanced annuity up to the age of 85.

GUARANTEED ANNUITY

This is a policy that upon retirement pays out a predetermined guaranteed income for the rest of your life. It's not affected by market fluctuations. When you buy this kind of annuity, an annuity rate is applied to determine what income you'll get. The rate is affected by factors such as your age and health and the interest rate. The higher the rate, the higher your income. You don't always have the option to let your heirs inherit from the policy, but some policies have death benefits.

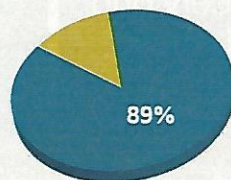
LIVING ANNUITY PITFALLS

Experts warn that if you withdraw more than four or five percent of your capital annually you run the risk of your money running out too soon. Rather adjust your spending now because the more extravagant your lifestyle the more capital you need to maintain it. Ask a good financial adviser to help you with an investment plan so you can work out how much you need for your specific income requirements without exhausting your capital.

5 THINGS TO KNOW ABOUT ANNUITIES

- 1** What are inflation-linked annuities? With some guaranteed annuities your income can be annually increased or adjusted to match the inflation rate.
- 2** What determines how long my life annuity will last? The amount you withdraw as an income, the performance of the underlying investments and your life expectancy.
- 3** Can the withdrawal rate of a life annuity be changed? Yes, usually once a year.
- 4** Are medical examinations required for an enhanced annuity? No, you need only answer a medical and lifestyle questionnaire.
- 5** What should I ask an adviser about a retirement annuity? How accessible is your information, how clear is the policy or investment, and how quickly will the adviser answer your queries.

89% CHOOSE LIVING ANNUITIES



Most people (89 percent) opt for living annuities. One of their advantages is that the remaining capital can be left to heirs. The disadvantage is there's a big risk that your money will run out during retirement if you draw too much or live longer than

expected. Ask a reputable adviser about choosing the right annuity for your lifestyle and pocket.

TIP! Find out what the fees are. The higher the fees of a living annuity the sooner your money will run out.

GET MORE HELP HERE

- Institute for Financial Planners, fpi.co.za, for accredited advisers.
- Association for Savings and Investment SA (Asisa), asisa.org.za.
- To check companies and advisers' licencing status go to the FSB website at fsb.co.za or call 0800-110-443.

Wisdom doesn't necessarily come with age; sometimes age just shows up all by itself

- AMERICAN CARTOONIST TOM WILSON