

# Cracking the retirement income puzzle

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# return

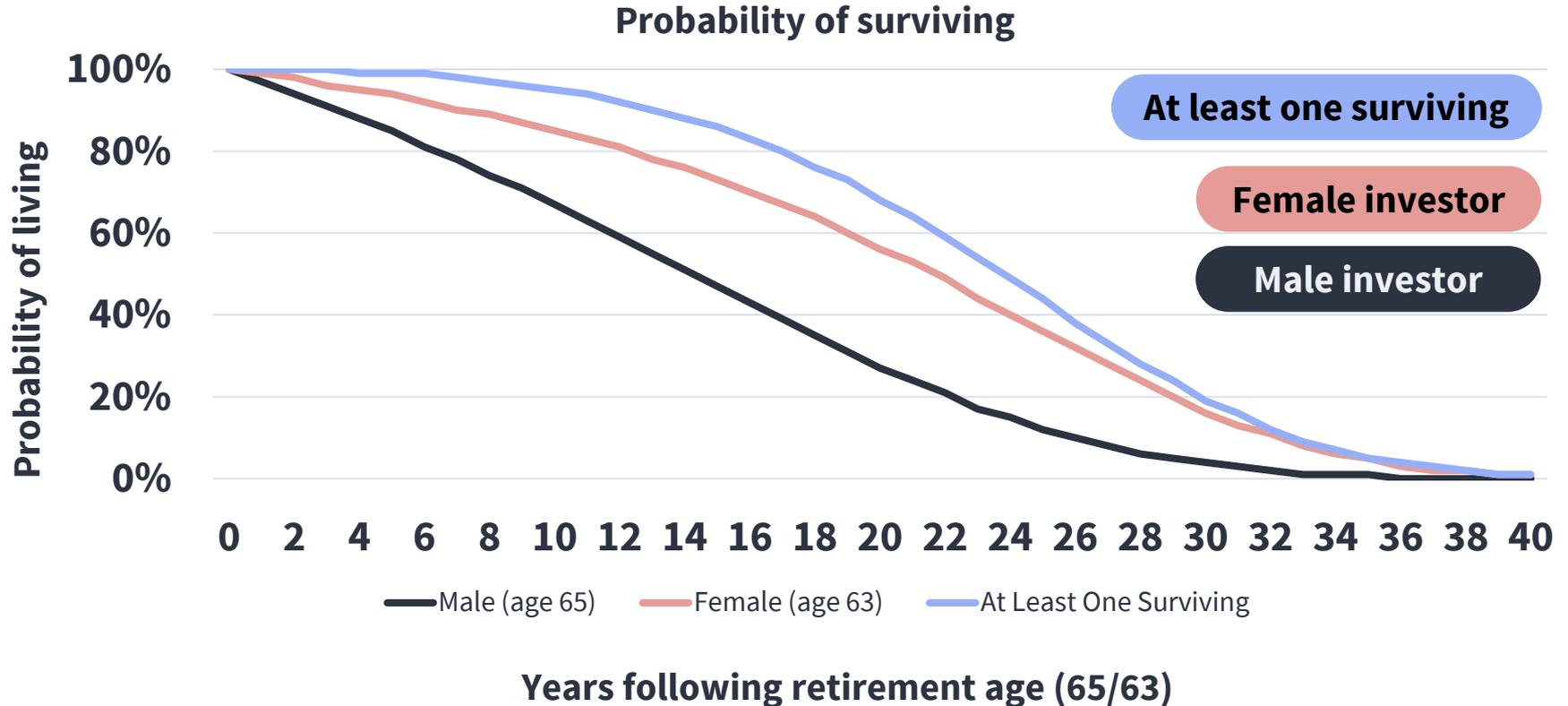
# The rules of the game have been changing

Increasing pressure on the investor

- Defined Benefit to Defined Contribution
  - You take all investment and longevity risk
- Start work later → Shorter work/investment career → longer post retirement lifetime → drawdown period
- Higher expenses (sandwich generation) and less tax support
- More investment freedom (Reg 28: global)
- More noise → volatility → urge to act → behavioural mistakes

# Longevity risk of “joint lives”

High probability that at least one spouse survives for a long time





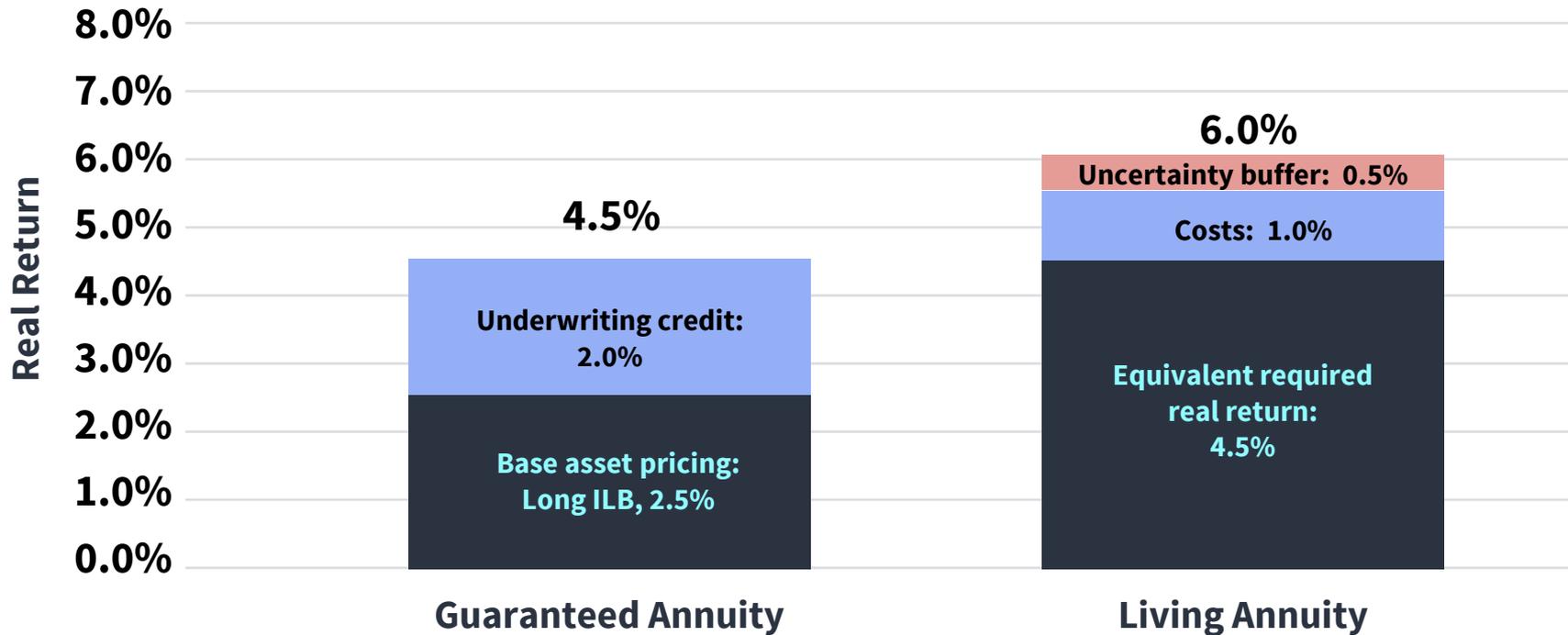
**Living Annuity**  
No (explicit) insurance



**Guaranteed Annuity**  
Longevity and investment insurance

# Guaranteed vs Living Annuities: what is the normal “break-even”

Lower return on underlying assets, but boosted by “underwriting credits”



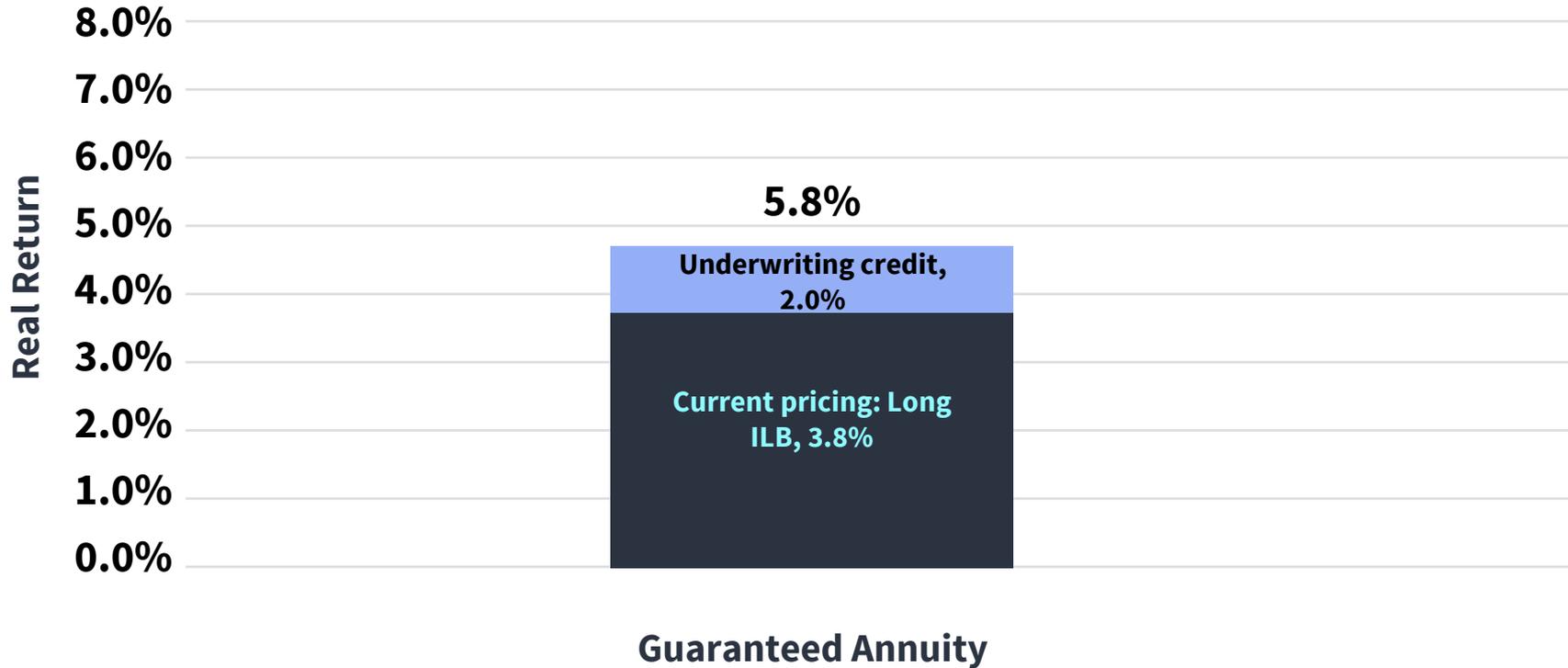
# The variable “price” of a guaranteed annuity

Unique opportunity due to current attractive valuations and future inflation expectations



# Guaranteed vs Living Annuities: what is the current “break-even”

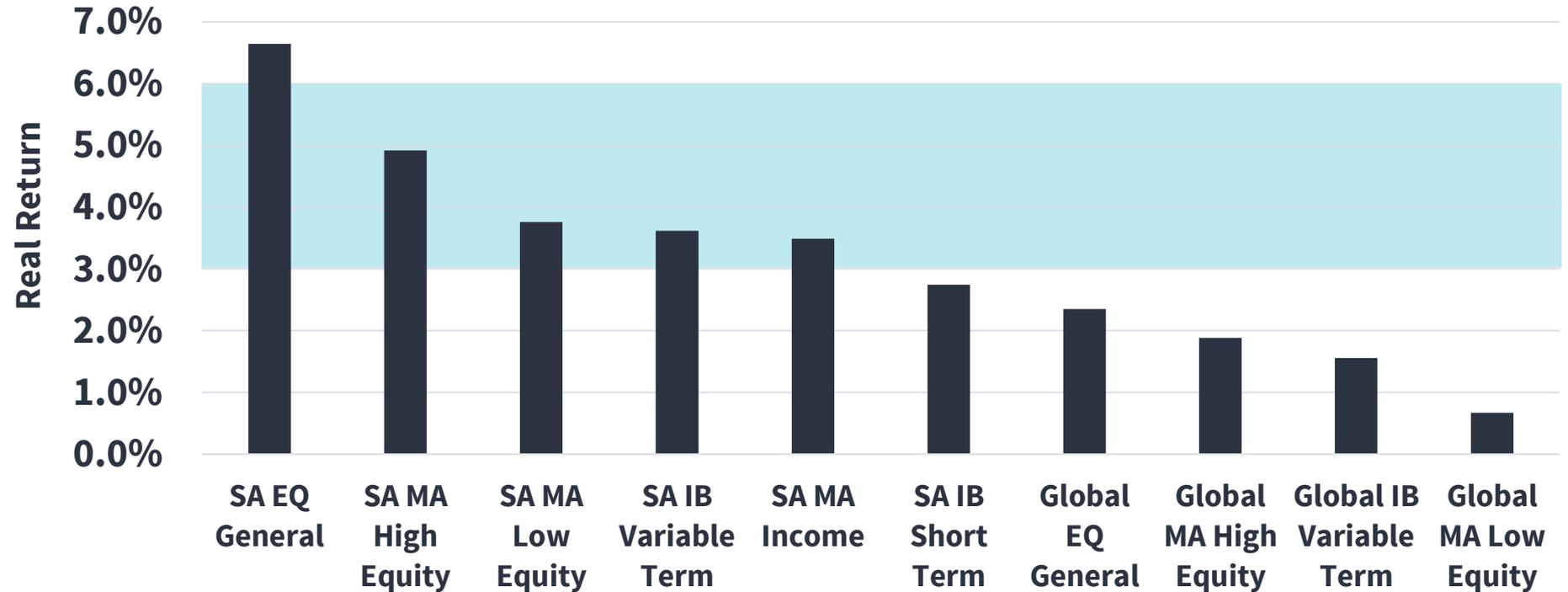
Attractive ILB yields and SARB pushing for 3% future inflation target



# The actual experience of South African investors

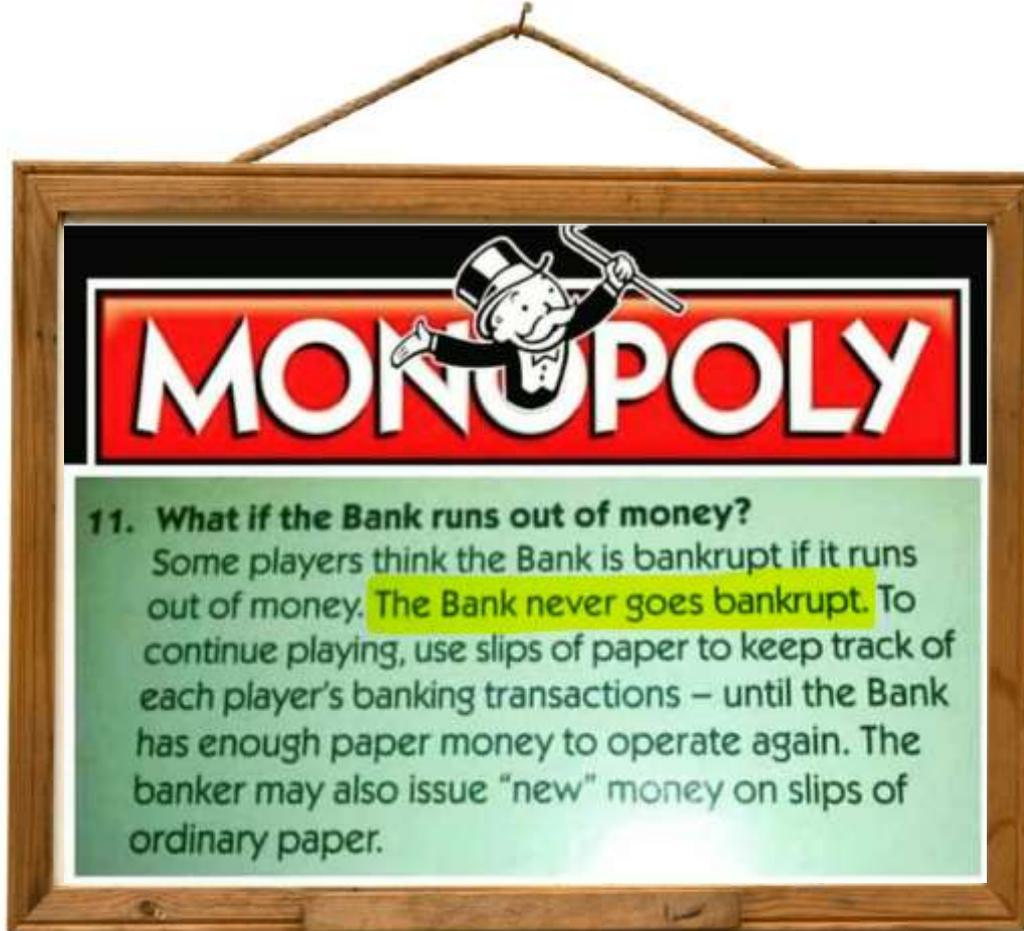
Historical 25 year returns by ASISA fund category

## 25 year Real Returns



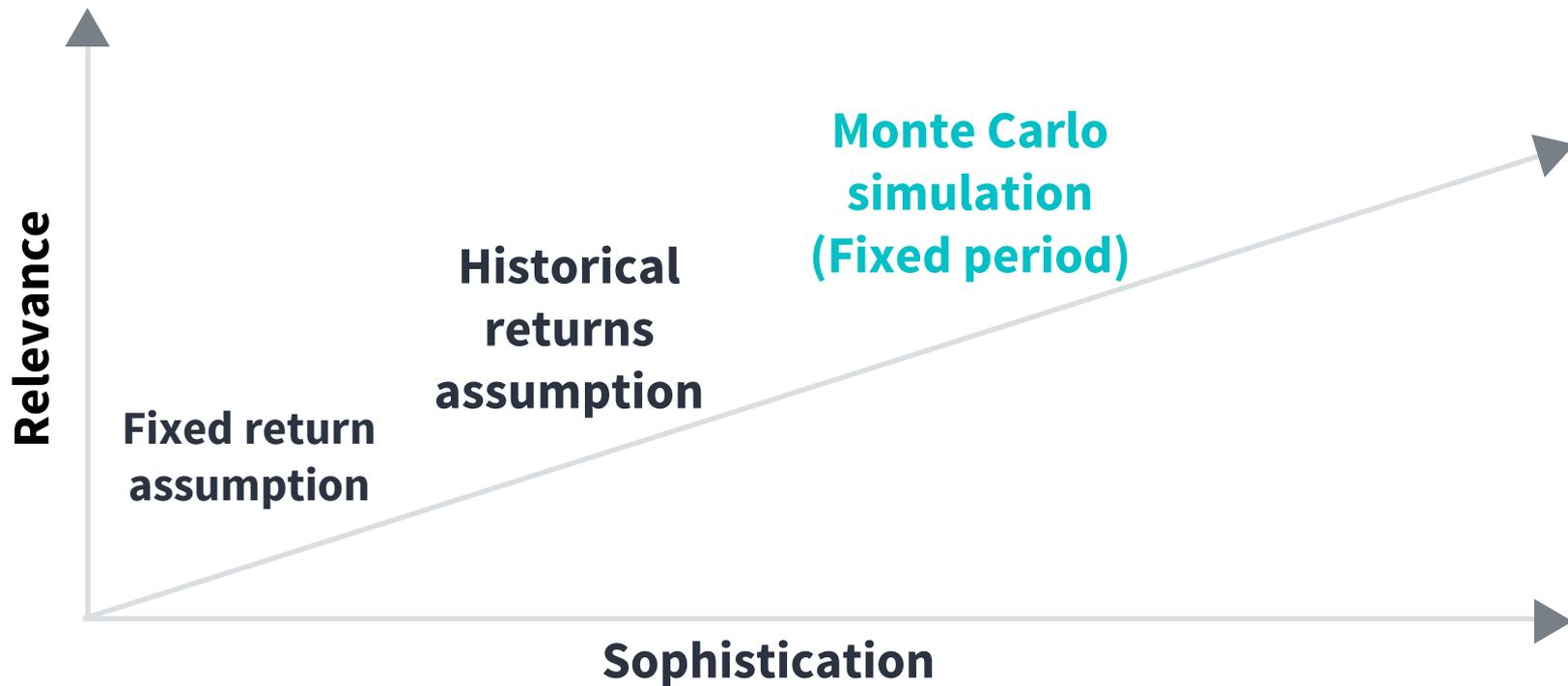
# What if reality turns out different to our “beliefs”?

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Asset Management



# Living Annuity scenario modelling

Using actual historical returns and scenario modelling



# Likelihood of a living annuity book failing?

A very low draw down rate is your best insurance against failure

## 2.5% Drawdown

Years post retirement	SA Interest Bearing Short Term	SA Multi-Asset Income	SA Multi-Asset Low Equity	SA Multi-Asset High Equity	SA Equity General
10 Years	0.0%	0.0%	0.0%	0.0%	0.0%
15 Years	0.0%	0.0%	0.0%	0.0%	0.0%
20 Years	0.0%	0.0%	0.0%	0.0%	0.0%
25 Years	0.0%	0.0%	0.0%	0.0%	0.1%
30 Years	0.0%	0.0%	0.0%	0.0%	0.2%
35 Years	0.0%	0.0%	0.0%	0.0%	0.4%
40 Years	0.0%	0.0%	0.0%	0.0%	0.6%

# Likelihood of a living annuity book failing?

As drawdown rates increase, you need to consider more growth assets

## 5.0% Drawdown

Years post retirement	SA Interest Bearing Short Term	SA Multi-Asset Income	SA Multi-Asset Low Equity	SA Multi-Asset High Equity	SA Equity General
10 Years	0.0%	0.0%	0.0%	0.0%	0.0%
15 Years	0.0%	0.0%	0.0%	0.0%	0.6%
20 Years	0.0%	0.0%	0.0%	0.8%	3.0%
25 Years	0.0%	0.0%	0.4%	4.6%	6.9%
30 Years	19.2%	2.0%	4.1%	9.9%	10.9%
35 Years	99.3%	17.1%	13.6%	16.8%	14.1%
40 Years	100.0%	46.7%	26.6%	21.1%	16.8%

# Likelihood of a living annuity book failing?

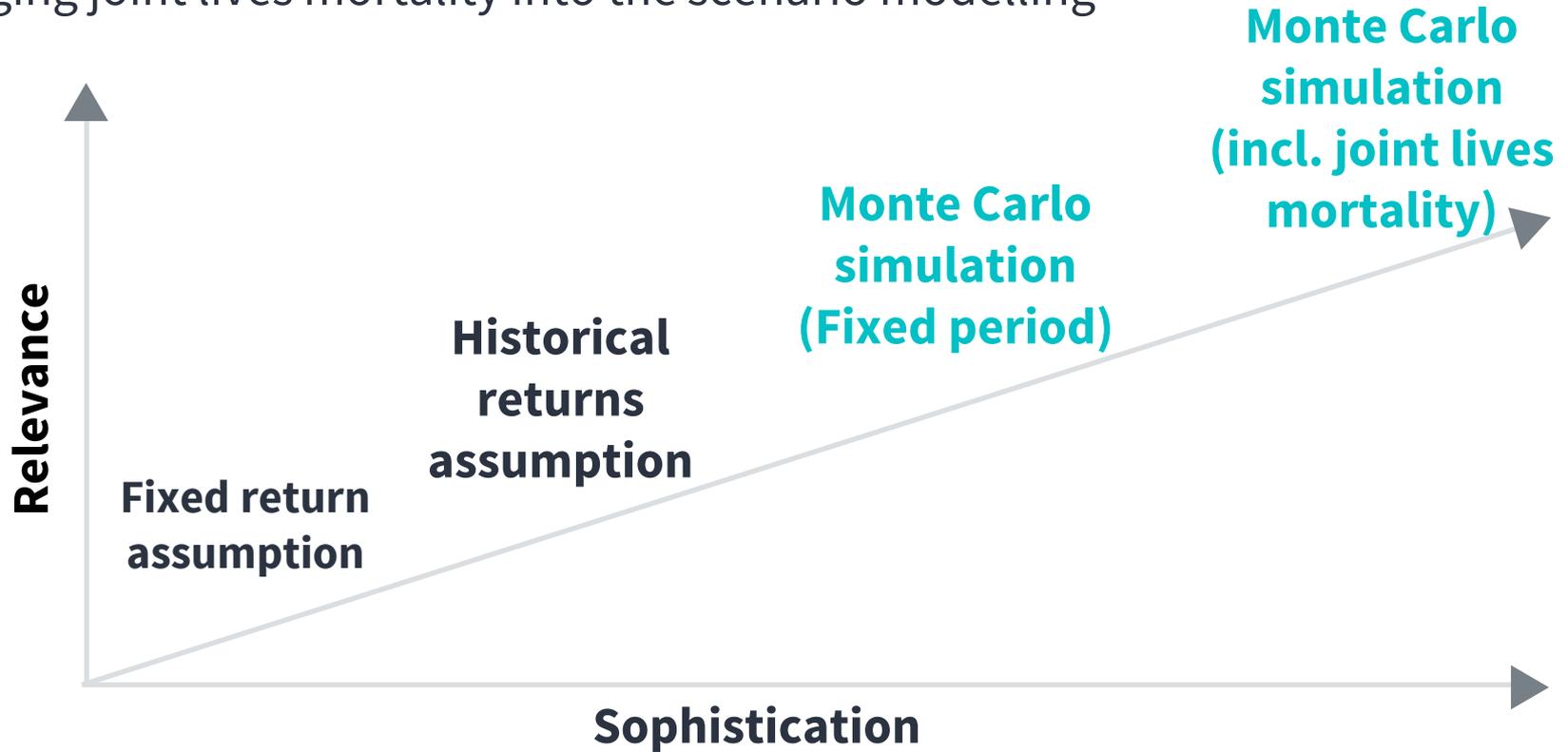
The cash illusion of low failure rates during the early years

## 7.5% Drawdown

Years post retirement	SA Interest Bearing Short Term	SA Multi-Asset Income	SA Multi-Asset Low Equity	SA Multi-Asset High Equity	SA Equity General
10 Years	0.0%	0.0%	0.0%	0.0%	0.7%
15 Years	0.0%	0.1%	1.0%	6.7%	10.4%
20 Years	100.0%	62.9%	40.9%	31.3%	24.8%
25 Years	100.0%	99.3%	86.5%	53.3%	37.3%
30 Years	100.0%	100.0%	97.1%	67.7%	46.4%
35 Years	100.0%	100.0%	99.4%	75.0%	51.2%
40 Years	100.0%	100.0%	99.8%	80.3%	54.1%

# Living Annuity scenario modelling

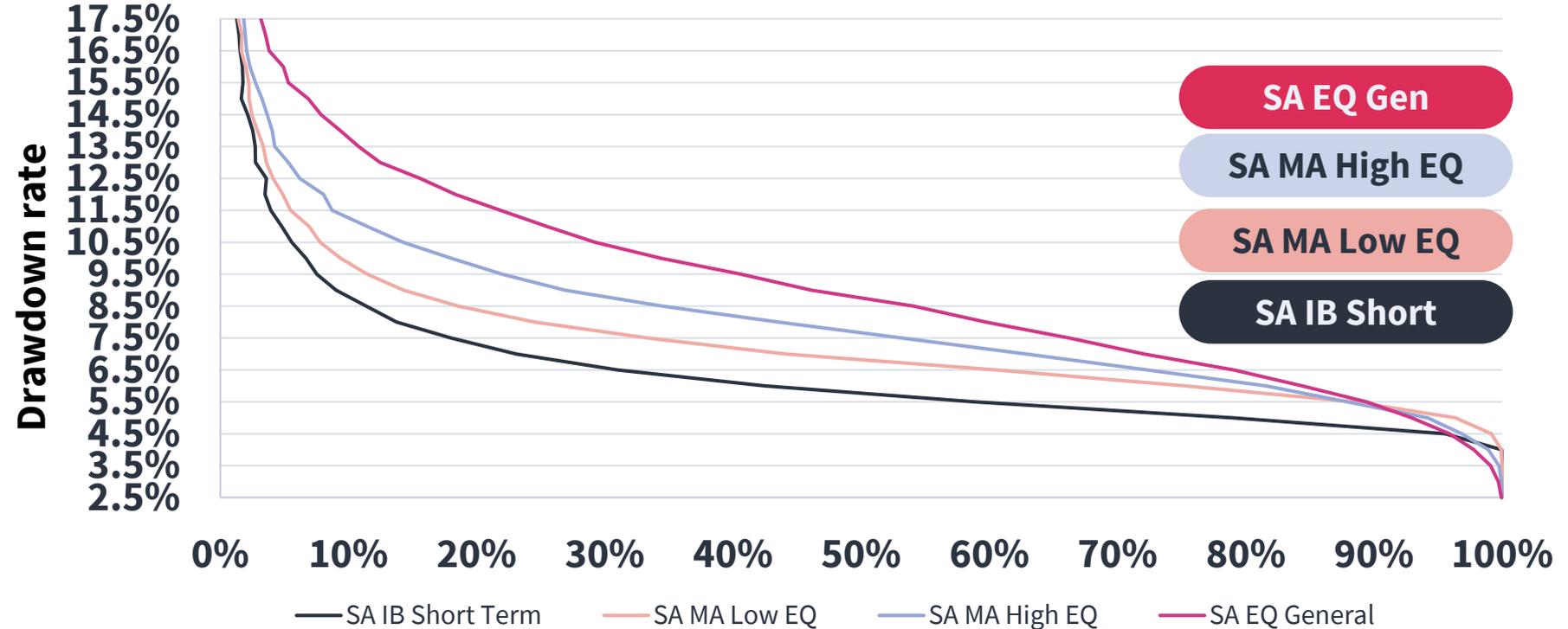
Bringing joint lives mortality into the scenario modelling



# Probability of funds outlasting joint lives

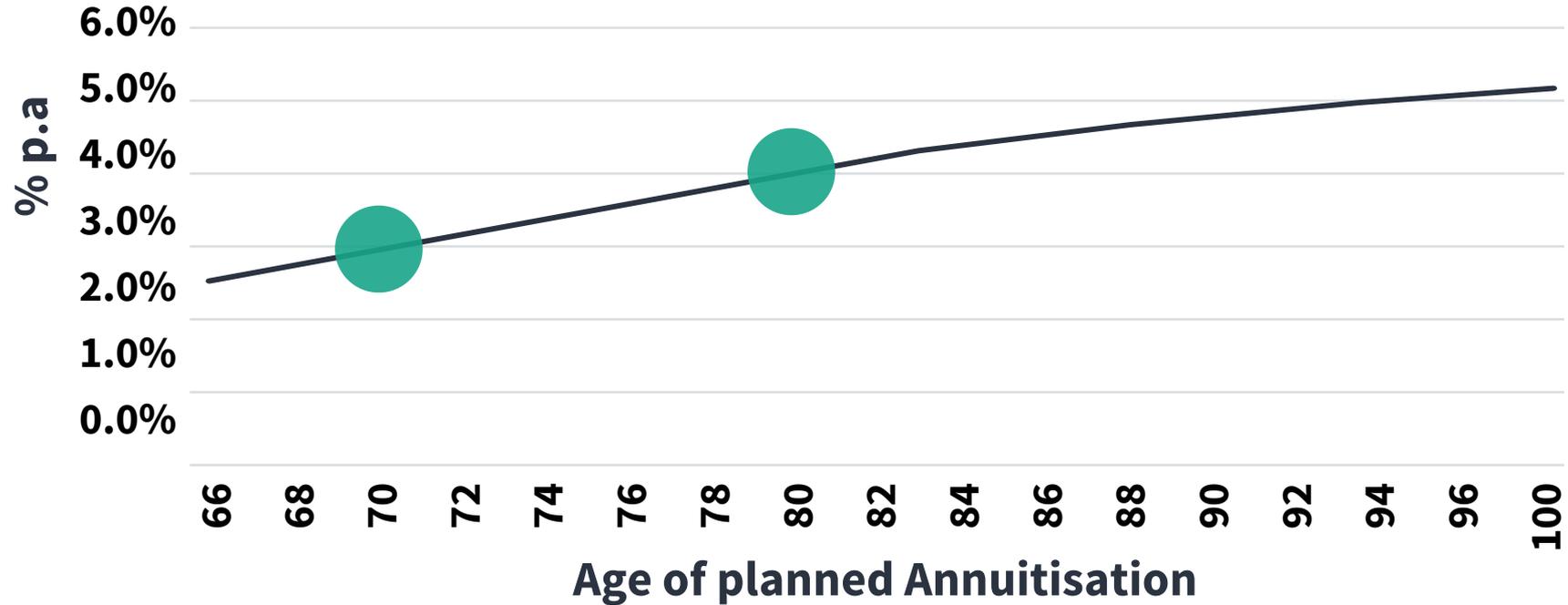
South African joint-life mortality and historical 25 year returns by ASISA fund category

## Probability of Success



# Should you buy a Living Annuity and switch to Guaranteed Annuity later?

Investment outperformance required during deferment in LA to break even at later ages



# Key takeouts

- Financial planning is typically for joint lives
- Your investment horizon is longer than you think
- Are you designing your Living Annuity to fail; or underperform a guaranteed annuity
- Don't derisk at retirement
- The price of both Living Annuities and Guaranteed Annuities are NOT static – you can't use a static “recipe”
- Living Annuity sustainability hugely sensitive to change in drawdown rate
- Don't delay annuitisation

# STANLIB

## Asset Management

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