

# Living annuities – How will they benefit the living?

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# Agenda

1. Introduction
2. Risks faced by living annuitants
3. Sustainability
4. Costs
5. The challenge of choosing a default
6. Legislation
7. Portability



# What will your retirement look like?



*"...and this is the day room. Of course, everyone's out at work at the moment..."*



# Goals & risks

## Goals



## Risks

ed income not sustainable  
6 cap restricts increases  
ge in regulation or sustainability restrictions

ated' while alive  
nothing left



# Sustainability drivers

## Goals



## Product



Asset allocation  
(Return & volatility)



Term



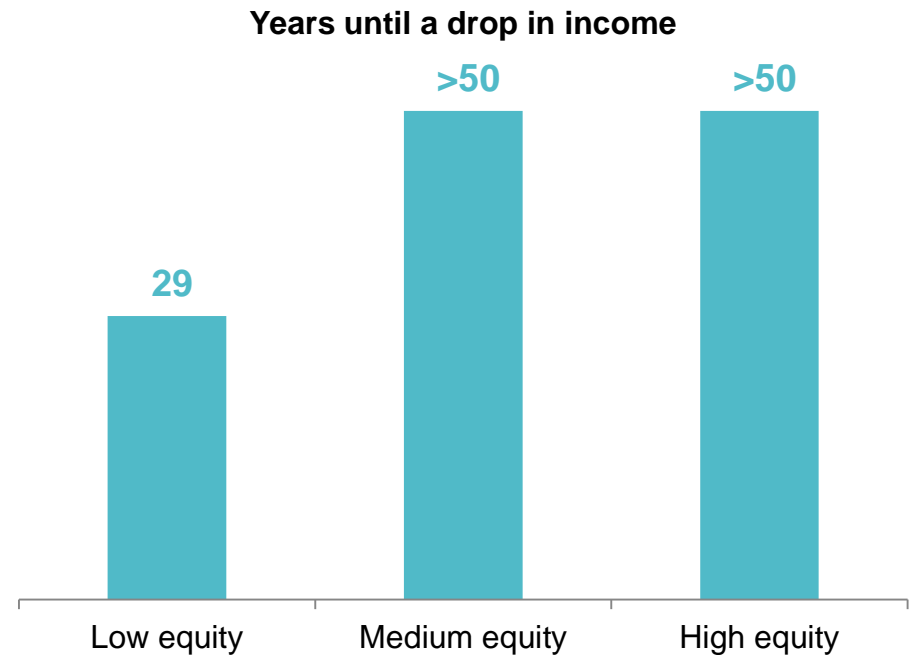
Fees



# Sustainability drivers: asset class

## Example: 5% income drawdown

Typical projection – no fees  
– no volatility



Source: 10X Investments, Dimson, Staunton & Marsh

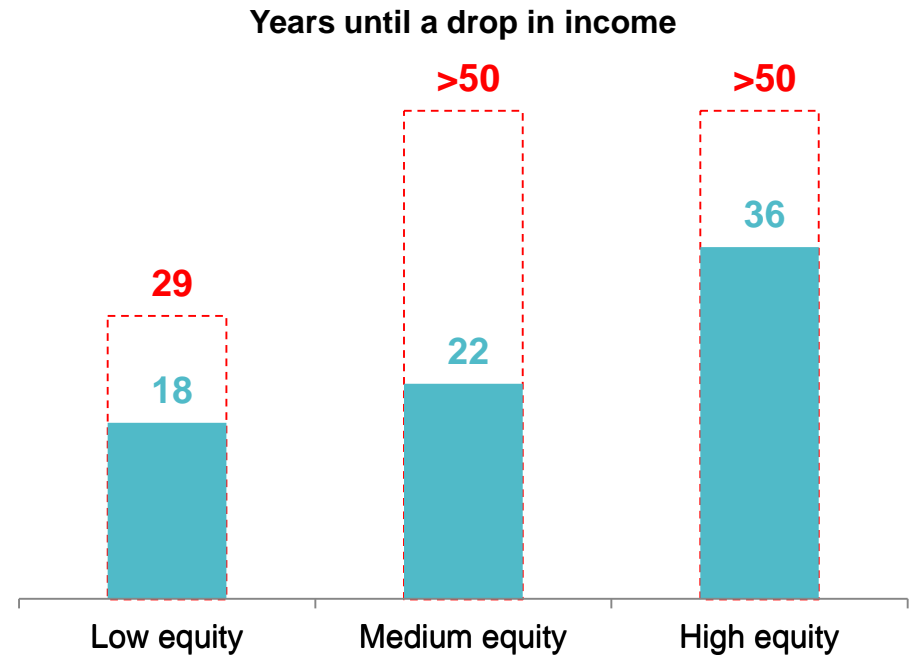


# Sustainability drivers: fees

## Example: 5% income drawdown

Typical projection – no fees  
– no volatility

Add in fees of 3%



Source: 10X Investments, Dimson, Staunton & Marsh



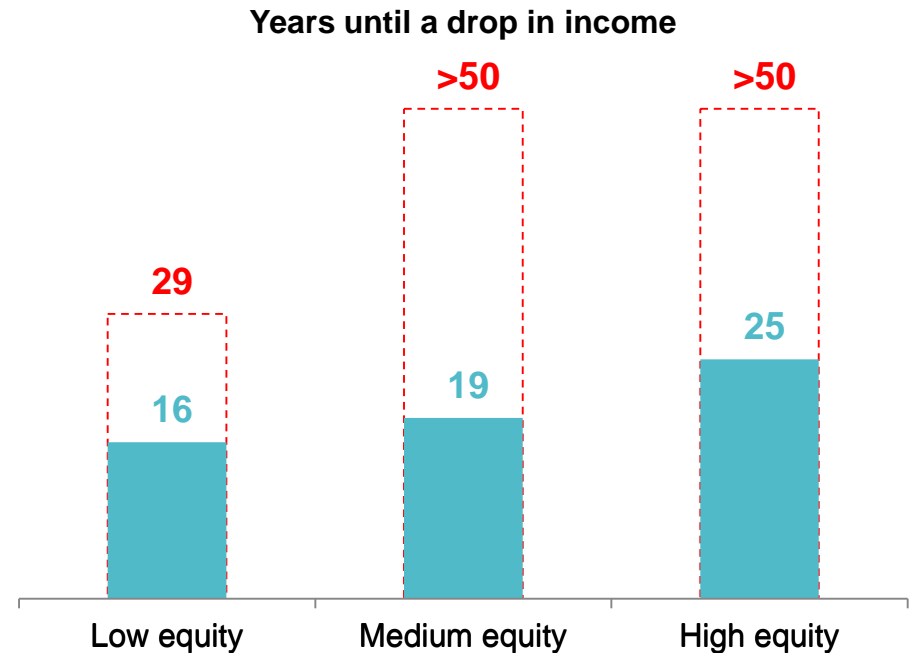
# Sustainability drivers: volatility

## Example: 5% income drawdown

Typical projection – no fees  
– no volatility

Add in fees of 3%

Add in volatility



Source: 10X Investments, Dimson, Staunton & Marsh





# Sustainability drivers: confidence level

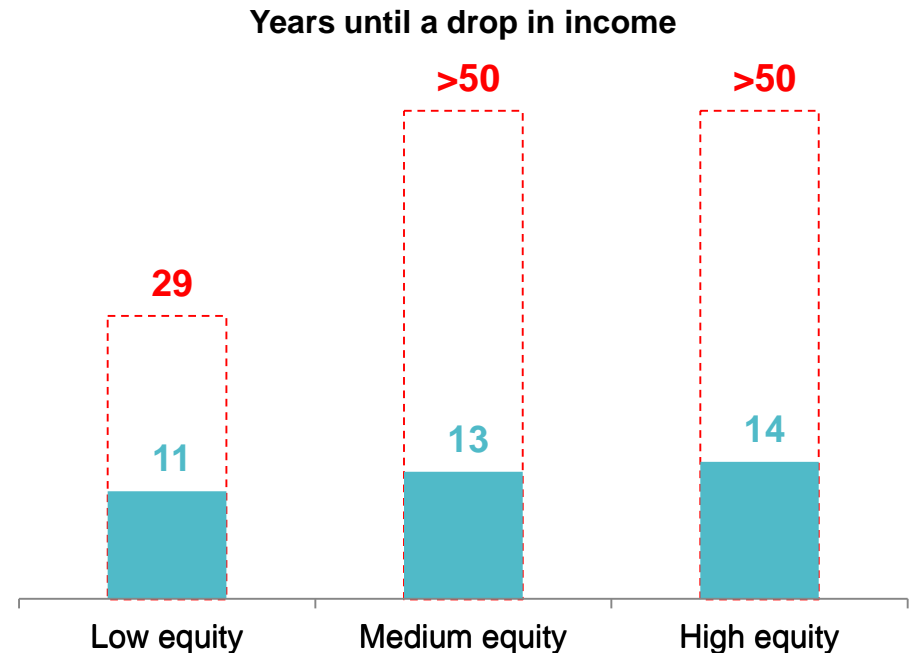
## Example: 5% income drawdown

Typical projection – no fees  
– no volatility

Add in fees of 3%

Add in volatility

Add in 80% confidence  
(poor returns)



Source: 10X Investments, Dimson, Staunton & Marsh



# What is a sustainable income?

- Define Gross Drawdown = Income + Fees (as % of asset)

R5m at retirement

Draw income of 5% pa      R250,000

Fees of 3% pa                      R150,000

Total deduction                      R400,000

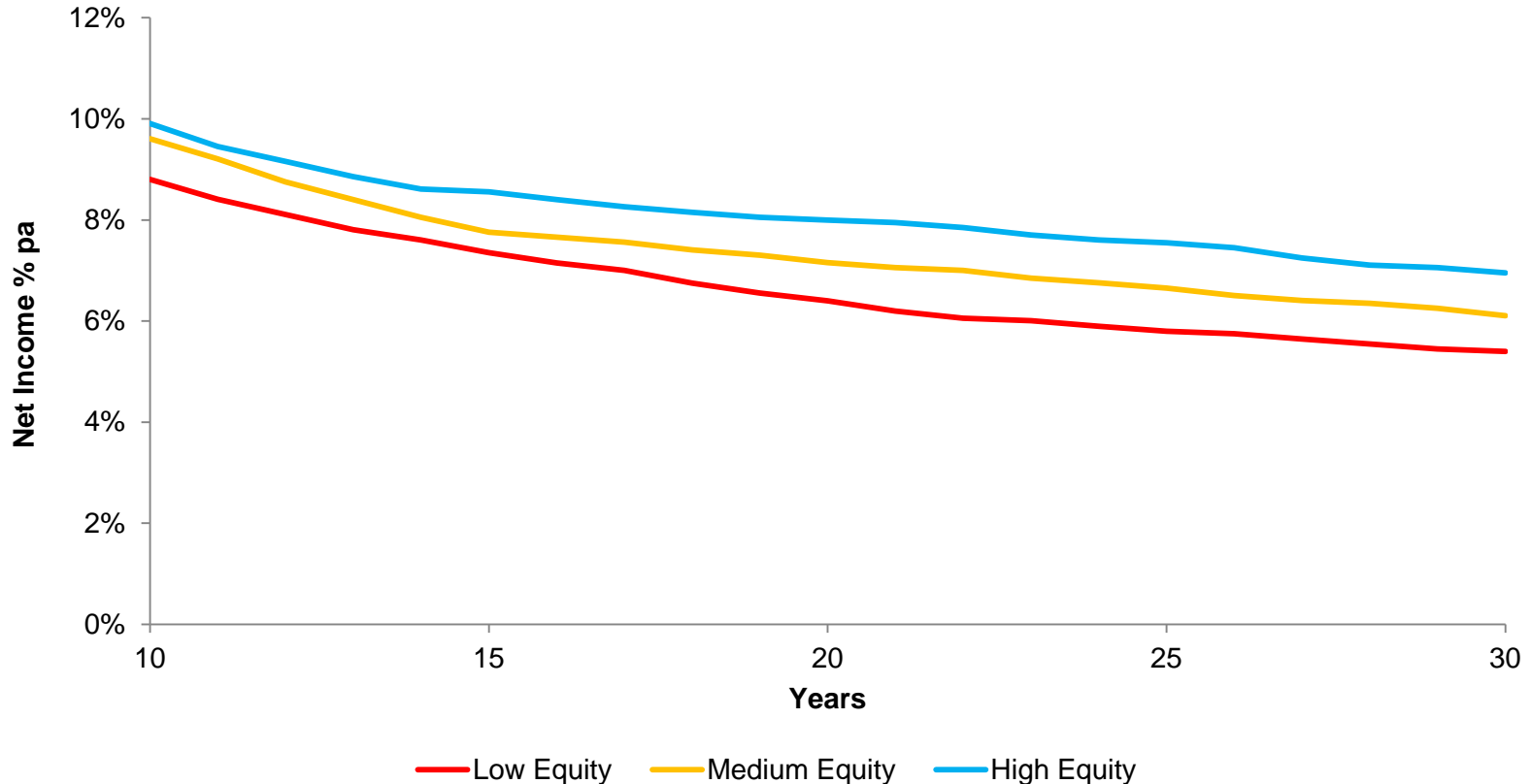
➡ Gross drawdown = 8% pa

- Target time horizon
- Specify an asset allocation



# What is a sustainable income?

## Sustainable gross drawdown: average returns

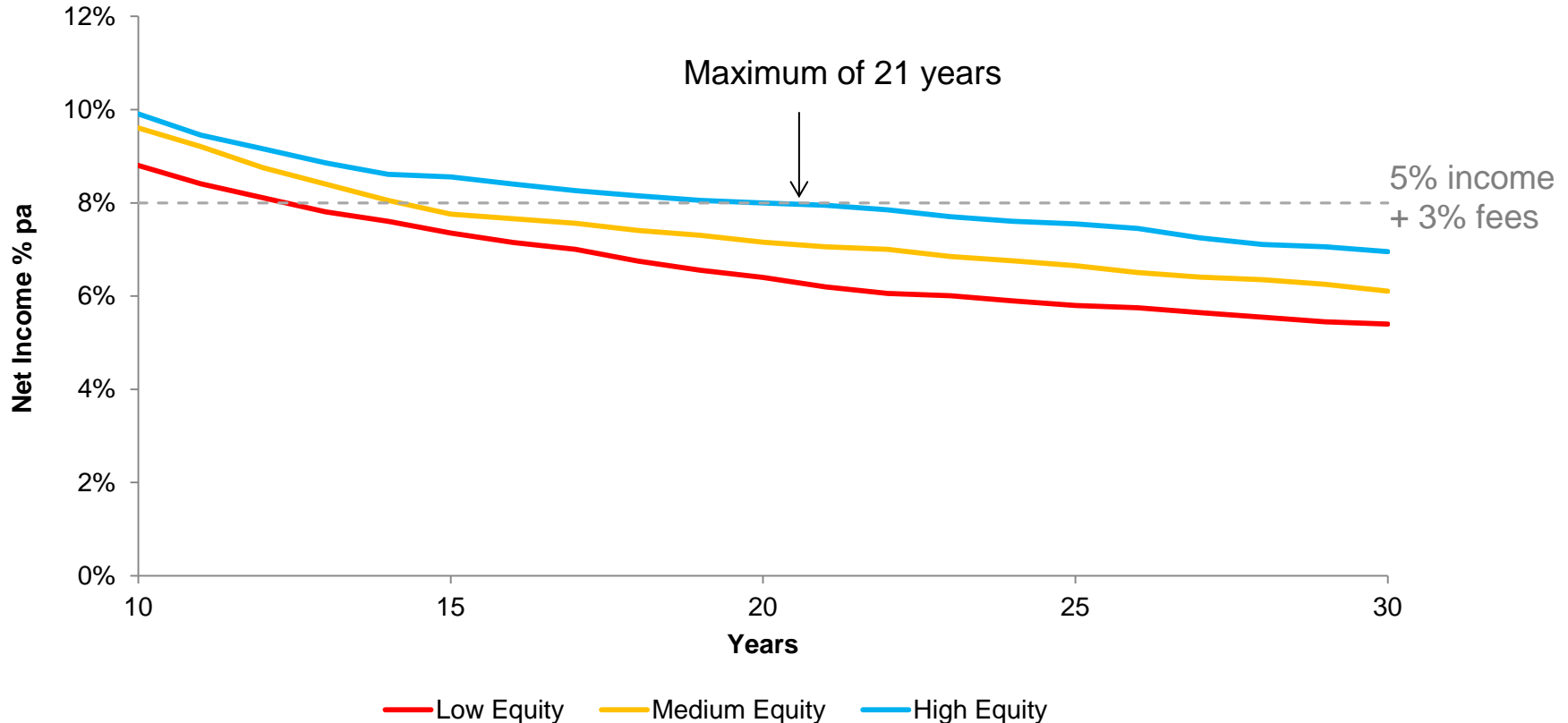


Source: 10X Investments, Dimson, Staunton & Marsh



# What is a sustainable income?

## Sustainable gross drawdown: average returns

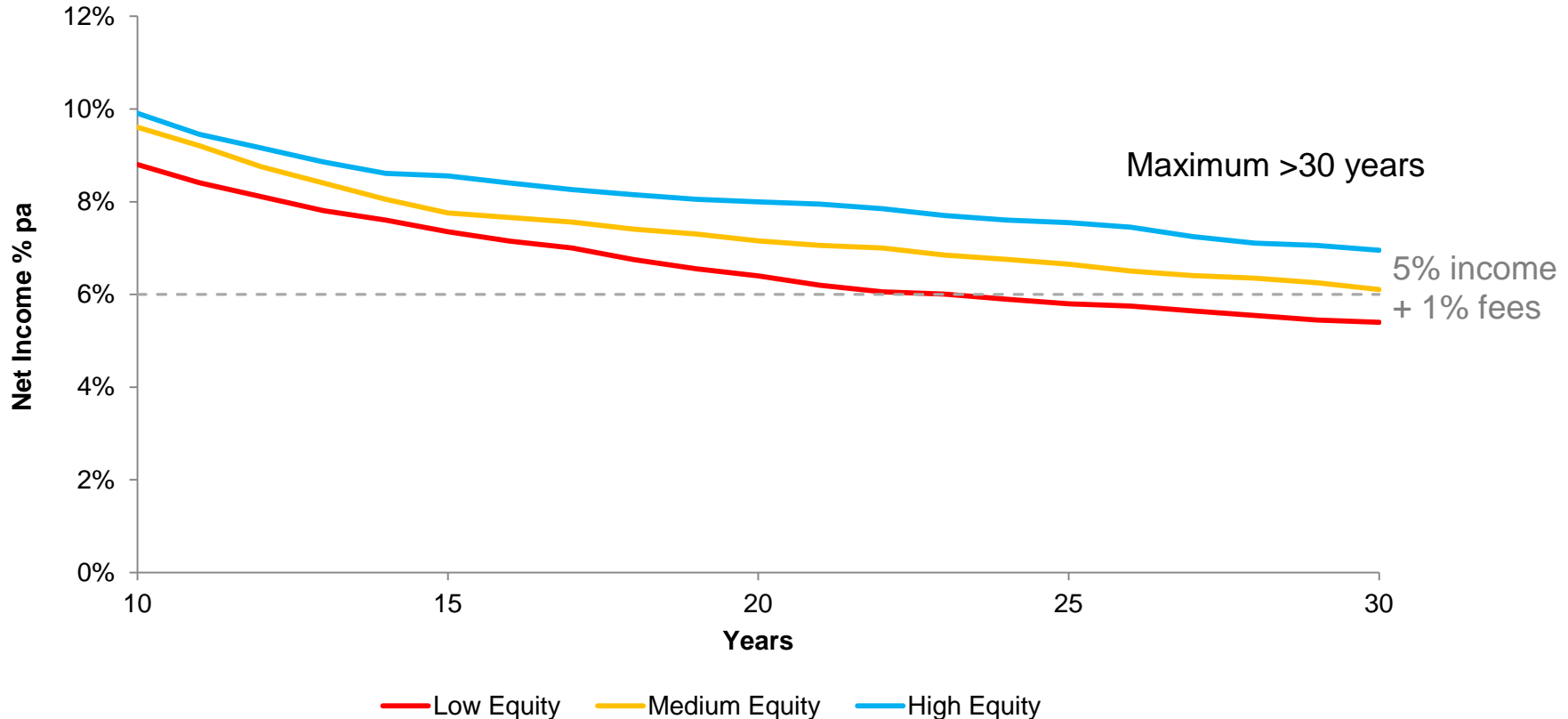


Source: 10X Investments, Dimson, Staunton & Marsh



# What is a sustainable income?

## Sustainable gross drawdown: average returns



Source: 10X Investments, Dimson, Staunton & Marsh



# Sustainable income: 25 years

Sustainable gross income % (income + fees) pa:

Portfolio	Average returns	Poor returns
High equity	7.5%	6.0%
Medium equity	6.5%	5.5%
Low equity	5.5%	5.0%

Source: 10X Investments, Dimson, Staunton & Marsh  
(Poor returns are 75<sup>th</sup> percentile)



# Thank you



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