**Media Release**
**Association for Savings and Investment South Africa (ASISA)**
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**Use temporary living annuity drawdown flexibility wisely, cautions ASISA**

The temporary easing yesterday of living annuity drawdown regulations by National Treasury has been welcomed by the Association for Savings and Investment (ASISA), but with a cautionary to living annuity policyholders.

National Treasury announced that living annuity policyholders will temporarily be allowed to either increase the percentage of their retirement capital withdrawn as regular income up to a maximum of 20% (currently 17.5%) or decrease their drawdown rate to a minimum of 0.5% (currently 2.5%) instead of waiting for their next contract anniversary date. In terms of amendments to Government Notice 290, issued under the Income Tax Act, living annuity policyholders will be able to amend their drawdown rates between 1 June and 30 September this year.

In addition, the "de minimus" amount below which the capital of a living annuity may be taken as a lump sum has been increased to R125 000. This is a permanent increase and does not revert back to R50 000 after 30 September 2020.

Rosemary Lightbody, senior ASISA policy advisor, says the additional flexibility granted to living annuity investors is aimed at assisting retirees who may have seen a significant drop in the value of their underlying investment portfolios as a result of extreme volatility in financial markets triggered by the Covid-19 pandemic.

Lightbody says this flexibility is an appropriate and empathetic gesture by National Treasury and the South African Revenue Service (SARS) towards living annuity policyholders.

She says the lowering of the minimum drawdown level to 0.5% is good news for living annuity policyholders with high equity exposure in their underlying investment portfolios as it enables these annuitants to reduce their income levels to prevent eating into their capital base.

"Our concern is for those living annuity investors who opt to increase their drawdown rates, as this is likely to erode a capital base already under severe strain due to the market volatility. Withdrawing a larger portion of your retirement capital should be an absolute last resort which is implemented only once you have completed a full analysis with your financial adviser to assess the long-term impact on your retirement capital."

Lightbody cautions living annuity policyholders that increasing their retirement income now may result in hardship in years to come when their capital runs out.

According to Lightbody, it is important for policyholders to understand that the drawdown rate changes are temporary and will automatically revert to between 2.5% and 17.5% at the end of the concession period.

"On 1 October 2020, drawdown rates will automatically revert to the rate selected on the last anniversary date. Therefore, in  cases where a new policy is taken out during the relief period or where a contract anniversary occurs, while the annuitant may take advantage of the concessionary rates, the annuitant must also select a drawdown rate that falls between 2.5% and 17.5% that will then be applied at the end of the relief period."

**What is a living annuity?**

A living annuity is a special type of compulsory purchase annuity that does not guarantee a regular income. The income (or annuity amount) is dependent on the performance of the underlying investments. Living annuities allow clients to select an income level that ranges between a predefined minimum and maximum level.

Three key factors determine how long the capital will be able to produce a regular income:

- The level of income selected;
- Performance of selected investments net of costs; and
- The lifespan of the annuitant.

**Ends**

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*ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.*