Media Release
Association for Savings and Investment South Africa (ASISA)
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Living annuity model proves robust in volatile times

South African retirees had R625.9 billion of their retirement savings invested in living annuities at the end of 2022, which marks an increase of 47.3% from the R424.8 billion invested in living annuities at the end of 2018. The number of living annuity policies grew by 13.5% over the same period to 527 038 at the end of 2022.

The Association for Savings and Investment South Africa (ASISA) today released a five-year update on the living annuity book held by ASISA member companies based on consolidated statistics gathered in line with the ASISA Standard on Living Annuities. The Standard, which came into effect in 2010, also makes it possible for ASISA to monitor the level of income drawn by policyholders from their retirement capital.

In the five years since ASISA published the 2017 living annuity statistics (please see Note to Editors), the average living annuity drawdown rate has consistently stayed below 7%.

Jaco van Tonder, deputy chair of the ASISA Marketing and Distribution Board Committee, says a review of the living annuity statistics from 2018 to 2022, which covers a particularly tumultuous four years for the global economy due to the Covid-19 pandemic, confirms the robustness of the living annuity model as the average drawdown rate remained stable over this period.

Average drawdown levels

In 2011, the average drawdown rate was 6.99%, the highest ever recorded. Van Tonder notes that the drawdown rate never moved back to those levels, despite challenging market conditions.

In 2018, the average drawdown rate was 6.53%. It increased slightly to 6.72% in 2019 and adjusted to 6.71% in 2020. In 2021, the year in which South Africans suffered the biggest economic aftershocks of the Covid-19 lockdowns, the average drawdown rate moved up to 6.88%. By the end of 2022, the average drawdown rate had dropped back down to 6.66%.

Van Tonder notes with interest that in 2020, the first year of the pandemic and also the period in which temporary Covid-19 relief measures were introduced by National Treasury for living annuity policyholders, only 6 314 out of 518 389 living annuity policies moved beyond a drawdown rate of 17.5% to a maximum of 20%. At the same time, 10 780 living annuities moved into a temporary lower drawdown band of between 0.5% and 2.5%.

Living annuity policyholders must draw a regular income of between 2.5% and 17.5% of the value of their living annuity assets if the policy was bought on or after 21 February 2007. This can be reviewed once a year on the anniversary date of the policy.

A 5-year overview of South Africa's living annuity book

Period	Average Living Annuity Drawdown Rates*	New inflows	Number of Living Annuities**	Total Assets Under Management
2018	6.53%	R50.4 billion	464 430	R424.8 billion
2019	6.72%	R63.9 billion	491 286	R486.1 billion
2020	6.71%	R74.2 billion	516 989	R507.2 billion
2021	6.88%	R85.6 billion	515 234	R614.1 billion
2022	6.66%	R67.1 billion	527 038	R625.9 billion

** The average income drawdown level is weighted by fund size (the total value of the drawdowns against the total value of the living annuity book).*
*** The number of living annuities does not imply the same number of policyholders. It is not uncommon for policyholders to have more than one living annuity.*

Maintaining sustainable drawdown rates

Van Tonder explains that when the percentage of income drawn exceeds the real returns of the investment portfolio supporting the living annuity, the capital base will be eroded over time.

He notes that annual drawdown rates of 4% to 5% in the first decade of retirement and below 8% in the later retirement years are generally considered prudent, providing annuitants with a high probability of preserving their purchasing power for their lifetime. It is therefore encouraging that in 2022, the 2.5% to 5% rate made up the biggest income band by number of policies (159 147), followed by 5% to 7.5% (98 942 policies).

What is a living annuity?

A living annuity is a 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 pre-defined 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; and
- The lifespan of the annuitant.

Ends

Note to editors: ASISA paused the publication of living annuity drawdown statistics after the release of the 2017 statistics to avoid misinterpretation. The statistics are aggregated at industry level and do not contain enough granular data to assess whether individual living annuity policyholders are applying prudent drawdown levels or are at risk of eroding their purchasing power. Drawing these conclusions would require insights into the personal circumstances of the annuitants, which is impossible.

ASISA reconsidered its position on publishing the living annuity statistics because there is value in providing stakeholders with insight into the health of the overall system and as a benchmark to evaluate outcomes and consumer choices at a more granular level.

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Association for Savings and Investment South Africa (ASISA)

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.