**Press release from Alexander Forbes Financial Services**

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**It is possible to have a comfortable retirement if you make the right choice with your retirement savings**

The aim of any retirement planning should be to ensure that your savings continue to provide the income you need to enjoy a comfortable retirement. This can only be achieved by choosing an investment strategy at retirement that minimises the likelihood of a shortage in income during your retirement years.

While most South Africans are hopelessly unprepared for retirement even the lucky few who do have retirement savings to invest often make choices that almost guarantee an under-provided old age.

In short “your choice of annuity at retirement will have an enormous impact on how comfortable your retirement will be in years to come” says Youri Dolya, Head of New Business Development, Alexander Forbes Financial Services.

And the choices are overwhelming. With level, escalating, inflation-linked, profit and living annuities, all with options of either guarantee periods, pension reversion, bonus pool or capital protection , it is vital those planning for retirement make the right choice - because in the annuity market, with the exception of living annuities, there is no turning back.

The below table shows the initial monthly income that a South African male retiring with R1 million in savings could earn from a range of annuity types.

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of pension** | **Initial**  **Monthly**  **Pension** | **Value of pension in 10 years time**  **(after inflation)** | **Value of pension in 20 years’ time**  **(after inflation)** |
| Level Annuity | R 7 160 | R4 294 | R2 576 |
| Fixed Increase Annuity (at fixed rate of 5% per year) | R4 333 | R4 235 | R4 127 |
| With Profit Annuity (at 3.5% bonus pool or PRI) | R4 960 | R4 700 | R4 404 |
| Inflation-linked Annuity | R4 110 | R4 110 | R4 110 |
| Living Annuity (at 7% income draw down rate) | R5 733 | R4 173 | R3 038 |

(These figures are based on relatively simplistic actuarial assumptions and are not detailed enough to make an informed decision)

In practice Youri has found that most often people base their choice of annuity on:

1. Meeting their immediate income needs by buying a life annuity with the highest initial pension -without looking in to what that pension is going to be worth in a few years time, or
2. Choosing a living annuity without considering the impact of future investment returns and the possibility of outliving their capital – all because they don’t want to ‘lose’ their retirement savings to the insurance company should they die early.

To help avoid the all too common mistake of “discovering, ten years into retirement, that you are locked in to the wrong annuity” Youri and his team have developed what they call the SORRITM, or Shortage of Retirement Income, factor.

The SORRITM factor helps individuals compare how each annuity is likely to meet their real retirement needs by considering a multitude of future outcomes, providing a better representation of real possibilities from more angles. It can be thought of as asset-liability modeling done for each individual based on their personal retirement needs.

In essence the SORRITM factor “measures the likelihood or chance of a shortage in income by running thousands of simulations of future financial markets while also taking into account the various scenarios posed by the individual living to any age ” explains Youri.

In short, it’s about meeting member’s objectives throughout retirement by facilitating a dramatically improved decision making process matching each members retirement objectives to the most appropriate annuity option.

“This allows members to retire secure in the knowledge that all possible future scenarios have been examined and the most appropriate retirement vehicle chosen” concludes Youri.

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