momentum wealth

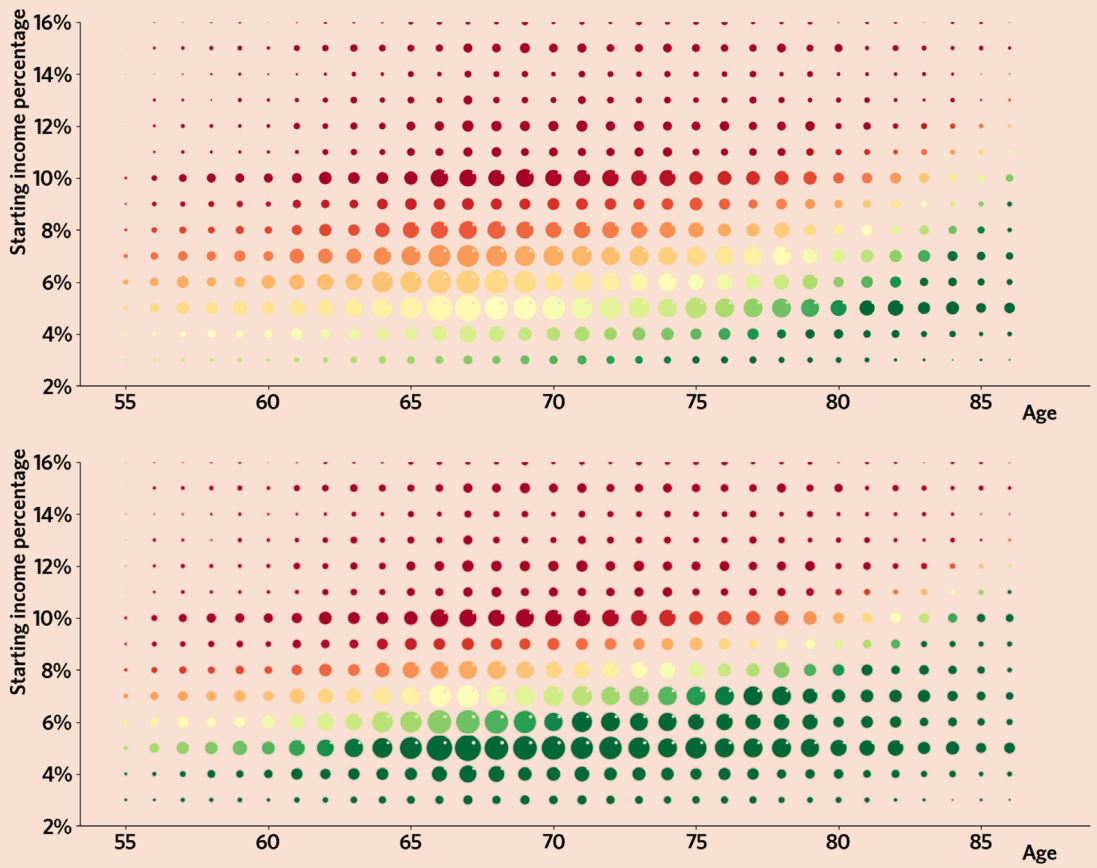
REIMAGINING **RETIREMENT**

A whitepaper on retirement risks

and the rule of thumb

This research paper is intended only for investment professionals and financial advisers.

REIMAGINING **RETIREMENT**



Tip: For the best experience and full access to the clickable links, please view on a computer or download the document to your phone.

Most mobile viewers may limit link functionality.

"By allocating to the Guaranteed Annuity Portfolio, it may be possible to reduce the return you would need on your market-linked investments. This is shown by the change in the colour of the bubbles. In some instances, if you are drawing a responsible level of income, you can reduce the returns you need for a successful retirement by more than 3%." .

– Martiens Barnard

*For more detail, please refer to **pages 23 to 25.***

1 INTRODUCTION

This whitepaper aims to demystify the complex financial dynamics of retirement and to provide clarity on how hybrid annuity solutions can offer resilience in an unpredictable world.

Consider a simple question:
How many cups of coffee did you drink yesterday?

For most people, the answer typically falls somewhere between two and four. Interestingly, some recent health studies* suggest that up to six cups of coffee per day may be beneficial, provided it's taken black, without additives, and your first cup is not within the first 90 minutes after waking.

Similarly, when driving, we are advised to maintain a three-second following distance, particularly in the early morning hours before that first cup of coffee. And while many of us may joke about surviving on 'six to seven hours' of sleep, the true recommended guideline is seven to nine hours per night.

These examples highlight a common theme: a rule of thumb. They are not precise formulas, but broad, experience-based principles designed to guide behaviour and improve outcomes.

In this paper, we turn our attention to a different kind of rule of thumb, one that has nothing to do with your morning routine: the retirement income rule of thumb. We also explore the importance of understanding the key risks of retirement and the role of hybrid annuities* in navigating them.

**Simply put, our hybrid annuity is a living annuity that provides exposure to both market-linked components/funds and our Guaranteed Annuity Portfolio. The Guaranteed Annuity Portfolio pays a guaranteed income for life, similar to a traditional life annuity.*

The Reimagining retirement whitepaper takes a deeper look at the multifaceted risks faced in retirement and how incorporating a Guaranteed Annuity Portfolio (also called the GAP) can mitigate them. It also introduces new insights into the inheritance dynamics of using a hybrid annuity and client switching behaviour. This offers a more comprehensive framework for understanding the decisions that shape long-term retirement outcomes.

**Harvard health study*

**Medical News study*

AUGMENTED REALITY

This research was showcased for the first time at the Actuarial Society of South Africa's 2025 Convention, but the journey to creating it began much earlier. The reason was that we had to develop a new way to illustrate concepts. From the start, we knew traditional line charts, bar charts, and pie charts simply weren't going to cut it. They could not convey the depth or nuance of the analysis in the way we needed them to. After weeks of intensive computer programming, refining, and testing, we built the capability to generate dynamic, purpose-built visualisations and charts unlike anything typically found in a standard presentation deck.

But why stop there? Why limit this level of conveying insight to a live presentation?

Instead, we decided to **bring the technology to life** in this whitepaper through **augmented reality.**

Scan the QR code on the next page with your phone, or any of the other QR codes, follow the instructions, and sit back and relax as you immerse yourself in a new way to experience retirement research. Alternatively, if you are viewing an electronic version of the whitepaper, you can also click on the pictures to view the edutainment videos on our YouTube channel.

In addition to the videos we have also created a holistic Reimagining retirement masterclass which is based on same research and covers a significant amount of the research in this whitepaper.

Link to masterclass

In 2022, we published our first retirement whitepaper, Secure in Risk, which examined sustainable retirement income strategies. That research demonstrated that the income longevity of a living annuity (maintaining a reasonable standard of living) can be extended by as much as a decade or more when market and longevity risks are efficiently managed. By incorporating a Guaranteed Annuity Portfolio to hedge these primary retirement income risks, we showed how investors can effectively reverse the traditional living annuity risk spiral.

Link to paper

2 THE RETIREMENT RULE OF THUMB

How much can you safely draw from your retirement savings without running dry?

Discover the simple rule of thumb that helps keep your income sustainable for decades.

2 THE RETIREMENT RULE OF THUMB

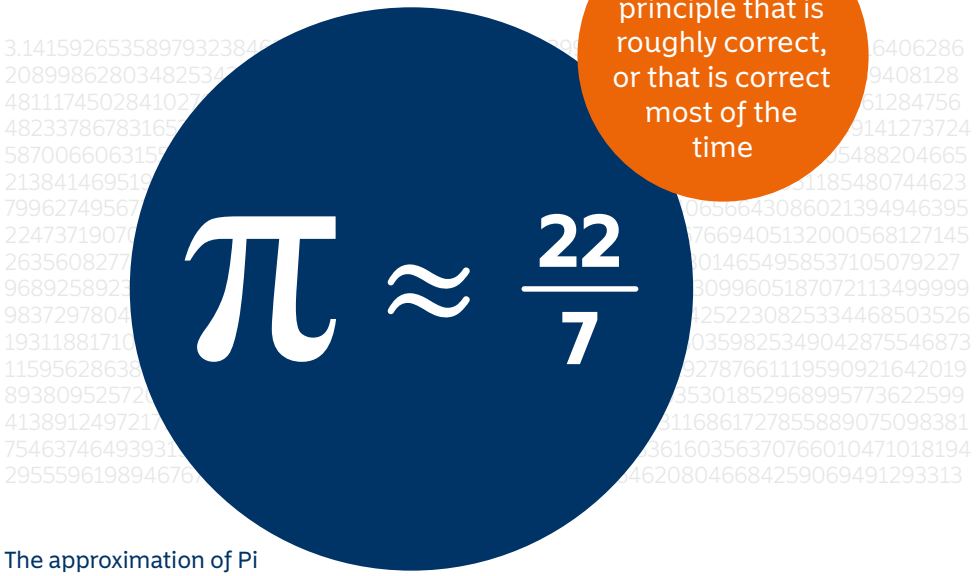
What exactly is a rule of thumb?

A rule of thumb is a general principle that is roughly correct, something that holds true most of the time, even if it is not mathematically precise. A rule of thumb is an approximation, a plus-minus, but still highly useful in guiding decisions.

In investments, one rule of thumb stands out:
the retirement income rule of thumb.

A rule of thumb

A general principle that is roughly correct, or that is correct most of the time



The approximation of Pi

The '4% rule' originated with William P. Bengen's 1994 research, in which he found that a retiree could safely withdraw about 4.15% of their portfolio value in the first year of retirement. He further showed that adjusting this amount every year for inflation enabled the portfolio to last at least 30 years, even in the worst historical market conditions. For simplicity and an added margin of safety, he rounded this down to 4%, which later became widely known as the '4% rule'.

In subsequent work, using broader asset diversification and updated historical data, Bengen showed that the safe initial withdrawal rate could be higher, closer to 4.7%, and in some cases approaching 5%, depending on the portfolio composition and assumptions.

The retirement rule of thumb

The retirement income rule of thumb states that if you want your retirement income to last, and keep pace with inflation, for 25 to 30 years (typically from age 65 to beyond age 90), you should begin with an income drawdown of no more than 4% to 5% of your total capital value.

In the sections that follow, we unpack the mechanics behind this rule of thumb, why it works, when it fails, and how hybrid annuity strategies can be used to provide a more sustainable retirement income.

THE RETIREMENT RULE OF THUMB

The retirement rule of thumb

If you want a **living annuity** income that lasts and keeps up with inflation for 25 to 30 years,

you should start with an income drawdown of no more than **4% to 5%** of the value of your capital

At a 5% drawdown, which is still taxable, this means that for every R2 million invested, a retiree should start with a yearly income of R100 000, or R8 333 per month.

The table shows what 5% amounts to for different investment values in a living annuity.

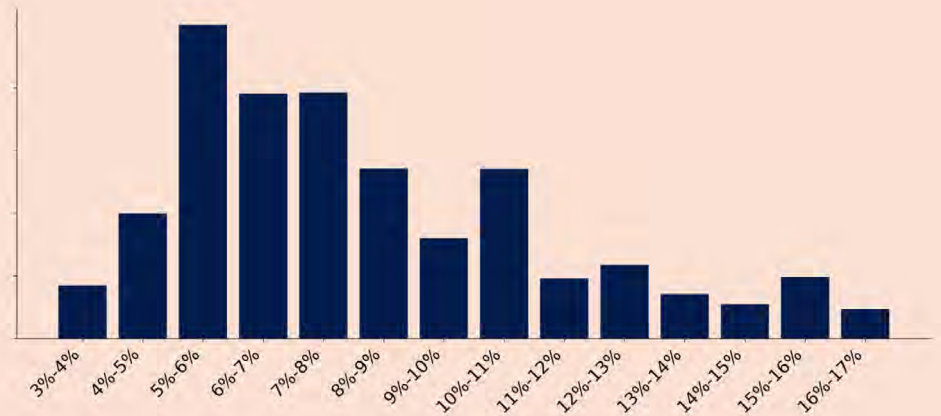
Living annuity market value	Yearly starting income at 5%	Monthly starting income at 5%
R2 000 000	**R100 000**	**R8 333**
R4 000 000	R200 000	R16 667
R6 000 000	R300 000	R25 000
R8 000 000	R400 000	R33 333
R10 000 000	R500 000	R41 667
R12 000 000	R600 000	R50 000
R14 000 000	R700 000	R58 333
R16 000 000	R800 000	R66 667
R18 000 000	R900 000	R75 000
R20 000 000	R1 000 000	R83 333
R22 000 000	R1 100 000	R91 667
R24 000 000	R1 200 000	R100 000

Source: Momentum Investments

Where possible, this is a powerful principle to follow, but it is clear that the amount of money needed can become astronomical very quickly, and many people will have to break the rule of thumb.

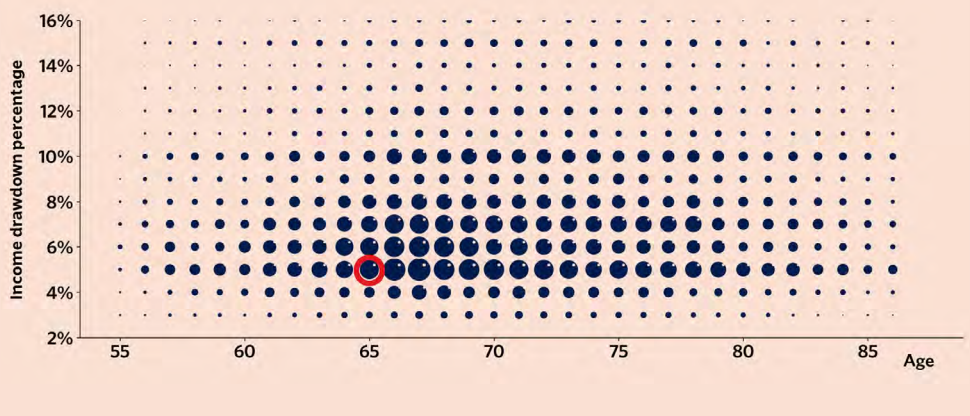
This is seen by examining the data on the Momentum Wealth platform as it reveals that a significant proportion of retirees break the retirement rule of thumb.

THE RETIREMENT RULE OF THUMB



Income drawdown experience

Source: Momentum Investments, June 2025



Income distribution of living annuity clients

Source: Momentum Investments, June 2025

This chart illustrates the income drawdown distribution for all our living annuity clients, both newly retired and those who have been in retirement for up to two decades. For simplicity, we excluded clients who drew less than 3% or more than 17%.

Although the chart does not show starting drawdowns, it provides a strong indication of current behaviour: **most retirees are drawing significantly more than the recommended 4% to 5%, with the average sitting much closer to 7%.**

To gain deeper insight into this pattern, let's examine the distribution by age group.

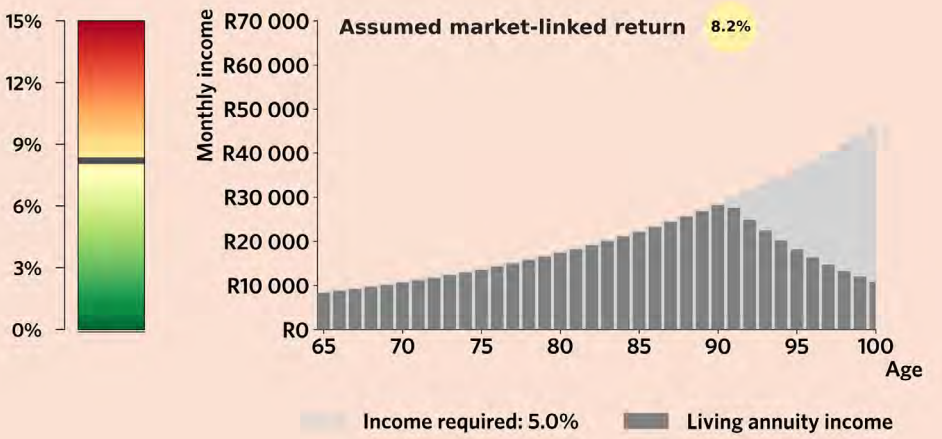
We now introduce age on the horizontal axis and income drawdown percentage on the vertical axis, with the number of clients in each cohort represented by the size of the bubble. One detail stands out immediately: the disproportionately large bubbles clustered around the 10% drawdown level. This was also seen on the previous chart. We will return to this observation at a later stage.

For now, let's start with the clients in the red circle, as these clients align closely with the retirement rule of thumb. These are clients aged 65 who are drawing income at a **5% level**, one of the groups whose behaviour is broadly consistent with the recommended guideline.

Let's focus on this cohort for our first example.

THE RETIREMENT RULE OF THUMB

Source: Momentum Investments, June 2025, investment amount R2m



Source: Momentum Investments, June 2025, investment amount R2m

In this example, we begin with a R2 million investment, and the required income is set at a starting drawdown level of 5%. A 5% yearly escalation is applied to the required income as shown in the light grey area of the chart.

As indicated in the return legend and highlighted by the corresponding green bubble, the illustration starts with a conservative 6% return assumption. This assumption plays a central role in determining how long the income can be sustained.

At this level of return, the income stream begins to fail in the early 80s. This is the point at which the living annuity reaches the legislative maximum drawdown level of 17.5%.

The natural question that follows is, if a 6% return is insufficient, what level of return would be required to sustain the income for the full retirement horizon?

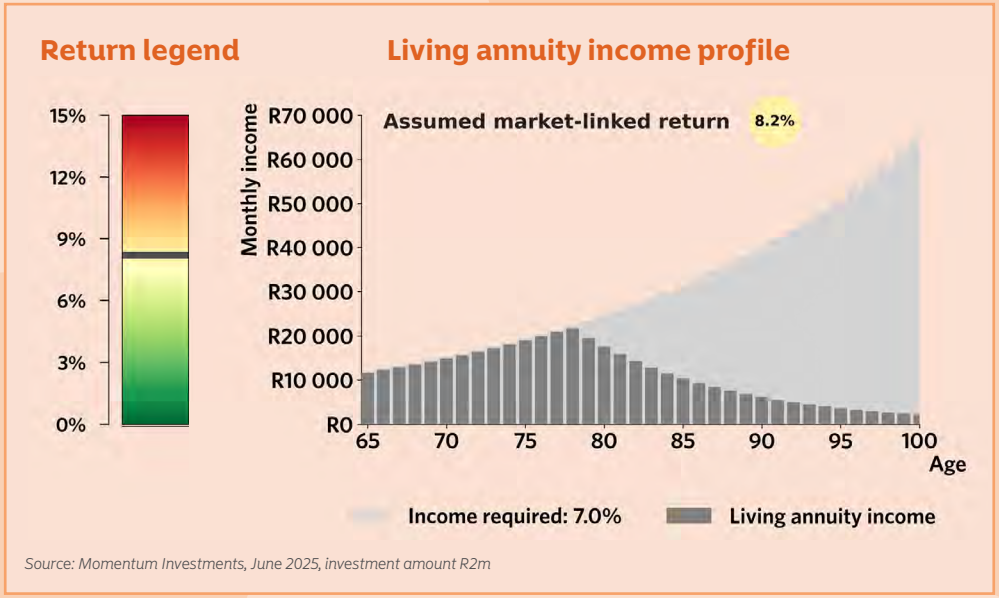
An 8.2% return is sufficient to sustain the income. However, this is a net-of-fee return. In practice, the market-linked investments would need to deliver closer to 9 to 9.5% to maintain the income once fees are considered.

What is interesting here is that with a 5% yearly escalation, **the retirement rule of thumb carries an implicit return assumption of about 8.2%**. This level of return is neither too high nor too low; it is, in many ways, just right. At this required return level, if investment performance falls slightly below expectations, there is still room to manoeuvre by adjusting income and managing expenditure, although that is a separate discussion.

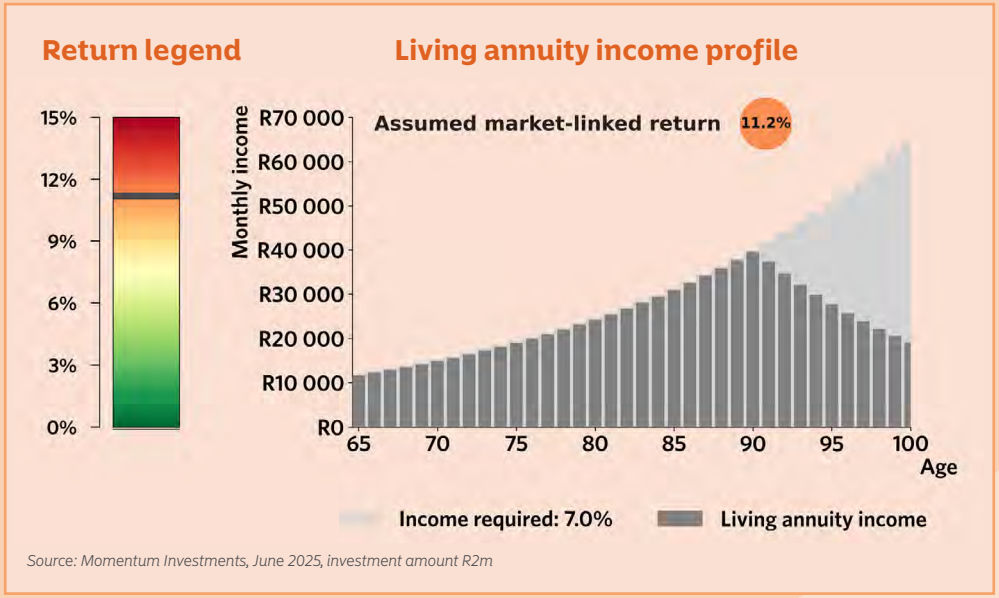
The more important question is, what happens when the retirement rule of thumb is broken, for example, when the starting income is increased from 5% to 7%.

Even though a R2 million investment was used in the example, the same return will be needed for any investment size if the starting income level is set at 5%.

THE RETIREMENT RULE OF THUMB



Source: Momentum Investments, June 2025, investment amount R2m



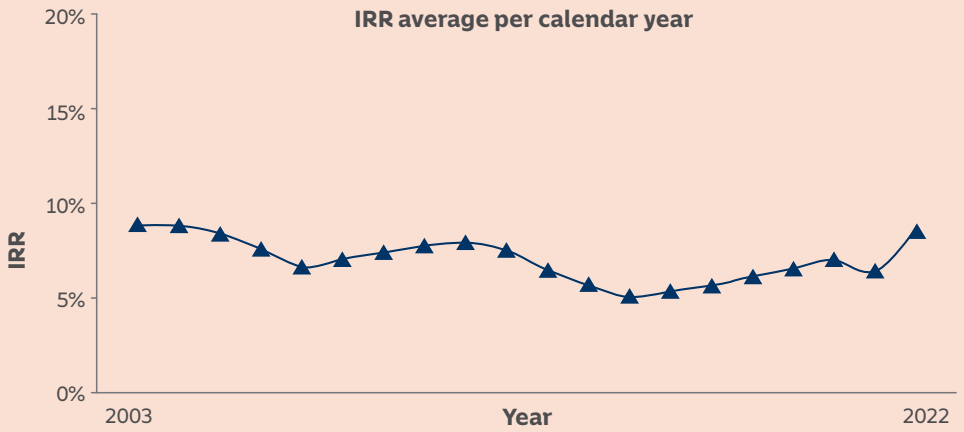
Source: Momentum Investments, June 2025, investment amount R2m

At a higher income level of 7%, the return can no longer sustain the required withdrawals. The portfolio would now need an **11.2% net-of-fee return**, a dramatic increase from the earlier 8.2% requirement. Notice the imbalance here. When the income requirement increases by only 2%, the required investment return needs to increase by 3%.

In practice, once fees are included, market-linked investments would need to deliver **about 12 to 12.5% gross of fees** to maintain the income. This is a high level of return to achieve consistently, and sustaining such performance over nearly three decades could be very hard to achieve.

THE RETIREMENT RULE OF THUMB

As a side note, in early 2024 we conducted extensive research into the distribution of Internal Rates of Return (IRRs) across tens of thousands of living annuity clients. Below, the markers on the left represent the average IRRs of retirees who have been invested for approximately 20 years, while those on the right represent the average IRRs of retirees who have been invested for shorter time periods (e.g. annuity inception dates in 2022 with IRRs measured to Dec 2023).



Historic IRRs – Higher IRRs in the first few years

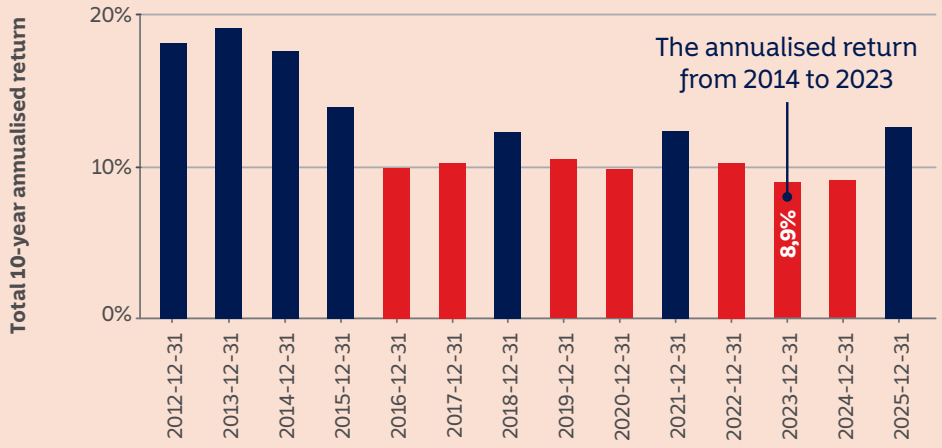
Source: Momentum Investments as at Feb 2024

This included thousands of different fund combinations from asset managers across the industry.

The finding was striking, **due to many years of lackluster performance from the market,** especially in the years leading up to the analysis, **the average IRR was close to 8.0%.**

This shows how **market risk** can have a severe impact on your retirement.

In the two calendar years following the analysis, the JSE performed exceptionally well, delivering **returns of 10.7% in 2024 and 47.7% in 2025**. If the IRR distribution research were updated today, the outcomes would undoubtedly look more favourable. However, a very large percentage of the retirees included in the analysis, that retired after 2013, experienced poor market conditions in the first years of their retirement leading up to 2024 (as shown below).



FTSE/JSE top 40 Total Return Index rolling ten year returns

Source: Bloomberg and Momentum Investments, February 2026

This phenomenon is commonly referred to as sequence risk. (See Annexure 1 for more information on sequence risk.) Although sequence risk could have been highlighted as a standalone retirement risk, we instead treated it as a subset of broader market risk.

THE RETIREMENT RULE OF THUMB

What happens when a retiree needs this income pattern (an income starting at 7% that needs to increase at 5% every year), but misses the required return target of 11.2% by even 1%?

Market-linked return assumption	Return target missed by	Income maintained to age
11.2%	**0%**	**90**
10.2%	1%	83
9.2%	2%	80
8.2%	3%	78

From this, we can see that if the return falls short of say, 11.2% by 3% (like it did for many retirees in the previous example), the income is sustained only until around age 78, which is 12 years earlier than intended. If the retiree was planning to leave an inheritance, it is unlikely at this point. In fact, they may end up leaving a negative inheritance, with liabilities or shortfalls exceeding the remaining assets.

Although the picture may seem like doom and gloom, there are ways to meaningfully improve retirement outcomes. **The key lies in protecting clients against the primary risks they face in retirement.**

Typical risks to navigate in retirement

Retirement planning isn't as simple as following a set of instructions. There are different products and risks to consider, and whether you want to leave an inheritance. Figuring out how this actually fits your life is the tricky part. Watch the video to see what some of the aspects are you need to consider when you retire.

3 THE PRIMARY RISKS OF RETIREMENT

What are the five key risks to retirement?

And how these risks could affect your ability to leave an inheritance

This brings us to the core focus of this paper. **The five key risks** in retirement are the risk of **drawing an income that is too high** (discussed in the previous section), **market risk** (including sequence risk), **longevity risk, behaviour tax, and inflation risk.** These risks do not exist in isolation, and together they have a direct impact on **your ability to preserve capital and leave an inheritance.**

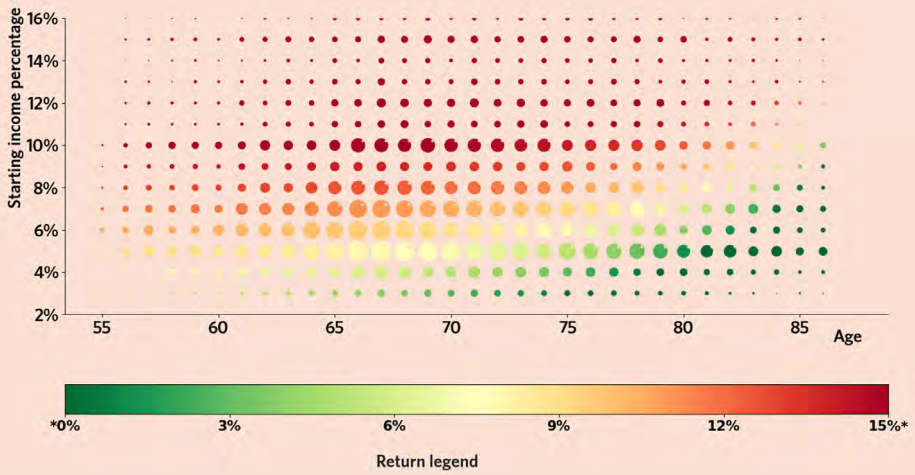
THE PRIMARY RISKS OF RETIREMENT

Your required return

Now, let us return to the income drawdown distribution for all our living annuity clients by age, the bubble chart shown earlier, but this time we show a variation of the chart. To understand the new chart, let's recap some of the previous information. We began with a 5% income drawdown, which required an 8.2% return to sustain the income to age 90.

When we then increased the starting income to 7%, which pushed the required return up to 11.2%. (The required incomes are assumed to grow by 5% per year.) These are two examples of age and income drawdown combinations that each have their own required return. In the same way, the required return to maintain income to age 90 can be calculated for every age and drawdown combination.

Required return of all market-linked components



Required return of all market-linked components

Source: Momentum Investments, June 2025 | Returns below 0% are capped at 0%, and returns above 15% are capped at 15%.

On the chart, each age and drawdown combination is represented by a colour, which corresponds to the return legend. The required returns are capped between 0% and 15%. **The middle of the return legend, the yellow colours, represents the sweet spot.**

At age 65, the yellow bubble sits at the 5% drawdown level, the classic retirement rule of thumb. A client in this cohort is essentially the poster child of retirement behaviour, because they are following the rule of thumb and the return required to maintain their income is not excessive. Any cohort represented by yellow is broadly aligned with this guideline.

This is where the definition of a rule of thumb becomes important. Earlier, we said a rule of thumb is a general principle that is correct most of the time, but not an absolute. The chart makes this very clear. If you retire earlier than 65, for example, around age 55, the starting drawdown should not be 5%. At that age, even a 5% drawdown pushes the required return close to 10%, which is too high. In reality, someone retiring at 55 needs to begin closer to a 4% drawdown if they want a reasonable chance of sustaining the income.

On the other hand, if you retire in your late 60s or early 70s, you can safely start with a slightly higher income, because the required return becomes more achievable. (A planning age of 90 is assumed for all cohorts.)

However, the reality is that many clients are not in the yellow zone. Many are in the orange and red zones. You will recall the clients drawing 10%. Clients in the orange and red zones are in a position where their retirement incomes are unlikely to be sustainable. These clients will almost certainly need to reduce their income drawdown or pause future increases.

Clients in the darker green colours are in a favourable position.

A useful question to ask is, in which bubble will you be when you retire, or in which bubble will your loved ones be when they retire? If you choose a living annuity, you will be in one of the bubbles.

Before moving on, it is important to note that up to this point, everything discussed has applied to a pure living annuity.

4 THE ANNUITY OPTIONS WHEN YOU RETIRE

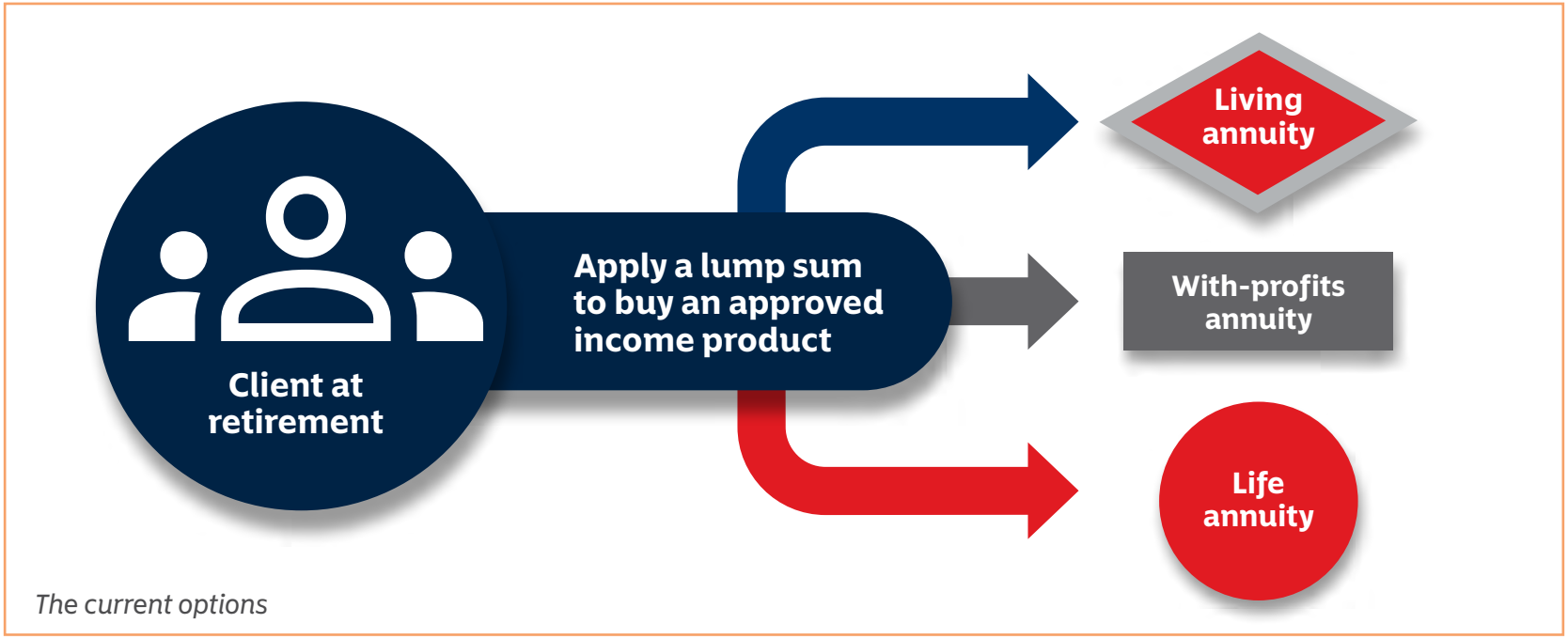
There are several options available at retirement. These broadly include the living annuity, with-profits annuity, and life annuity.

A living annuity is widely used, particularly in the advised market. When you invest in a pure living annuity, you take on market, inflation, and longevity risk. You also carry the additional risk of running out of income, especially if your drawdown rate is too high. However, a living annuity offers one key advantage: any remaining capital can be transferred to dependants, which is one of the primary reasons it remains so popular.

Next, there are the guaranteed annuities, which includes the with-profits annuity and the conventional life annuity. Although we have conducted research on the with-profits annuity, it is not the focus of this paper.

Lastly, we have the conventional life annuity, often referred to as a fixed-rate-increase guaranteed life annuity. As a side note, income escalations in a life annuity can be linked to inflation, but for simplicity, we first focus only on fixed escalation rates. The inflation-linked annuity is covered later in the paper when discussing inflation risk.

A hybrid annuity, as the name suggests, combines elements of both a living annuity and a guaranteed annuity. Certain living annuities in the market allow guaranteed annuities to be used as components within the living annuity structure. When we refer to a hybrid annuity in this paper, we are referring specifically to a living annuity that allows the inclusion of a guaranteed annuity component a.k.a a Guaranteed Annuity Portfolio.



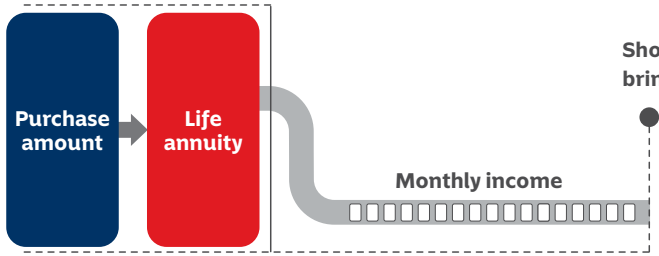
The current options

THE ANNUITY OPTIONS WHEN YOU RETIRE

Life annuity

Conventional life annuity

Guaranteed income with a fixed escalation rate



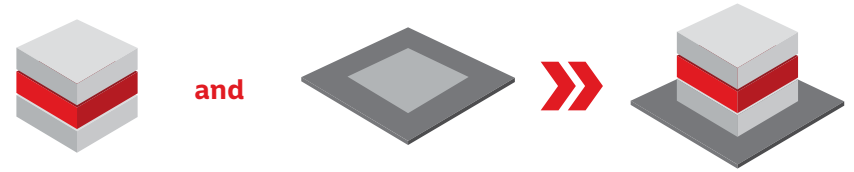
Terminology:
A life annuity is referred to as a **Guaranteed Annuity Portfolio (a GAP)** when used in a living annuity.

Living annuity

Living annuity

A market-linked investment

In general, an investment is a combination of a component and a product



Component

For example a fund, which determines the return you get

Hybrid living annuities offer guaranteed annuities as components

Product

For example a living annuity, which determines the legislative rules

In return for a purchase amount, a life annuity pays an income for as long as you live. You can add your spouse and choose a guarantee term, which ensures the income continues for a minimum period even if you pass away. When using a fixed escalation rate, the yearly income increase is predetermined and, for the purpose of these illustrations, assumed to be 5%.

The income you receive depends on several factors, including your age, gender, the selected escalation pattern, and the rates available at the time of purchase. **For example, depending on your age, for every R1 million invested, the starting income today might be around R6 000 per month, whereas a few years ago it may have been closer to R7 000.** We will explore this further later in the paper.

From this point forward, we will refer to a life annuity as a Guaranteed Annuity Portfolio (GAP). This terminology becomes important shortly. For now, let us return to the structure of a living annuity.

In general, an investment is made up of a component and a product.

The product wrapper determines the legislative framework, including how income is taxed and what drawdown levels you are permitted to take. In a living annuity, you select your income once a year, and the drawdown level must fall between 2.5% and 17.5% of the value of your capital.

The investment component can consist of different funds, such as balanced funds or model portfolios, which determine the returns generated on the investment. As we showed earlier, when the investment components do not perform well, or when the income level is too high, the income may become unsustainable, and the retiree may hit the 17.5% cap early in retirement.

This brings us to the hybrid annuity, the focus of Section 5.

THE ANNUITY OPTIONS WHEN YOU RETIRE

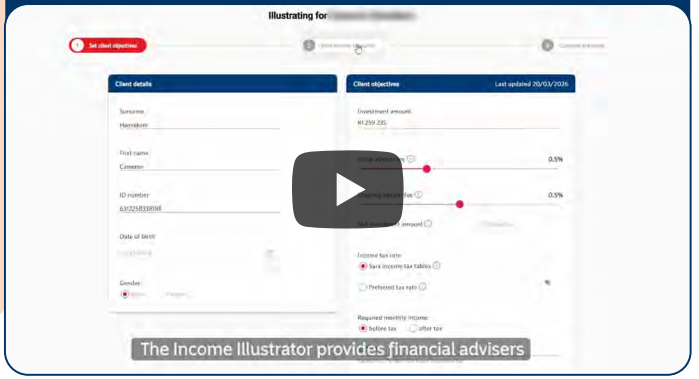
A retirement income option with the best of both worlds.

Retirement income planning is complex, but choosing the right annuity doesn't have to be. Discover the difference between a living annuity and a life annuity, and how a hybrid solution can give you flexibility, growth, and guaranteed income for life.

THE GUARANTEED ANNUITY PORTFOLIO

Find out more about the Guaranteed Annuity Portfolio in Annexure 2 or by visiting the **Reimagining retirement page on our website**.

THE INCOME ILLUSTRATOR



Even though we simplified the choice of which type of annuity to choose, just how much advisers should allocate to the Guaranteed Annuity Portfolio and how to structure it remained a complex planning problem. A financial adviser must make this decision while taking a client's personal income and inheritance requirements into account in light of their existing portfolio, uncertain life expectancy, and prevailing investment market conditions.

It is for these reasons that we developed the **Income Illustrator.** See Annexure 3.

5 USING THE RULE OF THUMB TO STRETCH RETIREMENT SAVINGS

There is an important question that needs to be answered.

What starting income can you begin with?

Using the rule of thumb to stretch retirement savings

If you want a **Hybrid annuity** income that lasts and keeps up with inflation for 25 to 30 years,

you should start with an income drawdown of no more than **x% to x%** of the value of your capital

The reality is that this starting income depends on annuity rates. **The answer is not a fixed, permanent value, and therefore, it is not possible to say that every year from now and into the future, a hybrid annuity starting income should be, for example, 6%.** Annuity rates fluctuate over time, so the starting income changes accordingly. For example, in South Africa, life annuity rates reached a two-decade high just a year and a half ago.

This raises an important point for the research. What starting income did we use in our assumptions, and why does this matter? **The starting income matters because different rates lead to better or worse outcomes, so the research results depend on the prevailing rates at the time.**

In our assumptions, the more general input was the three in the middle of the table. The GAP income was set to escalate at 5% per year, a guaranteed term of 10 years was included, and the analysis was based on a male aged 65. Each of these inputs affects the resulting starting income a client would receive.

Guaranteed Annuity Portfolio (life annuity) assumptions

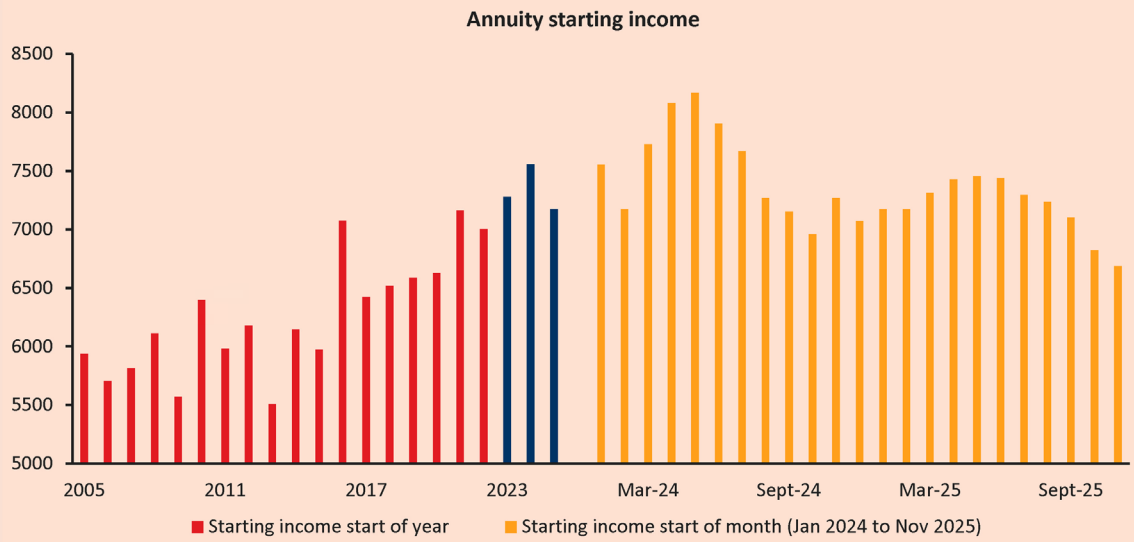
The annuity starting income	R7 411 on a R1m investment
Escalation	5%
Guarantee term	10 years
Client	Male, aged 65
Date of quote	June 2025

More importantly, however, is the starting income itself. The starting income used in the research was R7 400 per month for every R1 million invested. This was the prevailing rate at the time the analysis was concluded for the convention (June 2025). As with all research, the calculations represent a specific point in time. When someone reads this paper or approaches retirement, annuity rates may be higher or lower, and the benefits of using a hybrid annuity will naturally differ. The outcomes may be better or worse, depending on where rates are at that moment.

To put this in context, it helps to understand how this rate compares with historic levels. In other words, what would the starting income for a similar client have been at different points in time?

USING THE RULE OF THUMB TO STRETCH RETIREMENT SAVINGS

Historic starting incomes



Momentum Wealth launched its hybrid annuity in mid-2022, and since then, the average starting income for a comparable client has been just above R7 400 per month. The three dark blue bars on the chart show the income available at the start of each calendar year since the launch. This is almost identical to the starting income used in the analysis. Note that the vertical axis begins at R5 000. Overall, starting incomes have fluctuated between about R5 500 and just above R7 500.

If we zoom in on the period since 2024, we see additional starting incomes, and now we can see that the starting incomes briefly exceeded R8 000 for two months. This was the highest level in more than twenty years by a significant margin. At the time of recording the Reimagining retirement masterclass (November 2025), the comparable starting incomes were closer to R6 700. Looking further back to the years before the COVID pandemic, these starting incomes were relatively high compared to earlier periods.

What happens next is impossible to predict. The starting income for a comparable retiree may return to R5 500, or rise again toward R8 000. No one can say with certainty how annuity rates will move in the future.

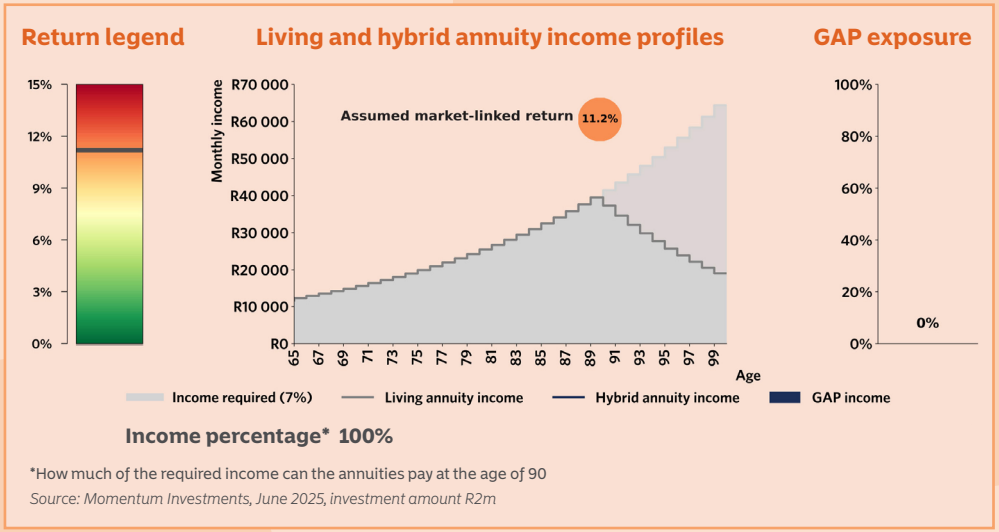
6 MARKET RISK

Market risk

Markets can change as fast as Cape Town weather. If your retirement plan relies on sunny skies, you could face a storm. Learn why planning for uncertain markets matter, and how a guaranteed income can keep you steady.

To illustrate the impact of market risk, we return to the same graph shown earlier.

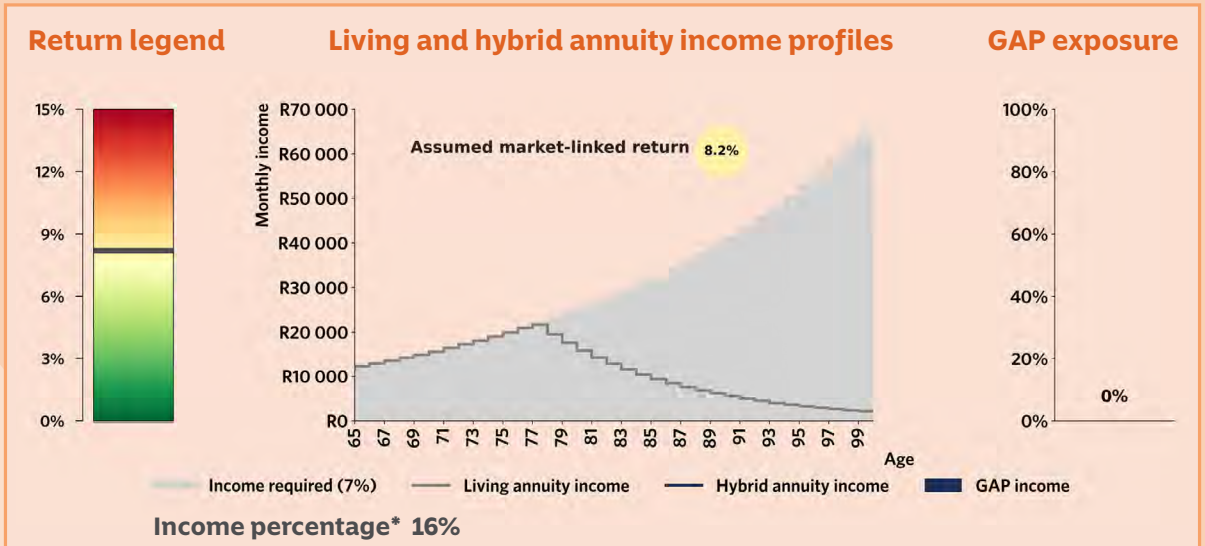
On the left-hand side is the familiar return legend, set at 11.2%. At this required return level, the corresponding bubble at the top of the chart appears in dark orange, which corresponds to the return legend. Under these assumptions, the living annuity income is sustained to age 90.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

MARKET RISK



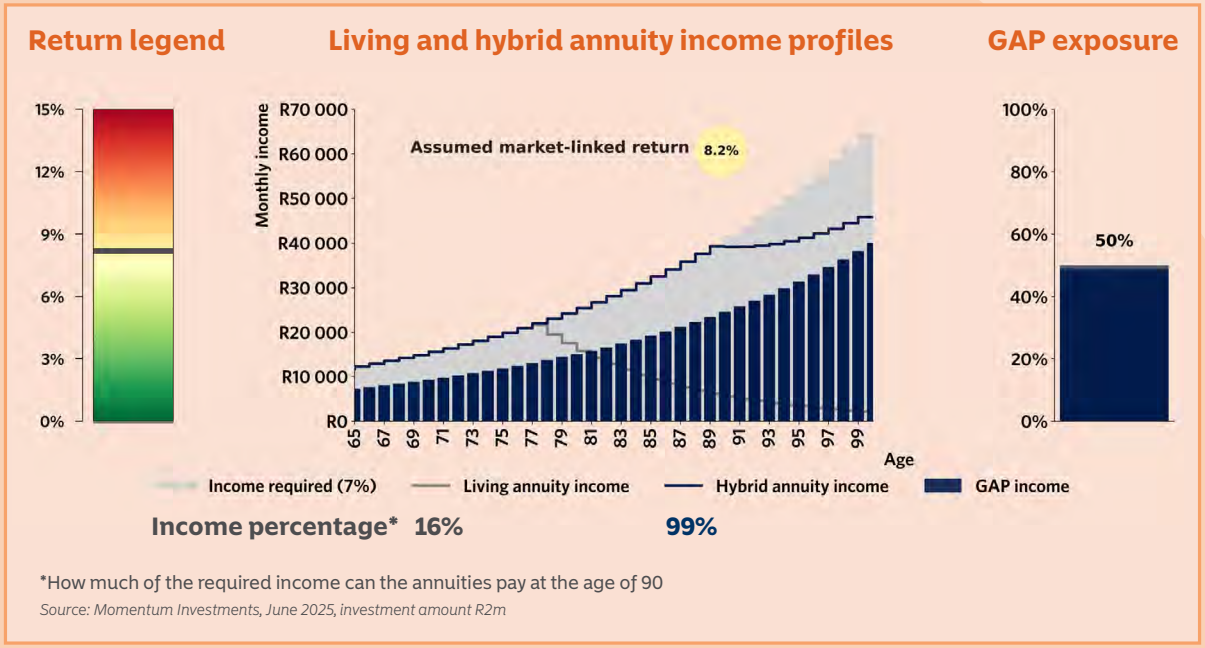
*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

Next, the required return is adjusted back to the implicit assumption underlying the retirement rule of thumb. When the return is reduced to 8.2%, the colour of that same bubble shifts from dark orange to yellow. This highlights that we are again using a more conservative, more measured return expectation.

This reflects the position of a pure living annuity under these circumstances. We now introduce the hybrid annuity into the illustration by adding a second line to the chart, representing the hybrid annuity. When viewing the videos, you will see we started with a very low allocation to the GAP component and gradually increased the allocation from 0% to 50%. This is often where an unexpected insight emerges. As the GAP allocation increases, the outcome begins to shift in a meaningful way.

MARKET RISK



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

With a hybrid annuity, the desired income is delivered even when market-linked returns are only 8.2% net of fees. The income is sustained all the way to age 89. It came remarkably close to lasting to age 90, and at that point, the hybrid annuity delivered 99.4% of the required income. The shortfall was minimal, but it demonstrates how close the hybrid structure comes to solving the sustainability challenge for this specific client.

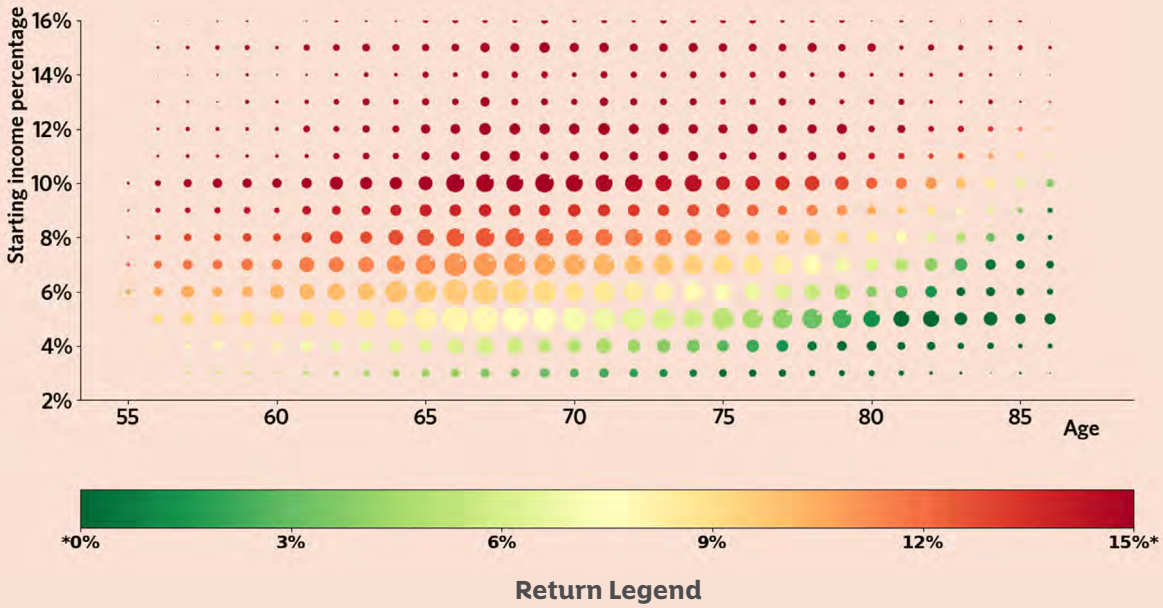
In summary, a client who is 65 years old and drawing 7% from a living annuity (with a 5% income escalation) requires an annual return of 11.2% when no allocation is made to the GAP portfolio. However, with a 50% allocation to the GAP, the required return decreases to 8.2%.*

*using the GAP income at the time of the research

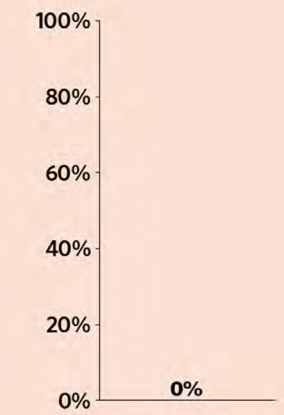
MARKET RISK

The next section illustrates how required returns shift across different client profiles as exposure to the GAP increases. Returning to the chart, a 65-year-old client drawing 7% from a living annuity requires a yearly return of 11.2% when there is no allocation to the GAP.

Required return of all market-linked components



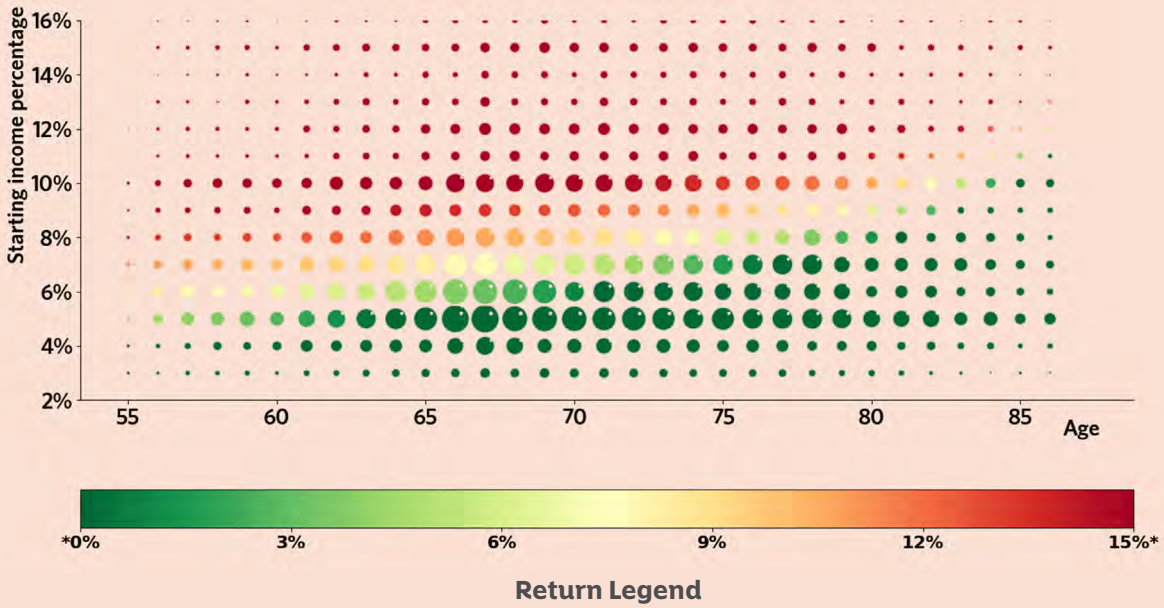
GAP exposure



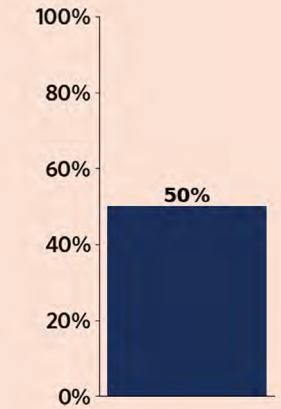
Source: Momentum Investments, June 2025 | Returns below 0% are capped at 0%, and returns above 15% are capped at 15%.

By contrast, with a 50% allocation to the GAP, the required return is reduced to 8.2%.

Required return of all market-linked components



GAP exposure

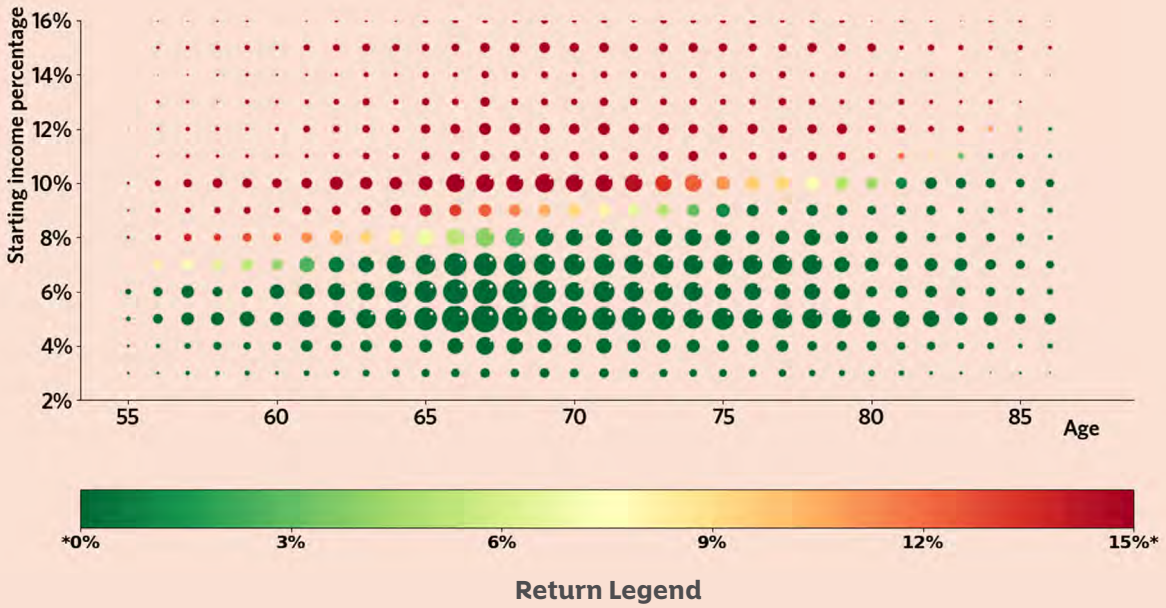


Source: Momentum Investments, June 2025 | Returns below 0% are capped at 0%, and returns above 15% are capped at 15%.

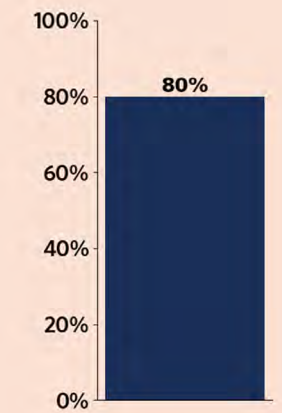
MARKET RISK

With the maximum 80% allocation to the GAP, the required return is reduced even further.

Required return of all market-linked components



GAP exposure



Source: Momentum Investments, June 2025 | Returns below 0% are capped at 0%, and returns above 15% are capped at 15%.

If a retiree draws a responsible level of income and is invested in a hybrid annuity structure, it remains possible for them to meet their income needs even when market performance is weaker than expected (or planned for). This is primarily because the required return adjusts as exposure to the GAP increases. However, some retirees draw income at levels that are simply too high, and in these cases, the GAP cannot reduce their required returns to a range that is financially sustainable.

MARKET RISK

To view the results from another perspective, the yellow bubbles represent clients who are effectively following the conventional rule of thumb guidance typically recommended. When examining the yellow segment of the chart, it becomes clear that increasing the allocation to the GAP causes this yellow band to shift upward.

In other words, as more exposure is directed towards the GAP, some clients who required a return that was higher than the one suggested by the rule of thumb now need a return that is aligned with the rule of thumb.

What this suggests, subject to certain assumptions and conditions, **is that the rule of thumb for a hybrid annuity is not aligned with the traditional rule of thumb for a living annuity.** In several cases, the level of sustainable income appears to be materially higher. Instead of the conventional 5% drawdown, the analysis indicates that some clients could draw approximately 7%, an increase of about 40%, while still requiring a similar level of market return to support the conventional income level.

There are important considerations that influence this outcome. **The results depend on the rates available at the time of the research, the inflation environment, the level of inheritance intended for beneficiaries, and the proportion allocated to the GAP.**

The analysis relies on an assumption of relatively low inflation, which will be discussed in a later section. Under these low-inflation conditions, and at the rates prevailing when the research was conducted, **certain clients could increase their income by roughly 40%** through a hybrid annuity while still requiring the same type of market returns they would have needed before raising their income.

These conclusions are rate dependent and evolve through interest rate cycles. At different points in the cycle, the magnitude of the shift may be smaller, or larger. All else being equal, this suggests that the generally accepted retirement rule of thumb could be reframed. For clients using a hybrid annuity, a sustainable drawdown range may be more appropriately expressed as 5% to 6% and even up to 7%, rather than the conventional 4% to 5%.

It remains difficult to specify a single number that applies universally. It is influenced by the prevailing rate environment, the time horizon, the level of exposure to the GAP, expected inflation, and inheritance objectives. **However, the evidence indicates that there is merit in reconsidering the traditional retirement rule of thumb for clients using a hybrid annuity.**

With this in mind, in the next section, we turn our attention to inheritance.

MARKET RISK

Understanding the required return

Retirement planning isn't about guessing the forecast; it's about knowing your bubble and its required return. Learn more about how you can weather any financial climate.

7 INHERITANCE

Using the rule of thumb to stretch retirement savings

If you want a **Hybrid annuity** income that lasts and keeps up with inflation for 25 to 30 years,

you should start with an income drawdown of no more than **x% to x%** of the value of your capital

... but at what cost?

To illustrate the inheritance implications of a hybrid annuity, consider a client investing R2 million, with R1 million invested in market-linked assets and R1 million allocated to the GAP. If the client were to pass away within the first month, the inheritance value would be R1 million, reflecting only the market-linked portion. **This initial reduction is often cited as a key concern for retirees who fear that a hybrid annuity will significantly reduce the inheritance left to their beneficiaries.**

At the outset of this research, the expectation was that this concern would hold true and that the inheritance impact would be an unavoidable disadvantage of the structure. However, the findings reveal a more nuanced outcome.

Inheritance

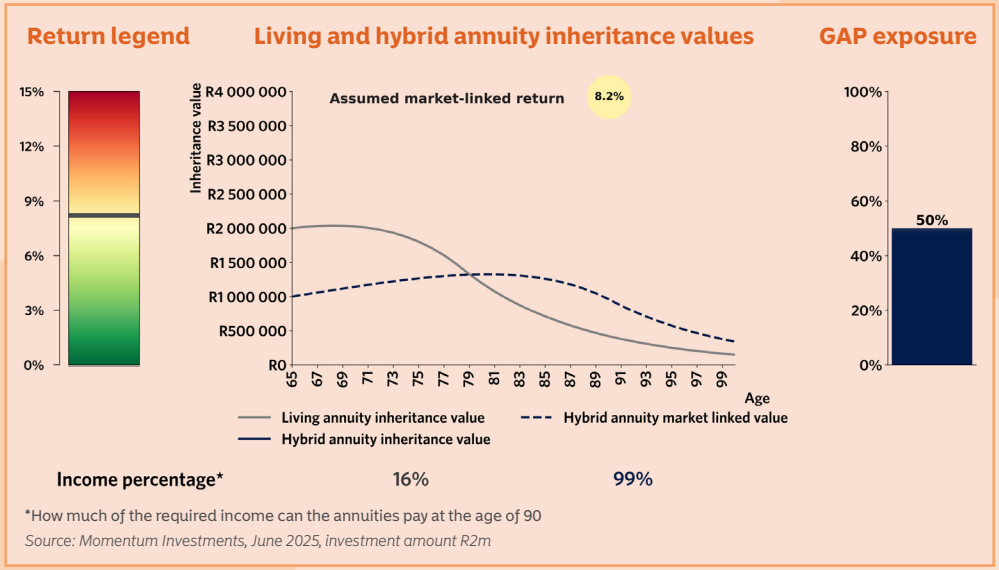
Retirement is about striking a balance, living well in the present, saving for the future, and leaving a lasting legacy. Discover how a hybrid annuity can help you get it right.

INHERITANCE

Under the assumed return environment of 8.2%, a traditional living annuity's market value gradually declines in value over time, both in terms of income sustainability and eventual inheritance. As before, this is based on a 7% starting income that is increasing by 5% per year. While allocating more capital to the GAP reduces the hybrid annuity's initial market value, the longer-term behaviour is markedly different. With a meaningful allocation to the GAP, the hybrid annuity can, in this example, deliver close to the full income required, whereas the living annuity in the same scenario provides only a small portion of that income.

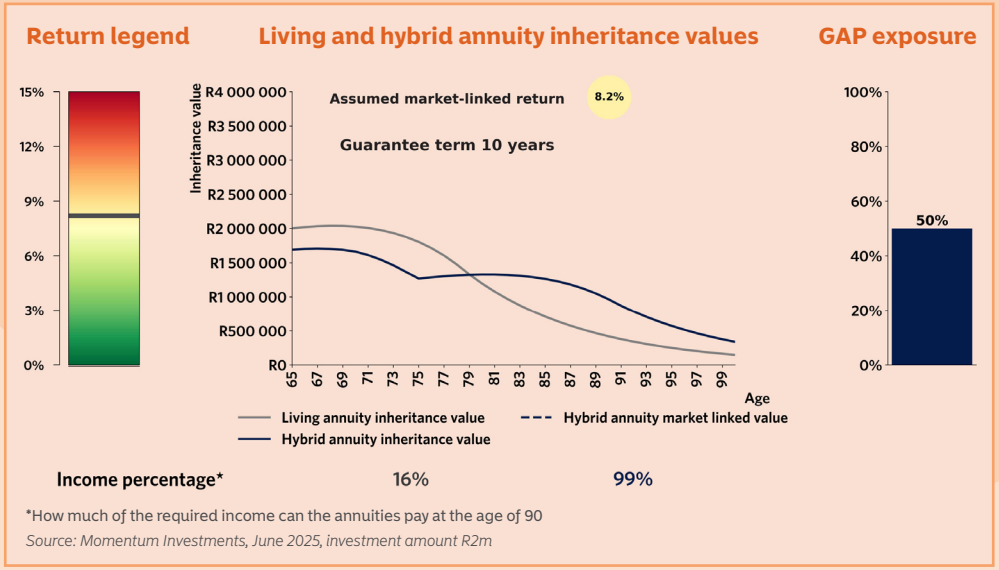
If the client passes away during the guarantee period, all remaining income payments are commuted and transferred into the living annuity, typically into a money market fund. The rise in value shown in the chart reflects this commuted amount.

This commuted value forms the notable increase visible in the inheritance trajectory shown in the chart.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

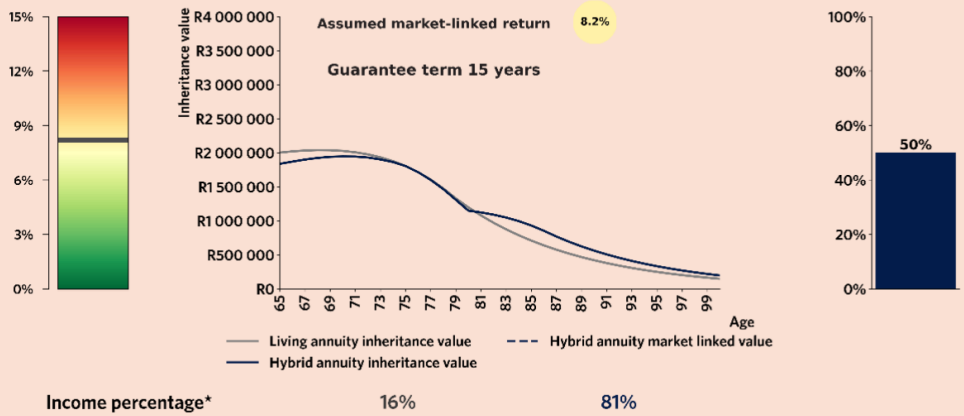
Over time, the market-linked value of the hybrid annuity caught up and overtook with the market/inheritance value of the living annuity. This happened as the income payments from the GAP enabled the hybrid annuity to retain capital more effectively.

This difference is material. The hybrid structure offers significantly greater certainty of meeting income needs and, in many scenarios, provides a higher likelihood of leaving a meaningful inheritance rather than a depleted or even a negative inheritance.

The previous graph does not yet reflect the full picture. Readers may observe that the example did not use a pure life annuity; instead, a 10-year guarantee term was included. This guarantee plays an important role in offsetting much of the initial inheritance shortfall.

INHERITANCE

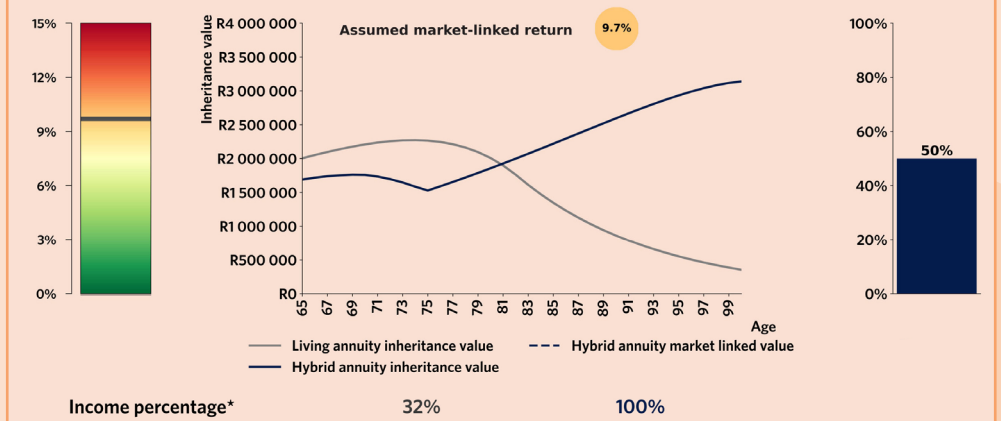
The initial inheritance shortfall can also be reduced by extending the guarantee term on the life annuity portion. We analysed outcomes across several guaranteed periods, including 11, 12, 13, 14 and 15 years. When viewed over a 15-year horizon, the difference becomes clear. The longer guarantee period significantly offsets the early shortfall.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

In this example, the original crossover point at which the hybrid annuity produces a higher inheritance value occurred just before age 80 under the 8.2% return assumption. When the assumed return was increased, this crossover point shifted slightly, occurring just after age 80.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

In this scenario, three effects occur simultaneously: the initial inheritance shortfall becomes smaller, the long-term inheritance gain is reduced, and the level of income that can be paid at age 90 declines because the GAP pays a lower guaranteed income when a guarantee term is selected.

All of the preceding analysis is based on a net-of-fee return assumption of 8.2%. Increasing this return assumption naturally improves the outcomes for a traditional living annuity, and at higher return levels, the relative advantage shifts. Even so, when the assumption is raised to nearly 10%, the hybrid annuity remains a fundamentally different proposition.

To be clear, in environments where markets deliver exceptionally strong and sustained returns, for example 15% or higher for extended periods, a living annuity performs very well and, in such cases, it is generally the superior option. However, these conditions are not that typical. It is in more muted or inconsistent market environments that the limitations of a living annuity become apparent.

The outcome reinforces the broader theme: the attractiveness of a hybrid annuity does not depend on outperforming in the strongest markets, but rather on mitigating risk and preserving value in more challenging ones.

8 INFLATION RISK

Up to this point, inflation has not been discussed, yet it plays a critical role in determining sustainable income in retirement. If the rule of thumb were to be formally updated for a hybrid annuity, it would need to include an explicit reference to inflation. For example, in this context, 'low inflation' could be defined as an environment where inflation remains around 5%. However, long-term inflation of 6% or 7% presents a more challenging scenario.

The difficulty is that higher inflation can have a significant adverse impact on retirement outcomes. When the cost of living rises faster than expected, retirees are forced to draw more from their portfolios than originally planned. It offers little benefit if income increases by 5% while expenses rise by 10%, particularly over extended periods. This mismatch erodes purchasing power and accelerates the depletion of capital.

One way to mitigate this risk is to use a life annuity or a GAP structure, where income escalations are explicitly linked to inflation. These products provide greater protection against rising prices and help maintain the retiree's purchasing power over time.

Using the rule of thumb to stretch retirement savings

If you want a **Hybrid annuity** income that lasts and keeps up with **'low' inflation for 25 to 30 years,**

you should start with an income drawdown of no more than **x% to x%** of the value of your capital

.... but what about inflation?

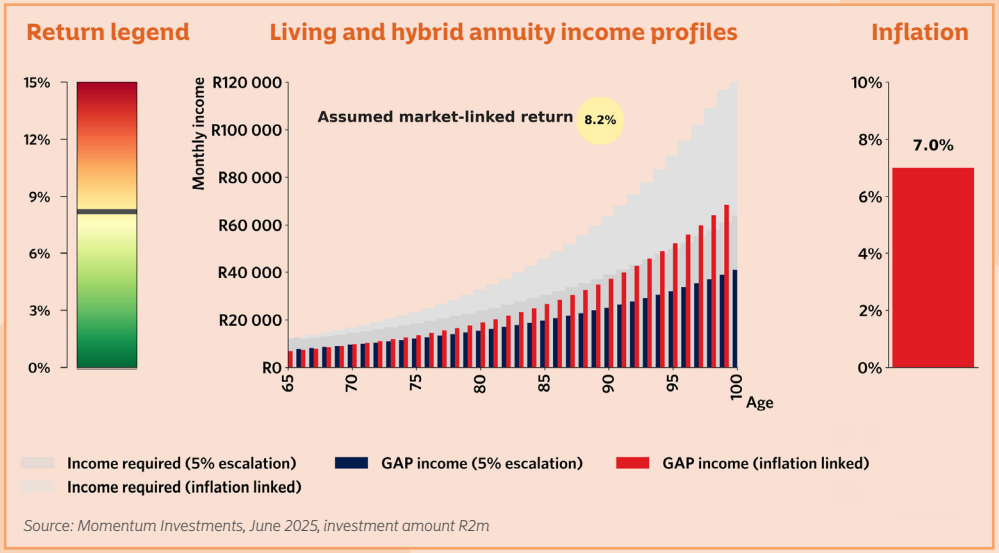
INFLATION RISK

To further illustrate the role of inflation, consider an investment of R2 million in a hybrid annuity again, with R1 million allocated to market-linked assets and R1 million to the GAP. In this case, two types of GAP structures are compared. The first provides fixed yearly income increases of 5%, while the second provides income increases linked directly to inflation.

At the time the research was conducted, the starting income from the GAP with a fixed 5% escalation was R7 411, shown by the blue bars in the chart. The starting income from the comparable inflation-linked GAP was R6 864, as indicated by the red bars, approximately R550 lower at inception.

If inflation is assumed to remain at 5% over the long term, the income from the inflation-linked GAP will increase by 5% every year. Under these conditions, the inflation-linked GAP would remain slightly below the income produced by the fixed 5% escalating GAP throughout retirement.

However, when long-term inflation is assumed to be higher, **for example, at 7%**, the picture changes materially. Under this assumption, the income from the inflation-linked GAP is nearly 50% higher than the income from the fixed 5% escalating GAP by age 90. The reason is straightforward. The income from the inflation-linked GAP adjusts in line with actual inflation, rising more rapidly in high inflation environments. As a result, when inflation turns out to be elevated, the inflation-linked GAP can deliver significantly higher income than a GAP with fixed escalations. This can help the living annuity maintain its purchasing power, especially during periods when market-linked investments do not deliver exceptionally strong returns.



Source: Momentum Investments, June 2025, investment amount R2m

To better reflect the income needs of a retiree in a higher inflation environment, the chart also introduced an additional income requirement area that escalates with inflation. This is shown by the higher of the two grey areas. For the subsequent analysis, this inflation-linked income requirement is used, as it represents a more realistic reflection of future spending needs under elevated inflation.

Before proceeding, it is worth noting how close the income from the inflation-linked GAP is, by age 90, to the lower grey area representing a fixed 5% escalation in income. This proximity highlights how the inflation-linked GAP can track, and even surpass, fixed escalation structures as higher inflation compounds over time.

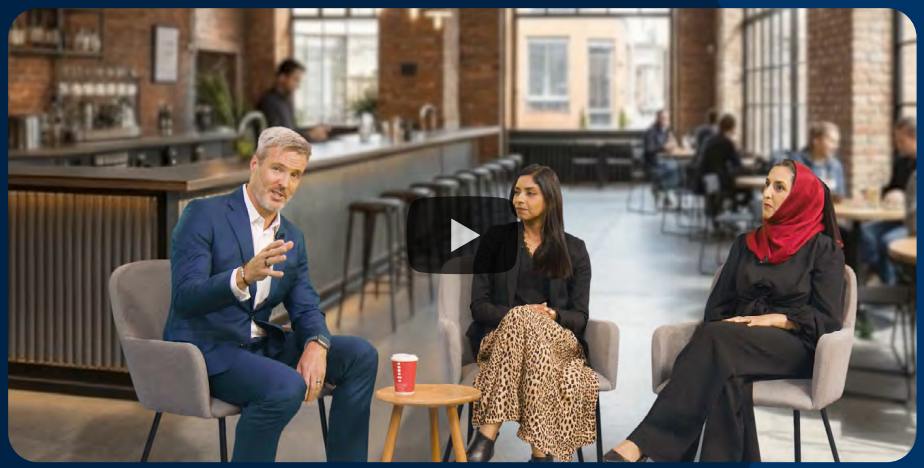
The next step is to consider how both a traditional living annuity and **a hybrid annuity with a fixed escalation GAP** respond when required to meet an income need that increases more rapidly due to higher inflation.

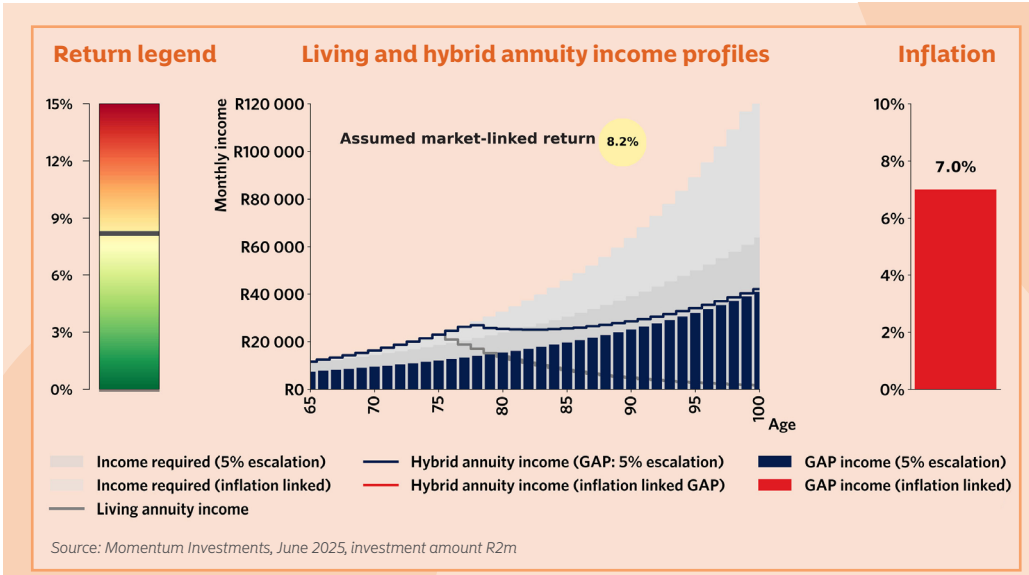
In an environment with a long-term inflation rate of 7%, both structures begin to fall short far earlier than in the previous examples.

INFLATION RISK

Inflation risk

Inflation can quietly erode your retirement income. Learn how an inflation-linked annuity helps protect your purchasing power, so rising prices don't derail your lifestyle.



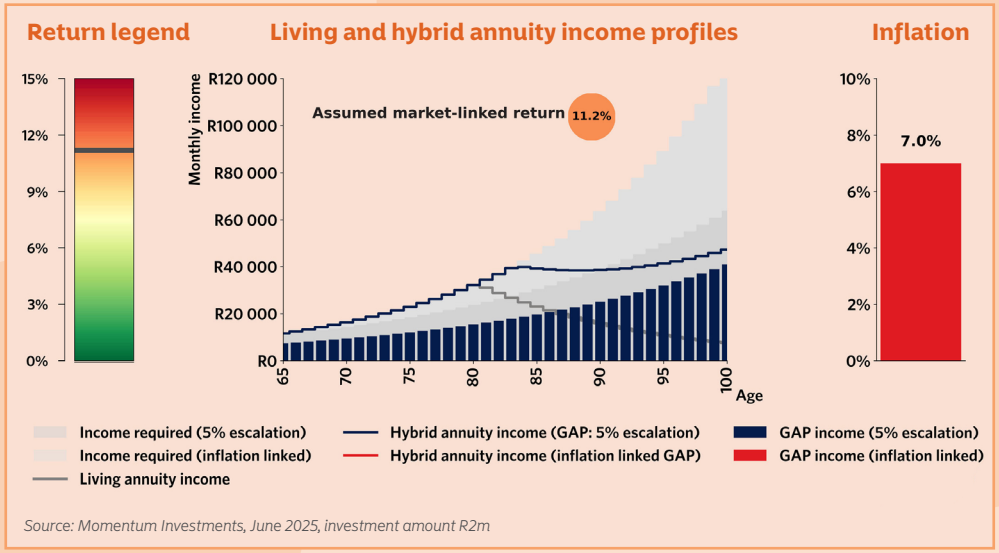


Source: Momentum Investments, June 2025, investment amount R2m

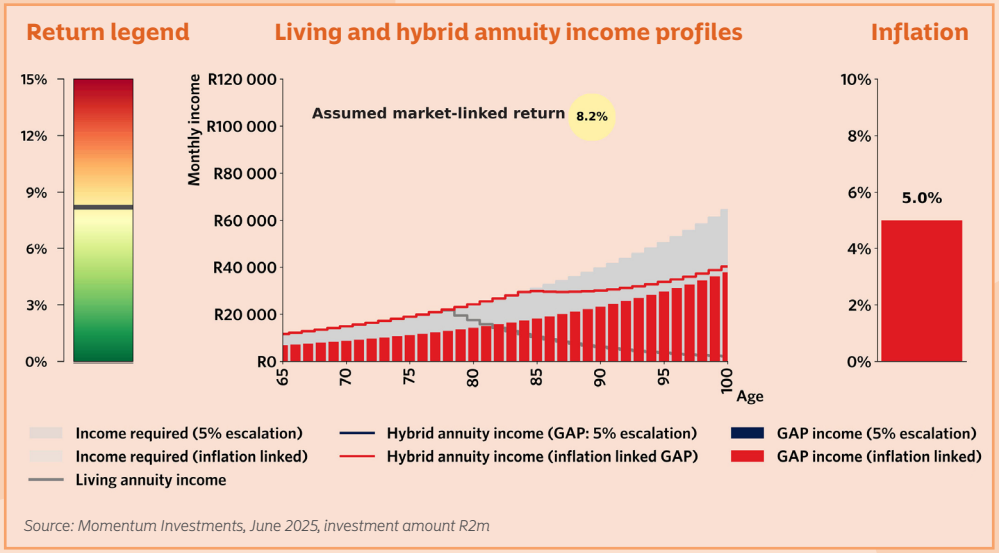
This highlights how a fixed escalation annuity does not respond to the rising cost of living.

Ideally, the market-linked portion of the portfolio would have meaningful exposure to real assets, that is, assets capable of delivering returns that keep pace with inflation. If this exposure is sufficient, the market-linked investments may be able to generate higher returns and help offset the increased income demands.

INFLATION RISK



Source: Momentum Investments, June 2025, investment amount R2m



Source: Momentum Investments, June 2025, investment amount R2m

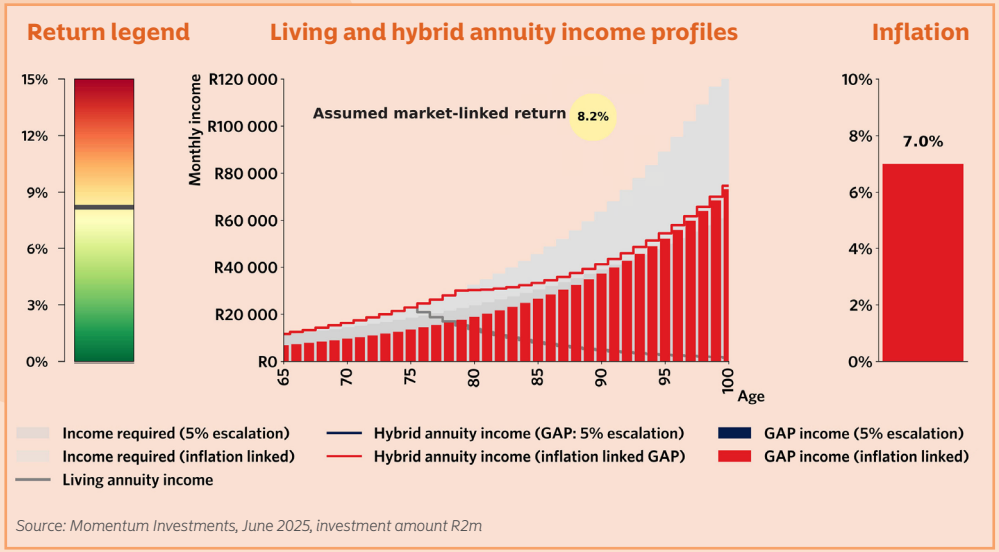
But even with a net-of-fee return assumption of 11.2%, both structures fail to keep pace with an income requirement that increases by 7% per year.

We now consider the outcomes when using a **hybrid annuity with an inflation-linked GAP.** As before, the analysis begins with a net-of-fee return assumption of 8.2% and an inflation assumption of 5%.

Under these conditions, the hybrid annuity does not sustain the required income to age 90, nor does it reach age 89 as in the earlier example (on page 22) that used a 50% allocation to a GAP with a fixed escalation.

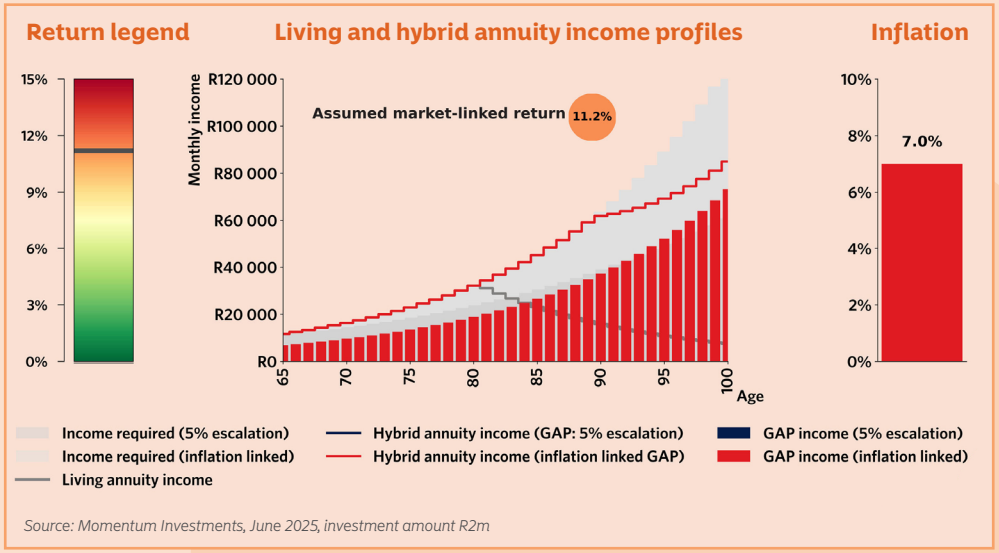
This is because inflation-linked GAP has a lower starting income and also increases at 5%, the assumed inflation rate.

INFLATION RISK



Source: Momentum Investments, June 2025, investment amount R2m

When the inflation rate increases, the income from the inflation-linked GAP also escalates. Although there is still a shortfall, it does so later than in the fixed escalation scenario, and the shortfall is materially less in the future.



Source: Momentum Investments, June 2025, investment amount R2m

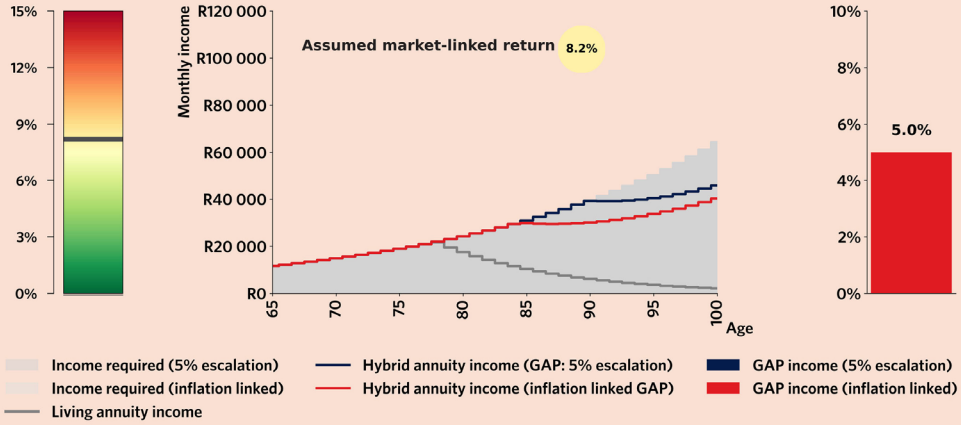
When the return assumption is subsequently increased, the hybrid annuity with an inflation-linked GAP is able to maintain the required income until very close to age 90.

INFLATION RISK

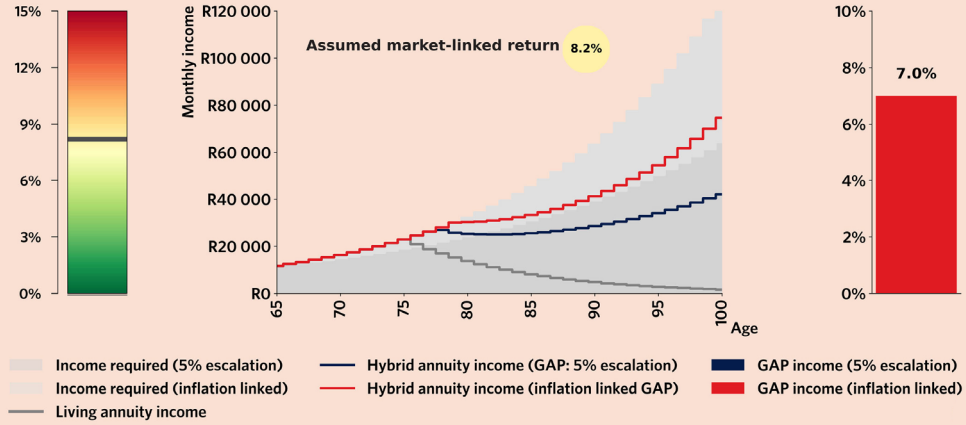
To illustrate the impact more clearly, the next comparison removes the GAP income streams and shows only the total income delivered by a living annuity and by the two hybrid annuity structures. This allows the differences in income sustainability to be observed directly, without the visual effect of the GAP payments overlaying the results.

Starting again with an assumed return of 8.2% and inflation of 5%, the income profiles remain consistent with the earlier results.

As inflation increases, the hybrid annuity with the inflation-linked GAP maintains the required income for a longer period, and the decline in income is noticeably less severe.



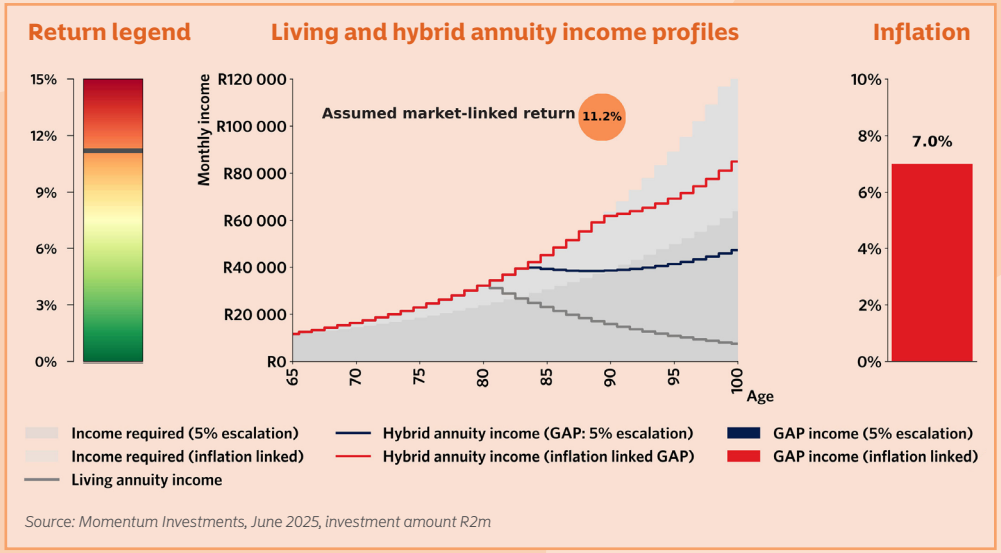
Source: Momentum Investments, June 2025, investment amount R2m



Source: Momentum Investments, June 2025, investment amount R2m

INFLATION RISK

When the return assumption is increased, the hybrid annuity that provides inflation protection performs materially better in sustaining the required income.



Source: Momentum Investments, June 2025, investment amount R2m

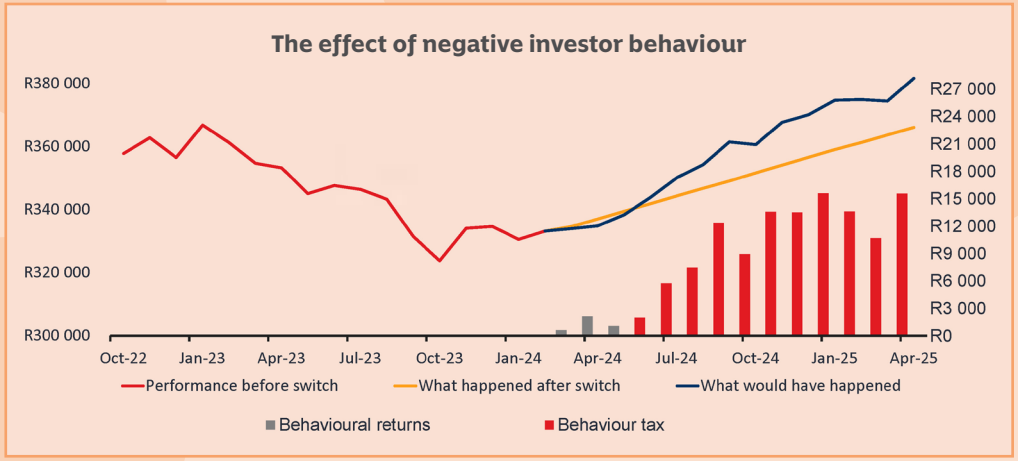
Compared to a GAP that offers a fixed annual escalation of 5%, the inflation-linked GAP will naturally be the superior option in periods where inflation rises well above this level, and the reverse holds when inflation remains subdued. This illustrates how inflation-linked structures can provide meaningful protection against one of the most significant risks faced in retirement: inflation risk.

Note that an inflation-linked annuity has a cap on the maximum escalation it can provide from year to year, for example, 15%. As such, it cannot mitigate the risk of hyperinflation.

The next consideration is behaviour tax.

9 BEHAVIOUR TAX

Behaviour tax refers to the negative financial impact that results from client decisions and behavioural biases. To illustrate this concept clearly, the next section introduces a real-world example.



This example reflects the behaviour of an actual client who made an investment switch early in 2024. The red line in the chart represents the client's original portfolio path. For reasons that can only be inferred, the client switched into a very conservative fund. Behaviour tax is essentially the answer to the question "what if?". What would the outcome have been had the client resisted the impulse to switch? The analysis shows that although the switch appeared beneficial for the first three months, it subsequently destroyed value. In the initial phase, the client experienced what could be described as behavioural returns, but this quickly shifted into what Paul Nixon, our behavioural finance expert, refers to as behaviour tax.

Behaviour tax

Switching investments during market swings can seem smart, but it often results in lost returns. Discover the hidden 'behaviour tax' and why patience beats panic.

BEHAVIOUR TAX

Behaviour tax is the cost of client decisions, the financial impact of switching behaviour. It does not imply a negative return; rather, it reflects the lower return earned relative to what would have been achieved had the client remained invested. It is not a tax in the traditional sense payable to SARS, but more akin to a fee or opportunity cost that reduces long-term returns.

Understanding why behaviour tax constitutes one of the key retirement risks requires stepping back to consider the role of data and behavioural finance. The phrase **'data is the new oil'** is often misunderstood. Its meaning is that raw data, like crude oil, holds limited value until it is refined and processed into something usable. Its true value lies in its potential once transformed.

In our case, this refinement involved analysing client behaviour, and specifically switching behaviour, using actual transactional data from the Momentum Wealth platform. Approximately 150 000 switches were examined to derive the insights presented. Machine learning algorithms were applied to this dataset to understand not only the magnitude of behaviour tax paid, but also whether clients who switch can be meaningfully classified into behavioural groupings or archetypes. This approach converts raw behavioural data into insight, revealing patterns that help explain how client actions can erode retirement outcomes.

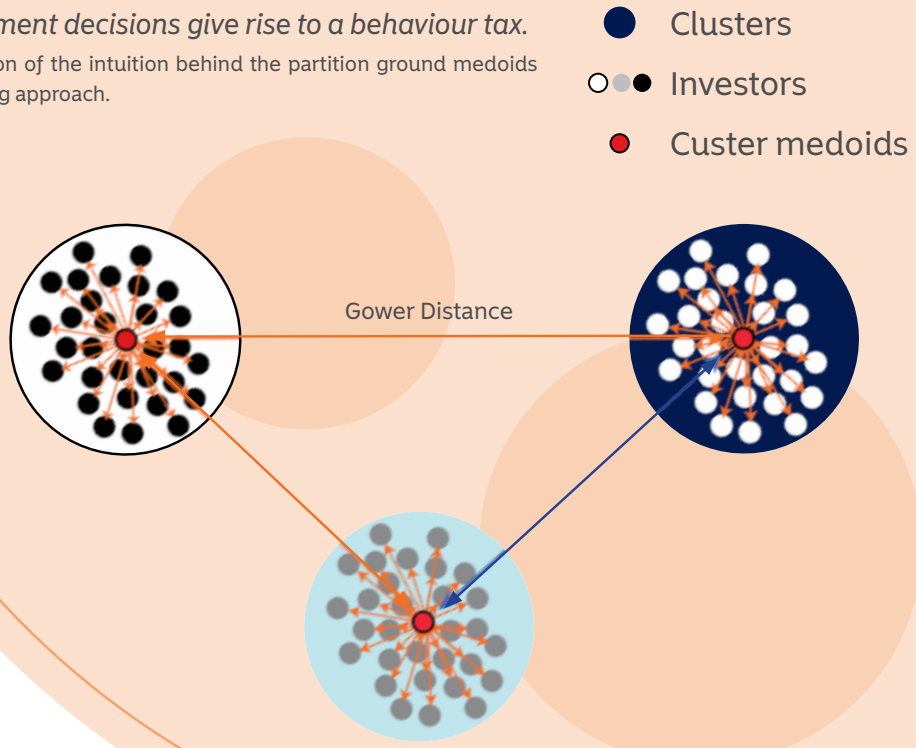
This was done by using an unsupervised machine learning algorithm, namely a clustering algorithm.

Clustering

- To cluster investors by their switching behaviour, the PAM (partition around medoids) clustering algorithm was used
- The main idea behind clustering is to find groups of investors with similar switching behaviour

Investment decisions give rise to a behaviour tax.

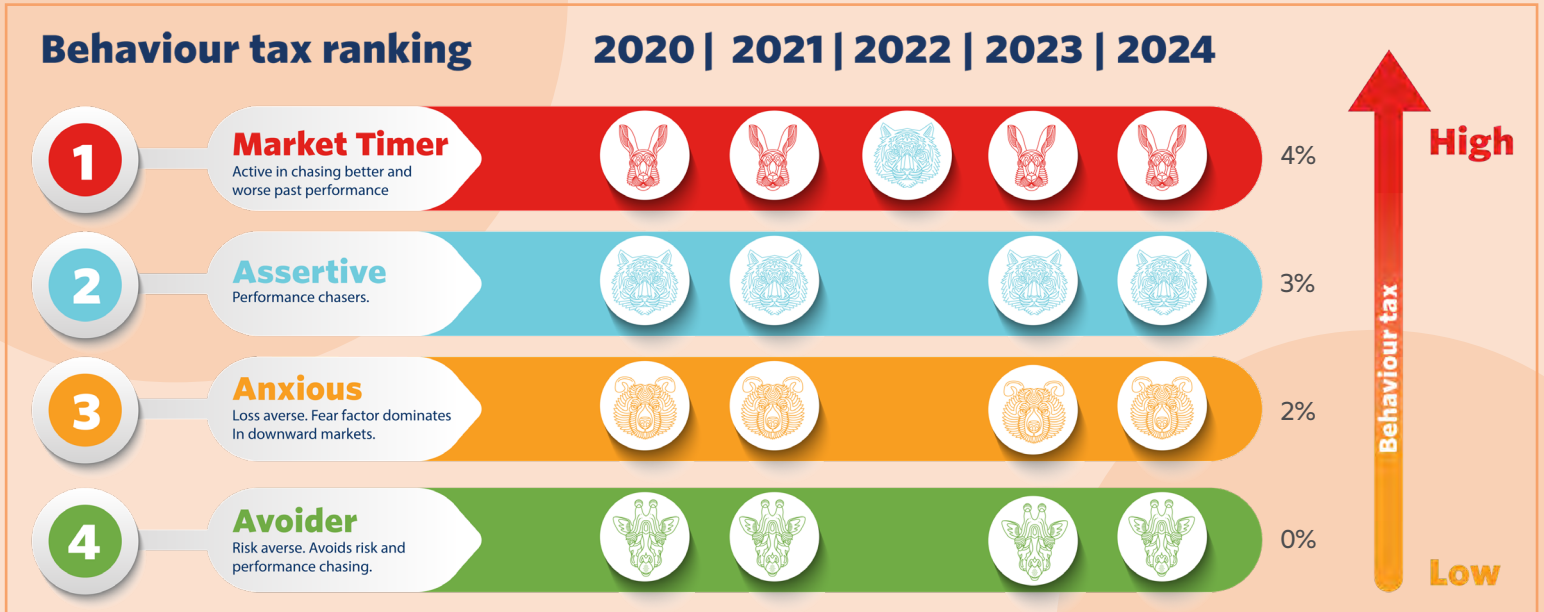
Illustration of the intuition behind the partition ground medoids clustering approach.



BEHAVIOUR TAX

This analysis allows us to identify groups of clients who exhibit similar switching behaviour. When the dataset was processed through the clustering algorithm, four distinct behavioural archetypes emerged: the Avoider, the Anxious Investor, the Assertive Investor and the Market Timer. These archetypes reflect meaningful differences in how clients respond to market movements and uncertainty.

Further details on these groups can be found in the 2024 Momentum Investments Sci-Fi report. Some of the key findings from the 2024 edition include the following.



Investment decisions give rise to a behaviour tax. Findings from the Momentum 2024 Sci-Fi report.

Source: Momentum Wealth, February 2025.

This reference is drawn from the **Momentum 2024 Sci-Fi Report**, which was current at the time of recording the Reimagining Retirement masterclass. An updated 2025 version is available **here**.

BEHAVIOUR TAX

Does every client switching show the same behaviour?

≈ R60 million destroyed in **behaviour tax** for 2024 in LISP investments and living annuities

Living annuity investors (non-discretionary investors) pay **4.26%** in behaviour tax

The Top 10 OUTFLOW funds (R1.5 billion) delivered up to **14% better returns** the next year (living annuities)

Investment decisions give rise to a behaviour tax. Findings from the Momentum 2024 Sci Fi report.

In the 2024 cycle, clients destroyed approximately R60 million in value through switching activity, and this figure reflects only LISP investments and living annuities. Among living annuity clients who switched during this period, the annualised behaviour tax amounted to 4.26%. One contributing factor is that many of the funds from which clients disinvested went on to deliver substantially stronger performance the following year, in some cases outperforming by as much as 14%. In hindsight, the optimal action, though psychologically difficult, would have been to remain invested and avoid the 'switch-itch.'

It is noteworthy that a large portion of these findings is based on living annuity data, where behaviour tax is particularly pronounced. As part of the research, an additional analysis was conducted to determine which investment-related factors could support a predictive switching model.

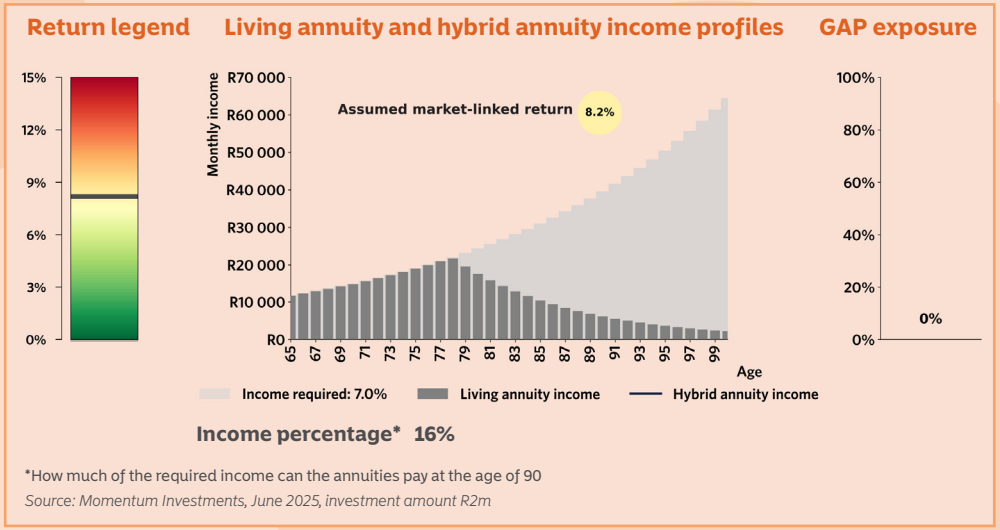
A random forest algorithm, a supervised machine learning method, was applied to identify the variables most strongly associated with switching behaviour. Two of the attributes that increase the likelihood of switching are the **size of the investment** and the **age of the client**, both of which are **commonly observed in living annuity portfolios.**

These findings underscore why **behaviour tax is regarded as a key retirement risk.** They also **reinforce the importance of engaging with a financial adviser**, who can help clients navigate emotional decision-making and avoid actions that may erode long-term financial outcomes.

This brings us to the final key retirement risk: longevity risk.

10 LONGEVITY RISK

Longevity risk is essentially the risk of outliving your money.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

There are many ways to counteract longevity risk when you retire and choose a living annuity.

Some of the ways to counteract longevity risk are drawing a lower income, aiming for a higher return, or using a hybrid annuity.

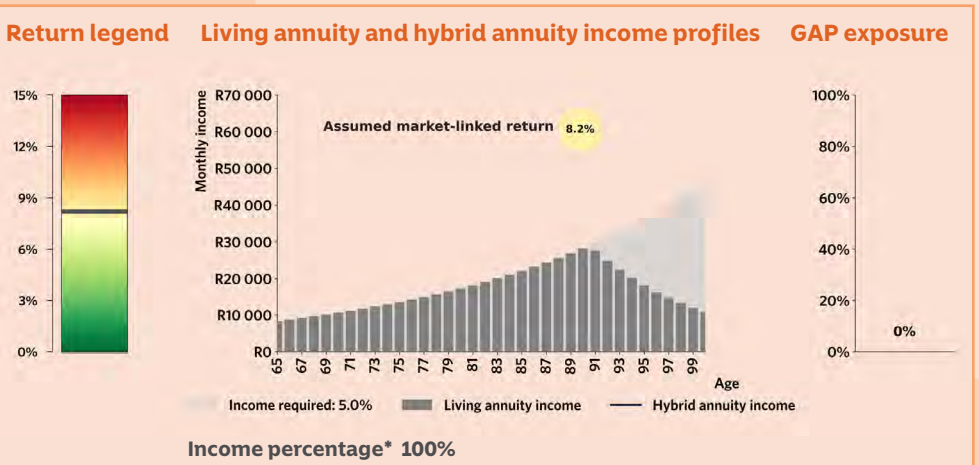
Longevity risk

Living longer is great, but you don't want to run out of retirement income. Learn how to plan for longevity risk and maintain a steady income throughout your life.

LONGEVITY RISK

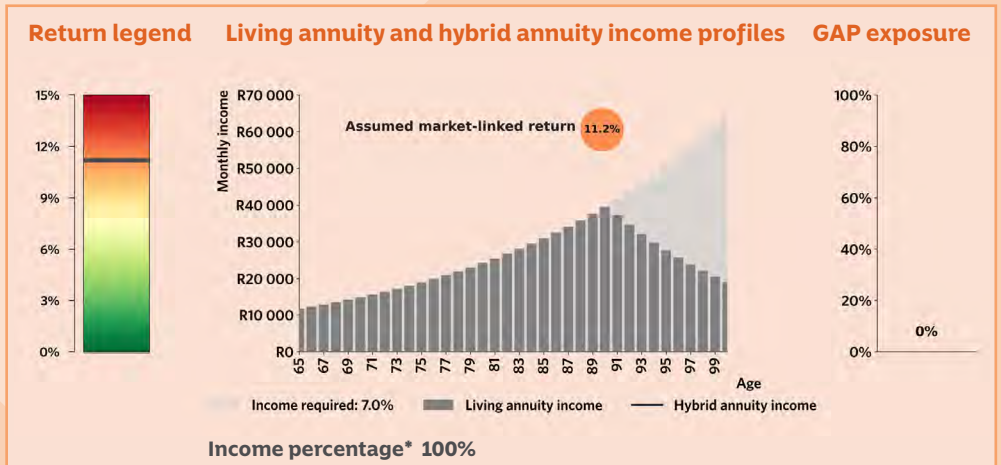
In many instances, the best solution may be to try and withdraw a lower income from your annuity. Reducing the starting income by 2% could even mean that your income will last for more than a decade longer.

If that is not possible, you can also take on more investment risk with the aim of potentially achieving higher returns. This can help you to stretch your retirement savings, but **when markets underperform, this could lead to bigger losses and an even greater strain on your income sustainability.**



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m



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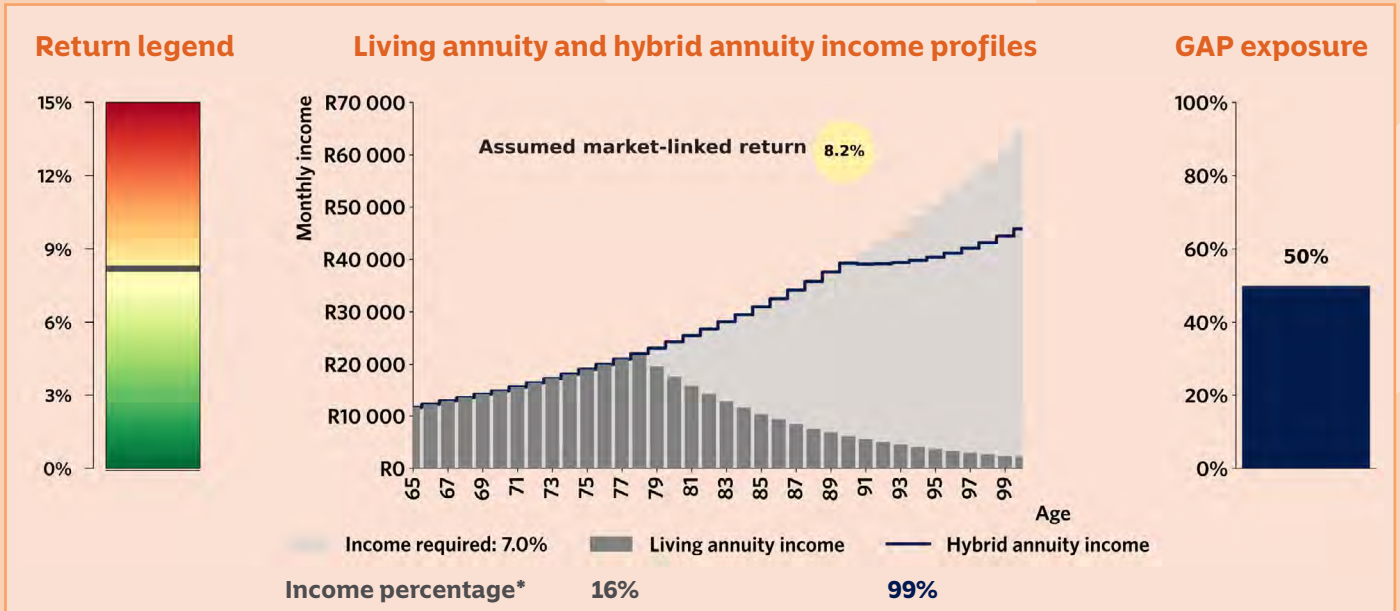
Source: Momentum Investments, June 2025, investment amount R2m

LONGEVITY RISK



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

Lastly, if you allocate some of your retirement money to a GAP, the guaranteed income can help you reduce longevity risk, as a life annuity is a natural way to reduce longevity risk.

Up to this point, all five key retirement risks have been examined, along with how each can be mitigated through a hybrid annuity. These include the risk of drawing an income that is too high, market risk, inflation risk, behaviour tax and longevity risk. The discussion has also highlighted how these variables, particularly market returns, influence the inheritance outcomes of a hybrid annuity.

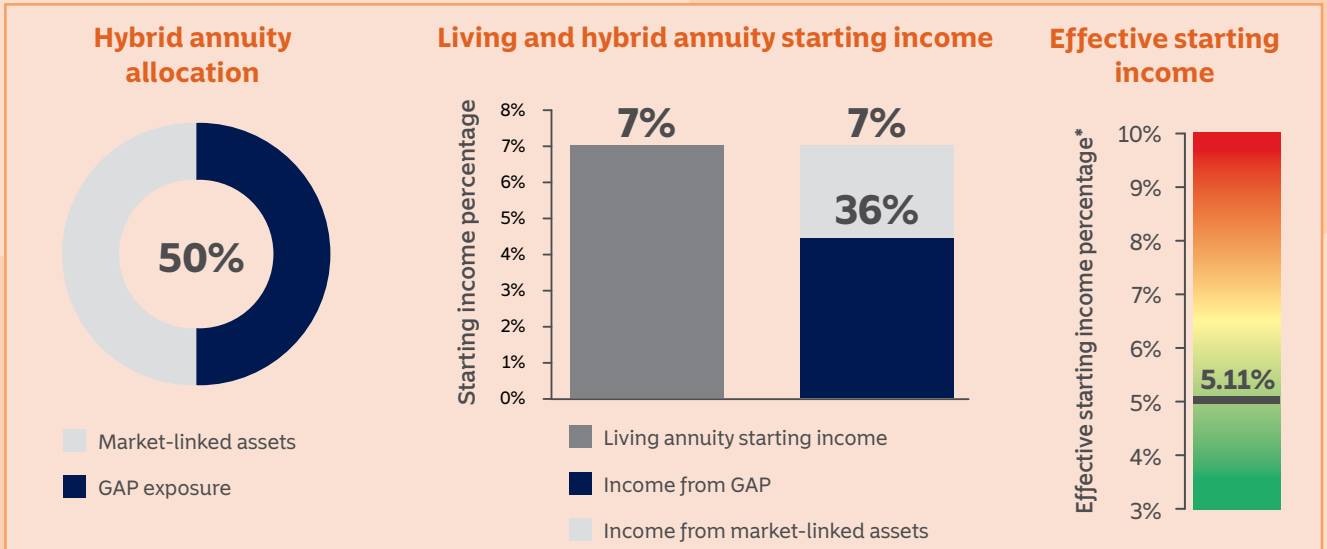
Next, the paper presents two brief examples that provide further insight into the practical application of a hybrid annuity.

11 THE EFFECTIVE STARTING INCOME

The retirement income rule of thumb can be used as a practical framework to improve retirement outcomes. Under a low inflation assumption, this rule implicitly embeds a return expectation that is neither excessively high nor unrealistically low. In many cases, it assumes a net-of-fee return of slightly above 8%. When retirees draw an income that exceeds this level, they effectively break the rule of thumb, and the return required to sustain their income rises accordingly.

A hybrid annuity can mitigate this challenge by lowering the return required to maintain the chosen income level. This occurs because **a portion of the income is sourced from the GAP, thereby reducing the starting income that must be drawn from the market-linked assets.** As the allocation to the GAP increases, the effective income drawn from the market-linked portfolio declines. At a 50% allocation to the GAP and 50% to market-linked assets, only 36% of the total income originates from the market-linked portion.

In this example, although the retiree draws 7% from the living annuity as a whole, **the effective drawdown on the market-linked assets is only 5.11%**. This lowers the return needed to sustain the income from more than 11% to a level closer to 8% or 9%.



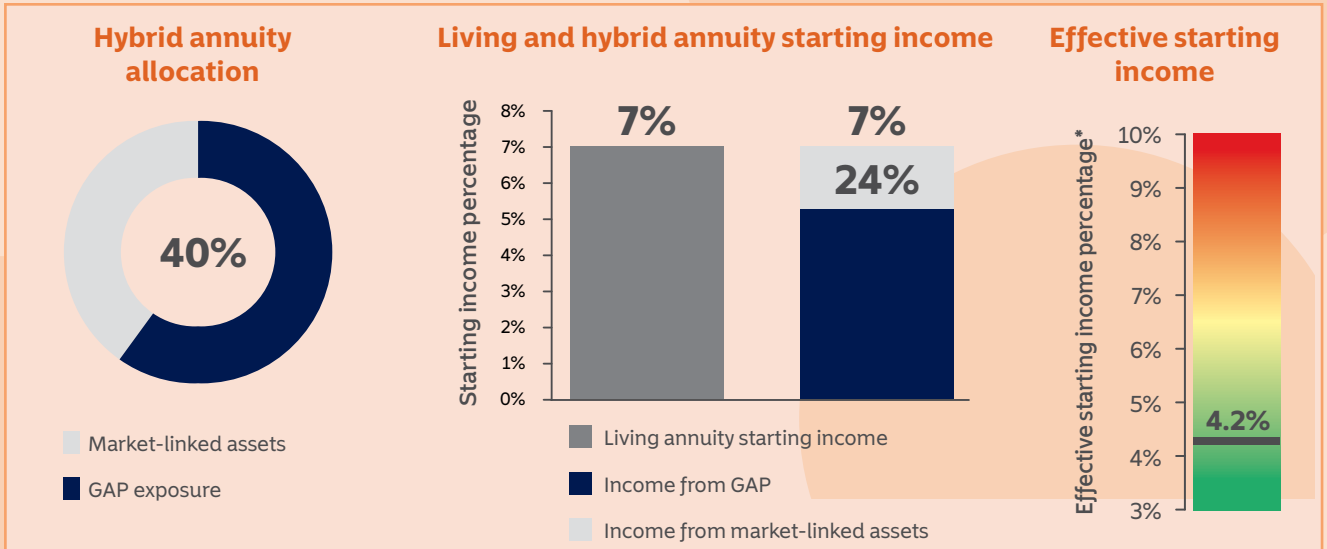
*The effective starting income percentage from the market-linked assets in the hybrid annuity

Source: Momentum Investments, June 2025.

THE EFFECTIVE STARTING INCOME

In some instances, such as when GAP exposure is increased to 60%, the effective starting income drawdown on the market-linked assets can be reduced even further, to around 4% or 5%, without changing the retiree's actual income, which in this example remains 7%.

This demonstrates how a hybrid annuity can reset the required return equation and help retirees maintain sustainable income levels while adhering more closely to well-established retirement principles.



*The effective starting income percentage from the market-linked assets in the hybrid annuity

Source: Momentum Investments, June 2025.

12 THE INTERNAL RATE OF RETURN (IRR)

Over the past few months, extensive research has been conducted on the hybrid annuity structure, with a particular focus on whether it can improve income certainty and how the choice of a hybrid annuity influences the ability to leave an inheritance. In this example, we examine the performance of an actual client's living annuity over a period of approximately 22 years and compare it with the outcome the same client would have experienced had they been invested in a hybrid annuity over the same period. To facilitate this comparison, we analysed the historical pattern of the client's investment performance using the internal rate of return (IRR). We then performed a back-test to estimate what the IRR would have been if the client had been invested in a hybrid annuity for more than two decades, assuming such a product had been available long before its actual launch in 2022.

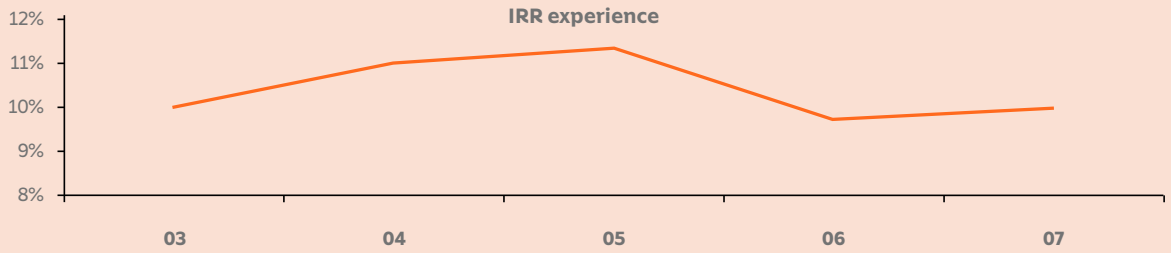
The IRR is a straightforward metric: it represents the annualised return a client effectively earned over time. To illustrate the concept, consider the following example.

To illustrate how an internal rate of return develops over time, consider a simple example of an investment's performance over five calendar years starting in 2003, with yearly returns of 10%, 12%, 12%, 5% and 11%.

After the first year, the IRR is simply the return achieved, namely 10%. After the second year, the IRR adjusts to reflect both the 10% and 12% returns, increasing to approximately 11%, which lies between the two yearly returns. The 12% return in the third year lifts the IRR further to around 11.3%. In the fourth year, the lower return of 5% pulls the IRR down to approximately 9.7%. The subsequent 11% return in the fifth year raises the IRR again, ending the five-year period at roughly 10%.

This example demonstrates how, in the long term, IRR smooths out year-to-year fluctuations and shows the effective annual return earned over the full investment period.

Year	Assumed return	IRR date (31 Dec)	IRR
2003	**10%**	02 - 03	**10.0%**
2004	**12%**	02 - 04	**11.0%**
2005	**12%**	02 - 05	**11.3%**
2006	**5%**	02 - 06	**9.7%**
2007	**11%**	02 - 07	**10.0%**



IRR experience - Simplified example.

THE INTERNAL RATE OF RETURN (IRR)

The internal rate of return experience

In the back-test, the following assumptions were applied to the GAP. It is important to note that the annuity's starting income in 2003 was lower than starting incomes that was available at the time of doing the research (Jun 2025). The assumptions are shown below.

Guaranteed Annuity Portfolio (life annuity) assumptions

The annuity starting income	R5 216 on a R1m investment
Escalation	5%
Guarantee term	10 years
Client	Male, aged 56
Date of quote	December 2003

THE INTERNAL RATE OF RETURN (IRR)

The next chart shows the client's actual IRR experience in their living annuity. The IRR declined noticeably during the Global Financial Crisis in 2008, and the data suggest that the client subsequently switched into substantially more conservative funds for several years thereafter.

It is also worth noting that annuity rates over the past two decades were lower than those available today. As a result, the guaranteed income the client would have locked in during the early 2000s would have been lower than what a similar client could have secured in 2025. In addition, this client retired in his mid-50s, meaning their starting annuity income was considerably lower than that of a retiree at age 65.

Turning to the comparison, the hybrid annuity's IRR was negative at inception, as expected, but turned positive relatively quickly due to the guarantee term. The guarantee term expired 10 years after the annuity's assumed start date, and from that point onward, the hybrid annuity IRR gradually narrowed the gap relative to the living annuity IRR. The hybrid annuity IRR also closely tracked the COVID-19 market dip and subsequent recovery in 2020.

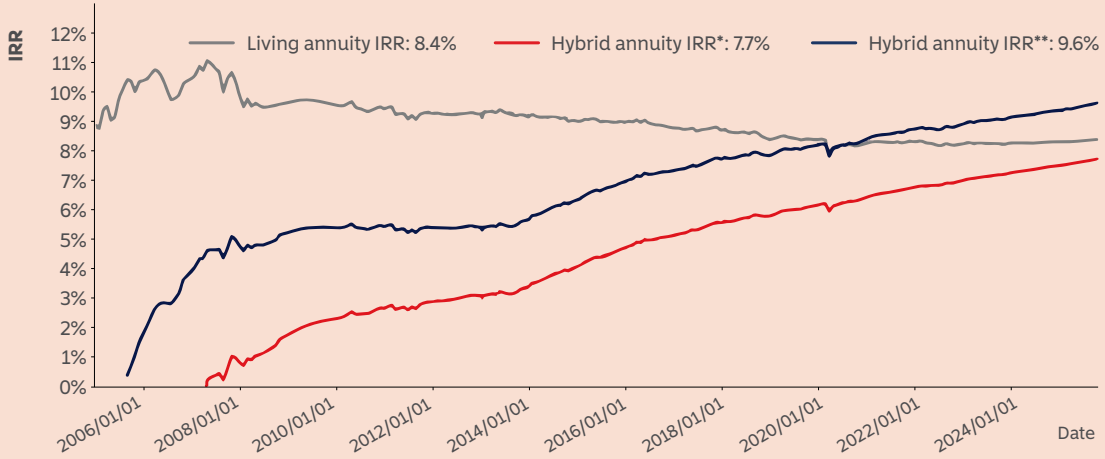
At the date of the analysis, the client had not yet turned 80. Based on current trajectories, the two IRRs are expected to cross in approximately three and a half years.

If the client had instead purchased a Guaranteed Annuity Portfolio with a starting income of R7 411 (the rate for a male aged 65 in Jun 2025 - assuming he was older at time of retirement) the crossover point would have occurred about four and a half years earlier, shortly after the COVID-19 market decline and rebound.

The meaning of an IRR crossover is important. If the IRRs were to cross today, it would imply that every future payment from the GAP constitutes 'free' cash flow, as the value of the market-linked assets in both the actual living annuity and the hybrid annuity would be identical. To illustrate this, assume an initial investment of R2 million. At the crossover point, the value of the market-linked assets in both scenarios would be roughly R1.37 million. However, the hybrid annuity would also deliver an additional R174 400 in GAP income over the next 12 months. These injections would continue for the remainder of the client's life, increasing by 5% per year. Over the next seven years alone, the cumulative GAP income could total approximately R1.4 million, an amount that exceeds the current value of the living annuity itself.

IRR experience

IRR: Since inception to Oct 2025



*The hybrid annuity IRR was calculated using a 50/50 split and used the historic guaranteed annuity income as available at inception of the investment and the historic returns of the living annuity

**The hybrid annuity IRR was calculated based on the guaranteed income available for a 65-year-old male as at June 2025 (initial date of research publication).

Source: Momentum Investments, Oct 2025

13 IN SUMMARY,

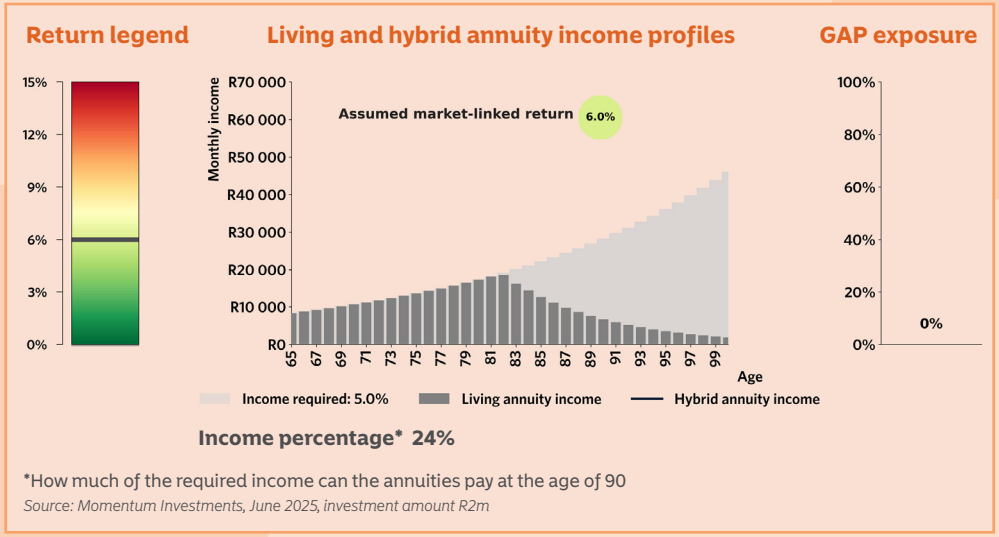
using the rule of thumb to stretch retirement savings

Returning to the central question, how can **the retirement income rule of thumb** be used to improve retirement outcomes?

The following example applies the same framework used throughout this paper. As shown in the return legend and corresponding green marker, the analysis begins with a low return assumption of 6%.

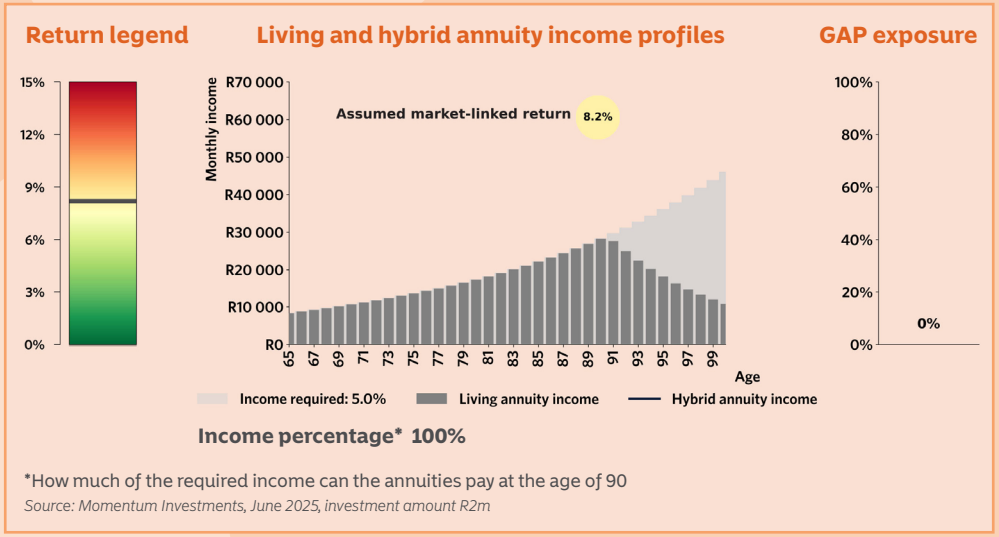
This determines how long the income can last. At this return level, income begins to fall short in the client's early 80s, which is the point at which the statutory 17.5% drawdown limit on a living annuity is reached.

Under a **low-inflation environment**, a net-of-fee return of slightly above 8% would be required to sustain the income.



*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

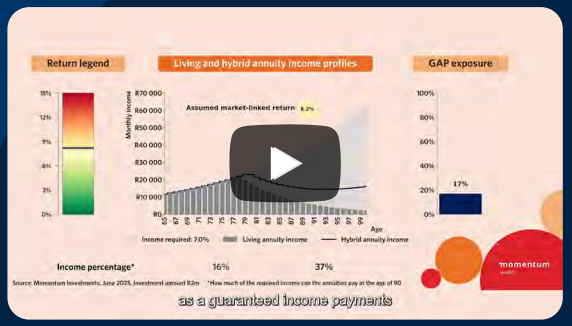


*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

IN SUMMARY, using the rule of thumb to stretch retirement savings

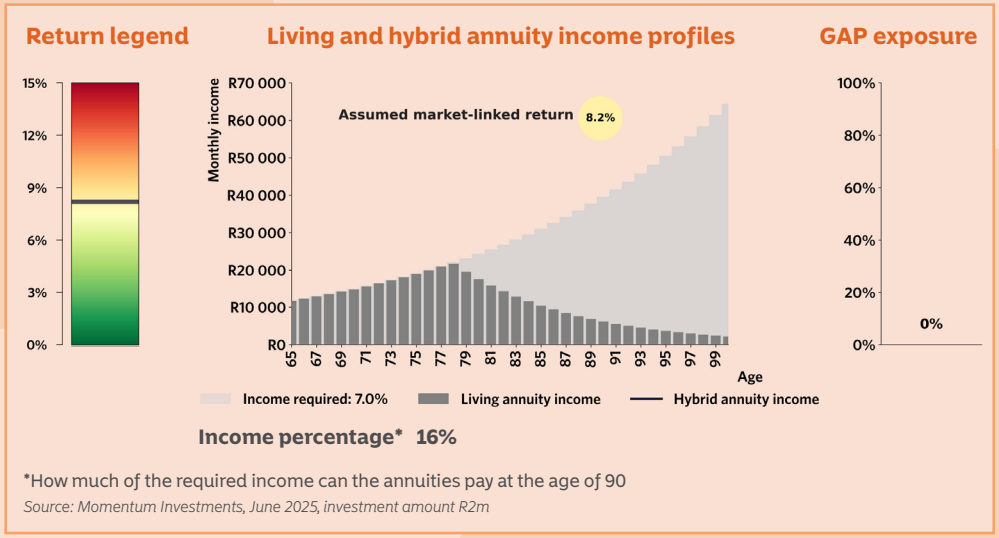
Using the rule of thumb to stretch retirement savings



When the rule of thumb is breached, by drawing a higher income than 5%, the required return increases.

A hybrid annuity can help mitigate this challenge.

The guaranteed income payments from the Guaranteed Annuity Portfolio reduce the reliance on market-linked assets, easing the pressure on the portfolio. In many cases, this structure leads to a more sustainable income, even during periods of subdued market performance.



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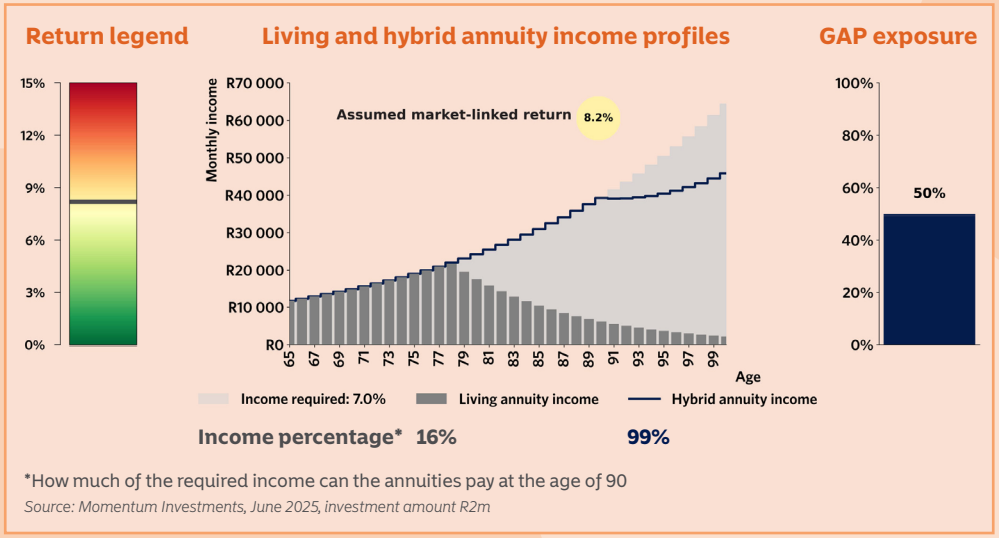


*How much of the required income can the annuities pay at the age of 90

Source: Momentum Investments, June 2025, investment amount R2m

14 ANNEXURE 1: SEQUENCE RISK

Why sequence risk matter in retirement

The reason is that **the order in which you get return does matter when you are drawing an income.** In the simplified example below, all three clients (Zero zero, Down up and Up down) start with R110.

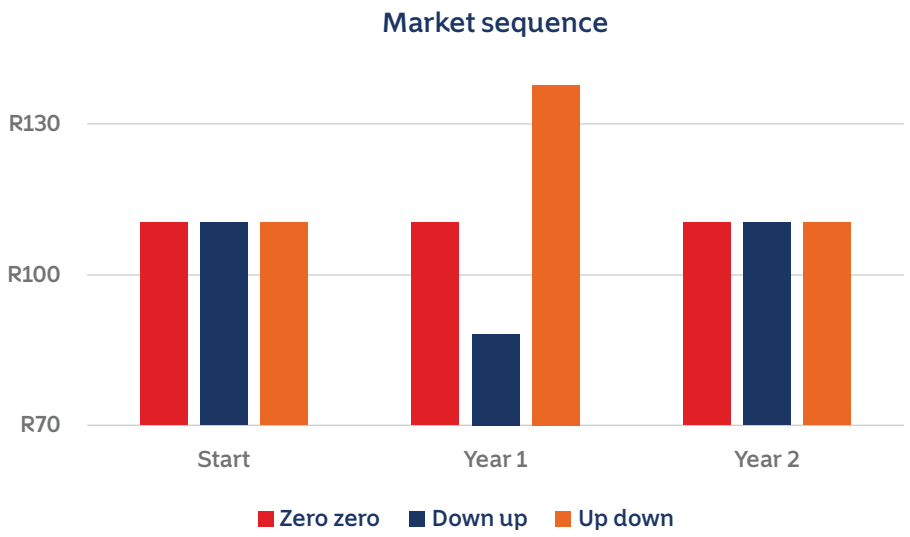
The first graph shows that the three different return sequences lead to the same outcome:

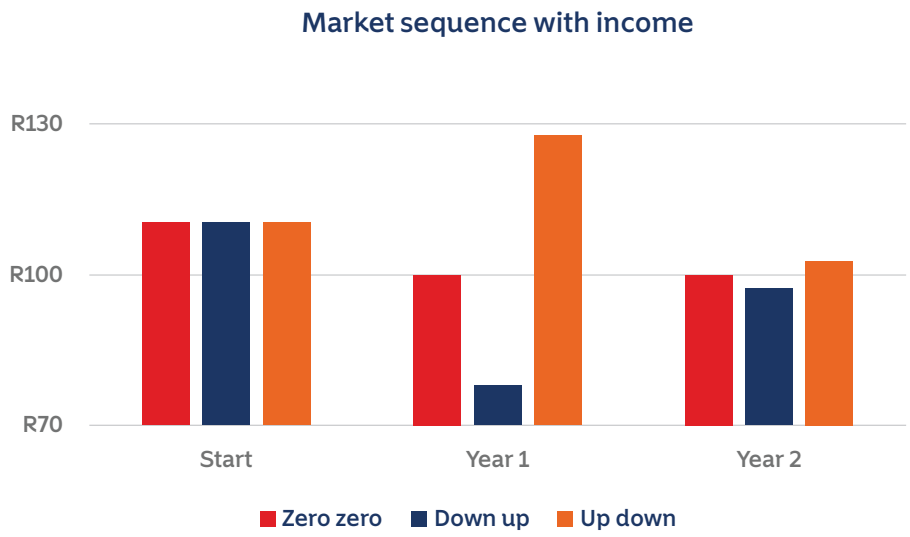
- getting a 0% return in year 1 and 0% in year 2, leads to the same result as either
- losing 20% in year 1 and gaining 25% in year 2 or
- gaining 25% in year 1 and losing 20% in year 2

In the second graph, **all clients withdraw R10 after the first year.**

As expected, the client who got 0% in year 1 and 0% in year 2 has R100 at the end, but the second client (Down up) has less than R100 after year 2, and the third client (Up down) has more than R100. For the second investor (Down up), this happens because the negative return experienced in year 1, coupled with the income withdrawal, placed too much stress on the investment to recover fully by the strong returns experienced in year 2.

This simplified example can be extended by thinking of a 30-year retirement as two 15-year periods, or even three periods of 10 years. If the first period has low or lower returns than the other, then sequence risk will have a negative effect on your retirement.





15 ANNEXURE 2: THE GUARANTEED ANNUITY PORTFOLIO

We help you navigate the typical risks in retirement to make the rest of your life, the best of your life.

We have reimagined retirement income planning by enhancing the Retirement Income Option, our living annuity. You no longer have to choose between the certainty of a life annuity and the flexibility of a living annuity. You can blend the 2-in-1 unique solution to meet your income needs when you retire and throughout your retirement years.

Find out more about the Guaranteed Annuity Portfolio by visiting the **Reimagining retirement page on our website**.

The page also contains the series of Reimagining retirement videos, clear answers to your biggest retirement questions. Fast, practical, and easy to understand.

16 ANNEXURE 3: THE INCOME ILLUSTRATOR

The Guaranteed Annuity Portfolio gives financial advisers the opportunity to use Momentum's living annuity, if it suits the client's needs and circumstances, as a hybrid annuity simply by allocating a portion of the investment into the Guaranteed Annuity Portfolio.

The Guaranteed Annuity Portfolio offers great diversification benefits as well as longevity protection, and our research has shown that by using a Guaranteed Annuity Portfolio, clients can, in some instances, add more than a decade to their ability to maintain a reasonable standard of living.

For many clients, how we reimagined retirement did away with the complicated choice of choosing between:

- an inflexible income; and
- an uncertain income

as was available through the existing range of annuities in the industry.

But even though we simplified the choice of which type of annuity to choose, just how much advisers should allocate to the Guaranteed Annuity Portfolio and how to structure it remained a complex planning problem. A financial adviser must make this decision while taking a client's personal income and inheritance requirements into account in light of their existing portfolio, uncertain life expectancy, and prevailing investment market conditions.

It is for these reasons that we developed the **Income Illustrator.** This is Momentum's way to help advisers understand the potential effect of adding a Guaranteed Annuity Portfolio to the investment portfolio of new and existing living annuity clients.

Link to video

A practical example of using the Income Illustrator to optimise the existing strategy

The following example shows how switching a portion of a client's existing living annuity into the Guaranteed Annuity Portfolio component could improve the future sustainability of their retirement income.

Current income profile of the client's existing Retirement Income Option

Adjusted income profile after adding a Guaranteed Annuity Portfolio

momentum
wealth