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Outline of living annuity research model

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A living annuity that provides an inflation-adjusting income over a 30-year period represents a complicated series of cash flows that can behave rather unexpectedly in response to extreme market movements. This complexity makes it difficult to predict the impact of various portfolio management strategies or income withdrawal strategies on the longevity of the annuity.

Therefore, to investigate questions like sustainable drawdown rates and optimal investment portfolios for living annuities, you need to construct a living annuity model. The model that we constructed at Ninety One has the following key assumption sets:

- Investment returns are sourced from the DMS[1] index series for the major South African and international asset classes going back to January 1900.
- The model uses 30-year rolling investment periods, simulating the experience of someone retiring randomly in any month over the past 118 years.
- The model assumes the asset manager is able to deliver index performance after fund manager fees.
- The model further assumes a 1% p.a. additional charge to cover product administration and financial advisor fees.

The model allows us to measure the extent to which a particular income or investment strategy would have succeeded or failed. We define success over a 30-year period as:

- The annuity never hits the 17.5% maximum annual income limit.
- The annuity's income in real terms never falls below 70% of the starting real income level.

The model measures, for every income or investment strategy, exactly what proportion of the randomly retiring pensioners since January 1900 would have experienced a failed living annuity. This enables us to calculate the failure probability of virtually any annuity income or investment strategy.

To find out more about our research, please visit
www.ninetyone.com/living-annuities

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1. Dimson-Marsh-Staunton dataset – 2017.

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