A Living Annuity Isn’t an ATM

One of the most common questions I hear from people approaching retirement is:

“Should I buy a living annuity?”

My answer is usually spectacularly unhelpful.

“It depends.”

Not because financial planners enjoy being evasive, but because a living annuity isn’t simply an investment. It’s a long-term relationship with your own behaviour.

And, as many of us have discovered, we’re not always the easiest people to live with.

A living annuity is one of the most flexible and tax-efficient retirement products available. Your money remains invested, you choose how much income to draw each year, and whatever remains can be inherited by your beneficiaries.

That’s the good news.

The bad news?

Unlike a guaranteed life annuity, there’s nobody standing between you and your own decisions.

And that freedom can become expensive.

Why Isn’t The Biggest Risk Not the Market

Retirees worry about market crashes, inflation, recessions, politicians and whether the Rand will ever regain its dignity.

Those are all legitimate concerns.

But they usually aren’t the greatest threat to a successful retirement.

The biggest danger is withdrawing more income than your portfolio can sustainably provide.

Markets have always experienced difficult periods. Historically, they’ve also recovered, although not always as quickly as retirees would like.

Every rand withdrawn, however, is permanent.

There are no “undo” buttons.

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Good Years Are Not a Bonus

One of the biggest temptations with a living annuity comes after a particularly strong investment year(s).

The portfolio grows by 15%.

The natural reaction is:

“Surely I can afford another R5 000 a month?”

Unfortunately, investment returns don’t work like annual bonuses.

The good years exist to compensate for the inevitable bad years.

Markets don’t move upwards in neat, predictable lines.

They lurch.

They stumble.

Sometimes they spend years going nowhere at all.

Increasing your income because markets have been generous is rather like eating next week’s groceries because the fridge looks full today.

The Silent Killer: Compound Withdrawals

Everyone talks about compound interest.

Far fewer people talk about compound withdrawals.

Imagine two retirees, each beginning retirement with R3 million.

Both earn exactly the same long-term investment returns.

One withdraws 5% each year.

The other increases withdrawals to 7% after a few strong market years.

Twenty years later, the second retiree may have hundreds of thousands—or even millions—of rand less.

Not because the investments performed worse.

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Because more capital was removed before it had the opportunity to keep working.

Every unnecessary withdrawal does two things.

It reduces today's balance.

It also eliminates every future return that money could have earned.

Think of every rand in your portfolio as an employee of a family company.

When you withdraw unnecessarily, that employee leaves.

Tomorrow, their children never arrive for work.

Neither do the grandchildren.

Eventually, half the workforce has disappeared, and your portfolio struggles to generate the income you need.

Timing Matters More Than Most People Realise

Here's a fact that surprises many retirees.

Two investors can earn exactly the same average return over twenty years.

One enjoys a comfortable retirement.

The other runs out of money.

How?

Timing.

Poor market returns during the early years of retirement, combined with high withdrawals, can permanently damage a portfolio.

Financial planners call this *sequence-of-returns risk.*

The name isn't important.

The lesson is.

A portfolio cannot recover if too much money is being withdrawn while it's already under pressure.

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Why We Still Do It

If the mathematics are so obvious, why do intelligent people keep increasing their income?

Because we’re human.

Our brains place far more value on today’s pleasures than tomorrow’s security.

The holiday feels real.

Helping the grandchildren buy their first car feels worthwhile.

Replacing the ageing Ford suddenly seems justified.

Running out of money at age 87?

That problem belongs to an older version of ourselves—a stranger we assume will somehow cope.

Unfortunately, that stranger eventually becomes us.

Discipline Matters More Than Intelligence

You don’t need to understand financial ratios, economic forecasts or central bank policy.

You simply need the discipline to remember a few truths.

- Inflation quietly erodes purchasing power every year.
- Growth assets such as shares and property have historically provided the best defence against inflation over long periods.
- Cash feels safe but can become surprisingly dangerous over a retirement that may last thirty years.
- A living annuity is designed to provide sustainable income—not maximum income.

Retirement is a marathon, not a sprint.

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Where Good Advice Makes the Difference

This is where a competent financial adviser earns their keep.

Not by predicting markets.

Not by finding magical investment funds.

But by protecting clients from perfectly understandable human behaviour.

Good advisers ask uncomfortable questions.

"Do you really need that increase?"

"What happens if markets fall 20% next year?"

"Will today's decision still look sensible when you're 85?"

Sometimes the best financial advice consists of one very small word.

"No."

Not because your adviser enjoys disappointing you.

Because they've watched this story unfold many times before.

The Bottom Line

The greatest danger facing most living annuities isn't the next market correction.

It isn't inflation.

It isn't politics.

It's the slow, almost invisible habit of increasing income whenever life feels affordable.

Living annuities rarely fail because of one catastrophic decision.

They fail because of dozens of small, perfectly reasonable ones.

One unnecessary withdrawal.

Followed by another.

And another.

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Until one day the portfolio can no longer support the lifestyle it once comfortably funded.

Before increasing your income, ask yourself one question:

Am I improving today’s lifestyle… or quietly stealing from tomorrow’s?

If you’re uncertain, that’s exactly the moment to seek objective advice.

Because retirement isn’t usually lost in a market crash.

It’s surrendered one unnecessary withdrawal at a time.

This article was written by Thayn Niemand CFP®, Financial Planner at Verso Wealth. The information contained in this article is for general informational purposes only and does not constitute financial, investment, tax, legal, or other professional advice. Should you wish to speak to a qualified financial planner, please do not hesitate to contact us at info@verso-wealth.co.za.

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