

June 2020

Dear Adviser

Emergency revisions to annuity payments

Regulations allowing for changes to drawdown percentages on living annuities from 1 June 2020 to 30 September 2020 were published in the *Government Gazette* on 1 June 2020. As part of the Disaster Management Tax Relief Bill, 2020, these changes by National Treasury are to section 1(1) of the Income Tax Act (Act 58 of 1962), which details the regulation of living annuities.

What are the amendments and how do they affect your clients?

Firstly, individuals with a living annuity will be allowed to temporarily increase or decrease their drawdown rates to an amount between 0.5% and 20% of the value of the annuity market value at the last anniversary date. The prevailing legislated limits for living annuity percentages is 2.5%-17.5%. This adjustment may be made at any time during the four-month period from 1 June 2020 to 30 September 2020, regardless of the anniversary date of the living annuity contract.

Secondly, annuitants will be allowed to withdraw the full value of their living annuity if the value of the contract is below R125 000. Previously individuals could withdraw the full value if the value was R50 000 (where a lump sum was taken at retirement) or R75 000 (where no lump was taken at retirement).

Key points

It is important to note the following about the amendments:

- The period during which the adjustments to drawdown rates are permitted is limited to the four-month period starting on 1 June 2020 and ending on 30 September 2020.
- The annuity percentage must be expressed as a percentage of the market value at the last anniversary date.
- Any elections made during this period will only be applicable for the four-month period. The lapsing of this period, on 1 October 2020, will result in drawdown rates automatically reverting to the rates applicable before said election.
- If your client's anniversary falls between 1 June 2020 and 30 September 2020, they should complete their annual annuity revision, regardless of whether they wish to apply for any drawdown rate changes. If your client wishes to apply for the change, an additional instruction should be submitted for this request to be processed.

Examples

Assume at the previous anniversary the annuity market value was R1 million with a drawdown of 5%. That would make the annuitant's annual income R50 000 and the monthly income R4 167.

- Revision to monthly frequency annuity: request to increase annuity percentage from 5% to 8%
 - 8% represents an annual income of R80 000
 - This translates into a monthly income of R6 667
 - Therefore, the annuitant receives an additional R2 500 (=R6 667 less R4 167) per month for the specified months.
- Revision to annual frequency annuity: request to increase annuity percentage from 5% to 8%
 - Annuitant was already paid the annual amount of R50 000 at previous anniversary
 - Annuitant is entitled to an additional R30 000 based on the revised annuity percentage
 - However, R30 000 translates into R10 000 if apportioned to four months of the year.

Submitting instructions

- To make changes to income percentages, please complete and submit the [Emergency Annuity Revision Form](#).
- To complete an annual annuity review, please complete and submit the [Annual Annuity Revision Form](#).
- To make a full living annuity withdrawal, please complete and submit the [Withdrawal Form](#).

Queries?

If you have any queries, please contact your investment specialist or your dedicated client service team.

Kind regards



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Head of Client Service