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Life is for the living

A lot of attention and financial writing focusses on the preparation and saving for retirement. However, what happens when you retire, how you manage your resources, is just as important for a comfortable and sustainable period in one's life. Making it a little more difficult to navigate are all the financial terms and jargon. Words like annuities, blended options, drawdown and escalation rates all make navigating the golden years stressful and sometimes confusing. One of the most important decisions one has to make is whether a Life, Living or Blended annuity best suits your needs.

Retirement is not the end of the road. It is the beginning of the open highway. However, freedom has a price and in this case that price requires some careful decision making. When you approach retirement, you will need to decide whether to invest the two-thirds of your pension fund or retirement annuity in a living or a life annuity. But with so many financial service providers offering a host of life, living and hybrid annuity products, it may be difficult to know which annuity product gives you the best possible retirement income that is suited to your individual circumstances.

Life Annuities

Traditional life annuities are designed to offer pensioners security by providing a guaranteed income for life that never decreases. They are available in two basic forms: with-profit annuities, and non-profit annuities. With-profit annuities have an underlying investment component that determines their increase potential. Non-profit annuities, such as inflation-linked or fixed escalation annuities, provide a guaranteed increase either equal to inflation or to the selected fixed escalation rate.

Living Annuities

If you are looking for the flexibility to adjust your annual drawdown rate (and thus your monthly income amount) to match changing income needs, living annuities offer a more flexible option, allowing drawdown rate adjustments every year of between 2.5 and 17.5%.

The risk associated with living annuities is that they do not guarantee a retirement income for life, and there is a chance that you may eat into your capital too quickly – especially during times of poor market performance. This means that you may run out of money before you die.

Income Legacy

Both life and living annuities allow you to leave a financial legacy. Any remaining balance from a living annuity is automatically passed on to beneficiaries, whereas

in a life annuity, you can opt to include additional income legacy features to provide for your spouse and family in the event of your early death.

A Blended Retirement Option

One way to combine the best of both living annuities and life annuities and overcome their disadvantages is to use both. At retirement, current regulations allow retirees to split part of their pre-retirement savings between multiple living annuity and/or life annuity products, with one or multiple insurers.

A unique legal structure, a blended annuity enables you as the annuity holder to include a guaranteed life annuity as one of the investment portfolios *within* a living annuity.

By purchasing a blended annuity, you can weigh up your wants and needs, then decide how much to allocate to the guaranteed component and how much remains flexible. Blending also allows you to optimise your income over time, balancing the risk of outliving your savings by adding to the guaranteed component when required.

Conclusion

Many people wish to spend most or all of the money they've worked so hard to earn and invest during their lifetimes. Others want to make sure they leave an inheritance for their spouse, children or charities they support.

Make that decision and you will have the answer.

What is Drawdown?

A drawdown percentage is the portion of retirement assets that a retiree withdraws each year to pay for their needs and wants expenses.

The 4% rule states that retirees should withdraw 4% of retirement assets each year to live on so that R1 million would equal R40,000 in annual income. The 4% rule is supposed to maximize one's chances of having enough money to last through to the end of one's life and is based on a 1994 study by past financial planner William Bengen. His study used stock market data, and average investment returns to determine that 4% was the highest percentage that an individual could withdraw so that their retirement money could last 30 years.

Your retirement objectives	Life Annuity	Living Annuity	Blended Annuity
Flexibility to increase or decrease withdrawal rate	✘	✔	✔
Guaranteed income that will never decrease	✔	✘	✔ Life annuity component
Income for life	✔	✘	✔
Protection from inflation	✔	✘	✔ Life annuity component
Ability to leave a financial legacy	✔ Income legacy	✔ Capital legacy	✔ Income and capital legacy
Enhanced income subject to medical underwriting	✔	✘	✔ Life annuity component

Taking stock

The Greek historian Diogenes, who lived around 200AD, said of markets that they are "places set apart where men may deceive each other". He would surely have had a similarly jaded view of what is, in modern times, probably the most important market of them all: the "stock market". This article looks simplistically at what stock markets are, how they function and how they came about.

Simply put, a "stock market" is a public market for the trading of company shares at an agreed price. The stock market is one of the most important sources for companies to raise money. By allowing businesses to be publicly traded, companies can raise additional capital for expansion by selling shares of ownership of the company to the public. Potential buyers and sellers in the stock market range from small individual investors to large corporations, pension funds and governments. The shares (also called "stocks") sought to be traded are "listed" on a "stock exchange". A stock exchange is a private organisation which specialises in the business of bringing buyers and sellers of shares together.

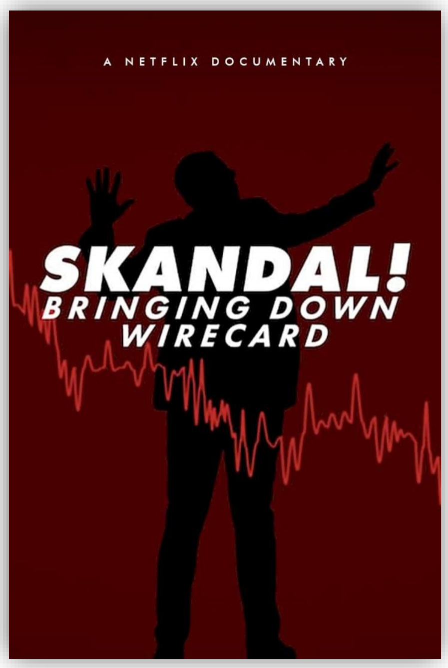
Market forces

The purpose of a stock exchange is to facilitate the exchange of shares and other financial instruments between buyers and sellers, effectively providing a marketplace. Exchanges also act as clearinghouses for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a share. This eliminates the risk to an individual buyer or seller that the other party could default on the transaction.

At a stock exchange, share prices rise and fall depending, largely, on market forces. Supply and demand in stock markets is driven by various factors which, as in all free markets, affect the price of stocks. Investors wanting to buy and sell shares must do so through a stockbroker, who pays to own a seat on the exchange. Companies with shares traded on an exchange are said to be "listed" and they must meet specific criteria, which varies across exchanges. Most stock exchanges began as floor exchanges, where traders made deals verbally face-to-face. Most stock markets, including our own JSE Ltd, now operate electronically.

Fair exchange

In a stock exchange, trades are based on an auction market model where a potential buyer *bids* a specific price for a share and a potential seller *asks* a specific price for the share. When the bid and ask prices



The Wirecard scandal

A documentary thriller on one of the biggest ever financial crimes.

In a world exclusive, Financial Times Journalist, Dan McCrum, reveals the inside story of his 6 year investigation into the German Fintech company Wirecard and the dirty tricks that were deployed against him as he battled to expose a multi-billion euro fraud. A twisting tale, that takes in mafia, porn barons and the Russian intelligence agencies, demands answers of the company's CEO, awaiting trial, and its mysterious COO, now on the run.

match, a sale takes place on a first- come first-served basis if there are multiple bidders or askers at a given price.

History

The history of stock exchanges can be traced to 12th century France, when the first brokers are believed to have developed, trading in debt and government securities. Unofficial share markets existed across Europe through the 1600s, where brokers would meet in or outside coffee houses to make trades. The Amsterdam Stock Exchange, created in 1602, became the first official stock exchange when it began trading shares of the Dutch East India Company. These were the first company shares ever issued.

By the early 1700's there were fully operational stock exchanges in France and England, and America followed in the later part of the century. The early days of stock exchanges experienced many scandals and share crashes, as there was little or no regulation and almost anyone was allowed to participate in the exchange.

Today, stock exchanges operate around the world, and have become highly regulated institutions. Currently there are hundreds of stock exchanges operating throughout the world. Countries with bigger economies have numerous stock exchanges: the USA has large stock exchanges operating in Boston, Chigaco, Miami and at least four in New York alone, including the two largest in the world – the famous New York Stock Exchange and the NASDAQ ("National Association of Securities Dealers Automated Quotations"). Even relatively poorer countries have active stock exchanges: the world's smallest stock exchange is thought to be Cameroon's Stock Exchange which has only two listed shares. Sudan has a surprisingly large stock market: its Khartoum Stock Exchange has over fifty listed companies, but traders there must act quickly – the exchange is only open for trade for one hour a day. And keeping with the African theme, while our own JSE is the largest on the continent, it was not the first: Egypt's stock exchange was formed in 1883, four years before the JSE, and at one point in their history the Egyptian Stock Exchange was one of the five biggest in the world. And South Africa has more than one exchange: in 2017, the Cape Town Stock Exchange was launched, originally as 4AX but subsequently rebranded as the Cape Town Stock Exchange.

The Big Apple

For sheer size and global importance, few exchanges compare with the New York Stock Exchange, situated at 11 Wall Street in lower Manhattan. It is the largest stock exchange in the world in terms of the US dollar value of its listed companies' shares. As at August 2022, the combined worth of all domestic New York Stock Exchange listed companies was US$ 32.68 trillion (US$ 32,680,000,000,000). The origin of the NYSE can be traced to 1792, when 24 stockbrokers met under a buttonwood tree

Keeping up with the Joneses

We probably hear or see the words "Dow Jones" every day of our lives, making Messrs Dow and Jones two of the most famous people ever. But who exactly were they and what does the term taken from their names mean?

The Dow Jones Industrial Average (also called the "Dow Jones" or "The Dow") is simply a measure of the average price of the largest shares on the New York Stock Exchange. It is named after journalists Charles Dow and Edward Jones, two of the founding members of a firm started in the late 1800's to report stock market news to New York's financial community (thankfully the name of the third founding member, Charles Bergstresser, was omitted from the

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title of their index). Their publication later became the famous *Wall Street Journal*, of which Charles Dow was the first editor.

The Dow Jones average is computed from the share price of thirty of the largest and most widely held public companies in the USA. The "industrial" portion of the name is largely historical as many of the thirty companies have little or nothing to do with traditional heavy industry. The individual components of the Dow are occasionally changed as market conditions warrant. Invented in 1896 entirely by Dow (Jones played no role), the index stood at 40.94 when it was first published. It stood at around the 29 000 mark in October 2022. With the current inclusion of only 30 shares from the some 2,800 listed on the NYSE, critics argue that the Dow is not a very accurate representation of overall market performance, even though it is the most cited and widely recognised of all stock market indices.

in Wall Street and signed the "Buttonwood Agreement". Twenty-five years later, the organisation drafted a constitution and renamed itself the "New York Stock & Exchange Board". The first central location of the NYSE was a single room, rented in 1817 for $200 a month, located at 40 Wall Street.

Today, the NYSE is a popular tourist attraction and the public can watch proceedings from behind bullet-proof glass in a gallery. Whilst bullets may not be able to halt proceedings, large falls in share prices will do just that: a "circuit breaker" rule halts trading when the Dow Jones Industrial Index drops by certain predetermined percentages. The rationale behind the trading halt is to give investors a chance to cool off and re-evaluate their positions in the hope of avoiding the events during the 1929 crash, when traumatised traders made their way to the most convenient open windows in the building.

A channel to wealth

Today, a stock market is a vital component of a free-market economy. It allows companies to raise money by offering shares and other financial instruments to investors, who may thus participate in the financial achievements of the companies, and make profits through capital gains, and earn income through dividends. A stock market works as a platform through which savings and investments of individuals are efficiently channeled into productive investment opportunities and add to the capital formation and economic growth of a country.

The Ten Biggest

The 10 biggest stock exchanges in the world (measured by market capitalisation of all shares listed) as at October 2022:

1.	New York Stock Exchange (USA)	$32.68 trillion
2.	NASDAQ Stock Exchange (USA)	$18.60 trillion
3.	Shanghai Stock Exchange (China)	$ 6.87 trillion
4.	Tokyo Stock Exchange (Japan)	$ 5.29 trillion
5.	Shenzhen Stock Exchange (China)	$ 4.91 trillion
6.	Hong Kong Stock Exchange (China)	$ 4.53 trillion
7.	India National Stock Exchange (India)	$ 3.50 trillion
8.	Saudi Stock Exchange (Saudi Arabia)	$ 3.05 trillion
9.	London Stock Exchange (UK)	$ 2.97 trillion
10.	Toronto Stock Exchange (Canada)	$ 2.87 trillion

On this measure, the JSE is currently ranked 18th in the world at $951 billion

(Source: www.tradinghours.com)