Volatile markets create a golden opportunity for life annuities

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In a world of economic uncertainty, there's something deeply comforting about a fixed, reliable income—especially one that lasts for life. As markets swing, inflation bites, and interest rates fluctuate, many South Africans approaching retirement, and even those in retirement are rediscovering a powerful but often overlooked financial product: the life annuity.

Simple, predictable, and reassuring in volatile times, a life annuity is increasingly seen as a cornerstone of a secure retirement strategy.

What is a life annuity?

A life annuity is a financial product that turns a lump-sum investment – typically from a pension, retirement annuity or other retirement savings – into a guaranteed monthly income, for as long as you live. Once you buy a life annuity, your monthly income is locked in. That means no matter how the markets perform or how interest rates shift, your income stays the same. This feature alone makes life annuities particularly attractive in today's environment, where global and local financial instability continues to impact investor confidence.

But perhaps the most important benefit of a life annuity is its ability to eliminate longevity risk—the very real possibility of outliving your savings. With a life annuity, your income doesn't stop at age 85, 90, or even 100. It continues as long as you do.

To help your income keep up with the cost of living, many life annuities offer incomeescalation options. This means your payments can increase each year by a fixed percentage or the inflation rate, helping preserve your purchasing power over time.

Flexible options to suit your needs

One of the strengths of life annuities is their customisability. Far from being a rigid, one-size-fits-all product, a life annuity can be tailored to suit your needs and goals. Some of the key options include:

- Single or joint life coverage: Ideal for couples, this ensures that the surviving spouse continues to receive an income after one partner passes away.
- Guaranteed income periods: You can choose to have your income guaranteed for a set period—up to 25 or even 30 years with certain providers like Sanlam. This ensures that, even if you pass away early, your beneficiaries continue to receive the income for the remainder of that period.
- Income escalation options: Choose whether you want your income to stay level or increase annually by a fixed rate or in line with inflation.
- Life cover add-on: With this feature, your beneficiaries receive a lump sum when you pass away. This amount is free of executor's fees and not taxed in the beneficiaries' hands, although estate duty may apply.

How are annuity rates determined?

The monthly income you'll receive from a life annuity is determined by a few key factors: your age, gender, the features you select (such as joint life or escalating income), and—critically—the prevailing bond yields at the time of purchase.

Bond yields play a central role because life insurers invest heavily in bonds to fund the guaranteed payments made to annuity holders. The higher the yield on those bonds, the more income the insurer can generate—and the more they can offer you in return.

Put simply, higher bond yields mean higher annuity rates.

And right now, thanks to global uncertainty and a volatile local landscape, bond yields in South Africa are elevated—creating an unusually favourable environment for locking in higher lifetime income through a life annuity.

Bond yields: a decade in review

Over the past decade, global and local events have caused dramatic swings in bond yields. Locally, the picture looked as follows:

- 2015: Bond yields spiked dramatically when then-President Jacob Zuma dismissed Finance Minister Nhlanhla Nene, triggering a crisis in investor confidence.
- 2017–2018: A sense of renewed hope, dubbed "Ramaphoria," accompanied President Ramaphosa's rise to leadership, sending bond yields down again.
- 2020: At the onset of the COVID-19 pandemic, markets panicked, and global bond yields soared to levels not seen in decades.
- 2024: In the lead-up to the national elections, political uncertainty pushed yields up once

more.
- 2025: The formation of a Government of National Unity helped stabilise the landscape, but yields remain high, offering attractive annuity pricing.

A real-world example: what this means for annuity income

Let's look at a hypothetical example of a 65-year-old woman with R4.2 million to invest in a level income life annuity with a 10-year guaranteed payment term. Here is the income she would have secured at various points during the last six years:

- July 2019: Monthly income = R36,000
- June 2020: Monthly income = R40,500
- April 2024: Monthly income = R46,000
- May 2025: Monthly income = R43,800

This shows just how profoundly bond yields can affect your retirement income. The difference between R36,000 and R46,000 per month is R120,000 per year—a substantial impact over a lifetime.

With current market conditions, today's high bond yields mean you can lock in a significantly higher lifetime income than what was possible just a few years ago.

The bottom line

In an unpredictable world, certainty has value. For retirees and those nearing retirement, securing a portion of your wealth in a product that provides guaranteed, lifelong income can serve as an important foundation for financial peace of mind.

With bond yields still elevated and market uncertainty far from over, the current climate offers a rare opportunity to lock in higher income for life, without worrying about what the markets will do next month - or next year.

If you're looking to transform volatility into stability, now may be the perfect time to talk to your financial adviser about investing in a life annuity.

Find out more

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