



A GUIDE TO Annuities

A Guaranteed Regular Income in Retirement



AKI
ASSOCIATION
OF KENYA INSURERS

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Retirement in Kenya

Rapid urbanization in Kenya has brought with it a high rate of rural-urban migration.

This migration, coupled with challenging economic times, has resulted in significant changes in social structures and society.

Families now live far apart and the care that was given to the older generation is no longer assured. This change in social structures will not end soon and as such each individual needs to take responsibility for their retirement as early as possible.

The country has witnessed an increase in old age poverty as older people are being left to fend for themselves unlike in the past where the younger family members took care of the older ones.

YOU CAN'T WORK FOREVER

Some people think they can keep working until death, but is that really realistic? Health problems is the number one reason people retire early, and we are all more vulnerable as we age. When you're young and healthy, you might think you can work forever, but spend more time with older people and this myth will be dispelled pretty quickly. This is why it is prudent to plan for retirement early enough.



Your children are not a retirement plan. Take personal responsibility. Plan early.

Research shows that most people spend their savings within the first three years of retirement.



I am about to retire, what next?

A retired person needs at least 70% of their last salary per month to maintain the existing standard of living.



A Retirement Benefits Fund can be an important source of retirement income but it may not be enough to finance your total retirement needs. Research has shown that majority of contributors spend all their retirement benefits within three years of withdrawing their pension funds after retirement. One way of avoiding this, is by using annuities to provide you with a guaranteed stream of income for as long as you live.

How do I attain a sustainable income in retirement?

One of the best things that can happen to anyone in old age is to have a guaranteed monthly income that flows in no matter what; one that is not dependent on your ability to work.



**The best way to guarantee
a monthly income in retirement
is through**

Annuities

WHAT IS AN ANNUITY AND WHY DO I NEED ONE?

An annuity is a contract between an individual and an insurance company where the individual makes a lumpsum payment to an insurance company which converts it to a series of regular lifetime income payments.

To purchase an annuity plan, you may pay an insurance company a lump sum premium just before retirement. Alternatively, you can make periodic premium payments

until your selected retirement age. Upon retirement, the insurance company will provide income payments for the rest of your life.

You can also choose to have your income paid every month, every three months, every six months or once a year.

You may purchase an annuity for yourself or for your loved ones.

Online Banking

Accounts Overview Transactions Service

Checking Account

Acc. No. 123456789
Bank Number 123456

[Account Details](#)

KSH

65 304.02

Account Number

123456789

01.07.2015 Direct Deposit

01.06.2015 Direct Deposit

01.05.2015 Direct Deposit

28.04.2015 Direct Deposit

[All Transactions](#)

Saving Account

Savings Book

Transactions, KSH

60,000

60,000

60,000

60,000

15 224.82

Messages
Settings
Log Out

Transfer Money
Standing Order
Savings Plan

An annuity can start making payments to the contributor immediately or at an agreed later date.



Types of Annuity

There are two main types of annuities:

Immediate and Deferred.

Immediate annuity

The monthly income becomes payable immediately after purchase of the annuity, suitable for those who are about to retire or have already retired.



Deferred annuity

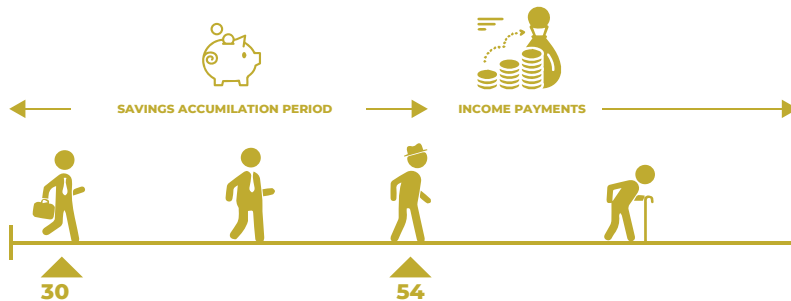
The premium can be paid periodically until retirement age or it can be paid as a lump sum. The payments from the insurance company will be issued in the future on a time agreed upon with the customer.

Example: At the age of 30, you may purchase a deferred annuity that begins income payments at age 55. You can choose to either pay a lump sum premium then or make yearly premium payments until you are 54.

sum premium paid at age 30 will be smaller compared with what you have to pay if you purchase an immediate annuity at age 54. This is because the premium paid at age 30 will be invested by the insurance company during the savings accumulation period.

Deferred annuities are an effective way to maximize future income because the longer you wait to start receiving income payments, the higher that income will be.

Given the concept of 'time value of money', the lump



Annuity Options

The type of annuity you choose and its benefits will determine the amount of income you will receive during retirement. It is therefore important to check all the options offered by various insurance companies before you buy the annuity plan that best suits your needs.

WHAT IS A GUARANTEED PERIOD OF PAYMENT?

An annuity contract may grant a guaranteed period of payment, perhaps five, ten or fifteen years where a specific payment amount is assured, whether the annuitant survives this period or not. If the annuitant dies during the guaranteed period, the balance of the guaranteed payments is paid immediately to the appointed beneficiary.

1. ANNUITY WITHOUT GUARANTEED PERIOD

Pays a fixed regular income for as long as you live.

2. ANNUITY WITH A GUARANTEED PERIOD

Pays a fixed regular income for the rest of your life, or for the guaranteed period whichever is longer.

For example: A person purchases an annuity with a guaranteed period of 10 years. If he dies after 6 years, the annuity payments will continue to be paid to his beneficiary for the remaining 4 years or as a lumpsum.

If he outlives the guaranteed period of 10 years, he will continue to receive the income payment for as long as he lives.

3. INCREASING ANNUITY

Pays an income which increases each year at a specified rate to partially protect your income from inflation, for the rest of your life. The starting income for an increasing annuity is normally lower, but it will provide you with better income some years later in your retirement period.

4. JOINT-LIFE ANNUITY

Pays an income for the rest of your life, and then it continues to pay the income to your spouse for the rest of his/her life, after your demise. However, income to your partner may be at a reduced amount.



There are several annuity products in the market. Check the options and buy what meets your needs.



You can buy an annuity for someone else such as a parent.



Parties involved in an annuity contract

In Kenya, retirement annuity policies are provided exclusively by life insurance companies. The following are the parties involved in an annuity contract.

Insurance Company

Issues the contract, provides contract information, allocates the money as instructed by the owner, and is responsible for the guarantees and payments.

Annuitant

The owner and the annuitant may or may not be the same person. However, it's the annuitant's life expectancy that is used to set the amount of future annuity income. This means you can take an annuity for someone else such as a parent, spouse, or sibling.

Beneficiary

Usually, the beneficiary is the one who may have the right to receive the death benefit if the owner or annuitant dies before income payouts begin or before the end of the guaranteed period of payment.

How is my annuity amount determined?

The main factors considered by an insurance company when pricing annuities include mortality tables, investment return and administrative expenses.

The amount of income payment a customer will receive will depend on: prevailing interest rates, age, gender, guarantee period, others eg future increases.

EXAMPLE: ESTIMATING THE AMOUNT PAYABLE

Let us use the example of someone who has saved Ksh1 million towards their retirement to estimate the amount payable through annuities.

For the purpose of this example, let us assume the person will retire at age 60, take a guaranteed period of 5 years at a 10% investment return.

NB: Annuities are calculated per one thousand, for this example we will use an annual rate of Ksh107.28 as benefits for every Ksh1,000 put in.

Therefore for KSh1 million, the annual benefit translates to Ksh107,280 per year or KSh8,940 per month for the rest of the individuals life.

WHAT ARE THE BENEFITS OF PURCHASING AN ANNUITY?

- o Annuities guarantee you an income for the rest of your life no matter what.
- o An annuity is the only investment you cannot outlive because it is payable for as long as you live.
- o Annuities enjoy immense tax benefits. Up to 25,000 monthly annuity payment is exempted from taxes.



Where can I purchase an annuity?

APA Life Assurance Ltd

Physical Address: Apollo Center, Ring road
Postal Address: P.O.Box 30065 -0100, Nairobi
Tel: 3641000
Email: info@apalife.co.ke

Britam Life Assurance Ltd

Physical Address: Britam Centre, Mara/Ragati Road
Postal Address: P.O.Box 30375 -00100, Nairobi
Tel: 2833000
Email: info@britam.co.ke

CIC Life Assurance Company Ltd

Physical Address: CIC Plaza, Mara Road
Postal Address: P.O.Box 59485-00100, Nairobi
Tel: 2823000
Email: cic@cic.co.ke

ICEA LION Life Assurance Co Ltd

Physical Address: ICEA LION Centre, Riverside Park
Postal Address: P.O.Box 46143-00100, Nairobi
Tel: 2750000
Email: info@icealion.com

Jubilee Insurance Company Ltd

Physical Address: Jubilee Insurance Hse, Mama Ngina St.
Postal Address: P.O.Box 30376-00100, Nairobi
Tel: 3281000
Email: jic@jubileekenya.com

Kenindia Assurance Company Ltd

Physical Address: Kenindia House, Loita Street
Postal Address: P.O.Box 44372 -00100, Nairobi
Tel: 2214439
Email: kenindia@kenindia.com

Kenya Orient Life Assurance Ltd

Physical Address: Capitol Hill Towers, Cathedral Road
Postal Address: P.O.Box 34530-00100, Nairobi
Tel: 2728603/4
Email: info@kenyaorient.co.ke

Kenyan Alliance Insurance Company Ltd

Physical Address: Chester House, Koinange Street
Postal Address: P.O.Box 30170-00100, Nairobi
Tel: 2216450
Email: kai@kenyanalliance.com

Liberty Life Assurance Ltd

Physical Address: Liberty House, Mamlaka Road
Postal Address: P.O.Box 30364 -00100, Nairobi
Tel: 2866000
Email: libertylife@libertylife.co.ke

Madison Life Assurance Kenya Ltd

Physical Address: Madison House, Upper Hill Rd
Postal Address: P.O.Box 47382-00100, Nairobi
Tel: 2864000
Email: madison@madison.co.ke

Monarch Insurance Company Ltd

Physical Address: Monarch House,664 Olenguruone Ave.
Postal Address: P.O.Box 44003-00100, Nairobi
Tel: 4292000
Email: info@monarchinsurance.com

Pioneer Life Assurance Company Ltd

Physical Address: Pioneer House, Moi Avenue
Postal Address: P.O.Box 20333 -00200, Nairobi
Tel: 2220814/5
Email: info@pioneerassurance.co.ke

Saham Assurance Company Ltd

Physical Address: Ecobank Towers, Muindi Mbingu Street
Postal Address: P.O.Box 20680-00200, Nairobi
Tel: 2243681/2
Email: headoffice-kenya@sahamassurance.com

Sanlam Life Insurance Ltd

Physical Address: Sanlam Towers, Waiyaki Way
Postal Address: P.O.Box 44041-00100, Nairobi
Tel: 2781000
Email: customerservice@pan-africa.com

UAP Old Mutual Life Assurance Company Ltd

Physical Address: UAP Old Mutual Tower, Upper Hill Road
Postal Address: P.O.Box 30059-00100, Nairobi
Tel: 2829000
Email: omken@oldmutualkenya.com



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Facebook: AKIKenya

Twitter: AKI-Kenya