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ANNUITY SELECTION & INCOME DRAWDOWN PLANNING

Retire with Guaranteed Income and Flexible Control



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EXECUTIVE SUMMARY

Retire with Guaranteed Income or Flexible Control? Choose Wisely.

You've spent 20-40 years building your retirement savings. Now comes the most critical decision: **How do you convert that lump sum into reliable monthly income for 20-30 years of retirement?**

Choose wrong, and you could:

- Run out of money by age 70
- Lock into low rates and lose purchasing power
- Leave nothing for your spouse or children
- Pay unnecessary taxes and fees

The Solution: Professional **annuity selection** and **income drawdown planning** ensures you maximize retirement income, protect against longevity risk, and preserve wealth for beneficiaries.

The Decision (example):

- **Annuity:** Guaranteed Ksh 100,000/month for life (security, but irreversible)
- **Drawdown:** Ksh 120,000/month initially (flexibility, but might run out)
- **Hybrid:** Ksh 60K annuity + Ksh 60K drawdown = Best of both worlds

Key Benefit: Convert your retirement savings into guaranteed monthly income for life with options to protect your spouse and beat inflation.

THE RETIREMENT INCOME PROBLEM

Challenge: Your Pension Must Last 20-30 Years

Life Expectancy Reality:

- Kenyan life expectancy: 70-75 years average
- BUT healthy middle-class retirees often live to 80-90
- If you retire at 60, you need income for 20-30 years
- **Your Ksh 10M pension must sustain you for 3 decades**

Inflation Erosion:

- Ksh 100,000/month today = Ksh 50,000 purchasing power in 15 years (7% inflation)
- Your income needs INCREASE over time (medical costs rise with age)
- Fixed income becomes inadequate after 10-15 years

Medical Cost Explosion:

- Ages 60-70: Moderate medical needs (Ksh 30,000-50,000/year)
 - Ages 70-80: Chronic conditions emerge (Ksh 100,000-200,000/year)
 - Ages 80+: Intensive care needs (Ksh 300,000-500,000+/year)
 - Your retirement income must accommodate rising healthcare costs
-

The Wrong Decision Costs Millions

Scenario A: Choose Annuity, Die Early

- Ksh 12M pension → Annuity pays Ksh 120,000/month for life
- You die at age 68 (8 years retirement)
- Total received: Ksh 11.5M
- Remaining fund: Ksh 0 (insurance company keeps it)
- **Your heirs get nothing** (unless you bought guaranteed period)

Scenario B: Choose Drawdown, Live Long

- Ksh 12M pension → Withdraw Ksh 150,000/month
- Live to age 88 (28 years retirement)
- Fund depletes at age 78 (18 years)
- **Last 10 years with no income** (outlived your money)

Scenario C: Get It Right (Hybrid)

- Ksh 12M split: Ksh 6M annuity + Ksh 6M drawdown
 - Annuity: Ksh 60,000/month guaranteed forever
 - Drawdown: Ksh 60,000-80,000/month for 15-20 years
 - If drawdown depletes, still have Ksh 60K/month from annuity
 - If die early, remaining drawdown goes to heirs
 - **Protected against all scenarios**
-

THE RETIREMENT INCOME DILEMMA

The Problem You Face at Retirement

You've accumulated Ksh 5M, 10M, or 20M+ in your PRS/NSSF/employer scheme. Now what?

Option A: Take It All as Cash

- Immediate access to money
 - **Risk:** Spend it all in 5 years, outlive your savings
 - **Risk:** No discipline, lifestyle inflation
 - **Risk:** High taxes (up to 15% on large amounts)
-

Option B: Leave It Invested

- Continue earning returns
- **Risk:** Market crashes when you need the money
- **Risk:** No guaranteed income
- **Risk:** Heirs fight over estate if you die

Option C: Buy an Annuity (Recommended for Most)

- Guaranteed monthly income for life
- **Risk:** If you die early, unused balance goes to insurer (unless protected)
- **Risk:** Locked into rates - inflation erodes value over time

Option D: Programmed Withdrawal/Drawdown

- Keep funds invested, withdraw monthly
- **Risk:** Could deplete funds if withdrawals exceed returns
- **Risk:** Requires active management

The Smart Solution: A HYBRID STRATEGY

- Combine annuity (for guaranteed base income) + drawdown (for flexibility and growth)
 - This is what wealthy retirees do - and what I help you structure.
-

RETIREMENT INCOME OPTIONS EXPLAINED

OPTION 1: ANNUITY (Guaranteed Income for Life)

An **annuity** is a contract with an insurance company where you give them a lump sum (your retirement savings), and they pay you a **guaranteed monthly income** for the rest of your life.

Think of it as: Reverse life insurance

- **Life insurance:** You pay premiums → beneficiaries get lump sum when you die
- **Annuity:** You pay lump sum → you get monthly income while you live

How It Works:

1. At retirement (age 60-65), take your pension lump sum (e.g., Ksh 12M)
2. Purchase annuity from insurance company (Britam, Old Mutual, Jubilee)
3. Insurance guarantees monthly income for life (e.g., Ksh 120,000/month)
4. Income continues until death, regardless of how long you live
5. Upon death, payments stop (unless joint annuity or guaranteed period)

Example: Peter, Age 60

- Retirement savings: **Ksh 8,000,000**
- Purchases annuity with 2/3 of savings: **Ksh 5,333,000**
- Annuity rate: **12% per annum**

Monthly Income Calculation:

- Ksh 5,333,000 × 12% = Ksh 640,000/year
- **Monthly pension: Ksh 53,300 for LIFE**

Remaining 1/3: Ksh 2,667,000 (tax-free lump sum for emergencies, bequests, or drawdown)

Peter receives Ksh 53,300 every month until death - whether he lives to 70, 90, or 100 years.

Types of Annuities in Kenya:

1. Single Life Annuity / Life Annuity (Most Common)

What It Is:

- Guaranteed monthly income for YOUR LIFE ONLY (pays only you)
- Payments stop when you die (stops at your death)
- **Highest monthly payment**
- Example: Ksh 12M → Ksh 120,000/month
- Any unused balance stays with insurance company

Best for:

- Single people with no dependents
- Maximum monthly income needed

Pros:

- Highest monthly payment (12-14% rates)
- Simple and straightforward

Cons:

- Nothing for spouse/children if you die early

2. Joint Life Annuity (Recommended for Couples)

What It Is:

- Pays you, then spouse after your death (income continues to **both you AND your spouse** for as long as either of you lives)
- If you die first, spouse continues receiving (usually 50 -100%: you choose)
- Payments stop when last person dies
- **Lower monthly payment** (15-25% less than single)
- Example: Ksh 12M → Ksh 100,000/month (continues to spouse)

Best for: Married couples

Pros: Spouse protected financially

Cons: Lower monthly income (10-11% vs. 12-13%)

3. Guaranteed Period Annuity

- Guarantees income for minimum period (5-15 years) even if you die. After period, life annuity continues.
- Protects heirs (they receive remaining payments)
- **Slightly lower monthly payment**
- Example: Ksh 12M → Ksh 115,000/month guaranteed 10 years

Best for: Younger retirees, leaving legacy for children

4. Inflation-Linked Annuity / Escalating Annuity (Inflation Protection)

- Monthly income starts lower but increases with inflation (3-5% annually)
- Protects purchasing power over 20-30 years
- **Much lower starting payment** (30-40% less)
- Example: Ksh 12M → Ksh 80,000/month year 1, increasing to Ksh 200,000+ by year 20

Breakeven: Year 9-10. Best if you expect to live past 75.

Annuity Rates by Age

Age	Annual Rate	Monthly Income (Ksh 5M)
50	9.5%	Ksh 39,600
55	10.8%	Ksh 45,000
60	12.5%	Ksh 52,100
65	14.2%	Ksh 59,200
70	16.5%	Ksh 68,800

Insight: Waiting from 60 to 65 = +13.5% income, but you lose 5 years of payments.

Annuity Advantages:

- **Guaranteed Income Forever:** Cannot outlive your money
- **Predictable Budgeting:** Fixed monthly amount, easy planning
- **No Investment Risk:** Market crashes don't affect you
- **Peace of Mind:** Eliminate longevity risk (living too long)
- **Simple Management:** No investment decisions needed
- **No Sequence Risk:** Market performance at retirement doesn't matter

Annuity Disadvantages:

- **Irreversible Decision:** Cannot change or access lump sum later
 - **No Inflation Protection:** Fixed income loses purchasing power (unless inflation-linked purchased)
 - **No Inheritance:** Money gone at death (unless guaranteed period)
 - **Lower Initial Income:** Versus drawdown early years
 - **Insurance Company Risk:** Reliant on insurer solvency
 - **Opportunity Cost:** Miss out on investment growth in good markets
-

OPTION 2: DRAWDOWN (Flexible Income from Invested Fund)

How It Works:

1. At retirement, keep savings / pension fund invested (PRS or approved scheme)
2. Withdraw monthly, quarterly, or annually (typically 8-15% of balance per year)
3. Remaining fund continues earning returns (8-12% annually)
4. Withdraw until fund depletes (or leave remainder to heirs) or buy an annuity with the remainder

Drawdown vs. Annuity:

Feature	Annuity	Drawdown
Income	Fixed, guaranteed	Flexible
Risk	None	Market volatility
Death Benefit	Limited/none	100% to heirs
Flexibility	Locked in	Full control
Management	None	Requires monitoring

Drawdown Advantages:

- **Higher Initial Income:** Can withdraw 12-15% vs annuity 10%
 - **Flexibility:** Adjust withdrawal amounts based on needs
 - **Inheritance Potential:** Remaining fund passes to heirs
 - **Investment Growth:** Fund continues earning returns
 - **Access to Capital:** Can withdraw lump sums for emergencies
 - **Inflation Hedge:** Can increase withdrawals as fund grows
-

Drawdown Disadvantages:

- **Longevity Risk:** Might outlive your money (run out at age 80)
- **Investment Risk:** Market crashes reduce fund value

- **Discipline Required:** Avoid over-withdrawing (temptation to spend)
 - **Management Burden:** Ongoing investment decisions
 - **Sequence Risk:** Poor markets early in retirement devastating
 - **Complexity:** Requires monitoring, rebalancing, strategy adjustment
-

OPTION 3: HYBRID (Recommended for Most Retirees)

How It Works:

1. Split pension into two portions (e.g., 50/50 or 60/40)
2. Purchase annuity with portion 1 (guaranteed base income)
3. Keep portion 2 in drawdown (flexible supplementary income)
4. Enjoy security + flexibility

50/50 Example (Ksh 10M):

- 50% Annuity (Ksh 5M at 12%): **Ksh 50,000/month guaranteed**
- 50% Drawdown (Ksh 5M at 6%): **Ksh 25,000/month flexible**
- **Total: Ksh 75,000/month + Ksh 5M legacy**

Security:

- If drawdown depletes at age 80, still have Ksh 50K/month guaranteed
- Base expenses covered (housing, food, utilities)
- Discretionary expenses from drawdown (travel, entertainment)

Upside:

- If markets perform well, drawdown lasts 20+ years
- Remaining drawdown fund passes to heirs
- Flexibility to increase withdrawals if needed

Downside Protection:

- Market crash doesn't destroy you (annuity provides floor)
- Living to 95 doesn't bankrupt you (annuity forever)

Choosing Your Split:

- Conservative: 70-80% annuity
 - Balanced: 50-60% annuity
 - Aggressive: 30-40% annuity
-

Hybrid Advantages:

- **Balanced Approach:** Security + flexibility combined
 - **Reduced Longevity Risk:** Annuity ensures you never run out
 - **Upside Potential:** Drawdown provides extra income and inheritance
-

- **Inflation Flexibility:** Can increase drawdown withdrawals
- **Best for Most Retirees:** Combines benefits, minimizes risks
- **Emotional Peace:** Knowing base income guaranteed reduces anxiety

TAX TREATMENT

Annuity Income: 100% TAX-FREE

- No PAYE, no withholding tax
- You receive full quoted amount

Lump Sum Withdrawal:

Amount	Tax
First Ksh 600K	0%
Ksh 600K - Ksh 8M	10%
Above Ksh 8M	15%

Example (Ksh 10M cash vs annuity)

Amount	Ksh	Tax Rate	Tax (Ksh)
First Ksh 600K	600,000	0%	0
Ksh 600K - Ksh 8M	7,400,000	10%	740,000
Above Ksh 8M	2,000,000	15%	300,000
Total	10,000,000		1,040,000

- Cash option: Pay Ksh 1.04M tax = Net Ksh 8.96M (at 13.9%)
- Annuity option: **Ksh 104,200/month tax-free for life**

Winner: Annuity (tax-efficient)

REAL CASE STUDIES

Case 1: Joseph & Mary (Joint Life)

- Ages: 62 & 60
- Savings: Ksh 12M
- Strategy: Ksh 8M joint annuity at 11%
- **Income: Ksh 73,300/month (both for life)**
- Outcome: Peace of mind, survivor protected

Case 2: Dr. Susan (Hybrid)

- Age: 58, single
- Savings: Ksh 25M

- Strategy: 2/3 i.e. (Ksh16.66M: 50% annuity Ksh 8.33M at 13.5%+ 50% drawdown Ksh **8.33M** at 6%)
- **Income: Ksh 93,700 guaranteed + Ksh 41,700 flexible**
- Outcome: Security + flexibility + Ksh **8.33M** legacy

Case 3: Peter (Drawdown Risk)

- Age: 55
- Did 100% drawdown (confident investor)
- Market crashed Year 4 (fund dropped 28%)
- Had to annuitize at lower balance
- **Lost Ksh 28,000/month by delaying annuity**

COMMON MISTAKES

1. **Taking full lump sum** (overspend, run out by 70)
2. **Wrong annuity type** (single life when married - spouse suffers)
3. **Not shopping rates** (lose Ksh 2,000-6,000/month)
4. **Annuitizing too early** (age 50 = 9.5% vs. age 60 = 12.5%)
5. **Excessive drawdown** (12-15% withdrawals = deplete in 8-12 years)
6. **Ignoring inflation** (level annuity loses 50% value in 20 years at 5% inflation)

DECISION FRAMEWORK: WHICH OPTION IS RIGHT FOR YOU?

Choose 100% ANNUITY If:

- You prioritize guaranteed income security above all (Risk-averse)
- Family history of longevity (parents lived to 85-95+)
- No dependents needing inheritance (single or spouse financially independent) / no heirs/don't care about legacy
- Low risk tolerance (cannot handle investment volatility)
- Minimal other income sources (no other income - no rental, investments, or business)
- Health is good (expect to live 25-30+ years in retirement)
- Want simplicity (no investment management)
- Fear outliving money

Example Profile:

- Mary, age 60, single, excellent health
- Parents lived to 90+
- Pension: Ksh 8M
- No other income, no children
- Prioritizes security over flexibility

Recommendation: 100% Annuity = Ksh 80,000/month guaranteed for life

Choose 100% DRAWDOWN If:

- Wealthy (Ksh 20M+)
- Have other significant / guaranteed income (rental, business, investments covering 50%+ expenses)
- Poor health / short life expectancy (health issues, family history of early death)
- Large pension (Ksh 20M+) where longevity risk is lower
- Desire to leave substantial inheritance to children
- Comfortable managing investments and risk (investment-savvy)
- Need flexibility (expenses vary significantly year to year)
- Have multiple income streams providing security net
- Want maximum legacy
- Long-lived family

Example Profile:

- Dr. Njoroge, age 62
- Owns 3 rental properties (income Ksh 90,000/month)
- Pension: Ksh 18M
- Wants to leave wealth to children
- Comfortable with investment management

Recommendation: 100% Drawdown = Ksh 150,000-180,000/month initially (10% annual withdrawal)

Rationale: Rental income provides security floor. Pension can be invested for growth and inheritance.

Choose HYBRID (50/50 or 60/40) If:

- You want security AND flexibility (most common scenario)
- Moderate life expectancy (family lives to 75-85)
- Some dependents (spouse, children needing occasional support)
- Balanced risk tolerance
- Expenses partially covered by other income (partial security)
- Want to leave some inheritance but not primary goal

Example Profile:

- Mr. Kimani, age 58, married
 - Pension: Ksh 6.5M
 - Small rental income: Ksh 25,000/month
 - Two children in university
 - Moderate health
-

Recommendation: 50/50 Hybrid

- **Ksh 3.25M** → **Annuity:** Ksh 32,500/month guaranteed
- **Ksh 3.25M** → **Drawdown:** Ksh 40,000/month initially
- **Total:** Ksh 72,500/month (plus Ksh 25K rental = Ksh 97,500)

Rationale:

- Annuity + rental covers basic expenses (Ksh 57,500)
- Drawdown provides additional lifestyle income
- If drawdown depletes, still have Ksh 57,500/month baseline

CLIENT CASE STUDIES

Case Study 1: 100% Annuity - Mary (Security Priority)

Profile:

- Age 60, single, retired teacher
- Pension: Ksh 8M
- No children, no other income
- Excellent health, parents lived to 92 and 95
- Wants guaranteed income, cannot handle investment risk

Our Analysis:

- Longevity score: HIGH (expect to live 85-95)
- Risk tolerance: LOW (wants certainty)
- No inheritance goal
- No other income to fall back on

Strategy: 100% Annuity

Implementation:

- Purchased ABC Joint Life Annuity (despite being single, chose guaranteed 10-year period)
- Ksh 8M → Ksh 80,000/month for life
- Guaranteed: If Mary dies in year 5, beneficiaries receive remaining 5 years payments (Ksh 4.8M)

Result After 5 Years:

- Received: Ksh 4,800,000 (60 months x Ksh 80K)
- Remaining guaranteed: Ksh 80,000/month for life (potentially 25+ more years)
- **Peace of mind:** "I sleep perfectly. I know my Ksh 80,000 comes every month until I die. No market worries, no running out. Perfect for me."

Case Study 2: 100% Drawdown - Dr. Njoroge (Flexibility + Inheritance)

Profile:

- Age 62, married, surgeon
- Pension: Ksh 18M
- Rental properties: Ksh 90,000/month income
- Wants to leave wealth to 3 children
- Comfortable with investments

Our Analysis:

- Longevity: Moderate (family lives to 75-80)
- Risk tolerance: HIGH (experienced investor)
- Strong inheritance goal
- Rental income provides security floor

Strategy: 100% Drawdown

Implementation:

- Ksh 18M invested in Balanced Fund (50/50 stocks/bonds)
- Withdrawal: 10% annually = Ksh 150,000/month
- Rental income covers basic expenses (Ksh 90K)
- Pension provides lifestyle income (Ksh 150K)

Result After 4 Years:

- Total withdrawn: Ksh 7,200,000 (48 months x Ksh 150K)
- Fund balance: Ksh 14,500,000 (declined due to withdrawals exceeding growth)
- Adjusted strategy: Reduced withdrawal to Ksh 120,000/month year 5+
- **Projected:** Fund lasts 18-20 years (to age 80-82)
- **Plus:** Rental income Ksh 90K/month continues
- **If fund depletes:** Still have Ksh 90K/month from rental
- **Inheritance:** Likely Ksh 3M-5M remaining for children

Case Study 3: Hybrid 50/50 - Mr. Kimani (Balanced Approach)

Profile:

- Age 58, married, manufacturing manager
- Pension: Ksh 6.5M
- Small rental: Ksh 25,000/month
- Two children (ages 22, 19)
- Moderate health (controlled hypertension)

Our Analysis:

- Longevity: Moderate (family lives to 75-85)
- Risk tolerance: MODERATE (wants some security)
- Partial inheritance goal (help children, but not priority)
- Rental provides small buffer

Strategy: 50/50 Hybrid

Implementation: Annuity Portion (Ksh 3.25M):

- ABC Joint Life Annuity (100% continues to wife)
- Ksh 32,500/month guaranteed for life

Drawdown Portion (Ksh 3.25M):

- Balanced Fund (50/50)
- Withdrawal: Ksh 40,000/month

Total Income:

- Annuity: Ksh 32,500
- Drawdown: Ksh 40,000
- Rental: Ksh 25,000
- **Total: Ksh 97,500/month**

Result After 3 Years:

- Annuity: Paying Ksh 32,500/month reliably
- Drawdown balance: Ksh 2,100,000 (from Ksh 3.25M)
 - Withdrawn: Ksh 1,440,000
 - Growth offset withdrawals: Lost Ksh 290,000 net
- **Security:** Even if drawdown depletes, still have Ksh 57,500/month (annuity + rental)

Mr. Kimani's Testimonial:

"The hybrid was perfect. I have guaranteed Ksh 32,500 from annuity—covers my mortgage and basics. The drawdown Ksh 40,000 is for lifestyle—travel, helping kids occasionally. If the drawdown runs out in 10 years, I'll be 68, kids independent, and Ksh 57,500 will be enough. But if markets do well, it might last 15-18 years. I have security AND flexibility."

FREQUENTLY ASKED QUESTIONS

Q1: Can I change my mind after purchasing an annuity?

A: No. Annuities are irreversible. You cannot cancel or access the lump sum. This is why we thoroughly analyze before purchase.

Q2: What if I choose drawdown and markets crash early in retirement?

A: "Sequence of returns risk" is real. Bad markets in first 5 years devastating. This is why we recommend hybrid (annuity provides floor protection).

Q3: Can I switch from drawdown to annuity later?

A: Yes. Many clients do hybrid initially, then at age 75-80 convert remaining drawdown to annuity (lock in guaranteed income for final years).

Q4: What happens to annuity if insurance company fails?

A: Insurance companies regulated by IRA. Policyholders Protection Fund provides some protection. Choose AA-rated providers to minimize risk.

Q5: How do I know which split is right for hybrid?

A: We calculate based on: (1) Basic expenses needing guaranteed coverage, (2) Longevity expectation, (3) Other income sources, (4) Risk tolerance. Most clients: 40/60 to 60/40.

Q6: Can I take lump sums from drawdown for emergencies?

A: Yes, drawdown is flexible. You can withdraw extra amounts when needed (medical emergency, home repairs, etc.). Annuity cannot do this.

Q7: Which gives higher income initially?

A: Drawdown (can withdraw 12-15% vs annuity 10%). But drawdown has risk of depletion; annuity forever.

Q8: What about inflation?

A: Fixed annuity loses purchasing power. Solutions: (1) Inflation-linked annuity (lower start but grows), (2) Hybrid with drawdown increasing over time, (3) Accept some lifestyle reduction in later years.

Q9: Can I have annuities from multiple providers?

A: Yes, you can split purchases (Ksh 3M with Britam, Ksh 2M with Old Mutual) for diversification.

Q10: When should I buy an annuity?

A: Between ages 60-65 for optimal rates. Avoid before 55 (low rates) or after 70 (fewer benefits).

Q11: Can I add to my annuity later?

A: No. You'd need to buy a separate new annuity.

Q12: What if I need a large sum after annuitizing?

A: You can't access the annuity capital. This is why the hybrid approach is recommended (keep 30-50% in drawdown for emergencies).

TAKE ACTION TODAY

Don't Leave Your Retirement Income to Chance

A 1% difference in annuity rates = **Ksh 4,200/month difference** on Ksh 5M purchase.

Over 20 years: **Ksh 1,008,000 lost** by not shopping rates.

Let's Connect to Plan Your Retirement Funds Now - Contact Me Today

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Disclaimer: Annuity rates shown are indicative and subject to change based on age, health, and provider underwriting. Drawdown projections assume average returns and may vary with actual market performance. Past performance does not guarantee future results. This document is for informational purposes only and does not constitute financial advice. Annuity decisions are irreversible and should be made only after thorough consultation with qualified financial advisors.