

Introduction

When you retire from a Pension, Retirement Annuity or Pension Preservation Fund, you are legally obliged to purchase a compulsory annuity with a portion of your retirement proceeds. This will provide you with a post-retirement income stream. Provident Fund or Provident Preservation Fund members currently have the option to purchase an annuity on a voluntary basis, though this may change in the future.

At retirement, your retirement proceeds are fixed, but the decisions on how to use them could have far-reaching consequences for your financial security in retirement. Of these, determining an appropriate retirement annuity strategy is probably the most important.

There are a number of potential threats to your income and financial security after retirement:

- You or your spouse may outlive your investments and income.
- Your income may not keep up with inflation, so your standard of living could decline.
- Negative market conditions may impact on your investments and/or income.

Another important retirement decision is deciding how much of your retirement proceeds to take in cash. Taking the maximum cash benefit may not be in your best interest. You should consider the following:

- The tax payable on the cash amount – a portion can be taken free of tax, but thereafter it will be taxed on a sliding scale.
- If you have long-term debt like a bond, it is generally a good idea to repay it.

Beware of spending the cash on luxuries – the money you spend is still part of your total retirement provision and should be used for large or unexpected expenses and to supplement your income if required.

Default regulations

In August 2017, the Minister of Finance issued final regulations on default strategies to be implemented by all retirement funds by 1 March 2019. Boards of Trustees are therefore required to put in place default strategies at various events during a member's participation in a retirement fund if they are unable to make their own choices. This includes a Fund-proposed annuity strategy to provide income after retirement.

The Board of Trustees of the Sanlam Linked Retirement Annuity Fund, Central Retirement Annuity Fund, Sanlam Preservation Pension Fund, Sanlam Preservation Provident Fund and Central Provident Fund has considered various annuity options taking into account cost-effectiveness, simplicity and the various risks that pensioners face during retirement. The Board of Trustees has therefore adopted an inflation-linked life annuity guaranteed for 10 years as its **Fund-proposed annuity strategy**.



Important information about the Fund-proposed annuity strategy

1. It is Sanlam guaranteed life annuity and will provide a pension until death.
2. Annual pension increases are in line with inflation.
3. Level of pension is not affected by events in financial markets.
4. Pension may decrease if there is deflation (i.e. a negative rate of inflation from one year to the next).
5. Pension is guaranteed for a period of 10 years. On earlier death, your pension will continue to be paid to your selected beneficiaries until the end of the first 10 years.
6. **It is not a suitable pension option if you are suffering from a severe medical condition.**
7. **It is not a suitable option if you want to provide for a lifelong pension to a spouse upon your death.**
8. The purchase of a life annuity cannot be changed or reversed at a later stage.
9. The pension cannot be transferred to a different pension provider at a later stage.
10. No commission is payable for intermediary services.
11. The life annuity policy issued with this option will be fund-owned, subject to Fund Rules.

Please see the document “Retirement Wake Up Pack” for more information on the different income options at retirement (also available on the Retirement Fund Bulletin on Sanlam’s website).

The value of advice

The decisions to be taken at retirement are complex. There are many retirement income options available and your specific retirement needs may be addressed by other income options. It is therefore critical that you think carefully about your options. We recommend that that you consult an experienced registered financial advisor to ensure that you make the decisions that are most appropriate to your specific financial situation.