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- ④ Your cameras and microphones have been disabled for this webinar
- ④ Send through Questions via the Q&A button on the toolbar, these will be addressed at the end
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ANNUITISATION IMPACT OF T-DAY

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Sanlam Corporate: Annuities

Insurance | Financial Planning | Retirement | Investments | Wealth

AGENDA

- ④ How does **T-Day** affect you?
- ④ **Annuitisation**
- ④ Annuity **options** available
- ④ **5 tips** to retire in uncertain times

RETIREMENT REFORM CHANGES



What
you
need to
know

T-DAY

1
MARCH
2021

Over the last few years, government has been reviewing and changing the laws that control the retirement fund industry. These retirement reforms **aim to ensure that you save enough for retirement and that your savings are protected.**

Certain changes, that would have happened in March 2015, are now becoming effective on 1 March 2021.

These are referred to as “T-Day”

T-DAY: HOW DOES IT AFFECT YOU?



- ③ T-day rules only apply to how your **retirement benefits under provident funds or provident preservation funds are paid.**
 - ③ **Nothing changes** when you **withdraw** before retirement – you can still take all your savings in cash.
 - ③ From **1 March 2021**, retirement benefits from provident funds / provident preservation funds will have the **same rules as pension funds.**
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T-DAY: HOW DOES IT AFFECT YOU?



① Your member share will consist of two portions:

You'll have a
"Vested"
Member Share
(vested rights)



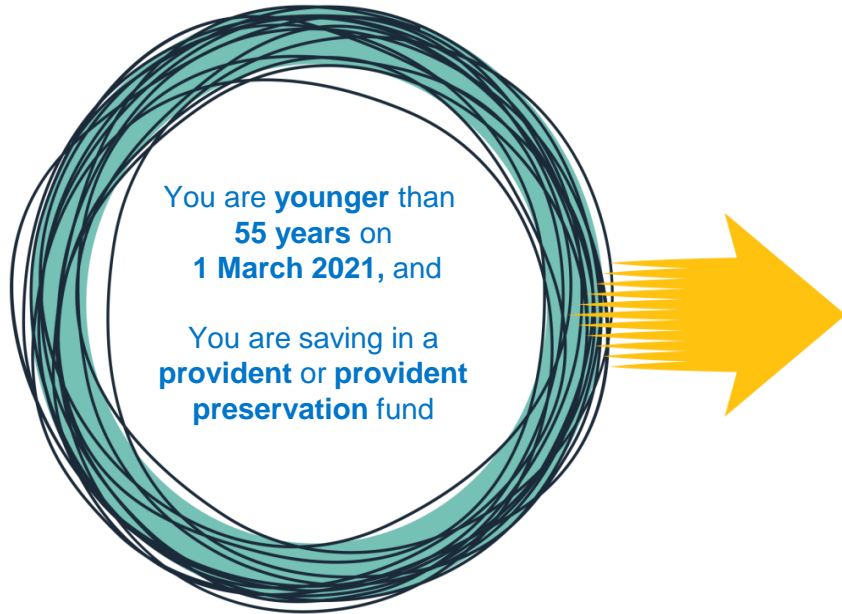
A
"Non-vested"
Member Share
(non-vested rights)



If you are **55 years or older on 1 March 2021**, you **will not be affected** by any of these new rules – as long as you stay in the same provident / provident preservation fund.

HOW WILL T-DAY AFFECT YOUR RETIREMENT BENEFIT?

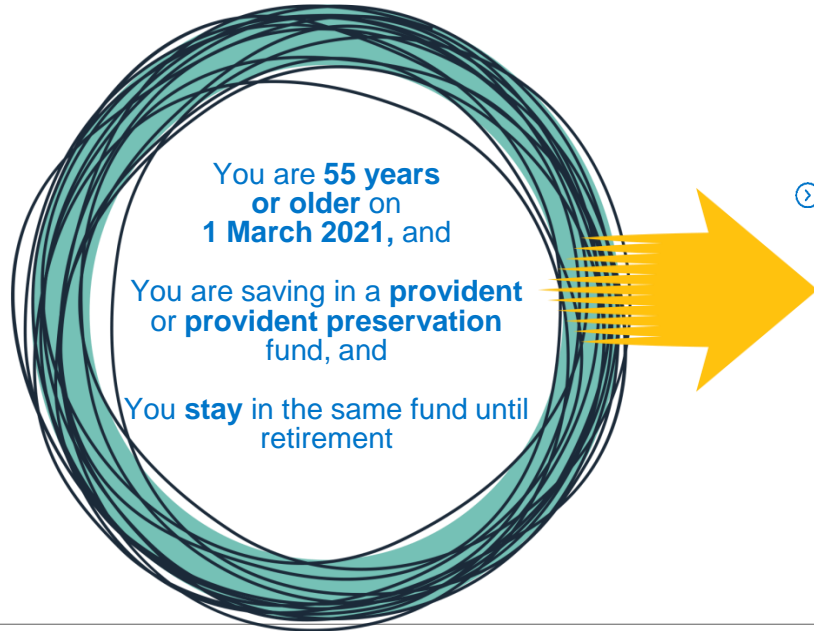
From 1 March 2021



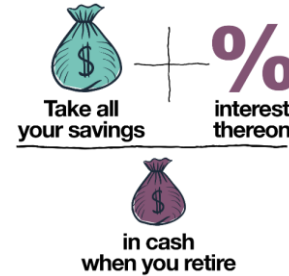
- ⌚ All your savings as at 28 February 2021 (plus interest thereon) will be in this portion.
- ⌚ You may take this portion in cash when you retire.
- ⌚ All your savings from 1 March 2021 (incl interest) will be in this portion.
- ⌚ If R247 500 or less, you may take this portion in cash when you retire.
- ⌚ If more than R247 500, you may only take one-third of this in cash and you must use the other two-thirds to buy a pension when you retire.

HOW WILL T-DAY AFFECT YOUR RETIREMENT BENEFIT?

From 1 March 2021



- ⌚ All your savings as at 28 Feb 2021 (plus interest thereon), and all your savings from 1 March 2021 (and interest thereon) will be in this portion.



- ⌚ You may take all your savings in this portion, plus interest thereon, in cash when you retire.

HOW WILL T-DAY AFFECT YOUR RETIREMENT BENEFIT?

on the 1 March 2021



- ① All your savings as at date of transfer/ saved in the old fund (plus interest thereon) will be in this portion.
- ② You may take this portion in cash when you retire.

- ① All your savings (plus interest thereon) in the new fund will be in this portion.
- ② If this portion is R247 500 or less, you may take this portion in cash when you retire.
- ③ If this portion is more than R247 500, you may only take one-third of this in cash and you must use the other two-thirds to buy a pension when you retire.

IMPACT OF T-DAY ON ANNUITISATION

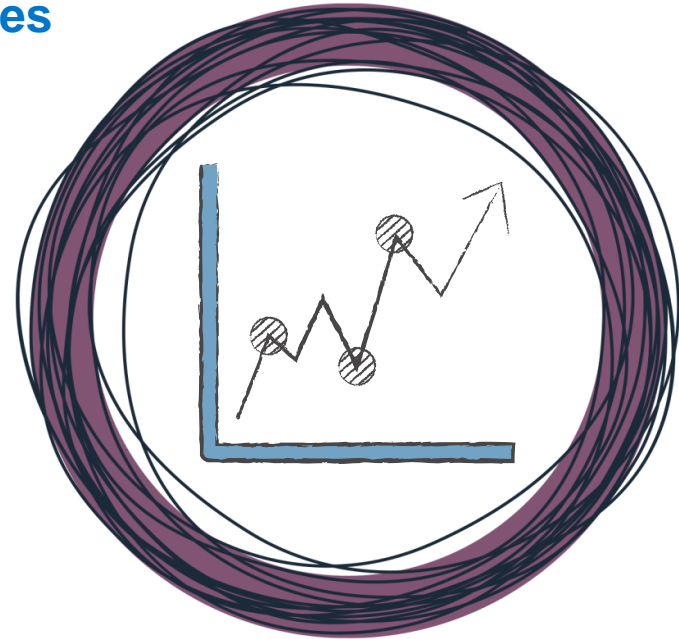


④ Renewed **focus on different types of annuities**

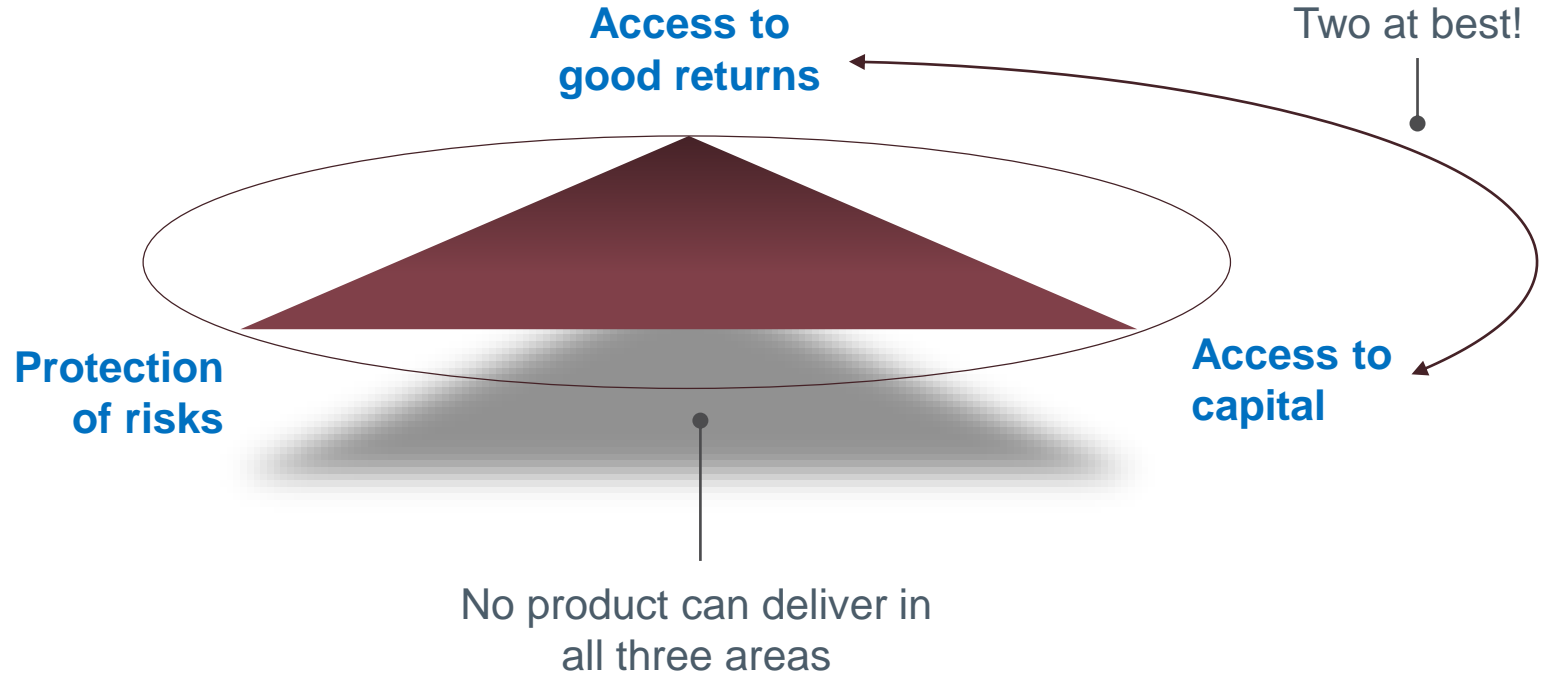
- ④ Life vs living annuities
- ④ Advantages and disadvantages

④ **Risks at retirement**

- ④ Market risk
- ④ Longevity risk
- ④ Replacement risk
- ④ Affordability



RETIREMENT TRILEMMA



LIFE VS LIVING ANNUITY

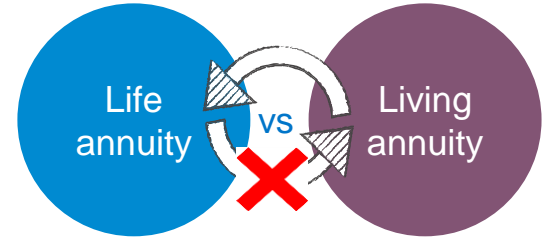


Living annuity

- Select **annual income** drawdown between **2.5% and 17.5%**
- Income % can be changed on anniversary date
- Select underlying portfolio** of your investment

Life annuity

- Offers **more security**
- Guarantees a **monthly income for life**
- Provided by life insurance company



WHAT DETERMINES THE COST OF LIFE ANNUITY



Life expectancy

- ⌚ Mortality assumption: Base table and improvements

Yield curves

- ⌚ Real yield curve
- ⌚ Nominal yield curve

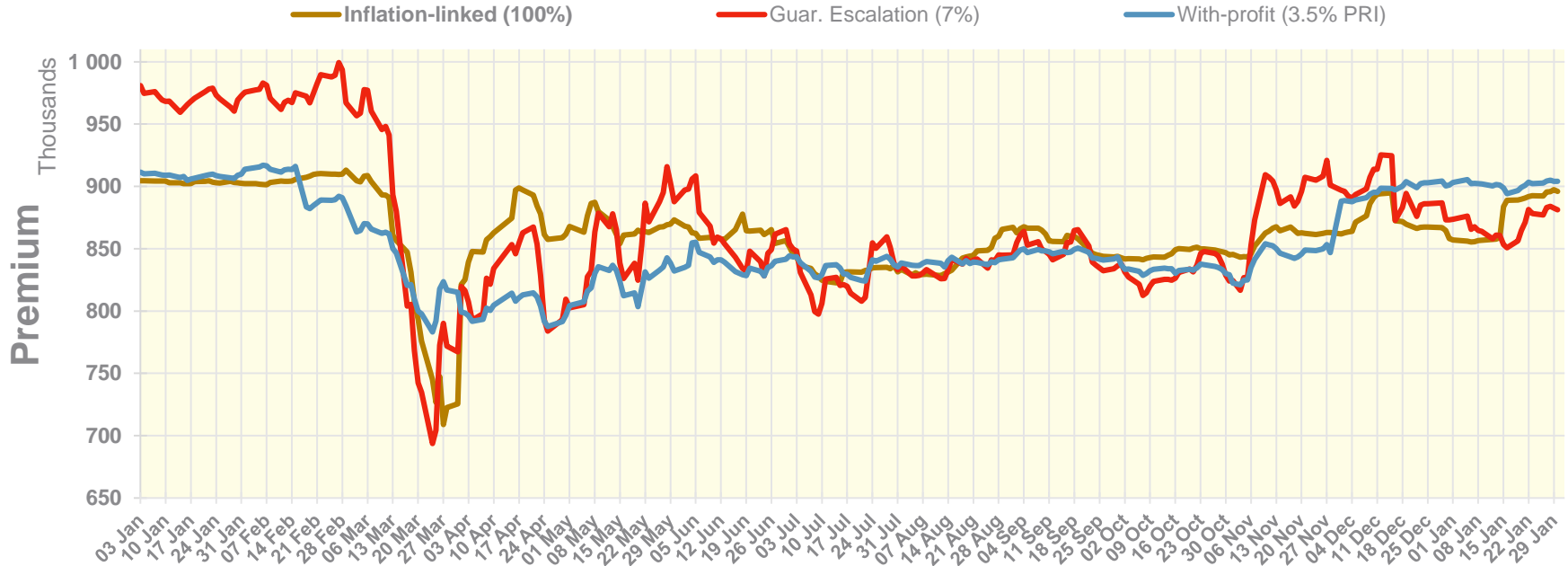
Expenses

- ⌚ Initial expenses and commission
 - ⌚ Ongoing expenses
-

PRICING OVER THE LAST YEAR



Effect of nominal yields on the price of a guar. life annuity since Jan 2020



Premium for married male, age 65 for income of R5000 p.m.

TRANSITION...EMPLOYMENT TO RETIREMENT

An aerial photograph of a winding road. The left side of the road is filled with lush, vibrant green trees and vegetation. The right side of the road is filled with the same type of trees but rendered in grayscale, appearing dark and lifeless. The road itself is a light gray color, curving from the bottom left towards the top right.

Aspirations / decisions

Realistic income potential

INTERESTING CHALLENGE ...

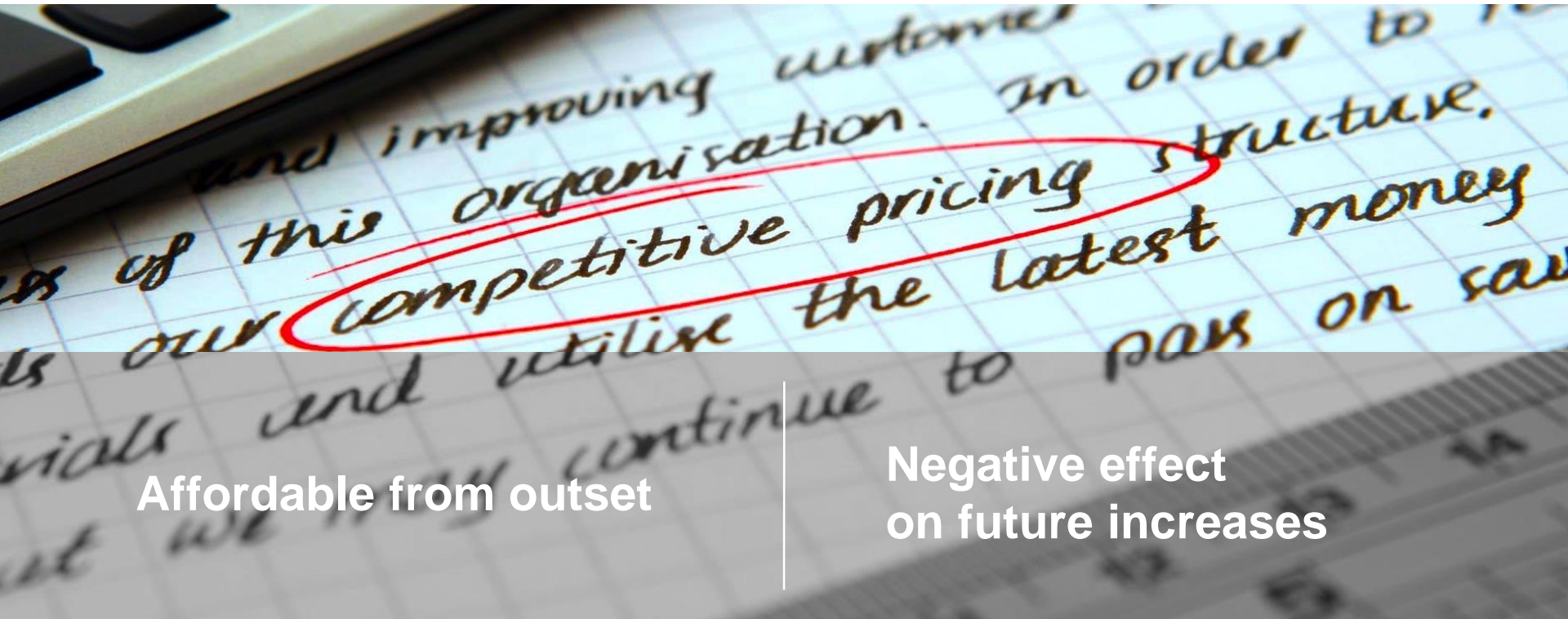


... and improving customer
... of this organisation. In order to
... our competitive pricing structure.
... and utilise the latest money
... continue to pass on sav

Design better
annuity products

Volatile markets
Returns below norms
Focus on guarantees

IN SOME CASES



Affordable from outset

Negative effect
on future increases

ANNUITY OPTIONS VS RISK



Lower risk



Higher risk

Annuity vehicle	Market risk	Longevity Risk	Replacement Risk	Affordability
Level	Green	Green	Red	Green
Guaranteed Escalation	Green	Green	Yellow	Yellow
With-Profit Annuity	Yellow	Yellow	Yellow	Yellow
Inflation linked	Green	Green	Green	Red
Living Annuity	Red	Red	Yellow	Green



←..... **Higher risk** **Lower risk**→

Living Annuity

With Profit Annuity

Guaranteed Annuity

RISK | Investment
Volatility
Longevity



←..... **Higher risk** **Lower risk**→

Living Annuity

With Profit Annuity

Guaranteed Annuity

Longevity risk - none
Increases – predetermined,
but don't participate in markets

Income
fixed or inflation linked

PROTECTION

CONCERN



←..... **Higher risk** **Lower risk**→

Living Annuity

With Profit Annuity

Guaranteed Annuity

RISK | **Investment** – Smoothed & Averaged
Longevity – Guaranteed pension



←..... **Higher risk** **Lower risk**→

Living Annuity

With Profit Annuity

Guaranteed Annuity

CONCERNS

Pricing

Selecting Increase Option
Higher Increases, or
Higher Starting Pension



←..... **Higher risk** **Lower risk**→

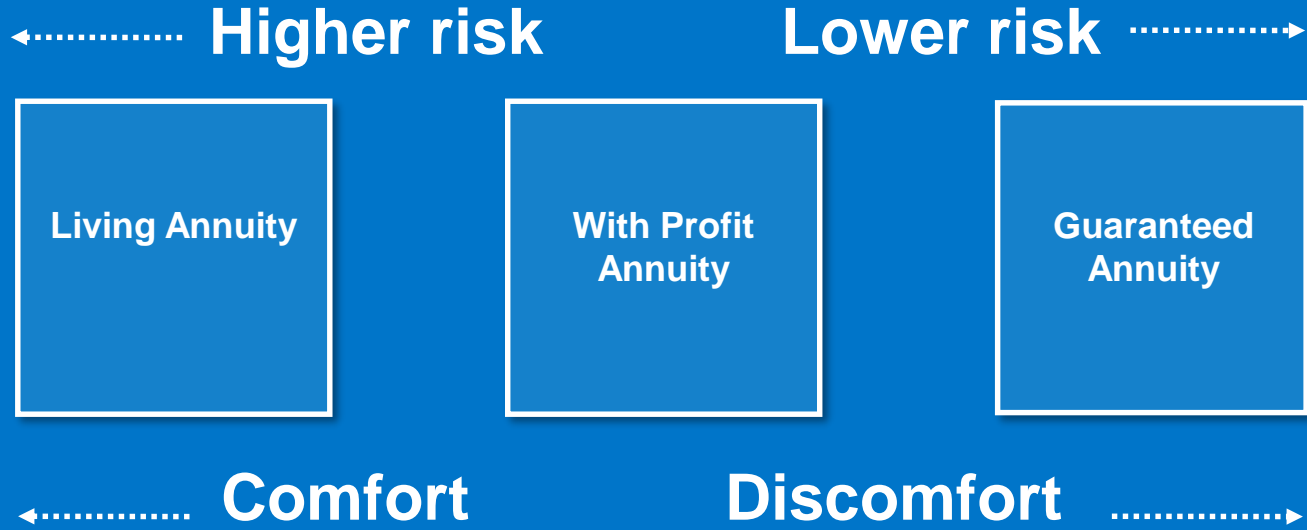
Living Annuity

With Profit Annuity

Guaranteed Annuity

RESPONSIBILITY

Do the right thing
Limited service providers
Transparency: Increase Formula





Living Annuity

**With Profit
Annuity**

**Guaranteed
Annuity**

Sensible option?
Trade-off?

ANNUITY OPTIONS VS RISK



Lower risk



Higher risk

Annuity vehicle	market risk	longevity risk	replacement risk	affordability
Level	Green	Green	Red	Green
Guaranteed Escalation	Green	Green	Yellow	Yellow
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Inflation linked	Green	Green	Green	Red
Living Annuity	Red	Red	Yellow	Green

LIFE ANNUITIES



- ⊗ Options available with life annuities
 - ⊗ **Spouse pension** after death of main member
 - ⊗ **Guaranteed period**
 - 0-20 years
 - ⊗ **Thirteenth Cheque**
 - Additional payment in December
 - ⊗ **Death Benefit**
 - Lumpsum payable on death of the main member
-

ULTIMATE DECISION BASED ON TRUST ...



“

Are my funds being
placed with a company
I can put my trust in
for the rest of my life?

”

ULTIMATE DECISION BASED ON TRUST ...



“

I don't understand how
the increases are calculated,
... will I be ok?

”

WITH PROFIT ANNUITY ... OVERVIEW



**Underlying
Balanced
Fund**



Drives increases

returns smoothed
to reduce market
or volatility risk

Mortality



**Based on
actual
experience
(Shared P&L)**

**Bonuses
Transparent**



Reflect:
Returns
Mortality
Purchase rate
Deductions

**Competitive
Pricing**



Ideal for defaults

WITH PROFIT ANNUITY?



- ④ A with-profit annuity provides a **guaranteed income for life** with increases dependent on investment performance
 - ④ The increases are determined by:
 - the return in the **underlying portfolio**, typically a balanced fund,
 - **Smoothing** of these returns (results in more stable increases)
 - **Purchase rate** and **costs**, which are deducted
 - The **guarantee** (no negative increases even when returns are negative)
 - **Mortality profits/losses** shared amongst policyholders
-

WITH PROFIT ANNUITY INCREASE POLICY



- ④ The bonus formula is expressed in the following formula:
 - ④ **Increase = Max{*smoothed return* – *PRI* – *charge* + *profit experience*; 0}**
 - PRI = Purchase rate. Rates between 2% and 4% can be selected;
 - ④ Product charge of **1.5%** covers investment and guarantee fees
 - ④ **Profit experience** allows for adjustments that may be required due to pooling mortality and from dynamic hedging
-

INCREASE OPTIONS



- ④ **Annual bonus declarations** are calculated as described above
 - ④ Then the increases depend on the selected **purchase rate**, which is deducted from the declared bonus
 - ④ A **higher purchase rate** means **lower future expected increases**, but is cheaper, so would result in **higher initial pension**
 - ④ The new Sanlam WPA allows selecting an **investment participation rate** (IPR), instead of purchase rate. The increases provided is then the declared bonus multiplied by the IPR.
 - ④ Looking back 10 years, Sanlam WPA with a **PRI of 3.5%** or an **IPR of 65%** would have provided increases \approx CPI
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WITH PROFIT: INVESTMENT STRATEGY



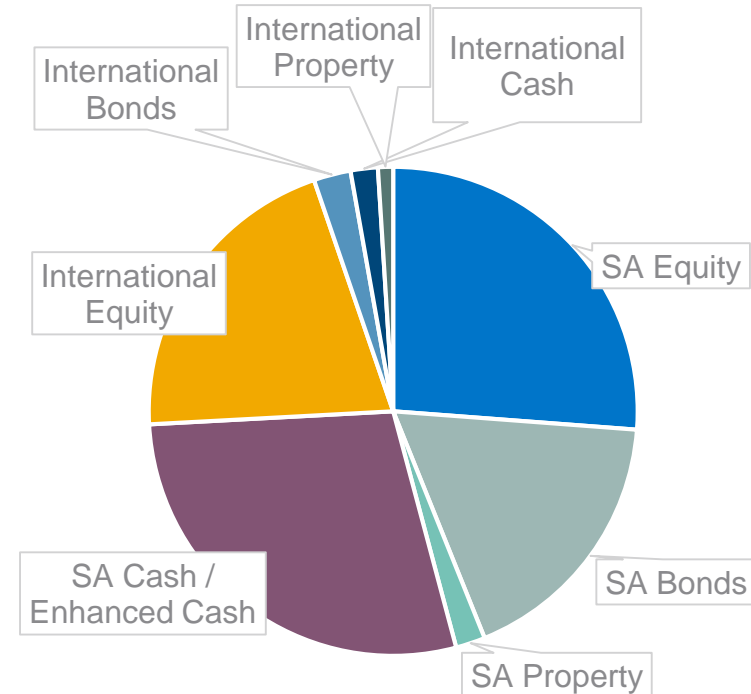
- ④ **Dynamic hedging** to best optimise combination of exposure to growth assets whilst ensuring current pensions are guaranteed
 - ④ Underlying portfolios and Objectives:
 - ④ 50% **SIM Balanced** Fund
 - provides medium to high long-term investment growth and is suitable for investors with a long-term investment horizon
 - ④ 50% **SIM Moderate Absolute** Fund
 - aims to achieve a return of inflation +5%, over rolling three-year periods while protecting capital over rolling 12 month periods
-

UNDERLYING ASSETS



Underlying Asset Allocation*

	SIM Moderate Absolute	SIM Balanced Fund	50%/50%
SA Equity	17.4%	35.0%	26.2%
SA Bonds	17.6%	17.8%	17.7%
SA Property	0.7%	3.2%	2.0%
SA Cash / Enhanced Cash	42.7%	13.9%	28.3%
International Equity	13.8%	27.4%	20.6%
International Bonds	4.9%	0.0%	2.5%
International Cash	2.1%	1.5%	1.8%
International Property	0.8%	1.2%	1.0%



- Asset allocation permitted within ranges
- Portfolios may be changed if more appropriate or ranges breached

SMOOTHING AND AVERAGING



- ③ **Smoothing** and **Averaging** of past returns in the reference portfolio is applied
- ③ Reduces the year on year volatility
- ③ Offer a **steady sustainable bonus** rate, reflect medium term market performance
- ③ **6 years** are used in the averaging, but 50% of weight in from recent 2 years
- ③ For 2019 and before 9% is used in place of actual past returns.
Known as **Lead-In>Returns**

Period	Weighting
Most recent year	25%
Period ending 1 year ago	25%
2 years ago	20%
3 years ago	15%
4 years ago	10%
5 years ago	5%
Total	100%

PAST INCREASES



WPA Increases are back tested increases using the proposed portfolio

Bonus Year	CPI	2% PRI	3.5% PRI	4% PRI	65% IPR
2012	6.00%	6.43%	4.89%	4.39%	5.38%
2013	5.60%	7.48%	5.93%	5.42%	4.74%
2014	5.50%	9.77%	8.17%	7.65%	5.65%
2015	5.90%	10.73%	9.13%	8.60%	7.52%
2016	4.70%	9.40%	7.82%	7.30%	7.77%
2017	6.40%	7.22%	5.66%	5.16%	6.69%
2018	4.80%	7.30%	5.75%	5.24%	5.61%
2019	5.10%	3.60%	2.10%	1.61%	5.25%
2020	3.70%	3.69%	2.18%	1.69%	3.19%
2021	3.30%	2.66%	1.17%	0.69%	3.41%
Average 2012-2021	5.10%	6.83%	5.28%	4.77%	5.34%
Vs CPI		134%	104%	94%	105%



5 Tips for Retirement Planning in Uncertain Times

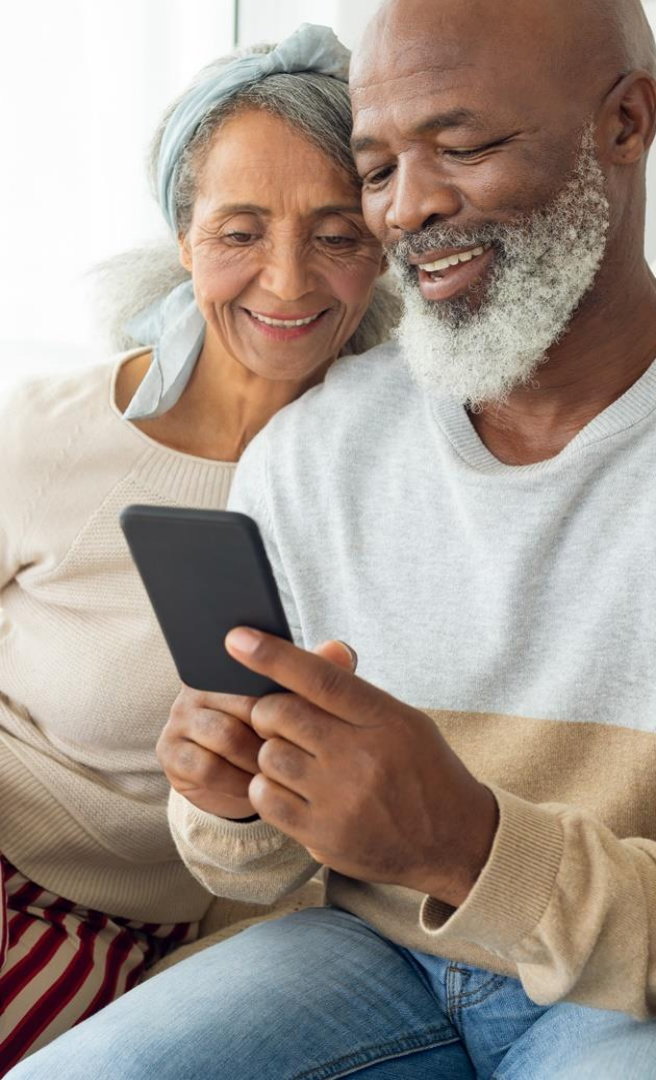


Knowledge is power

- ④ Know your retirement options and the differences

Don't neglect the paperwork

- ① Update policies, your will and personal documentation
- ① Inform your insurance company about any changes
- ① Understand exactly what benefits are covered by your retirement policy
- ① Keep your spouse updated



Post-retirement medical aid expenses

- ① Save for medical expenses
- ② Take out health care insurance

Don't touch your savings

- ① When leaving a job don't cash your retirement savings
- ① Put money away for the future





Failing to plan is planning to fail

- ① Start saving for retirement early
- ① Let compound interest work for you



**‘Accept the things you cannot
change, have the courage
to change the things you can,
and may you have the wisdom to
know the difference.’**

questions 