

Optimizing Salaries in Retirement

The HOW

Trustee Endorsed Annuity Strategy

*"annuity strategy means **a strategy**, as determined by a board, setting out the manner in which a member's retirement savings may be applied, with the **member's consent**, to provide **an annuity or annuities by the fund** or to purchase an annuity on behalf of the member from an **external provider**, which annuity or annuities may either be in the name of the member or in the name of the fund and which complies with the requirements of regulation 39 and any conditions that may be prescribed from time to time"*



One-size does not fit all



3 Step Process for Travel Agents

- Planning
- Administration
- Solution



3 Step Process for Trustees

- Planning
 - Counselling/Support/Advice
- Administration
 - Smooth transition
- Solution
 - Product that meets needs



Planning

Status quo NOT optimal!

Need to fill

Written Communication



Retirement Benefits Counselling



- Opportunity to engage the underserved
- Deliver on both the letter and spirit
- Scope for creativity
- Takes investment
- Takes expertise

Retirement Optimisation Services

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Retiring

Making informed decisions about how to use your retirement savings can reduce some of the financial stress of retiring.

- 1 Overview
- 2 Understand the basics about annuities
- 3 Learn about your annuity options
- 4 Calculate your capital and cash at retirement

Making informed decisions

Making informed decisions about how to use your retirement savings can reduce some of the financial stress of retiring. This section provides you with information and tools that will enable you to:

[CONTACT A COUNSELLOR](#)

- Counsellors
- Call-centre
- Integrated on-line platform – RetireMate
- Step-wise guided process
- Customisable
- Cost-effective
- Conflict-free

Administration



Administration

- Facilitates Counselling
- Data Requirements
- Smart Triggers
- Seamless Transition
- In-fund solutions



Solution

Range of options can be over-whelming

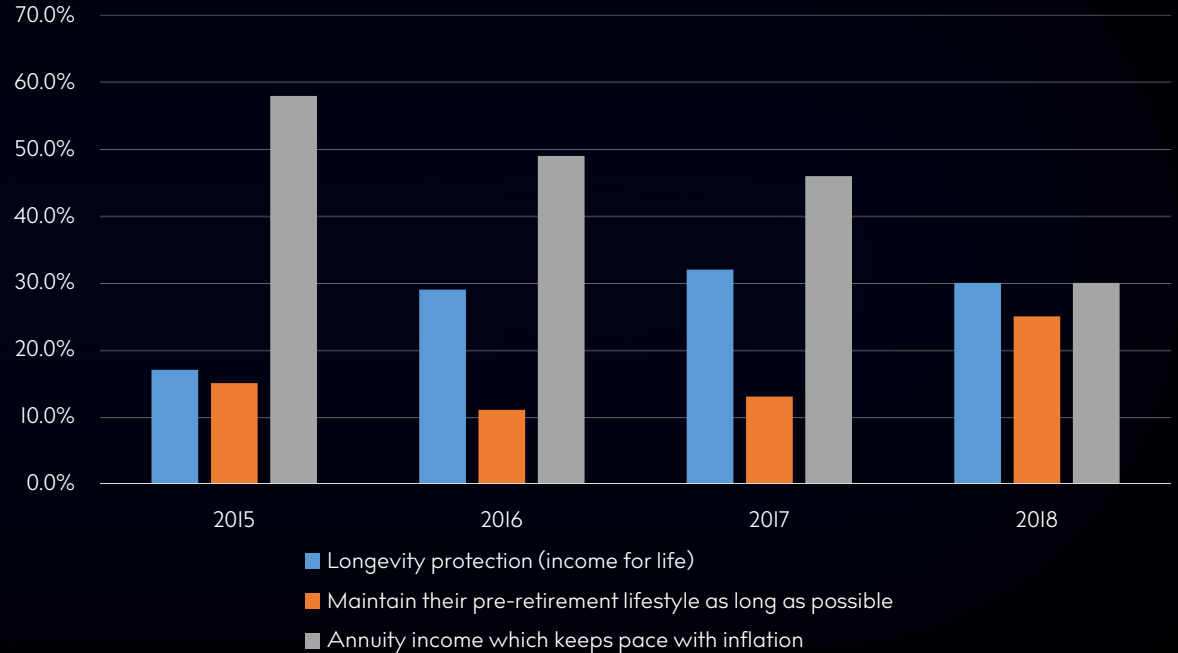
- To Trustees
- To Consultants
- To Members



Most NB Feature of a Trustee Endorsed Annuity Strategy

- Income for life
- Increasing with inflation
- To keep up with living costs

- With appropriate benefits to dependants on death?



In an Ideal World ... 1st Class Travel

- Inflation-Linked Annuity
- Real Growth
- Longevity Protection

... Expensive

... Locked In FOREVER



Trade-Offs

- Do the best within budget
- Costs v Benefits v Risks
- Find a balance
- Trade-Off
- Optimise Experience ... Optimise Salary



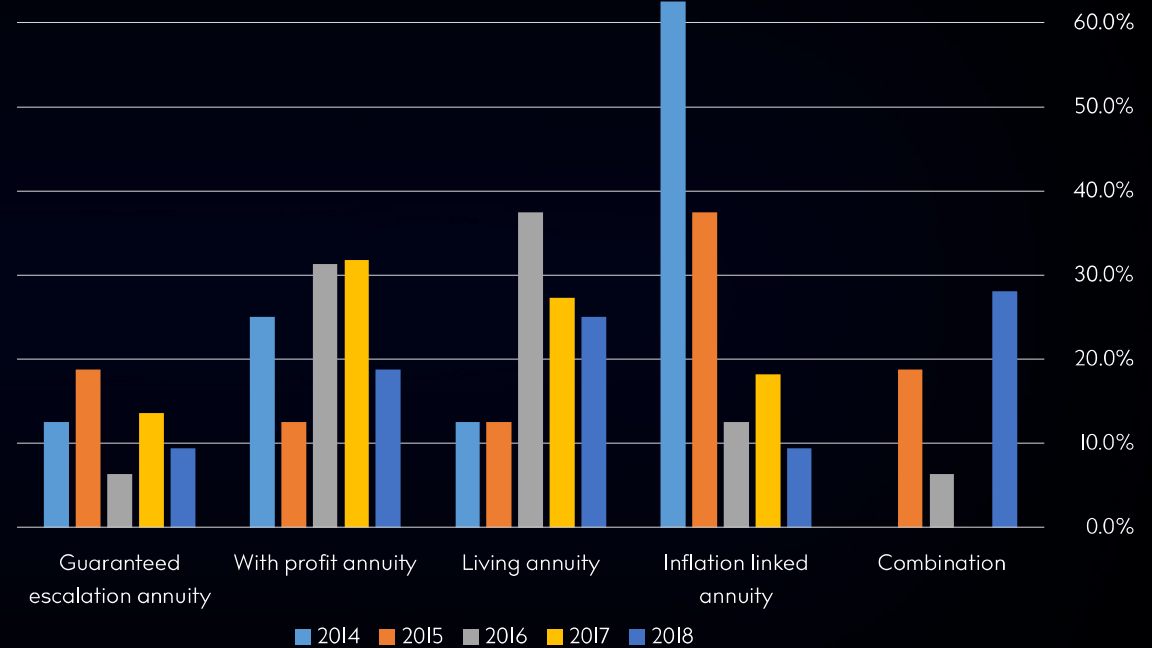
Risks

annuity vehicle	market risk	longevity risk	replacement risk	affordability
level	low	low	high	low
fixed escalation	low	low	medium	medium
traditional with profit	medium	medium	low	low
inflation linked	low	low	low	high
index linked	medium	low	low	medium
living annuity	high	high	medium	low

lower risk  higher risk

What have Funds done to Date?

- Combinations
- Living Annuity
- With Profit Annuity
- Guaranteed Escalation Annuity
- Inflation Linked Annuity
- Hybrid/Composite Annuity



What is Optimal?

- High Usage
- Better Financial Outcomes

Key Levers

- Affordability
- Flexibility
- Relevance



Optimal Solution ... Living Annuity

Flexibility

- Income
- Investments
- Optionality

Financial Outcomes

- Sufficient income at inception
- Opportunity for sustainable income over time



How to Optimise Salary in Retirement

Living Annuity

- Investment Strategy
- Drawdown Rates
- Fees



Investment Strategy

- Pensioners invest too conservatively
 - Erosion of income sustainability
- Starting base typically too low
- Real assets required



Investment Risks

Timing/luck determines outcome
(sequencing risk)

- Retirement followed by a crash
- Starting base affected



Investment Risks

Drawdown rate linked to risk appetite

- Too high – higher returns required
- Afford less risk



Investment Solution – Combination of Protection and Aggression

Protection Portfolio

- 5 x Drawdown rate

Aggressive Portfolio

- Growth



Investment Solution – Combination of Protection and Aggression

Protection Portfolio

- Real returns
- Short term downside protection
- Initial income drawn from Protection Portfolio
- Mitigate Sequencing Risk post retirement



Investment Solution – Combination of Protection and Aggression

Aggressive Portfolio

- Long term Real returns
- Growth over the long term for income sustainability
- Short term volatility not locked in



Investment Solution – Combination of Protection and Aggression

- Retirement lump sum = R2.4m
- Pensioner needs salary of R10k pm (i.e. R120,000 p.a.)
- Drawdown rate = $R120k / R2.4m = 5\%$

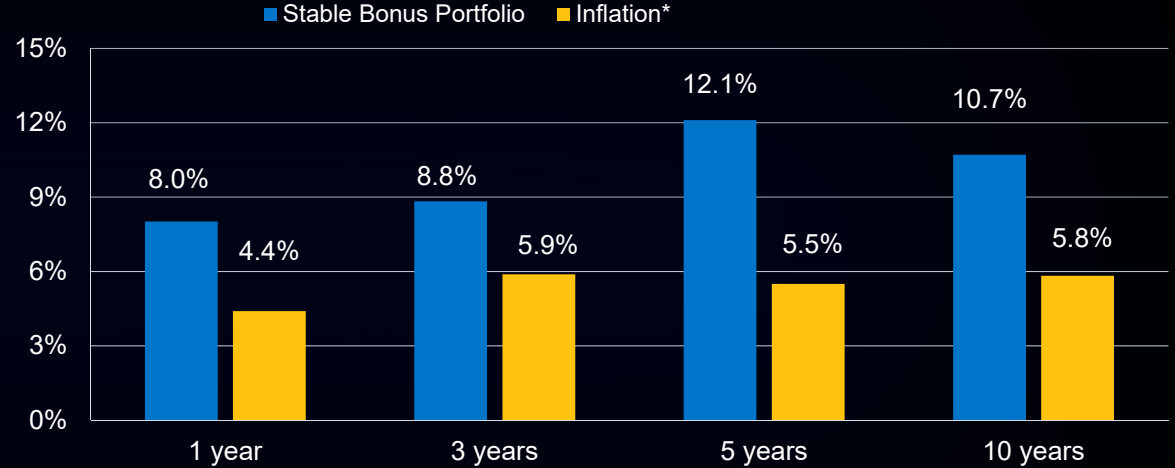
- Allocation to Protection Portfolio = $5 \times 5\% = 25\%$ of R2.4m = R600k
- Allocation to Aggressive Portfolio = R2.4m – R600k = R1.8m

Protection Portfolio

- Stable Bonus
- Smoothed returns
- Full downside protection



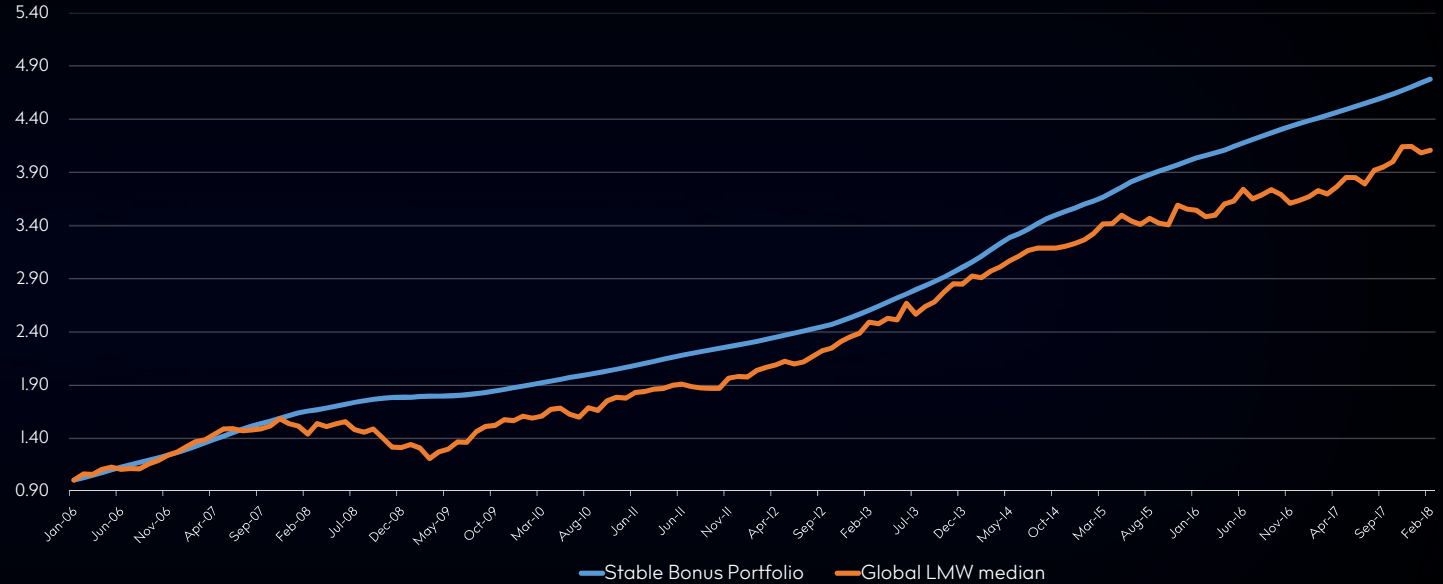
Net bonuses to 31 March 2018 (annualised)



REAL RETURNS	1 year	3 years	5 years	10 years
Stable Bonus Portfolio	3.6%	2.9%	6.6%	4.9%

Protection Portfolio

- Stable Bonus
- Smoothed returns
- Full downside protection



Aggressive Portfolio

- Single manager – Active
- Multi-manager – Active
- Passive

Goal – Maximise long term returns



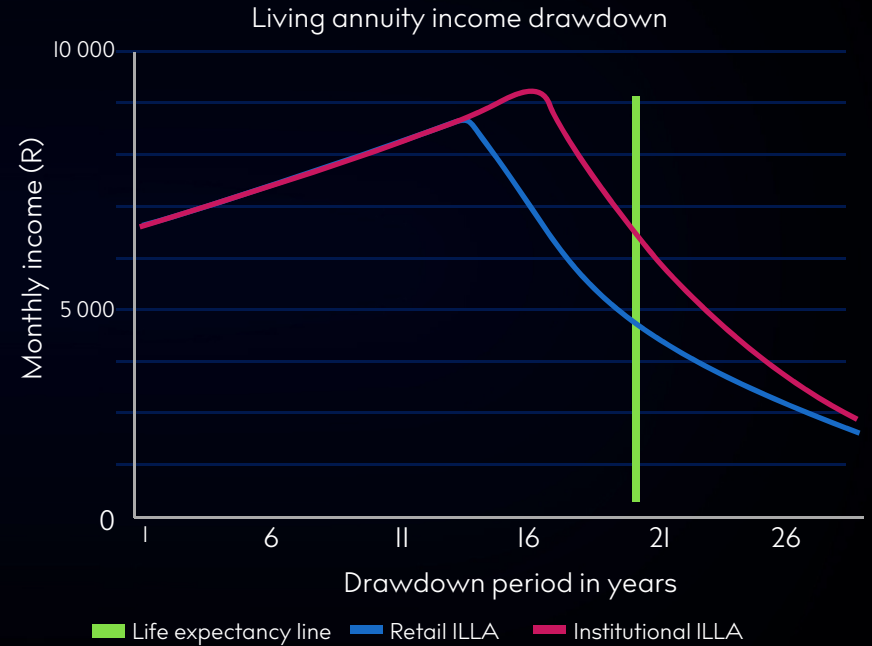
Institutional Living Annuity

- Trustee selected spectrum of Drawdown rates
- Trustee determined range of investment choices
- Trustee negotiated administration and investment fees
- Advice recommended
- Retirement Benefits Counselling at the minimum

Age	Males	Females
50	4.0%	3.5%
55	4.5%	4.0%
60	5.0%	4.5%
65	5.5%	5.0%
70	5.5%	5.0%
75	6.0%	5.5%
80	7.0%	6.0%
85	8.0%	7.0%

Institutional Living Annuity

- Not a silver bullet ... but ... relevant to many retirees
- Complementary to Retail structures
- Lower fees but with less choice
- Serves the underserved
- Can combine with Guaranteed Annuity



Optimising Salaries in Retirement

Planning

- Omni-channel
- Engage as many members as possible

Administration

- Smart and Stable
- In-fund capability

Solution

- Flexible
- Mitigate sequence risk
- Deliver long term income sustainability

