

# Investment Linked Life Annuity

## Plan description

The retirement benefit amount, or a part of it, if applicable, continues in the investment linked life annuity on the date of change from the retirement annuity plan. This is done by converting the retirement annuity plan to the investment linked life annuity. For administration purposes we allocate a new plan number. This plan provides the regular pension payments as income payments. The provisions as set out in the contract documents will only apply from the start date of the investment linked life annuity.

The plan is an investment linked life annuity regulated by the Long-term Insurance Act, 1998. The person referred to as the life insured in the contract documents is a member of the Central Retirement Annuity Fund (the FUND). The FUND, and not the member, is the planholder. The plan is a contract between the planholder and us, Sanlam Life Insurance Limited (Sanlam Life).

The contract consists of the following:

- the option form;
- this plan description, PLRL-A00-01, as updated from time to time, and available on the Sanlam website at <http://www.sanlam.co.za>;
- the statement, as updated from time to time;
- other documents, correspondence and information, if any, that by implication form part of the contract.

We will update the plan description and statement to reflect changes

- in administration procedures, for example how unit prices are determined and where information about investment funds can be found;
- in charges, including the fees charged by the asset managers;
- necessitated by external factors, for example legislation, or the interpretation thereof.

This plan description should be read in conjunction with the statement that the life insured receives. All information applicable to a specific plan is set out in the statement for that plan. If there is any conflict or inconsistency between the contents of this plan description, a statement for a plan and the rules of the FUND, the provisions of the latter two will prevail.

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## Explanations

### Option date

It is the date which indicates the end of the term of the retirement annuity plan and is indicated in the statement.

### Working day

It is any day of the week from Monday to Friday, excluding public holidays.

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## **Investment**

The retirement benefit amount of the retirement annuity plan, or a part of it, if applicable, remains invested in the investment linked life annuity in the investment funds indicated in the statement.

Information about all investment funds we offer, is available on the Sanlam website at <http://www.sanlam.co.za>.

## **Compliance with Regulation 28**

Regulation 28 of the Pension Funds Act, 1956 requires that retirement savings must be protected. For this reason the regulation limits the exposure to different asset classes for investment linked life annuities. Currently the maximum limits are, amongst others, 75% in equities, 30% in offshore assets, 25% in property assets and 10% in hedge funds. It is essential for investment linked life annuities to comply with the limits of Regulation 28.

Some investment funds are Regulation 28 compliant which means that the asset managers of those funds ensure that the funds always comply with the limits of Regulation 28. Since only Regulation 28 compliant investment funds are available for this product, this plan will always be Regulation 28 compliant.

## **Life time investment option**

If a life time investment option was chosen, we allocate the investment to the investment funds indicated in the statement. We will manage the allocation of the investment on a continuous basis. As the life insured gets older, we will gradually shift the allocation of the investment by switching the investment funds to ensure that the investment remains suited to provide an income.

## **How and when is the amount allocated to a specific investment fund, invested?**

We use the amount allocated to a specific investment fund to buy units in that investment fund on the transaction date.

## **Unit price**

A unit price is calculated daily in South African currency, on the basis of the market value of the assets in the investment fund.

The following are taken into account when the unit price is calculated for a specific investment fund:

- tax, as levied in the applicable policyholders' fund. Currently no tax is levied in the policyholders' fund for retirement funds;
- the guarantee charge for Escalating Funds;
- the fees charged by the asset managers.

The unit price of an investment fund is not guaranteed, and may increase or decrease over time, unless it is specifically stated otherwise in the contract.

## **May an investment fund be closed?**

Yes. This may occur if, for example, legislation changes or certain classes of assets become unavailable or it is in our opinion no longer prudent to invest in the specific investment fund. If the plan is affected, we will request the life insured to choose another investment fund allowed at that stage for this type of plan, and to inform us of the choice made. If we receive no response to such a request, we will decide in which investment fund to invest the affected part of the plan.

### **Switching of investment funds**

Switching of investment funds allowed at the time for this type of plan may be done on request. We will sell units of the investment funds out of which a switch is done, and buy units of the investment funds into which a switch is done. We do this on the first working day after receiving the switch request.

If a life time investment option is active when any requested switch is done, the option will be cancelled.

### **Cost to switch investment funds**

Currently there is no transaction charge for the first four switches in a plan year. For each subsequent switch in a plan year, we will levy a transaction charge, which will be determined at the time. The current transaction charge is indicated in the statement. We may change the number of free switches from time to time.

Any switch of investment funds that we do according to the chosen life time investment option, will be free of charge. No transaction charge will be levied.

### **Trading of assets**

We may use the assets in the investment funds for transactions such as scrip lending. Any income or loss arising from these transactions will be for our own account, and therefore will not affect the plan benefits.

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### **Fund value**

The fund value of a specific investment fund is the number of units multiplied by the unit price for that investment fund.

The fund value of the plan is the total fund value of all the investment funds for that plan.

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### **Escalating Funds with guarantees**

For a number of investment funds there is a corresponding Escalating Fund with a built-in guarantee available. These Escalating Funds are separate investment funds and therefore their unit prices differ from that of the corresponding investment funds. The built-in guarantee will ensure that the unit price of an Escalating Fund is always at least 80% of the highest unit price ever reached on that Escalating Fund since its inception date, despite what happens to the underlying investments.

An Escalating Fund invests in a combination of the corresponding investment fund and cash. Accordingly, the investment return on an Escalating Fund is a combination of the investment returns on the corresponding investment fund and cash, and can thus differ substantially from that of the corresponding investment fund. For an Escalating Fund the allocation between the corresponding investment fund and cash is not fixed, but varies according to market conditions. When the market value of the corresponding investment fund decreases, the percentage allocated to cash will be increased to protect the capital value. Similarly, when the market value of the corresponding investment fund increases, the percentage allocated to the corresponding investment fund will be increased, allowing the Escalating Fund to benefit from a rising market.

An Escalating Fund reduces the volatility of returns, compared to the corresponding investment fund, and aims to limit capital losses in a declining market, while also benefiting from rising markets. In market downturns the cash component of an Escalating Fund may increase substantially and an Escalating Fund may invest the bulk of its assets in cash. Therefore it is not unlikely that the cash component of an Escalating Fund may exceed 50% from time to time. In extreme downturns, an Escalating Fund could become 100% invested in cash. However, interest earned on the cash coupled with a recovery in the market will result in an Escalating Fund gradually switching out of cash and into the corresponding investment fund again.

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## Echo Bonus

At retirement the Echo Bonus of the retirement annuity plan continues in the investment linked life annuity. It is used in the calculation of the Echo Bonus percentages that will apply to the investment linked life annuity. The Echo Bonus percentages for different terms are indicated in the statement.

The Echo Bonus is a percentage of the fund value at the time of calculating the Echo Bonus. The percentage referred to here is called the Echo Bonus percentage, and depends on the term for which the investment linked life annuity has been in force at the time of the calculation. The longer this term, the higher the Echo Bonus percentage will be.

A portion of the Echo Bonus will be included in each income payment. The Echo Bonus will also be added to the benefit payable at termination.

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## Charges

### Tax

Tax is levied on the investment return according to the applicable policyholders' fund. Currently no tax is levied in the policyholders' fund for retirement funds.

### Charges for the plan

The current charges are indicated in the statement. The following may apply:

- A yearly **marketing and administration charge**, which is calculated as a percentage of the fund value. This charge is subject to a minimum monthly rand amount which will be increased from time to time to allow for inflation, as determined by us. The charge is calculated on a monthly basis, which means the percentage is divided by 12 to calculate the the monthly amount. The charge is deducted monthly from the fund value by selling units to the value of the charge.

The total marketing and administration charge for the life insured is calculated on the sum of the fund values of all the plans that exist for the life insured for the Cumulus Echo retirement annuity product as well as the Cumulus Echo investment linked life annuity product. The marketing and administration charge for this plan is calculated as the proportion the fund value of this plan has to the total fund value of all the plans, multiplied by the total marketing and administration charge. The minimum monthly rand amount per plan will still apply.

- A yearly **guarantee charge** for Escalating Funds, which is a percentage of the fund value and may differ for different investment funds. It is taken into account when we calculate the daily price of the units.

### **Deductions made by the asset managers**

An asset manager charges fees for investment research and for selecting the underlying assets of an investment fund. These fees are taken into account in the calculation of the daily unit price of an investment fund. The published performance figures of an investment fund are therefore net of these fees. More information on these fees and their current values are available in the statement.

### **Transaction charge**

We will levy a transaction charge for termination of the plan before the option date.

The amount of this transaction charge is determined by means of regulatory measures and it will change in future if such regulatory measures or legislation change.

We will also levy a transaction charge for switching of investment funds. This transaction charge will be increased from time to time to allow for inflation, as determined by us. We will continue to levy the transaction charge for switching of investment funds after the option date.

Every transaction charge will be taken from the fund value by selling the required number of units.

### **Termination charge**

If the retirement annuity plan was a conversion, we may levy a termination charge for termination of the plan before the option date. This charge is determined on the start date of the conversion of the retirement annuity plan and will decrease to zero over time. The termination charge, which is indicated in the statement if applicable, is not tested against any applicable legal limit, but it will be done when a termination charge is levied.

The termination charge will be deducted from the fund value by selling units. The value of the sold units plus the Echo Bonus on this value will be equal to the value of the charge.

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### **Investment advice agreement between the life insured and the FUND**

The life insured, as a member of the FUND, may request the FUND to pay a fee, including VAT if applicable, for ongoing investment advice for his or her retirement investment. This investment advice is an optional service that the life insured may request, and is provided by an intermediary nominated by the life insured. We, as the administrator of the FUND and on instruction of the FUND, will pay the fee monthly on behalf of the FUND to the intermediary who provides this advice.

The fund-based fee for this investment advice is specified as a percentage per year of the fund value. The life insured must specify the percentage. The fee is calculated on a monthly basis, which means the percentage is divided by 12 to calculate the monthly amount. It is deducted monthly from the fund value by means of a withdrawal to the value of the monthly fee. The amount of the fund-based fee is linked to and will therefore fluctuate with the fund value, for example, a fee of 0.50% implies R41.67 per month if the fund value equals R100 000.00.

The current fund-based fee, if applicable, is indicated in the statement.

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## **Income payments**

To make the income payments, we will sell the required number of units from the investment funds in proportion to their fund values. The value of the sold units plus the Echo Bonus on this value will be equal to the income payment. The fund value of the plan will reduce by the value of the units sold.

We will sell the units on the requested income payment day. If a month does not have this particular day, or if it does not fall on a working day, we will sell the units on the following working day. We will make the income payment as soon as possible after the units have been sold.

The details of the income payments are indicated in the statement.

If at any time the available fund value cannot provide the minimum income payment, we will pay the available fund value to the life insured. The plan will then end. The minimum income payment is subject to our new business requirements at the time.

## **When can the income be reviewed?**

The life insured may change the income amount yearly on the income review date indicated in the statement. This amount is based on an income percentage which must be within the limits prescribed by the relevant regulatory authorities. We reserve the right to change this income percentage to remain in line with any future changes of these limits.

## **Tax on income payments**

The income payable to the life insured is taxable. We will deduct income tax and pay it over to the South African Revenue Services on the life insured's behalf.

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## **Importance of the preservation of the underlying capital**

It is important to preserve the underlying capital, which is the fund value of the plan, to provide for an income during the lifetime of the life insured. We do not guarantee the underlying capital or the income. The preservation of the underlying capital is affected by the chosen income and the investment funds on the plan.

## **Chosen income**

It is the responsibility of the life insured to ensure that the chosen income is at a level that would be sustainable for the rest of his or her life. The income withdrawal relative to the investment return on the underlying capital needs to be carefully managed in order to achieve this.

If the chosen income is too high, it may not be sustainable. If the life insured lives longer than expected, the underlying capital may be depleted before the life insured's death. Or, if the investment return on the underlying capital is lower than expected, the chosen income may also not be sustainable.

The table below can be used as a guide to determine the number of years that a chosen yearly income percentage at the start date of the investment linked life annuity may be sustained at the various indicated investment returns per year.

Chosen yearly income %	Investment return per year				
	2.50%	5.00%	7.50%	10.00%	12.50%
2.50	21	30	50+	50+	50+
5.00	11	14	19	33	50+
7.50	6	8	10	13	22
10.00	4	5	6	7	9
12.50	2	3	3	4	5
15.00	1	1	2	2	2
17.50	1	1	1	1	1

The investment return in the table above is before inflation and after charges. It is assumed in the table above that the life insured will adjust the chosen income percentage over time to maintain the same amount of real income, allowing for inflation of 6% per year. Once the number of years in the table above has been reached, the amount of the income payments will reduce rapidly in the subsequent years.

**Investment funds on the plan**

The investment funds are made up of various types of underlying asset classes such as equities, bonds, property and cash. These underlying asset classes have different levels of risk and return associated with them. The overall composition of the plan should be considered in terms of these underlying asset classes. Too high a proportion of risky asset classes means there is a risk of losing capital, while too low a proportion of risky asset classes means there is a risk that investment returns will be too low to sustain the income payments. For example, a combination of a high income percentage with mainly equity-based investment funds can result in large capital losses during major equity market volatility.

**Benefit payable at death**

The benefit amount is equal to the fund value on the date that we receive notice of the death of the life insured. The full benefit amount will be paid as a lump sum. This will only be done after we have received the information we may require for this purpose.

**Who will receive the benefit payable at death?**

As required by the Pension Funds Act, any amount payable as a result of death must be paid

- to any or all of the dependants of the life insured, or
- if the life insured has appointed nominees who are not dependants, then to any one or more of the dependants and nominees.

### **How much will be paid to each dependant or nominee?**

The trustees of the FUND will decide whether the needs of dependants have been adequately provided for. They will therefore decide each dependant's share, if any, of an amount payable. If a nominee is not a dependant, the trustees will also decide whether the nominee qualifies for any benefits and if so to what extent the nominee will share with the dependants in an amount payable.

### **Who is a dependant?**

- The spouse of the life insured.
- A child of the life insured, including an adopted or illegitimate child.
- A person who, in law or in fact, depends on the life insured for financial support.
- A person who, in law or in fact, would have depended on the life insured for financial support had the life insured not died. For example, a child of the life insured who is born after the life insured's death.

### **Is it necessary to appoint nominees?**

Yes. A nominee is someone the life insured appoints to receive the benefit available at death, or a part of it. We, and the trustees of the FUND, will then know what the wishes of the life insured are. A nominee may only accept or reject the appointment after the death of the life insured.

### **May the appointment of a nominee be changed?**

An appointment may be added, cancelled or changed at any time. It must be in writing and signed by the life insured, and must reach Sanlam Life's head office before the life insured's death.

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## **Payments**

All payments must be made in South Africa in South African currency.

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### **Please note**

- The plan may not be cancelled.
  - The plan is subject to legislation and our requirements from time to time.
  - We determine the values, benefits and charges of this plan, and administer the plan, according to the actuarial basis that has been approved for it as required by the Long-term Insurance Act, 1998.
  - Apart from the built-in guarantee of the Escalating Funds, we do not guarantee the performance of the investment funds. The value of units may increase or decrease, and past performance is no guarantee of future performance. For example, the value of assets in foreign currencies may increase or decrease materially due to changes in exchange rates.
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