Sanlam Annuities and Retirement

In an ever-changing environment, the need for certainty during retirement has become more urgent and has resulted in a general shift to conventional life annuities as the product of choice.

Understandably, retirees are looking for the highest level of guaranteed income that their savings can buy, with the added advantage of their income keeping up with inflation. Most importantly, retirees want to ensure that their monthly income needs are met without added risks.

What is it?

Receive a regular income from your retirement savings so that you can maintain the lifestyle you have worked so hard for. You also have the option to select a specific period during which the income is guaranteed irrespective of whether you are still alive, so that your family is taken care of.

A life annuity uses the proceeds of your retirement savings to provide regular, guaranteed income payments for the rest of your life.

- You can add another life insured at inception to receive the income after your death.
- The income you receive can increase annually by a percentage chosen by you at inception or linked to inflation.
- You receive a monthly income that is determined by the size of your investment and the option you have selected.

How Will Your Income Be Determined?

Many factors determine the initial guaranteed income of a life annuity, such as:

- your age;
- your gender;
- your life expectancy;
- the mortality rate in your particular insurance risk pool;
- interest rates;
- your desired income for a single or joint life;
- your choice of growth in income (0% - 7% or CPI); and the

- guaranteed term that you choose (0, 5, 10, 15 or 20 years).

What Does 'Guaranteed Term' Mean?

A life annuity provides a guaranteed income until you die, irrespective of the age you reach. The term on a life annuity determines the minimum years of guaranteed payment if you pass away within the guaranteed term. This ensures that your beneficiaries will receive an income for the remainder of the guaranteed term that you chose when you made the investment – either 5, 10, 15 or 20 years. The higher the guaranteed term, the lower the initial income and vice versa.

If you choose not to have a guaranteed term, there will be no further income payments to your beneficiaries when you pass away. This option will provide the highest initial income, but higher doesn't necessarily mean that it's better.

Should I Choose a Shorter or Longer Guaranteed Term?

Your choice depends on your individual circumstances. You need to know the answers to the following questions:

- Have you saved enough for retirement? In other words, can you afford to leave an income legacy to your beneficiaries, or do you need the highest possible income during retirement?
- **Who is financially dependent on your income?**
    - Do you have an elderly parent who will need an income for the next 10 years if you pass away suddenly?
    - You might have a disabled dependant in which case you could consider the highest guaranteed term possible that will provide an income for your dependant after your death. You could also consider a product that leaves a possible lump sum legacy.
    - If you have no dependants, you won't need to leave an income legacy and therefore, you could opt for the higher income.
- **What is your medical history and current health status?**
    - If your life expectancy is shorter due to ill health, you could consider the following:
        - a longer guaranteed term to provide income for dependants after your death; or

        - a product that will pay an income to you during your lifetime as well as a predetermined lump sum to your dependants after your death; or
        - a product such as a living annuity where you have the freedom to determine the level of your income but that could leave a lump sum for your dependants after your death if any underlying capital has been preserved.
    - If you are healthy with a longer life expectancy, consider a shorter guaranteed term for the higher income in combination with other income-, growth- and legacy-creating products.
- Your best solution could be a combination and not only one specific product.

One Size Doesn't Fit All

As we've illustrated, retirees' varied income requirements set the scene for a well-rounded, diversified retirement income portfolio that could consist of multiple products.

In most cases, a single product or solution will not tick every box for you. So, combining retirement income products and features can ensure the best outcome for your retirement.

Your financial intermediary will blend a solution based on financial goals that are unique to your specific needs.

What are the basics I should know about annuities?

Annuities are financial products designed to convert your retirement savings into a regular income during retirement. Understanding the key elements and risks of annuities is the first step to making informed choices about your retirement savings.

The three key elements of an annuity:

- Your initial income (first month pension)
- Your future income increases
- Your income security (the level of risk you are exposed to)

There are two main types of annuities - guaranteed annuities and living annuities. You can invest in one of them or both. Either way, the most important thing is to make an informed choice.

	Living Annuity	Guaranteed Annuity
How it works	• A living annuity is like a bank account. Your retirement savings are invested in an account and your savings grow according to the investment returns you earn. • You receive your income (monthly pension) from this account, and this depletes your savings over time. • The higher the income you choose, and the lower your investment returns, the greater the risk that your savings will not last throughout your retirement.	• You use your retirement savings to purchase an annuity policy from a provider (an insurance company). • The provider uses your retirement savings to pay you an income (monthly pension) according to the terms of your policy. • Your income is guaranteed for life.
Your initial income	• You choose your own initial income as a % of your savings. • There are a minimum and maximum allowable income (this will vary between 2.5% and 17.5% of your total savings). • Your fund may have negotiated further restrictions.	• A provider will quote you an initial income based on your purchase amount and the optional features you choose. • Different providers may quote

		different incomes. • Quotes will change as market conditions change.
Your future income increases	• You may review your income each year and decide what your income for the next year will be as a % of your savings. • There are a minimum and maximum allowable income (this will vary between 2.5% and 17.5% of your total savings). • Your fund may have negotiated further restrictions.	Your future income is determined by the type of guaranteed annuity you purchase: • **Inflation-linked annuity:** Your future increases are linked to inflation rates that will vary from year to year. • **Fixed increase annuity:** You decide on a fixed annual increase at the time you purchase the annuity and it can't be changed thereafter. • **With profit annuity:** Your future increases are based on the

		investment performance of the investment portfolio. There may be no increases, but your income wouldn't decline.
Managing your income in future	• You are responsible for managing your income. • Each year you must review and decide: 1. What will be your income for the next year? 2. The investment portfolios you will use. 3. Whether to use some or all of your capital to purchase a guaranteed annuity.	• You do not have to manage your income - the provider takes care of everything. • All the terms and conditions are set at the time that you purchase the policy.
Key features and risks	**Features:** • You benefit in times of good investment performance. • Your unused retirement savings can be passed on to your dependants after you pass away. • You have the option to transfer to another provider or convert to a guaranteed annuity at any time. **Note:** Trustees may negotiate a	**Features:** • Income is guaranteed for life and the provider has the obligation to pay you an income for the rest of your life. • You may choose optional features such as a

	living annuity for your fund - in which case: • You pay low administration and investment fees. • Your trustees determine the investment portfolios available to you. **Risks:** • Your income is not guaranteed. If you draw too much income or your investment returns are poor, you could run out of money. • You are responsible for the ongoing management of the investment. • You can lose out in times of poor investment performance.	guaranteed term or spouse’s pension. • The product provider takes care of the ongoing management of the investment. **Risks:** • The payment terms and optional features are fixed at the start and cannot be changed later. • Additional options come at a cost which may reduce your income.
What happens if you die?	• Your unused retirement savings are passed on to your dependants and/or beneficiaries when you die.	It depends on the features you choose when you purchase the policy: • If you chose a single life pension, the pension payments will stop at

		the time of your death. • If you chose a spouses pension, your spouse will continue to receive the income you chose. • If you chose a guaranteed term, your income will continue until the end of the term or be paid out as a lump sum to your estate.

What tax is payable on my retirement benefit?

Leaving your benefit in the fund

No tax is payable if you leave your benefit in the fund unless deductions are made from your benefit.

Buy a pension (annuity)

Monthly pension payments (annuities) are taxable as income. These pension payments will be subject to PAYE deductions and form part of SARS's annual Income Tax Assessment.

Benefit paid out in cash

Cash lump sum benefit are taxable according to the retirement tax table of the Income Tax Act.

Tax legislation is complex, and it is amended from time to time. It is therefore strongly recommended that you seek the assistance of a financial adviser before you decide what to do with your benefit from the fund.

The following tax table is applicable to **retirement lump sum benefit**:

Taxable lump sum (R)	Rate of tax
0 - 500 000	0% of amount
500 001 - 700 000	R0 + 18% of amount exceeding R500 000
700 001 - 1 050 000	R36 000 + 27% of amount exceeding R700 000
1 050 001 and above	R130 500 + 36% of amount exceeding R1 050 000

Is there legislation that will influence the payment of my retirement benefit?

Recent changes to legislation (i.e. the amended Regulations issued in terms of the Pension Funds Act) requires pension and provident funds to offer members that retire from employment the following:

1. An annuity strategy available that is suitable for most retiring members of the fund.
2. Give you access to a counselling service that will provide information to assist you with making an informed decision on what to do with your benefit when you retire.

How will taking cash from my retirement savings impact on my future?

With only 6% of South Africans able to retire comfortably, now more than ever, it is vital to resist the need to make a withdrawal from your retirement fund.

It’s not easy to think so far ahead into the future, especially when facing financial problems today. It takes a lot of self-discipline to look out for your old age when you are young, and it helps if you understand the importance and the impact of your decisions today.

Even before the pandemic, research showed that many members feel the need to access part of their savings to handle emergency situations.

However, it's important to understand the associated risks that you could be exposed to if you use your retirement savings for anything other than your actual retirement.

By using your benefit before you retire, you:

1. Threaten your financial security after you retire
2. Lose out on the power of compound interest, which helps your savings grow over time
3. Need to start saving all over again, with fewer years to catch up

You will also incur tax penalties and you will likely lose out on the tax-free portion when you ultimately retire one day, if you withdraw a portion of your benefit in cash before you retire.

How much money do I need to have saved by the time I retire?

An industry rule of thumb suggests the following:

- **After working for five years:** You should have saved a capital sum equal to one year's salary.
- **After working for 10 years:** That saved capital sum should equal two years' salary.
- **After working for 20 years:** You should have saved five times your annual salary.
- **After working for 30 years:** You should have saved 10 times your annual salary.
- **After working for 40 years:** You should have saved 17 times your annual salary.

What should your retirement savings goal be?

Your goal should be to save enough money by the time you retire to provide an income that will maintain your standard of living. To do this, you can use a **replacement ratio (RR)** to you set your target. A replacement ratio projects your first monthly pension income as a percentage of your last month's salary just before retiring. Or in other words, what percentage of your working salary will continue after you retire.

This can sound overwhelming, but luckily you have the power of compound interest on your side.

What deductions will be made from my retirement benefit?

The fund may have to make one or more deductions from the benefit depending on whether it is transferred to another retirement fund or paid out in cash.

- The fund must obtain a tax directive from SARS before any cash lump sum payment can be made. Any tax payable will be deducted from your cash lump sum benefit and paid to SARS by the fund.
- Next, the fund may deduct and pay outstanding housing loan sureties, maintenance orders or unpaid divorce orders.
- The fund may also deduct losses suffered by your employer as a result of any theft, fraud or misconduct on your part under certain circumstances.
- SARS may recover any arrear taxes from your benefit payable by the fund.
- The fund may also deduct any amount the fund has paid (or will pay by arrangement), on your behalf, to a medical scheme or an insurance premium payable by you.
- The Pension funds Act prescribes that the Registrar of Pension funds can also approve any type of deductions (for example, funeral costs) the fund may make from your benefit.

My fund offers a living or life annuity - how does this work?

If your retirement fund allows this option, you may be able to leave your benefit in the fund and draw a monthly pension from the fund. This means that you will become an In-fund annuitant.

The key advantages of this option are:

- You don’t have to withdraw your money from the fund when you retire and possibly lose out in bad market conditions.
- You avoid the hassle of having to transfer your member share to buy a living or life annuity from another provider.
- You pay low administration and investment fees.

You remain a member of the fund:

- Although you have retired from the service of your employer, you have not retired from the fund and therefore you will still be a member of the fund.

- All your retirement savings (your entire member share) remains invested in the fund and continues to earn investment returns. Your investments will now be used to pay you a monthly pension from the fund.
- The fund's General Rules still apply to you.

Transferring your money:

- You may at any time decide to transfer the balance of your member share to another provider to purchase an annuity (if this option is available).

Why should I consider leaving my retirement benefit in the fund?

The legislation allows you to leave your money invested in the fund and to postpone your retirement from the fund. Although you will have to retire from the service of your employer, you do not have to retire from your current retirement fund and therefore you can remain a member of the fund. This means you will become a "Phased retiree".

Leaving your money invested in the fund has many advantages for you, like:

- You don't have to withdraw your member share immediately and possibly lose out in bad market conditions
- You have time to think about what it is you will be doing with your member share. You may decide to retire from the fund at any stage in the future
- You continue to benefit from the favourable tax treatment of your member share within a retirement fund

What options do I have regarding the payment of my retirement benefit?

You have the following options with your retirement benefit:

If you are retiring from a pension fund, you may:

- Leave the benefit in the fund
- Receive a living annuity or life annuity from the fund (if these options are available)
- Use all the money to buy a pension of your choice (annuity) from another approved fund (if this option is available)

- Take a maximum of one-third as a cash lump sum and use the balance to buy a pension of your choice (annuity)

If your total benefit is equal to or less than R247 500, you may take the full amount in cash.

If you are retiring from a provident fund, you may:

- Leave the benefit in the fund
- Receive a living annuity or a life annuity from the fund (if these options are available)
- Use the amount to buy a pension of your choice (annuity) from another approved fund (if this option is available)
- Combine the two, i.e. take some cash and use the rest to buy a pension
- Take the full amount as a cash lump sum

What is your replacement ratio (RR)?

The replacement ratio projects your first monthly pension income as a percentage of your last month's salary just before retiring. Or in other words, what percentage of your working salary will continue after you retire.

How is my retirement benefit calculated?

Your retirement benefit will equal your member share at the time of your retirement. You have to obtain a pension projection to get an idea of what your retirement income will be at that time.

You may register and use the retirement calculator on the Sanlam website to do this projection or ask the advice of an accredited Financial Adviser.

Calculate how much your income in retirement will be

You can calculate your projected retirement income and compare the income from different annuities, by registering to view your personal retirement fund information with Sanlam.

Calculate your projected retirement savings amount

You can calculate your projected retirement savings amount by registering to view your personal retirement fund information with Sanlam.

Saving for retirement - Tips

Follow these seven simple, tried and tested rules to improve your retirement income

1. Have a plan

As the saying goes, if you fail to plan, you plan to fail. You can start your plan by setting a goal. It may be easier than you think. Ultimately, you are responsible for your own retirement income, so if you don't already have a retirement plan, you need to put one in place urgently.

2. Start early and work for longer

When you are young, the thought of retirement seems very far removed from your everyday life, but saving for retirement happens over a long period, 30 or 40 years. The sooner you start, the better your outcome will be because time enables the power of compounding to grow your savings. According to Albert Einstein, compound interest is the 8th wonder of the world.

But how you can catch up if you start saving late?

- Increase your contributions by saving more of your monthly income
- Delay your retirement if possible
- Increase your investment return if possible - but remember your investment risk will also increase
- Pay off your debt before you retire

3. Save enough

How much is enough? The answer depends on your retirement goals and when you start saving. If you start at age 25 and save until retiring at age 65, you should contribute at least 13.5% of your gross income to your retirement savings each year. It is simple - the more you save, the more money you'll have in retirement. But did you know that you can increase your retirement contributions AND pay less tax? Because of the tax-deductibility of retirement savings, increasing your contributions may have a relatively small influence on your take-home pay.

How can you save more?

- Increase your regular monthly retirement fund contributions
- Make additional voluntary contributions when you have a little money to spare
- Save in a retirement annuity (RA), which offers extensive tax benefits and protects your savings until retirement
- Take out a Tax-free savings account, which also offers tax benefits and is more flexible than an RA

4. Manage your investment risk/returns

All investments carry some risk. While you should take enough risk to grow your money while you are saving, you must not put your accumulated capital at risk when you are close to retirement. Read more on investments.

5. Manage costs

Costs eat away at your savings, so the higher the costs of your investment choices, the less money you will have to save to achieve your goals. What kinds of costs should you be paying and what level of cost is 'normal' when it comes to saving for retirement.

How much should you expect to pay?

Costs vary widely and depend on various factors, such as the portfolio you invest in and how much you have invested. The good news is that saving inside a retirement fund is usually the most cost-effective method, with costs between 1% – 2% of assets per annum. Saving outside a retirement fund is more expensive, and costs can be 2% – 4% or more of assets per annum.

6. Preserve your retirement savings

Taking your savings in cash when you change jobs is tempting, but doing that could mean that you may have to pay tax on the cash you take at that time. Remember that the money you save in your retirement fund is meant to be used for your income in retirement. If you use it when you change jobs, before retirement, it could have a seriously negative effect on your standard of living in retirement.

7. Pay off your debt

If you have debt, it is advisable that you pay off all your debt while you are still earning an income. Although this should happen independently of your retirement plan, it will put you in a much better position after retirement and take away unnecessary financial strain.

How have my retirement savings been affected by the Covid-19 pandemic?

During times of crises (like we are experiencing now), investment market performance and investment markets are highly volatile, and your retirement fund savings are likely to be lower than before. These losses are however simply what is called “paper losses” and you should not become spooked by it. Saving for retirement is a long-term matter - there will be good times and bad.

It is important to remember that trustees of retirement funds construct the fund’s investment strategies across a wide range of asset classes, so that members can benefit from having a diversified allocation to different investment portfolios.

What should I do now?

Do not be tempted to make hasty changes to your investment portfolios. The risk is that you will miss out on any market recovery, which will have a devastating effect on your savings over the long term.

Focus on making changes that are in your control such as:

- Adapt your budget – cut back or tighten your belt where you can.

- Check that your nominated beneficiaries are up to date – you can use the "Sanlam MyRetirement" app.
- Make sure your risk benefits remain appropriate – now is not the time to cancel your insurance.
- Have a long-term investment strategy and goal and stick to it.
- Speak to a financial adviser who will have a holistic view of your financial position.

Why is it important that I nominate the beneficiaries for the benefits from my retirement fund?

It's important to **update** your beneficiaries regularly to make sure that your loved ones are taken care of, in the event of your death or when your circumstances change – for example through divorce, marriage, or the birth of a child.

Updating your beneficiaries will enable the trustees of the Fund and/or Insurer to allocate your benefits to your loved ones. This could be your partner, parents, siblings, children or anyone close to your heart. Click below to access the Sanlam Member Portal and update your beneficiary information today, so that you can confidently say: "My loved ones are protected."

Why is it important to have a will in place before I die?

A will gives you the control and assurance that the people you love the most will be taken care of when you are no longer there. Without an updated will, your family could be left with financial and legal challenges and disputes that could last for years – as in the case of Paul's family in the example below. Dying intestate (without a valid will) means you have no say over who winds up your estate or what they charge.

You can save your family this undue stress by being strategic about your estate planning, and seeking the assistance of a professional estate practitioner or financial planner

Is it necessary to review your will regularly?

As you progress through life, your needs and those of your family may change. Life-altering events often have an impact on the content of your will, so you should review it regularly (at least every two years) to allow for any changes in your family or financial position. Examples of changing circumstances that could affect your will include: the death of a spouse, the birth of a child or grandchild, divorce, a money inheritance, a property, or business acquisition, and so forth. A well-drafted and up-to-date will cannot easily be disputed and could prevent many sticky and unpleasant situations for your heirs.

Do I need to nominate an executor?

The nomination of an executor is a big responsibility. An executor administers your estate affairs and executes your final wishes according to the stipulations of your will. It is best to choose someone yourself, who you trust to ensure that all the terms of your will are carried out. You may nominate your spouse, but this is in most cases not a good idea, since your spouse could be emotionally shattered and not ready to make important financial decisions. Should your spouse not know what to do under these circumstances, they won't know where to get the best advice or service. Your spouse may be exposed to someone serving their own interests, in which case the estate's chequebook might end up in the wrong hands. Generally, the Master of the High Court, who appoints the executor or executrix, will insist on a legal professional or trust company being appointed.

Approach a reputable company like **Sanlam Trust** who specialise in wills, estates, and trusts:

- You will enjoy the benefits of specialised experience and knowledge
- Your estate will be handled deftly and professionally and you are ensured of objective advice
- Estate funds will be invested safely and earn a good interest rate
- You will enjoy complete security through internal checks and other control measures