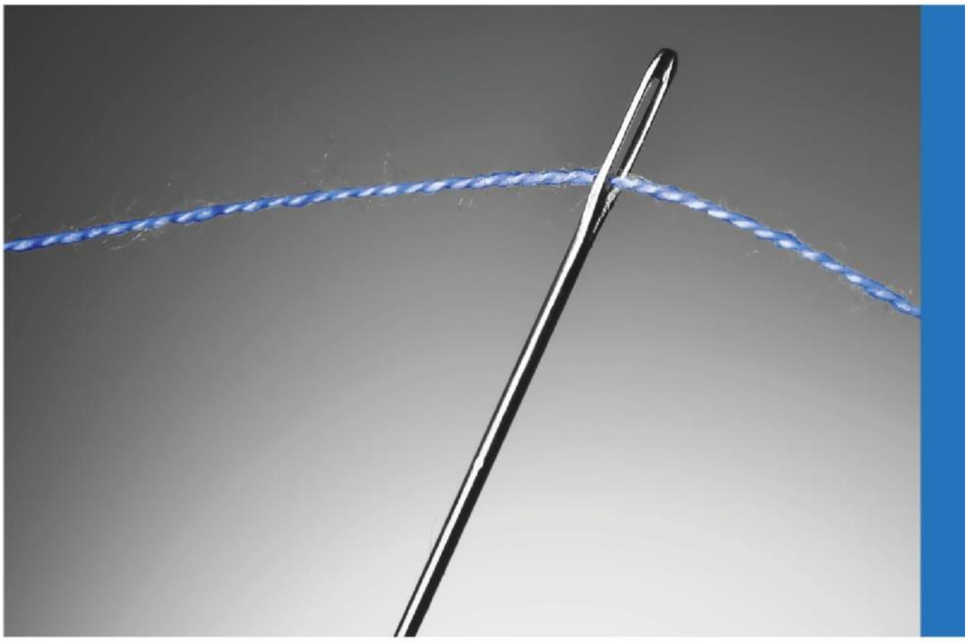

Income with Capital Preservation Plan

Technical Guide

Notes

- This chapter should be read in conjunction with the contract documents. If there is any conflict or inconsistency between the contents of the contract documents and this chapter, the provisions of the contract documents will prevail.
- Any reference to “first life insured” (client) refers to the person who will receive the income payments from the start of the policy. For a life annuity policy with one life insured only, any reference to “life insured” refers to this life insured.
- Any reference to "we", "us", "our" or "ours" refers to Sanlam Life Insurance Limited (Sanlam Life)

Table of Contents

Product Description

This product is underwritten and administered by Sanlam Life Insurance Ltd (Sanlam Life). All income payments are made in South African currency and is guaranteed by Sanlam Life.

About the Investor

Guaranteed life annuities are suitable for investors who are risk averse, and who require stable, consistent income that will last for life. The investor must be an individual and will also be the first life insured on the policy.

This product provides a wide range of choices to meet a client's specific needs, which include the following:

- Level or growing guaranteed income payments;
- Income payments payable until the death of the life insured;
- The option of one or two lives insured;
- Life cover payable at death of the last life insured.

The product is available for either compulsory money or optional money. When investing with compulsory money for retirement income, the product qualifies as a conventional annuity. There are slight differences in the product features depending on whether it was purchased with compulsory or optional money, that is discussed in this guide.

Conventional annuities for retirement income in general

Conventional annuities generally pay a guaranteed annual amount until death. Normally the annuitant has a choice between single life or joint life and a choice regarding annual income increase. The effect of interest rates, including long term bond yields, means that the higher the interest rates on date of purchase the greater the income and vice versa.
The effect of the payment period is that the shorter the expected payment period, which is based on life expectancy, the higher the initial income will be and vice versa. Payment options normally include a choice between level, fixed growth or inflation linked income.

Summary of the Sanlam Income with Capital Preservation Plan

Product	Number of lives insured	Short reference to product (Product code)	Number of policies issued
Income with Capital Preservation	1 or 2	Plan 29	3 (2 life annuity policies and 1 life cover policy)*

* Breakdown of the 3 policies:

1. Life Annuity 1 (called Income Annuity) – this annuity provides an income payment (annuity) to the life annuitant
2. Life Annuity 2 (called Capital Preservation Annuity) – the income payment from this annuity funds the premiums of the life cover policy
3. Life Cover (called Capital Preservation Life Cover) – provides a lump sum amount at the death of the last surviving life insured

FAIS Details

Class of Business	Long-term insurance
COB subclass	Multiple (Life investment policy/Life risk policy)
FAIS Cat I	1.21 Long term Insurance Subcat B2-A
FAIS Cat II	2.16
Product Specific Training	PST required

Income with Capital Preservation (Plan 29) *maximum two lives insured*

The policies are insurance policies and regulated by the Long-term Insurance Act, 1998, and are issued under the insurance licence of Sanlam Life Insurance Limited (Sanlam Life). Each policy will be a contract between the principal life insured as policyholder and us, Sanlam Life.

Our agreement with the client consists of the following:
- the quotation;
- the application for the policies;
- the three policy documents (contracts);
- other documents, correspondence and information, if any, that by implication form part of the contract.

Product description	Monthly income payments will be paid until the death of the last surviving life insured. At the death of the last surviving life insured, the life cover's guaranteed amount will be paid as a lump sum. If the last surviving life insured dies before a date on which an income payment would have become payable, no further income payments will be paid and no proportional part of the income payment can be claimed. Income tax will be deducted from each income payment. **Three policies will be issued:** • A life annuity policy (called Income Annuity), from which the income payments will be paid to a life insured. • A second life annuity policy (called Capital Preservation Life Annuity), of which the income payments will be used to pay the premiums of the life cover policy. • A life cover policy (called Capital Preservation Life Cover), which will provide the life cover amount.
Are income payments guaranteed?	Income payments are guaranteed for the full period they are payable, subject to the "Particular provisions" listed below. Future changes in interest rates will have no effect on the amount of these income payments.
Life cover amount	A maximum equal to the original investment amount may be chosen, with a minimum of R20 000. The selected cover amount will influence the income payable. The lower the cover chosen, the higher the income will be.
Minimum capital amount	R20 000
Optional money or compulsory money	Available for both optional and compulsory money. The taxable amount might differ depending on whether purchased with optional or compulsory money.
Minimum initial income payment	R100 per month
Frequency of income payments	Monthly

Income payments in advance or in arrears?	In arrears only
Growth of income payments	Choice between: • Level • Fixed growth: any growth rate from 1% to 7% per year • Inflation linked growth ***(only available for compulsory funds**)* **Fixed growth options:** The yearly adjustment of the income payments, if applicable, will take place on each policy anniversary. **Inflation Linked growth:** The income payments will be adjusted each year at the South African headline inflation rate for the 12 months up to the date four months prior to the yearly increase date. The yearly adjustment of the income payments, if applicable, will take place on each policy anniversary. The increase will be limited to a maximum cap of 20% per year. However, should legislation change, we will immediately waive the cap as this cap is purely to comply with legislation and not for any other reason. The headline inflation rate is defined as the percentage change in the South African consumer price index for the historical metropolitan areas, for all expenditure groups, for the relevant period as calculated by Statistics South Africa. Should this index not be available, another index as determined by Sanlam Life will be used. Please note that if there is deflation over any such 12-month period, the income payments will decrease from the level of the previous year. (Deflation is when the change in the rate of Consumer Price Index drops below zero percent.)
Growth of income payments of Capital Preservation Annuity policy	Compulsory premium growth applies. The premiums of the life cover policy will increase by 7% per year. ***These increases will not influence/decrease the gross income payment of the Income Annuity.***
Optional reduction of income amounts of Income Annuity policy	Any percentage less than 100% can be selected for an optional reduction of pension amounts after the death of the life insured who dies first, which will apply to the Income policy only. **Reduction for specific death is not available**
Frequency of premiums of Capital Preservation Annuity policy	Monthly
Lives insured	Two lives insured are allowed (product is available with one or two lives insured). The first life insured will receive the income payments from the start of the policy.
Limits for inception age	**Single Life:** • Minimum: 20 next birthday • Maximum:80 next birthday **Joint Life:** • Minimum: 40 next birthday. One of the insureds should at least be 55 next birthday • Maximum: 70 next birthday

At death	Only the life cover's guaranteed amount is deemed a death benefit.

Compulsory and optional/discretionary money

Compulsory money

Compulsory Money products can only be purchased with **proceeds from retirement and preservation funds** and are used for the purpose it was intended. Legislation requires that only a specified part of the proceeds of a pension, preservation or retirement annuity fund may be taken as a lump sum after the disability or retirement of a member. The balance must be used to provide regular pension payments. Alternatively, the life insured can choose that the full benefit amount be used to provide regular pension payments. The Sanlam Income with Capital Preservation is suitable to provide such pension payments.

Compulsory Money products can be bought with the proceeds from retirement funds after the death, disability or retirement of a member. The proceeds of the following may be used to buy these products:

a) Pension funds
b) Provident funds
c) Preservation pension funds
d) Preservation provident funds
e) Retirement annuity funds

Optional money

Optional Money products can only be purchased with a **client's own funds**. "Own funds" can be any money that a client has available and can also include the net after tax lump sum from the proceeds, or part thereof, of a retirement fund, but only after the relationship with the applicable retirement fund has been severed.

Fund Owned versus Member Owned policies (Compulsory plan only)

The life annuity policies can be either be Fund Owned policies or Member Owned:

Product	Number of lives insured	Fund Owned	Member Owned
Income with Capital Preservation (Plan 29)	1	√	√
	2	x	√

The distinction between fund owned and member owned policies are only of importance in the context of products purchased with compulsory money, in other words when the plan is a compulsory retirement income annuity.

Fund Owned

A Fund Owned policy may only be funded by **compulsory** money.

The Fund remains the policyholder on the life annuities.

Member Owned

The concept of a Member Owned policy only applies when the policy is funded by **compulsory** money. When the policy is funded by optional money, membership of a retirement fund is not applicable as the policy is then a privately owned investment.

If funded by optional money, the policy is **not** a compulsory annuity policy, but if funded by compulsory money, the subsequent annuity is a compulsory annuity policy.

A retirement fund can give permission that the proceeds from the Fund be transferred to Sanlam Life in order for the client to purchase a compulsory life annuity, but the Fund can opt to not become the policyholder, instead making the member the policyholder of the policy. The policy is issued on the life of the client as the first life insured or, in the event that the client passes away before applying for the policy, on the life of the dependant/nominee (who will be known as the policyholder) of the client as the first life insured.

Note: Where we refer to fund owned, and member owned policies below, please keep in mind that the rules around fund owned policies can only apply to policies purchased with compulsory money, if the policy is fund owned and not member owned. With regards to the policies purchased with optional money, only the rules around member owned policies could apply.

Role players

Policyholder

In the case of **fund owned** policies, the retirement fund will be the policyholder of the life annuities, while the member will be the policyholder of the Capital Preservation Life Cover.

In the case of **member owned** policies, the client (investor) is the policyholder.

First and second life insureds

The following table illustrates the number of lives insured. It includes the client as the first life insured, where applicable.

Product	Number of lives insured
Income with Capital Preservation (Plan 29)	1 or 2

First life insured

Fund owned	Member owned
The first life insured must be: a) an individual, b) the member of the retirement fund, or, in the event that the member passed away before applying for the policy, a dependant or nominee of this member (as determined by the Fund prior to applying for the policy).	The first life insured must be an individual.

Second life insured

Only one individual who is an insurable interest to the client will be allowed as the second life insured.

The following persons may be the second life insured (subject to meeting the product requirements):

a) the first life insured's spouse*,
b) the first life insured's child (including adopted or illegitimate)
c) the first life insured's parents, grandparents, grandchildren, brothers or sisters who, in accordance with the law, would have been dependant on the first life insured for financial support had they not passed away.

***Definition of spouse:**
In relation to the client, a spouse means a person who is the partner of the client in a-
a) marriage or customary union recognised in terms of the laws of the Republic, or
b) in a union recognised as a marriage in accordance with the tenets of any religion, or
c) in a same-sex or heterosexual union which is intended to be permanent.

Subject to:
1. the existence of an insurable interest in the life of the spouse and
2. satisfactory evidence of the permanency of the unions referred to in c) above, with Sanlam reserving the right to deny insurable interest where satisfactory evidence is lacking, at Sanlam's discretion.

Insurable interest means the client has an interest of a financial nature that needs to be protected. In this context it means that the client will suffer a financial loss at the death of the insured life. Generally insurable interest is established by ownership, legal possession or direct relationship.

Death

When the first life insured passes away first

Fund Owned (only single life allowed)	Member Owned
When the member (only life insured) passes away, the income benefits will cease, and the lumps sum benefit is payable. For more information on who will be considered a dependant, please see below.	If the policyholder (first life insured) passes away before the second life insured, the policy ownership will be transferred to the second life insured who will then receive the income benefits.

When the second life insured passes away first

If the second life insured passes away first, the first life insured will continue to receive the income.

When all the lives insured have passed away

If both the first and second life insured have passed away, the beneficiaries will be considered to receive the death benefit, subject to the rules of the product, see below.

Appointing beneficiaries

A guaranteed income payment term is not allowed on a Plan 29, and therefore no individuals may be nominated to continue receiving the income after all the lives insured have passed away, but a lump sum benefit is payable to the beneficiaries. A beneficiary may only accept the appointment after the policyholder has passed away. A **maximum of 10 individuals** may be appointed.

Fund Owned (only single life allowed)

When we are notified that the member (who is the policyholder of the life cover) has passed away, the life cover benefit will be split between the beneficiaries, as specified by the member. If no percentage is indicated, the benefits will be divided equally among the beneficiaries. If the total percentage allocated does not add up to 100%, the remaining percentage will form part of the member's estate.

Member Owned (single and joint life allowed)

Single life

When we are notified that the policyholder has passed away, the life cover benefit will be split between their beneficiaries, as specified by them. If no percentages are indicated on the application form, the benefits will be divided equally among the beneficiaries. If the total percentage allocated does not add up to 100%, the remaining percentage will form part of the policyholder's estate.

Joint life

The existing beneficiaries on the policy will automatically be removed should the first life insured pass away before the second life insured. The second life insured (who will be new policy owner) will be allowed to appoint their own beneficiaries once the policy ownership has been transferred to them. When we are notified that the last life insured has passed away, the beneficiaries, as appointed by the **last** living life insured, will receive the death benefits.

If no percentages are indicated on the application form, the benefits will be divided equally among the beneficiaries. If the total percentage allocated does not add up to 100%, the remaining percentage will form part of the **last** living life insured's estate.

Changing beneficiaries

Beneficiaries may be removed or added. Any change is only valid if it is in writing, signed by the client (whoever it may legally be at that point in time), and received by Sanlam Life before they pass away.

Dependants of the policyholder (Compulsory plan only and fund owned only)

Dependants are important in the context of fund owned polices where the product was purchased with compulsory money and is therefore subject to the Pension Funds Act.

The following persons will be considered dependants of the client:

a) the spouse
b) a child (including adopted or illegitimate),
c) a person who, in accordance with the law, depends on the member for financial support, and
d) a person who, in accordance with the law, would have depended on the client for financial support had the client not died (for example, a child of the client who is born after the client's death).

Security cessions

A policy may only be ceded if the policy is funded by optional money. The client pays tax on the total income (including the life cover premium) and therefore the life cover is always funded by optional funds. This means that the rights under the life cover policy may be ceded to a third party as security.

With a collateral (security) cession the policyholder may cede the life cover policy of the Plan 29 as security to one other party, where this party may be an individual, trust, tax-paying institution or tax-exempt institution.

If the policyholder cedes the life cover policy as security, he or she must notify Sanlam Life of the cession in writing. The notice will take effect when Sanlam Life receives it.

An appointment of a beneficiary to receive the benefit amount payable after the death of the last surviving life insured will not be cancelled, but the party to whom the policy is ceded, will have the first right to benefits when it becomes payable. For policies with one life insured, "last surviving life insured" refers to this life insured.

Creditor protection

Compulsory money	Optional money
Compulsory life annuity policies are protected from creditors in terms of section 37A of the Pension Funds Act. Life cover policies could enjoy protection against creditors in terms of Section 63 of the Long-term Insurance Act.	Optional life annuity policies and life cover policies could enjoy protection against creditors in terms of Section 63 of the Long-term Insurance Act. The requirements that need to be met for this protection is: • The person receiving the proceeds (or their spouse) must be the life insured and

The requirements that need to be met for this protection is: • The person receiving the proceeds (or their spouse) must be the life insured and • The policy must have been in force for at least three years.	• The policy must have been in force for at least three years.

Inception date

The start date of a policy will be determined by the date on which the capital amount for the product is received by us.

The following applies:

a) The start date of the life annuity policies will be determined as described
   i. If the capital amount is received on or before the 15th of a month, the start date of the policy will be the first day of the month in which the capital amount is received by us (for example, if we receive the money on 14 January, the start date will be 1 January).
   ii. If the capital amount is received after the 15th of a month, the start date of the policy will be the first day of the following month (for example, if we receive the money on 16 January, the start date will be 1 February).
b) The start date of the life cover policy will be one month after the start date of the life annuity policies. The client is covered for death in the first month despite the cover policy only incepting a month later.

Particular provisions

We may recalculate and alter the provisions of the policy, including the amount of the income payment, if:

a) the life annuitant's tax status changes;
b) the government or governing authority changes or introduces tax or similar levies;
c) prescribed requirements regarding the underlying assets in the fund we keep for this policy and other similar policies change, due to our interpretation or understanding of tax or similar levies changing as a result of the impact of an event or circumstance.

Rates used to calculate income payments

We manage a separate investment portfolio for life annuities.

Life annuity rates depend on the following factors:

a) Date on which the capital amount is received by us.
b) The gender of the lives insured.
c) Ages of the lives insured.
d) Prevailing interest rates and yields on fixed interest and index-linked bonds of different durations, particularly long-term bonds. These are reviewed weekly.
e) The product choices made, for example, income payments with or without growth, reduction of income payments at first or specific death, etc.

The size of an income payment will depend on the life annuity rates used on the start date of a policy. Changes in rates after the start date of a policy will have no effect on the size of the income payments of the policy and are guaranteed for life.

A base rate applies for a capital amount received on the 1st day of a month. Base rates are adjusted regularly. The rates for capital amounts received on dates other than the 1st of a month, are adjusted as follows:

For a payment received from the 2nd up to and including the 15th of a month

a) The base rate applying on the 1st of the same month is reduced by the interest for the number of days from the 1st up to and including the date on which we receive the payment.

For a payment received from the 16th up to and including the last day of a month

b) The base rate applying on the 1st of the following month is increased by interest for the number of days from the date on which we receive the payment up to and including the 1st day of the following month.
c) The net rate will include all fees (intermediary remuneration and factor above). The only additional deduction would be the tax as explained underneath.

Tax

Tax rules applicable to both compulsory and optional money policies

Request to change tax rate

If the application of the Fourth Schedule results in too little or too much tax being recovered from a life annuitant during a year of assessment, then:

a) it may be requested that a percentage higher than the Pay-As-You-Earn (PAYE) rate be withheld for tax, or
b) a tax directive from the South African Revenue Services (SARS) may be requested, on the basis of which Sanlam will withhold a percentage lower than the Pay-As-You-Earn (PAYE) rate, or even no tax at all.

An amendment to **subparagraph (2B) of paragraph 2 of the Fourth Schedule to the Income Tax Act No 58. of 1962** is effective 1 March 2022. If an annuitant has more than one source of income, the South African Revenue Service (SARS) may determine, in accordance with the law, what the tax rate for annuity income should be.

IRP5 certificate

At the end of each tax year, Sanlam will provide an IRP5 certificate to each life annuitant indicating the taxable income as well as the tax that has been paid over to SARS. The life annuitant must submit this certificate together with his/her tax return.

Quotations

A new business quotation does not take the SARS rate into account. If a tax rate is not specified, the Pay-As-You-Earn (PAYE) rate will be used. If the specified tax rate is less than the PAYE rate calculated for the specific income payment, the quotation will only be valid if accompanied by a tax directive from SARS.

Tax rules applicable only to compulsory money policies

Tax on income payments

The full pension payment from a life annuity bought with compulsory money is currently deemed to be gross taxable income in the hands of the life annuitant. This means that the life annuitant's income is increased by the amount of the pension payments (therefore also known as income payments). Tax must be paid in South Africa in South African currency for local and international income payments.

Tax on life cover policy

No tax is currently payable on the life cover amount which is payable at the death of the life insured, for policies with one life insured, or at the death of the last surviving life insured, for Plan 29 with two lives insured.

Tax rules applicable only to optional money policies

Tax on income payments

The income received from both life annuities consists partly of a repayment of the capital amount, called "the capital portion" of the income payment. The capital portion could enjoy an exemption from income tax if the requirements of **section 10A** are met. The remaining part of an income payment is the non-capital portion, which is always fully taxable.

The requirements of Section 10A of the Income Tax Act, that need to be met, are:

1. the recipient of the annuity income is the

- investor (purchaser) or his/her deceased or insolvent estate or
- the spouse/surviving spouse of the purchaser or the deceased or insolvent estate of such a spouse,

2. the investor is not taking out the annuity contract in a representative capacity for the benefit of somebody else, and
3. the investor is an individual.

If the above requirements are met, only the non-capital portion of the income payment will be subject to income tax.

Section 10A only allows the purchaser to be:

- an individual,
- a curator bonis appointed by the High Court for a trust created solely for the benefit of an individual where the High Court declared such individual of unsound mind and ordered the creation of the trust. (**Note:** that the Curator Bonis will not be added as an applicant/annuitant on the plan. A special process is in place to accommodate these scenarios at New Business)

If a trust is the policyholder, then the trust will have to be the type of trust described above in order to enjoy the section 10A tax exemption.

Section 10A certificate

Section 10A(3)(a) or (b) of the Income Tax Act determines the basis of calculation of the capital portion of each income payment. A section 10A certificate will be provided with the policy documents of each income payment, indicating the capital portion of the income payments. The life annuitant must submit a copy together with his/her next tax return to SARS.

Reduction in income

This product feature is only available where a second life insured is applicable.

Reduction at first death

When one of the lives insured passes away before the other, the income will be reduced by the selected percentage. The allowable percentages ranges between 1% - 99%.

Legal restrictions

The following is only applicable if the policy is funded by **compulsory money**.

A compulsory policy may **not** be:

a) cancelled;
b) taken in cash;
c) transferred to a new owner while the client is still alive;
d) ceded to another owner or third party;
e) reduced, by making additional withdrawals other than the income amount;
f) pledged or offered as security (only allowed on life cover policy); or
g) attached by creditors.

The life cover policy that forms part of the product may not be:

a) cancelled;
b) taken in cash;
c) reduced, by making additional withdrawals other than the income amount;

Cooling-off period (cancellation of policy)

Compulsory money	Optional money
No cooling off period applicable.	A policyholder may cancel this policy by notifying us in writing within 31 days of the date on the letter of

	acceptance. They will receive their original investment minus any losses due to market changes and income amounts paid to them during the time the policy was in force.

Transfer of annuity policies

Transfers of living annuity policies are generally prohibited in terms of section 37A of the Pension Funds Act, but the Prudential Authority confers standing approval in terms of section 50 (1) of the Insurance Act (subject to the specific conditions) in respect of the replacement of a living annuity policy issued by one insurer with a compulsory:
a) living annuity policy issued by another insurer; and
b) conventional annuity policy (life annuity) issued by another insurer.

This standing approval was previously granted in terms of Directive 135.

Conventional life annuities cannot be transferred to another product or provider.

Calculations

How to calculate the income of a life annuity

How to calculate the income with a different purchase amount:

$$\frac{Purchase\ Amount - 350}{10000} \times Life\ Annuity\ Rate - 15 = income\ amount\ payable$$

How to calculate the purchase amount with only the rate available:

$$\frac{Income\ payable\ amount + 15}{Life\ Annuity\ Rate} \times\ 10\ 000 + 350 = purchase\ amount$$

How to calculate the rate when you only have the purchase amount and income:

$$\frac{income\ payable\ amount + 15 \times 10\ 000}{purchase\ amount - 350} = Life\ Annuity\ Rate$$

Calculation of the capital portion that is exempt from tax (Optional plan only)

Applicable to an optional annuity.

Formula prescribed in section 10A(3)(a) of the Income Tax Act.

Y = $\boldsymbol{A}/\boldsymbol{B}$ x C

- "Y" represents the sum to be determined and the value of the tax exemption.
- "A" represents the amount of the total cash consideration given by the purchaser under the annuity contract in question as contemplated in paragraph (b) of the definition of "annuity contract" in subsection (1).
- "B" represents the total expected returns of all the annuities provided for in the annuity contract in question.
- "C" represents the aforesaid annuity amount.

Example

Assume the following:

Optional Life Annuity with a level income payment

Capital amount (C) = R50 000

Level income payment (I) = R805 per month

Term (n) = 10 years *

A = (R805 x 12) x 10 years = R96 600

$Y = {R50\ 000}/{R96\ 000}\ \times R805$

Y = R416.67

Therefore, the taxable portion of each annuity accrual is R805 – R416.67 = **R388.33**

***The actual term used will depend on the life expectancy of the annuitant according to the mortality prescribed in Section 10A

Intermediary remuneration

Life annuities

The following applies to new business:

- Up to1.5% (excl. VAT) of the investment amount may be paid upfront
- The net rate will be adjusted accordingly
- No ongoing fees payable

Life cover

Initial Commission

Commission on Life Cover portion:

- n (term) > 26 years: 85% x annual premium (monthly debit order premium x 11.4)
- n (term) <= 26 years: 3.25% x n x annual premium

If the benefit (DS-death benefit) end date is whole of life (as with this policy):

- Greatest of [75 – and (age next birthday) and 10 years]
- Paid on the portion for the life cover is as per normal commission rules for risk premiums.

2nd year commission

1/3rd of initial commission paid in year 1

DIF and Score

The following applies to new business:

- DIF = 1.3% of investment amount
- Score = 1.25% of investment amount

Contact details for internal personnel

Product Owner: Nicola Symons
Product queries: GLC Business Solutions – Glacier Product Management team
Email: GLC Product Management glcproductsupport@glacier.co.za