



## **Single Premium Investments**

### **Technical guide for Term Annuities July 2021**

## 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.

Take note that information contained in this technical guide is with regards to the latest versions of the applicable products/benefits. Refer to the contract documents for information about the existing products/benefits of a life insured.

Any reference to "we", "us", "our" or "ours" refers to Sanlam Life Insurance Limited (Sanlam Life). Any reference to "plan overview" refers to the plan overview of the contract documents.

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# Why the Stratus Guaranteed Income

The Stratus Guaranteed Income is a term annuity that offers regular income payments until the end of the chosen term.

In uncertain times, many investors want security. The Stratus Guaranteed Income offers the cautious investor an attractive investment opportunity where the income payments are guaranteed and the capital portion of the income payments received from such a product may be tax-free under certain conditions, as specified by legislation.

This product can only be purchased with a client's own funds. "Own funds" (also referred to as optional money or discretionary 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. Tax implications should always be taken into account when deciding which product to buy, especially with the lump sum proceeds from retirement annuity funds.

## Description of the Stratus Guaranteed Income (J010) (with one life insured)

The policy is an insurance policy as described under, and regulated by the Long-term Insurance Act, 1998, and is issued under the insurance licence of Sanlam Life Insurance Limited (Sanlam Life). The policy will be a contract between the policyholder and us, Sanlam Life.

The contract consists of the following:

- the quotation;
- the application form for the policy;
- the policy document (contract);
- other documents, correspondence and information, if any, that by implication form part of the contract.

Sanlam Life is the administrator and underwriter of this product. Sanlam Life also guarantees the income payments for the duration of the term.

<b>Product description</b>	Regular income payments will be paid until the end of the term. Income tax will be deducted from each income payment.
<b>Are income payments guaranteed?</b>	Income payments are guaranteed for the full period they are payable, subject to the "Particular provisions" of the contract. Future changes in interest rates will have no effect on the amount of these income payments.
<b>Minimum capital amount</b>	The minimum capital amount that may be invested is R20 000, and the capital amount must be enough to provide the minimum initial income payment.
<b>Minimum initial income payment</b>	Monthly: R150 Yearly: R900
<b>Term</b>	Minimum: 5 years Maximum: 15 years
<b>Frequency of income payments</b>	Choice between: Monthly Yearly
<b>Income payments in advance or arrears?</b>	In arrears
<b>Growth of income payments</b>	Choice between: Level Fixed growth: any growth rate from 1% to 10% per year The yearly adjustment of the income payments, if applicable, will take place on each policy anniversary, and the growth rate is fixed and guaranteed.
<b>Lives insured</b>	One life insured is allowed. The life insured will receive the income payments from the start of the policy. Dates explained above.

<b>Limits for inception age</b>	Minimum: 1 next birthday Maximum: 92 next birthday
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## Role players

### Policyholder

The term annuity (J010) are available for:

- Individuals
- Trust with natural persons as beneficiaries

The client should be the policyholder and term annuitant.

### Life insured

Product	Number of lives insured (including the client)
Stratus Guaranteed Income (term annuity)	1

### Nominee for ownership

Product	Minimum nominees	Maximum nominees
Stratus Guaranteed Income (term annuity)	Preferably 1	1

#### Who can be a nominee?

- Individuals
- Trust with natural persons as beneficiaries

#### Can the nomination for policy-ownership be cancelled or changed?

Yes, the policyholder may cancel or change it at any time. The nomination, cancellation or change must be in writing and signed by the policyholder, and must reach Sanlam Life Head Office before the policyholder's death.

#### Will the nominee become the policyholder without accepting the nomination?

No, the nominee must accept the nomination to become the new policyholder. However, the nominee can only accept the nomination after the policyholder's death. If the nominee does not accept the nomination, the policy will be an asset in the policyholder's estate.

#### Can the nomination lapse?

Yes, it will lapse if the policyholder cedes the policy, whether outright or as collateral security.

## Particular provisions

### Impact of tax and law changes on policy

Sanlam Life may recalculate the income payment, or invest the underlying assets in a different way, or do both, if:

- a government imposes taxation or effect legislation which changes the taxation of the underlying assets,
- a government imposes taxation or effect legislation which changes the way in which the underlying assets must be invested, or
- their understanding or interpretation of points (a) or (b) changes.

# Payments

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

## Inception date

The inception 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:

- If the capital amount is received on the 1st of a month, the start date of the policy will be the 29th day of the previous month.
- If the capital amount is received from the 2nd up to and including the 29th of a month, the start date of the policy will be the same as the date on which the capital amount is received by us.
- If the capital amount is received on the 30th or 31st of a month, the start date of the policy will be the 29th day of the month in which the capital amount is received by us.

### Inception dates explained

Product:	Payment dates		Inception date	
	Day of the month	Example	Rule	Example
Stratus Guaranteed Income (J010)	1	01/12	29 <sup>th</sup> of the previous month	29/11
	2-29	15/12	Same as payment date	15/12
	30+31	31/12	29 <sup>th</sup> of the same month	29/12

## Income

### First income of term annuity

The following applies:

The first income payment will be the month after the inception date of the policy less one day.

#### Example:

A client invests in the Stratus Guaranteed Income policy on the 8th of February 2021:

The Stratus Guaranteed Income Policy
Payment date: 08/02/2021
Inception date: 08/02/2021
First income payable: 07/03/2021

### Rates used to calculate income payments

We manage a separate investment portfolio for term annuities.

Term annuity rates depend on following factors:

- Date on which the capital amount is received by us
- Prevailing interest rates
- The selected term
- Growth % chosen

## Cessions

Collateral session: The policyholder may cede the term annuity as security to one other party, where this party may be an individual, trust, tax-paying entity or tax-exempt entity.

Outright sessions: Only allowed for Individuals

If the policyholder cedes the term annuity 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 nominee to receive the remaining instalments payable after the death of the 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.

## Tax

### Tax on income payments

The income payments of a term annuity consist partly of a repayment of the capital amount, which is referred to as the capital portion of the income payments. The remaining part of an income payment is the non-capital portion, which is always fully taxable.

Tax will differ according to the planholder status. A trust will be taxed according to the applicable scales.

#### Calculation of the capital portion that is exempt from tax

Applicable to an optional annuity.

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

$$Y = \frac{A}{B} \times C$$

"Y" represents the capital element 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:

Optional Term Annuity with a level income payment

Capital amount (C) = R50 000

Level income payment (I) = R805 per month

Term (n) = 10 years

$$B = (R805 \times 12) \times 10 \text{ years} = R96\,600$$

$$Y = \frac{R50\,000}{R96\,600} \times R805$$

$$Y = R416.67$$

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

## Request to change tax rate

If the application of the Fourth Schedule results in too little or too much tax being recovered from a term annuitant during a year of assessment, it may be requested that a percentage higher than the Pay-As-You-Earn (PAYE) rate be withheld for tax, or a tax directive from the South African Revenue Services (SARS) will 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.

## 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, indicating the capital portion of the income payment. The term annuitant must submit a copy together with his/her next tax return to the South African Receiver of Revenue (SARS).

## IRP5 certificate

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

# Quotations

The values on a quotation are calculated at the specified tax rate. 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. The term annuity will not be issued with less than the PAYE rate if it is not accompanied by a tax directive from SARS.

# Cooling-off period

If the policy really does not meet the policyholder's requirements, he or she may cancel it by notifying us in writing within 31 days (the cooling-off period) of receiving the policy documents. We will then refund any amount paid. If we have already made an income payment, we will deduct the amount of such income payment from the amount to be refunded to the policyholder. If the assets in which the paid amount was invested have decreased in value, we will reduce the amount to be refunded to the policyholder accordingly.

# Cashing in the policy

The policyholder can apply to cash in the policy. The total cash value of the policy is equal to the present value of the remaining income payments, discounted at the current interest rate applicable to surrenders, less a termination fee. Each year we may increase the fee with the inflation rate. We will determine this inflation rate. We may, in addition to the increase with the inflation rate, change the fee from time to time. Under certain circumstances legislation limits the amount of the cash value we may pay the policyholder, as indicated below.

## Restrictions under present legislation

If the policy is cashed in before the restriction period end date, as indicated in the policy document, we are not allowed to pay the policyholder more than an amount limited by law. So, if the cash value of the policy is more than this limited amount, the policyholder will only be allowed to partially cash in his or her policy, to a maximum of this limited amount. The policy will then continue with a reduced income payment. If the policyholder partially cashes in his or her policy before the restriction period end date, he or she will not be allowed to cash in again before this date.



## Death of the policyholder

If the policyholder nominates a nominee, that nominee will become the new policyholder of the policy after the policyholder's death if that nominee accepts the nomination at that stage. If there is no such nominee at the policyholder's death, the policy will be an asset in the policyholder's estate.

The policy will continue until the end of the policy term, unless the new policyholder cashes in the policy.

## Liquidity

### May additional amounts be added?

Additional amounts may not be added.

### Loans

The policyholder cannot borrow from us against the policy.

### Withdrawals

The policy provides regular income payments until the end of the term as discussed above.

## Charges

Up to 1.5% initial commission may be paid upfront on the Stratus Guaranteed Income policy.

If the level of commission is negotiated to be less than the maximum, this will result in the net effective rate of return to be increased.

## DIF and Score

The following applies to new business:

- DIF = 0.85% on term annuity
- Score = 0.82% on term annuity