OPTIONS AVAILABLE AT RETIREMENT

What I need to know?

Dear Member

When you retire there are a few difficult choices to be made. Probably the most important and permanent will be which annuity (pension) to choose. **Please remember that very often your decision is final and cannot be changed once you are on retirement, so choose carefully and make sure you understand your choice.**

Below you will find some information on how your monthly annuity amount is determined as well as an overview of some of the options available to you (there is a comparison of the different options at the end).

Please note that these options are the pension plans generally available in the market, but that the plan most suited to you will be determined by your specific circumstances, which you should carefully consider **with the assistance of an accredited financial advisor or reputable life assurance company.**

HOW WILL MY PENSION BE CALCULATED?

You will have saved a certain amount by retirement age. This is usually your total savings in the retirement funds you have belonged to over your working lifetime, as well as any other retirement savings. This amount can then be used to 'purchase' an annuity from a registered insurer. The insurer will look at the amount available and advise how much you can receive as a monthly annuity (pension), depending on factors such as current interest rates, assumed future interest rates, your age, etc.

The factors affecting the size of your monthly pension are:

The amount you have available	Your total retirement savings you have available to buy an annuity.
Your gender	Females have a longer life expectancy, therefore their monthly pension has to last longer than a male's and the monthly pension will therefore often be less than a male's pension.
Your age	This is your life Expectancy - how long will you live?
The guaranteed period you want	How many years must your pension be guaranteed for, if any? If your guaranteed period is 5 years and you pass away within 2 years from retirement, your monthly pension will be paid to a beneficiary of your choice for the next 3 years. However, the longer your guaranteed period, the less your monthly pension.
Any future increases	Will you receive annual increases into years to come?

Your spouse's pension	Must your full pension or a portion of your pension be paid to your spouse if you pass away? Usually a spouse's pension is equal to 75% of your pension at the time of your death.
Interest rate movements	Some options are sensitive to interest rate movements and can vary with ± 4% for every 1% move in the interest rates.

Depending on the options you choose above, your monthly annuity can be more or less.

IMPORTANT: If you have decided to choose an annuity with NO future increases, you will **never again** receive an increase in your pension. **You will not be able to change this option.** Your monthly annuity might therefore be less now if you choose an annual increase option, but with the annual increases you will receive, you will eventually catch up. Depending on the level of increases and how long you live, you will exceed the current lower monthly annuity.

THE MOST GENERAL PENSION (ANNUITY) OPTIONS AVAILABLE ARE:

- **A guaranteed level annuity;**
- **A guaranteed escalation annuity;**
- **A full inflation-linked annuity;**
- **A with-profit annuity; and**
- **A living annuity.**

Can be for a fixed period or for life, with or without a spouse's pension.

Let's take a closer look at each. Please remember to look at the comparison table at the end.

A GUARANTEED LEVEL ANNUITY FOR LIFE

- You will receive a monthly pension, but the monthly amount will never increase.
- This annuity will provide you with the highest initial pension, but as it remains the same, it will not keep up with increases in the cost of living.
- The pension will be paid until you pass away.
- You may include a spouse's pension, this means a portion might continue to be paid to your spouse until he/she passes away. Normally the spouse's pension is 75% of your pension at the date of your death, but you can buy a smaller spouse's pension of, for example, 50%.
- Should you or your spouse (if you chose a spouse's option) eventually pass away, the monthly pension will stop and no money will be paid to any other beneficiaries or to your estate. This is because the Insurer undertakes to pay you a pension irrespective of how long you live, therefore they carry your longevity risk.

Guaranteed level annuity for life		
Increases	X	No
Guaranteed Period Option	✓	Yes, but it will decrease your monthly pension
Spouse's Pension Option	✓	Yes, if you want the spouse's option. It will decrease your initial monthly pension though.
Capital available for my other beneficiaries	X	No
Pension paid until death	✓	Yes

A GUARANTEED ESCALATION ANNUITY FOR LIFE

- You will receive a monthly pension which will increase at a fixed rate per year over the remainder of your life.
- A 5% escalation rate per year is most commonly used. This means your pension will increase by 5% per annum, irrespective of the inflation rate.
- This annuity will provide you with a lower initial pension than the **Level Annuity** but will increase annually.
- The pension, as well as future increases, will be paid until you pass away.
- You may include a spouse's pension, this means a portion might continue to be paid to your spouse until he/she passes away, with increases. Normally the spouse's pension is 75% of your pension at the date of your death, but you can buy a smaller spouse's pension of, for example, 50%.
- Should you or your spouse (if you chose a spouse's option) eventually pass away, the monthly pension will stop and no money will be paid to any other beneficiaries or to your estate. This is because the Insurer undertakes to pay you a pension irrespective of how long you live, therefore they carry your longevity risk.

AN EXAMPLE **of how pensions compare with no increases vs with a 5% per annum increase (Female aged 60, no spouse's pension)**

Year	Monthly Pension Level annuity no increases	Monthly Pension Guaranteed escalation annuity with 5% increases	Monthly Pension Inflation increases
1996	R 4 108.74	R 2 440.28	R 2 440.28
1997	R 4 108.74	R 2 562.29	R 2 672.11
1998	R 4 108.74	R 2 690.41	R 2 835.11
1999	R 4 108.74	R 2 824.93	R 3 093.10
2000	R 4 108.74	R 2 966.18	R 2 966.18
2001	R 4 108.74	R 3 114.48	R 3 173.81
2002	R 4 108.74	R 3 270.21	R 3 316.63
2003	R 4 108.74	R 3 433.72	R 3 731.21
2004	R 4 108.74	R 3 605.40	R 3 605.40
2005	R 4 108.74	R 3 785.68	R 3 727.98
2006	R 4 108.74	R 3 974.96	R 3 862.19
2007	R 4 108.74	**R 4 173.71**	**R 4 090.06**
2008	R 4 108.74	**R 4 382.39**	**R 4 382.39**
2009	R 4 108.74	**R 4 601.51**	**R 4 798.72**
2010	R 4 108.74	**R 4 831.59**	**R 5 101.04**

A guaranteed escalation annuity for life		
Increases	✓	Yes
Guaranteed Period Option	✓	Yes, but it will decrease your monthly pension
Spouse's Pension Option	✓	Yes, if you want the spouse's option. It will decrease your initial monthly pension.
Capital available for my other beneficiaries	X	No
Pension paid until death	✓	Yes

A FULL INFLATION-LINKED ANNUITY FOR LIFE

- You will receive a monthly pension which will increase annually in line with inflation over the remainder of your life. This option, even though with a lower initial pension than the previous two options, will have the best protection against inflation.
- The increase is equal to the published Inflation rate (CPI) by STATS SA and lagged by four months.
- All Insurers use the same CPI number as published by Statistics South Africa and the annual pension increase will therefore be the same.
- Even if CPI inflation is negative, pensions will not decrease.
- The pension, as well as future increases, will be paid until you pass away.
- You may include a spouse's pension, this means a portion might continue to be paid to your spouse until he/she passes away, with increases. Normally the spouse's pension is 75% of your pension at the date of your death, but you can buy a smaller spouse's pension of, for example, 50%.
- Should you or your spouse (if you chose a spouse's option) eventually pass away, the monthly pension will stop and no money will be paid to any other beneficiaries or to your estate. This is because the Insurer undertakes to pay you a pension irrespective of how long you live, therefore they carry your longevity risk.

A full inflation linked annuity for life		
Increases	✓	Yes, inflation linked
Guaranteed Period Option	✓	Yes, but it will decrease your monthly pension
Spouse's Pension Option	✓	Yes, if you want the spouse's option. It will decrease your initial monthly pension.
Capital available for my other beneficiaries	X	No
Pension paid until death	✓	Yes

A WITH-PROFIT ANNUITY FOR LIFE

- You will receive a monthly pension but will be able to participate somewhat in the investment markets, usually in a Balanced Fund.
- Your annual increases will depend on the returns earned on the investment portfolios in which your retirement savings are invested and the original discount rate (PRI rate) used to buy your pension.
- Increases are declared annually.
- The difference between the performance of the investment portfolio selected (bonus rate declared by the Insurer) and the discount rate (PRI rate) you selected when your pension was initially purchased, will be equal to your increase. Other profits and losses will also be taken into consideration before the bonuses are declared, such as mortality profits (pensioners passed away sooner than was anticipated).

Your increase= bonus rate declared - discount rate.

  - EXAMPLE 1: You purchase a with-profit annuity of 3.5% (discount rate). The Insurer declared a bonus rate for the year of 8%. You will therefore get an approximate increase for the next year of 4.5%.
  - EXAMPLE 2: You purchase a with-profit annuity of 3.5% (discount rate). The Insurer declared a bonus rate for the year of 10%. You will therefore get an approximate increase for the next year of 6.5%.

- EXAMPLE 3: You purchase a with-profit annuity of 4.5% (discount rate). The Insurer declared a bonus rate for the year of 8%. You will therefore get an approximate increase for the next year of 3.5%.
- EXAMPLE 4: You purchase a with-profit annuity of 4.5% (discount rate). The Insurer declared a bonus rate for the year of 10%. You will therefore get an approximate increase for the next year of 5.5%.

- The higher the discount rate, the higher your initial pension, but the lower your future potential increases.
- The lower your discount rate, the lower your initial pension, but the higher your future potential increases.
- The pension, as well as future increases, will be paid until you pass away (increases will depend on investment returns (bonuses declared).
- You may include a spouse's pension, this means a portion might continue to be paid to your spouse until he/she passes away, with increases. Normally the spouse's pension is 75% of your pension at the date of your death, but you can buy a smaller spouse's pension of, for example, 50%.
- Should you or your spouse (if you chose a spouse's option) eventually pass away, the monthly pension will stop and no money will be paid to any other beneficiaries or to your estate. This is because the Insurer undertakes to pay you a pension irrespective of how long you live, therefore they carry your longevity risk.

A with-profit annuity for life		
Increases	✓	Yes, Bonus rate declared less discount rate (increases therefore depend on investment returns)
Guaranteed Period Option	✓	Yes, but it will decrease your monthly pension
Spouse's Pension Option	✓	Yes, if you want the spouse's option. It will decrease your initial monthly pension.
Capital available for my other beneficiaries	X	No
Pension paid until death	✓	Yes

A LIVING ANNUITY

- This is a totally different product from the first four products. It is not guaranteed for life, so your money can run out.
- You invest a cash lump sum with an Insurer and then withdraw a monthly pension from that amount. The bigger your capital (amount invested) and the higher your investment returns, the more you will be able to withdraw. The smaller your invested capital or the less your investment returns, the less you will be able to withdraw, without running the risk that your money can run out.
- You will receive a monthly pension for as long as there is money available in the Fund.
- You can select to withdraw between 2,5% and 17,5% of the remaining capital (statutory requirement).
- You will have a range of investment portfolios to choose from.
- The remaining capital in the event of death after retirement, can be paid out to nominated beneficiaries.
- Pension payments are not guaranteed for life as you can run out of money before you pass away.
- This is not a viable option for a member with a relatively small lump sum at retirement, and no other significant assets to support him/her for the remainder of his/her life.

- The following table issued by the Association of Savings and Investments South Africa (ASISA) can be used as a guideline in determining the **maximum withdrawal rates** for a pensioner.

AGE	55	60	65	70	75	80	85
Male	5.4%	6.2%	7.2%	8.5%	10.3%	12.8%	16.3%
Female	4.7%	5.3%	6.1%	7.2%	8.7%	10.9%	14.1%

This means that if you are a male, aged 60, you should not withdraw more than 6.2% of your capital lump sum as a pension. Therefore, if your lump sum is R2 million, you will withdraw R124 000 as an annual pension, which is **R10 333.34** per month.

A living annuity		
Increases	✓	Sometimes, but it depends on how much you withdraw as a pension.
Guaranteed Period Option	X	No
Spouse's Pension Option	✓	Yes, the living annuity payments can continue to be paid to your spouse, but remember if he/she does not manage the investment properly, the money might run out before his/her death.
Capital available for my other beneficiaries	✓	Yes
Pension paid until death	X	No, the monthly income will only be paid as long as there is money in the Fund.

RECEIVE A LIVING ANNUITY FROM THE FUND

You can decide to receive a Living Annuity from the Fund of between 2.5% and 17.5% of your Accumulated Retirement Savings as an annual pension.

Every year on your annuity anniversary date, you will have the option to decide what percentage (between 2.5% and 17.5%) of your Accumulated Retirement Savings your annual pension will be. At the same date, the UCTRF Actuary will calculate the maximum percentage annuity (pension) you may take so that your retirement savings plus investment returns should last your expected life time. Please note that the Fund has discretion to bind you to NOT withdraw more than the percentage the actuary calculated.

It is advisable that you speak to a financial advisor to help you decide on this percentage as your pension must last you for the rest of your life.

Comparing your options at retirement

	Guaranteed level Annuity	Guaranteed escalation annuity	Full inflation-linked annuity;	With-profit annuity	Living annuity
Increases	X	✓ guaranteed fixed rate but can be too low	✓ inflation (CPI) increases	✓ will depend on investment performance (bonus rate less discount rate)	✓ Yes, but not guaranteed; depends on investment performance and capital available
Guaranteed Period Option	✓	✓	✓	✓	X
Spouse's Pension Option	✓	✓	✓	✓	✓
Capital available for my other beneficiaries	X	X	X	X	✓
Pension paid until death	✓	✓	✓	✓	X

THINGS TO KNOW AND CONSIDER WHEN BUYING AN ANNUITY?

- Pensions with no increases might look attractive in the beginning but after 4 to 5 years you start to fall behind the increase in the cost of living and you might not have enough pension to survive on.
- Stability of the Insurer over the long term.
- Any escape clauses by the Insurer in his contract with you.
- Fees charged by the Financial Advisor and Insurer.
- Whether your initial pension will be affected by interest rate changes, as you might get a quotation a few months before you retire, but by the time you retire, the initial pension will have changed due to interest rate changes.
- If you do not include a spouse's pension and your spouse does not get his/her own pension, they might be destitute when you pass away.