eJoburg RETIREMENT FUND
Registration No 12/8/36961/1

129 Rivonia Road, Sandton, 2146
Private Bag X41, Braamfontein, 2017
Telephone: 0860 44 45 51
Facsimile: 011 587 8386
Email: eJoburgfund@momentum.co.za
Website: eJoburgretirementfund.co.za

COMMISSION FREE ANNUITY QUOTES ON RETIREMENT

When you reach retirement, you will face a difficult decision as to what annuity to purchase with your retirement savings in the eJoburg Retirement Fund (the "Fund").

There are many different types of annuities and a number of different insurance companies and annuity providers to choose from. The Trustees of the Fund are concerned that many people will not be able to access good advice - advice on retirement may not always be in your best interests and may not cover all the different types of annuities offered, especially given the different levels of commission that are payable for different types of annuities.

To assist you in making your decision, the Fund will, if you would like it to, arrange for two commission free annuity quotes to be provided at no cost to you. From these you will be able to see the amount of the annuity your retirement savings could potentially purchase.

These annuities have the following features:

- They are with-profit life annuities **payable for the rest of your life** and the life of your wife/husband (or life partner) if she/he outlives you.
- A **lump sum is paid to your heirs** if you, and your wife/husband if you are married, die within 10 years after retirement (or within such other "guarantee period" you may select).
- Your **monthly annuity will never decrease** (as may be the case for a living annuity).
- Your annuity will continue at the full monthly amount **for the rest of your life** even if you live longer than the average person (monthly income from a living annuity may reduce or cease altogether).
- **Annual annuity increases** should help offset the effects of inflation although the level of these annuity increases is not guaranteed.
- The amount of your monthly annuity is determined on retirement and increases with annuity increases each year - you do not have to make difficult decisions each year as to how much annuity to draw and where to invest your retirement capital (as is the case with a living annuity).
- The annuities are **commission free** resulting in more of your money going towards your annuity - this will increase your monthly annuity amount.

THE TRUSTEES RECOMMEND THAT YOU ASK FOR THESE QUOTES TO BETTER UNDERSTAND YOUR OPTIONS.

THERE IS NO COST TO GET THE QUOTES AND THERE IS NO OBLIGATION TO ACCEPT THE QUOTES.

Further information

The Fund and the insurance companies cannot provide you with any advice on the suitability of the annuities, but if you would like (at no cost or obligation) more information or explanation in respect of the commission free annuity quotes, you may contact each of the insurers as follows:

Member Call Centre	Momentum	Old Mutual
Phone	0860 444 340 / 011 505 1565	0860 388 873/021 503 0069
email	MemberSolutions@momentum.co.za	FundSelect@oldmutual.com

INTRODUCTION

You are shortly due to retire from the Fund. Legislation requires that on retirement from a pension fund (such as the eJoburg Retirement Fund) you are required to use a minimum of your Retirement Pot and two-thirds of your Vested Annuity Pot (see the separate counselling document on Retirement Benefits) to purchase an annuity, although if this minimum amount is less than the current limit of R165 000, the total benefit may be taken in cash. An annuity is also often referred to as a pension.

The Rules of the Fund also require you to select:

- the type of annuity; and
- the registered Insurance Company or Companies to provide the annuity.

THIS DOCUMENT

This document provides information regarding special arrangements that have been negotiated between the Fund and two registered Insurance Companies. These arrangements allow you to access certain annuities at a better rate than you would be able to secure if you approached these Insurance Companies in your personal capacity.

The information in this document can also be used to assist you in assessing the relative value of any other annuity quotations that you may obtain, either directly or through your registered financial advisor.

Important issues with regard to the quotations

A. *You are under no obligation to accept, or even consider, the quotations. The quotations are provided for your information in the event that they may be of interest or use to you.*

B. *The provision of the quotations and this explanatory document are not intended to be advice as defined in the Financial Advisory and Intermediary Services Act, 2002. The quotations provide factual information on particular products and includes the procedures for entering into a transaction in respect of these products.*

C. *There is a lot of information in this document, some of which is of a fairly technical nature. It is, therefore, important that you fully understand it before determining whether the quotations are suitable for you or not.*

D. *The decisions that you make now regarding your retirement savings will have a huge impact on your financial security in future. You are strongly encouraged to seek advice from an appropriately qualified and registered financial advisor prior to making any decision about what to do with your retirement savings to ensure that you make the right decision regarding your retirement savings, taking your personal needs and circumstances into account.*

Fund annuity strategy

In terms of the Pension Funds Act, the Fund must have a formal annuity strategy (which must be reviewed each year) for the provision of annuities to members on their retirement. The Trustees of the Fund have determined the Fund's formal annuity strategy to be the Momentum and Old Mutual life annuities set out in this document.

The pricing of the annuities (the monthly annuity that can be provided with a given retirement benefit) changes as and when each Insurance Company deems it appropriate. Which insurance company can provide the highest initial monthly annuity can only be determined from the quotations at the date of retirement.

It is also important to take into account expected future annuity increases, as a lower initial monthly annuity with higher future annual annuity increases may provide a higher total annuity income over your lifetime than one with a higher initial monthly annuity but lower future annual annuity increases.

The sections below provide details of the arrangements that are being made available to you and provide some important information on the Insurance Companies that have provided quotations. Finally, the Annexure to this document provides some definitions and examples which you may find helpful in understanding the quotations.

DETAILS OF THE COMMISSION FREE WITH-PROFIT ANNUITY ARRANGEMENTS

The Trustees have negotiated with Momentum Employee Benefits (a division of MMI Holdings Limited) and Old Mutual Corporate (a division of the Old Mutual Life Assurance Company (SA) Limited) to offer you preferential rates on their **Golden Income With-Profit Annuity** (underwritten by Metropolitan Life Limited) and **Platinum Pension 2003** (underwritten by Old Mutual Life Assurance Company (SA) Limited) annuity products respectively.

These preferential rates are possible because the annuities are made available on a group basis rather than an individual basis (essentially a "buy in bulk" discount) and because no commission is payable on these products.

The annuity quotations from both Momentum and Old Mutual are based on the standard characteristics set out below. If the standard quotations do not meet your needs, but you would still like to access a preferential annuity rate, you may consider an annuity based on different parameters that are also set out below.

Please note that definitions and explanations are provided in the Annexure and it is recommended that you read the Annexure before proceeding to review the characteristics below.

STANDARD ANNUITY QUOTATIONS

Type of annuity	With-profit life annuity payable until your death (or the later date of the death of your husband/wife (or life partner) if a spouse's annuity is included in the annuity purchase amount)
Spouse's annuity	Annuity of 75% of your monthly annuity commencing at the later of the date of your death and the expiry of the guarantee period, only applicable in respect of the spouse (or other person) you have nominated on the purchase of the annuity
Guarantee period	If you (and, if applicable, your spouse or other nominated person) die within 10 years of retirement, the annuity payments for the balance of the 10 year period will be paid as a lump sum to your estate (or your spouse's or other nominated person's estate, as appropriate)
Annuity increases *and* ***Pricing bases***	Annual annuity increases are declared by the Insurance Company to help counter the effects of inflation. The level of increases is not guaranteed but is targeted to match inflation over the long term. The pricing bases for the two Insurance Companies are: ▪ Momentum 2.0% per annum net interest rate ▪ Old Mutual 3.0% per annum net interest rate
Annuity increase date *and* ***first annuity increase***	Increases are effective on 1 April each year. The first increase after retirement is proportionate to the number of months your retirement date is before 1 April
Annuity payments	The annuity is paid monthly on the 25th day of the month
Payments in the month of death	A full annuity payment is payable in the month of your death and, if you include a spouse (or other nominated person) on the purchase of your annuity and that spouse or nominated person survives you, a full annuity payment will also be payable in the month of that spouse's or nominated person's death
Commutation on retirement	You may elect to take either none or the total of your Savings Pot, your Vested Lump Sum Pot and one-third of your Vested Annuity Pot in cash at retirement with the balance of your Fund Credit used to purchase the annuity. It is important to note that the less you take in cash at retirement, the higher will be the annuity that you can buy at retirement.

ALTERNATIVE ANNUITY QUOTATIONS

The Trustees are aware of the fact that the above standard quotations may not be appropriate for all retirees – each individual is different and only you can decide what is best for your specific needs.

If the standard quotations do not meet your needs, but you would still like to access preferential annuity rates, Momentum and Old Mutual have set up websites which you can visit if you want to consider an annuity based on, say, a different 'spouse's percentage' or a different 'guarantee period' or a different 'commutation on retirement portion'. The alternative annuity quotations can be on either a single life or a joint life basis.

Details of these websites and the process for accessing them are set out on each of the standard quotations provided by Momentum and Old Mutual.

The Trustees strongly recommend that you obtain financial advice when considering the standard quotations and the various options available on the websites.

IMPORTANT INFORMATION RELATING TO OLD MUTUAL AND MOMENTUM

Momentum and Old Mutual have agreed to provide quotations based on your personal information. It is important to ensure that you have an understanding of these companies before making any decision to trust them with your retirement savings. Both Insurance Companies are financially stable and have a long history of paying annuities to retirees.

PORTFOLIO SIZE

The size of the overall life annuity portfolios of each of the Insurance Companies as at 31 December 2023 was as follows:

	Momentum	Old Mutual
Portfolio size	R18.3 billion	R43.2 billion
Life annuitants in payment	26 034	64 454

The size of the specific annuity portfolio of each of the Insurance Companies as at 31 December 2023 was as follows:

	Momentum	Old Mutual
Portfolio	Golden Series	Platinum Pensions Series
Portfolio size	R10.9 billion	R24.5 billion
Life annuitants in payment	13 262	29 117

ANNUITY INCREASE METHODOLOGY

As an annuitant, one of your main concerns is how much your annuity will increase each year. Ideally, you would like your annuity to keep pace with inflation to ensure that you can maintain your standard of living in retirement.

The philosophy used by both Momentum and Old Mutual in declaring annuity increases is to ensure stable increases over time, so that market volatility is absorbed as far as possible and not passed on to you as the policyholder. The two Insurance Companies, however, do this in very different ways.

Momentum

Momentum determines the annuity increase that can be granted each year by linking increases explicitly to the investment returns of a Bonus Generating Portfolio ("BGP"). A material portion of the BGP assets is invested in growth assets such as equities and properties with the aim to secure annuity increases that help counter the effects of inflation. The asset allocation of the BGP is outlined later in this document.

Momentum determines annuity increases by using an explicit smoothing formula to smooth the returns of the BGP over rolling 6-year periods. 30% of the increase in any year is based on the investment return for the preceding year and 70% of the increase is based on the return for the 5 years prior to that. The result is subject to small adjustments for various items including the mortality experience of the pool (that is, whether people are living longer or shorter than expected).

Momentum uses a risk management strategy which aims to reduce the downside risk to annuitants when markets crash whilst at the same time maintaining a material portion of the assets in growth assets such as equities and properties. This, together with the smoothing policy applied aims to protect annuitants from short term market volatility and allows Momentum to declare annuity increases that are smoothed from one year to the next.

The Momentum Golden Income with-profit annuity participates in 75% of the investment returns of the BGP under all market conditions, whether positive or negative. This means that in years when investment markets do very well, you forego a portion of the investment returns. In return, in years when investment markets fall, you do not experience the full impact of the fall.

Annuity increases, once declared, can never be removed, i.e. the annuity can never reduce.

Old Mutual

Every year Old Mutual declares the level of increase that will apply to the various post retirement interest ("PRI") categories (3.0% in respect of the annuities covered in this document) in the Platinum Pension 2003 product. These increases will never be less than 0%, i.e. the annuity can never reduce. Any increases declared by Old Mutual are then granted to pensioners on 1 April, i.e. just as with salary increases whilst you were working, your annuity will increase every year.

To work out the level of increases, Old Mutual uses the full actual return earned on the portfolio of assets applicable to the relevant PRI category and also considers mortality profits or losses, charges and the PRI percentage. The decision about what level of increases to grant also takes into account the need to ensure smoothed increases over time. This allows the product to absorb any investment market fluctuations which helps to provide a steadier annuity income over time.

When it assesses the increase rates, the Old Mutual Board looks at the size of the Bonus Smoothing Reserve ("BSR") for each sub-fund and the product as a whole. The BSR is the amount by which the market value of the product's assets is higher than the value of the product's liabilities.

The BSR is made up of a short-term BSR ("ST-BSR") and a long-term BSR ("LT-BSR"). A large portion of the assets backing the Platinum Pension 2003 liabilities is invested in matched interest-bearing assets. The LT-BSR is the difference between the market value of the matching assets and the present value of the portion of annuity payments that is matched.

The LT-BSR cannot be released quickly as that would compromise the matching, so it is released slowly over the lifetime of the annuitants in the Platinum Pension 2003 product.

The ST-BSR is the excess of the market value of the remaining assets over the value of the remaining liabilities. The long-term target level for the ST-BSR is in the range of 0% to 5%. In the short term, the ST-BSR can vary outside these bounds depending on market conditions.

More information about the with-profit annuity portfolios, including Platinum Pension 2003 and Old Mutual's increase philosophy, can be found in the document 'Principles and Practices of Financial Management' on the Old Mutual website.

HISTORICAL ANNUITY INCREASES

The annuity increases granted by Momentum (2.0% pricing basis) and Old Mutual (3.0% pricing basis) over the last 10 years are set out below (refer to the Annexure for explanation). These are compared to the increase in inflation over the same period – inflation is measured as the year-on-year increase in the Consumer Price Index over the year to 31 March immediately before each increase was granted.

	Momentum	Old Mutual	Inflation
Date	**Annual increase**		
1 April 2024	4.0%	8.5%	5.3%
1 April 2023	4.0%	6.0%	7.1%
1 April 2022	4.5%	7.5%	5.9%
1 April 2021	0.0%	3.5%	3.2%
1 April 2020	4.0%	3.0%	4.1%
1 April 2019	3.1%	5.0%	4.6%
1 April 2018	5.0%	6.5%	3.8%
1 April 2017	3.8%	7.0%	6.2%
1 April 2016	5.6%	7.5%	6.3%
1 April 2015	7.4%	8.0%	4.0%

	Momentum	Old Mutual	Inflation
Period	**Total annual increase**		
Last 5 years	17.6%	31.8%	28.4%
Last 10 years	49.8%	83.1%	63.5%
	Average annual increase		
Last 5 years	3.3%	5.7%	5.1%
Last 10 years	4.1%	6.2%	5.0%
	Percentage of inflation		
Last 5 years	61.9%	111.9%	
Last 10 years	78.4%	130.8%	

The Momentum annuity series commenced in 2008 and the Old Mutual annuity series commenced in 2003.

It is important to note that past annuity increases are not necessarily a good guide to determine annuity increases that will be granted in future.

INVESTMENT STRATEGY

The annuity increases that can be granted by each Insurance Company will, to a large extent, depend on the investment returns they can achieve on the assets in their annuity pools and the investment management and other fees that are levied.

The asset classes and the effective asset structure of each annuity portfolio as at 31 December 2023 was as follows.

	Momentum *	Old Mutual
Asset manager	Momentum Asset Management	Old Mutual Investment Group
Local shares	36.5%	22.7%
Interest bearing (bonds and cash)	25.5%	26.1%
Property	2.5%	8.9%
International assets	35.5%	30.6%
Alternative assets**	0.0%	11.7%
Total	**100.0%**	**100.0%**

* *Bonuses are calculated based on 75% of the return on this Bonus Generating Portfolio and in addition Momentum holds a portfolio of interest bearing assets to match the current pensions in payment*

** *Primarily socially responsible investments ("SRI")*

It is evident from the above that the investment strategy of the two portfolios is quite different. The relative performance of the two portfolios will depend on the actual performance of the various asset classes underlying the portfolios and the performance of the stocks held in each asset class.

FEES AND CHARGES

The standard annuity quotations and the alternative quotations on the websites include administration and investment fees. Capital charges are deducted from investment returns before the declaration of annuity increases. It is important to understand the cost structure of your annuity to ensure that investment costs and capital charges do not use up more of the investment returns than they absolutely have to.

Fee / charge as at 31 December 2023	Momentum Golden Income	Old Mutual Platinum Pension 2003
Initial administration fee	R3 900	R2 120
Ongoing administration fee	R71.37 per month (capitalised and deducted upfront, so annuity is quoted net of the fee)	R95.00 per month (capitalised and deducted upfront, so annuity is quoted net of the fee)
Capital, product, investment and risk charges (including bank charges and performance fees) as applicable	1.20% to 1.30% per annum of the underlying portfolio *	1.75% to 1.85% per annum of the underlying portfolio *
Initial commission	None	None
Ongoing commission	None	None

* *The actual percentage is dependent on the investment performance of the underlying portfolio.*

FINANCIAL STRENGTH, CREDIT RATING AND INDEMNITY INSURANCE

All guarantees in respect of with-profit annuities are backed by the capital of the Insurance Company. This capital serves to protect policyholders' guaranteed investments from adverse investment conditions. As can be seen from figures in the table below, the financial strength of both Metropolitan and Old Mutual (both reflected at 31 December 2023) is robust and provides investors with the necessary security and peace of mind that, irrespective of prevailing investment conditions, the guarantees underlying the with-profit annuity portfolios are steadfast.

Capital Adequacy Ratio	Metropolitan*	Old Mutual
SAM solvency ratio	2.11x	2.04x

* *Note that the Momentum Golden Income With-Profit Annuity is underwritten by Metropolitan Life Limited as a result of the merger of Momentum and Metropolitan. The relevant capital adequacy ratio for this product is therefore that of Metropolitan Life Limited.*

Both Insurance Companies were holding significantly higher reserves than required by law at the reporting date.

The Insurance Companies have been rated by major international rating agencies and the credit ratings awarded to both Insurance Companies are within acceptable bands. Credit ratings achieved and the reporting dates are set out in the following table.

Credit rating	Metropolitan	Old Mutual (OMLACSA)
Rating agency	Moody's	S&P rating services
Rating	IFS Aaa.za	BB (Global scale)
Reporting date	November 2023	January 2024

Both Insurance Companies carry professional indemnity cover which covers losses sustained as a result of the negligence and/or dishonesty of their directors and officers. This cover extends to claims for damages or other relief arising from wrongful acts, including breaches of duty, neglect and misrepresentation. The current cover limits are as follows.

	Momentum (MMI Holdings)	Old Mutual
Cover limit	R1.3 billion per claim and R1.8 billion in aggregate	R750 million per claim and in aggregate

CORPORATE CITIZENSHIP AND COMPLIANCE

The Insurance Companies have been rated on Broad Based Black Economic Empowerment as follows.

BBBEE	Momentum	Old Mutual
Rating	Level 1 contributor	Level 1 contributor
BEE initiatives	http://www.mmiholdings.co.za/ Corporate Social Investment and Sustainability	www.oldmutual.co.za/bee
Social investment programs		www.oldmutual.co.za/about-us/governance.aspx

Both Insurance Companies are Licensed Financial Services Providers, registered long-term life insurance companies and approved retirement fund administrators. The Insurance Companies are therefore subject to, amongst others, the provisions of the Long-term Insurance Act, 1998 and the Pension Funds Act, 1956. Should you have any statutory compliance queries, please address these in writing to:

Compliance contacts	Momentum (MMI Holdings)	Old Mutual
Postal address	The Compliance Officer Metropolitan Life PO Box 2212, Bellville, 7535	The Compliance Officer Old Mutual Corporate PO Box 66, Cape Town, 8000
Telephone number	012 684 4111	021 509 2191
FAIS / FSP licence number	6406	26/10/703

Users should be aware that short-term performance can be volatile and that past performance is not necessarily indicative of future performance. Every effort has been made to ensure that the information contained in this document is accurate. Further information on the two Insurance Companies can be found on their respective websites:

	Momentum	Old Mutual
Further information	www.momentum.co.za or www.mmiholdings.co.za	www.oldmutual.co.za

CONTACT DETAILS AT MOMENTUM AND OLD MUTUAL

Should you wish to contact either or both of Momentum and Old Mutual to obtain further information or explanation on the issues set out in this note or any other issues relating to the commission free annuity quotes, contact details are as follows:

	Momentum	Old Mutual
Member Call Centre		
Phone	0860 444 340 / 011 505 1565	0860 388 873
email	MemberSolutions@momentum.co.za	FundSelect@oldmutual.com
Product Leader		
Name	Ricus Nel	Fil Badenhorst
Phone	082 464 6868	011 217 1117
email	Ricus.Nel@momentum.co.za	FBadenhorst@oldmutual.com

PROTECTION OF PERSONAL INFORMATION ACT, 2013

To provide the annuity quotations, your relevant personal information and that of your spouse, if applicable, will be provided to the Insurance Companies. The Insurance Companies will only use the information for the purposes of providing the quotes and it will not be provided to other entities and will not be used for sales or marketing purposes. If you have any concerns in this regard, please contact the Fund's Principal Officer.

ANNEXURE: DEFINITIONS, IMPORTANT INFORMATION AND EXAMPLES

COMMUTATION ON RETIREMENT

Your benefit on retirement is your Fund Credit in the Fund. In terms of legislation and the rules of the Fund, the maximum amount that may be taken in cash on retirement and the minimum amount that must be used to purchase an annuity from a registered insurance company of your choice (see the separate counselling document on Retirement Benefits), are as follows:

Maximum that may be taken in cash	Minimum that must be used to purchase an annuity
Full Savings Pot	-
Full Vested Lump Sum Pot	-
⅓ Vested Annuity Pot	⅔ Vested Annuity Pot
-	Full Retirement Pot

However, if the minimum amount that must be used to purchase an annuity (as reflected above) is less than R165 000 you may take your full retirement benefit in cash.

Any portion which you elect to "commute" for cash is subject to tax, where the tax payable will depend on the Rand value of the amount commuted.

LIFE ANNUITIES

An **annuity** is a financial product that, in exchange for a specified upfront payment, will pay you a certain amount of money at regular intervals (for example monthly) for a certain period.

Example: *In exchange for R11 000 you pay today, someone offers to pay you R1 000 per month for the next year - this is a form of annuity.*

A **life annuity** is a type of annuity where you pay an up-front amount to an Insurance Company when you retire, who will then guarantee to pay your monthly annuity for the rest of your life. Buying a **life annuity** means that you will not run the risk of outliving your money as the Insurance Company guarantees that payment of your annuity will continue until you pass away. The Insurance Company therefore takes on the risk should you live longer than they expected. Insurance Companies can sell **life annuities** to people because people who live longer than expected will be balanced out by people who pass away sooner than expected.

WITH-PROFIT LIFE ANNUITIES

Under a **with-profit life annuity**, the Insurance Company uses the investment return earned on the assets backing the annuity to declare an **annual annuity increase**. The increases are not guaranteed and their quantum depends on the investment return earned – the Insurance Company will smooth the annuity increases over time, either through a smoothing formula (as for the Momentum Golden Income annuity) or by the bonuses declared by the Insurance Company (as for the Old Mutual Platinum Pension 2003 annuity).

Further detail on **annual annuity increases** in respect of **with-profit life annuities** is provided under **annual annuity increases** below.

SPOUSE'S ANNUITY

The **spouse** is the person you nominate to continue to receive your annuity in the event of your death. Although this could be your spouse (husband or wife), it could also be any other person you nominate to receive an annuity after your death.

SINGLE AND JOINT LIFE ANNUITIES

A **single life annuity** is a life annuity that is payable for the rest of your life – no further amounts will be payable after you pass away (unless this is within the **guarantee period** – see below) even if you have a spouse, common law spouse or life partner and that person is still alive when you pass away.

A **joint life annuity** is a life annuity that is payable for the rest of your life and will continue to be paid, at a reduced level (refer to **spouse's percentage** below), to your spouse or other nominated person (refer to **spouse's annuity** above) for the rest of his/her life after you pass away. If your spouse or other nominated person passes away before you do, no further amounts will become payable after your death (unless this is also within the **guarantee period** – see below).

The benefit of buying a **joint life annuity** is that your spouse or other nominated person will continue to receive an annuity after your death, ensuring that they can maintain their standard of living if you pass away.

SPOUSE'S PERCENTAGE

Your spouse or other nominated person will, in all likelihood, not require 100% of your annuity to maintain his/her standard of living if you pass away before he/she does. In a joint life annuity, the spouse's percentage is the percentage of your annuity at the date of your death that will become payable to your spouse or other nominated person if you pass away before they do – this reduced annuity will be payable until your spouse or other nominated person passes away.

There is no reduction or increase to your annuity if your spouse or other nominated person passes away before you do.

Example: *You buy a joint life annuity with a spouse's percentage on death of 75%:*

- *If you pass away (and your spouse is still alive) when your monthly annuity is R10 000, this will reduce to R7 500 (75% of R10 000) and will be payable to your spouse for the rest of his/her life.*
- *If your spouse passes away (and you are still alive) when your monthly annuity is R10 000, this annuity (with no reduction or increase other than any annual annuity increases) will continue to be paid to you for the rest of your life.*

GUARANTEE PERIOD

Life annuities can be bought which make provision for the payment of your annuity (without reduction) for a minimum period after retirement, regardless of whether you survive to the end of that period or not. A guarantee period is simply insurance against passing away soon after buying a life annuity and addresses a major reason why many people may otherwise prefer a living annuity.

Example: ***Single life annuity*** *- You buy a single life annuity with a guarantee period of 10 years:*

- *If you pass away, say, 2 years after buying the annuity then you will receive your annuity for those 2 years and a lump sum amount of 8 times your annual annuity at the date of your death will be paid to your nominated beneficiary (or otherwise to your estate); or*
- *If you pass away, say, 30 years after buying the annuity then you will receive your annuity for the full 30 years up until the date of your death after which the annuity will stop.*

Example: ***Joint life annuity*** *- You buy a joint life annuity with a guarantee period of 10 years and a spouse's percentage on death of 75%:*

- *If you pass away, say, 2 years after buying the annuity and your spouse survives for more than 10 years after you buy the annuity - in this case, you will receive your annuity for the first 2 years and your annuity will continue to be paid to your spouse at the same level (i.e. without being reduced by the spouse's percentage) for a further 8 years (a total of 10 years of payments at the full rate) after which it will reduce to 75% and will be payable to your spouse for the rest of his/her life.*
- *If you pass away, say, 2 years after buying the annuity and your spouse passes away 3 years after your death - in this case, you will receive your annuity for the first 2 years and your annuity will continue to be paid to your spouse at the same level (i.e. without being reduced by the spouse's percentage) for a further 3 years until his/her death. A lump sum amount of 5 times the annual annuity at the date of your spouse's death will then be paid to his/her nominated beneficiary (or otherwise to his/her estate).*
- *If you pass away, say, 6 years after buying the annuity and your spouse passes away before you - in this case, you will receive your annuity for the first 6 years and a lump sum amount of 4 times your annual annuity at the date of your death will be paid to your nominated beneficiary (or otherwise to your estate).*
- *If you pass away, say, 30 years after buying the annuity and your spouse is still alive – in this case you will receive your annuity for the full 30 years up until the date of your death after which the annuity will reduce to 75% and will be payable to your spouse for the rest of his/her life.*

ANNUAL ANNUITY INCREASES

Inflation is likely to erode the purchasing power of your annuity over time if you do not buy an annuity that provides for **annual annuity increases** after retirement. It is a fact of life that prices tend to increase (food, medical aid, transport, electricity, etc.) and that you will therefore be able to buy less with, say, R10 000 in 10 years' time than you can buy with it today.

Example: *If you buy an annuity of, say, R10 000 per month that does not increase in future (referred to as a level annuity):*

- *If inflation is, say, 5% per year in future, then the R10 000 will only buy goods in 10 years' time of equivalent value to R6 100 now and in 20 years' time of equivalent value to R3 750 now.*
- *If inflation is, say, 10% per year in future, then the R10 000 will only buy goods in 10 years' time of equivalent value to R3 850 now and in 20 years' time of equivalent value to R1 500 now.*

It is thus critically important that your annuity makes some allowance to counter the effects of inflation each year.

The standard annuity quotations (and the alternate annuity quotations you can access via the web sites of the Insurance Companies) are **with-profit life annuities** where the life annuity will increase each year with annual annuity increases based on the "pricing basis" selected as part of the purchase price and the investment returns earned each year on the investments held by the Insurance Company in respect of your annuity. It is important to note that the annuity increases granted for with-profit life annuity products are not guaranteed but are linked to the performance of the product.

The "pricing basis" is essentially the hurdle rate of the investment return that needs to be earned before annuity increases can be granted. A lower "pricing basis" implies higher expected future increases in that product and a lower initial annuity for the same initial Rand purchase amount (and vice versa).

Example: *A* ***with-profit life annuity*** *is purchased using a pricing basis of 2.5% per year:*

- *If the investments backing this annuity earn returns of, say, 15% in the first year and 2.5% in the second year, then a 12.5% annuity increase would be affordable at the end of the first year (calculated as 15% minus the 2.5% pricing basis) and no increase would be affordable at the end of the second year (as the 2.5% investment return is not more than the pricing basis).*
- *In practice, the Insurance Company will also look to smooth annuity increases from year to year (either through a formula or via any discretion in the declaration of increases) and in the above example they might declare an increase of, say, 7.5% at the end of the first year (i.e. keeping back 5.0% of the affordable return) and then grant an increase of, say, 5.0% at the end of the second year.*

Note that although the Momentum (2.0%) and Old Mutual (3.0%) annuities are based on different pricing bases, this is based on the different structures of the annuities and both target annuity increases of between 70% to 100% of inflation over the long term. Future annuity increases are however not guaranteed and may be below or above inflation.

Increases, once granted can never be taken away and your annuity will never decrease. Increases can be zero in the event of persistent poor investment performance.

With-profit annuities, depending on the pricing basis, generally provide good inflation protection over the long term and are generally less expensive than fully inflation-linked annuities because future **annual annuity increases** are not guaranteed.