

# PetroSA Retirement Fund

## IN-HOUSE LIVING ANNUITY OPTION (PAID FROM THE PETROSA RETIREMENT FUND)

It is very important for you to first read the guide titled “**OPTIONS AVAILABLE TO YOU WHEN YOU RETIRE**”.

From that guide, an explanation of how a living annuity works is described in detail. The basic principles on how a Living Annuity works are the same whether you choose an in-house or outside Living Annuity.

However, with the in-house Living Annuity there are certain differences in the operation of the annuity as well as how the money is invested. Furthermore, there is a huge cost saving by purchasing an in-house Living Annuity compared with securing the annuity from an external provider.

This guide describes the investment strategy and portfolios members can choose from as well as the rules around the in-house Living Annuity.

# 1. DETAILS OF THE IN-HOUSE LIVING ANNUITY

If you elect the in-house living annuity, one of the most important decisions is how you want your capital invested. You would therefore need to decide on the investment strategy for your Investment Account.

## 1.1 The Investment Strategy for your Investment Account

A Living Annuitant in the Fund has the same options available as in-service members. However, they **MUST** choose one or more investment portfolios to invest in as there is **NO** Default Portfolio. You may elect to invest your money in any of, or combination of, the:

- Market-linked Portfolio
- Stable Portfolio
- Money Market Portfolio
- Shari'ah Compliant Portfolio

Below is a brief summary of each portfolio. It is recommended that you also read the separate **INVESTMENT CHOICE GUIDE IN DETAIL**.

### 1.1.1 The Market-linked Portfolio

The Market-linked Portfolio has an investment objective to deliver an investment return that is 5% p.a. higher than the consumer price inflation rate over any 7 year period, although this return is not guaranteed.

The assets of this portfolio are invested mainly in a mix of shares and bonds (local and offshore). As such, it is exposed to the performance of these markets, and the return you earn from this portfolio over a period may be positive or negative depending on market conditions.

This portfolio does not provide any performance guarantees. It aims to deliver a good return relative to inflation. It has a long-term investment horizon and one should not measure its performance over periods of less than 5 years.

### 1.1.2 The Stable Portfolio

The investment objective of the Stable Portfolio is to earn a real return relative to price inflation of 3% p.a. over any rolling 3 year period, with a focus on short-term protection of capital. However, this level of return and protection of capital is not guaranteed.

This portfolio aims to achieve sustainable positive returns, with protection against capital loss.

The portfolio is invested in equities (up to a maximum of 75%), bonds and cash. The allocation between these asset classes is highly variable and depends on the managers' view of current market conditions at a given time.

### 1.1.3 The Money Market Portfolio

The prime objective of the Money Market portfolio is to preserve the Rand value of your capital at all times, but without guarantees, and to increase it with the interest earned on the underlying money-market instruments.

It is expected that over the long-term this portfolio will achieve an after tax return of some 1% per annum above inflation. This portfolio is designed for those members wanting maximum security of capital.

#### **1.1.4 The Shari'ah Portfolio**

The investment objective of the 27Four Shari'ah Multi-Managed Balanced Fund is to deliver a real return of 4% in excess of SA price inflation over any rolling 5-year period. This investment return *is not guaranteed* and will depend on market returns and investment manager skill.

The assets of the 27Four Shari'ah Multi-Managed Balanced Fund are invested in a mix of Shari'ah compliant shares (local and offshore) and local "Islamic bonds". The Fund has a lower weighting to equities and a higher weighting to fixed income assets than the PetroSA Retirement Fund's Market-linked Portfolio. This means that the Shari'ah Portfolio should provide a somewhat greater cushion against negative returns in the equity markets in the short term than the Market Portfolio.

This portfolio is exposed to the performance of markets, and the return you earn from this option over shorter periods may be positive or negative depending on market conditions.

**Details on when you can switch in and out of the portfolios are explained in the next section. You should also read the separate INVESTMENT CHOICE GUIDE.**

## 2. RULES FOR LIVING ANNUITANTS OF THE FUND

**2.1** The SARS (South African Revenue Services) requirements for “flexible annuities” (hereafter referred to as “living annuities”) is that the annual pension must be:

A minimum of 2.5% of the capital value of your Living Annuity Account Credit

A maximum of 17.5% of the capital value of your Living Annuity Account Credit

The above percentage limits are subject to revision by SARS from time to time. This pension draw-down percentage must be elected initially and revised annually on the anniversary of the inception date of the living annuity.

Your elected draw-down percentage is applied initially and annually thereafter to the balance in the living annuity account (less an allowance for expenses) to determine your annual pension. This annual pension is payable in fixed monthly instalments over the ensuing year.

**2.2** You must make an active choice of your investment portfolio both initially and annually thereafter on the anniversary of the inception date – i.e. there are no default portfolios. If you do not make a choice in any given year, you will remain invested in the same portfolio as your most recent choice.

The Fund will prepare the necessary documentation and establish a process to ensure that this annual review is completed and that you make a choice.

**2.3** You may elect any or all of the investment portfolios offered by the Fund, and you will be subject to the Fund’s standard terms and conditions on switching portfolios.

**2.4** If you select more than one investment portfolio, then the draw-down % you select will be applied pro-rata to each investment portfolio balance i.e. each portfolio will be debited with the same draw-down %. Expenses will be applied proportionately to your various investment portfolios.

**2.5** You are allowed one free switch of investment portfolios a year with effect from the anniversary of your inception date as a living annuitant. You may make further switches during the ensuing year (switches are permitted on a daily basis) but you will be charged a fee. The Fund’s standard terms and conditions on switching apply (refer to the switching section of the “Investment Choice Guide” on the Intranet site). The switch fee is subject to review from time to time.

**2.6** The Fund will institute the following limitations on living annuities:

- **Financial counselling and Rule Provisions**

The trustees consider that it will be in your best interest to obtain advice and counselling from a financial advisor before you decide to select a living annuity. You will be liable for paying the costs of such counselling.

- **Limitations with regard to the State Old Age Pension**

Where the living annuity account balance falls below the capital amount required to purchase the equivalent of the State Old Age Pension; you will be required to purchase a life annuity with the remaining balance from an insurer.

In order to provide you with sufficient warning of this situation the Fund will monitor the balance in your living annuity account. If at any time the living annuity account balance is less than *twice*

the capital required to purchase the equivalent of the State Old Age Pension, you will be alerted to the need to receive financial counselling from a financial counsellor. You will be liable for paying the costs of such counselling.

- **Significant decline in market values**

In the event of a significant decline in the market value of the living annuity account balance at any time in future resulting in your draw-down being greater than your maximum, the Fund will require you to elect a reduced Rand draw-down amount to fall within the allowable limits.

- **Failure to complete an option form**

Failure to complete and submit an option form annually or at any other time as required by the Fund, will result in your investment strategy being retained as per your previous instruction and the pension draw-down percentage will be reduced to the legislated minimum of 2.5% per annum.

- **Option Forms to be signed by the Fund**

An option form is only valid if signed by the Fund. Accordingly, it is incumbent on you to ensure that you receive and retain in your records a copy of all option forms duly signed by the Fund.