

**PetroSA Retirement Fund**

**RETIREMENT  
OPTIONS  
GUIDE**

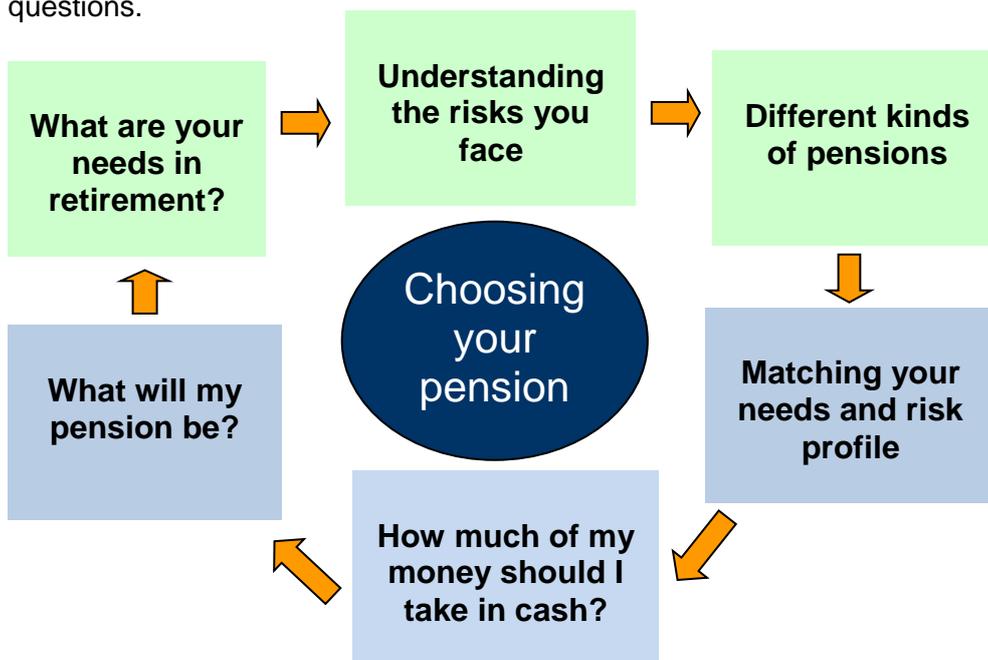
# OPTIONS AVAILABLE TO YOU WHEN YOU RETIRE

If you are retiring soon, the PetroSA Retirement Fund will inform you of the total amount of your retirement benefit.

On receiving this information, the two most important questions you probably have are:

- How should I invest my retirement money?
- What amount of income can I expect to get monthly from this investment?

You may find the following "process model" useful in helping you answer these rather complex questions.



## Disclaimer

Whilst this guide is intended to provide a basic understanding of the different options available to you at retirement, it is not intended to be a comprehensive review of all possible pension options. Information contained in this guide does not constitute advice by the Board of Trustees or by its advisors. If you need more information on how you can invest your retirement benefit, you should seek professional advice from a licensed financial advisor

## **YOUR RETIREMENT NEEDS**

This describes the needs of most pensioners. Any reference to "your needs" refers to the needs of you and your dependants. In essence your retirement needs can be split as:

- Your basic needs; and
- Your luxury needs

### **Basic needs**

This is the *minimum income* that you and your dependants would require in your retirement to retain your *basic quality of life*.

Your basic needs typically include the money you need for:

- Accommodation e.g. existing bond and or rental repayment;
- Food for you and your family;
- Clothes;
- Medical expenses; and
- Transport.

Pensioners have different expectations from life - some pensioners may feel that an income of R2 000 per month is enough to cover their basic needs; others may feel that they need an income of R8 000 a month to meet these needs.

The reality is that many people retire without enough money to meet even their basic needs in retirement.

### **Luxury needs**

Very few people earn enough money, either whilst they are working or in retirement, to be able to meet their luxury needs e.g. a holiday home, a luxury car or living in an up-market suburb. Such an income allows you access to most of the things you desire in life.

## **UNDERSTANDING YOUR RETIREMENT RISKS**

Having defined your needs, one needs to consider what key risks you face in meeting those needs and how one can manage these risks.

Most people associate the word "risk" with bad outcomes. However, the "flip side" is that taking risks also creates the opportunity for very good outcomes. In managing your risks you should be most concerned about minimizing the chance of outcomes that cause you a great deal of regret.

In the next section we explain the three important risks you must deal with in how you invest your retirement savings in order to meet your needs.

There is also a questionnaire that is designed to help you understand how, depending on your needs, your risks differ.

## YOUR THREE MAIN RISKS

As a pensioner, there are three important risks you must deal with in how you invest your retirement savings in order to meet your needs, namely:

- Investment risk
- Inflation risk
- Somewhat surprisingly, the risk of living too long!

### Investment risk

Investment risk refers to the chance that the investment return you earn on the money you invest at your retirement is insufficient to provide a reasonable income throughout your retirement.

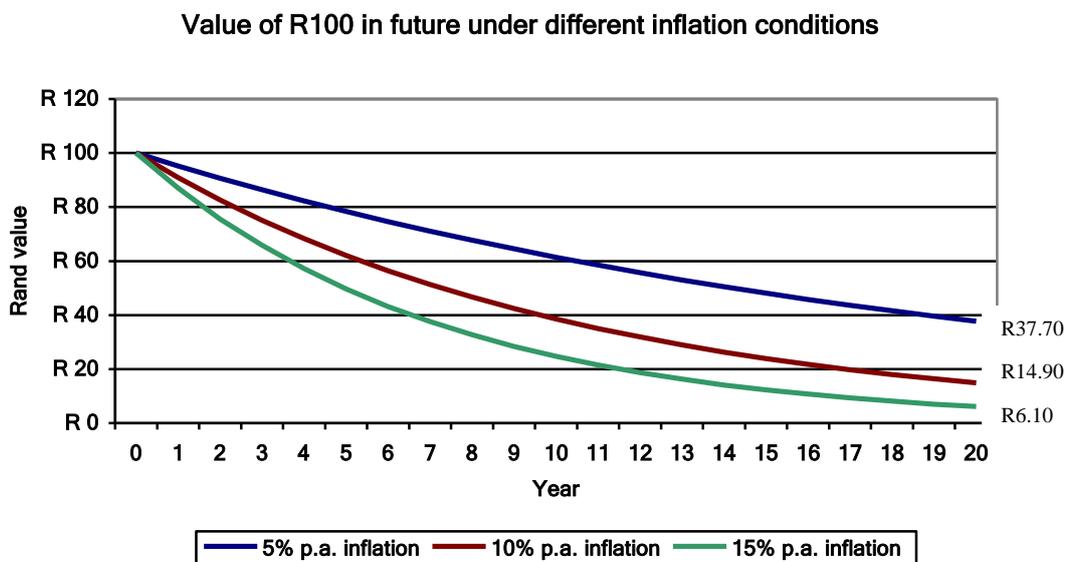
As a member of a defined contribution pension arrangement, you should be aware of and have experienced investment risk. As you know investment risk depends largely on the asset class (e.g. shares, bonds or cash) in which you invest your money and your investment horizon.

### Inflation risk

One of the big risks you face in retirement is that inflation reduces the buying power of your pension.

It is very difficult to predict the future course of inflation (i.e. it may go much lower or maybe it could increase sharply). It is therefore important that you invest your retirement money, or at least that part which covers your basic needs, in such a way that your income goes up each year more or less in line with inflation.

The following chart shows how the buying power of R100 declines over each of the next 20 years if average future inflation is, 5% p.a., 10% p.a. and 15% p.a.



Clearly future inflation is a significant risk to your standard of living in retirement.

## Risk of living too long

This seems like a strange risk - but the longer you and your dependants live, the more money you need whilst you are on pension.

Many people have a pessimistic view of how much longer they will live once they retire. The following table shows, how long, on average a male and female are expected to live if they retire at different ages.

Retirement age	Life expectancy	
	Male	Female
55	22 years	27 years
60	18 years	22 years
65	14 years	18 years

The above figures may well understate the position, because as medical research improves (and it is improving at a dramatic rate currently), the life expectancy of retirees may increase.

# QUESTIONNAIRE – LINKING YOUR RISKS AND YOUR RETIREMENT NEEDS

Now that you have an understanding of your retirement needs and the risks you face in retirement, it is useful to link the two.

Please indicate the extent to which you agree with the following questions.

A score of: five (5) indicates that you agree strongly with the statement, four (4) indicates that you agree with the statement, three (3) indicates you neither agree nor disagree, two (2) indicates you disagree and one (1) indicates that you strongly disagree with the statement.

## *Basic needs*

When I think about my basic needs:

Statement	Score
It is important that I am guaranteed a pension at least equal to my basic needs each year.	
It is not important that my pension increases each year to offset the impact of inflation	
I should make sure that I receive a pension at least equal to my basic needs for as long as I (and my partner) live.	

## *"Good to have" needs*

When I think about my "good to have" needs:

Statement	Score
It matters if investment returns are poor in any year because I need this money each year.	
I am a long-term investor and are prepared to take on more risk provided there is a good chance that I will earn a higher investment return for assuming this risk	
I will feel a great deal of regret if I do not receive a pension sufficient to meet my "good to have" needs.	

## Key distinguishing features

In meeting your Basic Needs we would suggest that you should not take on any excessive investment, inflation and mortality risk. Ideally you would want a pension that:

- Is guaranteed to meet your basic needs each year;
- Will increase each year in line with inflation; and
- Will be paid for the rest of your lifetime and that of your spouse.

On the other hand in meeting your "good to have" needs you can take on more investment, inflation and mortality risk. Ideally you would structure your investments here with the following in mind:

- You would be prepared to take on more investment risk provided that there is a good chance that you will be compensated for this risk. Importantly you can live with the regret that you may feel if the investment return turns out to be poor.
- You have a longer-term investment horizon and if the investment does poorly in any year it does not matter much because you don't need the money.

## KEY FEATURES OF A PENSION

Now that you have an understanding of:

- What monthly income you need to cover your basic and luxury needs; and
- The important risks you face in retirement

The next step is to understand the key features of a pension. Any pension has the [five key features](#), namely:

- Choice
- The degree of investment expertise you must have to manage your pension
- Security
- Inheritability
- Cost structure

These five features are described below – consider them carefully because next you will be asked to vote for which feature you value most highly.

### **Choice**

Choice means the feature that you can choose each year the amount of income you receive and also how your money is invested. Such choice means that you have the flexibility to change your pension according to your needs every year.

A vote for this feature would indicate that you attach a lot of value to choice.

### **The investment expertise you must have to manage your pension**

Some pensions require you to have a great deal of insight in investing and managing your money.

A vote for this feature indicates that you rate *your investment competence highly* and will therefore attach a great deal of value to this feature.

### **Security**

Security means the extent to which your annual pension is certain to be paid.

A vote for this feature says that it is important for you have “peace of mind” with respect to your pension.

### **Inheritability**

Inheritability means the extent to which your dependants will benefit from your pension when you die. A narrow form of inheritability is when only the people that are financially dependent on you (e.g. your spouse) continue receiving a pension when you die.

A broader form of inheritability is when even people that are financially independent (e.g. your adult children) continue receiving a pension after you and your spouse have died.

A high vote for this feature indicates that you attach a high value to the *broader form* of inheritability.

## Costs associated with the pension

Different forms of pension have higher associated cost structures. Higher costs are not necessarily bad, but you need to receive adequate value for these higher costs.

A vote for this feature indicates that you want to keep the costs associated with your pension as low as possible.

## Choose the features you assign the most value to

You are given four "votes" to allocate to the above features. You are allowed to weight your vote - for example, if you feel that the inheritability is the only feature that is important, you could cast all four votes for inheritability.

Feature	Number of votes you cast for this feature
Choice	
Your required investment capability	
Security	
Inheritability	
Low cost structure	

## DIFFERENT KINDS OF PENSIONS PROVIDED

### What is a PENSION?

A **pension** 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 R1100 you pay today, someone offers to pay you R100 per month for the next year - this is a form of **pension**.

In this section we consider the main types of pensions offered by the insurance market. We explain what the key features of these pensions are. Of course, the final step is to match this with your preferred features of a pension.

The two main types of pension offered by the market are a:

- Life annuity (also known as a Life pension); and
- A living annuity

We highlight that the market offers many variations of these two annuities – this section focuses on the core elements of such annuities.

### Life annuity

A **life annuity** is a type of pension where you pay an up-front amount to an insurance company when you retire, who will then guarantee to pay your monthly pension for the rest of your life.

A life annuity typically has the following features:

- The current amount of the pension is guaranteed for the rest of your life. (This guarantee depends on the party providing your pension paying meeting its obligation even in extreme market conditions.)
- On your death typically 50% to 75% of your pension will be paid to your surviving spouse for the rest of her/his life. (You can elect the percentage pension that will be paid to your spouse on your death.)

A concern that is sometimes raised about a life annuity is that you don't get the full value of your retirement capital if you and your spouse die soon after you retire. This is the "insurance premium" you pay for having the promise that your pension will be paid even if you live much longer than expected (e.g. to age 100).

- The pension should increase each year. (However, in poor market conditions no pension increase may be granted.) Once an increase is granted, the new higher level of pension becomes guaranteed. (You can elect the basis on which the annual increase should take place).
- You require no investment expertise in managing such a pension. The insurer providing the pension will manage the underlying assets on your behalf.
- The pension has a low cost structure.
- With a life annuity you can decide at the outset on the basis on which your pension should increase each year and the percentage pension paid to your spouse on your death. However, you do not have the flexibility to change these terms once your pension starts to be paid.

In summary, 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 pension 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.

In order to check your understanding of the features of a life annuity, please complete the following table by giving each of the key features a rating of 0 to 4. A rating of 4 indicates that this feature is strongly represented; a rating of 0 means that the life annuity does not contain this feature.

Feature of a life annuity	Your rating
Choice	
You must have a high degree of investment expertise	
Security	
Inheritability	
Low cost structure	

The Fund's rating of the features is set out in the table below. You can check your understanding of a life annuity by comparing your rating to the Fund's.

The rating is somewhat subjective so you should not be concerned if your rating is 1 point higher or lower than the Fund's. On the other hand if your rating for a feature is much higher or lower than the Fund's then you should revisit your understanding of a life annuity.

Feature of a life annuity	Fund's rating	Reason for rating
Choice	1	Only have choice at the start of the pension
You must have a high degree of investment expertise	0	Insurer makes the investment decisions
Security	4	The current pension is guaranteed, subject to very small counter-party risk (but future increases are not)
Inheritability	2	Your surviving spouse continues to receive a pension on your death
Low cost structure	4	This is cheap pension structure

## Living annuity

A living annuity operates like an Investment Account as is explained below.

- At retirement your money is invested in your Investment Account.
- Your Investment Account is credited with the investment returns (positive or negative) you earn on your money.
- Importantly, you must decide how to invest your Investment Account. Of course, you may choose to receive expert advice in this regard.
- Each year you need to decide on the level of your draw down. The draw-down limit is set by the South African Revenue Service and is as follows:
  - **Minimum draw down:** 2.5% of the balance in your Investment Account
  - **Maximum draw down:** The lesser of
    - 17.5% of the balance in your Investment Account
    - or
    - The amount of a guaranteed non-profit single life annuity (with no guarantee and no increases) that can be secured with the living annuity capital.
- When you die, your dependants take over your Account. Those relatives that are financially dependent on you take over your Account first. When they die, the balance in your Investment Account can be paid to your financially independent children. In this way your retirement capital can have value beyond your death and that of your spouse.
- Your Investment Account can run out of money and you may be left with a very low income in retirement. This can typically happen if:
  1. The investment return you earn on your Investment Account is low.
  2. The monthly drawings you make from your Investment Account are too high.
  3. You (and your spouse) live much longer than expected.
- The cost structure of a living annuity is typically higher than that of a life annuity as the investment fees are higher and you need to pay for the on-going advice you receive from an advisor regarding your investment strategy and monthly drawings.
- Some banks, depending on your level of income, offer services at a standard fee which is less expensive.
- You can apply your Investment Account to secure a life annuity before age 75. The later you do this, the cheaper the life annuity becomes.

In effect a living annuity works in the same way as your Member Share, but in reverse – instead of making contributions (paying into your Account); you are taking money out of your Account.

As above, in order to check your understanding of the features of a living annuity, please complete the following table by giving each of the features a rating of 0 to 4.

Feature of a living annuity	Your rating
Choice	
You must have a high degree of investment expertise	
Security	
Inheritability	
Low cost structure	

Our rating of the features in set out in the table below. Again you can check your understanding of a living annuity by comparing your rating to ours.

Feature of a living annuity	Fund's rating	Reason for rating
Choice	3	You have the flexibility to vary to your income and investment strategy each year
You must have a high degree of investment expertise	3	You will need to decide where your money is invested, although you may take advice in this regard
Security	1	There is a risk of running out of money investment returns are poor, you draw too much pension or you live too long
Inheritability	4	Your surviving spouse continues to receive a pension on your death
Low cost structure	1	This is more expensive structure

## WHICH TYPE OF PENSION BEST MEETS YOUR NEEDS?

The best way of assessing which type of pension best meets your needs you should first match-up how you voted for the different features with the key features of the main types of annuity.

Secondly you should consider whether any special circumstances apply to you.

### How you voted for the features

In this section you should compare the number of votes you cast for each feature with the key features of each of a life annuity and a living annuity.

Feature of a life annuity	Your rating	Number of votes you cast
Choice		
You must have a high degree of investment expertise		
Security		
Inheritability		
Low cost structure		

Feature of a living annuity	Your rating	Number of votes you cast
Choice		
You must have a high degree of investment expertise		
Security		
Inheritability		
Low cost structure		

As a starting point you should choose the type of pension that contains most of the features you have voted for.

### Special circumstances

#### If you are in ill-health

An important exception in your decision making process is if you know that you are in ill health at the time when you retire.

In this case a living annuity may be a suitable pension form. Life annuities are usually priced based on a normal life expectancy - a life annuity is clearly an expensive option if you have a shorter life expectancy than normal.

Of course the key difficulty with this is that very few members have sufficient information to take the view that their life expectancy will be shorter than normal. People often under-estimate how long they will live after retirement, particularly with improving medical techniques and research.

#### If your “basic needs” pension is much lower than total pension you can secure

Some people may find that their “basic needs” pension is lower than total pension they can secure.

It is easy to conclude that a life annuity (which targets increases each year more or less in line with inflation) is the best form of pension to meet your “basic needs” pension. On the other hand a living

annuity seems best suited towards meeting your “luxury needs”. (Providing inheritability for your independent children is a generally a luxury.)

In this case you may elect to use a life annuity to provide your “basic needs” and living annuity to cover your “luxury needs” (i.e. a combination of the two annuities).

### **If you were to emigrate**

If you were to emigrate on retirement, a living annuity represents a mechanism for taking your pension out of South Africa relatively quickly.

Given that you are now living offshore you ideally need to receive a pension based in the currency of your new home as opposed to Rand. With a living annuity you can draw 17.5% of your Investment Account balance each year. In this way you can accelerate the transfer of your pension offshore.

### **Quick guideline**

If in order to meet your basic needs pension you need to draw more than 7% of the capital you invest in a living annuity you should seriously reconsider whether a living annuity is appropriate for you. (This rule does not apply if you know you are in ill health at your retirement.)

## HOW MUCH CASH SHOULD I TAKE?

Your benefit on retirement is your Fund Credit in the PetroSA Retirement Fund. In terms of legislation and the rules of the Fund, you may use up to 100% of this amount to purchase a pension from a registered insurance company of your choice.

Alternatively, you may take any amount of your retirement benefits as a cash lump sum). The amount that you take in cash depends on your individual circumstances (*you should take advice in this regard*), but the following guidelines may be useful:

- It may be sensible to take a cash benefit to pay off any long term debts you have. Debt is expensive and a good investment is to pay it off.
- Depending on your tax position it may be sensible to take the maximum tax-free cash benefit you receive. You should invest this amount to give you an income in retirement, but in a more tax efficient manner than receiving a pension.
- You may find that your retirement capital is of such a level that even if you apply your entire benefit to secure a pension, you will not pay any tax (see the module titled "Taxation of Benefits" on the intranet for details.
- You need to be sure that you invest any amount you elect to receive in cash prudently. Ideally you should avoid complex investments that you cannot understand. The reality is that you probably will need to live off your retirement capital for the next 20 years

## HOW MUCH WILL MY PENSION BE?

The monthly pension you receive will depend on:

- How much of retirement benefit you decide to use for a pension benefit
- In the case of a **life annuity** the provision you make for future pension increases and for a pension to be paid to your spouse on your death
- In the case of a **living annuity** your pension will depend mainly on investment returns and how much you draw monthly as a pension

Some members may wish to consider an option where they apply part of their retirement capital to secure a life annuity and part to secure a living annuity – so-called **combination annuity**.

### Life annuity

A simplified description of a life annuity has been provided up to now. There are four classes of life annuity, namely a:

- Level annuity
- Inflation-linked annuity
- Guaranteed escalation annuity
- With-profit annuity

The fundamental difference is how these classes provide for future pension increases.

Inflation is likely to erode the value of your pension over time if you do not buy a pension that provides for **annual pension 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, R1 000 in 10 years' time than you can buy with it today.

**Example:** If you buy a pension of, say, R1 000 per month that does not increase in future (referred to as a level pension):

- If inflation is, say, 5% per year in future, then the R1 000 will only buy goods of equivalent value to R610 in 10 years' time and only R375 in 20 years' time.
- If inflation is, say, 10% per year in future, then the R1 000 will only buy goods of equivalent value to R385 in 10 years' time and only R150 in 20 years' time.

It is thus critically important that your pension makes some allowance to counter the effects of inflation each year. However, you do have a choice in this regard

This section also includes information on:

- How to choose between these different classes of annuity; and
- The other areas of choice you have in relation to a life annuity.

### Level annuity

As its name would imply, a level annuity makes no provision for future pension increases. This would suggest that a level annuity is unsuitable for meeting your Basic Needs pension.

Because a level annuity makes no provision for future pension increases, it will give you a much higher initial pension than a guaranteed escalation or with-profit pension. But, of course, the "price" for this higher initial pension is that you have significant exposure to inflation risk.

You could experience a high degree of regret if you elect a level annuity and future inflation is high and you (and/or your spouse) live a long time.

We need to be clear that investing in a level annuity is not necessarily a bad investment. If you invest in a level annuity at a time when interest rates are very high and future inflation turns out to be benign, a level annuity will be a very good investment. The problem is that there are other scenarios (e.g. high inflation) where you could regret your decision to invest in a level annuity.

## **Inflation-linked annuity**

As its name implies, an inflation-linked annuity makes provision for future annual pension increases equal to inflation.

This particular pension is the most expensive to purchase, therefore giving you the lowest initial pension. However, the “reward” of this lower initial pension is that you will never be exposed to inflation risk

## **Guaranteed escalation annuity**

This class of annuity makes provision for your pension to increase each year by a fixed percentage (e.g. 7% p.a.). Please note that if inflation is lower than the guaranteed level of pension increase you have selected, your increase may be limited to inflation.

The most important consideration here is that you need to choose the level of the guaranteed annual increase. The danger is that you choose too a low a level of annual increase when future inflation turns out to be higher. In electing a guaranteed escalation annuity you are still exposed to inflation risk, but (depending on the level of increase you chose) at a much lower level than a level annuity.

You need to be aware that if you choose too a high level of increase (which you will pay for) and future inflation turns out to be lower, your increases may be limited to inflation (i.e. you would have overpaid for the guarantee).

The clear advantage of this approach is that the annual level of pension increase is guaranteed.

## **With-profit annuity**

Under a with-profit life annuity, the Insurance company uses the investment return earned on the assets backing the pension to declare an **annual pension increase**. The increases are not guaranteed and their quantum depends on the investment return earned – the Insurance company will smooth the pension increases over time, either through a smoothing formula or by the bonuses declared by the Insurance company.

So what this means is that your pension is secured assuming a low future interest rate (e.g. 3.5% p.a – this rate is also known as the ‘pricing basis’). The difference between future investment returns (suitably smoothed by the Insurer after allowing for its capital and shareholder charges) and this pricing basis (3.5% p.a. in the example) will be declared as an annual pension increase.

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

**Example: A with-profit life annuity** is purchased using a pricing basis of 3.5% per year.

- If the investments backing this pension earn returns of, say, 15% in the first year and 3.5% in the second year, then an 11.5% pension increase would be affordable at the end of the first year (calculated as 15% minus the 3.5% pricing basis) and no increase would be affordable at the end of the second year (as the 3.5% investment return is not more than the pricing basis).

- In practice, the Insurance company will also look to smooth pension 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% at the end of the first year (i.e. keeping back 4.5% of the affordable return) and then grant an increase of, say, 4.5% at the end of the second year.

**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 pensions because future **annual pension increases** are not guaranteed. Increases, once granted can never be taken away and your pension will never decrease. Increases can be zero in the event of persistent poor investment performance.

The main disadvantage of a with-profit annuity is that if investment returns are poor, then you may receive no pension increase. Remember, however, that your current pension is guaranteed.

Note: The standard pension quotations (and the alternate pension quotations you can access via the web sites of the Insurance Companies) are based on a 3.5% pricing basis – based on a long term inflation assumption of 5.5% p.a. this is expected to allow for future pension increases of between 70% and 80% of inflation over the longer term. Future pension increases are however not guaranteed and may be below or above this level.

## Comparing a guaranteed escalation and with-profit annuity

If one makes the assumption that investment returns move in line with inflation over the long term (an assumption that was borne out historically and is consistent from an economic theory point of view), then a with-profit annuity is a better match for the inflation risk than a guaranteed escalation annuity.

On the other hand if investment returns are poor, the guaranteed escalation annuity provides a guaranteed increase (limited to inflation), whereas a with-profit annuity may provide no increase. There is thus greater investment risk with a with-profit annuity.

Based on historical statistics, inflation risk has been a greater risk than investment risk over a longer period, suggesting that a with-profit pension is preferred to a guaranteed escalation annuity. However, the future may be different and there are certainly scenarios under which a guaranteed escalation annuity will do better than a with-profit annuity.

## Other important terminology to understand

### SECOND LIFE

The **second life** is the person you nominate to continue to receive your pension in the event of your death. This could be your spouse (husband or wife) but could also be any other nominated person.

### SINGLE AND JOINT LIFE ANNUITIES

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

The benefit of buying a **joint life pension** is that the second life will continue to receive a pension after your death, ensuring that they can maintain their standard of living if you pass away.

## Other choices you have

In addition to the choice you have about the level of future pension increases, if you elect a life annuity you can also choose:

- What pension your spouse should receive on your death; and
- The minimum period for which your pension should be paid.

Please note that there are other areas where you have choice about how you structure your life annuity (e.g. you can provide for a lump sum benefit on your death), but these less common options fall outside the scope of this note.

### SPOUSE'S PENSION/SECOND LIFE PERCENTAGE

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

You can elect the percentage of your pension that should be paid to your spouse/other on your death. Taking into account the reduced cost of supporting one person as opposed to two, the most common second life percentage is 75% of your pension. (This 75% assumes that you take 1/3rd of your retirement money in cash.)

There is no reduction to your pension if your nominated second life passes away before you do.

**Example:** You buy a **joint life pension** with a **second life percentage** on death of 75%.

- If you pass away (and the second life is still alive) when your monthly pension is R1 000, this will reduce to R750 (75% of R1 000) and will be payable to the second life for the rest of his/her life.
- If your nominated second life passes away (and you are still alive) when your monthly pension is R1 000, this *pension (with no reduction) will continue to be paid to you for the rest of your life.*

Again, by choosing a higher percentage, you improve the inheritability of your pension at the "price" of a lower pension.

### MINIMUM PENSION PERIOD (ALSO KNOWN AS GUARANTEED PERIOD)

**Life annuities** can be bought which make provision for the payment of your pension (without reduction) for a minimum period after retirement, regardless of whether you survive to the end of that period or not. You can elect that your pension should be paid for a minimum period of say 5, 10 or even 15 years, even if you and your spouse (if applicable) were to die in this period. By including a guaranteed period you improve the inheritability of your pension, but the "price" is that you reduce the amount of your pension.

A **guarantee period** is simply insurance against passing away soon after buying a life pension 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 pension then you will receive your pension for those 2 years and a lump sum amount of 8 times your annual pension 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 pension then you will receive your pension for the full 30 years up until the date of your death after which the pension will stop.

**Example (joint life annuity):** You buy a **joint life annuity** with a **guarantee period** of 10 years and a **second life percentage** on death of 75%:

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

The common practice is to have a term certain period of 5 years, with a 10 and 15-year term certain period being less common.

## **FURTHER LIFE ANNUITY OPTION AVAILABLE TO MEMBERS**

**A detailed communique can be read if you are interested in this option. The guide is called “Commission free with profit pension quotations”. A detailed and simplified guide is available.**

**The information shown below is therefore only a very brief overview.**

### **An arrangement between the PetroSA Retirement Fund and Momentum and Old Mutual**

The PetroSA Retirement Fund will be offering members the option to purchase a With-Profit Life Annuity from either Momentum or Old Mutual. How a With-Profit annuity works was discussed earlier on in this guide. If you choose this option, it is important to note that this pension will not be paid by the PetroSA Retirement Fund. It will be paid by the Insurer that you ultimately choose. As this is an arrangement between the PetroSA Retirement Fund and Momentum/Old Mutual, the costs will be lower as no broker commission will be payable.

Bear in mind that the Fund will not provide you with any advice in this regard.

**For those members that are interested, quotations will be available from both Momentum & Old Mutual. The process to follow will be as follows:**

- Contact your Human Capital (HC) department.
- HC department will then generate a quote request based on the exit discussion with you.
- HC department will then supply you with a detailed information document on the annuity options available from the two Insurance companies.
- The quote request will then be passed on to the Principal Officer’s (PO) office
- The PO’s office will then dispatch the quote request to Alexander Forbes (the administrators)
- Alexander Forbes will then dispatch the quote request to the Insurers.
- Once the quote is completed, the Insurer/s will send them back to Alexander Forbes who will then pass it on to HC department
- HC department will then pass the quote to you so that you can then make a final decision.

### **Quotation parameters**

This sets out the quotation parameters for **PetroSA Retirement Fund** in respect of the annuity quotes on retirement for:

- The standard automated quotes sent to all retirees by Old Mutual and Metropolitan.
- The limits allowed for members who request alternate quotes via the Old Mutual and Metropolitan websites.

The same parameters apply for both Old Mutual and Metropolitan to ensure comparable quotes.

<b>Parameter</b>	<b>Standard quotes</b>	<b>Alternate quotes</b>
<b>Annuity type</b>	With-profit life annuity	With-profit life annuity
<b>Pricing basis</b>	3.5% net interest rate	3.5% net interest rate
<b>Commutation permitted</b>	Not applicable	Not applicable
<b>Spouse's contingent pension</b>	Yes, if member is married	Single or joint life
<b>Spouse's percentage</b>	Percentage of pensioner's pension at the date of death	
	75%	75, 50% or 0%
<b>Guarantee period</b>	Guarantee period in years	
	5	5
<b>Other contingent pensions</b>	No	No
<b>First pension increase</b>	Proportionate on 1 April following retirement	Proportionate on 1 April following retirement
<b>Commissions</b>	0%	0%

## IN-HOUSE LIVING ANNUITY OFFERED BY THE PETROSA RETIREMENT FUND

The PetroSA Retirement Fund also offers members an in-house Living Annuity direct from the Fund. See separate guide called **“In-house Living Annuity Option”** for more details.

## COMBINATION ANNUITY

Some members may wish to consider an option where they apply part of their retirement capital to secure a life annuity and part to secure a living annuity. There are rules set by SARS on how a “combination annuity” can be structured – you should take specialist advice on this.