RETIREMENT OPTIONS GUIDE

PetroSA Retirement Fund

All about your fund and what it does for you

LEGAL 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 doe 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 FUND – YOUR DECISIONS

You may be thinking of taking your retirement benefit from the Fund

Your retirement is an important milestone in your life. The money you have accumulated is potentially the largest saving you have to date and how best to use these savings for your future can be a rather daunting decision.

Your options on retirement from the Fund are as follows:
- Purchase a LIFE annuity from an insurer
- Take a LIVING annuity from the Fund
- Take a LIVING annuity from an insurer / asset manager
- Take cash*
- Combination of cash and any of the above

The purpose of this guide is to outline the options which are available to you and guide you through some of the considerations which you will need to bear in mind.

In addition to this Retirement Options Guide, you are also provided with the following:
- Retirement Options Roadmap provides a graphic for the process
- In-Fund living annuity guide provides more detailed information around the PetroSA Retirement Fund living annuity
- With profits annuity guide (provides more detailed information around the quotations which PetroSA Retirement Fund has obtained for you from one insurer)
- Indicative with profits annuity quotation (this will be sourced using your fund credit at a particular point and using paramenets as set out in the With Profits annuity guide)

If you have no idea what any of the above mean:
- Take a deep breath and relax – these are all new concepts
- Read the provided documents at least twice
- Come to a **retirement workshop** where these concepts will be explained further
- Speak to a financial advisor (though if you do please make sure that they have YOUR best interests at heart and outline all the risks and disclose the cost and commission structures. We have seen too many instances where financial advisors place clients in a living annuity where the clients do not understand the risks involved, simply because of the attractive commission structure for the advisor). BE AWARE and make an effort to know something.

TAKING CASH VS TAKING A PENSION

You can use the **full benefit to buy a pension** from an insurer and / or from the Fund (the pension payments will be subject to tax) OR

You can take **a maximum of your full vested benefit plus one third of the non-vested benefit in cash** as a lump sum (though this will be subject to tax) and **use the rest to buy a pension** from an insurer and / or the Fund (the pension payments will be subject to tax)

Vested benefit: Any amount in any provident fund of which you were a member as at 1 March 2021 (including the PetroSA Fund) which is ultimately transferred into the PetroSA Fund (even if it is first transferred somewhere else), plus returns thereon. Plus, if you were over 55 and a member of the PetroSA Fund on 1 March 2021, the contributions to the PetroSA Fund after 1 March 2021, plus fund returns thereon. This amount may be taken in cash on retirement.

Non-vested benefit: Any amount contributed to any fund after 1 March 2021 plus returns thereon, which is ultimately transferred to the PetroSA Fund, and all contributions to the PetroSA Fund after 1 March 2021 (except for those who were over 55 and members of the PetroSA Fund as at 1 March 2021 in which case these are vested benefits). If this amount is lower than R247,500 at retirement, it may be taken in cash. If not, a maximum of one-third may be taken in cash and the remainder must be used to purchase a pension.

TAKING CASH

Any amount which is taken in cash at retirement will be subject to tax. The current tax table (effective 1 March 2021) is as follows (please note that any previous amounts taken in cash from a retirement fund will be taken into account in this calculation):

Amount taken as a lump sum at retirement (this includes bonus and gratuity)	Tax payable
R0 – R500 000	0%
R500 001 – R700 000	18% of the amount above R500 000
R700 001 – R1 050 000	R36 000 + 27% of the amount above R700 000
Above R1 050 001	R130 500 + 36% of the amount above R1 050 000

The more cash you take, the less is available to fund your pension. For some pointers around the considerations in how much cash to take, please see the section on “Retirement Considerations” later on.

TAKING A PENSION – LIFE vs LIVING ANNUITY

There is no tax payable on the amount used to purchase an annuity (or pension) of any type, though the pension paid will be subject to income tax.

You can choose to take a **LIFE annuity** (from an Insurer) or a **LIVING annuity** (from the Fund or from an external provider such as an insurer or asset manager). Though they sound the same, they are very very different.

In the case of a **LIFE annuity**, you pay over an amount to an insurer in return for a pension. The amount of initial pension that you will receive is set by the insurer (as set out in a quotation and based on the terms and pension increases which you choose), and the pension is guaranteed to be paid for the rest of your life.

A **LIVING annuity** works somewhat like a bank account. You decide where the money is to be invested, and how much of this money you want to take as a pension in each year (minimum 2.5% and maximum 17.5% of the capital value). If you take too much out too quickly or the investment markets have poor performance, or you live longer than you thought you would, the "account" may decrease to such an extent that the income provided is meaningless. A living annuity can be purchased from the Fund or from a registered insurer.

The differences are briefly shown in the table below:

	Life Annuity - Insurer	**Living annuity – PetroSA OR Insurer OR asset manager**
Vehicle	You purchase an Insurance Policy	Functions like a "Bank account"
Until when is it payable?	Current pension is **guaranteed** as long as you live	Until living annuity balance is depleted
Pension amount	Set by insurer depending on type of pension, increases and terms Should increase each year	You decide how much pension you want every year (subject to minimum 2.5% and maximum 17.5% of your capital)
Investment expertise needed	None	You decide how the living annuity balance should be invested
Decision making required	At point of purchase need to decide: - Type of pension - Level of pension increases - How much pension should your spouse receive on death	Every year you need to decide the amount of pension and where the living annuity balance should be invested
Inheritability	None (except where you choose for a portion of your pension to be paid to your spouse on your death)	Your living annuity balance is available for your dependants on your death
Ability to change later	Not permitted	Permitted – can purchase another living annuity of life annuity Can change investment choice and pension amount annually
Risks	You don't get anything back if you die shortly after purchasing the pension (on the other side, you still get paid even if you live until 125!)	Risk of outliving your capital – if you take too high a pension or investment returns are poor or you live longer than expected, you can run out of pension
Costs	Typically lower	Typically higher In-fund living annuity typically has lower costs than an external living annuity

LIFE Annuities – more detail

In the case of a **LIFE annuity**, you pay over an amount to an insurer in return for a pension. The amount of initial pension that you will receive is set by the insurer (as set out in a quotation and based on the terms and pension increases which you choose), and the pension is guaranteed to be paid for the rest of your life.

The advantages and disadvantages of a **Life Annuity** are shown in the table below:

Advantages	Disadvantages
Pension is guaranteed to be paid for life, and in accordance with your wishes as regards guarantee term and provision for your spouse.	No flexibility in level of pension, once the pension has been set up.
You can specify a guarantee term of (e.g.) 5 years, which means that the pension is guaranteed to be payable to your dependents even if you and your spouse both die before the end of the guarantee term.	If you and your spouse both die after the "guarantee term" has ended, no benefits are available for your dependants or estate.
You don't have to make any management decisions except at the point of retirement. At this point you decide the type of increases, the "guarantee" and "spouse reversion"	No possibility of exit.

This may be a good option for you (compared to the Living Annuity) if any of the following apply:

- You want a guarantee that your pension will be paid for the rest of your life and not run out
- You are in good health and expect to live linger than most people your age
- Your children are or soon will be financially independent
- You don't want the responsibility of making decisions about your pension (investment choice and amount) continually until you die (possibly at the age of 90+)

There are SOME decisions which you need to make at the point of retirement which will determine the terms of the pension and also the level of initial pension such as:

1. **Guaranteed period** – Life Annuities can be purchased with no guaranteed period, or with a specified guaranteed period. Where no guaranteed period is chosen, the pension stops immediately on your death. Where a guaranteed period is chosen (e.g. 5 or 10 years) then, should you die *before* the end of the guaranteed period, the full amount of the pension (together with any increases) will continue to be paid for what is left of the guaranteed period. The longer the guaranteed period selected, the lower the starting level of the pension.

2. **Pension payable to your spouse on your death** – the pension can make provision for a pension to continue to your surviving spouse or life partner after your death. The starting pension will be lower if a spouse's pension is allowed for. The spouse's pension will usually be expressed as a percentage (e.g. 75%) of the original pension, because your spouse's income needs may be lower after your death. In the event of an your death before the expiry of the guaranteed period, the full pension will be payable for what is left of the guaranteed period before reducing.

3. **Future pension increases** – the pension can be level (not increase) or provide for annual pension increases. The higher the annual increases or the guarantee of increases, the lower the starting pension. If you purchase an pension you must consider the impact of future inflation and avoid the temptation of choosing a higher starting pension that does not provide for future increases.

There are four types of Life annuities, which differ in the pension increases which are awarded to pensions which are shown on the next page:

Inflation Linked Life Annuity	With Profits Life Annuity	Fixed increase Life Annuity	Level Life Annuity
You pay over an amount to an insurer in return for a pension (the initial amount is set by the insurer at the time of purchase) which will increase **with inflation** every year and will be paid for the rest of your life.	You pay over an amount to an insurer in return for a pension (the initial amount is set by the insurer) which will increase **as determined by the insurer** every year based on investment performance and will be paid for the rest of your life.	You pay over an amount to an insurer in return for a pension (the initial amount is set by the insurer at the time of purchase) which will increase at a **fixed %** every year and will be paid for the rest of your life.	You pay over an amount to an insurer in return for a pension (the initial amount is set by the insurer at the time of purchase) which will **never increase** and will be paid for the rest of your life.
Pension increases are **guaranteed** to keep up with inflation and are not linked to investment performance. Pensions never decrease.	Pension increases are determined by the insurer depending on investment performance – these could be 0% in poor years, or higher than inflation in good years. Pension increase determined as investment performance less post retirement interest rate (pri) (set at pricing). So if investment return is 8% and pension was priced at pri of 3.5% you can expect a pension increase of 4.5%. The higher the PRI the higher the initial pension, but the lower the expected future increases.	Pension increases are fixed at the determined percentage – (typically 5% is used). Thus some inflation protection is provided.	There are no pension increases. Ever. Thus obviously your pension loses purchasing power quite quickly.
Lowest initial pension.	Higher initial pension.	Higher initial pension	Highest initial pension
Good option for you if:	Good option for you if:	Good option for you if:	Good option for you if:
- You want certainty around the amount of pension which you will receive, be protected against inflation and know that this will be paid for as long as you live. - Future investment performance is poor. - This is your only source of income in retirement.	- You are willing to tolerate the possibility of lower than inflation pension increases in return for the possibility of higher than inflation pension increases. You want a pension that will be paid for as long as you live. -Future investment performance is good. - You have alternative inflation linked income in retirement.	- You want some inflation protection but have not saved enough for retirement to be able to afford wither a with-profits of inflation linked pension	- You have alternative income in retirement

If you are in poor health or have some risk factors, you may benefit from an impaired life / enhanced annuity. In this case, the initial pension is higher than with a traditional annuity as the insurer takes your lower life expectancy into account when calculating your pension. Speak to your financial advisor about these.

THE FUND will obtain a WITH PROFIT quotations for you on specific terms, from one provider (Old Mutual Platinum Pension 2003). Please see the WITH PROFITS GUIDE for more detail. This is **commission free** so lower cost that you would otherwise pay if you took the same product in the market. Of course you may vary the terms and/or go to a provider of your choice.

LIVING Annuities – more detail

The **LIVING annuity** works somewhat like a bank account. You decide where the money is to be invested, and how much of this money you want to take as a pension in each year (minimum 2.5% and maximum 17.5% of the capital value). If you take too much out too quickly or the investment markets have poor performance or you live for longer than you thought you would, the “account” may decrease to such an extent that the income provided is meaningless.

NOTE:

The Financial Service Conduct Authority (FSCA) has recently released a “Draft Conduct Standard” on appropriate living annuity draw downs.

These draw-downs (as shown in the tables below) will not be enforced in the case of the in-house PetroSA Retirement Fund Living Annuitants. However, it is important that all members understand that these draw-downs, are what the FSCA would ideally like to see all Living Annuitants abide by. The Fund strongly encourages all living annuitants to try to adhere to these draw-down guidelines.

Recommended draw-down rates | **Recommended maximun draw-down limits**

Age	Draw-down	Age	Draw-down
55	4.0%	55	6.5%
60	4.5%	60	7.0%
65	5.0%	65	8.0%
70	5.0%	70	8.0%
75	5.5%	75	8.5%
80	6.0%	80	9.5%
85	7.0%	85	11.5%

You will need to review the draw-down every year on your living annuity anniversary. The Fund will remind you of this and provide some guidance around areasonable level of drawdown. **If you do not return the form, your drawdown will be set at the lower of your previously elected drawdown and the drawdown which maintains the pension amount at the same Rand value.**

Living annuities are very flexible products and offer many attractions to the sophisticated investor. They do, however, have some significant challenges.

The advantages and disadvantages of a Living Annuity are shown below:

Advantages	Disadvantages
You control amount of pension which you take – so you can adjust it to changing needs.	You may take too much pension and end up with too little money to last until your death.
You have full control and make active decisions.	You have full control over where the money is invested and pension amount – will you be able to make sound decisions when you are older?
You gain fully from good investment performance.	You lose fully from poor investment performance.
When you die, the remainder of the “account” is paid to your dependants or nominees.	You may live longer than expected, ending up with too little money to last until your death.
You can exit and buy a Life Annuity later.	Drawing too much, or poor investment performance, may result in a decreasing pension.

This may be a good option for you (compared to a Life Annuity) if:

- You are willing to tolerate the possibility that your pension may run out at some point before your death; AND
- You are happy to carry the responsibility of making decisions about your pension (investment and amount) continually until you die (possibly at the age of 90+); AND
- One or more of the following applies:
    - ✓ You have another source of income which increases with inflation which can meet your "basic needs" and will use the living annuity to fund "luxury" needs
    - ✓ You will continue to work in retirement
    - ✓ You expect to emigrate and will need to "transfer" your retirement savings offshore
    - ✓ You are in poor health and expect to live shorter than most people (less than say 10 years); and/or
    - ✓ You need to leave something for your estate because your children are likely not to be financially independent

In summary, with a Living Annuity, you make the decisions (around where the money is invested and how much annual pension you take), have the most flexibility and have the least guarantee that your pension will last until your death. You bear the investment risk and the risk of living too long!

It is your responsibility (in consultation with the financial adviser) to ensure that the income level selected is at a level that will be sustainable for a lifetime. The income drawdown relative to the investment return on the capital to achieve this, needs to be carefully managed.

Speaking to a competent financial advisor is invaluable in helping you to decide whether a Living Annuity is the right choice for you, and if so, to help you to manage the risks involved. Apart from explaining both the advantages and the risks of a Living Annuity, a financial adviser must explain and compare these advantages and risks against LIFE annuities, where a long-term insurer carries the full investment risk and the risk of you living longer than expected.

The FUND offers members the option of an In Fund Living annuity. Please see the IN-FUND LIVING ANNUITY GUIDE for more details.

Of course you do not have to purchase the living annuity from the Fund and can rather take a living annuity from an insurer or asset manager. The differences between a living annuity purchased in-Fund and a living annuity from an external provider are shown in the table below:

PetroSA Retirement Fund	External
Stay invested in the PetroSA Retirment Fund portfolios	Wide choice of portfolios available
Lower fees	Higher fees
No commission is payable	Commission is usually payable
Portfolios are Regulation 28 compliant – as per the Pension Funds Act, limitations on amount which can be invested offshore or in equities	Portfolios not subject to Regulation 28
S37C death distribution – i.e. Trustees decide on the allocation of the remainder of your benefits to beneficiaries in line with the Pension Funds Act (same as when you were a member of the Fund)	Death benefits are not typically subject to S37C
Cannot mix with other annuities – ie cannot purchase an in fund living annuity and any annuity from an insurer	Can mix with other annuities – so can purchase part living and part life annuity with an external insurer
Can use the living annuity balance to purchase a living of life annuity from an external provider anytime in future	Cannot transfer back to PetroSA Retirement Fund living annuity later

RETIREMENT CONSIDERATIONS

To help you in your decision-making we have followed the **6-step retirement planning model**:

Step 1: **What are your needs in retirement?**
Step 2: **What are the key risks you face in retirement?**
Step 3: **How much cash should you take?**
Step 4: **What are the key features of a pension?**
Step 5: **Understanding the key features of different types of pensions**
Step 6: **Making the choice**

Please read this guide carefully and attend one of the presentations on the subject.

STEP 1: What are your needs in retirement?

BASIC NEEDS refer to 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;
- Food for you and your family;
- Clothes;
- Medical expenses; and
- Transport.

Basic needs are non-negotiables and therefore are best matched with an inflation linked LIFE annuity.

LUXURY NEEDS refer to income which is nice to have but not necessary for survival. Since these are not necessary for survival and can be variable, these can be matched with a LIVING annuity.

Having defined your needs, one needs to consider what key risks you face in meeting those needs and how one can manage these risks. In managing your risks, you should be most concerned about minimizing the chance of outcomes that cause you a great deal of regret and difficulty.

STEP 2: What are the risks you face in retirement?

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 – refers to the chance that investment returns earned on the money invested in retirement is insufficient to provide a reasonable income throughout your retirement. Investment risk is highest with a LIVING annuity and lowest with an inflation linked LIFE annuity
- Inflation risk – refers to inflation reducing purchasing power. It is important to invest your retirement money in such a way that the portion which funds your basic needs is expected to increase with inflation. Inflation risk is lowest with an inflation linked LIFE annuity.
- Mortality risk - Somewhat surprisingly, the risk of living too long! The longer you live, the more money you need to have saved for your pension. Many people have a pessimistic view of how much longer they will live once they retire. A male retiring at 65 is expected to live for another 14 years on average, while a female 18 years! And life expectancy is increasing all the time thanks to medical advancements. Mortality risk is lowest with a LIFE annuity (which guarantees payment for life) and highest with a LIVING annuity.

These are not the extent of the risks you potentially face. Further risks include:

- Risk of poor health (increasing medical expenses)
- Loss of a spouse/partner – reduced household income
- Unexpected/Unplanned risks

STEP 3: How much cash should you take?

In deciding how much cash to take, you should consider the following, as well as any other personal circumstances:

- any debts that should be repaid (e.g. house bond);
- your tax position;
- future accommodation plans, particularly in the event of old age and the need for frail care;
- your marital status and/or the need to provide for other financial dependants;
- your state of health (and that of any financial dependants you may have) and future medical costs;
- any current and future anticipated cash needs that require funding (e.g. overseas trip, replacement of car, children's education, purchase of property);
- any other investments you have outside the Fund;
- other sources of income (e.g. maintenance payments, retirement occupation, leave pay, other investment income);
- any life assurance policies that would make provision for dependants in the event of your death after retirement; and
- importantly, the reduction in future income (pension) that will result from taking part of your benefit in the form of cash.

In general, you should not take more of your retirement benefit in the form of cash than you need to, thus leaving as much as possible to secure an income that will last the rest of your life. You may, however, wish to take some cash to hold as a source of liquid cash when unexpected expenses rise. The most appropriate vehicle for the investment of such a cash lump sum will generally depend on the likely time horizon before cash is required.

Remember that any amount which is taken in cash will be taxed as mentioned earlier in this note.

STEP 4: What are the key features of a pension?

In deciding which pension is more appropriate for your needs you need to consider the following:

- **Choice and flexiblity** regarding amount of pension and investment choice (for a LIVING annuity) and guarantees, spouse pension and type of pension increase (for a LIFE annuity); and the ability or change to exit the contract
- **Investment expertise** required to manage your pension;
- **Security** – i.e. the extent to which your pension is guaranteed to last you for your lifetime and the extent to which it will increase;
- **Inheritability** – i.e. the extent to which your dependants will be able to benfit from your pension when you die
- **Risks** – the risks which you are exposed to and protected from
- **Costs**

These are compared on page 3.

STEP 4: Understanding the different types of pensions

The differences between LIFE and LIVING annuities, different types of LIFE annuities and their features and some details pertaining to LIVING annuities have been discussed in detail earlier in this note.

STEP 5: Making the choice

Armed with the information which you now have, you need to make the decision:

- How much to take in cash (subject to the tax laws);
- How much (if any) to use to purchase a LIFE annuity. Further decisions revolve around:
  a. Pension increase (inflation linked / with profits / fixed increase)
  b. Guarantee period
  c. Spouse percentage
  d. Provider
- How much (if any) to use to purchase a LIVING annuity. Further decisions revolve around:
  a. In Fund or external provider;
  b. What level of drawdown (pension) to take;
  c. What investment choice to make.

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