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 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.

INTRODUCTION

Your retirement is an important milestone in your life. The money you have accumulated in your fund over the duration of your membership is potentially the largest savings you have to date, and the purpose of this guide is to provide you with all the information you require to understand how these savings can provide you with an income in retirement.

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 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 which provides a graphic illustration of the process
- In-Fund living annuity guide which 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 parametars as set out in the With Profits annuity guide).

CONSIDERING THE OPTIONS AVAILABLE ON RETIREMENT

You will receive a statement that reflects the value of your member share account (i.e. your retirement savings). 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?

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**: How much pension can I secure with my retirement savings?**
Step 7: **Making the choice**

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

STEP1: RETIREMENT NEEDS

BASIC NEEDS refer to the *minimum income* that you and your dependents 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: 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 age 65 is expected to live for another 14 years on average, while a female averages at 18 years! 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 VERSUS PENSION?

With effect from 1 September 2024, there were some major changes affecting retirement funds in South Africa. It is therefore important to explain how things operated prior to this date. How the benefits work after 1 September 2024, is explained later.

Up until 1 September 2024, the Fund operated as follows:

NOTE: All the money in your fund was in one account called your Member Share Account. Contributions were made into this account and investment returns were credited to this account. However, members had no access to this money unless a benefit was paid out.

** If you joined the Fund prior to 1 March 2021 (and were under the age of 55), your Member Share Account was made up of two components viz. your Vested Account and your Non-Vested Account. For those members older than age 55 as at 1 March 2021, there was no change to the above – see detailed explanation below.

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 age 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 age 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.

Retirement benefit that applied prior to 1 September 2024:

You could 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 could 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).

What changed after 1 September 2024

On 1 September 2024, your Member Share became what we now call your VESTED POT. The Vested Pot includes all the money you saved up until 31 August 2024, less the seed capital. Your Vested Pot is now closed to new inflows, so you won't be able to contribute to this pot anymore. The good news is that the money you've saved in your vested pot will be invested and will keep growing with investment returns until you exit the Fund.

NOTE: The VESTED POT (whenever it is mentions), includes the Vested portion and Non-Vested portion (if you joined the Fund prior to 1 March 2021 and were under the age of 55. For those members older than age 55 as at 1 March 2021, there was no change as at 1 September 2024. Members in this category have an option to participate in the two pots system if they wish. They have one year (to 1 September 2025) to make a final decision regarding their participation in the two pots system.

Contributions payable after 1 September 2024, are paid as follows:

RETIREMENT POT

- 2/3rd of future net contributions from 1 September 2024 goes to the "Retirement Pot".
- Members will continue to earn investment returns on the monies in this Retirement Pot.
- The money in this pot **must** be preserved **until retirement.**
- On retirement, you **must** buy a pension with the entire amount in the Retirement Pot – except if Retirement Pot plus 2/3 of vested pot is less than *de minimis* amount (R165 000), in which case all may be withdrawn as a lump sum.

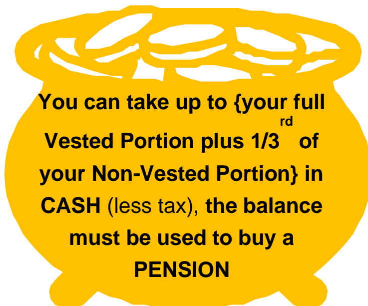
SAVINGS POT

- **1/3rd of future net contributions from 1 September 2024 goes into the "Savings Pot"**
- **You can withdraw (up to) once per year (tax year) from the Savings Pot**
- **Withdrawals from the Savings Pot are subject to certain conditions (taxation at marginal tax rate as well administration fees.**
- **There is also an initial once-off "Seed capital" amount that was transferred from your Vested Pot to the Savings Pot on 1 September 2024.**

Retirement benefit applicable from 1 September 2024:

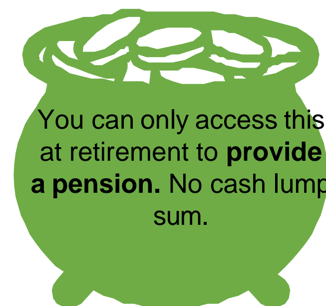
When you retire the amount in your Member Share Account will be paid to you as follows:

VESTED POT



SAVINGS POT

RETIREMENT POT



The balance of your money to purchase a pension, which is referred to above, must be used to provide a monthly pension either in the form of a Life annuity and/or a Living annuity. (This is a choice you will make once you are ready to retire.)

Any amount which is taken in cash at retirement will be subject to tax. The current tax table (effective 1 March 2023) is as follows (please note that any previous amounts taken in cash from a retirement fund will be taken into account in this calculation):

Lump sum death or retirement benefit	Tax liability
R0 to R 550 000	0%
From R550 001 to R770 000	18% of taxable income exceeding R550 000
From R770 001 to R1 150 000	R 39 600 plus 27% of taxable income exceeding R770 000
Exceeding R1 150 001	R143 550 plus 36% of taxable income exceeding R1 155 000

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 cash than you need to, thus leaving as much as possible to secure an income that will last for the rest of your life. You may, however, wish to take some cash to hold as a source of liquidty when unexpected expenses arise. The most appropriate vehicle for the investment of such a cash lump sum will generally depend on the likely time horizon before the cash is required.

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 the amount of pension and investment choice (for a LIVING annuity) and guarantees, spouse's 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**

STEP 5: DIFFERENT KINDS OF PENSIONS AND THEIR KEY FEATURES

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 R1 100 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.

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:** 17.5% of the balance in your Investment Account

- When you die, your dependents 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:
    - The investment return you earn on your Investment Account is low.
    - The monthly drawings you make from your Investment Account are too high.
    - 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 at any age. 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 Account, but in reverse – instead of making contributions (paying into your Account), you are taking money out of your Account.

Which type of pension best meets your needs?

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 the total pension you can secure

Some people may find that their "basic needs" pension is lower than the 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).

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).

The differences ar between a lIfe Annuity and a Living Annuity 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

STEP 6: WHAT PENSION CAN I SECURE WITH MY RETIREMENT SAVINGS?

How much cash can I take?

This was explained earlier.

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

A detailed explanation of the two types of pensions you can choose from is explained in detail below.

LIFE ANNUITY

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 the 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 longer 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 provided 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 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 a 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 due to the pension increases granted, 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. Therefore 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 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 options.

THE FUND will obtain a WITH PROFIT quotation 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 the cost is lower than 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 ANNUITY

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 Sector 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-down rates 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 a reasonable 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 the 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 the 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 purchased from an external provider are shown in the table below:

PetroSA Retirement Fund	External
Stay invested in the PetroSA Retirement 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
Section 37C 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 Section 37C
Cannot mix with other annuities – i.e. 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 or life annuity from an external provider anytime in future	Cannot transfer back to PetroSA Retirement Fund living annuity later

STEP 7: 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:
  - Pension increase (inflation linked / with profits / fixed increase)
  - Guarantee period
  - Spouse percentage
  - Provider
- How much (if any) to use to purchase a LIVING annuity. Further decisions revolve around:
  - In-Fund or external provider;
  - What level of drawdown (pension) to take;
  - What investment choice to make.

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