

# IN HOUSE LIVING ANNUITY GUIDE



## **PetroSA**

# **Retirement Fund**

*All about your fund and what it does for you*

### **LEGAL DISCLAIMER**

- This guide is extracted from the Rules of the Fund. In the event of a conflict between this guide and the Rules, the Rules will apply.
- The contents of this guide does not constitute advice either by the Trustees, or by its consultants.

## IN-HOUSE LIVING ANNUITY

### Congratulations on your retirement from the Fund!

If you are considering a living annuity, there are some decisions which you will need to make. You will need to decide:

- How much to take as a pension every year and how often this should be paid
- Where to invest your capital

These options are detailed further below.

In addition, you must complete **the nomination of beneficiary form** which will be used in the payment of death benefits. This can be done online, on AFConnect.

The living annuity functions like an Investment Account. This means that there are NO guarantees that it will be sufficient to pay you a pension until your death and your pension MAY run out.

$$\text{YOUR LIVING ANNUITY BALANCE} = \text{OPENING CAPITAL VALUE} - \text{PENSION PAYMENTS} + \text{INVESTMENT RETURNS} - \text{COSTS}$$

### OPENING CAPITAL VALUE

This is the value of your retirement benefit in the Fund, less any cash which you choose to take at retirement (subject to the tax laws). The more cash you choose to take at retirement, the less you have left to fund a pension for the rest of your life.

### PENSION PAYMENTS (DRAW-DOWN)

When you choose a living annuity, you must choose

- How much pension you wish to take per year
- How often do you wish for this to be paid (monthly / quarterly / bi-annually / annually)

How much pension to take per year is called a **draw-down rate** and is expressed as a percentage of your capital value. So, for example, if you want a pension of R10,000 per year and you have a capital value of R200,000 then the drawdown percentage will be 5% (10,000 / 200,000).

- The SARS requirements are that the draw-down rate is between 2.5% and 17.5%.

In choosing a suitable drawdown, you should take financial advice to make sure that your money does not run out. The higher the draw-down rate elected, the higher the chance of running out of capital quicker. For example, if you choose a draw-down rate of 17.5%, it is likely that your pension will start to reduce by year 2 and your capital will be depleted by year 5 (unless there are phenomenal investment returns, in which case this may be slightly longer).

### **NOTE:**

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

These draw-down rates (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 maximum 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 rate 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.**

**For any queries relating to your living annuity and draw-down rate, contact the Fund Administrator, AlexForbes on zzPetroSA.Admin@alexforbes.com**

## INVESTMENTS

The Fund offers you **MEMBER INVESTMENT CHOICE**. You need to decide which portfolios you want the contributions to be invested in from a range of portfolios (combinations are also permitted) as highlighted in the table below.

Portfolio name	Target return and comment
<b>Market Linked Portfolio</b>	Target return <b>CPI + 5%</b> per annum over a rolling 7 year period Highest potential return; highest volatility; highest chance of negative returns over short periods Most appropriate for long term investing (>10 years)
<b>Stable Portfolio</b>	Target return of <b>CPI + 3%</b> per annum over a rolling 3 year period Lower volatility than the Market Linked portfolio
<b>Money Market Portfolio</b>	Target Return of <b>CPI + 1%</b> per annum Least appropriate for long term investing Most chance of capital preservation
<b>Shari'ah Portfolio</b>	Target returns of <b>CPI + 4%</b> per annum over a rolling 5 year period Adheres to Shari'ah principles of the ban of interest and the ban on investment in certain sectors – e.g., conventional financial, alcohol and tobacco; non-halaal food production; some entertainment (e.g., casinos) and arms manufacturing.

You can change the investment choice at any time (costs of changing are shown on page 5).

If you do not make this choice, your capital value will be invested in the same portfolio as it was invested in prior to retirement.

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

## DIFFERENCE BETWEEN AN IN-HOUSE AND OUT OF FUND LIVING ANNUITY

The differences between the IN-FUND living annuity (provided by PetroSA Retirement Fund) and an OUT OF FUND living annuity (provided by insurers or asset managers) are shown below:

<b>PetroSA Retirement Fund</b>	<b>External</b>
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 of life annuity from an external provider anytime in future	Cannot transfer back to PetroSA Retirement Fund living annuity later

## BENEFITS PAYABLE ON DEATH

### What happens to my living annuity in the event of my death?

The remaining capital can continue to be paid to your Beneficiary or Beneficiaries as it was paid to you, or it can be taken as any other pension that may be purchased, or your Beneficiaries can elect to take a lump sum payment. The different options are explained in more detail below.

The individuals to whom the capital balance will be allocated, as well as the actual allocation, is determined by the Board in terms of Section 37C of the Pension Funds Act.

Section 37C of the Pension Funds Act and the PetroSA Retirement Fund rules state that in the event of your death, your benefit in the PetroSA Retirement Fund should be distributed as follows:

- to legal/financial dependants; or
- to legal/financial dependants and nominees; or
- if there are no legal/financial dependants, to nominees (but any deficit in your estate first has to be settled); or
- if there are no dependants or nominees, to your estate.

Although the Board will consider the members' wishes in terms of their nomination of Beneficiary form, the final decision of who will receive the PetroSA Retirement Fund death benefits rests with the Board, who must abide by the Rules of the Fund as well as Section 37C of the Pension Funds Act.

### The options available to the beneficiaries of a living annuity include the following:

**Option 1:** The beneficiary can choose to take a cash lump sum, with the lump sum amount being taxable in the hands of the deceased in accordance with the retirement tax tables. Where there are multiple beneficiaries, tax will be applied in respect of the total lump sums paid to all beneficiaries.

**Option 2:** Where a beneficiary chooses to transfer the annuity into a compulsory annuity in their own name, no tax will be paid on the transfer. However, the income payable from the annuity will be taxed in the hands of the beneficiary in accordance with their marginal tax rate.

**Option 3:** Where the beneficiary chooses a combination of a lump-sum withdrawal and a compulsory annuity, tax as set out in Option 1 and Option 2 above, will apply accordingly.

## **ADMINISTRATION AND FUND COSTS (applicable from 1 June 2024)**

Living annuitants – Initial fee = R 1291,05 plus VAT. Administration costs of R131,17 pmpm plus VAT deducted from living annuity balance.

**Switching costs** (cost of changing investment decision) – One switch in a year is free. Thereafter, the cost is R511,44 plus VAT per switch and is deducted from your account.

## **QUESTIONS OR QUERIES - CONTACT**

The Principal Officer: Belinda Burger\*

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**\*Ms Burger is an independent Principal Officer**

For any queries relating to your living annuity and draw-down rate, contact the Fund Administrator, AlexForbes on [zzPetroSA.Admin@alexforbes.com](mailto:zzPetroSA.Admin@alexforbes.com)

It is important to inform AlexForbes if you are a living annuitant and your contact details change, as they need to be able to communicate with you on an ongoing basis.

Beneficiary nomination forms can be completed or updated on AFConnect.

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