AUGUST 2025

CAPE PENINSULA UNIVERSITY OF TECHNOLOGY RETIREMENT FUND

PREFERRED ANNUITY STRATEGY

EFFECTIVE DATE: 1 JANUARY 2020
REVIEW DATE: AUGUST 2025

1. Introduction

On 25 August 2017, the Minister of Finance issued new Regulations 37, 38, 39 and 40 (referred to herein as the "Default Regulations") made in terms of the Pension Funds Act, 1956, as amended ("the Act"). With specific regard for Regulation 39, a requirement was put in place to provide an annuity strategy for retiring members with the expectation that existing retirement fund arrangements should have this in place no later than 1 March 2019.

The purpose of this practice note is to document, in a narrative form, the Cape Peninsula University of Technology Retirement Fund (*"the Fund"*) practice in relation to its preferred annuity strategy, in accordance with the Default Regulations.

Annuity strategy is defined as *"a strategy, as determined by the board, setting out the manner in which a member's retirement savings may be applied, with the member's consent, to provide an annuity or annuities by the fund or to purchase an annuity on behalf of the member from an external provider, which annuity or annuities may either be in the name of the member or in the name of the fund and which complies with the requirements of regulation 39 and any other conditions that may be prescribed from time to time."*

Regulation 39 deals specifically with the annuity strategy and outlines that Boards must ensure the proposed annuity strategy is appropriate (including aspects related to the level of income payable, the investment, inflation and other risks inherent in the income to be received by retiring members, and the level of income protection granted to beneficiaries in the event of the death of the member enrolled into the proposed annuity), have reasonable and competitive fees and charges which are disclosed to members, retirement benefits counselling is provided to members, and that the annuity strategy is reviewed annually.

The annuity strategy should represent a fund's preferred proposal for the average member of the fund to assist those members who may be uncomfortable making their own decisions at retirement.

2. Fund practice

Considering the requirements of the above, the Board of the Fund have considered numerous aspects and has adopted an annuity strategy as described below:

Fund's preferred annuity strategy

The Fund's preferred annuity strategy, as agreed by the Board, is a commission free with-profits life annuity which enables retirees, under no obligation, to purchase an annuity based on group rates without the need to pay commission to a financial advisor. The with-profits life annuity will be provided by either Momentum (MMI) or Old Mutual (OM) and is based upon the following parameters:

- A pension increase target of 70% to 100% of inflation, subject to returns earned on the invested assets and affordability. Based on information provided by the insurers, a net post retirement discount rate of 3.0% for OM and 1.5% for MMI are expected to target inflationary increases going forwards. This was agreed to be used as their respective defaults;
- A 5 year guarantee period;
- A 75% spouse's pension on death; and
- Members electing such a with-profit annuity may, however, specify an alternative structure by electing, for example, a different guarantee period and/or spouses reversion percentage.

Motivation for selected annuity strategy

A number of aspects were considered by the Board in selecting the preferred annuity strategy outlined above and included:

- Life annuities provide a regular monthly income until the retiree dies which suitably addresses liquidity and longevity risk on an individual level. Generally speaking, retirees also prefer smooth consumption to variable consumption and would favour an expected income which attracts lower risk. Life annuities address these aspects more satisfactorily than living annuities for the average member and also avoids pensioners having to make difficult and complicated decisions which have financially significant implications as they age.
- Provided investment profits keep pace with inflation, with profit annuities offer a suitable degree of inflation protection, but without the significant cost associated with purchasing guaranteed inflation protection i.e. inflation-linked annuities. We would note that the Board resolved to allow default quotations of different insurers to be based on different net post retirement discount rates resulting in MMI quotes to be quoted on a reduced net post retirement discount rate of 1.5% (from 3.0% prior to 2024) and Old Mutual on a net post retirement discount rate of 3.0% for the preferred annuity. This was based upon confirmation from each of the insurers around the expected future increases under the policy, where it was noted that each insurer has difference expectations for each level. Given the members look at these quotes side by side, it was agreed that the quotes would be more comparable to each other if the expected future increases under each of the options were aligned (rather than the net post retirement discount rates). As at the time of reviewing this policy, August 2025, this implied that MMI's rate should be around 1.5% lower than that of Old Mutual.
- The vast majority of members are not sufficiently financially sophisticated to properly manage both their investment and mortality risk after retirement. No member knows exactly when they (and their spouse, if applicable) will die. Accordingly, life annuities which include the option of not only a guaranteed period, but also a spouse's reversion provides meaningful income protection to beneficiaries.

- The Board recognises that there is no appetite for the Employer to stand as guarantor of guaranteed pension benefits and as such the above product will be sourced from an external registered insurer and not provided by the Fund. Currently, Momentum and Old Mutual are selected as providers which have acceptable and competitive pricing and both have a long established track record. This should be reviewed annually.

3. Communication and disclosure requirements

The following communication channels and resources will be made available to Fund members in order to provide a sufficient level of retirement benefits counselling, as envisaged by the Default Regulations, based around the Fund's Normal Retirement Age of 65:

- Members within seven years of retirement are invited to attend a Fund run presentation outlining the various options available to members around retirement;
- Member retirement packs are sent to members not less than three months from retirement as well as an obligation free, commission free with-profits life annuity quotations and which outlines the process for selecting a preferred annuity structure;
- Principal Officer to confirm whether members received their guide packs and annuity quotations; and
- At all times, Fund members have access to the Principal Officer and the Fund website.

This practice note has been agreed to by the Board Members and has been adopted in accordance with the Rules of the Fund.

Andre Veethling	
Chairperson of the Board	**Principal Officer**
	26 August 2025
Date	

Changes since implementation in 2020:

- In 2021 the net post retirement discount rate was reduced to 3.0% for both providers to allow for expected future returns being more muted.
- In 2022, additional flexibility and different strategies were considered, however, given the complexity of the options and the membership of the Fund, the current strategy was retained. The future expected increases under the two providers under the current structure were aligned to CPI which resulted in differing net post retirement discount rates being used for the two preferred providers.
- In 2024, the PRI for default quotations by MMI reduced from 2% to 1.5% to target CPI more closely.

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