Cape Peninsula University of Technology

CAPE PENINSULA UNIVERSITY OF TECHNOLOGY RETIREMENT FUND

OPTIONS AVAILABLE TO YOU WHEN YOU RETIRE

Legal disclaimer:

Investing your retirement capital is a complex area and every attempt has been made to simplify this guide for ease of understanding. This may result in some areas being covered in relatively little detail. Readers of this guide should note that:

- The information contained in this guide does not constitute advice by the Board of Trustees, its advisors or staff; and
- Members may need to seek expert financial advice before making a decision

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.

The CPUT Retirement Fund is a *Provident Fund* and because of this you can choose how much of your Member's Share must be paid to you as pension and/or a lump sum. If you want your entire benefit to be a lump sum, you must provide the Trustees with evidence that you have taken financial advice.

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 **5-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: What are the key features of a pension?

Step 4: Understanding the key features of different pensions

Step 5: Finally, what pension can I secure with my retirement savings?

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

STEP 1: 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 R8 000 per month is enough to cover their basic needs; others may feel that they need an income of R25 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.

STEP 2: THE RISKS YOU FACE IN RETIREMENT

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.

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; and
- 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.

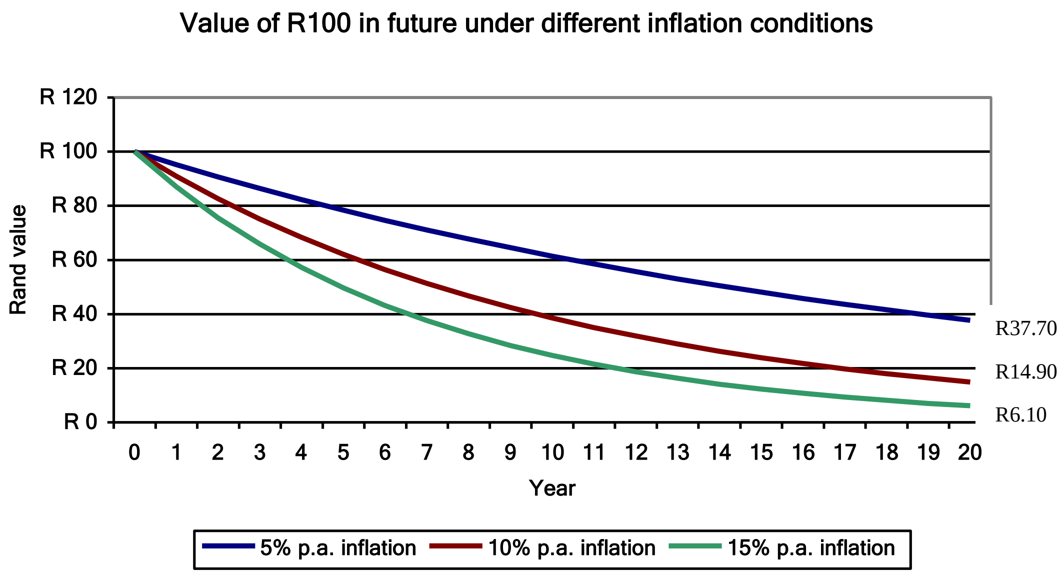
As a former member of a defined contribution arrangement, you should be aware of and have experienced investment risk. As you know investment risk depends largely on the asset class (e.g. shares, bonds or cash) in which you invest your money and your investment horizon.

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	25 years	31 years
60	21 years	26 years
65	17 years	21 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 people may increase.

STEP 3: 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 really has the five key features 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 how your money is invested. Such choice means that you have the flexibility to change your pension according to your needs every year.

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.

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. We would note that there is a trade off in that the higher you have your inheritable benefit, you would need to either receive a lower pension, or have a higher risk of not having enough money if you survive longer than expected.

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.

STEP 4: 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 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:
    - 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, 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 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).

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.)

STEP 5: WHAT PENSION CAN I SECURE WITH MY RETIREMENT SAVINGS

How much cash should I take?

Your benefit on retirement is your Member Share Account in the CPUT Retirement Fund. In terms of legislation and the rules of the Fund, you may use up to 100% (subject to limits imposed by legislation for retirees at some stage in the future) 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 (again subject to the limits imposed by legislation for retirees at some stage in the future). 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.
- 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.

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

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 (Trustee preferred option)

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 pension, 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. 3.0% 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 (3.0% 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 pension** is purchased using a pricing basis of 3.0% 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 12.0% pension increase would be affordable at the end of the first year (calculated as 15% minus the 3.0% pricing basis) and a 0.5% increase would be affordable at the end of the second year.
- 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 5.0% of the affordable return) and then grant an increase of, say, 5.5% at the end of the second year.

With-profit pensions, 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 3.0% 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 PENSIONS

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. Considering 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 pension**): You buy a **single life pension** 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 pension**): You buy a **joint life pension** 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 "With Profit Guide. The information shown below is only a very brief overview.

Trustee preferred option: A With-Profit Pension

The CPUT Retirement Fund offers members the option to purchase a With-Profit Life Annuity. The Trustees have reviewed providers and currently obtain quotes 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 CPUT Retirement Fund. It will be paid by the Insurer that you ultimately choose. As this is an arrangement between the CPUT 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 are available from both Momentum & Old Mutual. The process to follow will be as follows:

- Contact your Human Resources (HR) department.
- HR department will then generate a quote request based on the exit discussion with you.
- HR 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 the insurer/s.
- Once the quote is completed, the Insurer/s will send them back to the PO's office.
- The PO's office 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 **Cape Peninsula University of Technology 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.

Parameter	Standard quotes	Alternate quotes
Annuity type	With-profit life annuity	With-profit life annuity
Pricing basis	3.0% net interest rate	3.0% net interest rate
Commutation permitted	Not applicable	Not applicable
Spouse's contingent pension	Yes, if member is married	Single or joint life
Spouse's percentage	Percentage of pensioner's pension at the date of death	
	75%	75, 50% or 0%
Guarantee period	Guarantee period in years	
	5	5, 10 or 15 years
Other contingent pensions	No	No
First pension increase	Proportionate on 1 April following retirement	Proportionate on 1 April following retirement
Commissions	0%	0%

LIVING ANNUITY OFFERED BY THE CPUT RETIREMENT FUND

If you elect a living annuity from the CPUT Retirement Fund, a Living Annuity Capital Account will be maintained in your name. Your Living Annuity Capital Account will build-up as follows:

- The initial amount of your retirement capital that you elect to invest in a living annuity; plus
- The investment return earned on the balance in your account after deducting investment management expenses; less
- The pension paid to you; less
- The administration expenses (this includes an administration fee and fund expense fee).

Flexibility available to living annuitants

You have the following flexibility:

- You may invest your retirement capital in the same investment channels offered to in-service members of the defined contribution section.
- You will need to choose your monthly pension annually on the anniversary of your retirement within the requirements of the Income Tax Act. This Act currently requires that your monthly pension be fixed for 12 months and be between 2.5% and 17.5% of the balance in your Living Annuity Capital Account (subject to the maximum of a guaranteed non-profit single life annuity) at your choice date. This is further limited by the Trustees who, on the advice of the Actuary, are required to conduct a regular review of draw-downs to ensure that you are not drawing down too much of your capital annually and that your living annuity will last for your lifetime.
- You need to specify the channels from which the disinvestments must be made to pay your monthly pension.
- You may elect to convert your living annuity into a life annuity pension at any time. This can be with the Fund or with an outside Insurer.

<u>NOTE:</u>

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 CPUT 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.**

Rules for Living Annuitants of the Fund

1. You must make an active choice of your investment portfolio both initially and annually thereafter on the anniversary of the inception date – i.e. if you do not make an active choice your investments will be defaulted into the Medium-term Protection Portfolio.

   The Fund will prepare the necessary documentation and establish a process to ensure that this annual review is completed and that you make a choice.

2. You may elect any or all of the investment portfolios offered by the Fund, and you will be subject to the Fund's standard terms and conditions on switching portfolios. There is a default investment portfolio for those members not wanting to choose their own and it is the Medium-term protection Portfolio.

3. If you select more than one investment portfolio, then the draw-down % you select 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.

4. You are allowed one free switch of investment portfolios a year with effect from the anniversary of your inception date as a living annuitant. You may make further switches during the ensuing year (switches are permitted on a daily basis), but you will be charged a fee. The Fund's standard terms and conditions on switching apply. The switch fee is subject to review from time to time.

The Fund will institute the following limitations on living annuities:

Financial counselling and Rule Provisions

The Fund Rules provide for the trustees to require you to receive financial counselling at any time where the Trustees consider such to be in your best interest. You will be liable for paying the costs of such counselling.

Limitations with regard to the State Old Age Pension

The Fund Rules provide that where the living annuity account balance falls below the capital amount required to purchase the equivalent of the State Old Age Pension; you will be required to purchase a life annuity with the remaining balance from an insurer.

In order to provide you with sufficient warning of this situation the Fund will monitor the balance in your living annuity account. If at any time the living annuity account balance is less than *twice* the capital required to purchase the equivalent of the State Old Age Pension, you will be alerted to the need to receive financial counselling from a financial counsellor. You will be liable for paying the costs of such counselling.

Significant decline in market values

In the event of a significant decline in the market value of the living annuity account balance at any time in future resulting in your draw-down being greater than your maximum, the Fund will require you to elect a reduced Rand draw-down amount to fall within the allowable limits.

Failure to complete an option form

Failure to complete and submit an option form annually or at any other time as required by the Fund, will result in your investment strategy being retained as per your previous instruction and the pension draw-down percentage will be reduced to the legislated minimum of 2.5% per annum.

The draw-down percentage cannot be changed during the ensuing year except under extenuating circumstances and will also be subject to an additional fee, which will be levied by the Fund at the time.

Option Forms to be signed by the Fund

An option form is only valid if signed by the Fund. Accordingly, it is incumbent on you to ensure that you receive and retain in your records a copy of all option forms duly signed by the Fund.