Publication: Sunday Times (Gauteng), Business Times Money
Date: Sunday, September 03, 2017
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Helping you navigate complex world of annuities

● Trustees negotiating a default annuity or pension option for your retirement fund might be able to obtain more favourable costs, making it worth your while to consider such an option or use it as a benchmark for comparisons with other annuity options.

Retirement fund members, except provident fund members, who retire from a fund after March 2019 must be given the choice of receiving a pension as recommended by the fund's trustees in a default annuity strategy.

The requirement on provident fund members to use their savings to buy a pension on retirement has been delayed amid discussions on comprehensive social security reform.

In the meantime, some funds have already put default annuities in place.

David Gluckman, head of special projects at Sanlam Employee Benefits, told the recent launch of the South African Independent Financial Advisors Association that 22% of funds surveyed in Sanlam's Benchmark survey had implemented default annuity strategies, another 8% would implement such strategies this year and 18% were working on strategies.

Regulations under the Pension Funds Act oblige funds to provide you with a default annuity or pension when you retire. In terms of the regulations:

- Your trustees can choose whether to pay the annuity out of the fund's assets or transfer your savings to another company that will provide the pension.
- The fund can provide a guaranteed pension for life where there is no remaining capital for your heirs if you die, or no remaining capital after a certain period.
- Alternatively, it can provide an investment-linked living annuity where you choose the investments and how much income between 2.5% and 17.5% to draw each year. These annuities expose retirees to many investment-related risks.
- Retiring members must actively choose the pension they want and funds are obliged to provide you with retirement benefit counselling three months before you retire. This is because you can move from a living annuity to a guaranteed annuity, but once you have chosen a guaranteed annuity you cannot switch again.

It could help to pay an adviser from your investment

David Gluckman

Head: special projects, Sanlam Employee Benefits

- Funds will be able to offer investment-linked living annuities from within the fund (called in-fund annuities) or to outsource the provision of these pensions to an investment platform or asset manager, but only four portfolios can be offered in the default option. These portfolios will have to comply with prudent investment guidelines outlined in regulation 28 of the Pension Funds Act that principally limits equity exposure to 75% of the fund.

If your fund is an early adopter of a default annuity strategy and you have the option to choose between an in-fund living annuity or one from an outside provider, consider this:

- A living annuity provided by your retirement fund must comply with the Pension Funds Act. This means you cannot invest more than 75% of your savings in equities.
- If you die, the trustees of your retirement fund will decide how to allocate the savings in a living annuity provided by your retirement fund in line with the Pension Funds Act. This is not the case with a living annuity that you select after retiring from your fund.
- You are likely to get lower investment costs from an in-fund living annuity than choosing your own living annuity provider.
- Living annuities involve many complex decisions about investments and income levels, so being able to pay an adviser from your investment could be beneficial, Gluckman says.

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