



Provider Pensions

A life annuity transfers the risk of outliving your money to Sanlam who provides maximum protection and certainty of income, combined with features to suit the pensioner's needs.

A Provider Pension is a capital-efficient variation of traditional with-profit annuities. They are available for retirement funds wanting to outsource their pensions and for individuals who are retiring from retirement funds. Provider Pensions guarantee to pay out the current level of pensions plus increases over the remaining lifespan of pensioners.

How Provider Pensions work

As a result of burdensome capital adequacy requirements, traditional with-profit annuities charge high guarantee fees. Provider Pensions match the portion of the pension that is guaranteed, reducing the guarantee fee to zero while investing the remainder of the assets to maximize increases. Sanlam's research indicates that over the long term, Provider Pensions have more stable increases in difficult economic conditions than equivalent with-profit annuities.

There are two investment sub-portfolios

Guaranteed Sub-portfolio

Sufficient assets are placed in the Guaranteed Sub-portfolio to finance the current level of annuity payment for each annuitant.

Growth Sub-portfolio

The remainder of the assets is placed in the Growth Sub-portfolio to finance pension increases.

- ⦿ The Provider Secure option:

The assets are invested in the Provider SMM Equity Portfolio managed by Sanlam Multi Manager International. This is a multi-manager product with an equity proportion close to 100%. A small proportion is invested in cash for portfolio management purposes only.



Performance benchmark

The return of the notional portfolio is measured over a three-year rolling period and consists of:

Asset category	Weighting	Benchmark
RSA Equities	83%	FTSE/JSE Capped All Share Index (CAPI) (including income)
Foreign Equities	15%	MSCI World Equity Index (developed markets) (including income)
RSA Cash	2%	STeFI Index

Asset composition

Asset composition is managed to the following ranges:

Asset category	Property	RSA & Foreign		
		Equities	Bonds	Cash
Weighting	0% - 5%	80% - 97%	0% - 5%	0% - 5%

More about pension increases

Sanlam calculates the annuity increase that is expected to be sustainable over the future lifespan of the remaining annuitants. The amount required to secure a once-off increase for the current year is transferred from the Growth Sub-portfolio to the Guaranteed Sub-portfolio. Funds with more than 40 pensioners can specify in what month they want their pensions to increase. Smaller funds are placed in a sub-portfolio which has an increase date of 1 July.

Mortality surpluses and deficits

If mortality experience is lower than expected, there will be insufficient assets in the Guaranteed Sub-portfolio to finance the current level of pensions. This shortfall needs to be financed from somewhere:

- ⦿ With the Provider Secure option, Sanlam's shareholder portfolio finances the shortfall.
- ⦿ The Provider Unique option is for funds with assets exceeding R500 million. The Fund has the option to insure the mortality risk with Sanlam (through Provider Secure) or to bear the mortality risk for its own account.

On the other hand, if mortality experience is more than expected, there will be surplus assets in the Guaranteed Sub-portfolios:

- ⦿ With the Provider Secure option, the surplus is transferred to Sanlam's shareholders portfolio.
- ⦿ The Provider Unique option is for funds with assets exceeding R500 million. The Fund has the option to insure the mortality risk with Sanlam (through Provider Secure) or bear the mortality risk for its own account.

Fees (inclusive of VAT)

Guaranteed Sub-portfolio

There is a cost involved in purchasing the initial level annuity and subsequent increases. The guaranteed income, provided by the Guaranteed Sub-portfolio, is net of these costs.

Growth Sub-portfolio Investment Management Fees

- ⦿ 0.90% p.a. on the first R50 million
- ⦿ 0.80% p.a. on the next R50 million
- ⦿ 0.75% p.a. on the next R100 million
- ⦿ 0.65% p.a. thereafter
- ⦿ Possibility of performance fees



Administration fees

- ⦿ R25 per pensioner per month (increasing in line with pension increases);
- ⦿ A once-off fee of a maximum of 0.3615% of the purchase price (less in the case of high commission); and
- ⦿ A once-off fee of R350 per pensioner.

All fees are reviewed regularly.

Annuity options

⦿ Guarantee period

A guarantee period is the number of years for which the full pension is guaranteed to be paid, irrespective of whether the pensioner and/or his/her spouse is alive. The guarantee period can be 0, 5, 10, 15 or 20 years.

⦿ Single life pension

The pension is payable up to and including the end of the guarantee period OR the death of the member, whichever occurs last.

⦿ Joint survivor pension (reduced on the death of the first annuitant)

The pension is payable up to and including the death of the principal member or the spouse, whoever dies first. After that, a pension is paid to the surviving spouse up to his/her death. However, the spouse's pension is reduced to a certain percentage of the original pension. This percentage must be specified when the quotation is requested.

⦿ Joint survivor pension (reduced on the death of the principal member)

The pension is payable up to and including the death of the principal member. After that, a pension is paid to the deceased's spouse until death. However, the spouse's pension is reduced to a certain percentage of the original pension. This percentage must be specified when the quotation is requested.

⦿ Children's pension

The pension is payable to the eligible children of a deceased member.

Why outsource to Sanlam?

- ⦿ Sanlam provides security for pensioners regarding regular increases.
- ⦿ Over R340 million Provider Pensions.
- ⦿ Sanlam's expertise will relieve trustees of their responsibility to decide on equitable increases.
- ⦿ Guarantees are backed by a South African insurance giant.
- ⦿ Sanlam's infrastructure and systems offer a reliable and cost-effective pensioner administration capability. Sanlam Corporate currently administers more than 24000 monthly pensions.
- ⦿ Possible tax and cost savings.

Call us

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