Sanlam

Product brochure

Investment Linked Living Annuity (ILLA)

The Sanlam Employee Benefits Investment Linked Living Annuity (SEB ILLA) is a post-retirement product for retiring members of retirement funds and meets the requirements of an annuity strategy as per Regulation 39 of the Pension Funds Act.

Product offering

Sanlam Life Insurance Limited operating as Sanlam Employee Benefits will be offering the product.

Product suitability

- Any member who is retiring from a pension fund, provident fund or retirement fund.
- Members who would prefer selecting their income level.
- Members who wish to make provision for their beneficiaries upon death.

Conventional Life Annuity vs Living Annuity (ILLA)

A life annuity (conventional) pays a guaranteed income for life, but it does not offer the same flexibility or growth potential as a living annuity.

A living annuity (ILLA) is a market-linked annuity that does not offer any guaranteed income. The market value of the living annuity will fluctuate, depending on the performance of the selected underlying investment portfolios. At inception and on an annual basis thereafter, the annuitant can choose the level of income to be drawn from the investment portfolios (subject to terms and conditions set by the Fund and Sanlam Employee Benefits).

Minimum investment amount

The minimum investment amount is R247 500.

Additional contributions are allowed provided that the contributions come from another pension fund, provident fund or retirement fund.

Drawdown rates

The drawdown rate is the level of income chosen by the annuitant expressed as a percentage of the total asset value in the product. The annuitant is obliged by law to take an income between 2.5% and 17.5% per annum. This income is paid from the underlying portfolios. The income will be paid in a frequency selected by the annuitant. This income will be taxed according to the annuitant's PAYE tax scale. Where an ILLA is required as part of a default annuity strategy, the Fund and Sanlam Employee Benefits can agree on additional rules, e.g. further limiting drawdown rates at inception.

Investment strategy

Funds are to be invested in a combination of:

Protection Component

A choice of portfolios that provides protection against negative investment markets and an asset allocation strategy that aims to achieve returns in excess of inflation plus 3% over periods longer than 3 years.

Market-related Component

A choice of a moderate aggressive to aggressive portfolios, where the asset allocation strategy aims to achieve returns in excess of inflation plus 5% over the long term.

The proportion of assets initially invested in the Protection Component is set relative to the initial drawdown rate. At inception an allocation of 5 times the initial drawdown rate (i.e. 5 times the annual required income the annuitant chooses to draw from the product) will be held in the Protection Component. The income (pension) will be paid from the Protection Component. The allocation between the Protection Component and the Market-related Component will be annually rebalanced so that:

- at least one year's worth of pension can be drawn from the Protection Component,
- with a minimum of 12.5% of the total asset value in the annuity and
- a maximum of 40% of the total asset value in the annuity.

The purpose of the allocation to the Protection Component is to mitigate the sequencing risk that is most prevalent at retirement. Sequencing risk is the impact of volatility of investment returns on the value of the assets. This is important here given that constant disinvestment occurs in the form of pension withdrawals. Such a risk is most prevalent at retirement because a market crash occurring shortly after retirement leaves no room for recovery when large pensions are being drawn, especially when members still have a long expected lifespan.

Most of the assets are to be invested in the Market-related Component which will aim to ensure long term real returns. Short term market volatility affecting the asset value of the Market-related Component should not be a concern to the annuitant. This is because income is not drawn from this component and consequently the underlying assets will have time to recover following a market crash.

Other investment options available to Funds

Trustees can choose from the following portfolios:

Protection Component

- Sanlam Stable Bonus Portfolio
- Sanlam Monthly Bonus Fund
- Sanlam Progressive Smooth Bonus Fund

Market-related Component

Single manager Portfolios

- SIM Balanced Fund
- SIM Moderate Absolute Fund
- Sanlam Allan Gray Global Balanced
- Sanlam Coronation Houseview

Multi-manager Portfolios

- SMM70
- SMM Growth Absolute Fund
- SMM NUR Balanced Fund
- SMM Select Balanced Fund

Passive Portfolios

- Satrix Enhanced Balanced Tracker Fund

Fees

Funds can select from various forms of support to members including counselling, salaried advice, independent financial advice. Depending on the strategy and support chosen by a Fund, the fees are as follows:

- **Administration:** 0.1% to 0.3% per annum
- **Counselling/advice:** 0.1% to 0.5% per annum

Investment Fees

Portfolio	Type	Fees
Sanlam Stable Bonus Portfolio	Protection: Smooth Bonus Fund with guarantee. Bonuses cannot be negative.	0.425%
Sanlam Monthly Bonus Fund	Protection: Smooth Bonus Fund with guarantee. Bonuses cannot be negative.	0.425%
Sanlam Progressive Smooth Bonus Fund	Protection: Multi-managed smooth bonus fund with guarantee. Bonuses cannot be negative.	0.70%
SIM Balanced Fund	Single manager multi-asset class portfolio	0.70%
SIM Moderate Absolute Fund	Single manager inflation targeted portfolio (CPI +5%)	0.80%
Sanlam Allan Gray Global Balanced	Single manager multi-asset class portfolio	1.250%
Sanlam Coronation Houseview	Single manager multi-asset class portfolio	1.100%
SMM NUR Balanced Fund	Multi-manager Shari'ah compliant portfolio	0.95%
SMM70	Multi-manager multi-asset class moderate aggressive portfolio	0.80%
SMM Growth Absolute Fund	Multi-manager inflation targeted portfolio (CPI +6%)	0.80%
SMM Select Balanced Fund	Multi-manager balanced fund of funds portfolio	0.95%
Satrix Enhanced Tracker Balanced Fund	Balanced fund tracker with exposure to various asset classes	0.36%

Note:

- *The above-mentioned portfolios may have performance fee structures, except for the SMM NUR Balanced fund, which is over and above the fees quoted.*
- *In the case of the Sanlam Allan Gray Global Balanced a performance fee variable between 0.5% and 2.5% pa of the value of the foreign component is applicable, with a fee of 1.5% pa for the returns equal to the benchmark. Over and above, there is a 0.15%fixed fee applicable to the foreign portion of the portfolio.*

Guarantee Fees

Portfolio	Type	Fees
Sanlam Stable Bonus Portfolio	Protection: Smooth Bonus Fund with guarantee. Bonuses cannot be negative.	0.90%
Sanlam Monthly Bonus Fund	Protection: Smooth Bonus Fund with guarantee. Bonuses cannot be negative.	1.60%
Sanlam Progressive Smooth Bonus Fund	Protection: Multi-managed smooth bonus fund with guarantee. Bonuses cannot be negative.	0.70%

Regulation 28

Regulation 28 does not apply to living annuities. However, the Association for Savings and Investments South Africa (ASISA) of which Sanlam is a member, has a Standard on Living Annuities (SLA) which uses Regulation 28 as a guideline for living annuities. Although Regulation 28 is not enforced on living annuities by the Pension Funds Act, it is important that the living annuities use Regulation 28, as a guideline, as stated in the Standard on Living Annuities code issued by ASISA.

Death of the annuitant

When the annuitant of the ILLA dies, the death benefit is payable to the beneficiary appointed by the annuitant.

Trust as beneficiary

If the annuitant nominates a trust as the beneficiary on the investment, the annuitant must submit a copy of the full trust deed. The reason for this is because Sanlam needs to ensure that the beneficiaries are natural persons (the beneficiaries must be named).

Where a trust was appointed as beneficiary, the trust cannot transfer the living annuity, after the acceptance of the beneficiary nomination, to a trust beneficiary. A Living Annuity cannot be transferred, ceded or pledged as contemplated by section 37A & B of the Pension Funds Act.

No beneficiary appointed

If no beneficiary is appointed, the full death benefit (minus tax) is payable to the deceased's estate. The lump sum is deemed to have accrued to the deceased member before his/her death and must therefore be paid to the estate. The lump sum will not incur estate duty.

The executor cannot appoint a beneficiary on the investment, regardless of if a beneficiary was named in the will of the deceased. The executor must distribute the lump sum that is paid to the estate according to the stipulations in the will.

The beneficiaries have the following options:

- Full benefit (minus tax) available in cash
- Full benefit transferred to a living/life annuity
- Combination of both options

If no beneficiary is appointed, the full death benefit (minus tax) is payable to the deceased's estate.

Tax

If the beneficiary elects to take the benefit of the ILLA as a lump sum, tax will be applicable and the beneficiary will receive the benefit after tax. Tax will be calculated according to the retirement/death tax scales of the deceased. Sanlam will issue the member with a tax certificate on an annual basis.

Divorce

The proceeds from a living annuity does not fall within the ambit of 'pension interest' as defined in the Divorce Act, therefore Sanlam will not be able to give effect to any court order with regards to divorce.

Requirements for new business

The following documents must be submitted to Sanlam:

- Application form
- FAIS documents (only if an adviser)
- Section 37 documents (only if applicable)
- Proof of payment

Note: *A Recognition of Transfer is not compulsory for an ILLA.*

Tax number

It is compulsory to have a tax number.

call us

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