



Why a **with-profit annuity** is a good solution for many retirees

momentum
corporate

Making decisions at retirement

As people approach retirement they are faced with some very important decisions, the consequences of which will be experienced for the remainder of their life.



Their retirement savings is typically one of their largest assets, and when buying an annuity, they will generally decide between two, often competing, objectives. The first is being able to retire and maintain the same standard of living, and then to leave a legacy for their family.

The advancements in medical science mean that many pensioners enjoy extended life spans. This may increase their risk of outliving their retirement savings. For this reason, they should consider an annuity that will pay them an income for life.

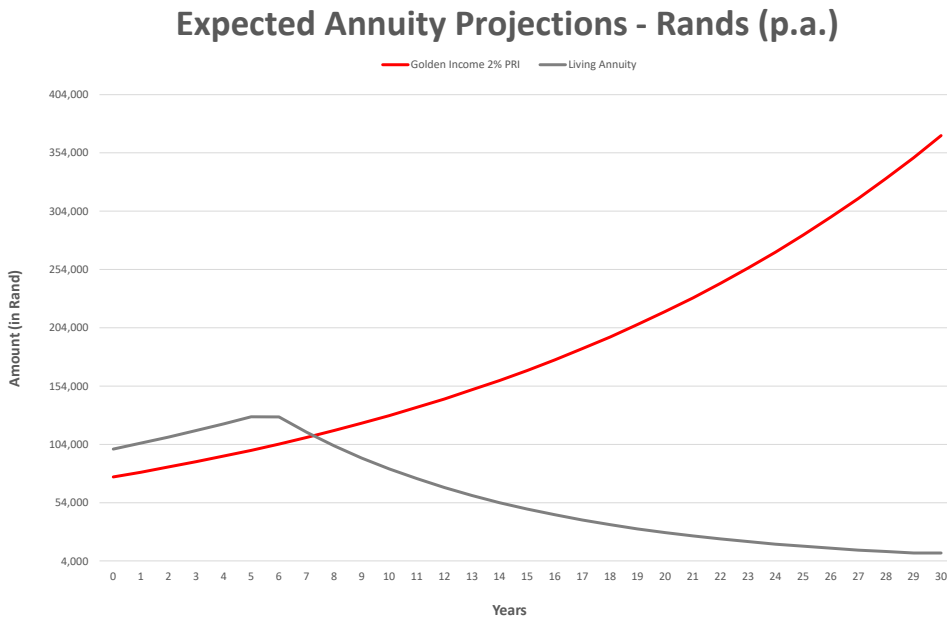
Alternatively, they will need an investment strategy to avoid this scenario by investing appropriately and ensure that their drawdown rate is sustainable for the remainder of their life.

The first key decision a retiree needs to make, is to decide between a living or a life annuity. A living annuity is an investment solution where the pensioner is taking on the risk that they may outlive their retirement savings.

A life annuity is an insurance and investment solution where the pensioner secures a guaranteed income for the rest of their life. Different life annuities allow for a pensioner to select how this starting pension will increase over time.

The graph highlights this principle

- The red line shows the expected Momentum Golden Income With-Profit Annuity pension that can be bought for R1 million, allowing for a 5-year guarantee period and a 50% spouse's pension on the death of the main member. The projection assumes that increases are in line with inflation (estimated to be 5% pa).
- The grey line shows the expected pension for a retiree investing R1 million into a living annuity and drawing down 10% pa increasing with inflation of 5% pa. We assume the investment portfolio earns 8% pa.



After 5 years, the regulatory draw down limit is reached. From then, the pensioner will be limited to an annual pension of 17,5% of the investment amount as set out in the regulations. Because the draw down is more than the investment earned, the account will be depleted progressively, and result in a continuous decline in the nominal pension amount. The Momentum Golden Income With-Profit Annuity continues to pay a pension throughout the pensioner's life.

The life annuity allows the retiree to benefit from and manage these risks:

- **Longevity protection** - the annuity is guaranteed for life and the pensioner will not run out of money in retirement.
- **Survival credits** - being part of a pensioner pool, all pensioners benefit from longevity protection with higher starting pensions and greater increases the longer they live. For this reason the term is called 'survival credit'.
- **Manage investment risk** (including sequencing risk) - with a living annuity the pensioner assumes all the investment risk, while with a life annuity the investment risk is transferred to the insurer, or in the case of a with-profit annuity, the with-profit annuity pool. By buying a life annuity, the investment risk is largely mitigated, including the sequencing risk, which is the risk that the pensioner makes withdrawals from their living annuity during a depressed market.

Like other life annuities, with-profit annuities offer pensioners protection against these risks.

Why invest in a with-profit annuity?

- It provides a guaranteed income for rest of the pensioner's life, as well as for the remainder of their spouse's life if they selected a spouse's pension. Their pension, including all pension increases, will never decrease or be taken away.
- When comparing the with-profit annuity with an inflation-linked annuity that provides increases in line with inflation, the with-profit annuity will usually provide a higher starting pension, typically around 20% more.
- The annual increases for the Momentum Golden Income With-Profit Annuity are determined by a growth orientated balanced fund (the Bonus Generating Portfolio). This provides pensioners with an appropriate investment strategy aimed at maintaining the real value of their pension over the long term.
- The Bonus Generating Portfolio is managed by Momentum Investments using their outcome-based investing philosophy.
- There is still potential to leave a legacy by adding a guarantee term, that is the minimum period during which the pension will be paid and is not dependent on the pensioner surviving to the payment dates.

With-profit annuities – get more out of a life annuity

The with-profit annuity provides a guaranteed pension for life that will never decrease or be taken away.

At the start of the contract, the retiree decides on their desired level of inflation protection, by choosing the appropriate post-retirement interest rate (PRI). For example, a pensioner wanting increases that target 100% inflation will select the Momentum Golden Income With-Profit Annuity with a PRI of 2%. Increases are granted annually and the revised pension provides the new guaranteed amount.

The starting pension of a with-profit annuity is typically around 20% higher than an inflation-linked annuity.

Given that the annuities target the same level of expected increases, the with-profit annuity offers a better value proposition as pensioners will receive greater payments during their lifetime.

So how is this possible?

There are two reasons for this:

The guarantee provided

The with-profit annuity targets, rather than guarantees, increases that provide inflation protection, while the inflation-linked annuity guarantees increases in line with CPI. This creates more investment freedom to secure better increases for the pensioners.

There is a guarantee that increases can never be negative and any excess performance above the objective accrues to the pensioners.

The investment strategy

The inflation-linked annuity is invested in inflation-linked bonds to support the guarantee provided, while the increases of the Momentum Golden Income With-Profit Annuity are funded from the Bonus Generating Portfolio which is a multi-asset portfolio with a high allocation to growth assets. Such an investment strategy is potentially more appropriate for pensioners and is expected to provide better returns over the long term relative to inflation-linked bonds.

With-profit annuities provides the optimal balance.

A with-profit annuity is a good the solution for many retirees by:

1. **Ensuring the pensioner will never run out of money** and have an income for life.
2. **Maximising the starting pension** by targeting, and not guaranteeing inflation-linked increases.
3. **Maintaining the real value of the pension over the long term** by providing inflation-targeting increases.
4. **Allowing for an appropriate investment strategy** with exposure to growth assets, a good match for long-term liabilities that are required to maintain their purchasing power.