

# Linked Endowment Growth Option

Technical guide

**Give your client the certainty of defined  
after-tax growth with the option of income**



With us,  
**investing is personal**

This document is intended exclusively for use by financial advisers and may not be distributed to clients or potential clients.

# Peace of mind with **certainty of defined after-tax growth at the end of five years regardless of market movements.**

**Do your clients want the certainty of knowing what return they will get after five years, without the risk of market movements?**

Then the Linked Endowment Growth Option may be suitable for them.

## **Linked Endowment Growth Option**

The Linked Endowment Growth Option is a **linked endowment** underwritten by Guardrisk Life Limited and administered by Momentum Wealth (Pty) Ltd.

It is a **five-year solution** offering clients a fixed after-tax return on their investment where the benefits are provided by the underlying investment issued by one of the major banks of South Africa (namely Absa, FirstRand, Standard Bank, Nedbank or Investec), or a note issuer that combines exposure to South African Government Bonds and one of the major banks. The client takes on the credit risk of the issuer, being either the bank or the South African Government, and no guarantees are given by Guardrisk Life Limited or Momentum Wealth (Pty) Ltd.

## **The structure**



## **Linked Endowment Growth Option and Income**

Clients who need an income during the five-year investment term can combine the Linked Endowment Growth Option with a Momentum term-certain annuity.

In this case the investment amount from the client is split into two policies. One part is invested in the Linked Endowment Growth Option as described above and the other purchases the five-year **Momentum term-certain annuity**.

The Momentum term-certain annuity is underwritten by Momentum Metropolitan Life Limited and administered by Momentum Wealth (Pty) Ltd. The income is guaranteed by Momentum Metropolitan Life Limited.

It is important to understand that the client will have two policies with separate investment numbers from two different insurers. We will facilitate the split between the two policies to make the experience streamlined for the client and financial adviser by providing one application form and investment and disclosure document (new business confirmation).

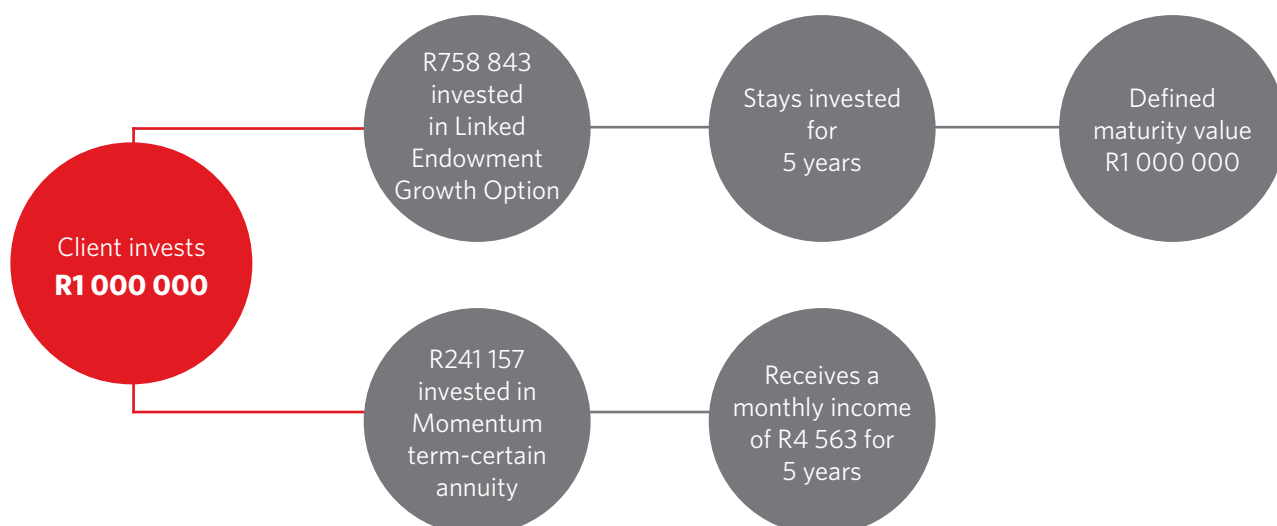
## The benefits

The diagrams below illustrate the benefits received from the Linked Endowment Growth Option and the Linked Endowment Growth Option and Income:

### Linked Endowment Growth Option:



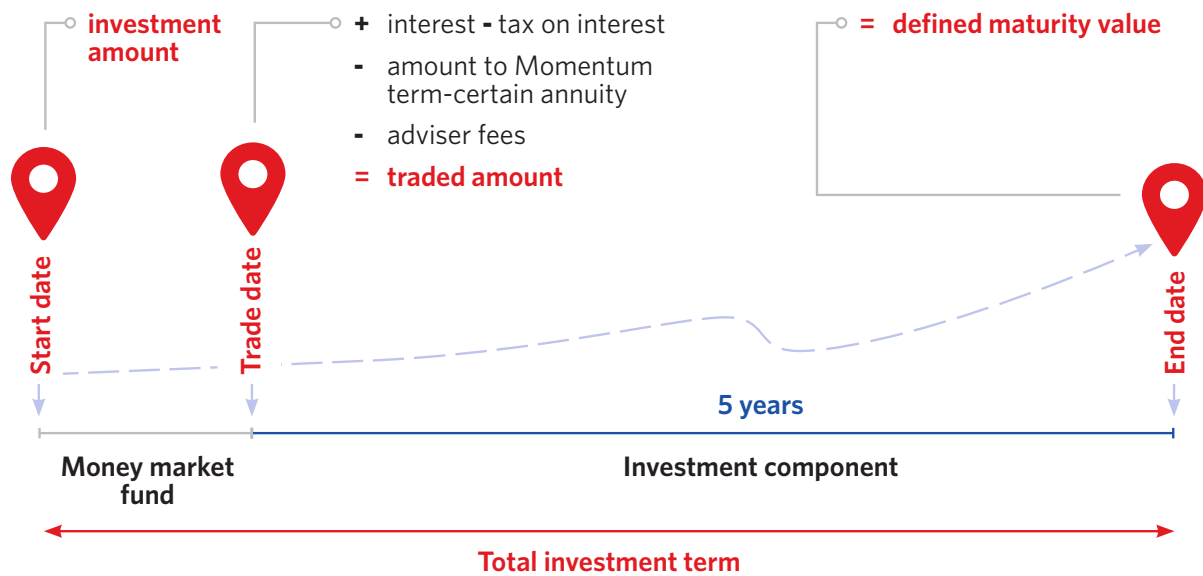
### Linked Endowment Growth Option and Income:



The defined maturity value will always be paid unless the bank, or the South African Government, where this exposure is included, issuing the asset defaults on the instrument. If this happens the client may get less than the defined maturity value after five years.

Rates will vary from week to week and these numbers are for illustrative purposes only. The illustrations above assume a net effective return of 5,67% and assume that the client takes the maximum income. Clients can choose to take a lower income to provide a higher defined maturity value.

## Investment timelines



The investment will trade weekly on a Tuesday (or the second working day of the week if there are public holidays).

When we receive a client's investment amount(s) and accept the application, we invest the money in the Momentum Money Market Fund where it will start earning money market returns. Prior to us accepting the application, the money will earn bank interest. The investment will remain in this money market fund until the trade date. We will allocate the after-tax interest earned to the amount that trades. We won't charge any administration fees in the money market fund.

On the trade date, we will move the money from the money market fund into the Linked Endowment Growth Option and the Momentum term-certain annuity (where applicable).

Once the investment trades, we will send out an investment and disclosure document (new business confirmation) outlining exactly what the benefits are and restating any important disclosures. We will also confirm which bank we traded with, and whether exposure to South African Government Bonds was included.

During the investment term the market value of the Linked Endowment Growth Option will fluctuate due to changes in market conditions, but this should not be the focus as the primary objective for investing is to receive a defined maturity value after five years.

After five years, the defined maturity value will become payable to the client.

## Fees and effect on market values

### Linked Endowment Growth Option:

The return that we quote is after all fees and taxes, so a client who stays for the full investment term will receive the defined maturity value as promised, without experiencing any changes because of fee deductions.

The fees include:

- Advice
- Administration
- Investment management

The effect of fees on early withdrawal is illustrated in the effective annual cost table on the fee and benefit proposal.

### Adviser fee

The financial adviser can take an upfront adviser fee of up to 3% (excluding VAT). This is negotiated between the financial adviser and the client. If the financial adviser takes less than this maximum level, the defined maturity value will increase.

### Administration fee

Guardrisk takes a policy fee to cover the costs of this investment. Part of the fee is paid to Momentum Wealth (Pty) Ltd for the administration of this policy under binder and outsource agreements.

We do not take administration fees upfront, but include it in the structure as a monthly cash flow.

The market value of the investment may drop slightly every month to reflect the administration fee cash flow. These cash flows will not have an effect on the defined maturity value at the end of the investment term.

### Investment management fee

The investment management fee covers the management of the underlying assets purchased. The market value of the investment may drop slightly every month in comparison to actual market movements to reflect the investment management fee cash flow. These cash flows will not affect the defined maturity value at the end of the investment term.

### Momentum term-certain annuity:

The income that we quote already accounts for the effect of fees. Momentum Metropolitan Life Limited guarantees to pay the quoted income irrespective of its expense experience during the five years.

### Adviser fee

The financial adviser can take an upfront adviser fee of up to 1,5% (excluding VAT). This is negotiated between the financial adviser and the client. If the financial adviser takes less than this maximum level, the income will increase.

**Important:** On Quota, the adviser fee is specified as an adviser fee sacrifice. It is important to know how to capture it correctly. The following table shows examples.

Upfront adviser fee required	Adviser fee sacrifice to capture
1,5%	0%
0,75%	50%
0,5%	66,67%
0%	100%

If you would like a different adviser fee to those shown above, you can use the following to guide you:

$$\text{Adviser fee sacrifice} = 1 - \frac{\text{adviser fee required \%}}{1,5\%}$$

## General rules

Where rules differ between the Linked Endowment Growth Option and the Momentum term-certain annuity (income) we will indicate it accordingly, otherwise the rules apply to both.

## Clients

The Linked Endowment Growth Option and the Momentum term-certain annuity are only available to individual clients, and trusts with natural persons as beneficiaries. No other entities can invest.

## Investment amounts

The minimum investment amount is R50 000. Clients can only invest lump sum amounts. It is not possible to invest additional amounts after the trade date.

## Insured persons

### Linked Endowment Growth Option:

An insured person is a requirement for any endowment. An individual client will always be an insured person for this investment. Trust clients must nominate at least one insured person.

Legally, the investment will end if the last living insured person dies before the end of the investment term. Appointing additional insured persons means that the investment can continue if the first insured person (usually the owner) dies. Insured persons are not entitled to any benefits from the investment, but they enable the investment to continue after the death of any other insured persons. This is especially important for products with defined benefits. The Linked Endowment Growth Option requires at least one insured person to be younger than 80 at the start of the investment.

Once an insured person is nominated the nomination cannot be cancelled. This means that additional insured persons may be added but ones already nominated cannot be removed. It is important to remember that insured persons are not entitled to any benefits unless they are also nominated as beneficiaries.

### Momentum term-certain annuity:

Term-certain annuities do not have insured persons as the income can continue even when the person receiving the income dies. This person is called the annuitant. An individual client will always be the annuitant for the investment. Trust clients must nominate an annuitant who will receive the income.

## Beneficiaries

### Linked Endowment Growth Option:

If the client is an individual he or she can nominate beneficiaries for this investment. There are two types of beneficiaries:

#### Beneficiary of ownership

A beneficiary of ownership can be nominated if there are other insured persons nominated for the investment. If the owner of the investment dies during the investment term, we will transfer the investment to the beneficiary of ownership with all rights and benefits of the investment attached to it. Only one beneficiary of ownership can be nominated. The nomination can be done by filling in the beneficiary of ownership form in addition to the application form.

#### Beneficiary for proceeds

If the last insured person dies during the investment term, the investment must end and we must pay out the proceeds. Beneficiaries for proceeds can be nominated to receive the proceeds of the investment. If there are no surviving beneficiaries for proceeds, we will pay the value of the investment to the estate. The client can use the application form to nominate up to five beneficiaries for proceeds. If more beneficiaries are required, the client can use the beneficiary nomination form.



### **Momentum term-certain annuity:**

If the client is an individual he or she can nominate a beneficiary of ownership for this investment. If the owner of the investment dies during the investment term, we will transfer the investment to the beneficiary of ownership with all rights and benefits of the investment attached to it. Only one beneficiary of ownership can be nominated. The nomination can be done by filling in the beneficiary of ownership form in addition to the application form. If the client is a trust and the annuitant dies, the trust can nominate a new annuitant to keep receiving the income at that time.

## **Withdrawals**

### **Linked Endowment Growth Option:**

After the cool-off period, the client can do a **full withdrawal** before the end of the investment term. The client will receive the market value of the investment minus the cost of unwinding the asset at that time. Remember the following:

- The maximum amount that we can pay out to the client during the investment term is the initial investment amount grown at 5% per year compounded until the time of the withdrawal, according to endowment rules. The balance will remain in the money market fund for the remainder of the investment term.
- We will pay out the market value of the investment minus the cost of unwinding the asset.
- The value that we pay out may be less than what was invested due to market movements and the costs associated with unwinding the assets.

No partial withdrawals are allowed.

### **Momentum term-certain annuity:**

After the cool-off period, the client can do a **full or partial withdrawal (commutation)** before the end of the investment term. Remember the following:

- The maximum amount that we can pay out to the client during the investment term is the initial investment amount minus any income paid grown at 5% per year compounded until the time of the withdrawal. We will use any balance remaining to pay a reduced income for the remainder of the term.
- We will pay out the equivalent value of the future income payments, after any costs, based on the prevailing annuity rates. This will be less than the sum of the future income payments due to discounting.

## **Loans**

No loans are available on the Linked Endowment Growth Option or on the Momentum term-certain annuity.

## **Cessions**

### **Linked Endowment Growth Option:**

All cessions are for the entire investment, partial cessions cannot be noted.

### **Security (collateral) cession:**

The client can cede this investment as security to another party. Once ceded, the cession holder must approve all future changes on the investment. The cession holder only has a claim to the investment if the client defaults on any debt obligations he or she may have with the cession holder. If there is a security cession on the investment, the cessionary will receive the proceeds.

As administrator Momentum Wealth needs a copy of the security cession agreement between the client and the cessionary, in most instances a financial institution, with the cessionary's request to have it noted.

Wealth Service will note the cession and will confirm it in writing. To the client we confirm that all future instructions must also be signed by the cessionary. To the cessionary we confirm that there is no other previous cession and that we have noted their cession.

**Outright cession (changing ownership):**

Outright cessions (transfer of ownership) are allowed where the new owner is an individual or a trust with natural person beneficiaries. We will transfer the investment to the cessionary with all rights and benefits of the investment attached to it. All beneficiary nominations will be cancelled.

We need our outright cession instruction signed by both the client and the new owner (cessionary).

Once we have noted it we will inform the previous owner that we have noted the change and also inform the new owner of his ownership.

This is a Financial Intelligence Centre Act (Fica) event and as such we require information of the new owner. One way of addressing this requirement is for the new owner to answer personal information questions as on the personal declaration or the declarations for a trust form.

**Momentum term-certain annuity:**

No cessions are allowed on the Momentum term-certain annuity.

**What can cause the investment to end during the investment term?****Linked Endowment Growth Option:**

This product is suitable for a client who can remain invested for the full term of five years. The client will receive the full benefit of the defined maturity value at the end of the investment term.

**Cool-off**

If this investment is not what the client requires, the client can request a cool-off within 31 days of receiving the investment and disclosure document, but not more than 60 days after the start date of the investment.

On cool-off we will cancel the whole investment. We will base the value that the client receives on the market value of the investment at the time minus the cost of unwinding the asset. We will reverse all financial adviser and administration fees.

The value that we pay out may be less than was invested due to market movements and the costs associated with unwinding the assets.

**Surrender or full withdrawal**

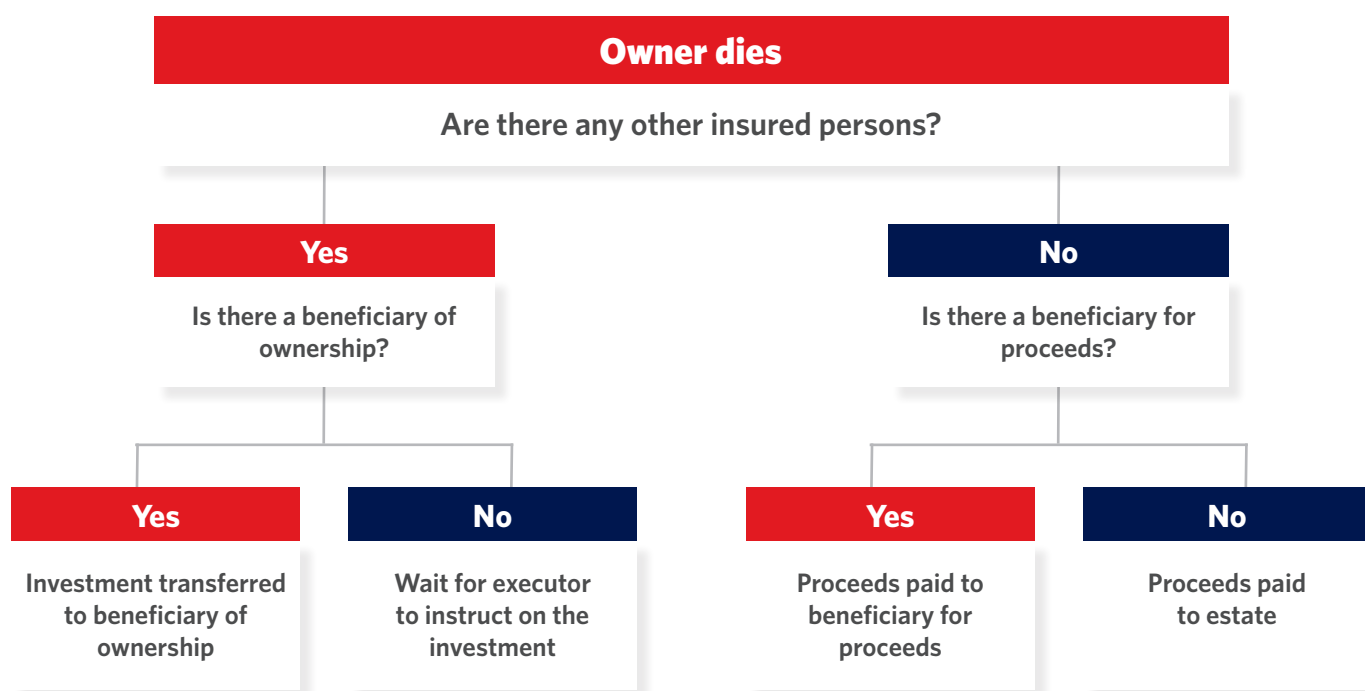
As discussed under withdrawals heading.

**Death of an insured person**

If the last insured person dies during the investment term, we will pay out the market value of the investment minus the cost of unwinding the asset.



The client, if an individual, will always be the first insured person for the investment. If the client dies during the investment term, the following will happen:



#### Momentum term-certain annuity:

This product is suitable for a client who can remain invested for the full term of five years. The client will receive the full benefit of the guaranteed income.

#### Cool-off

If this investment is not what the client requires, the client can request a cool-off within 31 days of the inception date of the annuity, but not more than 60 days after the inception date.

On cool-off we will cancel the whole investment. We will base the value that the client receives on the annuity rates of the investment at the time. We will reverse all financial adviser fees.

The value that we pay out may be less than was invested, due to market movements and any income already paid.

#### Commutation

After the cool-off period, the client can do a **full withdrawal (commutation)** before the end of the investment term.

We will pay out the equivalent value of the future income payments, after any costs, based on the prevailing annuity rates. This will be less than the sum of the future income payments due to discounting.

#### Death of the annuitant when the owner is a trust

If the annuitant (person receiving an income) dies during the investment term, we will wait for instructions from the trust. It has the option to appoint a new annuitant or commute the income payments as discussed above.

#### What will happen to the investment when the client dies?

The client, if an individual, will always be the annuitant for the investment. If the client dies during the investment term, the following will happen:

- If there is a beneficiary of ownership, we will transfer the investment to the beneficiary of ownership with all rights and benefits of the investment attached to it.
- If there is no beneficiary, we will wait for instructions from the executor of the deceased estate, who has the option to appoint a new annuitant or commute the income payments as discussed above.

### Options available on the Momentum term-certain annuity

Clients have the following options on the Momentum term-certain annuity. All these choices are made at the start of the policy and cannot be changed.

#### Frequency

Income may be taken monthly, every three months, every six months or yearly.

#### When income must be paid

Clients can choose to receive the income in advance or in arrears.

This has the following effect:

- The start date of the term-certain annuity depends on the trade date of the Linked Endowment Growth Option. If the trade date is before or on the 15th of the month, the start date will be the first of the same month. Otherwise it will be at the start of the following month.
- If the income is in advance, then the first income is paid on the start date.
- If the income is in arrears, the first income is paid one month (quarter etc) after the start date.

#### Income growth

Clients can choose for the income to increase every year by a percentage of between 0% and 15%. This percentage is fixed for the five years.

### Tax implications

#### Linked Endowment Growth Option:

The Linked Endowment Growth Option is an endowment underwritten by Guardrisk Life Limited and as such the five-funds tax approach of section 29A of the Income Tax Act will apply. This means that Guardrisk Life Limited is liable for any tax. Any proceeds paid from the investment will be net of tax.

#### Momentum term-certain annuity:

We will issue annual tax certificates for the income paid. This will either be an IRP5 or an IT3A. The tax on the term-certain annuity depends on who is receiving the income:

- If the client is an individual and receiving the income, then section 10A of the Income Tax Act will apply. This means that only the interest portion of each income payment will be taxable at the client's marginal tax rate.
- If the owner is not the annuitant then section 10A will only apply if the annuitant is the owner's spouse, otherwise 100% of the income will be taxable at the annuitant's marginal tax rate.
- If the client is a trust and the annuitant is an individual, section 10A will not apply. The income will be taxed at the annuitant's marginal tax rate.
- If the client passes away and the policy passes to a new owner, section 10A will only apply if the new owner was the spouse of the deceased, otherwise 100% of the income will be taxable at the new owner's (or annuitant chosen by the trust if the new owner is a trust) marginal tax rate.

## Process guide

### Tranches

The Linked Endowment Growth Option works on a tranche basis and rates change weekly since we purchase assets on a weekly basis. A fee and benefit proposal can be generated through the Quota system and will include all the relevant information that clients need to be aware of.

### What are the requirements for new business?

We need the following for all new applications:

- A valid fee and benefit proposal signed by the client.
- The investment amount(s) must reflect in our bank account by the last payment date as set out in the fee and benefit proposal.
- All fully completed application forms and related documents must be submitted by the end date as indicated on the fee and benefit proposal.
- Financial advisers must be fully licenced to use the Linked Endowment Growth Option. This includes product-specific training and signing of the relevant agreements.

**Important:** The Fica requirements for trusts are quite onerous as each role player of the trust is verified. This could take long and cases need to be submitted early in the week to allow for processing time, otherwise the trade will be missed.

### What happens if we receive a different amount than what was shown on the fee and benefit proposal or if the trade date on the fee and benefit proposal has passed?

If the amount on the fee and benefit proposal differs from what we receive from the client, we will request a new fee and benefit proposal to be drawn. This is due to rates being dependent on the size of the investment and the adviser fee taken.

If we are unable to trade for whatever reason (such as outstanding requirements, or money being late), we will request a new fee and benefit proposal with the relevant rates for the new week.

### What happens if the outstanding requirements are not finalised before a trade date?

If outstanding requirements are not finalised and the trade date is missed, we will require a new fee and benefit proposal reflecting the new values, signed by the client. We will only trade when all outstanding requirements are finalised.

### What happens if the investment does not trade on the expected trade date?

In certain cases we may decide not to trade in a particular week. This could happen if market conditions are particularly volatile and result in significant adverse changes to the cost of the underlying assets of a tranche. In such cases we will communicate with financial advisers and clients and advise on the way forward. We will require the client to sign a fee and benefit proposal before we trade.

### When will adviser fees be paid?

We will apply adviser fees and production credits (PCs) on the trade date based on the investment amount received. Normal adviser remuneration processes and dates apply.

### When will the maturity proceeds be available to the client?

At the end of the investment term, we will invest the proceeds in the money market fund within one business day of receipt thereof, after which the client may access it.

### How can a financial adviser get accredited to use the Linked Endowment Growth Option?

Due to the role Guardrisk plays in this investment, the revised policyholder protection rules (PPR), specifically rule 12.2.2 issued under section 62 of the Long-term Insurance Act, stipulates that:

‘An intermediary agreement must be entered into directly between the insurer and the intermediary concerned and may not be entered into by a third party acting on behalf of either the insurer or the intermediary.’

### Independent financial advisers

- Financial Services Provider must have signed the Guardrisk Life intermediary agreement.
- Financial Services Provider must have signed the annexure to the Momentum FSP agreements.
- Financial adviser must be appropriately licensed to use the Linked Endowment Growth Option and must complete product-specific training on PLUMLINE (Fais-Exchange).

### Momentum financial advisers (MFP)

- Financial advisers will be provided with an annexure to sign and must complete product-specific training on Talent LMS.

**Important:** We cannot issue a case if the required agreements and accreditation are not in place. Please make sure that these agreements are signed and product-specific training is completed well in advance of the trade date to avoid a case where we cannot trade.

**Speak to your Business Consultant (MDS) or Practice Consultant (MFP) about the process and for any further information.**

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## Momentum Wealth (Pty) Ltd

**Legal status:** Registration no 1995/008800/07  
Registered as an authorised financial services provider, FSP no 657

**Contractual relationship:** Binder holder under binder agreements with Guardrisk Life Limited and Momentum Metropolitan Life Limited

**Physical address:** 268 West Avenue, Centurion, 0157

**Postal address:** PO Box 7400, Centurion, 0046

**ShareCall:** 0860 546 533

**Telephone:** +27 (0)12 675 3000

**Email:** [wealthservice@momentum.co.za](mailto:wealthservice@momentum.co.za)

## Guardrisk Life Limited

**Legal status:** Registration no 1999/013922/06  
Registered as an authorised financial services provider, FSP no 76

**Contractual relationship:** Licensed life insurer under the Insurance Act and underwriter of the Linked Endowment Growth Option

**Physical address:** The Marc Tower 2, 129 Rivonia Road, Sandton, 2196

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**Telephone:** +27 (0)11 669 1000/0860 333 361

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## Momentum Metropolitan Life Limited

**Legal status:** Registration no 1904/002186/06  
Registered as an authorised financial services and credit provider, FSP no 6406

**Contractual relationship:** Licensed life insurer under the Insurance Act and underwriter of the Momentum term-certain annuity

**Physical address:** 268 West Avenue Centurion 0157

**Telephone:** +27 (0)12 675 3000

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## Ombud for Long-term Insurance

**ShareCall:** 0860 103 236

**Telephone:** +27 (0)21 657 5000

**Fax:** +27 (0)21 674 0951

**Email:** [info@ombud.co.za](mailto:info@ombud.co.za)

**Postal address:** Private Bag X45, Claremont, 7735

## Fais Ombud

**Telephone:** +27 (0)12 762 5000

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**Postal address:** PO Box 74571, Lynnwood Ridge, 0040

The **Linked Endowment Growth Option** is a life insurance product, underwritten by Guardrisk Life Limited, a licensed life insurer under the Insurance Act and administered by Momentum Wealth (Pty) Ltd.

The **Term-certain Annuity** is a life insurance product, underwritten by Momentum Metropolitan Life Limited, a licensed life insurer under the Insurance Act and administered by Momentum Wealth (Pty) Ltd.

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