Sanlam

The Complete Picture Pension

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.

What is the Complete Picture Pension?

The Complete Picture Pension is a guaranteed annuity where pensioners receive an increase after the deduction of charges and the purchase rate. There are no black-box decisions influencing these increases.

What is the pension increase formula?

With **The Complete Picture Pension**, product increases are defined according to a formula, which is based on the geometric average of the last 5 years' returns of a combined portfolio of 50% of the FTSE/JSE Africa Top 40 Total Return Index (ALSI 40) and 50% of the All Bond Index (ALBI). This is subject to a minimum increase of 0% after allowing for fees and the purchase rate. Increases will never be less than zero.

The geometric average of the last 5 years' returns of
50% of ALSI 40 Total Return Index + 50% of All Bond Index
Reduced by the Product fee
Reduced by the Purchase rate
With
A minimum increase of 0% (even if the market has negative returns)

Mathematically, the formula translates to:

$$\text{Increase} = \text{Max}\left\{\frac{[(1+i_1)(1+i_2)(1+i_3)(1+i_4)(1+i_5)]^{1/5}}{1+\text{PRI}}(1-0.02)-1;0\right\}$$

$$1+i_1 = \left(0.5\frac{S_1}{S_0}+0.5\frac{B_1}{B_0}\right)$$

S = Level of the ALSI 40 Total Return Index
B = Level of the All Bond Index
i = Annual portfolio return

What happens with returns while The Complete Picture Pension builds up a 5-year history?

The increases are averaged over the last 5 years. The Complete Picture Pension will start by assuming that the gross return on the portfolio for each of the last 4 years was 11%, i.e. this is for the 4 years prior to inception of the policy. The 5th year for averaging purposes will be the actual return for that year. This means that the first year's increase is calculated by using 80% of the past 4 years' 11% returns and 20% of the year's actual return. The second year's increase will therefore assume that 60% is based on these 11% p.a. returns, the third year 40%, etc, until the policy has a 5-year history.

The table below sets out the averaging:

		Return Year										
		Yr-4	Yr-3	Yr-2	Yr-1	Yr	Yr+1	Yr+2	Yr+3	Yr+4	Yr+5	Yr+6
		Portion										
Increase Year	Yr	11%	11%	11%	11%	Act						
	+1		11%	11%	11%	Act	Act					
	+2			11%	11%	Act	Act	Act				
	+3				11%	Act	Act	Act	Act			
	+4					Act	Act	Act	Act	Act		
	+5						Act	Act	Act	Act	Act	
	+6							Act	Act	Act	Act	Act

Act = Actual return 50% ALBI + 50% ALSI 40

Why are the increases based on 50% ALSI 40 Total Return Index (ALSI 40) and 50% All Bond Index (ALBI)?

The underlying portfolio is invested in 50% equities and 50% fixed interest bonds. Based on Sanlam's statistical modelling and the formula that is applied to the underlying portfolio, this is the optimal asset allocation. The 50% equity component is much higher than that of current with profit annuities in the market. This higher equity component is expected to give higher increases over the long term than current with profit annuities. The volatility of a 50/50 portfolio may be higher, but because of the averaging of returns over 5 years and the zero minimum increase, the volatility will be significantly reduced leading to higher risk adjusted returns (return divided by risk/volatility). The selected indices will ensure that the return formula is transparent and available for pensioners to easily calculate their expected increases.

What are the fees (inclusive of VAT)?

- R30 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)
- A once-off fee of R350 per pensioner.

An all-inclusive fee of 2% is deducted in the formula.

The fee includes the following:

- Investment administration and capital premium
- Trading costs and other expenses, for example securities transfer tax (STT) and brokerage
- Investment & mortality guarantee

Why would a pensioner choose The Complete Picture Pension?

- Mortality is guaranteed and where the mortality experience is worse than expected, it will not be deducted from future increases.
- The transparency in this defined formula means that pensioners can calculate the increases themselves. All subjectivity has been removed.

What post-retirement interest rates (purchase rate) are being offered?

- A purchase rate of 3.5% for **new business quotes**.
- A purchase rate of 3.5% or 5% for **conversions from current products and new entrants into these funds**.

Annual pension increases

The pension increase percentages, based on a 3.5% purchase rate, are as follows:

Year	The Complete Picture Pension (3.5%)	CPI Increases (%)
2021	2.86%	3.10%
2022	4.98%	5.90%
2023	2.65%	7.20%
2024	4.56%	5.10%
2025	5.04%	3.00%
Average	**4.02%**	**4.86%**

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