

Momentum Wealth

Guaranteed Annuity Portfolio

Technical guide for advisers

The Guaranteed Annuity Portfolio is a life annuity, which is available within the Golden Living Annuity as an optional investment component.

Legislation prescribes that clients must generally use at least two-thirds of their retirement savings from approved retirement funds to provide them with an income during retirement. Traditionally, the choice is between purchasing a life annuity or investing in a living annuity.

A **living annuity** provides flexibility when implementing a retirement income plan, with the potential for **growth**. It offers a world of investment choice, including all the different types of investment components that can be tailored to suit a client's investment strategy. Clients can also change their income level every year to manage changing income needs during retirement. A key feature of a living annuity is that the client enjoys the reward but also takes on all the investment and longevity risk.

A **life annuity**, on the other hand, offers certainty and **protection** through a guaranteed income for life. The insurer takes on both the investment and longevity risk. The income payments can be personalised upfront through choice of yearly increases, guarantee terms and adding a spouse or partner (joint life). But there is no possibility of upside and there is no remaining capital on death.

We have reimagined our Golden Living Annuity so that clients can enjoy the benefits of a living annuity and those of a life annuity in one seamless solution. It provides clients with the protection of a life annuity to cover their **life expenses** such as medical aid, food and housing, as well as meeting their need to cater for the more flexible **living expenses** such as paying for holidays, eating out and other leisure activities.

By blending the best of both worlds (the certainty of a life annuity and the flexibility of a living annuity), we are partnering with financial advisers to help clients:

- make better decisions about structuring and implementing suitable income solutions when they retire; and
- optimally manage their income during retirement to cater for changing income needs.

Golden Living Annuity - reimagined

A range of Momentum portfolios

Growth portion

Use this portion for **living expenses**.
Potential for **growth** to enable a higher income level and capital growth.

Guaranteed Annuity Portfolio

Protection portion

Use this portion for **life expenses**.
Pays a **guaranteed income for life** irrespective of market movements.

The Guaranteed Annuity Portfolio

The Guaranteed Annuity Portfolio is a life annuity that can be purchased as an investment component within a client's new or existing¹ Golden Living Annuity.

It pays a guaranteed income into the Golden Living Annuity every month, for the rest of the client's life. This provides the certainty of a minimum income for life, while still giving the client the flexibility of a living annuity.

This is how it works:

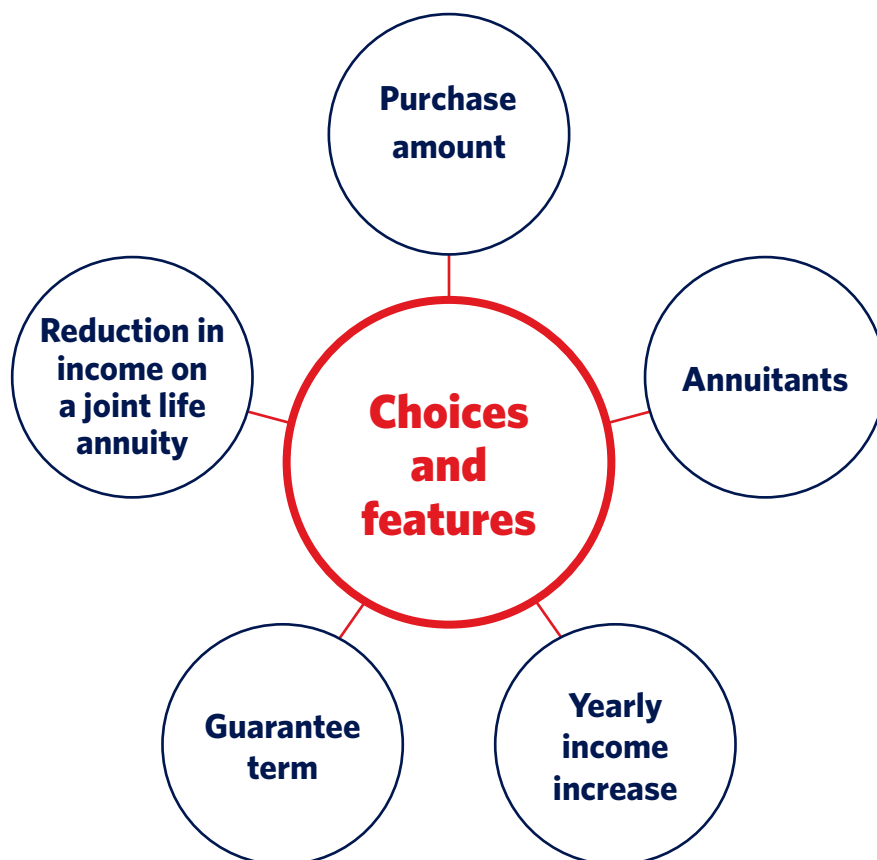
- The client decides to allocate a portion of the investment value of their new or existing Golden Living Annuity to the Guaranteed Annuity Portfolio.
- The purchase amount for the Guaranteed Annuity Portfolio is placed in a money market fund pending the trade.
- On the trade date, the Guaranteed Annuity Portfolio is purchased.
- Every month, the Guaranteed Annuity Portfolio pays a guaranteed income into the Momentum Money Market Fund – Life Income component within the Golden Living Annuity.

Purchasing the Guaranteed Annuity Portfolio

Clients can choose the Guaranteed Annuity Portfolio either at **new business** or with a **switch instruction** on an existing Golden Living Annuity.

Choices when purchasing a Guaranteed Annuity Portfolio

When a Guaranteed Annuity Portfolio is added to the Golden Living Annuity, clients must choose certain features that **cannot be changed** later. These features are the same as for a life annuity, which is explained in detail below.



¹ Only available to existing clients' Golden Living Annuity investments on the latest pricing structure where the owner is an individual and the contract does not have a Death Benefit Guarantee.

Purchase amount

During the advice process, the client will decide on the purchase amount for the Guaranteed Annuity Portfolio. This could be indicated as a percentage of the total investment amount or the amount required to provide a targeted guaranteed income.

The level of **life expenses** that the client needs to cover will play a role in this decision. This will usually be expenses that the client absolutely must pay, for example medical aid, rent, utilities and groceries. Usually this is also the part of the income that the client wants certainty about and does not want to expose it to any volatility or risk.

The investment into the Guaranteed Annuity Portfolio **may not exceed 80%** of the value of the Golden Living Annuity at the time of purchase and must be at least **R50 000**.

Annuitants

An annuitant is a person whose age and gender are used when calculating the income amount that the life annuity can provide.

The Golden Living Annuity owner is **automatically an annuitant** of the Guaranteed Annuity Portfolio.

The following two options are available:

1. Single life

The Guaranteed Annuity Portfolio will pay an income for as long as the annuitant (the owner of the Golden Living Annuity) is alive.

2. Joint life

The client can choose a second annuitant. In this case, the Guaranteed Annuity Portfolio will pay an income until both the main annuitant (the owner of the Golden Living Annuity) and the second annuitant have passed away. A joint life annuity is an effective way of ensuring that a life partner continues to receive an income even after the owner has passed on.

Annuitants must be younger than 85 when purchasing a Guaranteed Annuity Portfolio.

Guarantee term

The guarantee term is the period during which the income will be paid regardless of whether the annuitant(s) are still alive. It gives clients certainty that at least a minimum amount of income will be paid even if they were to die shortly after the Guaranteed Annuity Portfolio has started. A guarantee term is another way of leaving a legacy to dependants and the income payable over any remaining guarantee term at death will be paid to the beneficiaries.

The guarantee term:

- No guarantee term
- 5 to 25 years, where the guarantee term must end by the time the client turns 95.

For clients older than 75, we recommend a guarantee term of at least five years to protect against loss of the full investment amount on early death.

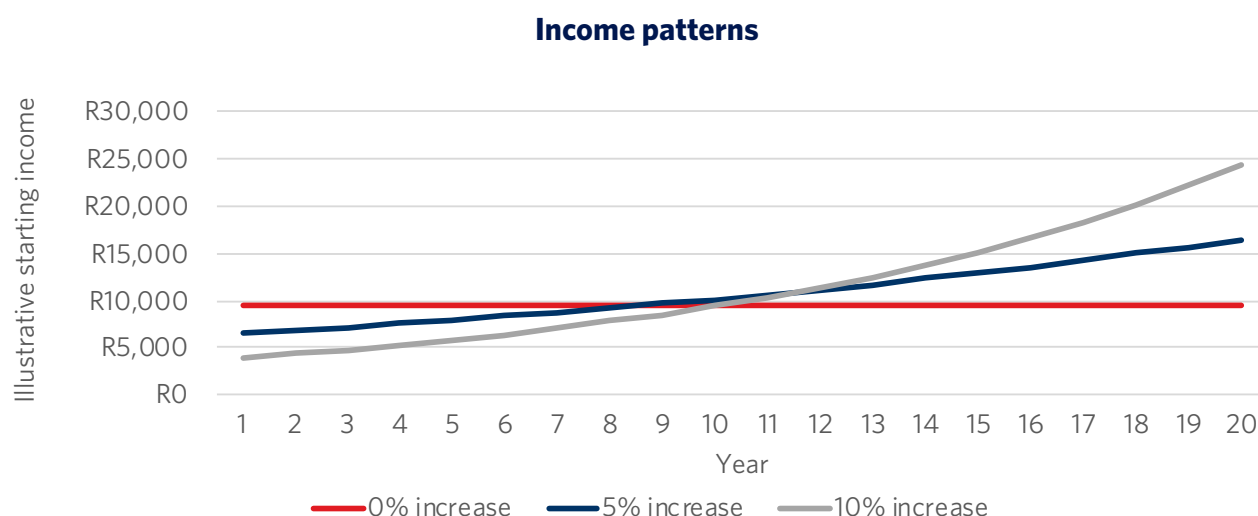
Yearly income increases

The income payment from the Guaranteed Annuity Portfolio can increase yearly to protect against the effect of inflation.

The increase options:

- 0% increase, where the income does not increase yearly.
- Up to 15% per year.
- Inflation linked (linked to the Consumer Price Index (CPI) as published by Statistics South Africa with a 4-month lag).
- CPI plus 0% to 5% per year.

Choosing an increase has an impact on the starting income of the Guaranteed Annuity Portfolio. Clients need to weigh up the benefits of future increases over the longer term against their immediate need for income. The effect is shown on the graph below.



Reduction in income on a joint life annuity

Where a client chooses a joint-life Guaranteed Annuity Portfolio, they can specify the changes to the income that will be payable after each of the annuitants pass away. This caters for the scenario where the expenses of the joint household are expected to reduce after one of the partners passes on.

Options available:

- On death of the first annuitant, the income can reduce by up to 50%.
- On death of the second annuitant, the income can reduce by up to 50%.

Where there is a guarantee term, the reduction percentage will only be applied from the end of the guarantee term if one of the annuitants passed away during this term.

These options must be specified at the time of purchasing a Guaranteed Annuity Portfolio.

Calculation of fees and income drawdown limits

The Guaranteed Annuity Portfolio provides a guaranteed income stream and has no capital value that can be sold or switched.

The original purchase amount of the Guaranteed Annuity Portfolio will be used to calculate:

- Living annuity income limits (between 2.5% and 17.5%, according to current legislation)
- Adviser fees
- Administration fees

Administration fees

Since the Guaranteed Annuity Portfolio is a life annuity, expenses such as administration fees are priced into the rates that are used when quoting the guaranteed income. No additional administration fees apply to the Guaranteed Annuity Portfolio.

The original purchase amount of the Guaranteed Annuity Portfolio will be included for aggregation purposes. This means that the client could pay a reduced platform (administration) fee based on the Momentum Wealth administration fee sliding scale and all the other assets held.

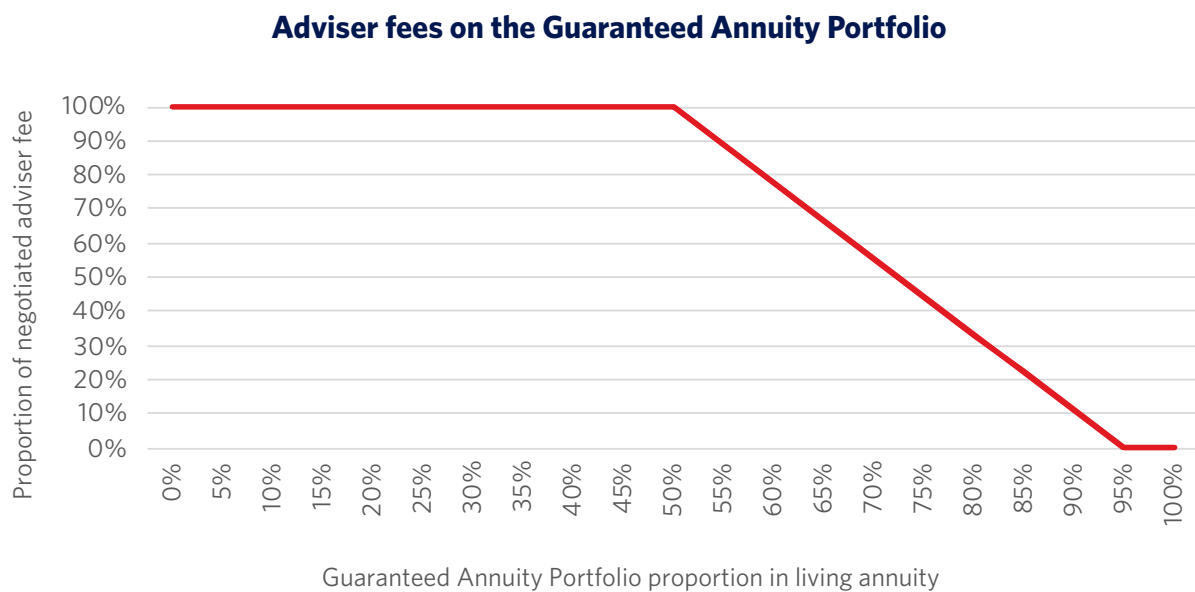
Adviser fees

On the Golden Living Annuity, the adviser may take adviser fees to a maximum of 1.5% initial and 1% ongoing. These fees are negotiated between the adviser and client and are administered by Momentum Corporate. No initial adviser fees can be paid on switches into a Guaranteed Annuity Portfolio (after new business stage).

The same fees will apply to the Guaranteed Annuity Portfolio as long as the Guaranteed Annuity Portfolio is less than or equal to 50% of the total portfolio value.

If the Guaranteed Annuity Portfolio is more than 50% of the total portfolio value, then:

- the ongoing adviser fee paid on all other assets in the Golden Living Annuity will be at the selected rate; and
- the ongoing adviser fee paid on the Guaranteed Annuity Portfolio will be the selected rate multiplied by the factor shown below.



To calculate the adviser fee that will apply to the Guaranteed Annuity Portfolio, the formula below can be used:

GAP ongoing advice fee paid = advice fee % chosen × dampening factor

$$\text{Dampening factor} = \begin{cases} 1 & \text{if GAP\%} < 50\% \\ 1 - 2.22 \times (\text{GAP\%} - 50\%) & \text{if } 50\% \leq \text{GAP\%} \leq 95\% \\ 0 & \text{if GAP\%} > 95\% \end{cases}$$

For example, an adviser negotiates an ongoing adviser fee of 0.5% per year.

- If the Guaranteed Annuity Portfolio makes up 30% of the overall portfolio value, they will receive 0.5% on all assets in the contract, including the Guaranteed Annuity Portfolio.
- If the Guaranteed Annuity Portfolio is 85% of the total portfolio value, the dampening factor will be

$$\text{Dampening factor} = 1 - 2.22 \times (85\% - 50\%) = 0.223$$

Therefore,

- the Guaranteed Annuity Portfolio ongoing adviser fee = $0.5 \times 0.223 = 0.11\%$; and
- all other assets ongoing adviser fee = 0.5%.

Effective Annual Cost (EAC)

We disclose the EAC of the Golden Living Annuity at new business and on an ongoing basis when requested. The EAC is an industry standard that generally does not apply to life annuities. The purpose is to ensure accurate cost disclosure to clients and to facilitate fair comparisons between providers. In line with these principles:

- The EAC calculation disclosed applies to the linked components of the investment and will exclude the Guaranteed Annuity Portfolio for both the value and the adviser fees.
- We assume that clients will withdraw the full income from the Guaranteed Annuity Portfolio and that any additional income will be deducted from the linked investment components. Only the income taken from the linked components is considered in the EAC calculations.

Validity of a Guaranteed Annuity Portfolio proposal or switch instruction

Fee and benefit proposals that are generated and submitted (during new business or as part of a switch instruction) are only valid if the trade date is in the future and all of the client information has been validated.

The source of money for investments into a living annuity is always an approved retirement fund and there are usually delays between the submission of the documents and the receipt of the money from the transferring fund. Therefore, it is possible that:

- the trade date for the Guaranteed Annuity Portfolio is missed; and
- the amount received for the Guaranteed Annuity Portfolio is different to the fee and benefit proposal.

We will automatically re-quote the fee and benefit proposal using the latest annuity rates and amounts received. We will contact the financial adviser for a review of the fee and benefit proposal in the following instances:

- The amount we receive for the Guaranteed Annuity Portfolio is not within 5% of the original purchase amount.
- When we re-calculated the income to the client, the income decreases by more than 5%.

The financial adviser and the client can let us know how to continue. If the income that the client will receive is more than 95% of the income shown in the original fee and benefit proposal, we will continue with the instruction.

If the amount we have available to trade is between 100% and 105% of the original Guaranteed Annuity Portfolio purchase amount and the income did not drop by more than 5%, we will purchase the Guaranteed Annuity Portfolio with the original purchase amount and place the excess in the Momentum Money Market Fund – Life Income component.

Reviewing the Guaranteed Annuity Portfolio if we cannot trade

In cases where the feeder money market fund was purchased but the Guaranteed Annuity Portfolio could not trade due to changes in annuity rates or market movements, the financial adviser and client must let us know how to proceed.

The online instruction will provide all the information regarding the original detail of the Guaranteed Annuity Portfolio and the reasons why the trade was not successful. The financial adviser or the client can then do the following:

- Review or change the Guaranteed Annuity Portfolio instruction with the latest details of the amounts received. This includes recalculating the income and continuing or changing the parameters of the Guaranteed Annuity Portfolio.
- Choose to cancel the Guaranteed Annuity Portfolio instruction.

Exiting from the Guaranteed Annuity Portfolio

Once the Guaranteed Annuity Portfolio has been purchased it cannot be switched out of or sold. This is because it is a life annuity, and all life annuity rules apply.

Clients have the option to cool-off their Guaranteed Annuity Portfolio within 60 days of its trade date. If they choose this option, the Guaranteed Annuity Portfolio will be cancelled and the proceeds of the sale of the life annuity assets will be invested in the Momentum Money Market Fund – Life Income component in the Golden Living Annuity. This amount may be less than the purchase amount for the Guaranteed Annuity Portfolio, depending on market movements. A cool-off can be done by sending a request in writing to the contact details shown below.

If the client wants to cool-off the entire Golden Living Annuity, then two instructions will be required and the cool-off of the Guaranteed Annuity Portfolio must be finalised before the Golden Living Annuity can be cooled-off through the standard process.

Income from the Golden Living Annuity

with a Guaranteed Annuity Portfolio as one of the underlying components

According to current legislation, clients can choose a yearly income level from their living annuity of between 2.5% and 17.5% of the investment value. For a living annuity with a Guaranteed Annuity Portfolio, the initial purchase amount for the Guaranteed Annuity Portfolio will be taken into account when calculating the income amount within these limits.

All income from the Guaranteed Annuity Portfolio will be invested into the Momentum Money Market Fund – Life Income component within the client's Golden Living Annuity. This component is a standard unit trust fund, namely the Momentum Money Market Fund (C) and it has been set up exclusively to receive the guaranteed income stream.

When income is paid from the Golden Living Annuity (based on the client's chosen income level percentage) we will first disinvest from the Momentum Money Market Fund – Life Income component and then from the remaining investment components of the contract, in line with the client's instructions.

There are different scenarios to consider when a client chooses the income level for the Golden Living Annuity:

1. The chosen income level is less than the income from the Guaranteed Annuity Portfolio:

If the client's required income is less than the income from the Guaranteed Annuity Portfolio, the money remaining after the income is paid will continue to be invested in the Momentum Money Market Fund – Life Income component and earn money market returns. The client can switch money out of the Momentum Money Market Fund – Life Income component to other investment components through a normal switch instruction at any time.

2. The chosen income level is more than the income from the Guaranteed Annuity Portfolio:

If the client chooses an income level that is more than the income from the Guaranteed Annuity Portfolio, we will disinvest first from the Momentum Money Market Fund – Life Income component. The rest of the income will be deducted proportionately from the liquid investment components in the Golden Living Annuity that the client chose.

Tax on the income

The Guaranteed Annuity Portfolio is an underlying investment component of the Golden Living Annuity. Therefore, the income paid into the Golden Living Annuity is not taxable, similar to any investment returns and distributions into a living annuity.

All income payments from the Golden Living Annuity into the client's bank account will be taxed as normal income at the client's marginal tax rate. Momentum takes all income that a client receives from us into account when calculating the marginal tax rate. If the client receives further income elsewhere, they may be liable for more tax at the end of the tax year.

Death of an annuitant

The type of Guaranteed Annuity Portfolio that the client chose determines for how long the income will be paid.

On death of the owner of the living annuity:

1. If there is a second annuitant to whom income must be paid, we will issue a separate life annuity in the name of the second annuitant with the same features (income patterns, guarantee term, etcetera) as the original Guaranteed Annuity Portfolio.
2. If the guarantee term has not yet expired and there is no second annuitant, we will pay a lump sum amount equal to the value of the income payments over the remaining guarantee term into the Golden Living Annuity. All the assets in the Golden Living Annuity will be paid out to the nominated beneficiaries.
3. If the guarantee term has expired and there is no second annuitant, the Guaranteed Annuity Portfolio will end with no further income payments or capital value. The remaining assets in the Golden Living Annuity will be paid out to the nominated beneficiaries.

Transferring the Golden Living Annuity to another provider

If a client wants to transfer their Golden Living Annuity to another provider, the Guaranteed Annuity Portfolio cannot be transferred. We will issue a separate life annuity in the name of the owner of the Golden Living Annuity with the same features (income patterns, second annuitant (if applicable), guarantee term, etcetera) as the original Guaranteed Annuity Portfolio. All other components of the living annuity contract can be transferred to a living annuity with another provider.

Summary of the rules

Feature	Rule
Availability	New and existing Golden Living Annuity contracts on the latest pricing structure.
Clients	Natural persons.
When it is available	At new business stage for cash transfers – we cannot accommodate the purchase of a Guaranteed Annuity Portfolio if there are unit transfers. Switch at any time.
Number of Guaranteed Annuity Portfolio components per contract	One.
Trade date	Generally, the second working day of every week.
Alterations to the Guaranteed Annuity Portfolio	Cool-off allowed within the first 60 days after the trade date. No alterations after the Guaranteed Annuity Portfolio is active.
Maximum proportion of the Guaranteed Annuity Portfolio at purchase	At the point of purchase the Guaranteed Annuity Portfolio must be at most 80% of the Golden Living Annuity value after upfront advice fees have been deducted.
Liquidity	A client cannot switch out of the Guaranteed Annuity Portfolio or transfer it to another provider.
Calculation of fees and income drawdown limits	The original purchase amount for the Guaranteed Annuity Portfolio will be used for fee aggregation and income drawdown calculations.
Momentum Money Market Fund – Life Income	All income from the Guaranteed Annuity Portfolio will be paid into the client's Momentum Money Market Fund – Life Income component. Income drawdowns from the Golden Living Annuity will always first be from the Momentum Money Market Fund – Life Income component and, if there is a shortfall, from the other chosen investment components. Clients cannot switch into this component but can switch out. The same adviser and administration fees that apply to the other investment components apply to the Momentum Money Market Fund – Life Income component.

Feature	Rule
Fees on the Guaranteed Annuity Portfolio	
Advice	<p>Adviser fees will be calculated on the total value of the Golden Living Annuity, including the purchase amount for the Guaranteed Annuity Portfolio.</p> <p>Fees on the Guaranteed Annuity Portfolio will be reduced linearly as it becomes a larger and larger proportion of the Golden Living Annuity from 50% onwards.</p>
Administration	The Guaranteed Annuity Portfolio will not attract administration fees in the Golden Living Annuity but contributes to aggregation.

Guaranteed Annuity portfolio specific rules

Parameter	Rules
Type of annuity	Single life or joint life
Main/first annuitant on the Guaranteed Annuity Portfolio	Owner of the Golden Living Annuity
Age limits for annuitants	Maximum age of 84 (85 at their next birthday)
Guaranteed Annuity Portfolio purchase amount	Minimum of R50 000
Income frequency	Monthly
Yearly income increase	<ul style="list-style-type: none"> Level (0% increase) Fixed increase (0% to 15% in 0.1% increments) Inflation linked Inflation linked plus fixed increase (0% to 5% in 0.1% increments)
Income increase date	Every year in the same month as the first income payment date
Guarantee term options	<ul style="list-style-type: none"> No guarantee term 5 to 25 years, but not longer than to the younger annuitant's 95th birthday
Income reduction percentage on death of main or second annuitant	Between 0% and 50%

Contact us



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