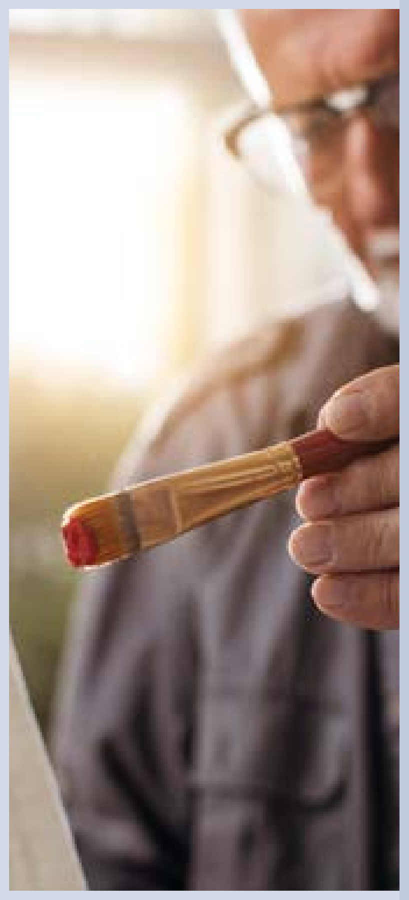
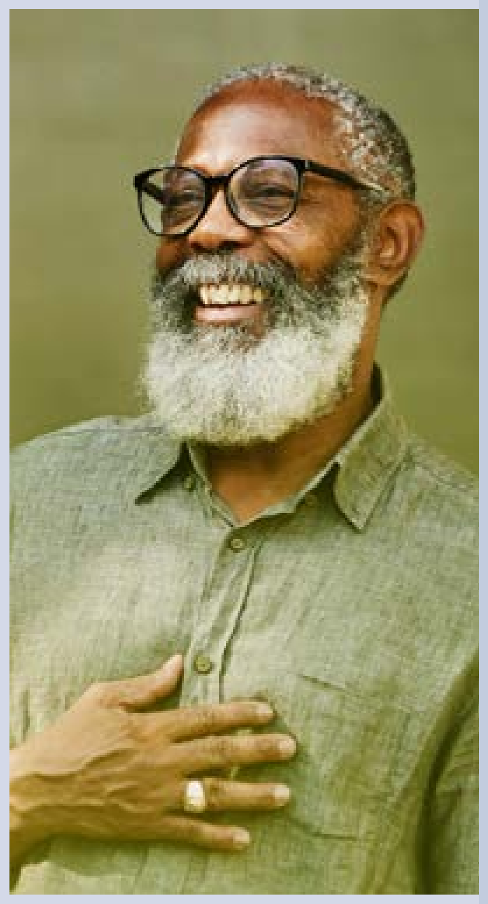
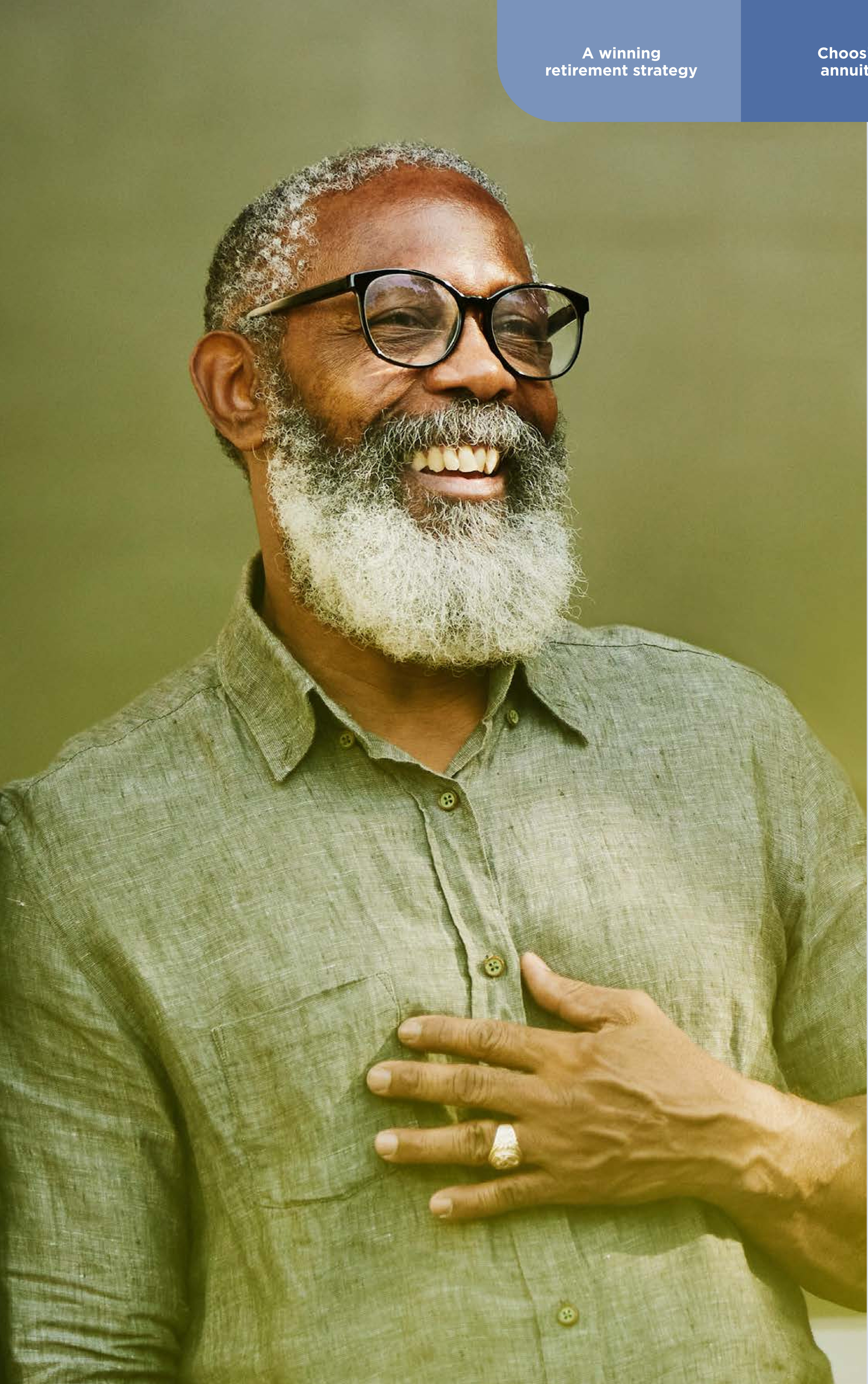
glacier
by Sanlam

Unlocking Sustainable Retirement Solutions Series: Part 1



A WINNING **RETIREMENT** STRATEGY





A winning retirement strategy

Choosing the right annuity strategy for retirement: life annuity, living annuity or combination.

Choosing between a life annuity, a living annuity, or a combination of the two is a significant decision that can shape your financial well-being throughout retirement. When making this decision, it's important to consider, among other factors, the client's need for flexibility, preservation of legacy, long-term sustainability (longevity & certainty), and protection against inflation.

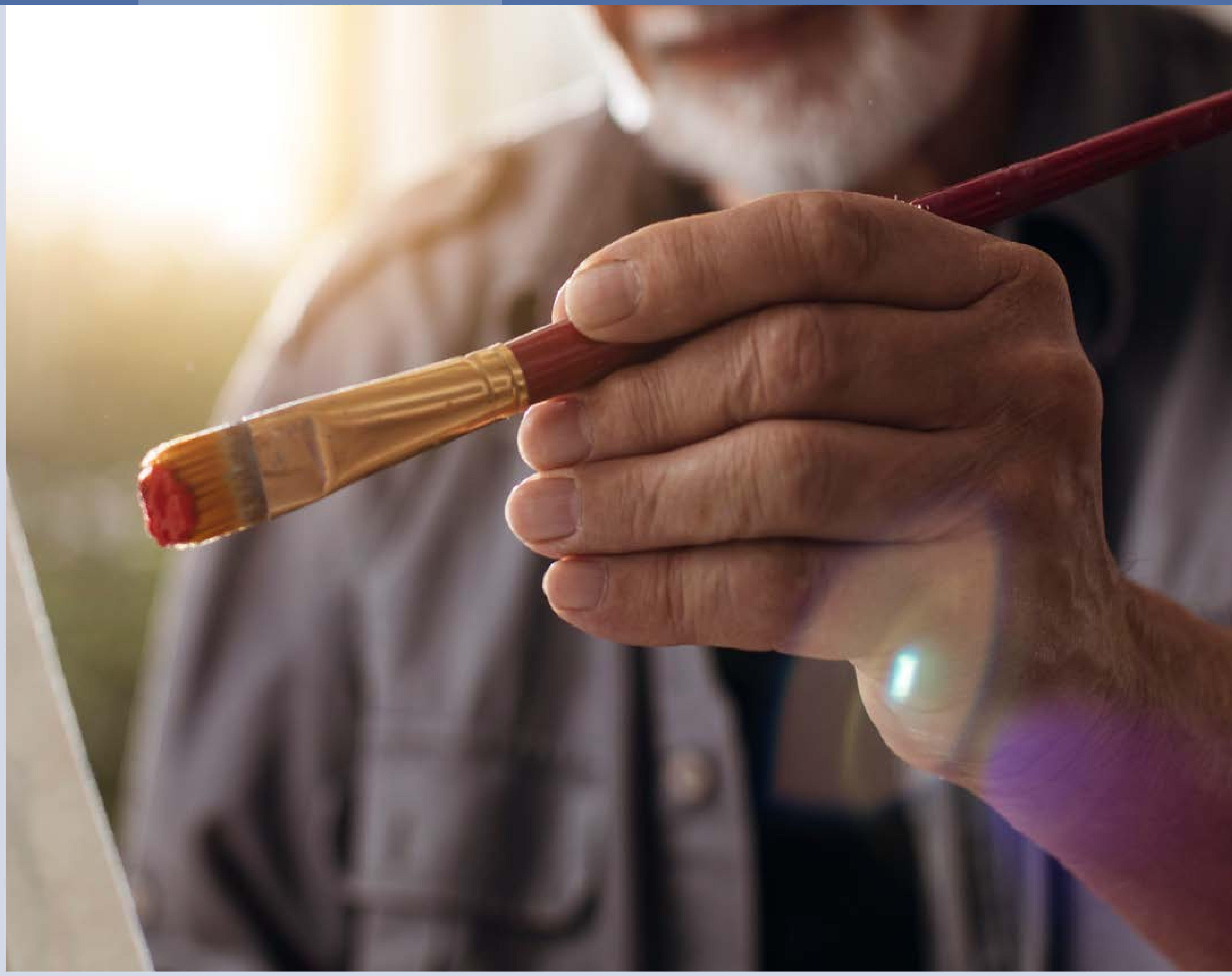
The best way to highlight the differences between these retirement income solutions, and outlining their key benefits and limitations, is through a basic practical example.

FLEXIBILITY + SECURITY

Peter is retiring at age 65. His wife, Lucy, is 63 and both are in good health. The following proposal, which assumes a 6% inflation rate, is presented to them:

	Joint Life Annuity	**Living Annuity** Option 1	**Living Annuity** Option 2	**Combination** 60% Life Annuity + 40% Living Annuity
Investment amount	R 4 500 000	R 4 500 000	R 4 500 000	R 2 700 000 Life Annuity R1 800 000 Living Annuity
Reduction at first death	30%	N/A	N/A	30% on Life Annuity
Guarantee term	10 years	N/A	N/A	10 years on life Annuity
Growth in income	5% pa	5% pa	5% pa	5% pa
Risk profile	N/A	Moderate	Moderate	Moderate
Gross income	R29 200 pm	R28 800 pm	R20 300 pm	R17 500 + R8 100 = R25 600 pm
Starting annual return (Life Annuity)	7.8%	-	-	7.8%
Income drawdown % (Living Annuity)	-	7.8%	5.5%	5.5%
Max recommended drawdown (65-year old male)	-	5.5%	5.5%	5.3%

Life Annuity rates based on the week of 5 May 2025
100% upfront commission (1.5%) is assumed in all scenarios



Choosing a life annuity as your sole option

Benefits:

Life annuities are backed by long-term bonds, and their rates closely track bond yields. With South African bond yields currently high by historical standards, **life annuity rates and the resulting income are attractive.**

This makes it a compelling option to consider in a client's retirement portfolio right now.

Source: www.tradingeconomics.com 06/05/2025

A life annuity offers a straightforward, set-and-forget approach. The income is guaranteed for life, eliminating the risk of outliving your capital, as the insurer takes on the longevity risk. With a fixed rate established at the start, there is no exposure to market fluctuations. Additionally, if an appropriate income increase option is selected, the income will be shielded from inflation. It provides options such as a guaranteed payment term, joint-life coverage, or a guaranteed payout to beneficiaries through a linked life insurance policy.

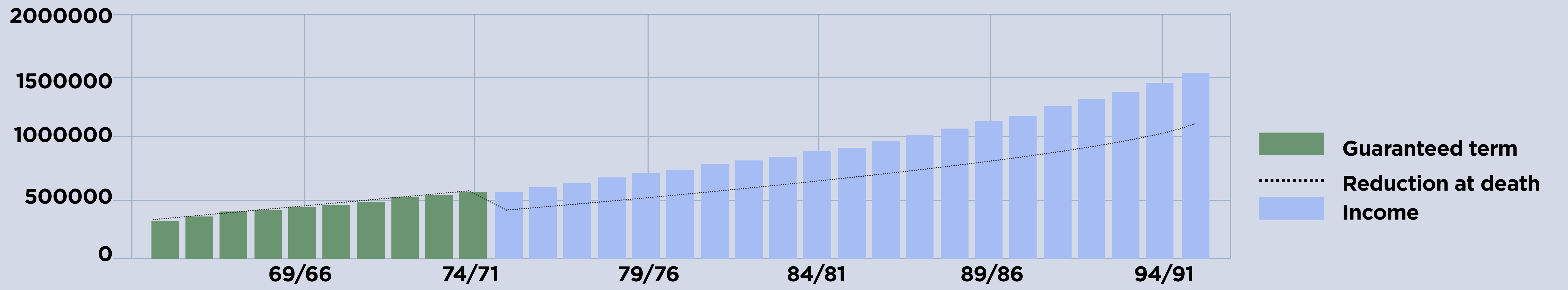
A life annuity is ideal for clients who prioritise certainty and seek protection against the risk of living longer than expected.

Limitations:

A life annuity offers no flexibility once set, and no changes can be made. It may provide an income payment after your death if a guaranteed income payment term was chosen or a second life insured was appointed, but no capital is paid at death.

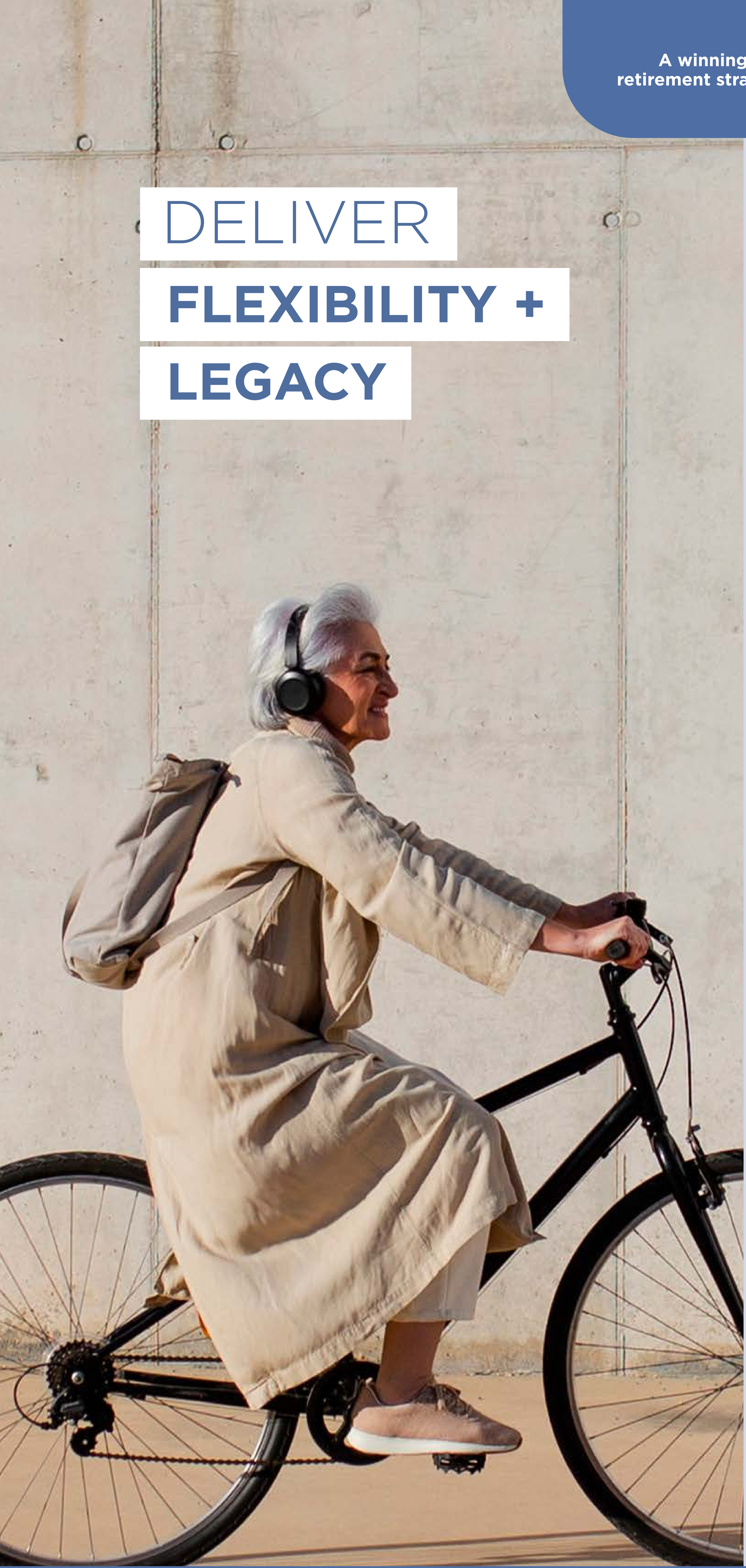
If you have not selected an income increase option at inception, inflation could also erode purchasing power. With the current high bond yields, now is a good time to invest in a life annuity.

✓ Certainty ✓ Longevity X Flexibility X Capital Legacy



Source: Glacier ICE tool nominal income graph.

In the comparison table on page 3 (using the rates for the week of 5 May 2025), the joint life annuity example offers a starting guaranteed annual return of **7.8%**, with a guaranteed **5% annual increase** and an initial gross income of around **R29 200 per month**, guaranteed for life. The graph above shows the annual income on the left (Y-axis), with the annuitant and second life insured's age at the bottom (on the X-axis), and illustrates how the nominal income from this joint life annuity will increase over the years. It is important to note that projected inflation of 6% will erode the purchasing power of this life annuity over time, considering the chosen 5% annual increase in income.



Choosing a living annuity as your sole option

Benefits:

A living annuity offers flexibility, as you can adjust your income annually to suit your needs. You choose the underlying investment options in which your capital is invested, allowing for potential growth, and you can make changes to these underlying investments at any time, as your needs change. When you pass away, any remaining capital can be left to your beneficiaries.

A living annuity is best suited for a client who wants control over their income level and frequency, is willing to accept some risks associated with investment for potential capital and income growth, and would like the opportunity to leave a legacy for their loved ones after their death.

Limitations:

There are no guarantees on a living annuity and they therefore come with the risk of outliving your capital, especially if drawdowns are too high or investments underperform. Your income depends on investment performance, which can be volatile (market risk).

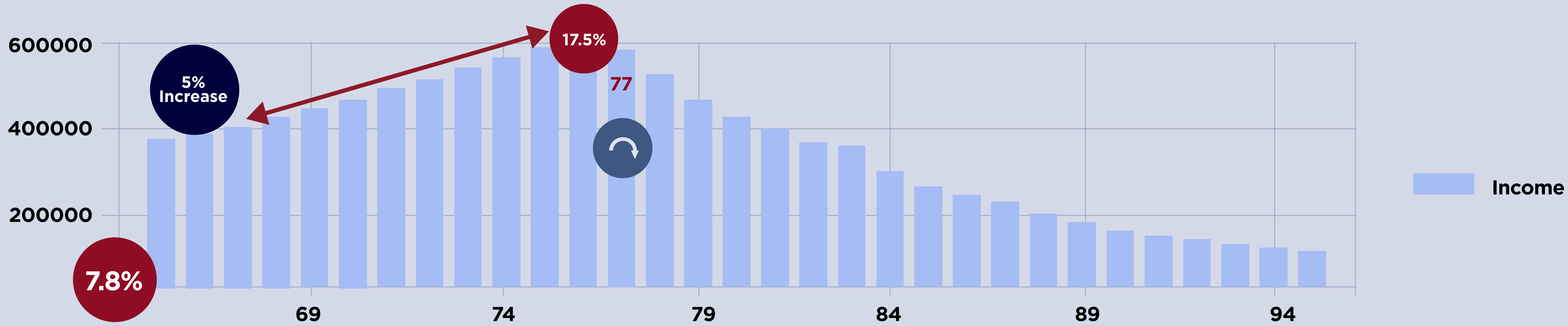
Ongoing management and financial advice are needed as it's a more complex solution and must be actively managed. If your investment returns don't outperform inflation, your income may also lose purchasing power.

In the comparison table on page 3, there are two living annuity examples assuming a moderate portfolio (CPI + 4% as the benchmark, i.e. providing a real growth of 4%).

Scenario 1

The income **drawdown rate** chosen by the client is **7.8%** - the same as the life annuity's starting annual return of **7.8%.** This drawdown rate exceeds the guideline of 5.5% for a 65-year-old male. As illustrated in the graph below, income will start to decline from **age 77**, with capital eventually running out.

X Certainty | X Longevity | ✓ Flexibility | ✓ Capital Legacy

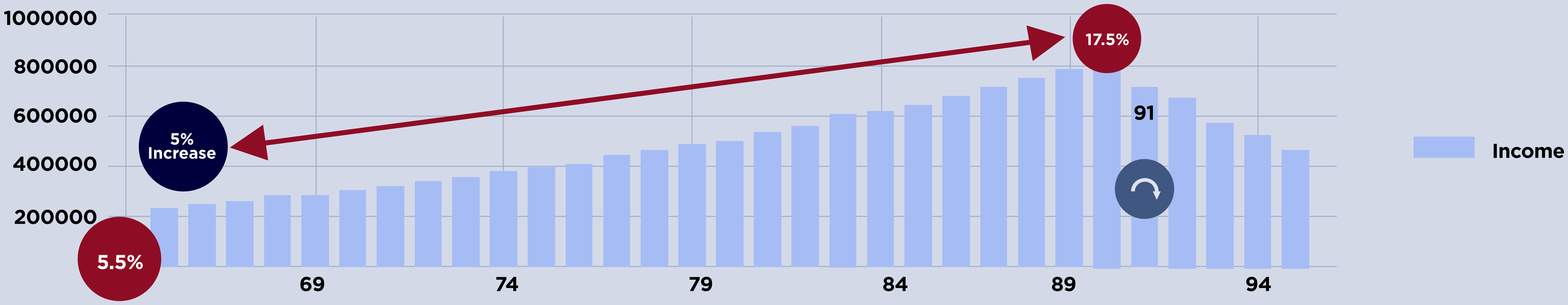


Source: Glacier ICE tool nominal income graph. Since inflation is 6% and income rises only with 5% annually, purchasing power will decline over time.

Scenario 2

The income **drawdown rate** chosen by the client is **5.5%**, matching the guideline for a 65-year-old male, which ensures that the income is more sustainable, potentially starting to decline around **age 91** only, as illustrated in the graph below. There is, however, still the risk of the capital (and therefore the income) getting depleted eventually.

X Certainty | X Longevity | ✓ Flexibility | ✓ Capital Legacy



Source: Glacier ICE tool nominal income graph.

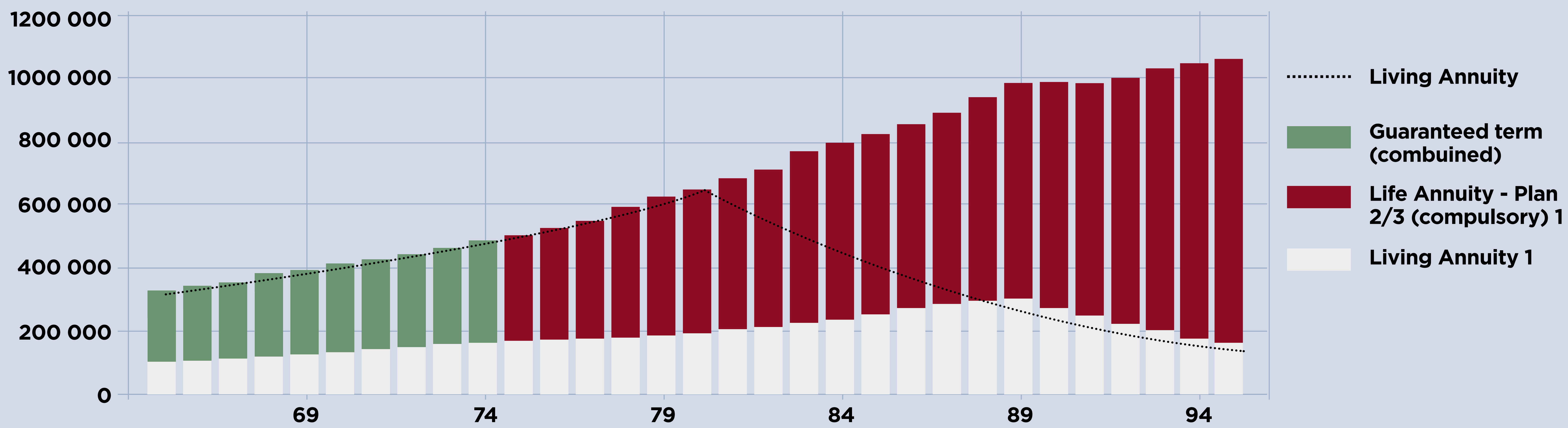
Choosing a combination of the life and living annuity

Experience the power of balance in retirement planning!

By combining a **life annuity** and a **living annuity**, you unlock the best of both worlds – **certainty *and* flexibility, longevity protection, potential to leave a legacy**, and a **sustainable income stream throughout retirement**. This powerful strategy ensures you're covered for life's uncertainties while retaining a level of control over your income and underlying investments.

The graph below illustrates how blending these two solutions can provide a more balanced - secure and adaptable - income journey in retirement.

Certainty
Longevity
Flexibility
Capital Legacy



Source: Glacier ICE tool nominal income graph.
The income drawdown rate of the stand-alone Living Annuity 2 (dotted blue line) is 6.8% to match the starting income of the combined life and living annuity. Therefore, capital will start depleting at age 81.

THE POWER OF **BALANCE** IN RETIREMENT PLANNING

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When it comes to retirement planning, there's no one-size-fits-all solution. Each annuity option – whether a life annuity, living annuity, or a combination of the two – offers unique advantages depending on your personal needs, goals, and circumstances. That's why it's essential to consult a reputable financial adviser who can help tailor a strategy that balances income security, flexibility, and legacy. After all, your future isn't just a distant concept – it's where you'll be spending the rest of your life. Make sure it's well taken care of.

This document is intended for use by clients, alongside their financial intermediaries.

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