glacier
by Sanlam

There's more than one way to construct a **Glacier Personal Retirement Income Solution – here's how**

All clients are different, with different needs for certainty, flexibility, growth and providing for loved ones. Glacier enables you to to easily build a sustainable, customised retirement income solution for your clients by combining different solutions. The Glacier Personal Retirement Income Solution (GPRIS) is designed for new retirees and the FlexiGuarantee Life Annuity (FGLA) is intended for existing living annuitants who start to require more income certainty.

THE GLACIER PERSONAL RETIREMENT INCOME SOLUTION

At retirement, clients have the option to diversify their retirement savings into several retirement income solutions to suit their unique needs. The Glacier Personal Retirement Income Solution offers a seamless process when purchasing a living annuity and a life annuity. This combination will provide clients with the certainty of a guaranteed and stable income on the one hand, and income flexibility and continued capital growth on the other.

A Glacier Personal Retirement Income Solution is suitable for retiring clients who require:

- Retirement income sustainability through flexible and guaranteed income streams
- Custom allocation between a life annuity and living annuity
- Longevity protection through guaranteed income for life via a guaranteed life annuity
- Flexible investment options and income selection via a living annuity
- The ability to provide for dependants either through annuity income to spouse (joint life) or beneficiaries (guaranteed term)
- Capital legacy opportunity through life cover (capital preservation plan) or remaining capital in living annuity

A Glacier Personal Retirement Income Solution is NOT suitable for retiring clients who require:

- A guarantee on total income and no investment risk or longevity risk
- Exposure to market growth on full capital
- Flexibility to change total income annually
- Access to total remaining capital for legacy

Custom Allocation between a Life Annuity and a Living Annuity

The Glacier Personal Retirement Income Solution allows custom allocation of retirement savings between the life and living annuity to meet a client's unique needs. There are multiple ways to approach the allocation between the annuities and we have sketched a simple step-by-step approach.

1 Determine guaranteed income required to cover basic living expenses

Allocate enough to the life annuity to ensure non-discretionary living expenses (e.g. rent, utilities, food or medical) are covered by a guaranteed income stream. These expenses are likely to increase with inflation (or more) and typically cannot be reduced.

2 Determine annuity income needs for dependants

A client may need to make provision for dependants after their death.

- A lifelong guaranteed annuity income can be secured for a partner by adding the partner as a second life insured.
- Dependants that may need support for a limited initial period can be provided for by adding a guaranteed term (5/10/15 or 20 years). Adding the above options, or a capital benefit (in The Sanlam Income with Capital Preservation Plan) will reduce the life annuity income and will require a greater allocation to the life annuity to cover basic expenses.
- The remaining capital in the living annuity may also be used for legacy needs.

3 Allocate the balance to the living annuity and select the appropriate risk profile

- Choose underlying investments that suit the client's risk profile to maximise growth on their living annuity capital. The investment returns generated will determine the level of income the living annuity can support.
- The escalation level chosen on the life annuity will determine the future income requirement from the living annuity. This should be taken into account when selecting investment options to support the required growth and income.

4 Select a sustainable level of living annuity income to cover discretionary expenses

Discretionary expenses, such as travel and entertainment, can be reduced or delayed. Select and adjust the living annuity income annually to cover these expenses. The sustainability of the living annuity income depends on the investment returns of the portfolio and the income level selected.

THE FLEXIGUARANTEE LIFE ANNUITY (FGLA)

The **FlexiGuarantee Life Annuity**, which consists of two distinct components structured on the basis of a guaranteed life annuity and a living annuity, offers the same benefits as the Glacier Personal Retirement Income Solution, but is a single product which cannot be transferred or commuted.

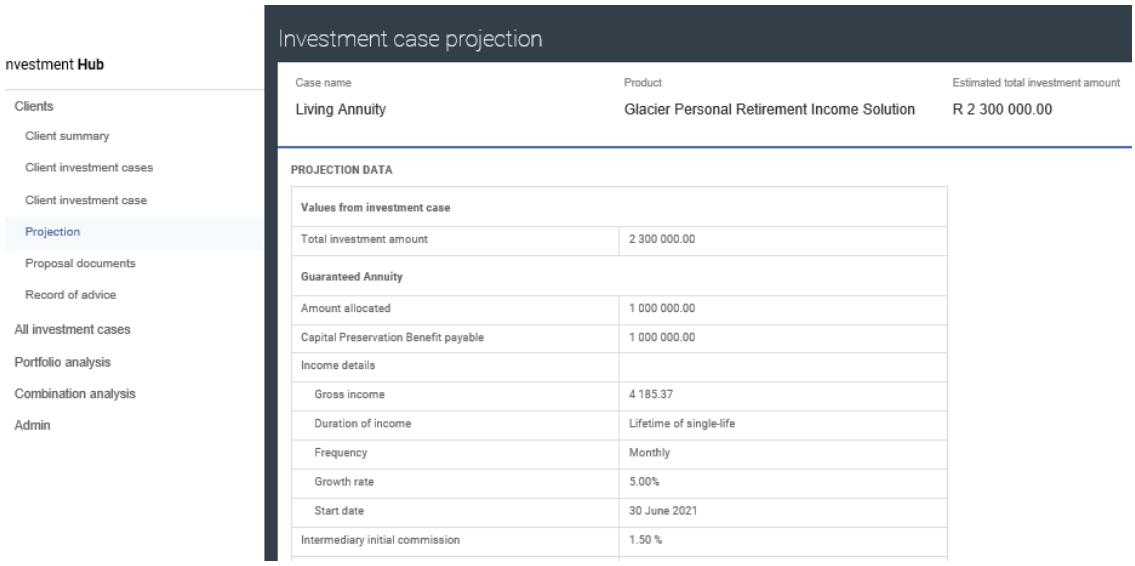
A BLENDED SOLUTION MITIGATES RISKS

RISK	HOW BLENDING A LIFE AND LIVING ANNUITY MITIGATES THE RISK
Inflation risk	A more sustainable combined income stream supports income increases that keep up with inflation
Investment performance risk	The guaranteed income portion from the life annuity reduces investment risk
Sequencing risk	The life annuity income can cover basic living expenses, giving the living annuity capital the opportunity to recover from market falls
Longevity risk	The guaranteed income portion from the life annuity gives peace of mind, as longevity risk is shared with an insurer. The guarantee on the life annuity portion of the income also allows annuitants with higher risk appetites to take on greater investment risk in the living annuity, increasing the possibility for higher investment returns
Dependant risk	Better preservation of living annuity capital if the life annuity income covers basic living expenses, leaving a greater amount for dependants when the annuitant passes away. The Life Annuity also provides for a second life insured, a guaranteed income payment term, and capital protection in the Sanlam Income with Capital Preservation Plan.

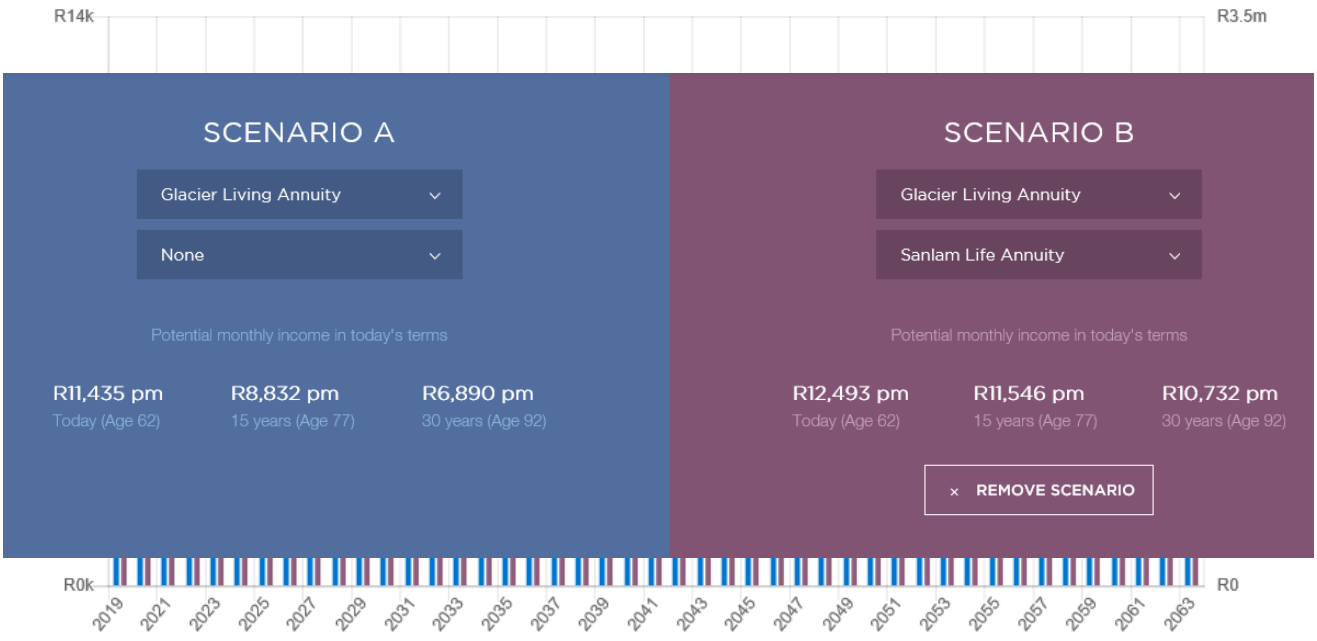
Click on the items in the risk column above for more information

OUR TOOLS CAN ASSIST

You can illustrate the combined income stream and the sustainability of the solution by selecting to send a projection along with your proposal to your client, directly from the Investment Hub.



Another useful tool is the Glacier Retirement Income Planner, which is available as a separate tool on the Investment Hub:



Please contact your Glacier representative if you need any additional information.

The FlexiGuarantee Life Annuity is brought to you by Glacier by Sanlam and is underwritten by Sanlam Life Insurance Ltd.

Glacier Financial Solutions (Pty) Ltd | A member of the Sanlam Group | Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 (0)21 917 9002 / 0860 452 364 | Fax +27 (0)21 947 9210 | Web www.glacier.co.za | Twitter @GlacierBySanlam | Reg No 1999/025360/07 | Licensed Financial Services Provider

Sanlam Life Insurance Ltd | Email life@sanlam.co.za | Tel +27 (0)21 916 5000 / 0860 726 526 | Fax +27 (0)21 947 9440 | Reg No 1998/021121/06 | Licensed Financial Services Provider

Inflation risk

What does it mean?

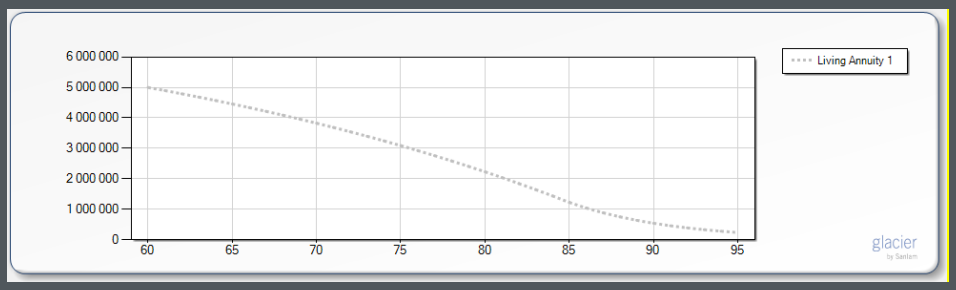
Inflation is the rate at which prices increase on a basket of goods, or on a specific product or service. Therefore, if it is announced that the current inflation rate is 4%, it refers to the rate at which a basket of goods in South Africa has increased in price over the past 12 months (if it is measured year-on-year).Inflation risk is therefore the risk of a decline in purchasing power with the result that the retiree can no longer meet monthly expenses.

Practically speaking

- If an item cost R100 one year ago, and the inflation rate was 4% for the past year it means that the current price of that article is R104.
- Inflation also has a compounding effect. If the inflation rate is 4% again in the next year, the price will not go up with R4 as in the first year, but it will go up by 4% of R104, in other words to R108,16. Most people understand the benefit of compounded growth over time but may not understand the destruction of compounded inflation over time.
- The Rule of 72 provides a simple method of calculating the impact of an inflation rate over time. This means that if you divide 72 by the expected inflation rate over time - let's assume 6% - the answer will give you an indication of the half-life of your investment's purchasing power. In this example, the answer is 12 (72 divided by 6), so your purchasing power, if you have no growth, will halve over 12 years. Therefore, after 12 years, your R100 will only buy R50 worth of goods and services, and after another 12 years, only R25. It is therefore imperative that your portfolio has a return in excess of inflation.

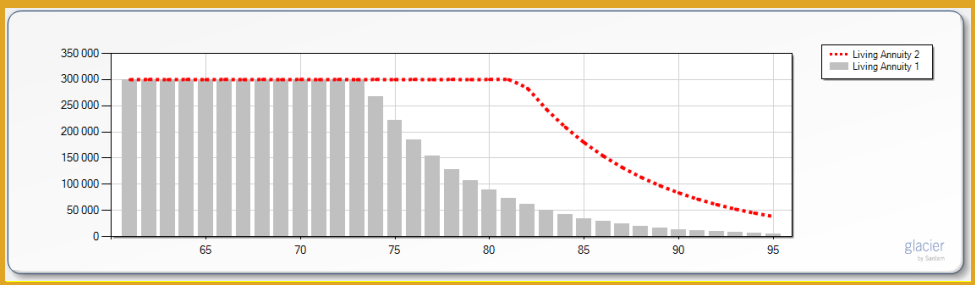
Example

Neal (60) has R5 million retirement capital. With a living annuity drawdown of 5%, growth of 10% and inflation of 6%, see below what happens to his purchasing power in the future, in today's terms.



How to mitigate the risk

Growth assets in a portfolio could provide, for example, an *inflation + 5%* return (in a moderate aggressive portfolio) or an *inflation + 2%* return (in a conservative portfolio). Below is a comparison between a conservative (grey bars) and moderate aggressive (red line) portfolio for a 61-year-old retiree with a drawdown of 6%, who needs an income to escalate with an assumed inflation of 5% per annum. The conservative portfolio keeps pace with inflation until age 73 while the moderate aggressive portfolio keeps pace until age 82.



< BACK

Investment Risk

What does it mean?

Investment risk is the risk of poor investment returns during retirement, reducing a retiree's ability to draw a sustainable income to meet their needs.

Returns are unpredictable and no single asset class always outperforms all of the time.

2008	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1 year	Year-To-Date
GLOBAL BONDS 41.75%	GLOBAL BONDS 28.92%	LOCAL PROPERTY 35.88%	GLOBAL EQUITIES 52.60%	LOCAL PROPERTY 26.64%	GLOBAL EQUITIES 31.05%	LOCAL BONDS 15.42%	LOCAL EQUITIES 21.21%	GLOBAL BONDS 14.80%	GLOBAL EQUITIES 22.77%	GLOBAL EQUITIES 22.18%	LOCAL EQUITIES 51.51%	LOCAL EQUITIES 13.28%
LOCAL BONDS 16.97%	GLOBAL EQUITIES 12.33%	LOCAL EQUITIES 29.09%	LOCAL EQUITIES 20.71%	LOCAL EQUITIES 15.42%	GLOBAL BONDS 29.72%	LOCAL PROPERTY 10.20%	LOCAL PROPERTY 17.15%	LOCAL BONDS 7.69%	LOCAL BONDS 10.32%	GLOBAL BONDS 14.70%	LOCAL PROPERTY 34.44%	SA MA HIGH EQUITY 7.41%
LOCAL CASH 11.69%	LOCAL PROPERTY 8.93%	GLOBAL EQUITIES 22.28%	GLOBAL BONDS 20.24%	GLOBAL EQUITIES 14.63%	LOCAL PROPERTY 7.99%	LOCAL CASH 7.39%	GLOBAL EQUITIES 12.26%	LOCAL CASH 7.25%	SA MA HIGH EQUITY 9.52%	LOCAL BONDS 8.65%	SA MA HIGH EQUITY 30.65%	LOCAL PROPERTY 6.40%
SA MA LOW EQUITY 2.25%	LOCAL BONDS 8.87%	SA MA HIGH EQUITY 16.27%	SA MA HIGH EQUITY 18.03%	GLOBAL BONDS 11.10%	SA MA HIGH EQUITY 7.66%	LOCAL EQUITIES 4.13%	LOCAL BONDS 10.24%	GLOBAL EQUITIES 4.38%	LOCAL EQUITIES 9.32%	LOCAL CASH 5.39%	GLOBAL EQUITIES 30.56%	GLOBAL EQUITIES 5.78%
LOCAL PROPERTY -4.47%	SA MA LOW EQUITY 6.35%	LOCAL BONDS 15.95%	SA MA LOW EQUITY 12.17%	LOCAL BONDS 10.15%	SA MA LOW EQUITY 7.60%	SA MA LOW EQUITY 3.59%	SA MA HIGH EQUITY 9.97%	SA MA LOW EQUITY 1.24%	SA MA LOW EQUITY 8.58%	SA MA HIGH EQUITY 5.19%	SA MA LOW EQUITY 17.26%	SA MA LOW EQUITY 3.49%
SA MA HIGH EQUITY -8.24%	LOCAL CASH 5.73%	SA MA LOW EQUITY 13.10%	LOCAL PROPERTY 8.39%	SA MA HIGH EQUITY 9.50%	LOCAL CASH 6.47%	SA MA HIGH EQUITY 1.31%	SA MA LOW EQUITY 8.39%	SA MA HIGH EQUITY -3.60%	LOCAL CASH 7.29%	SA MA LOW EQUITY 5.17%	LOCAL BONDS 16.96%	LOCAL CASH 0.90%
LOCAL EQUITIES -21.67%	SA MA HIGH EQUITY 5.26%	GLOBAL BONDS 9.63%	LOCAL CASH 5.19%	SA MA LOW EQUITY 8.20%	LOCAL EQUITIES 3.62%	GLOBAL EQUITIES -4.34%	LOCAL CASH 7.54%	LOCAL EQUITIES -11.67%	GLOBAL BONDS 3.86%	LOCAL EQUITIES 2.61%	LOCAL CASH 4.57%	LOCAL BONDS -1.74%
GLOBAL EQUITIES -22.15%	LOCAL EQUITIES 4.26%	LOCAL CASH 5.54%	LOCAL BONDS 0.64%	LOCAL CASH 5.91%	LOCAL BONDS -3.93%	GLOBAL BONDS -9.91%	GLOBAL BONDS -2.78%	LOCAL PROPERTY -25.26%	LOCAL PROPERTY 1.92%	LOCAL PROPERTY -34.49%	GLOBAL BONDS -13.46%	GLOBAL BONDS -3.96%

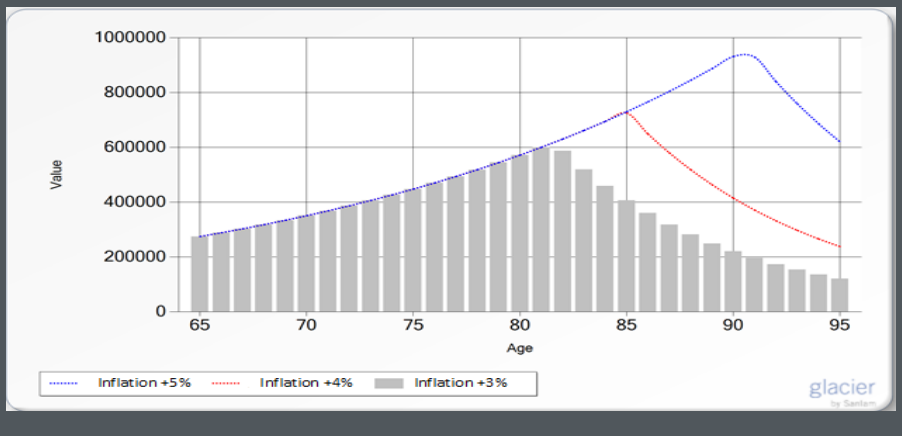
1 Source: Glacier Research & Morningstar Direct. Returns in ZAR to end March 2021

Practically speaking

Financial markets are unpredictable and fluctuate daily. The value of an investment can therefore rise and fall, and there is no guarantee, either with respect to the capital or the return on the investment. There is therefore an element of risk for capital and also for income if the investor draws an income from the investment.

Example

How do different return portfolios really influence a retiree who draws an income of 5.5%? In the graph below we see, as expected, that the higher the returns are, the longer the retirement capital lasts, and vice versa. This illustrates the dangers of investment risk and the impact it can have on retirement capital.



< BACK

How to mitigate the risk

- By having sufficient savings, a retiree can keep their drawdown amount as low as possible, especially during the first few years of retirement.
- Historically, growth assets have given investors the best chance of real returns so it is important to have enough exposure to growth assets such as equities. Asset allocation should be aligned to the required drawdown rate.
- It is important to diversify a portfolio, not only across different asset classes but also across different managers, styles and jurisdictions. Including strategies such as hedge funds, smoothing portfolios and alternative asset classes like private equity may improve outcomes and reduce investment risk.
- You could combine different solutions to improve the chances of a sustainable retirement income. By combining different retirement income solutions such as living annuities and life annuities, one can mitigate exposure to investment risk by ensuring a more predictable income stream.

< BACK

Sequencing risk

What does it mean?
The risk of a portfolio losing value during a market downturn just before or after retiring.

Practically speaking

- Retirement capital is most vulnerable to the impact of market falls just before or just after retirement. During this period, market volatility therefore poses a serious risk. If the market takes a downturn before retirement, and there isn't enough time for the investment to recover before investing into a retirement income solution, the retiree has locked in the capital loss as a result of that market drop.
- In the long term, this reduces the sustainability of the investment, as there is less capital left to grow and from which to draw income for the remainder of retirement.

Example
Imagine a person retiring on 1 April 2020, in the middle of the COVID market crash. That retiree would need substantially higher market returns to recover losses suffered as they will be taking an income at the same time as well. Fears of market downturns over the past five years have led to retirees preferring to take less risk, often to their own long-term detriment.

How to mitigate the risk
Investment returns are important but the way they are earned also plays an important role. An investor needs the best returns for the lowest amount of risk to reduce the sequence of returns risk.

< BACK

Longevity risk

What does it mean?

The risk that a retiree may live longer than expected and run out of a retirement income. This is exacerbated by increasing life expectancies.

Practically speaking

- The impact of this is dramatic, as it becomes a contributing factor to what is known as the "sandwich generation" - where an income earner is wedged between two dependent generations. This ultimately creates a knock-on effect that spirals from generation to generation.
- The second pressure point has the potential to hit all earners, as the state needs to then increase its social grant bill that is ultimately funded by the taxpayer.

Example

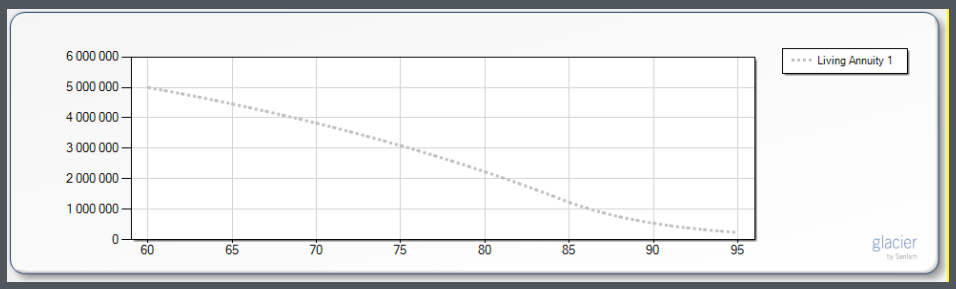
Let's consider average life expectancy, as shown in the below table.

Chance of survival - RSA	65-year old man	65-year old woman	65-year old couple *
1 in 2	85	89	94
1 in 4	93	97	100
1 in 10	100	104	106

* at least one surviving

WHO

Neal (60) has R5 million retirement capital. With a living annuity drawdown of 5%, growth of 10% and inflation of 6%, see below what happens to his purchasing power in the future, in today's terms.



In our example above, there is a 50% chance that Neal would no longer need income after age 84, when the projection shows his income to significantly start to decrease. But there are many potential clients who would live longer and still need a sustainable income. Therefore, the above cash flow example would potentially cover only 50% of clients, which is not acceptable. What if the retiree needs to leave an income for a spouse, would like to leave a legacy to their dependants, or they live to 100? Measures need to be taken to ensure there is some form of income at that stage.

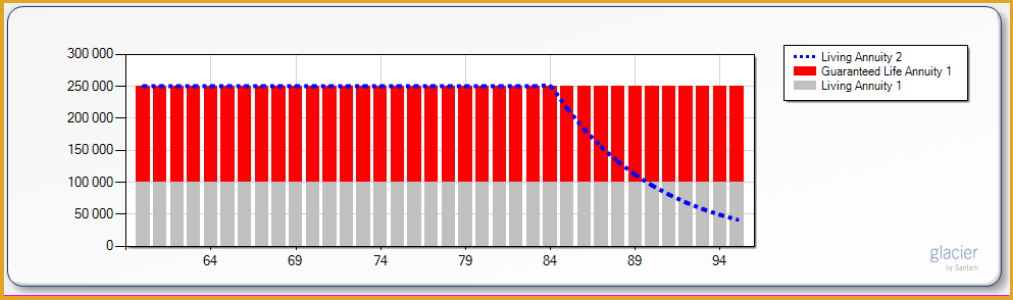
How to mitigate the risk

- One could fix the retirement longevity dilemma by creating savings behaviour that would eliminate concern about longevity.
- The retiree could consider starting with a lower income by reducing the initial drawdown rate or income percentage taken. One should weigh up desired income relative to affordable income.

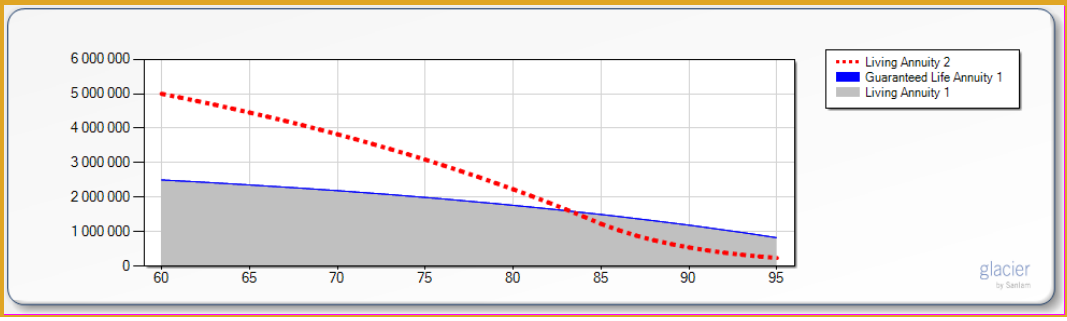
< BACK

- One could consider dividing retirement assets between a living annuity and a guaranteed life annuity. Consider the impact on both income and capital. Purchasing a life annuity removes investment, longevity and sequence risk.

Using the tariff applicable on 25 February 2021, let's consider the income sustainability of a living annuity purchased with retirement capital of R5m (blue dotted line) vs the income stability of a solution where the client's retirement savings were split (R2.5m each) between a living annuity (grey bars) and a life annuity (red bars). The life annuity was purchased on a single life, with a fixed 6% increase per annum. In the latter case, the client only needs an initial income of 4% from the living annuity, as the life annuity will provide a starting income of R12 515 per month.



The graph below illustrates the reduction in the same client's retirement capital when the full R5m is invested in a living annuity only (red dotted line) vs the reduction in retirement capital when the retirement savings are split (R2.5m each) between a living annuity and a life annuity. With the combined solution, the capital still diminishes in real terms, but at a slower rate. One must weigh up the 'price' of purchasing a guaranteed income against the benefit of securing income longevity and avoiding some of the other pressures on income sustainability.



< BACK