

Considering options for 'compulsory money' in the GEPF environment

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Every person is different with needs and challenges unique to their circumstances and lifestyle. This is especially true when facing retirement. When fund members approach retirement, they have a choice to either retire in the Government Employees Pension Fund (GEPF) and receive a pension (depending on years of service), or to resign, in which case they leave the fund and take their benefit in cash or transfer their benefit to an approved private retirement fund.

There are many options and selecting the right vehicle for one's needs is not an easy decision, and some decisions can't be reversed.

What are the options?

Essentially, there are four main options when it comes to retirement income solutions:

- Guaranteed income without capital preservation (life annuity)
- Guaranteed income with capital preservation – this income can be level or escalating (life annuity)
- Living Annuity
- With-profit annuity (life annuity)

As stated previously, those in the GEPF have a fifth option, i.e. to remain within the government pension fund.

Often, combining two or more of these options will provide a more sustainable outcome for the client. Of course, fees are important when selecting between the options, but should not be the first or only consideration. Far more important is that the client selects a solution, or combination of solutions, that will meet their income needs on a sustainable basis as well as cater to other needs the client may have e.g. the ability to leave a legacy, flexibility to change income level, tax-efficiency or even further growth of the capital amount.

Quick overview

An escalating guaranteed life annuity (which provides for an income increase each year) allows clients to provide income for a spouse, should they pass away. Clients enjoy an escalating income, but after the 20-year guaranteed term there is no inheritance for beneficiaries.

A level guarantee provides a higher initial income than the escalating annuity, but with no escalation in the income level. The income amount received will therefore remain the same each year. Although clients often select a level guarantee because of the initial higher income, very often they start to feel the effects of inflation after a few years of no income increases, and their income may no longer meet their needs. Again, after the 20-year guaranteed term on the level guarantee, there will be no inheritance available.

A living annuity provides no guarantee. Clients, however, have the flexibility to change their income levels on an annual basis (within legislated limits) and can leave the remainder of the value of the underlying investment portfolio to their beneficiaries when they pass away.

Therefore, some of the main considerations for clients will be:

- Does my income need to keep pace with inflation?
- Do I want to leave an inheritance?
- Do I need a guaranteed income, or at least some level of certainty?

No 'one-size-fits-all' solution

There is no single solution that can meet all of these needs, and clients wanting both security and growth can achieve this by combining different solutions to address their needs. For example, by combining a living annuity (70%) with an escalating life annuity (30%), the client has income security, as well as some income flexibility and potentially, an inheritance for dependants.

Should clients remain in the GEPF or choose a private retirement fund?

As stated previously, this is not an easy choice. Clients who select a private retirement fund should expect a lower income, as the fund won't match the government fund's income levels. This lower income in the private fund is so that clients can leave an income for their spouse when they pass away, as well as a possible inheritance for their children (if a living annuity is selected).

The GEPF provides a higher income but this income will be reduced for the surviving spouse on the death of the first person, and the income falls away on the death of the second spouse, therefore there will be no inheritance for the children.

Clients who invest in a guaranteed life annuity and receive an increase of e.g. 5% per year may even, after a few years, catch-up with the income level they would have received had they

remained in the GEPF fund.

The decision to remain in the GEPF or to go private therefore depends on the circumstances and priorities of the individual concerned. Retirement income decisions can be complex and we urge clients to consult with a financial adviser before taking any action or deciding on an income solution. Partnering with a financial adviser allows clients to have confidence, knowing that they are moving in the right direction to realise their retirement goals, but are also in trusted hands to receive ongoing advice as and when their retirement goals change.

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