

**Media Release**  
**Association for Savings and Investment South Africa (ASISA)**  
**30 June 2010**

### **New living annuity standards to protect pensioners**

South African life companies have three months left in which to implement a number of provisions designed by the Association for Savings and Investment South Africa (ASISA) to mitigate the risk of pensioners exhausting their capital invested in investment linked living annuities.

Peter Stephan, senior ASISA policy adviser, says all member companies that market, administer or underwrite living annuities are expected to implement the ASISA Standards on Living Annuities by 30 September this year.

Living annuities provide pensioners with the flexibility of selecting the underlying investments into which the capital is placed as well as determining the income required, provided the annual pension drawn is between 2.5% and 17.5% of the capital. What makes living annuities attractive is that when the pensioner dies, what is left of the money is passed on to heirs. However, unlike conventional annuities, living annuities place the responsibility of ensuring that the capital produces a pension for life on the pensioner. With conventional annuities the insurer carries the full investment risk and the risk of the pensioner living longer than expected.

Stephan says the new ASISA Standards on Living Annuities therefore aim to ensure that living annuities are responsibly marketed and administered by ASISA member offices and that financial advisers and their clients are provided with the information needed to prevent the premature depletion of capital as a result of inappropriate investment choices and income selection.

He points out that it will also be the responsibility of the company selling the living annuity to ensure that independent financial advisers follow the Standards.

“While the Standards set living annuity disclosure requirements, we need to stress that our member companies remain free to determine their own terms of trade like cost, and investment choice,” says Stephan.

The good news is that the new Standards will apply to new and existing clients.

#### **Standard 1: Appropriate drawdown**

Companies must inform all new clients that their financial adviser is obliged to explain to them both the advantages and the risks of a living annuity and compare these against conventional annuities.

New clients must also be warned that the level of income selected is not guaranteed for life. In addition companies must point out to pensioners that the level of income selected may be too high and may not be sustainable if they live longer than expected or if the return on the capital is lower than required to provide a sustainable income for life.

Clients must be provided with written guidance that will help them ascertain whether or not their income selection places their annuity at risk. This must happen when the living annuity is sold and thereafter at least once a year.

Clients also need to be told that they can transfer their living annuity from one insurer to another and that a living annuity can also be converted to a conventional life annuity.



### **Standard 2: Appropriate investments**

Companies need to remind financial advisers and their clients at the inception of the living annuity and then every year to assess whether the investments selected in their living annuities are appropriate from a risk / return perspective.

### **Standard 3: Asset composition**

To enable clients and their financial advisers to assess the appropriateness of the investments selected, companies are required to communicate the actual asset composition of the living annuity at the inception of the living annuity and at least annually thereafter.

### **Standard 4: Industry based analysis and monitoring**

At the end of each calendar year, member companies must provide a living annuity status report to ASISA. These individual reports will be made available to the applicable regulatory bodies for scrutiny if requested. Contributing offices will also have access to a consolidated report, which will consist of the proportional split of clients categorised by age group and drawdown bands.

### **Ends**

#### **To set up interviews please contact:**

Lucienne Fild  
Independent Communications Consultant  
082 567 1533  
lucienne@mweb.co.za

#### **Issued on behalf of:**

Peter Stephan  
Senior Policy Adviser  
Association for Savings and Investment South Africa (ASISA)  
(021) 673 1620

ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).