

ASISA STANDARD ON LIVING ANNUITIES (SLA)

Effective – 31 March 2010

1. Definition of a living annuity

A living annuity is a special type of compulsory purchase annuity offered by insurers and retirement funds, under which the income (or annuity amount) is not guaranteed but is dependent on the performance of the underlying investments. It allows the client to select an income level that ranges between a pre-defined minimum and maximum level.

For the purposes of this Standard, a living annuity is one that complies with the definition of living annuity in the Income Tax Act.

The nature of living annuities is such that clients bear investment and longevity risk in full. The income over the annuitant's lifetime will ultimately depend on the length of that lifespan, drawdown rates selected and the investment performance of the chosen funds. While guidance on drawdown rates and appropriate investments can increase the probability that the living annuity provides a sustainable income for life, the nature of the product means this can never be assured. Such guidance therefore, cannot preclude situations where the capital is only able to support an annuity that reduces over the annuitant's remaining lifetime, even though the income continues for life.

2. Objectives of the SLA

The SLA is intended to provide industry standards so that living annuities are responsibly marketed and administered.

Each member office must ensure that all living annuities marketed, administered or underwritten by them comply with the SLA. Each member office must take whatever steps are necessary to ensure that independent intermediaries also comply with the SLA.

The standard relates to disclosure requirements. Each member of ASISA remains free to determine its own terms of trade.

3. Scope of the SLA

The SLA applies to all living annuities marketed, administered or underwritten by member offices of ASISA. It applies equally to new business as well as existing business, unless otherwise provided for in the SLA.

The SLA should be viewed in the context of the Financial Advisory and Intermediary Services Act No. 37 of 2002 (FAIS) that regulates all providers of advice. Any proposal to mitigate the potential inherent risks of living annuities therefore needs to be developed in the context of the FAIS environment.

The SLA recognises that clients may purchase annuities without the assistance of a financial advisor. If sold directly, the member office must comply with the obligations of those who are classified as direct marketers under the Policyholder Protection Rules under the Long-term Insurance Act (PPR) and FAIS.

It specifically recognises that, to the extent that advice is required by a client, the financial advisor (independent or tied) fulfils the primary role in advising on underlying investments, the rate at which an annuity is drawn down, and the implications of selecting or changing the drawdown percentage. The member office provides a perfunctory function in implementing a decision that requires skilled advice or expertise.

The SLA therefore aims to ensure that member offices act in a responsible manner by putting in place product standards that will help to mitigate the risk of living annuities being exhausted during the lifetime of the annuitant but without the member office providing advice other than through its normal advice channels

4. Living annuity product standards

4.1. Standard 1: Appropriate drawdown

Each member is obliged to provide written guidance to their clients such that the client is able to ascertain whether or not their most recent income selection places their annuity at risk. Each member office must ensure that the following or similar wording is disclosed to and

seen by the client at some point during the sale of any living annuity, and at least annually thereafter:

"A living annuity allows you to set your income level subject to constraints imposed by the authorities from time to time and allows you to select a wide range of investments in respect of the capital that will generate the annuity.

The level of income you select is not guaranteed for the rest of your life. The level of income you select may be too high and may not be sustainable if:

- *you live longer than expected with the result that the capital is significantly depleted before your death; or*
- *the return on the capital is lower than that required to provide a sustainable income for life.*

It is your responsibility (in consultation with your financial advisor) to ensure that the income that you select is at a level that would be sustainable for the rest of your life. You need to carefully manage your income drawdown relative to the investment return on the capital in order to achieve this. The table below can be used as a guide.

Years before your income will start to reduce

	Investment return per annum (before inflation & after all fees)					
		2.50%	5.00%	7.50%	10.00%	12.50%
Annual income rate selected at inception	2.50%	21	30	50+	50+	50+
	5.00%	11	14	19	33	50+
	7.50%	6	8	10	13	22
	10.00%	4	5	6	7	9
	12.50%	2	3	3	4	5
	15.00%	1	1	2	2	2
	17.50%	1	1	1	1	1

It is important to note that the table above assumes that you will adjust your percentage income selected over time to maintain the same amount of real income (i.e. allowing for

inflation of 6% per annum). Once the number of years in the table above has been reached, your income will diminish rapidly in the subsequent years.

Please ensure that your financial advisor has explained both the advantages and the risks of the living annuity and compared these against conventional annuities (where the insurer carries the full investment risk and the risk of you living longer than expected).

The table is a general guideline and should be considered taking into account each annuitant's financial situation and all other sources of income. It is an indicative guideline only, to assist you in making informed decisions in respect of your annuity.

SOURCE: ASISA Standard on Living Annuities; 2009"

All members will use the exact table above to ensure that there is a consistent approach to disclosure within the industry, for the benefit of annuitants. The only departure allowed from the table is to express the column headings as real returns, e.g. "CPI – 3.5%; CPI – 1%; ...; CPI + 6.5%"

The following general disclosures must also be made to clients:

- **Transferability:** Where the living annuity is in the form of a long-term insurance policy, the fact that the policy may be transferred from one insurer to another at the request of the client. Such transfer will be subject to the provisions of Directive 135A (read with Directive 135) issued by the Registrar of Long-term Insurance or any replacement thereof or supplement thereto. Where the living annuity is provided directly by a retirement annuity fund, the fact that the annuity may be transferred from one retirement annuity to another at the request of the client, subject to the provisions of s14(7) of the Pension Funds Act.
- **Convertibility:** Where the living annuity is in the form of a long-term insurance policy, the fact that it may be converted to a conventional life annuity administered by the current insurer or by another insurer, if the living annuity policy is transferred to such other insurer for this purpose. This is typically a once off option – i.e. the customer cannot reverse this

decision. The conversion, if another insurer is to be involved, will be subject to the provisions of Directive 135 issued by the Registrar of Long-term Insurance or any replacement thereof or supplement thereto.

4.2. Standard 2: Appropriate investments

Member offices should include the following wording (or something similar to it) at the inception of the living annuity and at least annually thereafter.

"It is important to note that investments held in your living annuity are made up of various types of assets classes such as equities, bonds, property or cash. These underlying assets have different levels of risks and returns associated with them. You and your financial adviser are therefore reminded to carefully consider the overall composition of your living annuity in terms of the exposure to these various asset classes. Too high a proportion of risky assets means there is a greater risk of losing capital while too low a proportion of risky assets means there is a risk that investment returns may be too low to sustain your income.

Although there are no specific limits prescribed for living annuity investments, there are for preretirement investments done through any approved retirement fund. In order to protect a member's retirement savings, the Pension Funds Act regulates the maximum limits to the different asset classes that a retirement fund may expose itself to. These limits are there to give guidance to what may be considered prudent investment limitations. As a way to provide similar guidance to those with living annuities, it may therefore be useful to refer to these guidelines to assess the overall asset composition of your living annuity. However this should never be seen as a substitute for obtaining professional advice and does not take your specific personal circumstances into account.

Broadly speaking the maximum exposure that retirement funds may have to the various asset classes are as follows:

- *75% to equity investments*
- *50% to non-government debt instruments*
- *30% to offshore investments*

- 25% to property investments
- 15% to hedge funds, private equity funds and any other asset not specifically mentioned aggregated together
- 10% to commodities like gold

This regulated exposure will apply while you are saving up to your retirement through an approved retirement fund. After retirement, when you are normally dependent on receiving a regular and stable income, a more conservative approach to asset selection may be desirable. As a result, should your asset composition on your living annuity exceed these limits, you are encouraged to review your living annuity investment strategy, as your capital within your living annuity may be exposed to undue risk."

4.3. Standard 3: Asset composition information

Member offices are required to communicate the actual asset composition of the living annuity to allow the client and financial advisor to assess this in the light of Standard 2 above. The asset composition should be communicated at the inception of the living annuity and at least annually thereafter.

4.4. Standard 4: Industry based analysis and monitoring

Member offices are required at the end of each calendar year to 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 (the aggregation is done by ASISA). The report will consist of the proportional split of clients categorised by age group and drawdown bands as per the table below.

Age band	Income band							Total
	2.5%-5.0%	>5.0% - 7.5%	>7.5% - 10.0%	>10.0% - 12.5%	>12.5% - 15.0%	>15.0% - 17.5%	>17.5% - 20.0%	
<55	2%	3%	2%	3%	5%	2%	3%	20%
55-59	2%	3%	2%	3%	5%	2%	3%	20%
60-64	2%	3%	2%	3%	5%	2%	3%	20%
65-69	2%	3%	2%	3%	5%	2%	3%	20%
70-74	-	2%	2%	2%	2%	2%	-	10%
≥75	-	2%	2%	2%	2%	2%	-	10%

Notes on producing the tables:

- The percentages in tables are expressed relative to the total fund size, i.e. the table as a whole adds up to 100%
- Two tables are required, using number of policies and assets as the weights respectively.
- The tables are based on the most recent income percentage selected by the client.

In addition the status report should show the following:

- The size of the member office's living annuity funds
- The number of living annuity policies
- The gross flows into living annuity funds for the year
- The average income drawdown level (client and fund size weighted) across all of the living annuity funds under administration
- Percentage of clients not compliant with the guidance on appropriate investments as set out in Standard 2.

5. Effective date

This SLA will be effective from 31 March 2010, and Member offices must fully comply with all provisions by no later than 30 September 2010.

HISTORY OF AMENDMENTS

Effective date	Amendments
17 February 2010	None. Standard approved by ASISA Board
March 2018	Updated regulation 28 limits.

Effective - 31 March 2010
Member offices to fully comply with all provisions by 30 September 2010

Responsible Senior Policy Advisor: Taryn Hirsch