Liberty Corporate Growth Pension (2018)

LIBERTY

What is the Liberty Corporate Growth Pension (2018)?

Liberty Corporate's Growth Pension Annuity (2018) is a with-profit annuity that pays you an **income for life** that **will never grant increases lower than 0%**. Your **annual increases** have the potential to beat inflation depending on your choice of investment portfolio and post retirement interest rate (PRI). As this is a with-profit annuity, you share in the profits and losses of the underlying investment portfolio. Your share of the profits can be allocated to you via a once-off annuity enhancement or an increase to your annuity.

What is an annuity?

An annuity is a regular income that you buy from an authorised annuity provider.

How do the increases work?

Your increases are linked to the returns of the underlying portfolio. Increases are determined by the following formula:

$$\text{Increase} = \ Max\left[0\,, \frac{1 + B - c}{1 + PRI} - 1\right]$$

Where:

$\text{B} \ = \ \text{bonus (includes the return, discretionary adjustment and longevity impacts where applicable)}$
$c = \ \ \text{fee levied by Liberty (the fee levied is dependent on the level of PRI)}$
$\text{PRI} = \text{post} - \text{retirement interest rate}$

(source: Principles and Practices of Financial Management Liberty: Growth Pension (2018) | February 2019)

Once an increase has been granted it cannot be taken away.

Illustrative Example:

Assume a pensioner buys a level annuity of R1,000 per annum payable for 10 years from an insurer. The insurer will pay R10,000 in total. The insurer could therefore charge a premium to the pensioner of R10,000. However, the insurer will invest the premium and earn interest on it. Assume the interest rate is 6% per annum. Very approximately, the insurer could earn R3,000 interest on the premium over the 10 years. Hence, if the insurer keeps this interest as it is earned the insurer can afford to give credit to the pensioner up front for this expected interest. The insurer could charge the pensioner a reduced premium of say R7,000 for the level annuity.

Now assume instead that that the insurer contracts with the pensioner to pay the same R1,000 per annum for 10 years, but in this case to give the pensioner credit for the interest earnings each year through pension increases over the 10 years in line with the 6% per annum expected interest. Then the premium paid by the pensioner will be R10,000 and the pensioner will receive R1,000 in year one, R1,060 in year 2, etc increasing by 6% per annum.

A growth pension based on a PRI falls between these two extremes. Say a PRI of 2% is chosen. Assume the expected interest rate is again 6% per annum. Then the pensioner will get pension increases each year based on the interest earned above 2% per annum, namely 4% per annum. The pension will be R1,000 in year 1, R1,040 in year 2 etc increasing by 4% per annum. As the insurer is giving credit to the pensioner in the premium for the 2% PRI up front, the premium can be made more affordable by being reduced below R10,000 but not as low as R7,000. The premium in this example will be approximately R9,000.

What does this mean?

What does this mean for your increase?

- We aim to give you the average of the last 5 years' investment returns on your chosen reference portfolio.
- This is adjusted for longevity profits and losses (based on how long members of the fund live) as well as other sources of profit and loss.
- It is adjusted for costs and your initial choice of PRI.
- The increase is limited to a minimum of 0% i.e. The increase can never be lower than 0%

You can choose from PRIs of 0% to 5% in 0.5% increments.

You can choose one of the following reference portfolios:

- Liberty Conservative Tracker Fund
- Liberty Moderate Tracker Fund
- Liberty Balanced Tracker Fund

These portfolios consist of equity, bond and cash components. Please visit: www.liberty.co.za for the fund fact sheets and Principles and Practices of Financial Management which details how increases are determined on the annuity.

What does the Liberty Corporate Growth Pension (2018) do?

✓ Gurantees an income for life.
✓ The increase can never be lower than 0%.
✓ Offers potential increases.
✓ Over the long term, the potential for growth could keep your income ahead of inflation depending on choice of PRI and reference portfolio.

What does the Liberty Corporate Growth Pension (2018) not do?

☒ There is no value on death
☒ Does not guarantee future increases

Why choose Liberty Corporate?
With Liberty Corporate, you have access to cost effective institutional pricing.

What does this mean for me?
Institutional pricing means that fees may be lower because of bulk pricing.

How is Tax Applicable for the Liberty Corporate Guaranteed Life Annuity?

Upon retirement from a retirement annuity, pension or provident fund, no tax will be paid on the lump-sum amount transferred from the retirement fund to the life annuity. No income tax is paid on the capital portion of the income on voluntary purchased annuities.

For compulsory annuities,Liberty is obliged to deduct the statutory Pay-As-You-Earn (PAYE) rate of tax from the regular income that you receive from this product. In terms of the Income Tax Act, 100.00% of each income payment is deemed as income and attracts tax at your marginal tax rate. If you do not have a tax directive, PAYE at the greater of the rate you requested and the official rate will be deducted from your regular income.

What are the fees on Liberty Corporate Growth Pension (2018)?

Type of Fee	Amount
Administration fee - initial	R 48 per member upfront, once off
Administration fees - ongoing	R 33.50 per member per month, increasing every 1 January by the year-on-year change in CPI (with a 4 month lag)
Policy fee	1.00% per annum of your investment pool, for PRIs of 0%-3% and an additional 0.05% for every 0.5% increase in PRI

Understanding your retirement needs:

Your short-term and long-term needs along with other considerations, should assist in the right annuity choice for you.

Examples of Short-term needs:

- ✓ An annuity to cover living expenses, including all expenses such as food, housing and all your bills. This can be increased in line with inflation(as measured by change in CPI)
- ✓ Medical costs – medical aid contributions or additional money to cover medical expenses in the event of an emergency.
- ✓ Money for travel and entertainment.

Examples of Long-term needs:

- ✓ An annuity that can withstand the effects of time and rising prices (inflation).

Can you only purchase one annuity?

No, you can buy multiple annuities(as allowed for in legislation)based on your needs and how much you have saved for retirement.

Not sure what to do?

Retirement income planning is essential for a comfortable retirement.
Do not wait too long to start the conversation.

For more information on this product and the selections made in your fund's default annuity strategy, please contact benefitcounselling@liberty.co.za or 011 558 2999 and select the benefit counselling option.

Alternatively, for comprehensive financial planning guidance and services contact a Financial Advisor by visit www.liberty.co.za and select 'Get Advice'.

Should you require any additional information, please contact Liberty Corporate directly on +27 (011) 558 2999 or visit our head office at the Libridge, 25 Ameshoff Street, Braamfontein, Johannesburg.

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