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# smart member news

## Contents:

- **Welcome** note
- **Planning** for tomorrow - choosing a pension rather than cash
- **Introducing** the Funds' default annuities
- **Momentum** Golden Income With-Profit Annuity
- **Salt** Corporate Living Annuity (SACLA)
- **Recap:** The main pros and cons of the two types of annuities
- **Choosing** Living or Life annuities: Key considerations
- **Final** word: Your retirement, your future

## Welcome note

*As you approach retirement*, one of the most important decisions you'll make is *how to use your savings*.

This edition is dedicated to *the Funds' default annuity products* and explains all aspects of the difference between a life and living annuity and how best to decide which one of these would best suit your needs at retirement.

*This newsletter is more than just an update. It is a tool to empower you. Thank you for your continued trust in the Funds. We look forward to walking this retirement journey with you, one issue at a time.*

## Planning for tomorrow: why choosing a pension rather than cash matters

While the new Two-Pot retirement system now requires that your Retirement Component be used to buy a pension (also called an annuity), many members still have access to their Vested Component (the portion of savings accumulated before the legislation came into effect) which can still be taken in cash. **But just because you can take a portion of your money in cash when you retire doesn't always mean you should.**

### Why Choose a Pension Over a Lump Sum?

- 1. Steady Income for Life:** Purchasing a pension or annuity provides you with a regular, guaranteed income—monthly payments for the rest of your life. This helps protect you from outliving your savings, especially as people are living longer.
- 2. Financial Security:** Many retirees who take their full retirement savings in cash face the risk of spending it too quickly, leaving them financially vulnerable in later years. A pension gives you peace of mind knowing your basic financial needs will be met.
- 3. Protection Against Market Fluctuations:** With a guaranteed pension, you don't need to worry about market ups and downs affecting your retirement income. This makes budgeting and planning much easier.
- 4. Tax Efficiency:** While cash withdrawals are taxed upfront, annuity payments are taxed as income over time, potentially lowering your overall tax burden in retirement.

### Make Smart Choices with your Vested Component:

Even though the Two-Pot system has introduced important reforms, your Vested Component (savings before 1 March 2021) still gives you some flexibility. However, it's wise to consider using that portion to also buy a pension or supplement your retirement income instead of taking it all in cash.

## Introducing the Funds' Default Annuities

At retirement you must buy an annuity (pension) for life with your Retirement component.

There are many annuity products available in the market and understanding their differences, pros, and cons can help you make the best choice for your future. Retirement is a time to enjoy the fruits of your labour, but ensuring those fruits last a lifetime requires critical financial decisions. One of the most important choices retirees face in South Africa is choosing between a living annuity and a life (or guaranteed) annuity.

It is very important that you seek independent professional advice from an accredited financial adviser, in order to ensure that the product you select to provide you with a pension is suited to your individual needs.

### The Good News

The Salt Umbrella Funds now provide in-house default annuities (both a Living and Life Annuity)

through Momentum. These products have been selected for you by the **Board of Trustees**. Best of all, they are **cost effective** because the charges you will pay are similar to those that are usually only available to staff of big companies, not individuals.



The two default annuities provided by the Salt Umbrella Pension and Provident Funds include:

1. **Life Annuity** (guaranteed annuity) known as the **Momentum Golden Income With-Profit Annuity AND/OR**
2. **Living Annuity** known as the **Salt Corporate Living Annuity (SACLA)**.

#### Please note:

Even though the trustees believe that either of these two annuities are a great choice for you at retirement, it's still a choice that you will need to exercise. You will not be placed in the Momentum Golden With-Profit annuity or the Salt Corporate Living Annuity (SACLA) automatically as you will need to "opt-in" to purchase it at retirement. Alternatively, you could choose any of the annuities available in the market that you think might be more suitable for your unique circumstances.

The minimum fund credit amount needed to buy either of these annuities is R100 000.

### Did you know?

These annuities **may be chosen on their own or in a combination, if your retirement fund benefit is large enough. Please speak to your financial adviser** to establish which approach is most appropriate for your circumstances.



The annual increases are linked to the investment returns made by the investment portfolios where your money is invested.

The reason for the name “**with-profit**”, because **you share in the investment profits.**

Your pension will never decrease as increases may not be negative and can never be taken away.

## The Momentum Golden Income With-Profit Annuity

Life annuities are simply monthly pensions that are paid to you for your whole life by the insurer with whom you elect to buy the pension. This means that in exchange for your retirement savings when you retire, the chosen insurer will pay you a pension every single month, even if you live to be 110 years old! So, you don't have to worry about outliving your savings because the insurer takes on the risk of paying you, even if you live for a very long time.

The guarantee includes the initial monthly income as well as future annual annuity increases, if granted by the insurer.

Annual increases are important because you want to protect your retirement income from inflation, which can slowly wear away the purchasing power of your income over the years. The annual increases are linked to the investment returns made by the underlying investment portfolios where your money is invested. This is the reason for the name “with-profit”, because you share in the investment profits.

The amount of monthly pension you receive will depend on a number of factors, e.g.:

- ✓ your age at retirement;
- ✓ how much money you have saved; and
- ✓ which options (e.g. spouse pension, guarantees, etc) you choose.

**Important:** Your pension will also never decrease as increases may not be negative and can never be taken away.

### Smoothing for stable annuity increases

A process called “smoothing” is applied to investment returns. This means that when returns are high, a portion of the investment growth is held back for use in years when returns are low. Doing this means your annual annuity increases are stable, rather than very high one year and very low the next.

### Two choices you have to make

With the Momentum Golden Income With-Profit Annuity you need to make two very important decisions as explained below:

#### 1. Spouse's Pension (Joint Life vs Single Life)

Often when couples live together, income and expenses are shared – at least to some degree. As a result, you may want to ensure that in the event that you pass away before your partner (if you have a partner), he or she will continue to receive an income. The amount of income is flexible – you can elect the level; for example, you can choose that 50% of your pension is paid to your spouse in the event that you pass away.

Again, the cost associated with this option depends on a number of things, like your spouse's age and the level you choose. The cost of the spouse's pension will also affect your starting pension – if you include a spouse's pension, your starting pension will be lower than if you choose not to have a spouse's pension.

#### 2. Guarantees

Guarantees ensure that if you pass away within a certain period (e.g. within the first 5 years of the date that your pension started) your full pension will still be payable for the remainder of that period. Some people are concerned about what would happen if they purchased a pension and passed away shortly thereafter. To address this, you can choose to have a guarantee period applied to your pension.

**For example,** if you choose to have a 5-year guarantee period, and you pass away in year 3, your full pension as at date of death plus increases will still be paid to your beneficiaries for the remaining two years as a lump sum. As with the other options, if you elect a guarantee period, the “cost” of it will translate into a lower starting pension.

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## What does the Momentum Golden Income With-Profit Annuity offer?

- ✓ **Your monthly annuity** or income is guaranteed until you die.
- ✓ **Annual annuity/pension increases** are granted based on how well the with-profit annuity investment portfolios perform.
- ✓ **These annual increases** help to protect the purchasing power of your annuity (it keeps up with inflation)
- ✓ **Annual annuity increases of 50%-60% of CPI (inflation)** are targeted for the option selected by the trustees as part of the fund's annuity strategy. However, the product allows for options which target higher annual annuity increases, for example, 100% of CPI. If you decide to choose the option that targets increases of 100% of CPI, the implication for you is that your starting monthly annuity will be lower compared to the option that targets 50%-60% of CPI.
- ✓ **Every time your annuity increases, the new monthly income is guaranteed** for life.
- ✓ **Although the monthly income ends when you pass away, you can provide for financially-dependent beneficiaries** by choosing the joint life option or a guaranteed period. These options offer flexibility in the level of your spouse's annuity or a guaranteed period over which a minimum number of annuity payments will be made.

### Momentum Golden Income With-profit Annuity fees:

<b>Initial administration fee</b>	<b>R3 900 per policy</b>
<b>Monthly administration fee</b>	<b>R74.12</b>
<b>Ongoing management fee</b>	<b>1.10% p.a. of assets invested (Post Retirement Interest rate or PRI of 1.5% - which is the option that targets future increases of 50%-60% of CPI)</b>



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Do not worry about outliving your savings because the insurer takes on the risk of paying you, even if you live for a very long time.

# Salt Corporate Living Annuity (SACLA)

SACLA is a corporate living annuity, developed for Salt EB and made available to members or former members of the Salt Umbrella Pension and Provident Funds as an alternative to the With-Profit Life Annuity. This means that members are benefitting from corporate rates (bulk) instead of higher retail rates. A living annuity works like an individual savings account. It is different to the Life Annuity explained above as it does not guarantee income for life.

## Drawdown rate

You can draw money out of your savings account within certain limits – between a minimum of 2.5% a year and a maximum of 17.5% of your total balance. You may change this percentage annually. You also decide how to invest the money. The investment return earned, the amount you withdraw and how long you live will affect your income. You face both longevity risk – that is, the risk of outliving your savings; and investment risk – that is, the risk that your investments don't perform well enough for you to maintain your standards of living.

About 50% of us are expected to live longer than the average! Once the money runs out or your balance is too little for you to live on, this option does not provide anything else. There are no safety nets to protect you from poor investment returns or living a long life. You can choose where to investment your money and ongoing financial advice is required to select and maintain an appropriate investment strategy and determine a suitable income drawdown rate (monthly pension).

**The investment portfolios available for members to choose from include:**

- **Momentum Money Market Portfolio**
- **SACLA Conservative ILA Portfolio**
- **SACLA Growth ILA Portfolio**

The system will automatically allocate or split the allocation between the SACLA Conservative ILA Portfolio and the SACLA Growth ILA Portfolio depending on the investor's annual withdrawal rate and no upfront commissions, nor advice fees, will apply.

More detail regarding the composition of the portfolios, management fees, total expense ratios and total investment cost are specified in the fund fact sheets and are available on request. The fund fact sheets, and total applicable costs (the 'effective annual cost') will be provided to members when presented with a SACLA quote proposal.



## Nominate your beneficiaries

Unlike Life Annuities, the balance of a Living Annuity after a member's death may be bequeathed to a beneficiary.

The owner of a living annuity, referred to as the annuitant, can nominate one or more beneficiaries – whether individuals, trusts or even charities – to receive the remaining value of their living annuity in the event of their death. These nominations can be made directly through the annuity provider or can be facilitated by your financial advisor and can be updated at any time.

Importantly, where beneficiaries have been nominated to the living annuity, the funds do not form part of the deceased estate, meaning that they are exempt from estate duty and executor's fees and are distributed faster.

## Fees

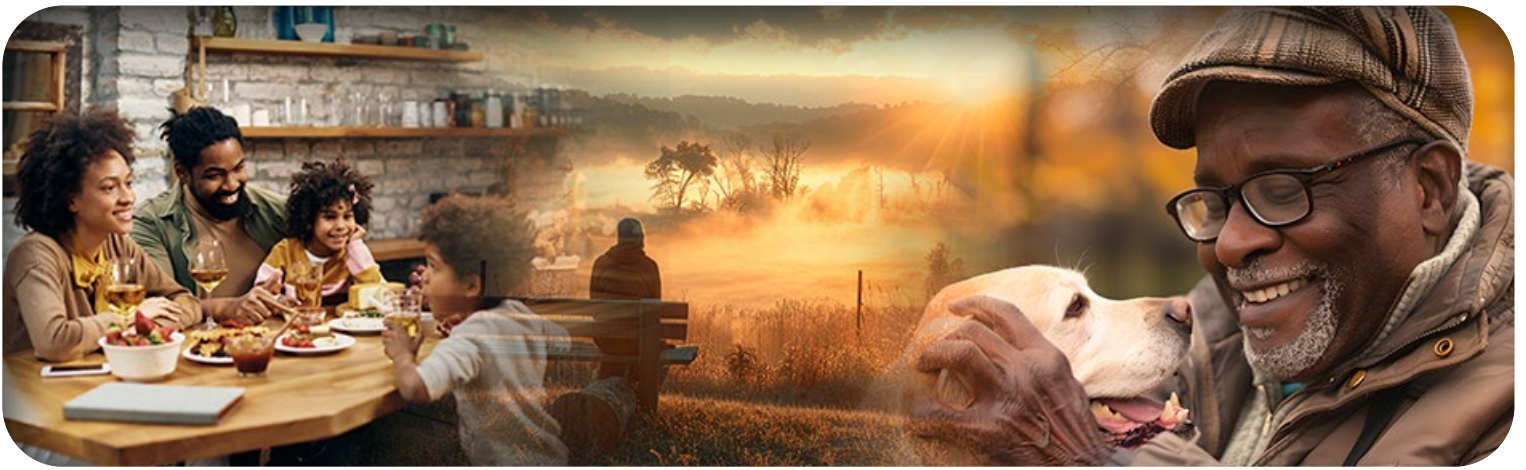
The commissions and ongoing advice fees and investment management charges in respect of these products are high and you should be aware of this in the event that you seek financial advice. That being said, good rates can be negotiated.

The SACLA is accessible through the financial advice model or through advisers that have been specifically accredited to give advice on the SACLA.

**The maximum financial adviser fees on SACLA are as follows:**

- ✓ **Initial Adviser Fee:** 1.50% (plus VAT)
- ✓ **Ongoing Adviser Fee:** 1.00% (plus VAT)

These fees are negotiable between the member and the adviser and can be set to zero. The member can also access the product without making use of a financial adviser.



## Recap: The main pros and cons of the two types of annuities

### Living annuity:

#### *Flexibility with responsibility*

A living annuity allows you to draw an income from your retirement savings while maintaining control over how the remaining funds are invested.

#### Pros

- **Flexibility in income:** You can adjust your annual income within the legal limits (2.5% to 17.5% of your capital).
- **Investment control:** Choose your investment strategy, from conservative options to higher-growth portfolios.
- **Inheritance:** Any remaining funds can be left to your beneficiaries.

#### Cons

- **Longevity risk:** If you outlive your savings, your income will stop.
- **Market risk:** Your income depends on investment performance, which can be volatile.
- **Complexity:** Requires ongoing financial management and regular reviews. Living annuities suit retirees who want flexibility and have a good grasp of investment principles or a trusted financial planner to guide them.

### Life annuity:

#### *Security and peace of mind*

A life annuity, on the other hand, provides a guaranteed income for life, purchased from an insurer. Once you buy a life annuity, you cannot change its terms.

#### Pros

- **Guaranteed income for life:** You cannot outlive your income.
- **No investment market risk:** Income isn't affected by market fluctuations.
- **Simplicity:** Once purchased, it requires no further management.

#### Cons

- **No flexibility:** Income is fixed, and you cannot adjust it.
- **No inheritance:** Once you and your spouse pass away, the insurer retains the remaining funds (except for guaranteed term options).
- **Inflation risk:** Without an inflation-linked annuity, your purchasing power can decline. Life annuities are ideal for retirees prioritising certainty and simplicity over flexibility.



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*Retirement is a time to enjoy the fruits of your labour, but ensuring those fruits last a lifetime requires critical financial decisions.*



## Key considerations when choosing

- **Risk tolerance:** If you're comfortable with investment risk and seek flexibility, a living annuity might suit you. For guaranteed peace of mind, consider a life annuity.
- **Life expectancy:** A life annuity protects against outliving your funds, which is especially important for those with a family history of longevity.
- **Inflation protection:** Inflation-linked or with-profit annuities safeguard against eroding purchasing power.
- **Legacy goals:** If leaving an inheritance is a priority, a living annuity provides that opportunity.

## Final word:

*Retirement is not just an end, it's a new beginning.* Making sound decisions now can ensure that this next chapter is secure, comfortable, and free from financial stress. **Choosing between a living or life annuity** is one of the most important financial decisions you'll make in retirement. By **understanding their features**, weighing the pros and cons, **you can create a retirement income plan that aligns with your lifestyle and goals.**

## The Good news

These two products are integrated on the Salt Benefit Counsellor portal and you are able to ask for quotes on both of these annuities.

Make sure you register today by sending "Hi" to 078 248 0529 or visit: [salt.benefitcounsellor.com](http://salt.benefitcounsellor.com)

## Call to action:

We encourage you to speak with a **financial adviser** or engage with the **Funds' benefit counsellor tool** to better understand your options and **plan for the future you deserve.**

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Choosing between a Living or Life Annuity is one of the most important financial decisions you'll make in retirement.




# salt

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