Glacier Investment-Linked Living Annuity - Personal Portfolio Living Annuity

Background information 2

Member-owned vs fund-owned 3

Living annuity vs conventional annuity 3

General information 3

Product features 4

Investor type 4

Investments allowed 4

Minimum investment amount 4

Retiring into a living annuity 4

Discretionary money 4

Money received from the GEPF 4

Investment options 5

Regulation 28 5

Income 5

Income draw-down rates 5

Income tax 7

Transactions 8

Transactions allowed 8

Transactions not allowed 9

Divorce 9

Maintenance orders 9

Section 50 and Section 14 transfers 10

Annuity conversions 12

Commutation of small annuities 13

Amount prescribed by the Minister 13

Death 14

Secondary beneficiary 14

Options for the beneficiaries at the death of the annuitant 15

Tax 15

Tax simulations 16

Cancellations 16

Fees 17

Estate duty and executor fees 17

Background information

A living annuity is a post retirement product, which enables an investor to transfer the benefit from his retirement fund into a flexible, personalised investment portfolio that matches the client's risk profile and provides a retirement income.

The definition in the Income Tax Act

"living annuity"
means a right of a member or former member of a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund, or his or her dependant or nominee, or any subsequent nominee, to an annuity purchased from a person or provided by any fund on or after the retirement date of that member or former member in respect of which—

a) the value of the annuity is determined solely by reference to the value of assets which are specified in the annuity agreement and are held for purposes of providing the annuity;

b) the amount of the annuity is determined in accordance with a method or formula prescribed by the Minister by notice in the *Gazette*;

c) the full remaining value of the assets contemplated in paragraph (a) may be paid as a lump sum when the value of those assets become at any time less than an amount prescribed by the Minister by notice in the *Gazette*;

d) the amount of the annuity is not guaranteed by that person or fund;

e) on the death of the member or former member, the value of the assets referred to in paragraph (a) may be paid to a nominee of the member or former member as an annuity or lump sum or as an annuity and a lump sum, or, in the absence of a nominee, to the deceased's estate as a lump sum;

eA) in anticipation of the termination of a trust, the value of the assets referred to in paragraph (a) must be paid to the trust as a lump sum pursuant to that termination; and

f) further requirements regarding the annuity may be prescribed by the Minister by notice in the *Gazette*;

The annuity income is paid from the underlying assets in the fund.

The **Personal Portfolio Living Annuity** is a member-owned living annuity. A member-owned living annuity means that the annuity was purchased from a registered SA insurer in the name and on the life of the member.

Both member-owned annuities and fund-owned annuities are non-commutable, payable for and based on the lifetime of the retiring members and may not be transferred, assigned, reduced, hypothecated or attached by creditors.[1] Other than for the above and section 50, it is important to remember that a living annuity is only defined in the Income Tax Act and not in general governed by the Pension Funds Act. The product therefore does not have a FSCA and/or SARS registration numbers.

[1] Sections 37A and 37B of the Pension Funds Act and General Note 18 of September 2008.

Member-owned vs fund-owned

Fund-owned

• Fund purchases the annuity policy from an insurer on behalf of the member.
• Transfers are done as a section 14(1) of the Pension Funds Act (transfers approved by the FSCA).
• Trustees
  o must sign all transfer documentation
  o may override the annuitant's nominee options for a dependant and can therefore appoint a beneficiary

Member-owned
• The member invests in an annuity and has the right to draw an income and manage the underlying funds. • The member has a right to the income, can give instructions and nominate beneficiaries. • Transfers are done in terms of **section 50(5)(a) of the Insurance Act, 2017 (Act No.18 of 2017)**

Living annuity vs conventional annuity

A conventional life annuity pays a guaranteed income for life. The income is based on life expectancy and the annuitant cannot choose the level of income. The income ceases at the death of the last life insured or at the end of the guaranteed term.

In a living annuity, the income amount is not guaranteed but dependent on the performance of the underlying investment options and the draw-down rate selected by the annuitant. The annuitant can choose the level of income and the income frequency between a pre-defined minimum (2.5%) and maximum (17.5%) level as prescribed by the Minister of Finance.

General information

The Personal Portfolio Living Annuity is an investment-linked living annuity, which is purchased with compulsory funds and administered by Glacier Financial Solutions. This means only money coming from a contractual pre-retirement product can be used to purchase the living annuity. The policy is member-owned and underwritten by a registered life insurer, Sanlam Life.

Product features

Investor type

The following types of investors are allowed to invest in the Personal Portfolio Living Annuity:

- Natural persons.
- Trusts with only natural persons as beneficiaries, providing the money originates from a death claim from a retirement or post retirement fund.

Note: There is no minimum or maximum age applicable.

Investments allowed

- Single premiums/lump sums.
- Ad hoc amounts

Minimum investment amount

Single investments	Ad hoc investments	Surplus funds
R100 000	R15 000	n/a

Retiring into a living annuity

A living annuity is funded from a retirement or death benefit from a pre (or post) retirement product such as:

- Retirement annuities;
- Employer's pension/provident funds (excluding the GEPF) and
- Pension/provident preservation funds.

Note: When retiring from a retirement fund, it is compulsory that two-thirds of the non-vested portion of the retirement value be used to purchase an annuity to provide an income for the member.

Discretionary money

The Income Tax Act defines a living annuity as a special type of compulsory purchased annuity. Therefore, only money coming from a compulsory source can be invested in a living annuity.

Money received from the GEPF

Money that is received from the GEPF (Government Employee Pension Fund) cannot be invested in the Personal Portfolio Living Annuity, as the GEPF fund rules do not make provision for a private pension (member-owned annuity).

Investors can invest the after-tax lump sum [gratuity] received from the GEPF at retirement in a retirement annuity fund and then at a later stage retire from the retirement annuity fund into a living annuity. If the investor resigns from the GEPF it is also possible to transfer the retirement benefit for preservation into a pension preservation fund and then retire from this fund into a living annuity.

Investment options

The following investment options can be selected:

- Wrap funds
- Multi manager funds
- Fund of funds
- Collective Investment Schemes
- Shares
- Hedge funds

Offshore collective investment funds and shares

Annuitants can invest in rand-denominated offshore collective investment funds on the unit trust platform and offshore shares via some of our share portfolio providers. The asset swap for the direct offshore exposure uses the Sanlam Life asset swap capacity.

Regulation 28

Regulation 28 as prescribed by the Pension Funds Act does not apply to living annuities. However, the Association for Savings and Investments South Africa (ASISA), has a Standard on Living Annuities (SLA) which uses Regulation 28 as a guideline for living annuities.

Income

The first income payment will be paid within 30 days of the investment being issued.

Income draw-down rates

The annuitant may select an income draw-down rate of between 2.5% and 17.5% per annum. This income is paid from the underlying funds. The income frequency is selected by the annuitant. This income will form part of the annuitant's gross income and will be taxed at his marginal tax rate.

Note: The drawdown rates changed in February 2007. Before this date the minimum drawdown rate allowed was 5% and the maximum drawdown rate was 20%. Annuitants who have living annuities issued before this date, have the option to stay on the 5% - 20% bracket or change to the 2.5% - 17.5% bracket.

I, Trevor Andrew Manuel, Minister of Finance, hereby withdraw all previous notices issued in terms of paragraph *(b)* of the definition of **"living annuity"** in section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962) and replace these prior notices with this notice.

1. I hereby prescribe that the amount referred to in paragraph *(b)* of the definition of **"living annuity"** in section 1 of the Income Tax Act, 1962, must be determined to be—
   (a) not less than 2,5 per cent and not greater than 17,5 per cent of the value of assets referred to in paragraph *(a)* of that definition if the living annuity contract was concluded on or after 21 February 2007; and
   (b) not less than 5 per cent and not greater than 20 per cent of the value of assets referred to in paragraph *(a)* of that definition if the living annuity contract was concluded before 21 February 2007, provided that these percentages may be adjusted to the percentages described in paragraph *(a)* above if the annuitant agrees to be bound by these income levels and by any subsequent adjustments of the rates.

Changes and limits to income frequency and percentages are set by the Minister of Finance in the Government Gazette as per the Income Tax Act. Currently, this legislation prescribes that annuitants may only change their income percentage on the anniversary date (hereafter referred to as the "income revision date" of the living annuity policy.

12 No. 32005 GOVERNMENT GAZETTE, 11 MARCH 2009

2. At inception of the living annuity the percentages indicated in paragraph 1 above are applied to the investment amount net of costs. The annuitant may then elect a draw-down percentage within these limits at inception On the anniversary date of inception, the revised fund value will be required to be determined in order to calculate the minimum and maximum annuity benefits payable. The annuitant may elect a different draw-down percentage at the anniversary date provided that this draw-down is within the set limits. The annuitant may not elect a different draw-down percentage at any other time.

Income tax

The annuitant will pay tax on the annuity income that accrues as gross income, at their personal marginal tax rate. As from 01 March 2014, Section 10C of the Income Tax Act has been amended by the Taxation Laws Amendment Act to make provision for previously disallowed own contributions to be deducted from the annuity purchased with the compulsory two thirds payable by a pension fund, pension preservation fund or retirement annuity fund. As from 1 March 2020, Section 10C of the Income Tax Act also makes provision for the previously disallowed own contributions to be deducted from the annuity purchased with the compulsory two thirds payable by a provident fund or provident preservation fund. A contribution certificate is issued to a member who has made own contributions during the tax year. The member should use this certificate when doing their tax returns.

Annuitants with more than one source of income

Amendments to paragraph 2(2B) of the Fourth Schedule to the Income Tax Act No. 58 of 1962 allow the South African Revenue Service (SARS) to provide retirement funds, retirement fund administrators and insurers with alternative tax rates per annuitant. The aim is to provide a more accurate tax rate for annuitants receiving income from multiple sources so that tax debt may be alleviated at the end of the tax year.

Options available to clients:

1. **Accept the tax rate provided by SARS**
   Glacier does not need an instruction. The tax rate provided by SARS will be applied until instructed otherwise.
2. **Instruct Glacier to apply PAYE and not the rate provided by SARS**
   Glacier needs an instruction to remove the tax rate provided by SARS and apply the PAYE tax rates. The rate provided by SARS will apply until Glacier is instructed otherwise.
3. **Continue with the existing voluntary over-deduction tax rate (if applicable)**
   If the client currently has a voluntary over-deduction tax rate captured on the Glacier system, and this rate is higher than the tax rate provided by SARS, the voluntary over-deduction tax rate will still apply.
   If the rate is lower than the tax rate provided by SARS, Glacier will apply the tax rate provided by SARS.
4. **Give a new instruction to apply a voluntary over-deduction fixed tax rate higher than the tax rate provided by SARS.**
   Glacier needs and instruction to remove the tax rate provided by SARS and to apply a new voluntary over-deduction tax rate.
5. **Instruct Glacier to apply the PAYE tax rates when the client's circumstances change.**

As SARS takes into consideration that the circumstances which impacts a client's tax liability may change, the do give the option to revert to the PAYE tax rates later in the tax year. Glacier will need an instruction to remove the tax rate provided by SARS and apply the PAYE tax rates.

Note: If the client opted out of the tax rate provided by SARS, the client will always have the option to opt back in.

Why does tax often increase in the new tax year?

Tax is calculated on the taxable income amount an investor earns in a tax year.

Example: An annuitant receives a gross income of R10 000 a month from March to December (10 x R10 000 = R100 000). The income revision is in January and the annuitant increases the income to R14 000 and therefore receives another R28 000 (2 x R14 000 = R28 000); therefore a total income of R128 000 in the tax year.

In the following tax year, the annuitant will receive 12 x R14 000 = R168 000 and the gross income therefore increases by R40 000. In March, although the gross income remains at R14 000, the tax liability will increase because the annuitant's taxable income is higher for the new tax year.

As the income amount may only be adjusted on the income revision date, annuitants should plan for a possible increase in tax in the following tax year when determining their next income amount.

Can an annuitant request an income amount net of tax?

Legislation only allows for the annuity (which is by definition part of gross income) to be amended once a year. The net income that the annuitant receives in his pocket will be determined after the tax scales have been applied. An annuitant can therefore only choose the value of the annuity (income) prior to the tax being deducted as per the Income Tax Act. These tax scales are amended annually, and the net income will therefore be altered.

Transactions

Transactions allowed

- New business
- Ad hoc
- Income
- Phasing in
- Switch/Rebalance
- Maintenance – change income on anniversary date and change personal details
- Commutation if fund value is below R125 000

- Transfers
    - Living annuity to another insurer
    - To a conventional annuity
- Death claim

Transactions not allowed

- Retirement/disability claim
- Divorce claim
- Cessions
- Commutation at emigration

Divorce

The Divorce Act provides that 'pension interest' is deemed to be a part of the assets at divorce. Once a living annuity is purchased, the underlying capital in the annuity is no longer accessible to the annuitant and the proceeds from a living annuity [income itself], does not fall within the ambit of 'pension interest' as defined in the Divorce Act either.

An annuitant therefore cannot agree to give part or all of the living annuity to an ex-spouse in terms of a divorce order. Glacier will not be able to give effect to any court order which attempts to split/transfer a Personal Portfolio Living Annuity upon divorce. Glacier also cannot give effect to settlement agreements which cater for the 'splitting' of the annuity income and the payment of half of the income into the bank account of the non-member spouse. Glacier will pay the annuity to the member spouse who will be taxed on it at his/her marginal rate. It is then the responsibility of the member spouse to pay maintenance over to the non-member spouse in accordance with the divorce order.

Maintenance orders

Section 37D(3)(a) of the Pension Funds Act states that the aggregate of all amounts deducted in terms of (*inter alia*) a maintenance order may not exceed the member's pension interest available at any given time. After a member retires from a fund and purchases a compulsory annuity *he/she no longer has a pension interest in the fund*. Therefore: if the maintenance order is obtained *after* the member has retired from the fund, the order won't be enforceable against the fund itself because there won't be any pension interest *in the fund* from which to make the payment.

Section 26(4) of the Maintenance Act also makes provision for the attachment of annuities in order to satisfy a maintenance order. However, the maintenance order sought can only be in respect of the *annuity income payments* - not for a lump sum pay-out.

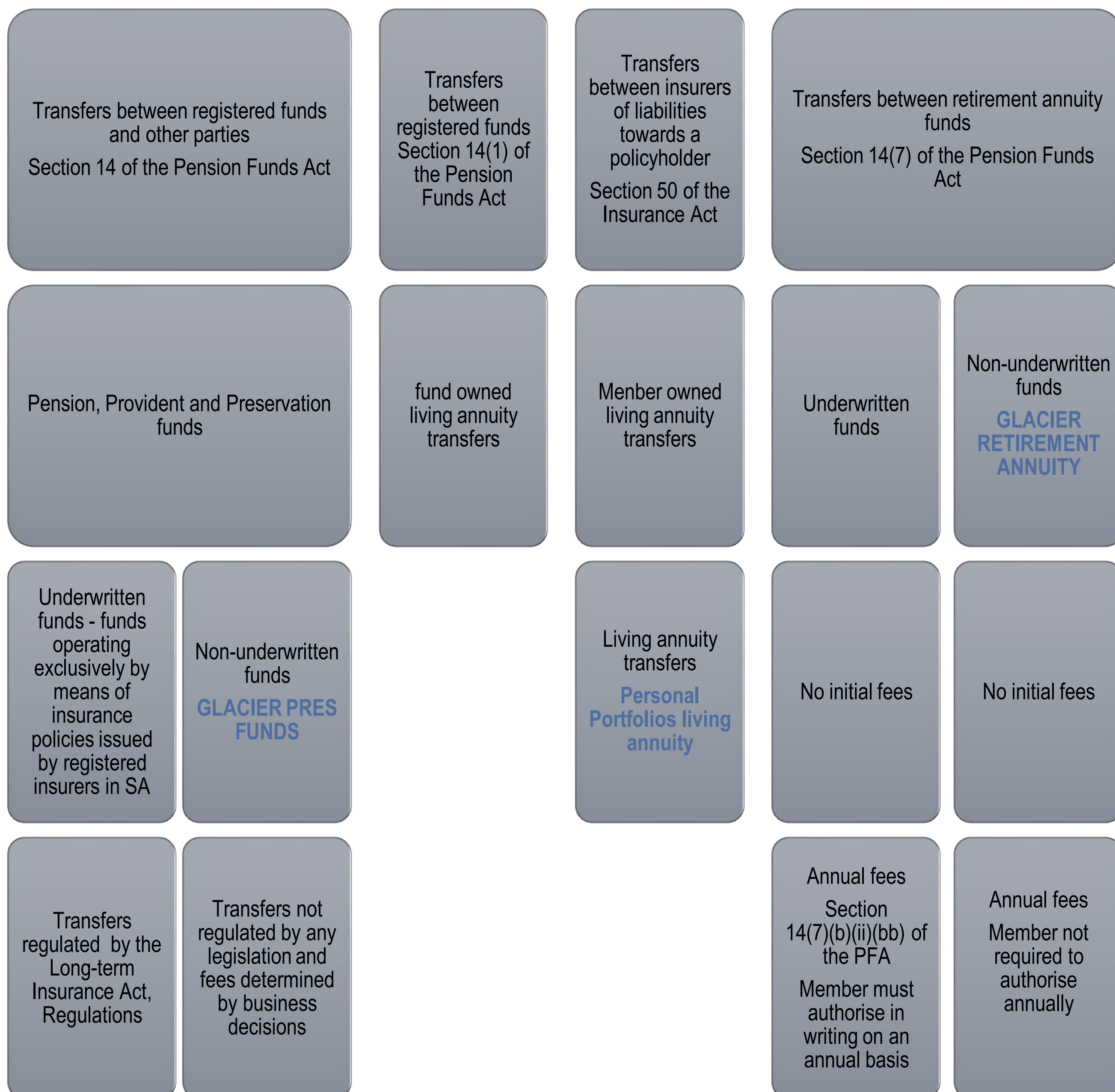
Upon the entering into a living annuity contract, the annuitant becomes entitled to an annuity income only. The annuitant is not entitled to the *underlying capital* providing the annuity. The annuitant's legal interest is therefore limited to the receipt of an annuity income on the basis stipulated in the annuity contract, but always subject to the relevant legislation, the most important being that the living annuity may not be commuted for a single payment other than in very limited circumstances as prescribed in terms of the Income Tax Act No. 58 of 1962.

Accordingly, there is no statutory mechanism to dip into the underlying capital for a lump sum payment. Only the *income payments* from a compulsory annuity (after provision for income tax has been made) can be attached to satisfy a maintenance order.

Section 50 and Section 14 transfers

Section 50 of the Insurance Act governs the transfer of a member-owned living annuity from one life insurer to another. Section 14(1) of the Pension Funds Act governs the transfer of fund-owned living annuities from one retirement fund to another. The Personal Portfolio Living Annuity can be transferred to another insurer by means of a Section 50 transfer.

A Personal Portfolio Living Annuity can be transferred to a conventional life annuity, but not vice versa - a conventional life annuity cannot be transferred to a Personal Portfolio Living Annuity due to the 'guarantee' that was purchased at the inception of the investment.



Combing existing plans and plans transferred via a Section 50 transfer

The income level at the date of combination must be the sum of the income levels in the pre-combination Personal Portfolio Living Annuities. This level must continue until the first income revision date under the combined contract, which will be one year from the date of combination. Subsequent changes may only be made on the anniversary of the first income revision date. The income frequencies must the same.

Example *Living Annuity A's income revision date is 1 March and the income is 10%. The plan value is R100 000 (income is therefore R10 000 pa).*

Living Annuity B's income revision date is 1 October, and the income is 5%. The plan value is R200 000 (income is therefore R10 000 pa).

Living Annuities A and B are combined on 1 July 2022. The income level payable under the combined contract will be R20 000 pa (R10 000 + R10 000 = a percentage of 6.67% of the combined assets). The next date on which the income can be changed is 1 July 2023.

3. Where living annuity contracts are transferred from one insurer to another in terms of Directive 135 and 135A issued by the Registrar of Long-Term Insurance, or from a retirement fund to an insurer in terms of section 14 of the Pension Funds Act, the conditions in paragraph 2 will continue to apply and—
   a) The frequency of payment may not be changed;
   b) The annuity may not be split so that more than one annuity is payable subsequent to the transfer.

Combining an existing annuity with an ad hoc lump sum

The income of the combined living annuity on the date of combination must remain the same. The lump sum is added to the existing plan, and the income is increased by calculating the existing income percentage on the ad hoc amount and adding this amount to the existing income amount. The income can be renewed on the normal income revision date of the original plan.

Annuity conversions

The following conversions **cannot** be done:

From	To	Reason
Personal Portfolio Living Annuity	Personal Portfolio Living Annuity & Glacier Investment-Linked Lifetime Income	SARS GN18
Conventional Annuity	Personal Portfolio Living Annuity	Section 50 of the Insurance Act

The reason why an existing compulsory linked living annuity policy (Personal Portfolio Living Annuity) cannot be **split** into two products or policies is in short that if a portion of the capital value of living annuity is transferred to a conventional annuity (Glacier Investment-Linked Lifetime Income or Sanlam Life Annuity), then the capital value of the living annuity is reduced.

Remember **SARS General Note 18** allows a retirement fund to purchase an annuity in the name of and on the life of a retiring member AND the annuity must be…..

….compulsory, non-commutable, payable for and based on the lifetime of the retiring member and may not be transferred, assigned, reduced, hypothecated or attached by creditors……

Glacier has available a solution where existing living annuities can be converted into a hybrid solution (conventional annuity policy) in the cases where the investor requires a Personal Portfolio Living Annuity/Glacier Investment-Linked Lifetime Income or Sanlam Life Annuity combination and already owns an existing living annuity with Glacier. This solution offers access to both the features of a living annuity and a conventional life annuity, but pay two separate income payments.

The existing Personal Portfolio Living Annuity will no longer be a living annuity as per the definition and the solution in totality will qualify as a **conventional annuity**. This means that the linked annuity slice of the solution cannot be transferred to another provider as it strictly no longer qualifies as a living annuity.

The following conversions can be done:

From	To	Reason
Retirement interest at retirement	Personal Portfolio Living Annuity & Glacier Investment-Linked Lifetime Income or Sanlam Life Annuity	GN8 and 19 withdrawn and not replaced
Retirement interest at retirement	Personal Portfolio Living Annuity & Personal Portfolio Living Annuity	GN8 and 19 withdrawn and not replaced
Personal Portfolio Living Annuity	Conventional Life Annuity	Section 50 of the Insurance Act allows this
Personal Portfolio Living Annuity	Glacier Investment-Linked Lifetime Income	Section 50 of the Insurance Act allows this

Commutation of small annuities

A living annuity can only be commuted if it meets certain criteria. Sub-par (c) of the definition of a *living annuity* in the Income Tax Act makes provision for living annuities to be commuted where the value of the annuity becomes less than an amount determined by the Minister.

Amount prescribed by the Minister

Government Notice No. 619 of 2020 (National Gazette No. 43380) published on 1 June 2020 provides that an annuitant may only commute the full value of a living annuity for cash if the remaining value of the living annuity is less than R125 000.

Value of prescribed limits

With effect from 1 March 2021, SARS applies the R125 000 limit on an aggregated basis across all living annuities held by an annuitant with the same insurer. SARS now tracks the living annuity withdrawals by an annuitant with the same insurer and applies the threshold on an aggregated basis. This means that all the annuitant's living annuities at Sanlam will be aggregated for the purposes of the R125 000 prescribed limit whether the plans are linked or not and regardless of the source.

Tax implications of commutations

The tax will be calculated on the retirement tax table.

The aggregation principle will apply as follows:

- If the commutation occurs during the annuitant's life, or upon the annuitant's death, aggregation will occur in respect of the annuitant.
- If the commutation occurs during the beneficiary's life or upon the beneficiary's death, aggregation will occur in respect of the beneficiary[2].

Death

The definition of "living annuity" in section 1 of the Income Tax Act prescribes how a living annuity is dealt with at the death of the annuitant. Sub-paragraph (e) of the definition specifically states:

- if there is **no** nominated beneficiary, the proceeds will be paid to the estate of the annuitant;
- if there is a valid nomination, the proceeds will be paid directly to the **nominated beneficiary**.

The beneficiary must be either a:

- natural person, or
- a trust with only natural persons as beneficiaries.

Secondary beneficiary

Glacier allows an annuitant to nominate a secondary beneficiary. A secondary beneficiary refers to the nomination of a beneficiary to whom the death benefit should be paid in the event of the simultaneous death of the nominated beneficiary (primary beneficiary) and the annuitant. In this instance, the benefit can then be paid to the secondary beneficiary(ies).

Simultaneous death is defined for these purposes to mean either that the death of the primary beneficiary and the annuitant occurs;

- on the same date or
- that the primary beneficiary passes away within a period of 30 days **after** the death of the annuitant.

[2] Explanatory Memorandum on the Taxation Laws Amendment Bill, 2010

Should an annuitant choose to also nominate a secondary beneficiary, the annuitant may only nominate one (primary) beneficiary and the death benefit must be allocated to this person 100%. With secondary beneficiaries, more than one beneficiary can be nominated.

The nomination of a secondary beneficiary is only available on RSA Living Annuities.

It is required that the annuitant informs Glacier in writing of the wish to nominate a secondary beneficiary(ies). The notification must include all the necessary details for the secondary beneficiary(ies) and be signed by the annuitant. The notification must have reached Glacier before the death of the annuitant.

Note:

If the primary beneficiary dies before the annuitant and the annuitant fails to appoint another primary beneficiary, the death benefit will be paid to the annuitant's estate upon his/her death and not to the secondary beneficiary(ies).

Remember the death benefit for the retirement annuity fund and preservation funds are paid according to Section 37C of the Pension Funds Act and the trustees award the death benefit to the dependants and/or nominees. Secondary beneficiaries will not be allowed on the preservation funds and retirement annuity fund.

Options for the beneficiaries at the death of the annuitant

The beneficiaries have the following options at the death of the annuitant:

- Full benefit (minus tax) available in cash; (this can be transferred to an Investment Plan)
- Full benefit transferred to a living/life annuity (tax-neutral); or
- Combination of both.

Tax

Should the beneficiary or nominee decide to commute the living annuity or a portion thereof, the commutation will be taxed in the deceased member's hands and the retirement/death tax table will apply as well as the aggregation principle in respect of the deceased member.

The cancellation of tax directives is not allowed

Fund administrators are required in terms of the Fourth Schedule to the Income Tax Act No 58 of 1962 to apply for a directive for any lump sum payable to a member.

Please note that SARS does not allow the cancellation of these tax directives. The cancellation of a tax directive application will only be permitted in circumstances where a *bona fide* mistake was made, such as the following:

- The reason for the tax directive application was incorrect, i.e. if withdrawal was ticked instead of retirement; or

- The taxpayer details completed on the directive application form were incorrect, for example, the tax directive was applied for in the name of the wrong spouse in the case of a divorce.

It is therefore advisable to make sure the client has already made the decision to take a lump sum and knows what the tax implications are before applying for a tax directive from SARS. If the client purely wants to know upfront what tax would be payable should he take a lump sum, he should seek the appropriate tax advice.

Tax simulations

The South African Revenue Service (SARS) allows administrators to request a simulated tax directive prior to applying for an actual tax directive. The purpose of the directive simulation is to receive a simulated response from SARS in terms of the amount to be deducted from the lump sum. If SARS declines the request for the simulated directive, a reason will be supplied.

Note: The beneficiary(ies) can also request a tax simulation to check what the possible tax implication will be should they commute.

Important facts about the simulation:

- The estimated tax to be deducted from a specific transaction is determined by SARS and not the fund.
- In general, it takes two business days to receive the simulations from SARS. The response is returned to the administrator as the requester.
- If the member is in the process of applying for a tax directive for another transaction, the tax simulation may not be accurate, and the tax indicated on the simulation may differ from the tax on the actual directive.
- If the member has outstanding tax (such as an IT88) SARS will not be able to provide these amounts on the simulation estimate. There will only be an indication on the simulation that there are outstanding debts on the taxpayer's account.
- The amount of tax estimated could change at any stage, based on the member's standing with SARS and as a result of the factors mentioned above. The fund cannot guarantee that the actual tax payable will be in line with the simulation estimate. The fund will also not reverse a member's selection if the actual tax amount on the final/actual directive differs from the estimate on the simulation.
- Tax directive simulations will be limited to one request per transaction.

Cancellations

Investor made an incorrect choice (did not want the living annuity)

There is no cooling off period on the Personal Portfolio Living Annuity and the investment can therefore not be cancelled. A living annuity may not be[3]:

- Commuted (taken in cash);
- Transferred to a new owner while the annuitant is still alive;
- Assigned (ceded to another owner or third party);
- Reduced by additional withdrawals other than the income amount;
- Hypothecated (pledged or offered as security);
- Attached by creditors,

Fees

- Initial (0 - 1.5%) and annual (0 – 1%) fees for the intermediary.
- Glacier annual fees, calculated on a sliding scale.

Note: No Glacier initial fees are applicable for RSA.

Estate duty and executor fees

Section 3(2)(i) of the Estate Duty Act provides that any benefit that is due and payable by, or in consequence of membership or past membership of, any pension fund pension preservation fund provident fund, provided preservation fund or retirement annuity fund, as a result of the death of the deceased, is excluded from property for the duty purposes. This includes the lump sum payable at death from a compulsory annuity.

It is important to remember that if the beneficiary decided to take the full value or part of the benefit in a living annuity as a lump sum, it will be taxable according to the death tax scales of the Second Schedule of the Income Tax Act in the hands of the deceased annuitant. The beneficiary will therefore receive the after-tax lump sum.

In the case of a living annuity where there is no nominee or the nominee repudiates the benefit, then the underlying value of the living annuity is paid as cash into the deceased estate. This means that it will also be included in the L&D account. In turn this means that the executor will deal with the asset and is entitled to executor fees, but the cash amount is still excluded from estate duty in terms of Section 3(2)(i).

Whenever an annuitant in a living annuity (or a member in a retirement fund) dies AND the nominee chooses to commute any lump sum from the death benefit available, the paragraph 5 deduction that was applied against the lump sum (prior to the application of the death tax table) will be deemed property in the estate of the deceased annuitant for the purposes of estate duty. If the nominee does NOT take

[3] General Note 18 of September 2008.

a lump sum but only an annuity, par 5 is not applicable and therefore there is no fictitious property in the estate of the deceased annuitant that will be taxed.