

Liberty Life Botswana



Botswana Pensions Society Conference

**How to Design the best Pensioner's
annuity options for the pandemic era**

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Date: 25 March 2021



- ▶ Introduction / Background
- ▶ What to Do - Back to basics
- ▶ Conclusion
- ▶ Credits – sources of information
- ▶ Questions?

The Pandemic: Covid -19

- ▶ Health Crisis
 - ▶ 2.7M deaths globally / 124M cases (WHO)
 - ▶ 485 deaths locally / 37.5K cases (WHO)
 - ▶ Hospitals overwhelmed
 - ▶ Confusion around cure and care
 - ▶ Vaccine!!!
 - ▶ Information overload



Economic & Capital Markets Impact

- ▶ Global GDP down 3.5% (IMF)
- ▶ Local Economy down 6.4% Q3, Forecast 8% FY (Econsult)
- ▶ Capital Markets Volatile (Vunani Fund Managers)
 - ▶ Global Equities – 18.3%
 - ▶ Emerging Markets – 18.2%
 - ▶ Global Bonds – 12.4%
 - ▶ Local Equities down 8.2%
 - ▶ Local Bonds up 1.6%
 - ▶ Local Inflation unchanged at 2.2%, 1.9% FY



Impact on Pension/Retirement Funds & Annuities

- ▶ Member Losses – Retiring during 2020
- ▶ Low Preservation rates – retirement or encashing (on the ground experience)
- ▶ High Commutation rates (same as above)
- ▶ Temporary relief measure for Living Annuities – SA Treasury (0.5%-20%) from (2.5%-17.5%)
- ▶ Annuity rates under pressure
- ▶ Panic Planning
- ▶ Facing tough retirement
- ▶ Deteriorating Net Replacement Ratios (>35%)



Current outcomes at retirement



Inflationary **pressure**



...and unsettled **debt**

Comparing the annuity options



LIFE ANNUITY



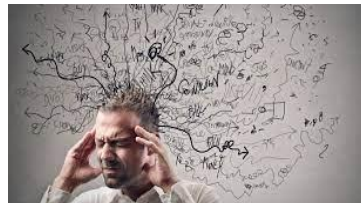
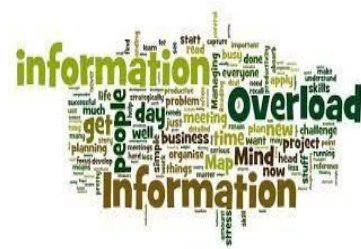
LIVING ANNUITY

TYPE OF PRODUCT	Risk product where the insurance company bears the investment and longevity risk	Investment product where the individual bears the investment and longevity risk
INCOME	<p>Regular, fixed income</p> <ul style="list-style-type: none">• Determined at inception and not variable thereafter• Can escalate at fixed % each year• Paid for entire lifetime i.e. guaranteed income	<p>Variable income</p> <ul style="list-style-type: none">• Variable every year as needs change - % of investment value• Needs to be sufficiently low to produce a real income• Paid until the funds are depleted or death of the annuitant
RISKS TAKEN ON	<p>Sustainable</p> <ul style="list-style-type: none">• No longevity risk: pays for life (either single or joint life).• No investment risk: Based on fixed interest assets and thus may not be adequate for living expenses	<p>Requires ongoing monitoring</p> <ul style="list-style-type: none">• Has longevity risk: capital depleted too soon• Has investment risk: decide own investment strategy and take market risk (higher returns)
BENEFIT ON DEATH	<ul style="list-style-type: none">• No value payable on death to beneficiaries (unless guarantee period selected)	<ul style="list-style-type: none">• Remaining investment value paid to beneficiaries (less tax)

Call for Action?



A female doctor in a white lab coat and a male doctor in blue scrubs, both wearing face masks, are sitting on the floor in a hallway, looking distressed and holding their heads.



FACTORS AFFECTING THE OUTCOMES



Replacement Ratio*

**your potential outcome in retirement*



Contributions



Investment returns



Costs (risk & expenses)



Non-preservation



Annuity factors



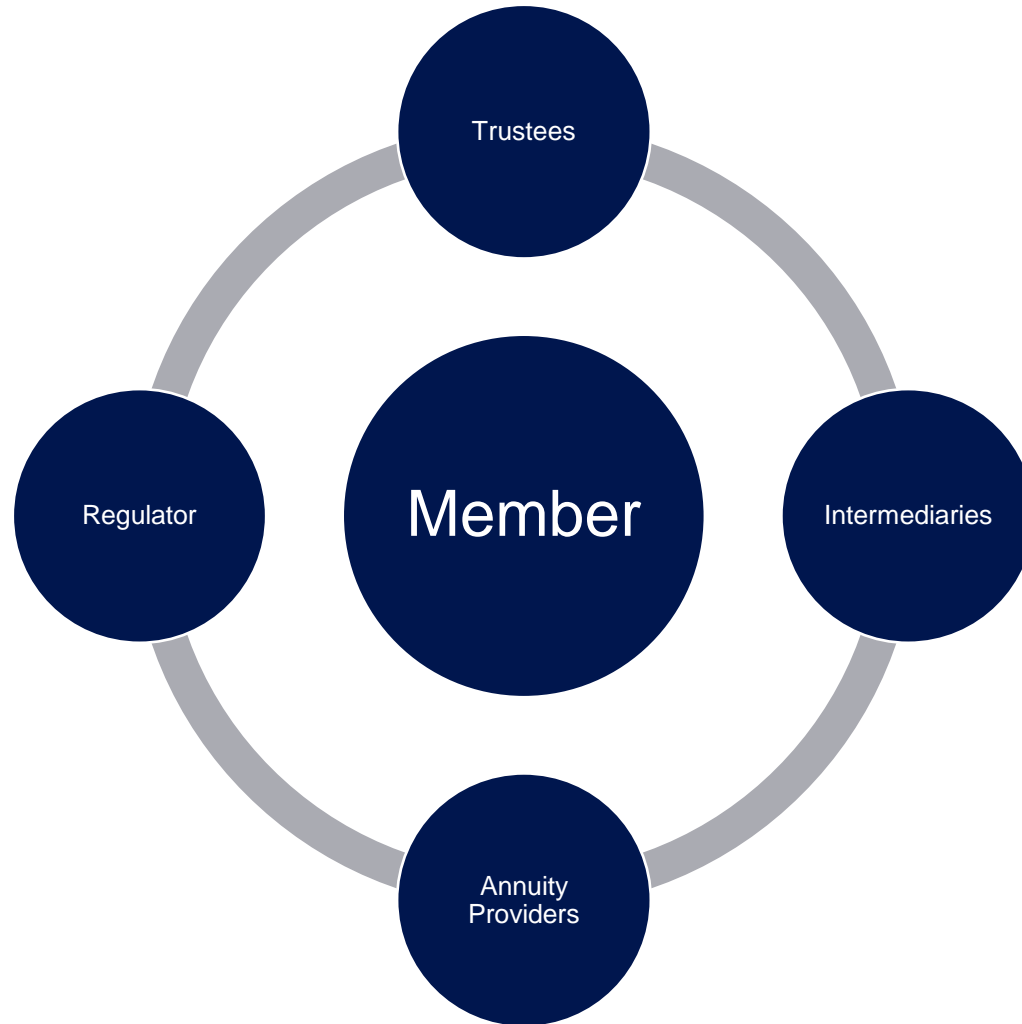
Salary progression



No. of contribution years

“Someone is sitting in the shade today because someone planted a tree a long time ago.” Warren Buffet

The Stakeholders



Navigating the Value Chain

- ❑ Upstream – Starting out at work
 - ✓ Contribution rates – Optimise (Additional Voluntary Contributions)
 - ✓ Tax Benefit
 - ✓ Benefit Design – engage EB Consultant efficiently

- ❑ Mid-Stream – While working
 - ✓ Member Investment Choice
 - ✓ Switches
 - ✓ Pre-Retirement Counselling

- ❑ Downstream – Retirement
 - ✓ Available Options at retirement
 - Fixed Annuity
 - Living Annuity
 - Hybrid?
 - Indexed Annuities (introduce?)
 - Preservation Fund

Start now, start today



Member Education forums such as:

**Pre-resignations counseling -
options you have when you leave
your employer's Pension Fund**

**Pre-retirement counseling –
annuities at retirement**

**Retrenchment counseling –
options on retrenchment from
your company**

**Taking your money as cash –
gratuity or severance**

Every member's circumstances are unique

- ❑ Product Development
 - ✓ Optimise product suitability
 - ✓ Ensure cost efficiency
 - ✓ Flexibility

- ❑ Product Management
 - ✓ Review and re-jig
 - ✓ Enhance and adapt
 - ✓ Value additions

- ❑ Technology
 - ✓ Target age groups / demographics
 - ✓ Address limitations on in-person engagements
 - ✓ Focus on Customer experience

Treating Customers Fairly (TCF)

- ▶ TFC Principles and approach key in financial services
- ▶ At Retirement – Life changing decisions are made about life savings
- ▶ Transparency and disclosure – CRITICAL
- ▶ All available options to be shared - by all stakeholders (Pension Fund, Advisors)
- ▶ Sales motives should be secondary
- ▶ Dispatch fiduciary obligations



IT IS YOUR CHOICE AS A MEMBER

- ☐ Your accumulated savings – hard earned money
- ☐ You have paid the fees
- ☐ You are paying for expertise
- ☐ Ask questions
- ☐ Demand to be shown all options
- ☐ Read and understand before signing
- ☐ Own the decision
- ☐ Seek Advice

Conclusion

- ✓ Pandemic altered life
- ✓ Brought about challenges but also opened eyes
- ✓ Solution lies in doing things right
- ✓ Optimise product development and management strategies
- ✓ Treat Customers Fairly
- ✓ Advice is key

Questions?

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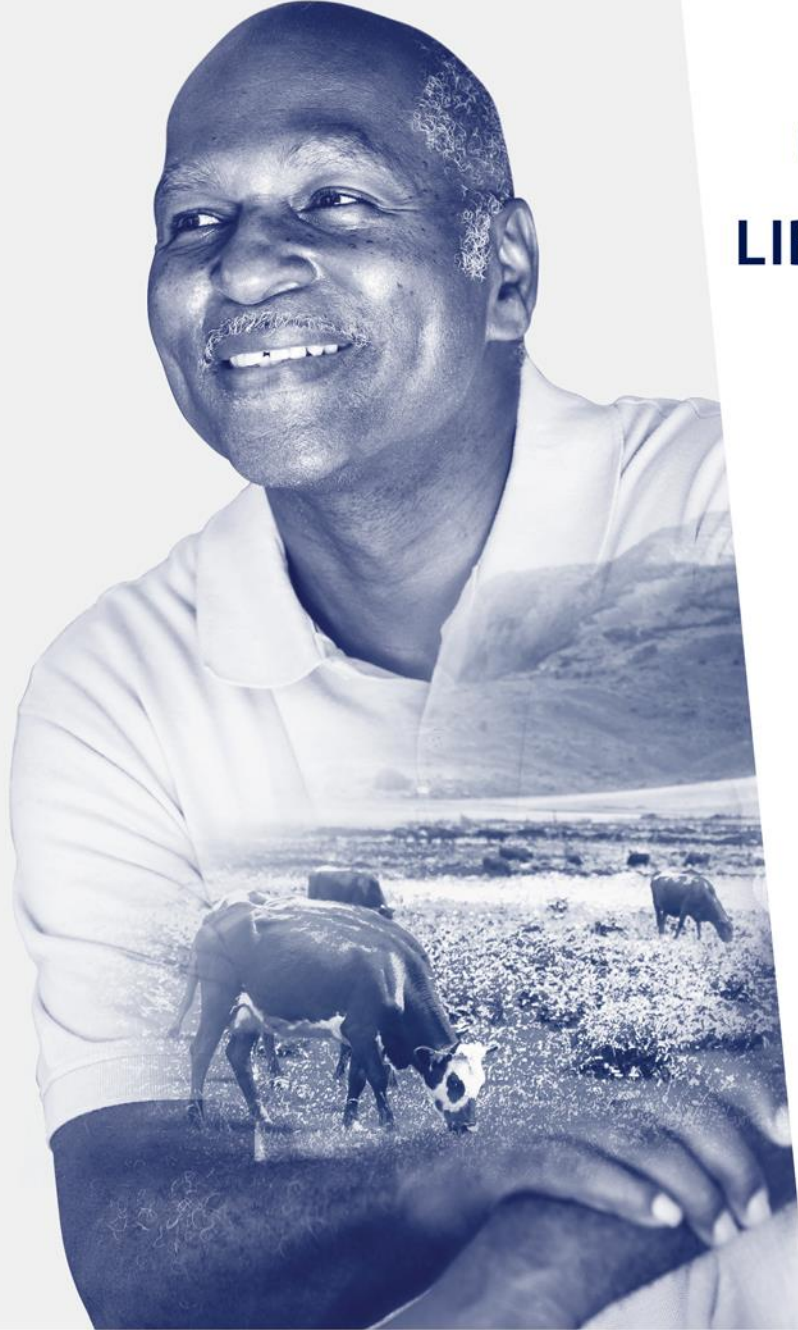


Liberty is
not just
our name

It's what we do.



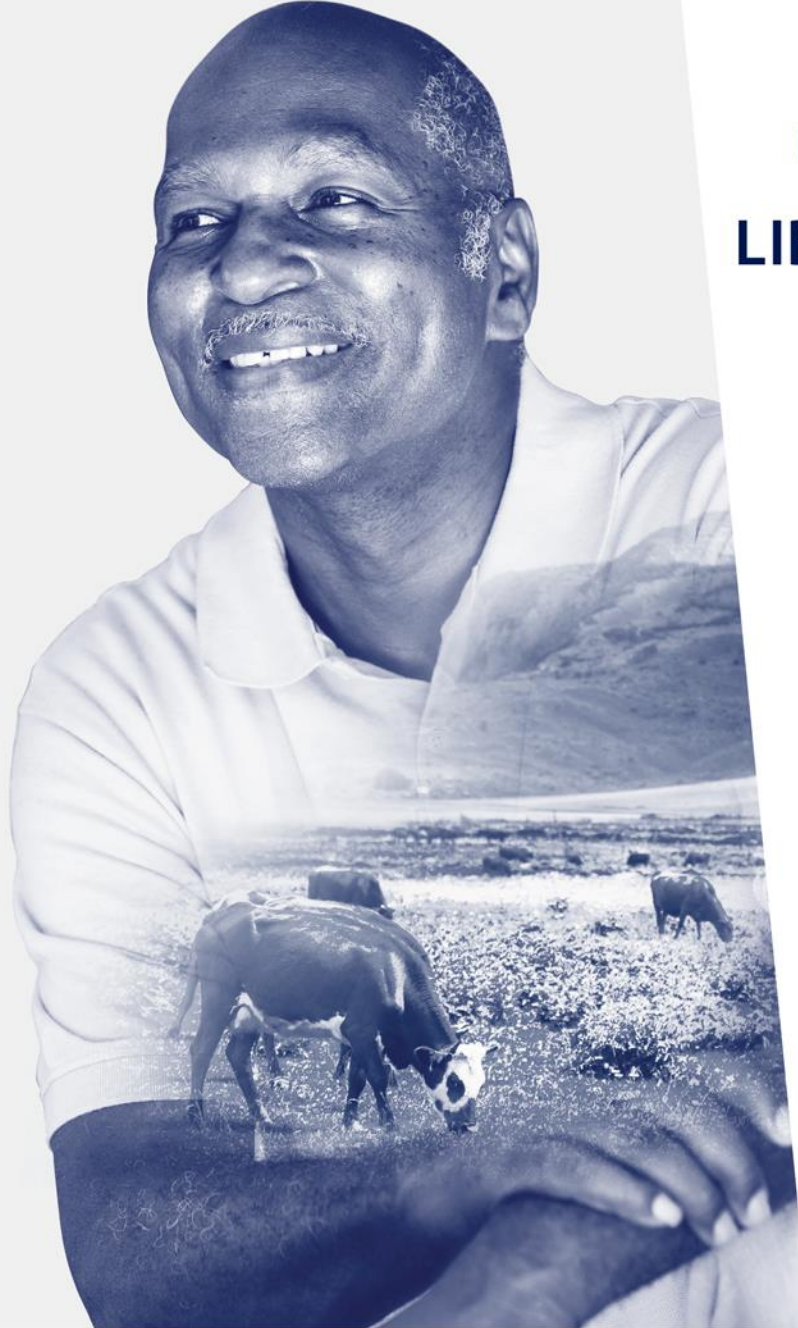
LIBERTY



LIFE INVESTMENTS INSURANCE HEALTH PROPERTIES ADVICE

- World Health Organisation (WHO)
- International Monetary Fund (IMF)
- Econsult
- Vunani Fund Managers Botswana
- Alexander Forbes Financial Services

THANK YOU
For your time



LIBERTY