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BOTSWANA PENSIONS SOCIETY ANNUAL CONFERENCE 2022

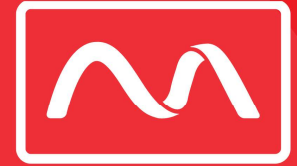
**TOPIC: THE PREFERENCE FOR LIVING
ANNUITIES SEEMS TO BE ON THE
INCREASE - DISCUSS THE PROS &
CONS.**

09 MARCH 2022

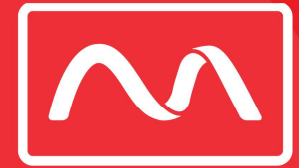


Risk. Reinsurance. People.

SPEAKER

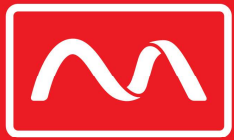


MR. NKWALILI NTHABA
SENIOR ACCOUNT EXECUTIVE
NKWALILI.NTHABA@MINET.CO.BW



AGENDA

- **Living Annuity Defined**
- **Living Annuities vs Life (Guaranteed) Annuities**
- **Take up of Living Annuities in Botswana**
- **Pros and Cons of Living Annuities**
- **Conclusion**
- **Questions and Answers**



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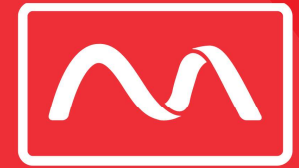
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LIVING ANNUITY DEFINED

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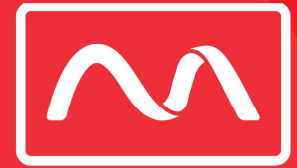
WHAT IS A LIVING ANNUITY?



It is a type of annuity offered by insurers and retirement funds, under which the annuity amount is not guaranteed but it is dependent on the performance of the underlying investments. (L. Beinash, 2007)

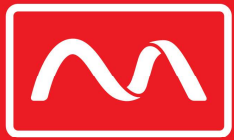


WHAT IS A LIVING ANNUITY? (CONT')



Main Features

- Investment risk lies with the annuitant
- The annuitant may select an income level that ranges between a pre-defined minimum and a maximum level
- Minimum drawdown rate in Botswana is 2.5% and maximum is 12%.
- Minimum drawdown rate in South Africa is 2.5% and maximum is 17.5%.



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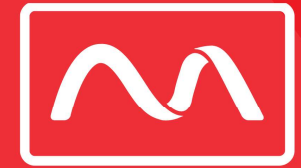
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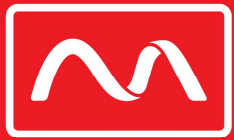
LIVING ANNUITY VS LIFE (GUARANTEED) ANNUITY

LIVING ANNUITIES VS LIFE (GUARANTEED) ANNUITIES



An alternative to the Living annuity is the Guaranteed annuity

Characteristic	Living Annuity	Guaranteed Annuity
Drawdown	Annuitant decides on the drawdown rate	Annuitant select from a pre-determined annuity amounts
Investment	<ul style="list-style-type: none">- Initial capital is invested on behalf of the annuitant- Annuitant decides on the portfolio split	<ul style="list-style-type: none">- Purchase amount is invested by the insurer- Annuitant has no say in the investment of the capital
Escalations	Annuitant controls the drawdown rate	Annuitant may opt for escalating or non-escalating annuity
Death benefit	Account balance at death is allocated to the dependents	Depends on the annuitant's choice of guarantee period



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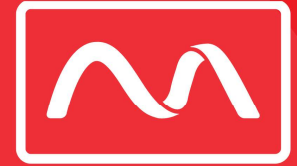
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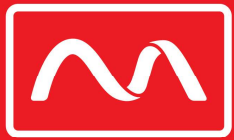
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TAKE-UP OF LIVING ANNUITIES IN BOTSWANA

TAKE-UP OF LIVING ANNUITIES (LA)



- The product was introduced in May 2018 after the commencement of the Retirement Funds Act of 2014
- There has been an increase in the take-up of LA in Botswana.
- There was zero membership at commencement, the take-up increased up to 400+ by 2022.
- On average, it's 100 annuitants every year



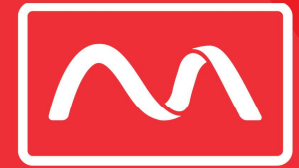
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PROS & CONS OF LIVING ANNUITIES



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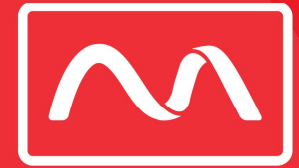
Pros

- **Investment flexibility** – The annuitant has a choice of asset classes and portfolios in which to invest
- **Flexible drawdown rate** - Annuitant may choose what income to draw down annually.
- **Option to terminate** - Ability to terminate the arrangement and opt for a life annuity at any point (3 month notice required)
- **Death benefit** - Ability to leave the capital to dependents on death



Cons

- **Longevity risk** - Annuitant may outlive the annuity
- **Investment risk** – If the portfolio gives negatives returns
- **Drawdown risk** - Annuitant may erode the value of the capital through high drawdown rates



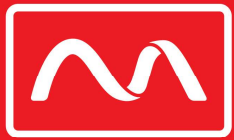
OBSERVATIONS MADE IN THE BOTSWANA MARKET

1. Retirees are allowed to reverse the annuity decision within a month. Those that may have opted for living annuity may cancel the policy within the allowed period.
2. Individuals who understand investments, are financially literate and exercise discipline in respect of drawdowns.
3. Individuals who use the living annuity as an opportunity to increase their drawdown to the maximum percentage (12%) in order to encash as much as possible from the “two-thirds” considering the current minimum P5000 annual pension in the Income Tax Act.



CHALLENGES EXPERIENCED IN THE BOTSWANA MARKET

- Generally low level of financial literacy.
- Some annuitants who opt for a living annuity reversing their decision.
- Living annuities being used as a vehicle to encash a larger portion of one's pension benefit.



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CONCLUSION

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- Member education is key for members to make informed decisions at retirement
- Retirement Funds should give retiring members the opportunity to consider all annuity quotations available in the market
- Members are free to seek financial education from independent advisors



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THANK YOU QUESTIONS AND ANSWERS

Minet Botswana Holdings Proprietary Limited

Minet House | Plot 50368

Gaborone Business Park

Showgrounds

PO Box 624

Gaborone

Botswana

www.minet.com/botswana



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