Cape Peninsula University of Technology

CAPE PENINSULA UNIVERSITY OF TECHNOLOGY RETIREMENT FUND

COMMISSION FREE PENSION QUOTATIONS

When you reach retirement, you will face a difficult decision as to what pension to purchase with your retirement savings in the Cape Peninsula University of Technology Retirement Fund (CPUTRF).

There are many different types of pensions and a number of different insurance companies and annuity providers to choose from. The Trustees of the CPUTRF are concerned that many people will not be able to access good advice - advice on retirement may not always be in your best interests and may not cover all the different types of pensions offered, especially given the different levels of commission that are payable for different types of pensions.

To assist you in making your decision, the CPUTRF will, if you would like them to, arrange for two commission fee quotations to be provided to you. From these you will be able to see the amount of pension your retirement savings could purchase.

These pensions have the following features:

- They are with profit pensions **payable for the rest of your life** and the life of your wife/husband if she/he outlives you.
- A **lump sum is paid to your heirs** if you (and your wife/husband if you are married) die within 5 years after retirement.
- Your **monthly pension will never decrease** (as may be the case for a living annuity).
- Your pension will continue at the full monthly amount for the rest of your life even if you live longer than the average person (which may not be the case for a living annuity).
- **Annual pension increases** should help offset the effects of inflation although the level of these pension increases is not guaranteed.
- The amount of your monthly pension is determined on retirement and increases with pension increases each year - you do not have to make difficult decisions each year as to how much pension to draw and where to invest your retirement capital (as is the case with a living annuity).
- The pensions are **commission free** resulting in more of your money going toward your pension which will increase your monthly pension amount.

THE TRUSTEES RECOMMEND THAT YOU ASK FOR THESE QUOTES TO BETTER UNDERSTAND YOUR OPTIONS. THERE IS NO OBLIGATION TO ACCEPT THE QUOTES.

(DETAILS OF THE PENSION QUOTES ARE ATTACHED)

COMMISSION FREE WITH-PROFIT PENSION QUOTATIONS

1. INTRODUCTION

You are shortly due to retire from the Cape Peninsula University of Technology Retirement Fund. On retirement from a provident fund (such as the Cape Peninsula University of Technology Retirement Fund) you may use a portion of your retirement capital to purchase a pension. A pension is also often referred to as an annuity. In addition the Rules of the Cape Peninsula University of Technology Retirement Fund also require you to select:

(a) the type of pension; and

(b) the registered Insurance Company or Companies to provide the pension.

2. THIS DOCUMENT

This document provides information regarding special arrangements that have been negotiated between the Cape Peninsula University of Technology Retirement Fund and two registered Insurance Companies. These arrangements may allow you to access certain pensions **at a better rate** than you would be able to secure if you approached these Insurance Companies in your personal capacity.

The information in this document can also be used to assist you in assessing the relative value of any other pension quotations that you may obtain.

IMPORTANT ISSUES WITH REGARD TO THE QUOTATIONS

A You are under no obligation to accept, or even consider, the quotations. The quotations are provided for your information in the event that they may be of interest or use to you.

B The provision of the quotations and this explanatory document are not intended to be advice as defined in the Financial Advisory and Intermediary Services Act, 2002. The quotations provide factual information on particular products and includes the procedures for entering into a transaction in respect of these products.

C There is a lot of information in this document, some of which is of a fairly technical nature. It is, therefore, important that you fully understand it before determining whether the quotations are suitable for you or not.

D The decisions that you make now regarding your retirement savings will have a huge impact on your financial security in future. You are strongly encouraged to seek advice from an appropriately qualified and registered financial advisor prior to making any decision about what to do with your retirement savings to ensure that you make the right decision regarding your retirement savings, taking your personal needs and circumstances into account.

Section 3 below provides details of the arrangement that is being made available to you. Section 4 provides some important information on the Insurance Companies that have provided quotations.

Also attached are the quotations based on your specific member information that you agreed could be provided to the insurance companies.

Finally, the Annexure to this document provides some definitions and examples which you may find helpful in understanding the quotations.

3. DETAILS OF THE COMMISSION FREE WITH-PROFIT PENSION ARRANGEMENTS

The Trustees have negotiated with **Momentum Employee Benefits** (a division of MMI Holdings Limited) and **Old Mutual Corporate** (a division of the Old Mutual Life Assurance Company (SA) Limited) to offer you preferential rates on their **Golden Income With-Profit Annuity** (underwritten by Metropolitan Life Limited) and **Platinum Pension 2003** (underwritten by Old Mutual Life Assurance Company (SA) Limited) pension products respectively. These preferential rates are possible because the pensions are made available on a group basis rather than an individual basis (essentially a “buy in bulk” discount) and because no commission is payable on these products.

The attached pension quotations from both Momentum and Old Mutual are based on the standard characteristics set out in section 3.1. below.

If the standard quotations do not meet your needs, but you would still like to access a preferential pension rate, you may consider a pension based on different parameters as set out in section 3.2. below.

Please note that definitions and explanations are provided in the Annexure and it is recommended that you read the Annexure before proceeding to review the characteristics below.

3.1 Standard pension quotations

Type of pension	With-profit life pension payable until your death (or the later date of death of your husband/wife if a spouse’s pension is included in the pension purchase amount)
Second life pension	Spouse’s pension of 75% of your monthly pension commencing at the later of the date of your death and the expiry of the guarantee period (only applicable to members married at retirement)
Guarantee period	If you (and your husband/wife if you are married) die within 5years of retirement) the pension payments for the balance of the 5 year period will be paid as a lump sum to your estate
Pricing basis and **pension increases**	3.5% per annum net interest rate. Annual pension increases are declared by the Insurance Company to help counter the effects of inflation (the level of increases are not guaranteed)
Pension increase date and **first pension increase**	Increases are effective on 1 April each year. The first increase after retirement is proportionate to the number of months your retirement date is before 1 April
Pension payments	The pension is paid monthly on the 25th day of the month
Payments in the month of death	A full pension payment is payable in the month of your death and in the month of death of your husband/wife if you are married
Commutation on retirement	You may elect to take up to 100% of your Fund Credit in cash at retirement with the balance of your Fund Credit used to purchase the pension. It is important to note that the less you take in cash at retirement, the higher will be the pension that you can buy on retirement.

3.2 Alternative pension quotations

The Trustees are aware of the fact that the above standard quotations may not be appropriate for all retirees – each individual is different and only you can decide what is best for your specific needs.

If the standard quotations do not meet your needs, but you would still like to access preferential pension rates, Momentum and Old Mutual have set up websites which you can visit if you want to consider a pension based on a different guaranteed payment periods. The alternative pension quotations can be on guaranteed periods of 0, 5, 10 or 15 years as selected by you.

Details of these websites and the process for accessing them are set out on each of the standard quotations provided by Momentum and Old Mutual.

The Trustees strongly recommend that you obtain financial advice when considering the standard quotations and the various options available on the websites.

Old Mutual and Momentum have agreed to provide quotations based on your personal information. It is important to ensure that you have an understanding of these companies before making any decision to trust them with your retirement savings. Both Insurance Companies are financially stable and have a long history of paying pensions to retirees. This is shown by the fact that as at 31 December 2016, the Old Mutual Corporate pension book was valued at approximately R48.3 billion and the Momentum pension book was valued at approximately R18.3 billion.

4. IMPORTANT INFORMATION RELATING TO MOMENTUM AND OLD MUTUAL

4.1 Portfolio size

The size of the specific pension portfolio of each of the insurers as at 31 December 2016 was as follows:

	Momentum	Old Mutual
Portfolio	Golden Series	Platinum Pensions Series
Portfolio size	R8.9 billion	R24.2 billion

4.2 Pension increase methodology

As a pensioner, one of your main concerns is how much your pension will increase each year. Ideally, you would like your pension to keep pace with inflation to ensure that you can maintain your standard of living in retirement.

The philosophy used by both Momentum and Old Mutual in declaring pension increases is to ensure stable increases over time, so that market volatility is absorbed as far as possible and not passed on to you as the policyholder. The two insurance companies, however, do this in very different ways.

4.2.1 Momentum

Momentum determines the pension increase that can be granted each year by linking increases explicitly to the asset returns of a Bonus Generating Portfolio. A material portion of the Bonus Generating Portfolio assets is invested in growth assets such as equities and properties to aim to secure pension increases that help counter the effects of inflation. The asset allocation of the Bonus Generating Portfolio is outlined in Section 4.4.

Momentum determines pension increases by using an explicit smoothing formula to smooth the returns of the Bonus Generating Portfolio over rolling 6 year periods. 30% of the increase in any year is based on the asset return for the preceding year and 70% of the increase is based on the return for years prior to that. The result is subject to small adjustments for various items including the mortality experience of the pool (this is, whether people are living longer or shorter than expected).

Momentum uses a risk management strategy which aims to reduce the downside risk to pensioners when markets crash whilst at the same time maintaining a material portion of the assets in growth assets such as equities and properties. This, together with the smoothing policy applied aims to protect pensioners from short term market volatility and allows Momentum to declare pension increases that are smoothed from one year to the next.

The Momentum Golden Income with-profit pension participates in 75% of the investment returns of the Bonus Generating Portfolio under all market conditions, whether positive or negative. This means that in years when investment markets do very well, you forego a portion of the investment returns. In return, in years when investment markets fall, you do not experience the full impact of the fall.

Pension increases, once declared, can never be removed, i.e. the pension can never reduce.

4.2.2 Old Mutual

Old Mutual's actuaries declare the pension increase each year to ensure that the pensions increase in a smooth manner over time and to provide pension increases that help counter the effects of inflation over the long term. This means that in years when investment performance is strong, Old Mutual will withhold some of the returns earned and credit them to a Bonus Smoothing Reserve. The opposite is also true: in years when investment returns are poor, the Bonus Smoothing Reserve will be drawn upon to ensure that pensions are not affected negatively by the poor investment returns. In doing so, Old Mutual ensures that pensions progress smoothly upwards, over time, and that pensioners are not exposed to excessive levels of market volatility.

The following factors are considered when deciding on the pension increase each year:

- The investment returns earned on the underlying assets
- The size of the Bonus Smoothing Reserve at the pension increase declaration date
- How the pension increases declared compare to headline consumer price inflation
- The long-term sustainability of (pension increases on) the pensioner portfolio
- Pension increases declared by Old Mutual's competitors on their with-profit pensions

Pension increases, once declared, can never be removed, i.e. the pension can never reduce.

4.3 Historical pension increases

The pension increases granted by Momentum and Old Mutual on their 3.5% pricing basis (refer to the Annexure for explanation) category of pension over the last 10 years are set out below. These are compared to the increase in inflation over the same period – inflation is measured as the year-on-year increase in the Consumer Price Index over the year to 31 December in the year before each increase was granted.

Year of pension increase	Momentum Golden Income WPA [1]	Old Mutual Platinum Pension 2003 [2]	Inflation
2008	9.02%	8.50%	8.9%
2009	2.62%	2.50%	9.5%
2010	3.05%	2.50%	6.3%
2011	3.23%	3.00%	3.5%
2012	5.70%	2.50%	6.1%
2013	5.22%	4.50%	5.7%
2014	4.73%	7.00%	5.4%
2015	5.70%	6.00%	5.3%
2016	3.96%	5.50%	5.2%
2017	2.22%	5.00%	6.8%
Total pension increases as a percentage of total inflation:			
5 years: 2013 to 2017	**74.77%**	**98.40%**	
10 years: 2008 to 2017	**66.74%**	**69.50%**	

1 *This is a new bonus series. The pension increases shown in the table for 2008 to 2011 have been based on an existing (Golden Growth) bonus series which commenced in 2008. The increase for 2017 is therefore the sixth actual increase on the new bonus series.*

2 *This bonus series commenced in 2003.*

It is important to note that past pension increases are not necessarily a good guide to determine pension increases that will be granted in future.

4.4 Investment strategy and fees

The pension increases that can be granted by the Insurance Company will, to a large extent, depend on the investment returns they can achieve on the assets in their pension pools and the investment management and other fees that are levied.

	Momentum	Old Mutual
Asset manager	Momentum Asset Management	Old Mutual Specialised Finance (a boutique in the OMIGSA stable)

The effective asset structure that will determine future increases of the pension portfolios as at 31 December 2016 was as follows.

Asset class	Momentum	Old Mutual
Local shares	50.0%	19.1%
Interest bearing (bonds and cash)	29.0%	47.4%
Property	8.0%	6.9%
International assets	11.0%	18.6%
Alternative assets*	2.0%	8.0%
Total	**100.0%**	**100.0%**

* *Primarily socially responsible investments ("SRI").*

It is evident from the above that the investment strategy of the two portfolios is quite different. The relative performance of the two portfolios will depend on the actual performance of the various asset classes underlying the portfolios and the performance of the stocks held in each asset class.

The standard pension quotations and the alternative quotations on the websites include administration and investment fees. Capital charges are deducted from investment returns before the declaration of pension increases. It is important to understand the cost structure of your pension to ensure that investment costs and capital charges do not use up more of the investment returns than they absolutely have to.

Fee / charge	**Momentum Golden Income**	**Old Mutual Platinum Pension 2003**
Initial administration fee	0.85% of the initial lump sum	R2 000
Ongoing administration fee	R50.78 per month increased annually with inflation	R95 per person per month (capitalised and deducted upfront)
Capital charge	0.85% per year of the underlying portfolio	1% per year of the underlying portfolio
Investment management fee	0.25% per year of the underlying portfolio	0.70% to 0.80% per year of the underlying portfolio*
Initial commission	None	None
Ongoing commission	None	None

* *The actual percentage is dependent on the investment performance of the underlying portfolio.*

4.5 Financial strength, credit rating and indemnity insurance

All guarantees in respect of 'with-profit pensions' are backed by the capital of the Insurance Company. This capital serves to protect policyholders' guaranteed investments from adverse investment conditions. As can be seen from figures in the table below, the financial strength of both Metropolitan and Old Mutual (both reflected at 31 December 2016) is robust and provides investors with the necessary security and peace of mind that, irrespective of prevailing investment conditions, the guarantees underlying the with-profit pension portfolios are steadfast.

Capital Adequacy Ratio	**Metropolitan***	**Old Mutual**
Multiple of required ratio	2.7x	3.2x

* *Note that the Momentum Golden Income With-Profit Annuity is underwritten by Metropolitan Life Limited as a result of the recent merger of Momentum and Metropolitan. The relevant capital adequacy ratio for this product is therefore that of Metropolitan Life Limited.*

Both Insurance Companies were holding significantly higher reserves than required by law at the last reporting date.

The Insurance Companies have been rated by major international rating agencies and the credit ratings awarded to both Insurers are within acceptable bands. Credit ratings achieved and the reporting dates are set out in the table below.

Credit rating	**Metropolitan**	**Old Mutual (OMLACSA)**
Rating agency	Moody's	Moody's
Rating	IFS Aaa.za	Baa1
Reporting date	December 2016	January 2017

Both Insurance Companies carry insurance which covers losses sustained as a result of the negligence and/or dishonesty of their directors and officers. This cover extends to claims for damages or other relief arising from wrongful acts, including breaches of duty, neglect and misrepresentation. The current cover limits are as follows.

	Momentum (MMI Holdings)	Old Mutual
Cover limit	R1.3 billion per claim and R1.8 billion in aggregate	£50 million per claim and in aggregate

4.6 Corporate citizenship and compliance

The Insurance Companies have been rated on Broad Based Black Economic Empowerment as follows.

BBEEE	Momentum	Old Mutual
Rating	Level 2 contributor	Level 2 contributor
Additional information BEE initiatives Social investment programs	http://www.mmiholdings.co.za/ Corporate Social Investment and Sustainability	www.oldmutual.co.za/bee www.oldmutual.co.za/about-us/governance.aspx

Both Insurance Companies are Licensed Financial Services Providers, registered long-term life insurers and approved retirement fund administrators. The Insurance Companies are therefore subject to, amongst others, the provisions of the Long-term Insurance Act, 1998 and the Pension Funds Act, 1956. Should you have any statutory compliance queries, please address these in writing to:

Compliance contacts	Momentum (MMI Holdings)	Old Mutual
Postal address	**The Compliance Officer** Metropolitan Life PO Box 2212 Bellville 7535 South Africa	**The Compliance Officer** Old Mutual Corporate PO Box 66 Cape Town 8000 South Africa
Telephone number	012 684 4111	021 509 2191

Users should be aware that short-term performance can be volatile and that past performance is not necessarily indicative of future performance. Every effort has been made to ensure that the information contained in this document is accurate. Further information on the two Insurance Companies can be found on their respective websites:

	Momentum	Old Mutual
Further information	www.momentum.co.za or www.mmiholdings.co.za	www.oldmutual.co.za

5. Contact Details at Momentum and Old Mutual

Should you wish to contact either or both of Momentum and Old Mutual to obtain further information or explanation on the issues set out in this note or any other issues relating to the commission free pension quotes, contact details are as follows:

MOMENTUM	Johannesburg	Cape Town
Name	Unathi Nyama	Darren Francis
Phone	011 485 7297	021 940 5847
Email	Unathi.Nyama@momentum.co.za	Darren.Francis@momentum.co.za

OLD MUTUAL	Member Support Services Call Centre	FSA Proposition Owner
Name	Call Centre	Fil Badenhorst
Phone	0860 388 873	011 217 1117
Email	FundSelect@oldmutual.com	FBadenhorst@oldmutual.com

ANNEXURE

DEFINITIONS, IMPORTANT INFORMATION AND EXAMPLES

COMMUTATION ON RETIREMENT

Your benefit on retirement is your Fund Credit in the Cape Peninsula University of Technology Retirement Fund. In terms of legislation and the rules of the Fund, you may use up to 100% of this amount to purchase a pension from a registered insurance company of your choice.

Any portion of your Fund Credit which you elect to "**commute**" for cash is subject to tax, where the tax payable will depend on the Rand value of the amount commuted and any "vested tax rights" you may in respect of service in the Cape Peninsula University of Technology Retirement Fund or the previous Fund.

LIFE PENSIONS

A **pension** is a financial product that, in exchange for a specified upfront payment, will pay you a certain amount of money at regular intervals (for example monthly) for a certain period.

Example: In exchange for R1100 you pay today, someone offers to pay you R100 per month for the next year - this is a form of **pension**.

A **life pension** is a type of pension where you pay an up-front amount to an Insurance Company when you retire, who will then guarantee to pay your monthly pension for the rest of your life. Buying a **life pension** means that you will not run the risk of outliving your money as the Insurance Company guarantees that payment of your pension will continue until you pass away. The Insurance Company therefore takes on the risk should you live longer than they expected. Insurance Companies can sell **life pensions** to people because people who live longer than expected will be balanced out by people who pass away sooner than expected.

WITH PROFIT LIFE PENSIONS

Under a with-profit life pension, the Insurance Company uses the investment return earned on the assets backing the pension to declare an **annual pension increase**. The increases are not guaranteed and their quantum depends on the investment return earned – the Insurance Company will smooth the pension increases over time, either through a smoothing formula (as for the Momentum Golden Income pension) or by the bonuses declared by the Insurance Company (as for the Old Mutual Platinum Pension 2003 pension).

Further detail on **annual pension increases and with-profit life pensions is provided under annual pension increases** below.

SECOND LIFE

The **second life** is the person you nominate to continue to receive your pension in the event of your death. This could be your spouse (husband or wife) but could also be any other nominated person.

SINGLE AND JOINT LIFE PENSIONS

A **single life pension** is a life pension that is payable for the rest of your life – no further amounts will be payable after you pass away (unless this is within the guarantee period – see below) even if you have a spouse, common law spouse or life partner and that person is still alive when you pass away.

A **joint life pension** is a life pension that is payable for the rest of your life and will continue to be paid, at a reduced level (refer to spouse's percentage on death below), to your nominated second life for the rest of his/her life after you pass away. If the second life passes away before you do, no further amounts will become payable after your death (unless this is within the guarantee period – see below).

The benefit of buying a **joint life pension** is that the second life will continue to receive a pension after your death, ensuring that they can maintain their standard of living if you pass away.

SECOND LIFE PERCENTAGE

Your nominated second life will, in all likelihood, not require 100% of your pension to maintain his/her standard of living if you pass away before he/she does. In a **joint life pension**, the second life percentage is the percentage of your pension at the date of your death that will become payable to your nominated second life if you pass away before they do – this reduced pension will be payable until the second life passes away.

There is no reduction to your pension if your nominated second life passes away before you do.

Example: You buy a **joint life pension** with a **second life percentage** on death of 75%.

- If you pass away (and the second life is still alive) when your monthly pension is R1 000, this will reduce to R750 (75% of R1 000) and will be payable to the second life for the rest of his/her life.
- If your nominated second life passes away (and you are still alive) when your monthly pension is R1 000, this *pension (with no reduction) will continue to be paid to you for the rest of your life.*

GUARANTEE PERIOD

Life pensions can be bought which make provision for the payment of your pension (without reduction) for a minimum period after retirement, regardless of whether you survive to the end of that period or not. A **guarantee period** is simply insurance against passing away soon after buying a life pension and addresses a major reason why many people may otherwise prefer a living annuity.

Example (**single life pension**): You buy a **single life pension** with a **guarantee period** of 10 years:

- If you pass away, say, 2 years after buying the pension then you will receive your pension for those 2 years and a lump sum amount of 8 times your annual pension at the date of your death will be paid to your nominated beneficiary (or otherwise to your estate); or
- If you pass away, say, 30 years after buying the pension then you will receive your pension for the full 30 years up until the date of your death after which the pension will stop.

Example (**joint life pension**): You buy a **joint life pension** with a **guarantee period** of 10 years and a **second life percentage** on death of 75%:

- If you pass away, say, 2 years after buying the pension and your nominated second life survives for more than 10 years after you buy the pension - in this case, you will receive your pension for the first 2 years and your pension will continue to be paid to your nominated second life at the same level (i.e. without being reduced by the second life percentage) for a further 8 years (a total of 10 years of payments at the full rate) after which it will reduce to 75% and will be payable to your nominated second life for the rest of his/her life.
- If you pass away, say, 2 years after buying the pension and your nominated second life passes away 3 years after your death - in this case, you will receive your pension for the first 2 years and your pension will continue to be paid to your nominated second life at the same level (i.e. without being reduced by the second life percentage) for a further 3 years until his/her death.

A lump sum amount of 5 times the annual pension at the date of the second life's death will then be paid to his/her nominated beneficiary (or otherwise to his/her estate).

- If you pass away, say, 5 years after buying the pension and your nominated second life passes away before you - in this case, you will receive your pension for the first 5 years and a lump sum amount of 5 times your annual pension at the date of your death will be paid to your nominated beneficiary (or otherwise to your estate).
- If you pass away, say, 30 years after buying the pension and your nominated second life is still alive – in this case you will receive your pension for the full 30 years up until the date of your death after which the pension will reduce to 75% and will be payable to your nominated second life for the rest of his/her life.

ANNUAL PENSION INCREASES

Inflation is likely to erode the value of your pension over time if you do not buy a pension that provides for **annual pension increases** after retirement. It is a fact of life that prices tend to increase (food, medical aid, transport, electricity, etc.) and that you will therefore be able to buy less with, say, R1 000 in 10 years' time than you can buy with it today.

Example: If you buy a pension of, say, R1 000 per month that does not increase in future (referred to as a level pension):

- If inflation is, say, 5% per year in future, then the R1 000 will only buy goods of equivalent value to R610 in 10 years' time and only R375 in 20 years' time.
- If inflation is, say, 10% per year in future, then the R1 000 will only buy goods of equivalent value to R385 in 10 years' time and only R150 in 20 years' time.

It is thus critically important that your pension makes some allowance to counter the effects of inflation each year.

The standard pension quotations (and the alternate pension quotations you can access via the web sites of the Insurance Companies) are **with-profit life pensions** where the life pension will increase each year based on the "pricing basis" selected as part of the purchase price and the investment returns earned each year on the investments held by the Insurance Company in respect of your pension. It is important to note that the pension increases granted for **with-profit life pension** products are not guaranteed but are linked to the performance of the product.

The "pricing basis" is essentially the hurdle rate of the investment return that needs to be earned before pension increases can be granted. A lower "pricing basis" implies higher expected future increases and a lower initial pension for the same initial Rand purchase amount (and vice versa).

Example: A **with-profit life pension** is purchased using a pricing basis of 3.5% per year.

- If the investments backing this pension earn returns of, say, 15% in the first year and 3.5% in the second year, then an 11.5% pension increase would be affordable at the end of the first year (calculated as 15% minus the 3.5% pricing basis) and no increase would be affordable at the end of the second year (as the 3.5% investment return is not more than the pricing basis).
- In practice, the Insurance Company will also look to smooth pension increases from year to year (either through a formula or via any discretion in the declaration of increases) and in the above example they might declare an increase of, say, 7% at the end of the first year (i.e. keeping back 4.5% of the affordable return) and then grant an increase of, say, 4.5% at the end of the second year.

With-profit pensions, depending on the pricing basis**,** generally provide good inflation protection over the long term and are generally less expensive than fully inflation-linked pensions because future **annual pension increases** are not guaranteed.

The standard pension quotations (and the alternate pension quotations you can access via the web sites of the Insurance Companies) are based on a 3.5% pricing basis – based on a long term inflation assumption of 5.5% p.a. this is expected to allow for future pension increases of between 70% and 80% of inflation over the longer term. Future pension increases are however not guaranteed and may be below or above this level.

Increases, once granted can never be taken away and your pension will never decrease. Increases can be zero in the event of persistent poor investment performance.