



OLDMUTUAL

# PENSIONS OPTIPLUS

INCREASE ANNOUNCEMENT 2022



**CORPORATE**

DO GREAT THINGS EVERY DAY



## OLD MUTUAL CORPORATE ANNUITY FUNDS

The Old Mutual Life Assurance Company (South Africa) Limited (OMLAC(SA)) Board has approved the following Pensions OptiPlus increases, effective for increase dates from 1 January 2022 to 31 December 2022:

PROFIT CATEGORY	PRI <sup>1</sup>	2021 INCREASE <sup>2</sup>	CPI <sup>3</sup>
I	3.5%	9.0%	5.0%
II	4.0%	8.4%	
III	4.5%	7.7%	
IV	5.0%	7.1%	
V	5.5%	6.5%	
VI	6.0%	5.9%	
VII	6.5%	5.3%	
VIII	7.0%	4.7%	
IX	7.5%	4.1%	
X	8.0%	3.5%	

1. Post-retirement Interest rate.
2. Applicable to Pensions OptiPlus annuitants only.
3. CPI headline year-on-year rate for September 2021.

This note provides an understanding of the factors considered in the declaration of the increases. It also provides some insight into the investment markets leading up to the declaration and the security of Old Mutual's Corporate with-profit annuity range.

Communication to individual annuitants will be distributed during the month in which their increase becomes effective.



In support of improved disclosure on the management of your Pensions OptiPlus investment, the following reports are available in respect of Old Mutual Corporate's with-profit annuity portfolios (which includes Pensions OptiPlus):

- With-Profit Annuities Disclosure Report - 2020
- Principles and Practices of Financial Management (PPFM)

The above Pensions OptiPlus reports are available on Old Mutual's website at:

[www.oldmutual.co.za/corporate/pensions-optiplus](http://www.oldmutual.co.za/corporate/pensions-optiplus)

# 1. INVESTMENT MARKETS IN PERSPECTIVE

Pensions OptiPlus increases applicable in 2022 are based primarily on investment returns for the year from 1 October 2020 to 30 September 2021 (the investment year). We are pleased to announce that the increases granted for 2022 are higher than last year's increases with most of the PRI categories outstripping CPI inflation over the same period.

Pensions OptiPlus assets are split between a matched interest-bearing asset (IBA) portfolio and a portfolio of growth assets. It is the performance of this growth asset portfolio, together with the locked-in yields (LIY) on the matched IBA portfolio that are used to support the declared increases.

The table below outlines the gross investment returns per asset channel for the period ended 30 September 2021 for Pensions OptiPlus specifically. They are for one year and three year periods. Also provided is the actual asset allocation at 30 September 2021, aggregated across the whole Pensions OptiPlus investment portfolio:

	ONE YEAR RETURNS	THREE YEAR RETURNS (ANNUALISED)	ASSET ALLOCATION
Local Equities	32.3%	32.5%	18.6%
Local Property	-2.3%	-2.0%	6.2%
Local Alternative Assets	13.9%	14.9%	6.9%
Local Interest-bearing Assets	2.7%	2.9%	0.3%
Global Equities	19.0%	19.3%	17.2%
Global Alternative Assets	14.6%	15.7%	3.9%
Global Interest-bearing Assets	-10.0%	-9.8%	0.2%
African Equities	9.8%	10.2%	0.9%
Growth Portfolio	19.4%	19.8%	54.1%
Matched Portfolio	11.0%*	10.6%*	45.9%
<b>Total**</b>	<b>15.5%</b>	<b>15.6%</b>	<b>100%</b>

\* The return shown for the Matched Portfolio is the average LIY over the relevant period. This LIY is available for increases from the matched assets over the term of the policy, irrespective of actual market returns on this portion of the portfolio over the short term.

\*\* These returns are based on a combination of the returns on the Matched Portfolio and Growth Portfolio.

## GLOBAL INTEREST-BEARING ASSETS, LOCAL PROPERTY AND LOCAL INTEREST-BEARING ASSETS

When considering the table above it can be seen that Global Interest-bearing Assets, Local Property and Local Interest-bearing Assets were the worst performing asset classes over the past year. They produced returns of -10.0%, -2.3% and 2.7% respectively for the year ended 30 September 2021.

## LOCAL EQUITIES

Despite the difficult economic conditions in South Africa, Local Equities continue to significantly outperform the other asset classes over both one-year and three-year periods.

## 2. INCREASE DECLARATION RELATIVE TO INVESTMENT RETURNS

The bonus smoothing reserves (BSR's) for Pensions OptiPlus as at 30 September 2020 and 2021 were within the following bands:

DATE	ST-BSR	LT-BSR
30 September 2020	0% to 5%	0% to 5%
30 September 2021	0% to 5%	0% to 5%

The long-term BSR (LT-BSR) is the difference between the value of the cash flows that are matched, and the market value of those matching assets. This difference is released gradually over the full lifetime of the annuitants.

The short-term BSR (ST-BSR) is the difference between the value of the remaining liabilities and the market value of the remaining assets.

It is useful to review how the ST-BSR changed over the period as a result of the experience over the investment year and the impact of the declared increases. The table below outlines how the ST-BSR movements can be estimated for the Pensions OptiPlus portfolio as a whole:

PENSIONS OPTIPLUS	
Opening ST-BSR range at 30 September 2020	0% to 5%
Add: Investment Return <sup>1</sup>	14.7%
Less: Charges and Fees	1.8%
Less: PRI <sup>2</sup>	4.6%
Less: Increases Declared <sup>3</sup>	7.6%
Add: Other <sup>4</sup>	2.4%
Closing ST-BSR range at 30 September 2021	0% to 5%

- 1 This is the estimated return, for the year ended 30 September 2021, into the ST-BSR. This includes the return on the growth assets and the contribution from the LIY. The difference between this estimated return and the total return earned on the portfolio would have an influence on the level of the LT-BSR.
- 2 "PRI" is the post-retirement interest rate. It represents the amount of credit for future investment returns that is given to the annuitant at the outset of the contract. The PRI of 4.6% in the table above represents the weighted average PRI across all the categories.
- 3 Weighted average cost of increases across all the categories.
- 4 "Other" includes items like underwriting profit, net client cash flows and other minor adjustments.

### 3. INCREASE HISTORIES AND INFLATION PROTECTION

The table below shows the historical increases that have been declared on the categories offered on Pensions OptiPlus compared to CPI inflation. It also shows the annualised increases over three-, five- and ten-year periods:

YEAR	CPI*	PRI CATEGORY									
		3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Annual increases declared											
2013	5.5%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%	2.9%	2.3%	1.7%	0.0%
2014	6.0%	10.0%	9.4%	8.7%	8.1%	7.5%	6.9%	6.3%	5.7%	5.1%	2.5%
2015	5.9%	11.0%	10.4%	9.7%	9.1%	8.5%	7.8%	6.5%	5.2%	4.0%	5.4%
2016	4.6%	11.0%	10.4%	9.7%	9.1%	8.5%	7.8%	7.2%	6.6%	6.0%	5.4%
2017	6.1%	10.5%	9.9%	9.2%	8.6%	8.0%	7.4%	6.7%	6.1%	5.5%	4.9%
2018	5.1%	10.0%	9.4%	8.7%	8.1%	7.5%	6.9%	6.3%	5.7%	5.1%	4.5%
2019	4.9%	9.5%	8.9%	8.2%	7.6%	7.0%	6.4%	5.8%	5.2%	4.6%	4.0%
2020	4.1%	9.0%	8.4%	7.7%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%
2021	3.0%	8.0%	7.4%	6.8%	6.1%	5.5%	4.9%	4.3%	3.7%	3.1%	2.5%
2022	5.0%	9.0%	8.4%	7.7%	7.1%	6.5%	5.9%	5.3%	4.7%	4.1%	3.5%
Annualised figures over 3, 5 and 10 years											
3 years	4.0%	8.7%	8.1%	7.4%	6.8%	6.2%	5.6%	5.0%	4.4%	3.8%	3.2%
5 years	4.4%	9.1%	8.5%	7.8%	7.2%	6.6%	6.0%	5.4%	4.8%	4.2%	3.6%
10 years	5.0%	9.4%	8.8%	8.2%	7.6%	7.0%	6.3%	5.7%	5.0%	4.3%	3.6%

\*The CPI inflation numbers are the year-on-year figures that coincide with the corresponding investment year (i.e. they are the year- on-year figures to 30 September of the previous year).

Pensions OptiPlus increases for 2022 have increased by 1% across all the categories and compare well with CPI inflation over the year. Only categories 7%, 7.5% and 8% are below the CPI inflation rate for the investment year. Increases on the 3.5% to 7% PRI categories have cumulatively outperformed or equalled CPI inflation over the past three, five and ten years.

Over the long term, the 4% PRI category is expected to provide increases that are, on average, in line with CPI inflation. From the above table it can be seen that the ten-year average increase on the 4% PRI category has been substantially higher than the corresponding increase in the CPI.

## 4. SECURITY IN TURBULENT TIMES

Assets backing Old Mutual's annuity liabilities, including BSR's, are held in policyholder funds - shareholders cannot access these funds. Shareholder capital is separate from, and over and above policyholder funds. Shareholder capital has no impact on the level of annuity increases. It does, however, represent the security backing the annuity guarantees offered by Old Mutual.

The assets backing annuitant liabilities (policyholder funds) have to be in the name of the insurer and may not be encumbered. This means that no outside party may have a claim on those assets. They are for the benefit of the annuitants only.

OMLAC(SA) has an BB Insurer Financial Strength rating from S&P Global Ratings, which is higher than the overall South African sovereign debt rating. OMLAC(SA) also remains very well capitalised with a cover ratio of 2.06 times the statutory adequacy capital requirement as at the end of June 2021.



## FOR MORE INFORMATION

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You can ask for a copy of this report by calling the Pincare Service Centre on 0860 40 60 90.

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