OVERSEAS
TRUST & PENSION

Connect

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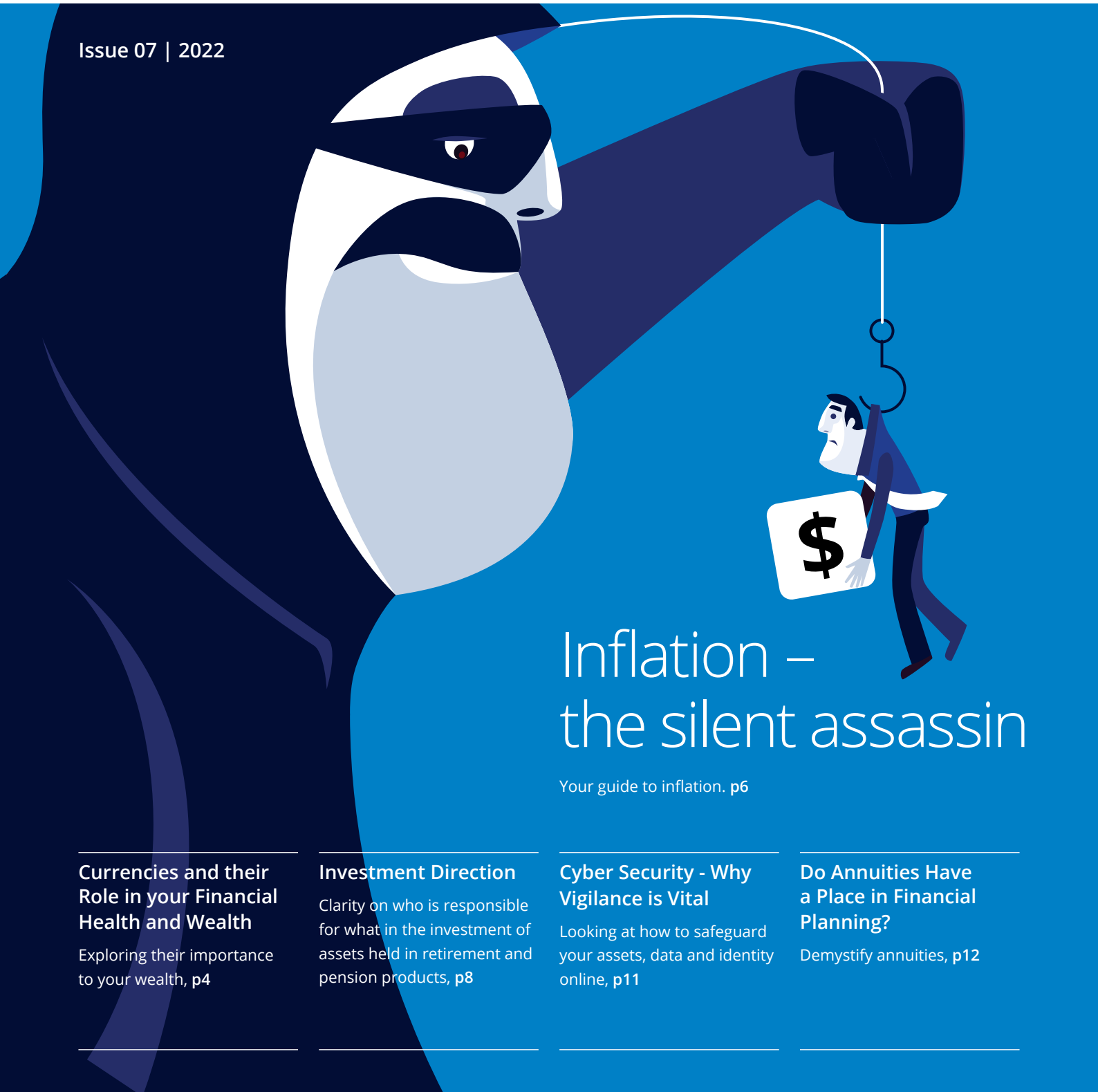

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From the editor

It is with great pleasure that we bring you the latest issue of Connect, our periodic newsletter, where we cover a range of topical matters impacting our clients.

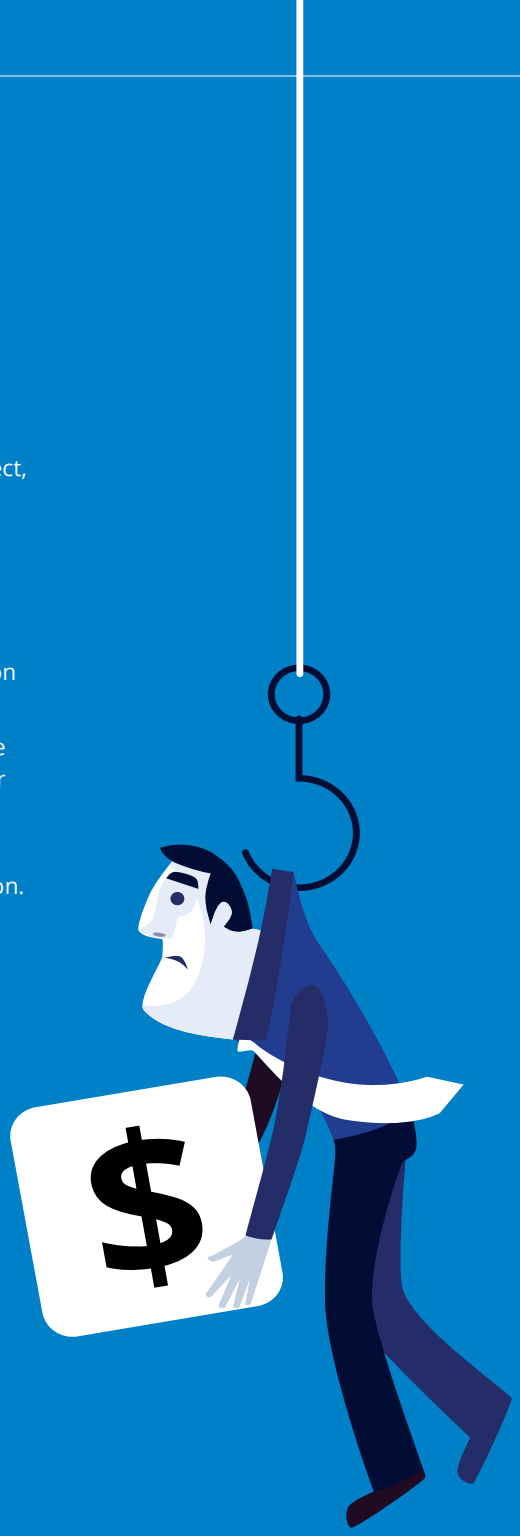
In this edition, we shine a spotlight on inflation by exploring it in detail, including why it is rising and whether there is a silver lining on the horizon? We also look at how OTAP continues to adopt technology to better serve our clients, whilst enhancing our position given the growing risk of cyber threats.

Annuities and the role they can play in a pension, together with the importance of currency, are also explored and may be of particular importance for those looking to take benefit.

You will also find a helpful article on the concept of 'Investment Direction', which covers what it is and how it applies to your pension.

We hope you enjoy the read and as always, we welcome your feedback and suggestions.

Natali Ford,
Marketing Team Leader



In this issue

News and updates

OUR TECHNOLOGY EVOLUTION

As a business, we know the digital space is the way of the future, creating a more convenient way to communicate and operate. Therefore, each year we strive to evolve the technology we use for the benefit of clients and their Advisers.

Some of the enhancements that we have incorporated over the last year include multi-factor authentication, the launch of our secure client portal and our new website.

FINANCIAL CRIME, SUCH AS IDENTITY THEFT AND FRAUD, IS A STARK REALITY AND CAN BE DETRIMENTAL TO ALL FINANCIAL SERVICES PROVIDERS. IN RECOGNITION OF THIS, WE ARE PLEASED TO NOW BE USING MULTI-FACTOR AUTHENTICATION.

Multi-Level Security

Financial crime, such as identity theft and fraud, is a stark reality and can be detrimental to all financial services providers. In recognition of this, we are pleased to now be using multi-factor authentication.

This process has been integrated into our business internally and is being used by all staff to access our systems, which enables a safer environment when dealing with clients and Advisers. OTAP staff members also undertake ongoing cyber security courses with a top-quality training institute to ensure preparation and vigilance.

Additionally, we have incorporated a secure client call-back protocol to verify the requests we receive from clients, such as benefit payments or changes to personal details, to ensure they are legitimate.

These process enhancements help us ensure that our business and our clients are protected from cybercrime. We talk more about this in our “Cyber Security - Why Vigilance is Vital” article on page 11.

Client Portal Launch

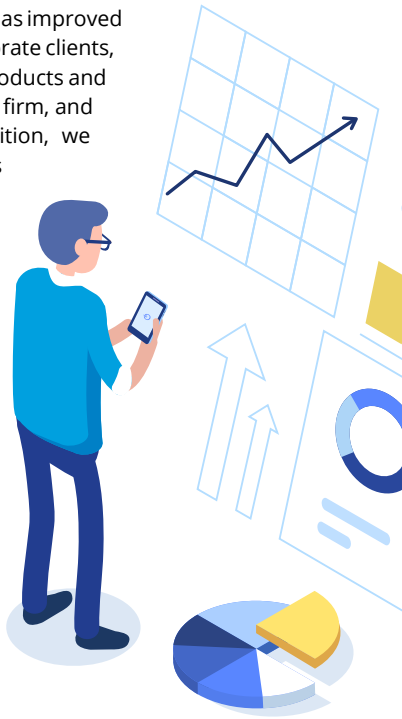
We have been rolling out our secure online information portal, which provides online access to information pertaining to the products and services clients use. Further functionality, such as important documents including guidebooks, fee schedules and other information, will be added to the portal over time.

We are rolling out this service in a phased approach to ensure clients are set up properly as it requires two factor authentication and other security measures to be put in place, which takes a little time. This means we need to spend more time and care with clients that are not technically proficient, but we will get to all clients so just keep an eye out for an email from us.

Website

We renewed our website, which now has improved navigation for our personal and corporate clients, access to more information on our products and services, key contact points in our firm, and further topical information. In addition, we have improved our online resources area for Financial Advisers and given them more access to a wide range of support material so that they are better placed to service their clients too.

As we are celebrating ten years of being in business at the end of this year, we have also provided more information on our firm, its people, our history and our progress - none of which would have been possible without the commitment from our clients and the Financial Advisers who support us.



THE VALUE OF ADVICE

It is important to review your investment performance on a regular basis irrespective of the product you have with us, be it a Trust, Retirement, Pension or Savings Plan.

We encourage all our clients to meet with their Financial Adviser or Investment Manager appointed to their Plan at least once a year. This will help ensure that their portfolio is managed in a way that is relevant to their individual objectives, attitudes and circumstances.

If you no longer have a Financial Adviser appointed to your Plan, or if you have lost contact with them, please contact us as a matter of urgency, as this means that your investments do not have independent oversight from a regulated investment professional.

Our full contact details are in the Get in Touch section on page 15.

CURRENCIES AND THEIR ROLE IN YOUR FINANCIAL HEALTH AND WEALTH

Currencies are fascinating but their importance, as it pertains to clients and their wealth, comes from the realisation that a currency's value is derived from its "purchasing power".

This is very different from stocks and shares where value is a result of a tangible, such as companies' earnings or an interest rate.

The point that a currency's value is derived by way of purchasing power is a critical concept and is demonstrated well when you consider the "Big Mac Index", which compares the cost of a Big Mac burger in different countries.

As it is the same burger using the same recipe and required standards, you could argue that it should be the same price the world over, but unfortunately this is not the case.

If you are traveling abroad and come from a country that has a weak currency, buying that Big Mac will make you poorer than if you bought it at home. The same would be true if this scenario was in reverse i.e., if you have a strong currency, the Big Mac costs you less in a foreign country with a weaker currency. The result is that after buying the Big Mac, you have more of your money left than you would have had at home which means you got better value for your money.

While the Big Mac is a simple example, hopefully it demonstrates that the value of currency lies in its "purchasing power". If you then consider this in terms of your own wealth, is your home currency making you richer or poorer from a global perspective?

This is an important question given the highly globalised nature of the world where trade, education, careers, or even where we choose to live are pretty much a matter of personal choice these days. Currency, however, determines affordability and as such, should form a very real consideration when planning financially.

IF YOU LIVE IN A COUNTRY WHERE THE CURRENCY IS WEAK AND THE LONG-TERM ECONOMIC PROSPECTS ARE LESS FAVOURABLE WHEN COMPARED TO A COUNTRY WITH A STRONGER CURRENCY AND A MORE ROBUST ECONOMIC OUTLOOK, IT MAKES SENSE TO HOLD SOME OF YOUR WEALTH IN THAT CURRENCY OR A RANGE OF CURRENCIES TO PROTECT YOURSELF AGAINST THE DEVALUATION OF YOUR PURCHASING POWER.

Economics, Inflation, Money Flows and Fiscal Policy

The world is fast becoming a global village and countries have become more integrated in terms of global trade (exchanging their goods). As a result, currency value tends to be derived more from supply and demand, which can be influenced by numerous factors. Importantly, governments and central banks have a significant impact on currency these days, especially through their monetary and fiscal policy, which assists them in maintaining the price stability of their currency.

Factors that affect the exchange rate include interest rates, inflation, foreign capital flows, money supply, GDP growth and political stability. These factors have become increasingly important in terms of foreign investor confidence and could support the value of a given currency if those investors are willing to invest their money (capital flows) directly in the economy or a business in the country (fixed direct investment) or to allocate a portion of their portfolio buying listed securities in a specific country (portfolio flows). During periods of rampant corruption, as we saw during President Zuma's State Capture era, it was not surprising to see foreign investor confidence fade and the rand depreciating significantly as a result.

Another factor that affects the exchange rate of a country is the interest rate differential. This is the difference you would receive from investing in a comparable fixed income instrument (like a 10-year government bond) in one country versus another. Yield-seeking investors consider emerging markets to be an attractive investment destination due to high bond yields and their objective is to enhance their income yield, whilst simultaneously taking the local inflation rate into consideration.

Inflation plays a critical role in actual yield (real yield), which is the yield you receive after the local inflation rate has been deducted. If we think back to the Big Mac Index, as inflation rises and results in a more expensive burger, the purchasing power has actually decreased. Therefore, economists expect a country's currency to depreciate in line with the inflation difference (or differential) between two countries over the longer term.

CURRENCY SHOULD BE A CENTRAL CONSIDERATION IN YOUR FINANCIAL PLANNING TO ENSURE YOU CAN AFFORD THE LIFE YOU HAVE PLANNED

When there are capital flows into the economy given demand for its high yield, the demand for the local currency increases, which in turn increases the exchange rate due to basic supply and demand rules. Money supply refers to the amount of money a country has in circulation in the economy at a given point. Having more money in circulation should result in people having more money to spend and in more money chasing the same goods, which leads to higher prices (inflation) and less purchasing power.

The Importance of Currency Pairs

Major currency pairs are the linking up of the biggest and most traded currencies in the world, such as the US dollar (USD), the pound sterling (GBP) and the euro (EUR), with one another in an attempt to view them as a ratio or relative price. These major currency pairs, and their influence on each other, are all impacted by the previously mentioned factors. When you go to your local currency partner or bank, you will find them quoting most currencies relative to one of these majors or pairs. This allows one to determine, for example, the value of the South African rand (ZAR) relative to the Thai baht (THB) by comparing the USD/ZAR and USD/THB exchange rates.

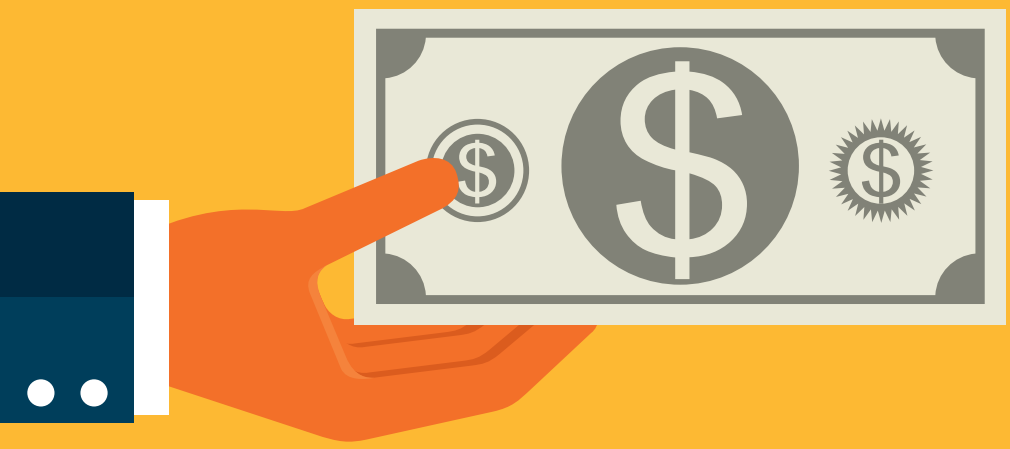
Final Thoughts

For a currency to be strong, it is important to have stable inflation, certainty around a country's leadership and economic policies, and the ability for a government to service its debt. Good levels of employment, education and a diverse private sector that is creating jobs are also vital. These factors drive investor confidence, and the money follows.

If you live in a country where the currency is weak and the long-term economic prospects are less favourable when compared to a country with a stronger currency and a more robust economic outlook, it makes sense to hold some of your wealth in that currency or a range of currencies to protect yourself against the devaluation of your purchasing power. Put another way, diminishing purchasing power is you simply becoming poorer as your money just does not go as far on the global stage.

To end where we began, holding different currencies means that the Big Mac does not have to become ever more expensive, but rather the opposite, as it may very well become cheaper thanks to an improvement in your purchasing power, courtesy of a foreign currency.

Given the impact of currency on your overall wealth, currency should be a central consideration in your financial planning to ensure you can afford the life you have planned out for yourself.



This article has been provided by Heinrich Jacobs of DFM Global in conjunction with Currency Assist who is a specialist in international currency transfers.

INFLATION – THE SILENT ASSASSIN

To most, inflation is a thief in the night coming to steal hard-earned money. Renowned economist, Milton Friedman, famously observed that inflation is taxation without legislation. He believed that inflation was like a disease, which if left unchecked, would be fatal.

What exactly is inflation?

Most think of inflation as rising prices, as if it were things becoming more expensive. Inflation is the outcome of money losing value.

Friedman believed that inflation is caused by the presence of too much money in relation to the things we want to buy. When there is too much money chasing too few goods, prices rise for those same goods. Inflation is thus primarily caused by an expansion of the monetary base. If everyone has greater ability to buy goods because there is more money available, then the cost of the limited number of goods available must go up based upon the law of supply and demand.

Since the late 1970's, inflation has been on a downward trend. This has been caused by certain secular trends, including:

- **Aging populations**: Older people consume less than younger people,
- **Advances in technology**: The massive impact on driving efficiencies and lowering manufacturing costs,
- **Globalisation**: Shifting manufacturing and production to lower-cost countries.

Why is inflation rising?

The signs were there before Covid-19, but the pandemic worsened the inflation situation. For many years, there has been an underinvestment in new sources of supply for many key commodities - notably oil, gas and coal. One of the primary reasons for this was the rise of climate change politics, which is decidedly anti fossil-fuels (aka dirty energy). A consequence has been inadequate investment in replacing aging sources of supply, leading to a supply-demand imbalance.

When the Covid-19 pandemic shut down businesses worldwide, governments injected trillions of dollars (quantitative easing) into the financial system to save businesses and workers from ruin, thus adding massive liquidity. As lockdowns ended, this flood of money helped ensure that there was pent-up demand for goods and services. At the same time, demand from companies helped to drive huge price increases in key industrial commodities, such as copper and steel.

INFLATION IS ALWAYS AND EVERYWHERE A MONETARY PHENOMENON

Milton Friedman

But that's not all folks. The situation got even worse with Russia invading Ukraine. Combined, the two countries are significant suppliers of food and energy commodities. The net result has been inflation rising to levels not seen in the developed world for 40 years.

Why is inflation bad?

Firstly, a modest level of inflation is not necessarily unhealthy, while a deflationary environment can be very dangerous – but we will save that for another day.

While the key is to understand the nature of inflation - cost-push or demand-pull - the bottom-line is that inflation erodes purchasing power. If you are unable to keep up with inflation by growing your wealth or income ahead of it, then you will become poorer in real terms. To add salt to the wound, as inflation gets higher, it becomes more difficult to stay ahead.

WHEN THERE IS TOO MUCH MONEY CHASING TOO FEW GOODS, PRICES RISE FOR THOSE SAME GOODS. INFLATION IS THUS PRIMARILY CAUSED BY AN EXPANSION OF THE MONETARY BASE

Are there any benefits?

Every cloud has a silver lining as they say. If you owe money, inflation can work in your favour. If inflation runs ahead of what it costs you to service your debt, or interest payable, it will reduce your overall debt burden in real terms (today's money) over time. This is another reason why interest rates tend to rise with a rise in inflation - lenders need to preserve the real value of their loans.

Inflation outlook?

One must keep in mind that above-trend inflation is difficult to sustain for extended periods of time. This is because inflation, like fire, needs constant fuel to burn.

Governments and central banks have a powerful incentive to keep inflation in check due to the negative impact it has on society. As such, authorities use monetary policies to try stem above-target inflation. We have experienced that this year with central banks across the world having stepped in and taken action by raising interest rates.

Inflation is therefore expected to dip in the short-term and thereafter stabilise, albeit at a higher level than it has been in the last decade; driven by strong demand, tight labour markets with rising wages, pressure on corporate margins, stretched supply chains (which should ease) and the continued drive towards deglobalisation and decarbonisation (a cleaner future). Many of these factors are out of policymakers' control or influence.

INVESTMENT DIRECTION

Guernsey introduced legislation in 2017 designed to provide better clarity as to who is responsible for the investment of assets held in retirement and pension products. This article looks at the different classifications and where responsibility sits given the classification.

MEMBER DIRECTED

Under this option, the Member of the Pension or Retirement Plan appoints themselves to make, select and direct the investments of the Plan. The Trustees must obtain confirmation that the Member understands and accepts the responsibilities relating to Investment Direction before authorising this approach. The Pension Provider does not have investment powers and it is the Member who is solely responsible to themselves for all matters of investment, including returns, performance and losses.

MEMBER'S RESPONSIBILITY

Given the onus on the member and relevant experience required the Member Directed option may be less preferable than the other options available. Importantly, member direction may create additional tax obligations on the member in certain countries and advice should be taken before electing this option.

It is the Member's responsibility to:

- Ensure OTAP is kept updated in terms of any changes to personal details.
- Periodically provide OTAP with updated information to confirm identity and address and financial details regarding the source of any additional contributions.
- Manage the Investments of the Plan, which includes selecting, monitoring performance, adjusting these investments where necessary and/or the appointment of an Investment Manager who may undertake such activities on the Member's behalf.
- Ensure sufficient liquidity to cover expenses and benefit payments.

TRUSTEE'S RESPONSIBILITY

OTAP's role is to provide the administration of the Plan and to administer it in line with the applicable Rules, to ensure compliance with the regulations and to act with honesty and in good faith when exercising our powers.

We ensure that contributions are applied to the Plan in a timely way; Pension benefits are paid out promptly; death benefits are paid with consideration to the Member's wishes; and we maintain accurate records regarding contributions, fees, charges and the overall performance of the Plan. Access to reporting is provided online or can be requested from us.

THIRD PARTY DIRECTED

Under this option, the Member of the Pension or Retirement Plan appoints an appropriate Financial Adviser to make, select, direct, and provide suitable advice regarding the investments of the Plan, subject to OTAP agreeing the appointment of the Financial Adviser.

The Financial Adviser can choose to direct the investments themselves or appoint an Investment Manager to make the investment decisions.

Under this option, the Pension Provider has no powers of investment and the responsibility for the investment, and returns on such investment, sits with the appointed Adviser who is accountable to the Member i.e., the client.

However, the Financial Adviser's responsibility extends further than matters of investment and includes financial advice relating to product suitability; considerations regarding additional contributions, transfers and benefit payments; and ensuring that the Member understands the product structure, the parties involved and their responsibilities, and all costs associated to the Member's Plan.

For many Members of our Pension and Retirement Plans, this is the preferred option given the important role that financial advice and financial planning plays in long term investing and retirement.

ADVISER'S REPSPONSIBILITY

The appointed Financial Adviser is responsible for:

- Ensuring the Plan and the investments are appropriate for the Member.
- The management decisions in respect of the investments within the Plan.
- Undertaking regular reviews on performance and investment suitability, including adapting the mix of investments to meet the Member's changing needs.
- Ensuring the Member understands all costs associated with the Plan and the investments.
- Ensuring liquidity to cover expenses and benefits payments.

TRUSTEE'S REPSPONSIBILITY

OTAP's role is to provide the administration of the Plan and to administer it in line with the applicable Rules, to ensure compliance with the regulations and to act with honesty and in good faith when exercising our powers.

We ensure that contributions are applied to the Plan in a timely way; Pension benefits are paid out promptly; death benefits are paid with consideration to the Member's wishes; and we maintain accurate records regarding contributions, fees, charges and the overall performance of the Plan. Access to reporting is provided online or can be requested from us.

MEMBER'S REPSPONSIBILITY

It is the Member's responsibility to:

- Ensure OTAP and their appointed Financial Adviser is kept updated in terms of any changes to personal details.
- Periodically provide OTAP with updated information to confirm identity and address and financial details regarding the source of any additional contributions.
- Inform their Financial Adviser of any change in their circumstances, particularly where this could have an impact on the investments within the Plan.

Article continues on the next page ▸

LICENSEE DIRECTED

Under this option, the Member of the Pension or Retirement Plan appoints the Licensees to make, select and direct the investments of the Plan. Therefore, OTAP, as Licensee, is responsible to the Member for the investment outcomes and the management of the Plan's assets subject to the Member notifying us of any changes which may affect the manner in which the assets are being managed.

MEMBER'S RESPONSIBILITY

It should be noted that unlike the third party directed approach, OTAP does not provide advice or assist with financial planning and if this is a requirement for a member, a third party directed approach may be the more appropriate option.

It is the Member's responsibility to:

- Ensure OTAP is kept updated in terms of any changes to personal details.
- Periodically provide OTAP with updated information to confirm identity and address and financial details regarding the source of any additional contributions.
- Inform OTAP of any change in their circumstances, particularly where this could have an impact on the investment strategy being followed within the Plan.

TRUSTEE'S RESPONSIBILITY

OTAP's role is to provide the administration of the Plan and to administer it in line with the applicable Rules, to ensure compliance with the regulations and to act with honesty and in good faith when exercising our powers.

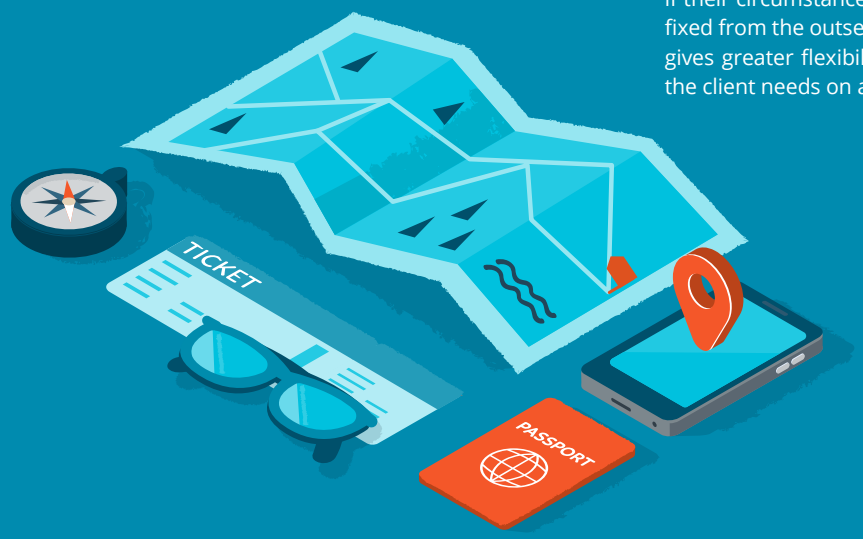
We ensure that contributions are applied to the Plan in a timely way; Pension benefits are paid out promptly; death benefits are paid with consideration to the Member's wishes; and we maintain accurate records regarding contributions, fees, charges and the overall performance of the Plan. Access to reporting is provided online or can be requested from us.

Furthermore, we are responsible for investment and discharge our responsibility by selecting independent and regulated Investment Managers to construct and manage the investments in the Plan and provide regular investment updates to Members.

Clarity for all

In the past, confusion arose over the extent of the Pension Trustee's responsibility and liability in respect of the investments. The introduction of improved legislation has significantly helped clients, Advisers and Pension Providers understand their responsibility, accountability, and obligations in respect of investment matters.

Importantly, a Member can elect to change investment direction if their circumstances require it, as investment direction is not fixed from the outset, but open to change by the Member. This gives greater flexibility and allows for a solution that services the client needs on a ongoing basis.



CYBER SECURITY – WHY VIGILANCE IS VITAL

Anyone who has not been on retreat in an Ashram over the last 12 months will be familiar with the impact of the breakdown in international relations, and the fallout between the largest countries involved, both in economic and humanitarian terms. This sequence of events has had a profound effect on the geo-political landscape and global stability.

"How does this affect Overseas Trust and Pension (OTAP) and more specifically, me or my business?", you may ask. Well, it has repercussions for businesses and individuals globally as State-Sponsored Cyber Based Operations focus on disrupting trade and supply lines, causing substantial damage to a country's economic growth.

High Growth 'Business'

Let us consider the term "business" when referring to cyber-attacks, for this is what it truly is. Forget any notion of isolated individuals or dorky teens in bedrooms hacking the Pentagon for a game of Tic-Tac-Toe (a nice 80's movie reference for those old enough to remember). The amount of money being earned, and the relative ease with which that revenue is made, make cyber-attacks on institutions and individuals extremely attractive to well-organised International Criminal Organisations.

Previously referred to as "gangs", they are no longer disorganised mobsters 'on the make' racketeering and robbing. Instead, these are well-educated, intelligent, articulate entrepreneurs who have focused their abilities on creating wealth by exploiting vulnerabilities.

Interesting fact: Cybercrime worldwide has risen by over 600% since the beginning of the Covid-19 pandemic, according to research published by the business insurance company, Embroker.

Should you be concerned?

In short, very! When it comes to protecting your assets, data and reputation; and to avoiding potentially career-ending data-breaches or asset thefts, the benefits of being paranoid should not be underestimated.

Questioning the content you receive and the identity of the sender behind the screen, reading between the lines and doing regular checks on the internal security software installed on your devices, such as anti-virus malware, should be routine practice.

OTAP does not provide specific advice on such issues, however, we would strongly recommend speaking to an IT security specialist to ensure the measures you are implementing are robust enough to withstand these attacks. It is also important to familiarise yourself with the types of criminal behaviour, schemes and scenarios that are likely to make you a target. Two useful online resources are:

- https://cybercrime.org.za
- https://www.actionfraud.police.uk

What should you be doing or looking out for?

Part of arming yourself against these attacks is understanding that what may seem to be a valid piece of correspondence from a trusted source, could in fact be a well disguised attempt at tricking you into clicking on a link to download a malicious remote-access programme or into opening a document attachment that contains a virus. These attempts are known as "phishing" and are some of the most effective means by which fraudsters gain control of systems as most software cannot protect against you clicking on a link.

Fraudsters will also use the compromised email accounts of the infected system to generate more emails, further compromising the computers of the contacts in the sent and received items of the address book, or other correspondence stored within the databases.

The best way to break this chain is to be ultra-vigilant with electronic correspondence. Do not click on any links liberally and always take time to review the content in front of you. If possible, rather contact the sender directly via telephone or a recognised existing email address.

It is also important to never divulge personal and financial information to an unknown "cold-caller" (i.e., a telephone call claiming to be from your bank, building society or financial service provider). Always call them back on their official main number and if in doubt, refer to previous correspondence and do not trust any numbers provided in the email or by the caller.

OK so I know what I should do, but what is OTAP doing?

Evidently, the success of any business in the future will rely on its ability to embrace technological advancements that place the protection of clients' assets and data at the forefront.

Being in the business of wealth protection, it is our priority to ensure that our data and physical systems have the latest secure processes, industry standard security software and defences in place. To do this, specialist firms in the cyber security world regularly test and review our systems to confirm they are robust and armed with proper safeguards. Our staff also take part in regular training on the latest schemes, scenarios, threats, scams, and criminally fraudulent behaviour.

The challenge is constant, therefore, we are in an ever-evolving process of developing our protections, especially when it comes to handling and processing data. This includes all interactions with our external parties, Financial Advisers and of course you, our clients.

DO ANNUITIES HAVE A PLACE IN FINANCIAL PLANNING?

The use of annuities as part of a financial planning strategy can play a significant role in managing cashflow in retirement.

However, this does not mean that they are always understood by clients and if they are incorrectly implemented, the unintended consequences could be disastrous for the retiree.

In this article, we endeavour to demystify annuities, their origins, the main types, and the importance of ensuring that they are correctly included into a successful financial plan for retirees.

What is an annuity?

An annuity is a financial concept where a sum of funds provides for a stream of payments over a specified period.

Annuities can be "guaranteed" where funds are used to purchase a guarantee in respect of the stream of payment and may be for a defined term or the life of the individual receiving the annuity. They may also be secured against a sinking fund, which provides no guarantees. Neither version is right or wrong as they provide for different circumstances.

ADVISERS CAN SELECT AN ANNUITY THAT MATCHES THEIR CLIENT'S UNIQUE CIRCUMSTANCES TO MINIMISE ANY UNDESIRED CONSEQUENCES ON THE ONE HAND AND OPTIMISE THEIR CASH FLOW IN RETIREMENT ON THE OTHER.

Origins

Annuities can be traced back to ancient Roman times when loyal Roman soldiers were paid "annuas" in compensation for their services to the empire. The Latin word "annua" meant "annual stipends" and signified a contract between the payer and the recipient of the stipend.

Throughout the 18th century, the American Presbyterian Ministers Association paid retired pastors annuities in return for services rendered, which were funded by the church through donations from the congregation. The surviving spouse would continue to receive the annuity after the death of the pastor, introducing the concept of widows and orphans' benefits.

During the American Civil War, annuities were granted to injured or disabled soldiers in place of land ownership by President Lincoln. After the end of the war, President Grant rescinded many of these annuities as the benefits outweighed the contribution and following a long legal battle, the benefits were restored.

At the start of the 20th century, annuities were used in conjunction with the sale of bonds following the collapse of the New York Stock Exchange in 1903 and insurance companies were used as third-party providers to guarantee future payments. In America in 1919, many states legislated that it was illegal for banks to enter annuity contracts unless an insurance company issued the product, which set the guidelines for the safety that annuities provide.

Types of annuity

There are many different types of annuities. The more common types are identified below:

1. **Immediate Annuity**
   The annuitant makes a lump sum contribution and immediately receives an ongoing guaranteed income in return, which can be paid either for a fixed period or for the life of the annuitant.

2. **Deferred Annuity**
   The issuer of the annuity promises to pay the annuitant a regular income at a future date.

3. **Fixed Term Annuity**
   The issuer pays the annuitant a guaranteed income based on a specific amount for a defined period, such as 5 years, whereafter the annuity ceases.

4. **Variable Annuity**
   An annuity where a term and/or an amount can vary depending on specific predefined factors.

As noted at the beginning of this article, annuities can be guaranteed but this is not a requirement. The main downside with a guaranteed annuity typically is that on the death of the recipient, the annuity dies with them, and unused capital is the property of the issuer. This has led to an increase in annuities which are not guaranteed to ensure the unused capital can pass to the spouse on the death of the annuity recipient.

Determining which option is right is very much a function of the amount of funds, investment returns and how long one actually lives for. So, in short, sometimes the answer to this question will only ever be known when the individual passes away.

Is the type of annuity included in the financial plan fit for purpose?

During the 1980's and 1990's where the concept of one job for life prevailed, Defined Benefit Pension Plans provided benefits to their Members through annuities. These were specified as a portion of their final salary and guaranteed for the lifetime of the recipients and their widows and orphans. Often, these company pension funds were funded out of cashflow only once their employees retired and started taking benefits.

Under these arrangements, a retiring employee would receive an Immediate Annuity guaranteed for life from the company's Defined Benefit Pension Plan. The amount of the pension was based upon the period of service and the final salary was earned prior to retirement. Therefore, the company carried the investment risk and was required to ensure that the pension plan was fully funded to provide pensions for the lifetime of their retiring employees.

Conversely, in modern times with job mobility, the retirement plans have changed to Defined Contribution Plans where the pension is not a fixed amount, but an income stream paid from an accumulated pot of capital. This places the investment risk firmly on the shoulders of the employees, requiring them to have financial plans in place to ensure they can meet their financial requirements in retirement.

In conclusion, annuities are an important consideration of financial planning, and they can be used to provide clients with a reliable income stream in retirement, whether they be guaranteed or not.

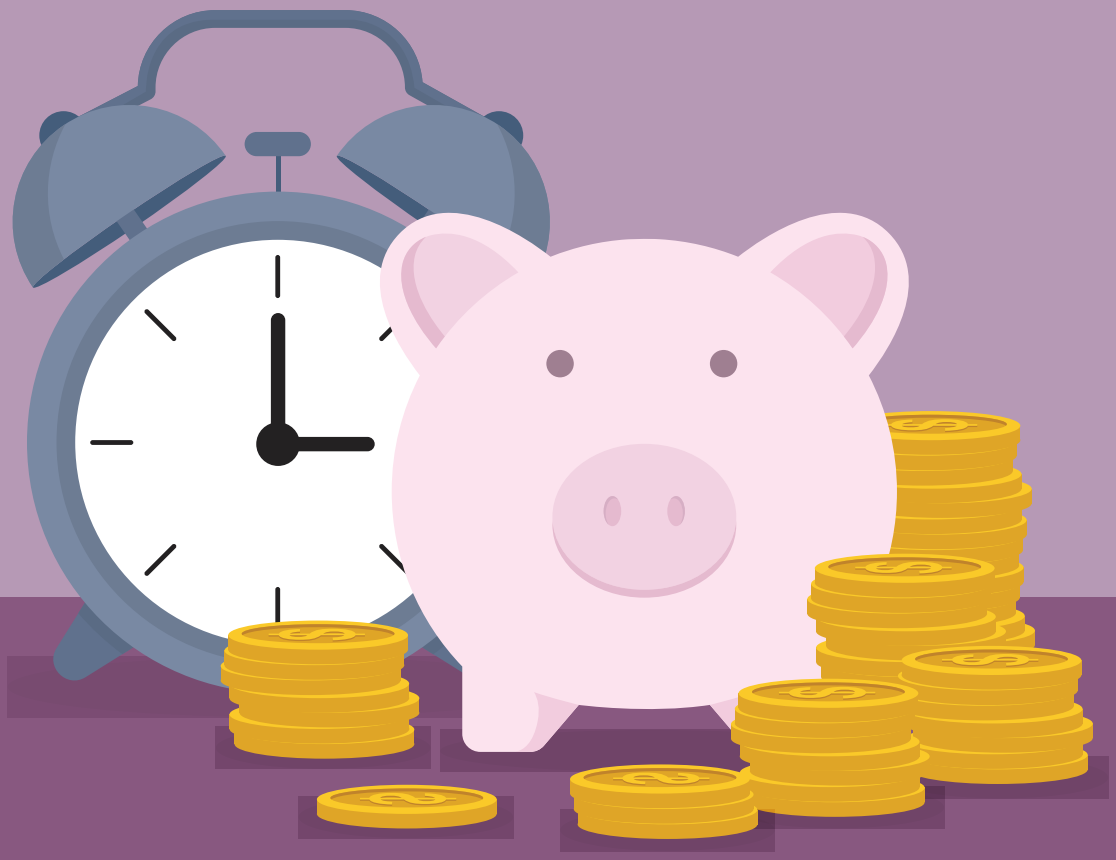
It is essential, however, to understand the consequences of any decision to annuitise and the terms of the annuity. Are the terms fixed, can they be revised, does certainty of income result in relinquishing capital? What about the rate of the annuity and whether it is linked to inflation or fixed for the term, which may be life?

Other considerations around the taxation of an annuity are critical and different countries tax annuities differently, be this in respect to the income or any residual value on death.

Fortunately, the world of annuities is diverse, and Advisers can select an annuity that matches their client's unique circumstances to minimise any undesired consequences on the one hand and optimise their cash flow in retirement on the other.

Please note that OTAP does not offer financial, investment or tax advice and any information provided should not be considered as such. We strongly recommend that clients take regulated financial and investment advice relevant to their individual circumstances.

IF ANNUITIES ARE INCORRECTLY IMPLEMENTED, THE UNINTENDED CONSEQUENCES COULD BE DISASTROUS FOR THE RETIREE.



CHARITABLE WORKS

On the moving matter of our Corporate Social Responsibility, we believe in supporting causes that are important to our staff and so, in December 2021, we asked our teams in Guernsey and South Africa to nominate local foundations that are sentimental to them.

The response we received was extraordinary and it inspired us to learn that many of the nominations that came forward are causes our staff are devoted to in their personal capacities, both in terms of time and monetary support. To settle the narrow deliberations, we cast a vote and supported the following inspiring foundations:

South African Choices

We were delighted to provide financial assistance to three worthy charities, which included the Mdzananda Animal Clinic, the Childhood Cancer Foundation South Africa (CHOC) and the Heartlands Baby Sanctuary.

The Mdzananda Animal Clinic delivers veterinary care to animals in underprivileged communities that often do not have access to these resources. They also find homes for abandoned pets, intervene in situations of abuse or neglect, sterilise strays, and importantly, assist in educating the community on how to care for their pets.

CHOC supports children that have been diagnosed with cancer or life-threatening blood diseases and their families by providing necessities, psychosocial support and accommodation during treatments.

The Heartlands Baby Sanctuary is a residential safe care facility that nurtures children in dire need of care and protection. Their aim is to provide a stable foundation to promote healing and healthy development. They also educate and support the parents of the children under their care so that they are better equipped to look after them when they are reunited.

Guernsey Choices

In Guernsey, we were proud to support the Guernsey Mind and Guernsey Motor Neurone Disease charities.

Guernsey Mind is an independent charity that supports mental well-being across the Bailiwick. They campaign to raise awareness around mental health issues and promote positive mental health on both the individual and broader community level.

Guernsey Motor Neurone Disease offers care and support to people living with Motor Neurone Disease (MND). MND is a progressive disease that attacks the motor neurones at the base of the brain and spinal cord, which leads to wasting, loss of mobility and difficulty with speech, swallowing and breathing. This care is provided by volunteer visitors, loaning medical equipment, assisting with fundraising, and much more.

Personal initiatives on behalf of staff

Two members of our Guernsey Team organised a Snooker Memorial Event to raise funds for the Guernsey Society For Cancer Relief and Humanitarian Aid Guernsey. Additionally, a few of our ladies with impressive skills dedicated their time to knitting hats for the Ukrainian Baby Hat Appeal which so far has sent over 5,000 hand-knitted items to hospitals, both in the Ukraine and in nearby countries, that are assisting people fleeing the war.

Well done to everyone involved for their part in ensuring that these foundations can carry out their wonderful work, which we are proud to support.

If any client is interested in any of these charities or making a donation towards them, please contact us.

Get in touch

Points of contact

In order to deal with your enquiry efficiently, please use the appropriate email contact below. If you are unsure of which area you should be dealing with, please contact us on: **+44 (0) 3333 078 888**

Overseas Trust and Pension, 2nd Floor, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

In order to keep up to date with terms, conditions and charges, please visit our website at www.trustandpension.com

Private Clients

Enquiries

All enquiries or actions relating to existing individual plans or trusts need to be directed to our administration department using the details below.

- This includes upgrades, valuations, loans, updating client details, benefit payments, distributions, withdrawals etc.
- Any amendments or change of appointed advisor are also dealt with in this area.

@ **enquiries@trustandpension.com**

Investment Requests

All requests relating to investments, including in-specie transfers, switches, purchases and sales need to be sent to the dealing area using the details below.

@ **dealing@trustandpension.com**

For more information regarding investment requests, please refer to our Private Client Investment Request Policy on our website.

Applications and Additional Contributions

All new applications, and top-ups should be submitted to our new business department using the details below:

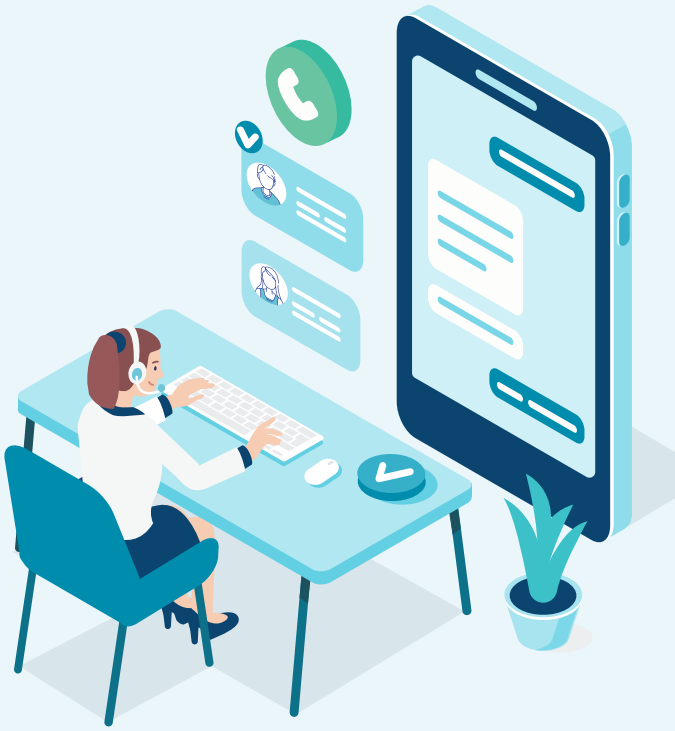
@ **applications@trustandpension.com**

Corporate Clients

All enquiries

All enquiries or actions relating to international Company Pensions, Local Company Pensions and Share Option Schemes should be sent to the email below:

@ **operations@trustandpension.com**



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