

Surplus Rebate Account

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INTRODUCTION

PPS offers its policyholders an opportunity to benefit from the operating income generated by PPS. The operating income and investment returns generated each year are distributed back to PPS Insurance policyholders by means of a non-vesting account known as the Surplus Rebate Account (SRA).

This is a powerful benefit that can grow to significant values, which become available at retirement or earlier death when such a tax-free lump sum is needed most.

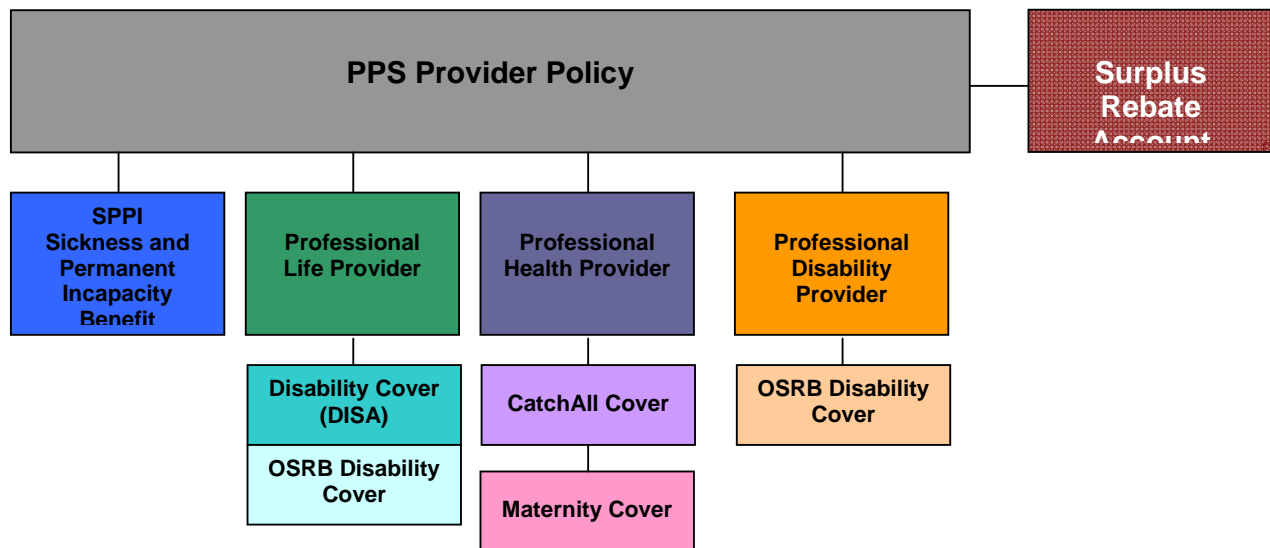
With the addition of profit allocations from PPS Investments for policyholders with investment products this is a compelling reason for professionals to have as many products with PPS as possible and to keep them to retirement and beyond.

At retirement the SRA Retention Option becomes available to the policyholder. The policyholder can keep the money invested in chosen PPS portfolios and continue to receive profit allocations from PPS Investments post-retirement (as long as his investments remain with PPS Investments). The funds in this Retained SRA are readily available.

PRODUCT OVERVIEW

Who is eligible for a Surplus Rebate Account (SRA)?

The SRA is available to any policyholder with a PPS Provider™ policy, irrespective of whether they have SPPI benefits or not i.e. a SRA account will be opened for policyholders with at least one risk product.



- SPPI, Professional Life Provider (life cover), Professional Health Provider (Provider PHP) benefits and Professional Disability Provider are available as stand-alone offerings under the PPS Provider™ policy.
- The PPS Provider™ policy allows the PPS policyholder to select all of their risk product needs under one policy, which includes their SRA account.
- If the policyholder terminates one or more of his/her benefits then the policy will remain in-force (and hence the SRA will continue).
- If a policyholder terminates his PPS Provider™ policy then the policy will be terminated and the nett SRA proceeds (in accordance with the SRA termination provisions) will be paid to the policyholder.
- The SRA Retention Option makes it possible for policyholders to keep their SRA funds invested with PPS from age 60.

Note: Business Provider products **do not** have an SRA account.

Who is eligible for a Surplus Rebate Account?

The **SRA** will automatically be opened as part of the **PPS Provider Policy** but will remain empty unless the policyholder has at least one of the following:

- **SPPI – Units of Benefits**
- **PPS Investments Product**
- **PPS Retirement Annuity Policy (Sanlam RA)**

Not available on Business Provider policies

How are the SRA funds invested?

The SRA is invested in a typical long term portfolio with an equity weighting. The investment returns are directly linked to the market and could therefore be very volatile. Returns are high when the market is performing and could drop to a lower value when the market is volatile as it has been in 2008.

- **Pre Retirement Risk Profile Choice**

Policyholders are given an option each year to move the funds that back the SRA into a more conservative and low risk environment to avoid possible market volatility close to retirement. The option available is the PPS Conservative Portfolio.

How will this be done?

In October of each year, policyholders turning 55 in the following year will be notified of the pre retirement risk profile choice. The change will then be effective from 1 January of that year (the year in which the policyholder turns 55).

- This is a once off selection and the policyholder can not switch back to the original balanced portfolio.
- Should the policyholder not wish to exercise the option, this choice will be made available on an annual basis on 1 January of each year until age 60 actual age (61 next birthday).

SRA BONUS ALLOCATIONS ... so how does it work?

The Surplus Rebate Account is made up of an Apportionment Account and a Special Benefit Account.

- The investment returns earned on the SRA and the operating profits made by PPS are calculated annually for the calendar year from January to December.

The signed of financial results are used and the actual allocations are made in March or April of the following year. So between January and April the Statement of Benefits reflects the two year previous 31 December balance and not the previous 31 December balance.

Apportionment Account

Like any other company, PPS generates operating profits from its normal business practices. Operating profits are broadly calculated by determining what the difference is between the premiums received from policyholders in relation to the amount of claims paid, as well as the operating costs incurred in administering the business (after reserving requirements).

The more Units of Benefit you hold, therefore, the higher the bonus allocation.

- **SPPI (Units of Benefit)**

A bonus allocation is calculated each year as a cent per Unit of Benefit which is then allocated to all policyholders with SPPI Units of Benefit.

- **PPS Investments**

Operating profits of PPS Investments as an asset manager are distributed to policyholders annually as a proportion of your fund value in December to the total fund value. PPS Insurance Co has a 51% share in PPS Investments.

Policyholders who have SPPI Units of Benefit will receive 25.5% of PPS Investments profits

The remaining 25.5% is distributed to PPS policyholders who have a SRA and a PPS Investments policy

- **PPS RA underwritten by Sanlam**

Policyholders who have a PPS RA underwritten by Sanlam and a SRA account will receive bonus allocations as a proportion of their total premium to the total RA premium each year

- **PPS Professional Life, Health and Disability Provider**

Whilst there is no direct allocation for the life cover or dread disease benefits, all these PPS benefits contribute to the overall operating profits of the company and this is then distributed to the SRA via the SPPI Units of Benefit. Over the last few years the life cover and DISA benefits have contributed about 30% of the overall operating profits.

The Apportionment Account of each policyholder is also credited with the interest return earned on the underlying existing assets held during the course of the year in the Apportionment Account.

Note: The appendix at the end of this document will give a graphical representation of the Surplus Rebate Account and the allocations to the Surplus Rebate Account

Special Benefit Account

In addition, the accumulation of capital growth and a share of the company's overall investment returns and interest are allocated to the Special Benefit Account.

Note: The investment performance and operating profits allocated each year may be positive or negative depending on investment performance and the operating experience of the company for the year. Thus, the SRA may increase or decrease.

When is the Surplus Rebate Account paid out?

The SRA is paid out when the member dies, cancels his/her PPS Provider policy or at retirement when the member has converted his/her SRA to a SRA Retention Option. The SRA is made up of two parts, the Apportionment Account and the Special Benefit Account. Annual bonus allocations are made and you

receive an annual statement in April or May each year showing your Apportionment Account, Special Benefit Account and Total SRA balance as at 31 December each year.

DEATH

- If you die during the year you will receive proportionate bonus allocations to your Apportionment Account for the months that your policy has been in force since 31 December. These bonus allocations are based on the previous year's cent per unit amount. You will also receive the interest allocation for the same period.
- The Special Benefit Account is allocated the investment returns for the period since 31 December. This is based on the year to date investment return achieved. Since the SRA is invested in the market, with more than 60% equity allocation, this return is very dependent on market performance and may be positive or negative.

These amounts are then added to the Apportionment Account and Special Benefit Account balances as at 31 December to get the SRA value at the date of death. Since investment performance may be positive or negative this may be more, or less than the 31 December balance.

- The SRA payment on death will be processed and paid as soon as all requirements have been received. Premiums still deducted after death will be refunded a month later.

CANCELLATION OF PPS PROVIDER POLICY (before age 60)

- If you cancel your entire Provider policy (before the age 60) during the year you will receive proportionate bonus allocations to your Apportionment Account for the months that your policy has been in force since 31 December. These bonus allocations are based on the previous year's cent per unit amount.
- Forfeitures are then applied based on the number of years the policy has been in force as well as the number of years until retirement age 60.

The Apportionment Account and Special Benefit Account balances as at 31 December plus the pro-rata bonus allocations less the forfeitures and any arrear premiums is the total SRA value as at the date of cancellation.

- Cancellation requests are received, processed and paid.
- Effective cancellation date will be at the end of the month in which PPS received a written instruction, from the policyholder, to cancel the policy/benefit.
- Payment will be made 30 days after receipt of the cancellation instruction and if all requirements are received.

Premiums deducted after cancellation date will be refunded after 35 days of collection date.

If a member has a Provider Policy, then this SRA payment will only be paid out if he/she cancels ALL the Provider Products and not just SPPI.

If a member has the old PPS LA and DISA or Professional Health Preserver then this SRA payment will be made as long as all the Provider Products (including SPPI) are cancelled. The LA and DISA and Professional Health Preserver can remain in force.

RETIREMENT (after the age of 60)

- If you retire during the year after the age of 60 and therefore cancel your SPPI you will receive proportionate bonus allocations to your Apportionment Account for the months that your policy has been in force since 31 December. These bonus allocations are based on the previous year's cent per unit amount. You will also receive the interest allocation for the same period.
- The Special Benefit Account is allocated the investment returns for the period since 31 December. This is based on the year to date investment return achieved. Since the SRA is invested in the market, with more than 60% equity allocation, this return is very dependent on market performance and may be positive or negative.

These amounts are then added to the Apportionment Account and Special Benefit Account balances as at 31 December to get the SRA value at the date of retirement. Since investment performance may be positive or negative this may be more or less than the 31 December balance.

The total SRA value is then transferred into the SRA Retention Option.

- The SRA Retention Option is vested and the policyholder has a choice of 6 portfolios into which the funds can be invested.
- The policyholder has immediate access to this money and may make withdrawals whenever they wish.
- The SRA Retention Option continues to receive bonus allocations from PPS Investments as well as the PPS RA underwritten by Sanlam if the policyholder has this benefit.
- Allocations of PPS operating profits will however cease as the policyholder no longer has SPPI Units of Benefit.
- Withdrawals from the SRA Retention Option are not taxed.
- The member can also structure the withdrawal of a regular income free of tax from the SRA Retention Option

Articles of Association

- Policyholders who have a PPS Provider™ policy are Ordinary members of PPS Holdco.
- A policyholder who has ceased practicing his/her profession remains a member of PPS HoldCo in terms of the Articles of Association.

Voting Rights

- A PPS Provider™ policyholder with an SRA but no SPPI will have one vote and an additional ninety-nine votes, i.e. 100 hundred votes in total.
- If this policyholder has PPS Investments products, a PPS Retirement Annuity and a PPS Provider™ policy with an SRA, then the Apportionment Account will have a value and voting rights will increase accordingly.

SURPLUS REBATE ACCOUNT RETENTION OPTION

Who is eligible for the SRA Retention Option?

- The Surplus Rebate Account (SRA) Retention Option is available to all PPS Provider™ policyholders who are at least 60 years old and have an SRA.

How does the SRA Retention Option Work?

- With this option, the policyholder's SRA funds are transferred into a Retained SRA where he/she will have a choice of investing in one or more of the **PPS portfolios**. If no portfolios have been nominated, the funds will be switched into the default portfolio as advised by PPS.
- The policyholder will also be able to make **ad-hoc withdrawals** from this Retained SRA.
- The Allocation Account and operating profits derived from SPPI, cease once the SRA has been retained. However **profit allocations** from any other qualifying products for example PPS Investments products will continue to be allocated to this Retained SRA. These profits will immediately be available to the policyholder.
- The policy remains **open-ended** and will not terminate if the Retained SRA has a zero balance.

When will the SRA of a policyholder be retained?

- The SRA Retention Option will be available from age 60 and will not be implemented while SPPI cover, under the PPS Provider™ Policy, is still in force.
- The SRA Retention Option can be exercised as follows:

Exercising the Surplus Rebate Account Retention Option (between age 60 and 66)

- A policyholder, who is at least 60, may **exercise** the SRA Retention Option by, completing the *SRA Retention Option Form*, at any time (before age 66) when:
 - SPPI cover is cancelled under the PPS Provider™ Policy.
 - The policyholder can keep any PPS risk products under the PPS Provider™ Policy and do not have to cancel all PPS products to ensure that the Retained SRA remains in place.

For Example:

Mr Policyholder a Surgeon retires from his practising profession at 60. He has SPPI cover, life cover for whole of life and a PPS Investments Endowment policy. His SPPI cover will cease, however his life cover will continue. Life cover on its own (without SPPI or PPS Investments products) does not result in profit allocations to the SRA. Mr Policyholder exercises the SRA Retention Option. The funds in the SRA are transferred into his selected PPS Investments portfolio. Operating profits allocated in proportion to the SPPI Units of Benefit held will cease, however, profit allocations from the PPS Investments Endowment will continue to be allocated to his Retained SRA. These profits will be available when required.

If Mr Policyholder did not have the PPS Investments Endowment policy, no profit allocations would be made to his Retained SRA. The amount invested in the PPS Portfolio will continue to grow as per the

performance of the portfolio selected.

Implementation of the Surplus Rebate Retention Option (after age 66)

- If the policyholder has not exercised the SRA Retention Option by age 66, PPS will implement the SRA Retention Option either:
 - on the day which he/she turns age 66; or
 - the day on which his/ her SPPI cover ceases (if cover was extended beyond age 66)
- PPS will implement the SRA Retention Option even if the SRA of the policyholder has a zero balance at the time of implementation.

For Example:

Ms Policyholder, a Lawyer retires from her practising profession at 66. She has SPPI cover, term life cover and PPS Investments Unit Trusts. Her SPPI cover and life cover will cease. Her Units Trust Investment will continue. Her SRA is automatically retained at age 66. Operating profit in proportion to her Units of benefit held will cease, since she no longer has SPPI cover, however profit allocations in respect of the PPS Investments Unit Trusts will continue to be allocated to her Retained SRA. These profits will be available to her when required.

Overview of the SRA Retention Option Policy

Term

The term of the SRA Retention Option policy is open-ended and will remain in force until the earliest date of either:

- the death of the policyholder; or
- the cancellation by the policyholder; or
- the cancellation of the policyholder's membership of PPS HoldCo by the Board

Investment Options

- The policyholder will be able to choose from the following portfolios when either completing the SRA Retention Option Form or Switch Form:
 - PPS Managed Flexible Fund.
 - PPS Moderate Fund.
 - PPS Flexible Income Fund.
 - PPS Equity Fund.
 - PPS Conservative Fund.
 - PPS Enhanced Cash Fund.
- Minimum initial investment amount per fund is R200
- Switching
 - The policyholder may switch between underlying investment options at any time, subject to PPS Insurance requirements and such conditions as any Manager of the investment option may apply.
 - There is currently no transaction fee charged for a switch transaction.

Note: If the SRA Retention Option was implemented by PPS, then Retained SRA funds will be invested in the PPS Enhanced Cash Fund and the policyholder will be able to change the underlying investment portfolios at any time by completing the Switch Form.

Additional Investments

The policyholder will not be able to make any ad-hoc contributions to the Retained SRA.

Fees

The following fees exclude VAT

Initial Fees	There are no initial charges
On-Going Product Fees	<p>Annual Platform Administration Fee</p> <p>0.7% less any rebate (the rebate on PPS Unit Trusts is 0.7% therefore the net annual platform admin fee is zero)</p>
	<ul style="list-style-type: none"> • Initial Unit Trust Fees PPS Unit Trusts – 0% • Annual Management Fees Vary from fund to fund • Performance Fees PPS Unit Trust – 0%
Transactional Fees	<p>No Transactional Fees on:</p> <ul style="list-style-type: none"> • Switching • Withdrawal • Surrender

Commission

The following commission excludes VAT

Adviser Fees	<p>Adviser fees will be negotiated between the client and the adviser and will be deducted on an as-and-when basis</p> <ul style="list-style-type: none"> • Up-front No up-front adviser fees will be payable • On-going 0% - 0.5%
Member Relationship Division Fees	<p>The client can elect to use a Financial Adviser or a Member Relationship Consultant.</p> <ul style="list-style-type: none"> • Initial fee No initial adviser fee will be payable • On-going 0.5%

Guarantees

There are no investment guarantees and the policyholder carries the investment risk.

Withdrawals

- Ad-hoc withdrawals from the Retained SRA is allowed at any time
- The ad-hoc withdrawals are **not** subject to a minimum withdrawal amount
- In the event that all funds have been withdrawn or if the balance in the Retained SRA is zero, the policy will **not** be terminated and therefore the Retained SRA will remain in place.

Death benefits

In the event of the policyholder's death the balance in his/ her Retained SRA will be paid out to the policyholder's nominated beneficiaries. The policyholder may nominate multiple beneficiaries to receive the death benefit.

Taxation

Tax is calculated as per the Four Fund Approach. No tax is payable on withdrawal, death or on cancellation of the Retained SRA.

Cessions

The Retained SRA may not be ceded.

Transfers

No transfers are permitted

Loans

It is not possible to borrow from the Retained SRA

Special Profit Allocation

If a policyholder is the member on record with respect to an investment with PPS Investments and has a Retained SRA he/ she will be entitled to receive a special profit allocation to his/ her Retained SRA.

Articles of Association

A policyholder who has cancelled their SPPI benefits but wishes to keep SRA values invested using the Retained SRA, will remain an ordinary member of PPS Holdco.

Voting Rights

When a member exercises the SRA Retention Option, his/her voting rights will reduce accordingly to one vote and an additional ninety-nine votes, for example a hundred votes in total.

PPS Operating Surpluses and Losses

Once a policyholder has exercised the SRA Retention Option the value of the Retained SRA will only fluctuate in line with the performance of the selected PPS Investments portfolio.

Benefits of the Surplus Rebate Account and SRA Retention Option

Giving back to PPS Policyholders

The operating profits and investment returns generated by PPS each year are distributed back to PPS Insurance policyholders. Over the long term they could be quite significant, for example:

Mr. Y, age 67, PPS policyholder for 39 years

Premiums in 2006	R 15 280
Total Premiums since 1990	R 273 801
Sick Pay received since 1990	R 104 947
Projected Surplus Rebate Accounts as at 31.12.2006	R 924 936

Dr. X, age 66, PPS policyholder for 42 years

Premiums in 2006	R 14 028
Total Premiums since 1990	R 229 357
Sick Pay received since 1990	R 24 648
Projected Surplus Rebate Accounts as at 31.12.2006	R 962 569

Prof Z, age 68, PPS policyholder for 44 years

Premiums in 2006	R 12 565
Total Premiums since 1990	R 150 554
Sick Pay received since 1990	R 124 048
Projected Surplus Rebate Accounts as at 31.12.2006	R 1 119 122

A policyholder is not penalised due to claim history

Interest and bonus allocations each year accumulate annually in the SRA, irrespective of any sickness claims made by the policyholder.

Tax-free Benefits

The balance in the SRA is paid out to the policyholder **tax-free** on retirement and death. The balance after forfeitures is paid out tax free on termination of cover.

Minimising risk nearer to retirement

The SRA has been designed in such a way that portfolio funds may be switched to a more conservative investment portfolio closer to retirement. Thus the policyholder is not placed in a risky position financially when he/she retires.

Additional Savings Opportunity – SRA Retention Option

When a policyholder retires the SRA Retention Option provides the policyholder with an additional savings option, at little cost, which can be used for retirement or another financial goal.

Flexible withdrawal options – SRA Retention Option

PPS accepts withdrawal instructions of any amount. This provides the policyholder with cash in the event of emergencies.

Continuation of Profit Allocations – SRA Retention Option

The contract can continue without the SPPI cover or any other risk cover after retirement age. Thus the policyholder will continue to receive profit allocations from profit generating products like PPS Investments. The policy will remain open-ended.

Cessions

Risk products maybe ceded, but these have no effect on the SRA or the Retained SRA. The SRA and Retained SRA are therefore not put at risk.

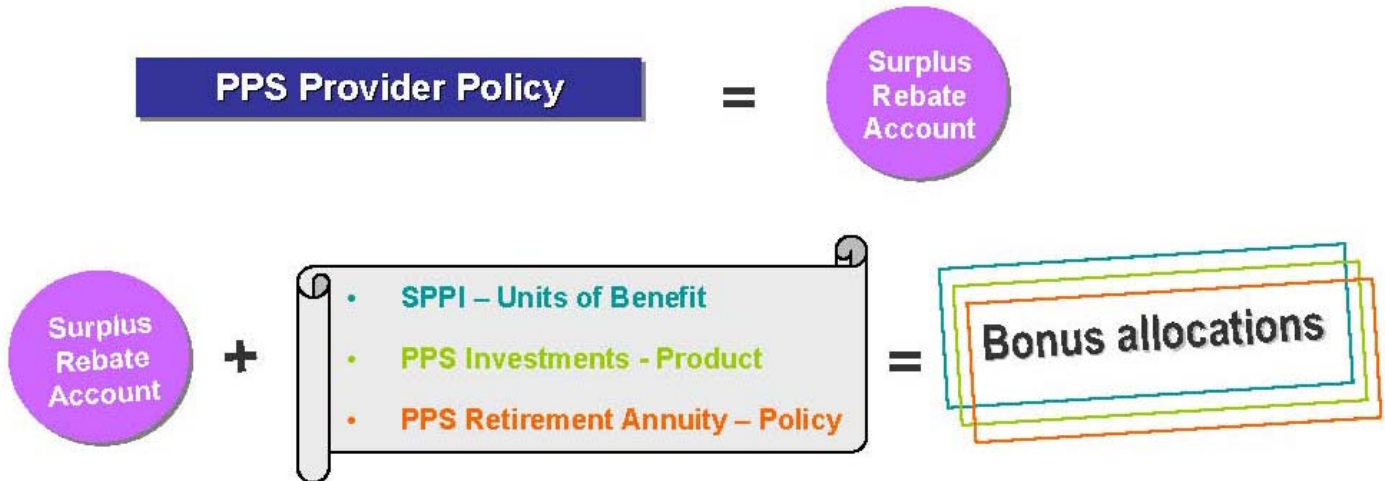
Competitive Fees – SRA Retention Option

No initial or switch charges will be levied for switching into the PPS portfolios.

Note: The appendix at the end of this document will give a graphical representation of the Surplus Rebate Account and the allocations to the Surplus Rebate Account

Graphical representation of the Surplus Rebate Account

The **SRA** will automatically be opened as part of the **PPS Provider Policy** but will remain empty unless the policyholder has at least one of the following:



NO PPS Provider = NO Surplus Rebate Account = NO Bonus Allocations

Allocations to the Surplus Rebate Account

