

Guide to the Withdrawal Process

(in instances other than retirement with pension)

The essence of this guide

Assist employees of Stellenbosch University (SU) with the process of resigning (i.e. leaving for reasons other than retirement), particularly concerning the benefits associated with the University of Stellenbosch Retirement Fund (USRF).

1. Introduction

This guide was compiled to assist members of the USRF ('the Fund') who have decided to leave the employ of Stellenbosch University (SU) before retirement.

It is essential that such employees read the document 'USRF: Guide to the Retirement Process', too, when planning for their retirement.

When employees leave SU, decisions that could influence their long-term financial security are involved. Therefore, employees are advised to consult with a financial advisor for assistance, should they realize that they require professional advice.

2. Background: How does the Fund operate?

The Fund is a defined-contribution fund. This means that contributions are calculated as a fixed percentage of a member's pensionable salary and paid into the Fund on a monthly basis. These contributions are then invested with the aim of earning an investment return. All investment returns, including interest and capital growth, are allocated daily as investment income. The Fund's assets are invested in balanced investment portfolios which includes substantial investments in various asset classes, namely shares, bonds and property. The market value of these assets can be volatile, this implies that the growth on these investments constantly change and could be negative over certain periods.

In addition, as part of cost to company, SU pays monthly contributions (insurance premiums) for the cover of death and disability income benefits.

The Fund's administration expense is paid from these contributions as well. The accumulated contributions made by a member, together with their growth on investment (or loss), represents the relevant SU staff member's Fund credit.

3. Benefit payable upon termination of employment before retirement age

The most important decision that members would need to make when leaving the employment of SU is whether they want to take their withdrawal benefit as a once-off cash payment or, instead, preserve their benefit for retirement, either in the Fund or by transferring the money to another fund.

Withdrawal benefits that are taken in cash are taxable according to the South African Revenue Service (SARS) withdrawal tax table. If members choose to preserve their benefits in the Fund or by transferring the money to another approved fund – either another preservation fund or a retirement annuity fund – the benefit will not be taxed on the date of leaving SU.

4. Retirement benefit counselling

When a member leaves the service of SU before retirement, the Fund's retirement benefit counsellor will contact the member to arrange a face-to-face counselling session to explain the options available to members.

Retirement benefit counselling refers to the disclosure and explanation, in clear and understandable language, of the risks, costs and charges of the Fund options available to members.

In particular, explaining the process, terms and conditions of:

- The available investment portfolios;
- The preservation options available in the Fund;
- The Fund's annuity (pension) strategy;
- Any other options available to members.

Retirement benefit counselling does however **not include advice**, even on tax matters.



5. The options available to members regarding the payment of their Fund benefit are set out below:

5.1 Preserving the benefit in the Fund

Members may elect to leave their withdrawal benefit in the Fund and become a paid-up member of the Fund when leaving the service of SU. With this option, members can take the full amount as a cash lump sum at any stage or leave the money until retirement age. Members can also transfer the money to another approved fund at any stage.

As a paid-up member the following will apply:

- Your fund credit will remain invested in the portfolio that it was in when you left the service of SU and continue to earn investment returns. You will also be able to switch to the other available portfolios from the age of 53;
- You will no longer be able to make contributions to the Fund, but you will still pay administration expenses whilst you are a paid-up member;
- You will not qualify for any risk benefits from the date you leave service of SU;
- In the event of your death, your fund credit will be distributed in terms of Section 37C of the Pension Funds Act;
- You will receive a benefit statement annually.

Please note: If the Fund does not receive an instruction from you on what you want to do with your fund credit, you will automatically become a paid-up member.

5.2 Preserving the benefit outside the Fund

Members may request that their withdrawal benefit be preserved for their eventual retirement outside the Fund. In such instances the benefit must be transferred to another approved fund. The new fund must acknowledge receipt of the transferred value by signing an acknowledgement of receipt (AOR) form. As soon as the Fund has received this form it must request that SARS issue a zero tax directive, which means that no tax is due on the relevant transfer.

The fund to which members may have their benefit transferred must fit into one of the following categories:

The fund of a new employer

Employees who leave SU for another employer that also offers staff a retirement benefit may be entitled to transfer their withdrawal benefit from the USRF to the fund of their new employer. This is, provided that the new fund's rules allow for such transfers.

The benefits that members will have under their new employer's fund, and the options available to them, will ultimately depend on that fund's rules and benefits structure.

Please note that members may transfer their benefit from a provident fund (USRF is a provident fund) to a pension fund without any tax implications but at retirement the member concerned will only be allowed to take up to 1/3 of their benefit in cash and will be obligated to buy a pension with the balance (2/3).

Retirement annuity fund

A retirement annuity fund is an individual policy offered by an insurance company in which the policy holder invests money until he or she decides to retire. Upon retirement, up to one third of the policy value may be paid out in cash. The policy holder must use the balance to buy a pension product, usually with an insurance company or annuity provider. Policyholders may withdraw funds under such policies only once they have reached the age of 55.

SU employees that already have a retirement annuity policy may request that their Fund benefit be transferred to their existing policy. In such instances the name of the retirement annuity policy concerned and the policy number must be clearly indicated on the withdrawal form.

Preservation fund

Preservation funds are established for the purpose of serving as receiver fund for withdrawal benefits. Benefits that are transferred to preservation funds will be invested until the employee concerned decides to retire. A preservation fund takes two forms: preservation pension funds and preservation provident funds. The Fund is a provident fund, therefore SU employees may only select other preservation provident funds when opting to preserve their benefit. Members may not transfer their withdrawal benefit to more than one preservation fund.

The Fund members who are invested in a preservation provident fund have the choice to either receive their full retirement benefit in cash (as a lump sum payment) or to use a portion of their benefit to buy an external pension at retirement.

A unique feature of preservation funds is that members are allowed to make one withdrawal before the date of their actual retirement. It should however be noted that such withdrawals are taxable.

Which fund?

Factors to consider when choosing a preservation fund to which your Fund withdrawal benefit is transferred:

- What are the long-term risks that the concerned employee is willing to incorporate into their retirement planning?
- Would the employee want access to their funds before retirement to provide for emergencies?
- How much flexibility and choice does the employee want?
- What are the costs involved?

5.3 Cash benefit

Members who decide to receive their full withdrawal benefit in the form of a once-off cash payment will be taxed according to the prescribed SARS tax withdrawal table. Refer to SARS Website to see the latest tax withdrawal table.

SARS determines the amount to be deducted as tax. Once the administrators of the Fund have calculated the benefit, they must apply for a tax directive. The balance of the benefit amount (i.e. that remains after tax, as per the directive has been factored in) will be paid over to the member. Members whose tax affairs are not in order or up to date will encounter delays in the payment of their Fund benefit.

The administrators of the Fund, are obliged to deduct the tax payable from members' benefits and pay the nett benefit to the member concerned.

Tax payable will be deducted from Fund benefits and will automatically be paid over to SARS. The member will receive a tax certificate from the administrators as proof that the tax due was indeed paid. The withdrawal claim form that members have to complete has a section for their personal banking details. The money will then be paid directly into the account indicated on the form.



6. A financial advisor

Employees may benefit from talking to a financial advisor before deciding into which fund or in what form they would like to receive their withdrawal benefit.

The Fund offers members the option to see an advisor of one of the five preferred financial advisor firms to assist them with their financial planning, at their own cost for members younger than age 53 and at the Fund's cost for members 53 and older.



7. Questions & Answers

How should employees inform the administrators of the Fund of their prospective withdrawal from the Fund?

Employees who leave the University's employ must complete the SU's prescribed resignation form, the form can be requested from

the Human Resources Division (HR). After having received the resignation form, HR must then send an instruction for handling the withdrawal benefit to the administrators of the Fund.

What will happen after an employee has completed the resignation form?

If an employee selects to preserve their benefit in the Fund, they will become a paid-up member of the Fund and the administrator will provide such members with a paid-up certificate.

Should the employee select to transfer their benefit to another fund or take a portion or the entire amount in cash, the administrators of the Fund will process the payment of the withdrawal benefit as efficiently as possible, but only after the following procedures have been completed:

- the resignation form has been completed;
- the employee has indicated to which fund the withdrawal benefit must be transferred (if they chose to preserve the benefit); and
- the administrators have calculated the benefit, among other things by adding the investment income that the Fund member has earned and by subtracting the tax directive issued by SARS.

When can an employee expect to receive their withdrawal benefit?

The administrators try to pay out withdrawal benefits within 10 working days of receipt of all the necessary information, including the tax directive.

May employees receive part of the withdrawal benefit as a once-off payment and have the balance transferred to a preservation fund?

Yes, the above is allowed.

May employees receive a part of the withdrawal benefit as a once-off payment and preserve the balance in the Fund?

No, this is not currently allowed in terms of the SARS Income Tax Act.

May part of the withdrawal benefit be ceded to a third party?

No; the Pension Funds Act prohibits cession of any part of withdrawal benefits to third parties.

If the withdrawal benefit is paid out late, will any interest accrue to it?

Yes; investment income/returns are allocated up until the withdrawal date.



8. Conclusion

It can be tempting for you to spend their withdrawal benefit on a new vehicle or a holiday. Remember, your Fund benefit forms a determining element of your future (retirement) financial security. Therefore, the USRF would advise members to preserve their withdrawal benefit with the view of providing better financial outcomes for retirement. The Fund also advises that members obtain the advice of a trustworthy financial advisor on how to invest their benefit with retirement in mind.

NOTE

This guide does not constitute a complete, comprehensive document. Instead, it was compiled to address some of the most important aspects regarding resignation from SU's employ.

The guide is updated from time to time, but it may happen that at some specific time it is not fully aligned with legislation or SU policy. A financial advisor will be available to inform staff about the latest changes in legislation.

The guide describes various benefits offered under the Fund. The benefits that the Fund affords its members are set out in the registered Rules of the Fund. This guide was compiled with the greatest care to ensure that it reflects the rules accurately. Should any contradictions occur, the Fund Rules prevails.