



## UNIVERSITEIT VAN STELLENBOSCH AFTREDEFONDS

### In-fund living annuity: Questions and answers

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In July 2015 the National Treasury issued draft regulations on default strategies to be implemented by all funds. Once the regulations have been finalised, all retirement funds will, among other things, be required to have a default annuity strategy for retiring members. The Board of Trustees of the Universiteit van Stellenbosch Aftredefonds (the Fund) has pre-empted these requirements and has decided to introduce cost-effective in-fund living annuities from 1 January 2017. The Fund offers a **Trustees' Default option** and a **Customised option**.

The following questions and answers should provide you with most of the information you require.

1. **What is the difference between the Trustees' Default and the Customised annuity options?**

The design of the **Trustees' Default option** is based on the draft regulations published by the National Treasury in July 2015. The **Trustees' Default option** is cost effective, simple to administer and communicate and requires very little effort from you, the retired member. It is also designed to be sustainable, i.e. to ensure that your capital does not run out during your retirement. The investment strategy is defined as moderate and is designed to manage risk and volatility in investment returns. You can draw a fixed percentage of the retirement capital as a monthly pension. This percentage will automatically change every five years at the anniversary date of your retirement (at ages 65, 70, 75, etc.).

The **Customised option** offers retiring members flexibility. You may invest in any combination of the Fund's five investment portfolios (Growth, Capital Protection, Aggressive Absolute Return, Conservative Absolute Return, Hedging against Interest Rate Fluctuation). You are also allowed to select a withdrawal rate within the limits applicable to your age band. The withdrawal rate is expressed as a percentage, which you may change every year at the anniversary date of your retirement.

2. **May I change from the Trustees' Default to the Customised option, and vice versa?**

Yes, you may.

**3. What investment options are available if I choose the Trustees' Default option and when will they take effect?**

If you have chosen the **Trustees' Default option**, you do not have to make any specific investment selection. Your pension will be recalculated every year in the month following the anniversary date of your retirement.

You may at any stage convert to the **Customised option**.

**4. What investment options are available if I choose the Customised option and when will they take effect?**

If you have chosen the **Customised option** when you bought your in-fund living annuity or if you changed from the **Trustees' Default option** to the **Customised option** you have a fair amount of flexibility regarding investment portfolios.

You may split your investment between the Fund's Growth, Capital Protection, Aggressive Absolute Return, Conservative Absolute Return, and Hedging against Interest Rate Fluctuation portfolios.

- You may change this investment instruction as often as you like.
- You may change your withdrawal rate (within the limits set for the **Customised option**) once a year, on the anniversary date of your retirement.
- You may appoint a financial adviser from the Fund's panel of preferred service providers. In this case, the Fund will see to it that the adviser's fee is deducted from your assets up to a maximum of 0.50% (including VAT) per annum. You may also appoint your own financial adviser, in which case you are responsible for paying the advice fees. However, it is not compulsory to appoint a financial adviser.
- You may at any stage choose to stop your participation in the in-fund living annuity and to transfer your remaining retirement capital to another approved retirement instrument (e.g. another living annuity or assurance company).
- You may convert to the **Trustees' Default option** upon the anniversary date of your retirement.
- If your retirement capital balance reaches a certain minimum level, as determined by law, you may apply to have the full remaining balance paid out to you as a lump sum in cash.

**5. How much will I receive as a monthly pension?**

This will depend on the percentage you draw every month from your retirement capital. This percentage is also called the withdrawal rate.

Table 1 sets out the withdrawal rates that apply to each investment option, expressed as a percentage (%) of invested assets.

**Table 1: Withdrawal rates per investment option, as a percentage of investment assets**

Age band	Trustees' Default option withdrawal rate for males	Trustees' Default option withdrawal rate for females*	Customised option withdrawal rate range for males and females
55 to 59	4.0%	3.5%	2.5% to 7.0%
60 to 64	4.4%	3.8%	2.5% to 8.0%
65 to 69	4.9%	4.2%	2.5% to 9.0%
70 to 74	5.6%	4.7%	2.5% to 10.0%
75 to 79	6.3%	5.2%	2.5% to 12.0%
80 to 84	7.3%	5.8%	2.5% to 15.0%
85 and older	8.7%	7.0%	2.5% to 17.5%

\* The withdrawal rates for females are lower because females have a longer life expectancy than males.

- If you elect the **Trustees' Default option**, the percentage is specified and automatically increases every five years (at ages 65, 70, 75, etc.). The new withdrawal rate is implemented on the first day of the month after the anniversary date of your retirement.

*Example:* You are male and retire at age 65 with R2 000 000 retirement capital and you choose to transfer the full amount to the Fund's living annuity pool. In the **Trustees' Default option** you will start with a monthly pension of R8 166.67 (i.e. 4.9% of capital paid out monthly).

*Example:* You are female and retire at age 65 with R2 000 000 retirement capital and you choose to transfer the full amount to the Fund's living annuity pool. In the **Trustees' Default option** you will start with a monthly pension of R7 000 (i.e. 4.2% of capital paid out monthly).

- If you opt for the **Customised option**, you may choose your own percentage from a range applicable to your age band. You may change your withdrawal rate once a year on the anniversary date of your retirement.

*Example:* You retire at age 65 with R2 000 000 retirement capital and you transfer the full amount to the Fund's living annuity pool. In the **Customised option**, you may choose between 2.5% and 9% of your retirement capital as a monthly pension. This means that your starting pension may range between R4 167 and R15 000 per month.

**6. What are the costs if I choose the in-fund living annuity (figures as at September 2016)?**

First, your fund credit that is transferred to the Fund's living annuity pool on your retirement is invested in institutionally priced rather than individually priced portfolios. This means the investment management fees will be very favourable – the fees are priced for a Fund and for not an individual member. The investment fee for the **Trustees' Default option** is 0.855% (including VAT) per annum of your fund credit.

The administration fee is 0.10% (including VAT) per annum of your assets, capped at an asset value of R4 000 000.

You have the option to obtain financial advice from one of the Fund's preferred service providers. The maximum advice fee which the Fund will deduct on behalf of the adviser is 0.50% (including VAT) per annum of your assets. If you use your own financial adviser, you are responsible for paying the advice fees.

Table 2 provides a breakdown of the fee structure for the **Trustees' Default option**. The total base fee is expressed as a percentage (%) of the assets invested.

**Table 2: Fee structure of the Trustees' Default option**

Assets invested	Monthly administration fee (including VAT)	Monthly investment fee (including VAT)	Maximum monthly financial advice fee (including VAT)	Maximum total base fee (per annum including VAT)	Maximum total base fee excluding financial advice (per annum including VAT)
	R	R	R	%	%
R1 000 000	R 84	R 713	R 417	1.455%	0.955%
R2 000 000	R167	R1 425	R 833	1.455%	0.955%
R3 000 000	R250	R2 138	R1 250	1.455%	0.955%
R4 000 000	R333	R2 850	R1 667	1.455%	0.955%
R5 000 000	R333	R3 563	R2 083	1.435%	0.935%

**7. As an in-fund annuitant, where is my retirement capital invested?**

- If you have chosen the **Trustees' Default option**, your capital is invested in a 50/50 mix between an aggressive and a conservative absolute return multi-managed portfolio. Your monthly income and the operational expenses will be paid proportionally from the two portfolios.
- If you have chosen the **Customised option**, you may choose where your retirement capital must be invested, i.e. you may choose any combination from the following portfolios:
  - Growth Portfolio
  - Capital Protection Portfolio
  - Aggressive Absolute Return Portfolio
  - Conservative Absolute Return Portfolio
  - Hedging against Interest Rate Fluctuations Portfolio.

You also choose from which portfolio your monthly income and operational expenses must be paid.

Fact sheets on the above portfolios will be made available on the Fund's portal, Retirement Fund Web, at [www.retirementfundweb.co.za](http://www.retirementfundweb.co.za).

**8. Will I be allowed to change my investment selections and, if so, how often?**

If you have chosen the **Trustees' Default option** you cannot switch between investment options.

If you have chosen the **Customised option**, you may invest in any combination of the Fund's five investment portfolios (Growth, Capital Protection, Aggressive Absolute Return, Conservative Absolute Return, Hedging against Interest Rate Fluctuation). You are also allowed to switch between these five options. You may switch as often as you require.

A switching fee will be levied from the 2nd investment switch received in a fund year (1 January to 31 December). The switching fee is R476 (including VAT) (September 2016) and is reviewed every year. The switching fee is paid from your assets held in the Fund.

**9. Will I be allowed to transfer money from other retirement vehicles to my in-fund living annuity retirement (e.g. from a private retirement annuity)?**

No, only the retirement benefit originating from the Fund can be transferred to the in-fund living annuity. However, members of the Fund may consolidate other approved fund monies (e.g. from a preservation fund) in the Fund before they retire.

**10. On which date will my monthly pension be paid?**

Your monthly pension payment will be made on the 25th of every month. Please note that you must send all the required documents to the fund administrator by your retirement date to ensure

that your first monthly pension amount can be paid by the 25th of the month after your retirement. If the documentation is not received by your retirement date, the payment cannot be made.

**11. Will I receive a pension increase every year?**

A living annuity pays a percentage of your retirement capital as a monthly pension. The amount remains fixed for 12 months before it is reviewed in line with the withdrawal rate you have chosen and the capital available.

*Example:* A male member retires at age 65 with R2 000 000 retirement capital and chooses to transfer the full amount to the in-fund living annuity pool. The member has chosen the **Trustees' Default option** withdrawal rate. The retiring member starts by drawing 4.9% of his capital in the first year (R8 166 per month). The withdrawals are funded by the return on the invested capital. If during that year the investment return is 10%, it means the retirement capital in the living annuity pool will stand at R2 102 000 at the end of that year. During the next year (i.e. age 66) the monthly pension will be R8 583.17, i.e. 4.9% of R 2 102 000.

**This means that the difference between the withdrawal rate and the investment return earned will be the next year's increase, in this case  $10\% - 4.9\% = 5.1\%$ .**

The effect of inflation must also be borne in mind. If inflation during the first year was 5%, it means that the increase (of 5.1%) is equal to 102% of inflation.

**It is important to understand that a negative increase is also possible, i.e. when the preceding year's withdrawal rate was higher than the investment return earned during the same period, the remaining capital would have been reduced by the withdrawals instead of increasing.**

*Example:* A male member retires at age 65 with R2 000 000 retirement capital and chooses to transfer the full amount to the in-fund living annuity pool. The member has chosen the **Trustees' Default option** withdrawal rate. The retiring member starts by drawing 4.9% of his capital in the first year (R8 166 per month). The withdrawals are funded by the return on the invested capital. If during that year the investment return is 3%, it means the retirement capital in the living annuity pool will stand at R1 962 000 at the end of that year. During the next year (i.e. age 66) the monthly pension will be R8 011.50, i.e. 4.9% of R1 962 000.

**12. On which date will my monthly pension change?**

For the **Trustees' default option**, your pension will change in the month after the anniversary date of your retirement.

For the **Customised option**, you may change your withdrawal rate on the anniversary date of your retirement. The capital value and your withdrawal rate determine how much you receive per month.

**13. What is the minimum amount that can be “invested” in the in-fund living annuity?**

The minimum amount that can be invested in the in-fund living annuity is R247 500.

The Board of Trustees will review the minimum from time to time.

**14. Will I pay income tax on the part of my retirement fund capital that I transfer to the living annuity pool of the Fund?**

No, the transfer to the in-fund living annuity pool is a tax-free transaction.

**15. Will I pay income tax on the income received from the in-fund living annuity?**

Yes, this is a taxable income like any other pension.

**16. How do I know that my retirement capital will not run out?**

The withdrawal rate for the **Trustees’ Default option** is set at a level that aims to prevent this (e.g. 4.9% for males and 4.2% for females at age 65, increasing every 5 years (at ages 65, 70, 75, etc.)). More importantly, the capital is invested in a portfolio structure that aims to earn real investment returns.

**Although the withdrawal rates of the Customised option are also designed to prevent your capital from running out, this risk is higher in the Customised option.**

The Board is required to monitor the sustainability of all in-fund annuitants’ pensions. If the Fund finds that an annuitant may run out of retirement capital, the Fund is required to communicate with the affected member.

**17. How do I know that my retirement capital is safe in the Fund?**

All investments of the Fund are governed by the Pension Funds Act and regulation 28 in particular. As the Fund is a defined contribution fund, the Fund’s Trustees spend most of their time and effort on managing the Fund’s investments to the best of their ability. This includes, among other things, constant communication with members to keep them informed and manage their expectations.

**18. As an in-fund annuitant, what happens when I die?**

When you die, the value of your remaining retirement capital becomes payable. This payment is governed by section 37C of the Pension Fund’s Act and involves a formal payment of the benefit to your dependants and/or beneficiaries on a basis as agreed to by the Board of Trustees.

Every year the Fund will ask you to complete and return a confidential beneficiary nomination form. On this form you express your wishes on how the benefit must be allocated. It is important to note that the final decision rests with the Board of Trustees.

After the Trustees have decided how your benefit will be allocated, your spouse may select one or more of the following options:

- take the amount allocated to her/him as a lump sum (subject to prevailing taxation of lump sum benefits) OR
- continue with the in-fund living annuity OR
- a combination of the two options above.

Allocations to other dependants will be paid as a lump sum (also subject to taxation).

The Fund will levy a fee to determine the socio-economic circumstances of your dependants and/or beneficiaries at the time of your death. This investigation is required by section 37C of the Pension Funds Act. The investigation fee will be deducted from the remaining retirement capital and will be equal to the cost incurred.

**19. May I stop my in-fund living annuity?**

Yes, on condition that the money is transferred to another approved pension-generating vehicle (e.g. another living annuity or assurance company) and an indemnity is provided to the Fund.

This process is expected to take at least six months because the transfer needs to be approved by the Registrar of Pension Funds (in accordance with section 14 of the Pension Funds Act). The remaining retirement capital may only be transferred once the Registrar has given approval. While the approval is outstanding, the Fund will continue to pay your monthly pension to you.

Two sets of fees are payable when a member decides to stop the in-fund living annuity:

- The Fund will ask a fee for drafting a formal application to transfer out of the in-fund living annuity and for submitting it to the Registrar. This fee will be recovered from your remaining retirement capital to be transferred out of the Fund and is currently estimated at R2 000 (including VAT) (September 2016).
- A fee must be paid to the Financial Services Board for submitting the application to the Registrar. This fee will also be deducted from the amount that will be transferred and is currently R210 (September 2016). These fees are reviewed by the Financial Services Board from time to time.

**20. How do I know how much retirement capital I have left at any stage?**

While you were a contributing member of the Fund, you were able to access the administrator's system via the Fund's electronic portal at [www.retirementfundweb.co.za](http://www.retirementfundweb.co.za) to obtain the value of your fund credit at any point. You will still be able to do this, i.e. track the movement in the value of your retirement capital via the portal, while you receive your monthly pension from the in-fund living annuity.

Once a year you will also receive a statement from the fund administrator, confirming the value of your retirement capital on a particular date.

**21. May I apply for the total value of my investment in the in-fund annuity to be paid in cash?**

No, once you have opted for an in-fund living annuity you cannot opt for a cash payment. The Fund's rules only allow for a payment in cash once your fund credit drops below a certain amount. This applies to the **Trustees' Default option** and the **Customised option**. This arrangement is guided by income tax legislation and is referred to as the *de minimis* rule, which applies to the commutation of pensions when a pension can be paid as a cash lump sum.

**22. Will I receive a monthly pension statement?**

Yes, a statement confirming your monthly pension, fund-related deductions according to the Fund's rules, income tax deductions, etc. will be sent to you.

**23. Will the Fund deduct my medical aid or any other contributions from my monthly pension?**

No deductions, other than those specified in the Fund's rules, will be allowed. You will have to arrange with your bank to deduct your medical aid, insurance and other monthly contributions from your banking account via debit order.

**24. When does the option to become an in-fund living annuitant expire?**

The option to become an in-fund living annuitant is available to all members at retirement. However, if you have already chosen to take a cash retirement benefit and/or you have opted to buy a pension outside the Fund, you cannot at a later stage return to exercise this option. The decision to enter the Fund's living annuity must be part of the benefit payment instruction at retirement.

As mentioned earlier, you can opt out of the in-fund living annuity at any time in the future. But you cannot return to the in-fund living annuity after you have exited the Fund and your benefits have been paid out to you.

**25. What forms of communication can I expect to receive from the Fund?**

**Monthly**

Every month you will receive a pension statement reporting your gross pension and relevant deductions.

**Annually**

Once a year you will receive:

- a benefit statement explaining your benefits
- a confidential beneficiary nomination form to fill in
- a certificate of existence to confirm your personal details.

The Fund will keep your **nomination form** on record. This form contains the names of your dependants and beneficiaries and tells the Trustees how you would like your benefits to be allocated in the event of your death.

The **certificate of existence** is a routine document to confirm your personal details. The Fund must receive this document to continue paying your pension.

### **From time to time**

You can also expect to receive ad hoc communication about investments.

### **Internet access**

We encourage you to regularly visit the Fund's portal to keep yourself informed: [www.retirementfundweb.co.za](http://www.retirementfundweb.co.za).

## **26. May I appoint a financial adviser to help me with all my options?**

It is not compulsory to appoint a financial adviser, but you may do so if you wish. You have two options:

- You may use a financial adviser from the Fund's panel of preferred service providers. In this case, the advice fee will be limited to 50 basis points (0.50% including VAT) per annum of your assets. The Fund will deduct the fee from your capital and pay it over to your financial adviser.
- You may appoint your own financial adviser. In this case, the Fund will not deduct and pay over the advice fee. The fee arrangements between you and your financial adviser are your responsibility.

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