USAF

Universiteit Stellenbosch AFTREDEFONDS | Stellenbosch University RETIREMENT FUND

Guide to the Retirement Process

The essence of this guide

Assist employees of Stellenbosch University (SU) with the process of retirement, particularly concerning the benefits associated with the University of Stellenbosch Retirement Fund (USRF).

1. Introduction

Before your retirement, you need to make important decisions about your financial future that will determine what your retirement years will look like. This guide was compiled to help you make informed decisions regarding the University of Stellenbosch Retirement Fund ('The Fund').

Please read through it carefully and consult a financial advisor if you need any further assistance. If you are over 53, you may also make an appointment at the University's Division Remuneration and Benefits (DRB) for a free session with one of the USRF's approved financial advisors.

2. Background: How does the Fund work?

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 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. Retirement age

The normal retirement age is 65 (i.e. you have to retire on 31 December of the year in which you turn 65) or as stipulated in your employment contract.

Deciding at what age you want to retire is important. Your fund credit, together with any other funds that you may have saved up for your retirement, must be sufficient to support you during your retirement years. The later you retire, the larger your fund credit will be.

NORMAL RETIREMENT AGE
65

- You have to retire on 31 December of the year in which you turn 65
- or as stipulated in your employment contract

4. Retirement benefit

When you retire, you have the choice to take the full fund credit amount in cash or to use the full amount or a portion of it to buy an annuity (pension). The Fund's administrators calculates your fund credit. The administrator must be informed of what portion of your benefit you want to withdraw in cash, and in what annuity product (if any) you want to invest the balance of your fund credit.

If you want your retirement benefit – whether in part or in full – paid out in cash, tax is payable according to the South African Revenue Services (SARS) retirement tax table. If you have already benefited from this tax reduction, you have to pay tax on the full amount of the payment. The balance of the retirement benefit (if any) or the full benefit may then be transferred to the annuity provider of your choice, who will purchase the pension product that you have chosen. From that point onwards, you will receive a monthly income from the annuity you bought. The monthly pension amount is taxable.

The next section explains in more detail how your retirement benefit is calculated.

4.1 Early retirement

If you retire between the age of 55 and your normal retirement age, your retirement benefit will consist of the amount of your fund credit which includes a portion of your accumulated USRF Retirement Reserve Account (RRA) amount (if RRA applies). The RRA amount will be calculated proportionally according to the period that has elapsed since your entering into SU's employ compared to the total period of employment, which includes potential employment up to and including 60 years of age.

4.2 Normal retirement age

If you retire at age 60 or later, you will receive your full fund credit plus your full RRA (if applicable) as a retirement benefit.

The most important decision you need to take upon leaving the Fund is whether you want to receive your retirement benefit as a cash lump sum, or use it to buy a monthly pension instead.

The next section sets out in more detail the different options regarding the withdrawal of retirement benefits.

5. Retirement benefit counselling

From 1 March 2019, the Fund offers face-to-face retirement benefit counselling to members before they retire from the Fund.

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.

Before your retirement date, the Fund's retirement benefit counsellor will contact the member to arrange a face-to-face counselling session to explain the options available. Within six months of a member's normal retirement date, the retirement benefit counsellor will send the member a retirement information document. It will explain the Fund's annuity strategy and the importance of each building block and the options offered by the Fund. The document will contain illustrative quotations for an inflation-linked annuity from four preferred service providers, namely Old Mutual, Momentum, Sanlam and Just SA, as well as illustrative drawdown rates of the in-fund living annuity.

The Retirement Benefit Counsellor will contact the member to arrange a face-to-face counselling session to provide factual information and to explain the Fund's retirement information document. The retirement benefit counsellors may not give financial advice. The Fund offers members the option to see an advisor of one of the five preferred financial advisor firms to assist them with their final choices at retirement.

6. Options available at retirement

6.1 Defer retirement from the Fund i.e. take your retirement benefit at a later stage, if you plan to pursue a second career after your retirement from SU.

If you defer your retirement from the Fund you will become a deferred retiree.

- In this case your money will remain invested in the same portfolio in the Fund until such time that you choose to retire from the Fund. You will however be able to make investment choices and switch your investments before retirement date.
- You will be able to make further contributions if you are employed by SU on a temporary basis and the contributions are deductible via payroll.
- If you pass away while being a deferred retiree, the provisions of Section 37C of the Pension Funds Act will be applied. The trustees will therefore make the decision regarding the allocation of the death benefit, taking your beneficiaries and nominees on your beneficiary nomination form into account.
- The approved life cover (spouse and children pension) will cease.
- Note that if you become a deferred retiree, you should keep the Fund informed of your contact details so that the Fund can continue to communicate with you.
- It is important to keep your beneficiary nomination form up to date. If you want to change your nominees you can request a nomination form from Human Resources Client Service Centre and send them the new nomination form. You can contact them on:

021 808-2753

sun-e-hr@sun.ac.za

6.2 Transfer your retirement benefit to a retirement annuity fund.

6.3 Take a portion in cash and buy an annuity (pension).

When you retire, you have the choice to take the full fund credit amount in cash or to use the full amount or a portion of it to buy an annuity (pension).

USRF Credit Amount
Full / or Portion

Buy an annuity

You can purchase the following annuities:

6.3.1 LIFE OR GUARANTEED ANNUITY

A guaranteed annuity is a contract between you and the insurance company under which the insurer undertakes to pay you a regular monthly pension for the rest of your life in exchange for you paying a set once-off amount to the insurer. Considering that the pension payments continue for the duration of your lifetime, the insurer takes on the risk if you live long after having retired. Thus, this type of annuity protects you from exhausting your retirement capital.

The Fund does not guarantee the amount of this monthly income, because the monthly pension amount depends on the following factors:

- the value of your retirement benefit under the Fund;
- what portion of your benefit you have used to buy a pension product; and
- the benefits that the specific insurance company offers.

Insurers consider many factors when calculating the monthly amount that you will receive. These factors are set out briefly below. It is recommended that you discuss the factors in greater detail with a financial advisor.

YOUR AGE

Insurers require a larger initial amount from a younger person in comparison to an older person in order to offer a similar pension level. That is because a younger person is expected to live longer post retirement, in which case the insurer expects to make more pension payments. Therefore, an older person can buy a larger monthly pension with the same capital amount.

PROVISION FOR YOUR SPOUSE

You can arrange for pension payments to continue after your death, in which case it will be paid to your spouse or another person you have nominated. Insurers set a higher asking price for a pension product that provides for a spouse or other beneficiary, as there is an expectation that they will have to pay this type of pension for a longer period. So if you want to take such a pension product, you will be able to buy a smaller monthly pension with the same amount. You will, however, have peace of mind that you have provided for the financial care of your spouse or another dependant after your death.

INCLUSION OF A GUARANTEED PAYMENT PERIOD

If you are unmarried, or have not provided for a pension for a spouse and you die shortly after your retirement, your pension payments will stop or reduce. You could consider including a guaranteed payment period in your pension contract. The most common guaranteed periods are five and ten years.

For example, if your pension is guaranteed for five years and you die two years after having retired, your full pension will be paid for the remainder of the five-year period to your nominee or estate.

A pension product that provides for a guaranteed period will cost somewhat more than one without it. You must therefore decide whether a guaranteed period is important to you.

PROVISION FOR PENSION INCREASES

Inflation will reduce the buying of your pension amount each year if it does not increase annually. For example, prices may rise by 6% per year, yet your pension remains unchanged. After approximately 12 years, you will be able to afford only half of what your pension could buy when you retired. Therefore, it is vitally important that you provide for pension increases through your life annuity. Pension products can provide for pension increases in various ways. A financial adviser will be able to advice you on this.

A pension that does not provide for sufficient future increases will therefore deliver greater income in the early years of your retirement, but as you grow older, your standard of living will be dramatically weakened.

6.3.2 LIVING ANNUITIES

This type of annuity works as follows:

- Your lump sum is invested in an investment portfolio of your choice, which is linked to the living annuity.
- Once a year, you decide what level of income you want to withdraw from this investment portfolio. It must be between 2,5% and 17,5% of the market value of the investment.
- The difference between the amount that you withdraw from the investment and the return that the investment has earned is reinvested to allow the investment portfolio to continue growing. Thus, the smaller your annual withdrawal, the larger your investment portfolio will become.

Living annuities are sophisticated products and they carry certain risks which includes but is not limited to the following:

- If your initial withdrawals are too high, inflation will overtake the buying power of your investment portfolio.
- You might use up your entire pension before you die.
- You carry the full investment risk regarding the investment portfolio yourself.

You will need expert advice to decide on a suitable living annuity product, the level of the annual withdrawal and best investment strategy. If you are interested in purchasing such a product, please consult a financial advisor.

6.3.3 IN-FUND LIVING ANNUITY (DEFAULT OPTION)

The Fund's in-fund living annuities offer a seamless transition from contributing member to pensioner. If you elect to participate in the in-fund living annuities you don't have to leave the Fund on retirement. The amount you saved for retirement as a member of the Fund and that is not taken as a cash lump sum, is used to buy you a monthly pension. The Fund offers a default as well as a customised option for living annuities. The default option represents the Board of Trustees' view of the best option for the average member, withdrawal rates are fixed and no investment choice is allowed. In contrast, the customised option offers investment choice and more flexibility in terms of withdrawal rates.

The withdrawal rates are as follows:

Age Band	Trustees' Default Option Withdrawal Rate for Males	Trustees' Default Option Withdrawal Rate for Females	Customised Option Withdrawal Rate Range for Males & Females
55 - 59	4.0%	3.5%	2.5% to 7.0%
60 - 64	4.4%	3.8%	2.5% to 8.0%
65 - 69	4.9%	4.2%	2.5% to 9.0%
70 - 74	5.6%	4.7%	2.5% to 10.0%
75 - 79	6.3%	5.2%	2.5% to 12.0%
80 - 84	7.3%	5.8%	2.5% to 15.0%
85 and older	8.7%	7.0%	2.5% to 17.5%

The features of the trustee default in-fund living annuity are:

- A minimum amount of R247 500 is required.
- The administration fee is 0.1% per annum of your assets, capped at an asset value of R4 million.
- The investment base fee is 0.85% per annum.
- You can switch between the trustee default and customised options at any time.
- Upon death of the annuitant, the benefits will be distributed according to Section 37C of the Pension Funds Act. A spouse can continue with the in-fund living annuity.
- You can opt-out of the in-fund living annuity at any time and transfer the benefit to an approved life or living annuity at another approved provider in terms of section 14 of the Pension Funds Act.
- You cannot transfer money into the Fund from other approved funds at or after retirement date.

6.4 Take your full retirement benefit as a cash lump sum

You may request that your retirement benefit, either in full or in part, be paid out as a lump sum in cash. That is to say, you may decide to withdraw less than the full benefit in the form of a lump sum payment. You may even request that no lump sum be paid out, choosing instead to use your full retirement benefit to buy a post-retirement pension product. In that case, the amount of your monthly pension will be larger.

Please keep in mind that you must pay tax on any portion of your retirement benefit that you withdraw as a lump sum. The tax on this amount is calculated according to the SARS retirement tax table. Refer to the SARS website to see the latest retirement tax table.

Please ask a financial advisor for more information about this sliding scale, and how much tax you will pay according to the specific lump sum which you might consider taking. The advisor needs to be informed about all other provisions for retirement that you have made, in order to allow him or her to offer you accurate advice. The administrators of the Fund are obliged to deduct this tax directly from your lump sum payment, and pay out only the nett benefit to you.

The Fund can only do the payment after SARS has issued them with a tax certificate. If your tax affairs are in arrears (e.g. because your tax return are not up to date), SARS may withhold the tax directive, which will delay the payment of your retirement benefit.

7. Financial advice

You may benefit from talking to a financial advisor before deciding which annuity product you want to buy or how you want to structure the withdrawal of your retirement benefit. It follows that the choice of a financial advisor is an important decision in itself.

The Fund has contracted five firms of financial advisors whom the Fund's members may consult. This advisory service is free of charge for members of 53 years or older. In particular, members who are considering early retirement and want to exercise individual investment choice, are encouraged to make use of the advice service.

The panel of preferred service providers comprises of:

- **Alexander Forbes Financial Planning Consultants:**
- +27 (0) 21 809 3750 / wesselsw@aforbes.co.za
- **Efficient Wealth:**
  +27 (0) 21 914 8030 / martin@efw.co.za
- **Finfocus:**
  +27 (0) 21 861 7000 / usafadvies@finfocus.co.za
- **Graviton:**
  +27 (0) 21 883 9192 / arissik@gravitonwm.com
- **Sanlam Financial Advice:**
  +27 83 375 9831 / hanlie.wethmar@sanlam.co.za

The Fund will pay for two consultations with any of the preferred service providers. The first consultation may be scheduled any time from age 53, and the second one in the 12 - months prior to retirement.

Using the benefit is easy – just follow these steps:

1. Select a service provider.
2. Make an appointment with your chosen service provider and take the voucher as proof that you are entitled to use the service.

3. Contact HR Client Services Centre (+27 (0) 21 808 2753 / sun-e-hr@sun.ac.za) to obtain a consultation voucher.

You may request that an advisor disclose the level at which they earn commission.

8. Questions and Answers

8.1 How must I go about informing the administrators that I intend to retire in accordance with the Fund's stipulations?

Ensuring that your retirement benefits and instructions be in place on the date when you retire requires at least two month's notification to HR of your intent to retire. At that point you will be requested to complete a retirement claim form. HR will submit it to the administrators of the Fund. You have to indicate clearly on the retirement form what portion (if any) of your retirement benefit you want to withdraw in cash. Also, you need to provide information about the annuity product (if any) on which you want to spend the balance of your benefit, as well as your financial advisor's details.

8.2 If my retirement benefits are not paid at the required time, will I earn income on the amount?

Yes. Investment return is allocated up until the date of payment.

8.3 When can I expect to receive my retirement benefit?

The administrators try to pay out retirement benefits within six to eight weeks after the last day of service, provided that the following procedures have been completed:

- retirement claim form completed in full and checked by HR;
- information supplied about the annuity product for which funds must be paid over (if you have chosen to buy an annuity product);
- calculation by the administrators of the retirement benefit, which will include the investment return that has been earned; and
- tax directive issued by the local tax office.

The most common reasons for delayed payment of benefits are that the claim form is incomplete or that SARS refuses to issue a tax directive because of issues regarding the tax returns of the employee concerned.

9. Conclusion

When planning for retirement, it is important that you consider how much your monthly living expenses add up to, because you have to ensure that your pension will be able to at least cover these expenses. In addition, you should ensure that your pension will grow, with a view to protect yourself against inflation. The aim is that your pension payments will continue for the remainder of your lifetime, as well as for that of your spouse, if he or she is financially dependent on you.

NOTE
This guide does not constitute a complete, comprehensive document. Instead, it was compiled to address some of the most important aspects regarding retirement 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.