University of Stellenbosch Retirement Fund (USRF): Guide to the Retirement Process

Reference number of this document	RM0378
HEMIS classification	
Aim	To assist SU employees with the retirement process
Type of document	Guide
Accessibility	General (external and internal)
Implementation date	May 2004
Revision date/frequency	As the need for amendments arises
Previous revisions	August 2011
Owner of this guide	Vice-Rector: Social Impact, Transformation and Personnel
Institutional functionary (curator) responsible for this guide	Chief Director: Strategic Initiatives and Human Resources
Date of approval	May 2004
Approved by	USRF Board of Trustees
Keywords	retirement, USRF

The core of this guide
Assist Stellenbosch University (SU) employees with the retirement process.

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 (USRF).

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 USRF work?

The USRF is a 'fixed-contribution fund'. This means that the contributions that are paid into the Fund on your behalf are calculated as a fixed percentage of your monthly pension-bearing salary. The USRF invests these contributions in order to earn you investment income. Investment income includes interest and capital growth, and is allocated to you in the form of daily investment income. The USRF's assets are invested in balanced investment portfolios that include substantial investments in shares. Shares have a volatile market value, which means that investment growth may be negative over certain periods.

The University makes additional monthly contributions to the USRF from your cost of employment (COE) in the form of insurance premiums for death cover and disability income benefits.

The accumulated contributions plus the investment growth on the accumulated amount represent your USRF credit. If you transferred from the Associated Institutions Pension Fund (AIPF) or the Temporary Employees Pension Fund (TEPF) on 1 November 1994, a retirement reserve account (RRA) is kept for you in the Fund additional to your USRF credit.

The RRA amount was calculated in 1994 based on actuarial assumptions, with the aim to cover at your retirement the shortfall that was left because the AIPF and the TEPF had been underfunded. Therefore, the RRA amount accumulates with the same investment growth as the growth allocated to normal USRF contributions.

Under the agreement concluded with members when the USRF was founded, the RRA amount will not be paid out in case of resignation or termination of employment. A portion will, however, be paid out if your position is declared redundant or if you take early retirement. (More on early retirement in par. 3.)

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 USRF 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 USRF credit will be.

4. Retirement benefit

When you retire, you have the choice to take the full USRF credit amount in cash or to use either the full amount or a portion of it to buy a post-retirement income product (pension). If you choose to buy a pension product with your USRF credit, the pension provider must be a registered insurer. Under the Rules of the USRF, the Board of Trustees may refuse that you take the full benefit in cash. In that case, you may withdraw at most one third in cash, while the remaining two thirds must be used to buy an annuity.

The Fund's administrators, Sanlam, will calculate the amount of your USRF credit. They must know what portion of your benefit you want to withdraw in cash, and in what post-retirement annuity product (if any) you want to invest the balance of your USRF credit.

If you want your retirement benefit – whether in part or in full – paid out in cash, tax is payable only on the portion of this payment that exceeds R500 000 (five hundred thousand rand). 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.

If you have transferred funds from the AIPF,TEPF or any other fund to the USRF before, and have already paid tax on those funds, the transferred amount is paid out tax free when you retire.

You can provide for your spouse or other dependants by stipulating in your annuity contract that pension payments must continue after your death for the rest of the lifetime of your spouse or another person you have nominated. In that case, your initial monthly pension will be smaller to allow for such continued payments. (Also see 6.2 below.)

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

4.1 Early retirement

If you retire before you have reached the regular retirement age, your retirement benefit will consist of the amount of your USRF credit plus a portion of your accumulated 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. The example below demonstrates how this calculation is done:

A USRF member who is 56 years old has another 4 years of potential employment before reaching the age of 60 (60 minus 56 is 4). Say the person has completed 7 years of elapsed employment. The member's full potential period of employment upon appointment, therefore, was 11 years (7 years' elapsed plus 4 years' potential employment).

Consequently, in the case of early retirement, this member will receive $^{7}/_{11}$ths (seven elevenths, or 63,6%) of his or her accumulated RRA amount.

4.2 Regular retirement age

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

The most important decision you need to take upon leaving the USRF 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. Lump sum in cash

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 a sliding scale. Please ask a financial advisor for more information about this sliding scale, and how much tax you will have to pay according to the lump sum on which you decide. 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 do the payment only after SARS (the South African Revenue Service) has issued them with a tax directive. If you 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.

After you have decided what portion of your benefit you want to withdraw in cash, you need to choose the type of pension product (if any) you want to buy with the balance of your retirement benefit, and which registered insurer you want to use.

6. Monthly pension – guaranteed annuities

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 your paying a set once-off amount to the insurer. Seeing that the pension payments need to continue for the duration of your lifetime, the insurer takes on the risk that you will live long after having retired. Thus, this type of annuity protects you from exhausting your retirement capital.

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

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

Insurers take many factors into account when they calculate the monthly amount that they can pay you. These factors are set out briefly below. Nonetheless, we recommend that you discuss them in greater detail with a financial advisor.

6.1 Your age

Insurers need a larger amount to offer a pension at the same level to a younger person than to an older one.

That is because a younger person is expected to live longer after having retied, in which case the insurer will have to make more pension payments. Therefore, an older person can buy a larger monthly pension with the same capital amount.

6.2 Provision for your spouse

You can buy a monthly pension that is paid only for the duration of your lifetime. Alternatively, 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, because they expect that they will have to pay this type of pension for a longer period. Therefore, if you want to buy a pension product of this kind, you will be able to buy a smaller monthly pension with the same amount. On the other hand, you will rest assured that you have provided for the financial security of your spouse or other dependant after your death.

6.3 Inclusion of a guaranteed payment period

If you are unmarried or have not provided for a pension for your spouse, and you should die shortly after having retired, your pension payments will cease or decrease. You might consider including a guaranteed payment period in your pension contract. The most common guaranteed periods are five years and ten years.

Say, for example, that your pension is guaranteed for five years, but you die two years after having retired. Nevertheless, your full pension will be paid for the remainder of the five-year period. It can be paid to your spouse or your estate. A pension product that provides for a guaranteed period will be a little more expensive than a product that does not. So, you need to decide whether a guaranteed period is important to you.

If you are married and want to provide for your spouse or dependants after your death, they will probably benefit more from a pension for their own lifetime than from your pension payments being continued for a guaranteed period.

6.4 Provision for pension increases

Inflation will very quickly reduce the buying power of a pension amount that is not increased annually. Say, for example, that prices rise by 6% a year, while 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. Most pensioners can expect to live at least 14 years after retirement. Therefore, it is vitally important that you provide for pension increases.

A pension amount that increases every year will, of course, be more expensive than a pension that remains at a set level. This means that, if you provide for future increases in your pension, your initial pension will be smaller than the amount that you would have received if you had not provided for increases. However, after a few years and a few increases, the two pension amounts will have reached the same level; and from that point onwards, the pension product that provides for growth will be at a higher level than the initial no-growth pension.

The figure below illustrates how the two types of products differ. The example assumes that the same capital amount is used to buy two pension products, one at a fixed level and the other with an annual increase of 6%.

Thus, a pension that does not provide sufficiently for future increases will mean a larger income in the early years of your retirement, but your standard of living will deteriorate dramatically as you grow older.

Pension products can provide for pension increases in various ways. A financial advisor can guide you in this matter.

7. Monthly pension – 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 lie 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, but they carry certain additional risks:

7.1 If your initial withdrawals are too much, inflation will overtake the buying power of your investment portfolio.
7.2 You might exhaust your pension before you die.
7.3 You carry the full investment risk regarding the investment portfolio yourself.

If you do not understand the risks and functioning of this kind of product, we would advise you against considering living annuities.

You will need expert advice to decide on a suitable living annuity product, the level of the annual withdrawal and the wisest investment strategy.

If you are interested nonetheless in buying such a product, please consult a financial advisor who has the required experience.

8. Your financial advisor

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.

Financial advisors normally belong to one of two categories:

- Agents (also called representatives) are associated with a specific insurance company and usually sells the products of that company only.
- Independent brokers have access to a variety of financial products.

Many people choose a financial advisor based on recommendations by friend or family. Nonetheless, make sure that your financial advisor is qualified, knowledgeable and trustworthy. This expertise is the actual service that you pay for. A good financial advisor must understand your personal circumstances and needs as well as finances.

In 2014, the Board of Trustees followed a tender process and contracted five firms of financial advisors whom USRF members may consult. This advisory service is free of charge for members of 53 years or older. Please contact the DRB or visit HR’s homepage for more information.

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

9. Additional information

9.1 How must I go about informing the administrators that I intend to retire in accordance with the USRF’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 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 USRF. 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.

9.2 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.

9.3 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:

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

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

10. Summary

When planning for retirement, it is important that you consider how much your monthly living expenses come to, because you have to ensure that your pension will be able to cover at least these expenses. Also important is to ensure that your pension will grow, with a view to protect yourself against inflation. You must also ensure that your pension payments will continue at least 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 is not represented as a comprehensive description. Instead, it was compiled with the aim to highlight some of the most important aspects of your retirement under the USRF’s Rules. The guide will be revised from time to time, but it might not be completely up to date at a specific moment.

The guide describes various benefits that are available under the USRF. The benefits that the USRF affords its members are set out in the registered Rules of the Fund. The compilers took great care to ensure that this guide be accurate. Should differences between die guide and the Rules occur nonetheless, the final authority rests with the USRF Rules.

11. Supporting documents

Item number	Name of document	**Status** *(e.g. identified, in process or approved)*
	None	

12. Related documents

Item number	Name of document	**Status** *(e.g. identified, in process or approved)*
DV0406	Benefits Policy	Approved
RM0376	Review of the Investment Framework of the USRF	Approved
RM0379	USRF: Guide to the Withdrawal Process (in instances *other than* retirement on pension)	Approved
RM0377	USRF: Guide for New Members	Approved