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

(in instances *other than* retirement on pension)

Reference number of this document	RM0379
HEMIS classification	
Aim	To assist SU staff with the process of resigning (leaving the University's employ for reasons other than retirement), particularly as concerns USRF benefits
Type of document	Guide
Accessibility	General (external and internal)
Implementation date	May 2004
Review date/frequency	As the need for amendments arises
Previous reviews	August 2011
Owner of this policy	Vice-Rector: Social Impact, Transformation and Personnel
Institutional functionary (curator) responsible for this guide	Chief Director: Strategic Initiatives and Human Resources
Date of approval	n.a.
Approved by	n.a.
Keywords	USRF, resignation

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 as concerns benefits under 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 discontinue their Fund membership before retirement.

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

When members leave the Fund, important decisions are involved that could influence their long-term financial security. Therefore, employees are advised to consult a financial advisor for assistance should they realise that they need professional advice.

2. Background: How does the Fund operate?

The USRF is a fixed-contribution fund. This means that contributions are calculated as a fixed percentage of a member's pension-bearing salary and paid into the Fund monthly. These contributions are invested with the aim to earn investment income. All investment income, which includes interest and capital growth, is allocated in the form of daily investment income. Fund assets are invested in balanced investment portfolios that include substantial investments in shares. The market value of share assets is volatile, which implies that the growth on this kind of investment could be negative for some periods.

SU pays additional monthly contributions in the form of insurance premiums for the purposes of death cover and disability income benefits. The expense of the USRF's administration is paid from these contributions. The accumulated contributions for each member, together with the growth on investment, represent the relevant SU staff member's Fund credit.

Some staff members had belonged to the Pension Fund for Associated Institutions (PFAI) or the Pension Fund for Temporary Workers (PFTW). On 1 November 1994 they were transferred to this Fund. For such members an amount additional to their Fund credit is held in the USRF's Retirement Reserve Account (RRA). This RRA amount was calculated in 1994 based on certain actuarial assumptions with the aim to compensate members at retirement because the PFAI's and PFTW's were underfunded.

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. In the case of retrenchment, however, a portion of the accumulated RRA will be paid out (more about this in the next section).

3. Benefit upon termination of Fund membership

Employees who terminate their Fund membership before retirement age are entitled to a withdrawal benefit that equals their Fund credit.

Also if retrenchment is the reason for employees terminating their Fund membership, they are entitled to a portion of their accumulated RRA amount. This portion is calculated as the ratio between the elapsed period of employment at SU and a specific employee's potential period of employment up to age 60. The example below illustrates the calculation method:

> Say a certain member is 51 years old and has 7 years' elapsed service. So, 9 years of potential employment remain until the age of 60 (60 years minus 51 years). The member's full potential period of employment, therefore, is 16 years (7 years' elapsed plus 9 years' potential employment).
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> In case of retrenchment, this member would therefore receive $^{7}/_{16}$ (= 43,75%) of the accumulated RRA amount.

The most important decision that members need to make when they leave the Fund is whether they want to receive their withdrawal benefit as a once-off cash payment or, instead, to conserve it for their retirement by transferring the money to another retirement fund.

Withdrawal benefits taken in cash are taxable. If members conserve their benefits by transferring the money to another approved fund – which may be either another preservation fund or a retirement annuity fund – it will not be taxed on the date of withdrawal from the USAF.

The administrators of the Fund, Sanlam, will calculate the withdrawal benefit on the date when the member leaves the USRF. The administrators will also apply for a tax directive from SARS before paying out the nett benefit.

Members' options regarding payment of the Fund benefit are set out below.

4. Cash benefit

Members who decide to receive their full withdrawal benefit in the form of a once-off cash payment will be taxed on that amount. However, the first R25 000 of the benefit is tax exempted. The rest is taxed according to a tax schedule issued by SARS. Amounts that members had transferred to the USRF beforehand are tax exempted, too. *Please note* that money transfers from a pension fund to a provident fund, on the other hand, is taxable.

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

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

Tax to be deducted from Fund benefits is automatically paid over to SARS. The Fund member will receive an IRP5 form 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 banking details. The money will be paid directly into the account indicated on the form.

5. Conserving the benefit

Members may request that their withdrawal benefit be conserved for their retirement later on. 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 USRF has received this form it must request SARS to issue a zero tax directive, which means that no tax is due on the transfer concerned.

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

5.1 The fund of a new employer

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

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

Usually such transfers involve no costs.

5.2 Retirement annuity fund

A retirement annuity fund is an individual policy offered by an insurance company and 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 at any insurance company or annuity provider. Policy holders may withdraw funds under such policies only once they have reached the age of 55.

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

A financial advisor can inform employees in more detail about the various retirement annuity funds available and the various investment options offered under different policies.

5.3 Preservation fund

Preservation funds are established for the particular purpose of serving as receiver fund for the withdrawal benefits from retirement funds. Money that is transferred to preservation funds will be invested until the employee concerned decides to retire. This kind of fund takes two forms: preservation *pension* funds and preservation *provident* funds. The USRF is a provident fund, therefore SU employees may choose only among other preservation *provident* funds. Members may not transfer their withdrawal benefit to more than one preservation fund.

USRF members who retire with a preservation provident fund may choose either to receive their full retirement benefit in cash or to use a part of their benefit to buy an external pension.

A unique feature of preservation funds is that members are allowed to make one withdrawal before the date of their actual retirement. Such withdrawals are taxable.

6. Which fund?

Factors to bear in mind in choosing a preservation fund to which the USRF withdrawal benefit must be transferred:

6.1 Which long-term risks are the employees concerned willing to incorporate into their retirement planning?

6.2 Would they want to have access to their funds before retirement to provide for real emergencies?

6.3 Hoe much flexibility and choice do they want?

6.4 What are the costs involved?

7. A financial advisor

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

8. Further information

8.1 How must employees inform the administrators of the Fund of their prospective withdrawal from the USRF?

Employees who resign from the University's employ must complete SU's prescribed resignation form, which is available from the Human Resources Division (HR). After having received the resignation form, HR must send an instruction for handling the withdrawal benefit to the administrators of the Fund, Sanlam.

8.2 When can employees expect to receive their withdrawal benefit?

The administrators of the Fund will try to pay out the withdrawal benefit as speedily as possible, but only after the following procedures have been complied with:

8.2.1 the resignation form has been completed;

8.2.2 the employee has indicated to which fund the withdrawal benefit must be transferred (if they chose to preserve the benefit);

8.2.3 HR has checked the resignation form; and

8.2.4 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.

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

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

Yes, it is allowed.

8.4 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.

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

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

10. Conclusion

Sometimes, employees are tempted to spend their withdrawal benefit on a new vehicle or a holiday. But this benefit forms a determining element of employees' future financial security. Therefore, the USRF would advise members to conserve their withdrawal benefit with a view to providing better for their retirement. The Fund also advises that members obtain the advice of a trustworthy financial advisor on how to invest this benefit with their 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 will be 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 USRF. 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 nonetheless, the Fund Rules must prevail.