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UNIVERSITY OF JOHANNESBURG

University of Johannesburg Pension Fund: Understanding your Pension Fund Benefits (2)

We all know the saying "…life happens…" Some of our major life events we plan for, others are quite unforeseen but need to be prepared for, even if we do not even want to think about it…

In this edition of understanding your pension fund benefits, we look at how your pension fund can assist you and your family during certain events in our working lives.

These events include:
1. Changing employers
2. Retirement
3. Disability / Ill Health
4. Death

1. Changing Employers

According to Careers Advice Online, the average person will change careers 5 to 7 times during his / her working lifetime. As a result the Rules of the University of Johannesburg Pension Fund (the fund) allows you to move your fund credit with you should the event arise and you leave the employ of the University.

In the previous edition, we explained that your fund credit is equal to all the contributions made to the fund, less costs plus investment returns. This is the benefit which would be payable to you should you leave the employ of the University of Johannesburg.

Should you resign or be dismissed by the University, your fund credit becomes payable and you have the following payment options:
- Transfer to a preservation pension fund
- Transfer to a retirement annuity fund
- Transfer to your new employer's pension or provident fund
- Take the benefit in cash.

When selecting the best option for you, it is recommended that you discuss your options with a personal financial planner. A personal financial planner can for example, spend some time with you helping you to understand your risk profile and helping you to select the most appropriate investment portfolio in the Retirement Annuity / Preservation Fund you have selected.

We have a personal financial planner visiting each campus once a month – you can make an appointment to see her by contacting Fairuze Khan on 011 559 4877 or fkhan@uj.ac.za, to make an appointment for you.

The Advantages and disadvantages of each option are as follows:

Payment option:	**Advantages:**	**Disadvantages:**
Transfer to a Retirement Annuity Fund	No tax is paid on transfer, thereby preserving the full value of your benefit for retirement You have control over where your benefit is invested..	You can only access your benefit from age 55 When your benefit is paid, you can only take a maximum of 1/3rd in cash and the remainder must be used to purchase an annuity which provides a monthly income. Upfront fees / commissions might be payable
Transfer to a Pension Preservation Fund	No tax is paid on transfer, thereby preserving the full value of your benefit for retirement You have access to your benefit prior to age 55 in cases of emergency, such as retrenchment in the form of a once off withdrawal. You have control over where your benefit is invested.	Having access to your benefit may be detrimental as you may be tempted to withdraw your benefit prior to retirement thereby reducing your retirement capital Should you elect to make a withdrawal prior to retirement, this amount will be taxed much less favourably than at retirement. Upfront fees / commissions might be payable
Transfer to your new Employer's Fund	No tax is paid on transfer to another pension fund, thereby preserving the full value of your benefit for retirement This option is usually the most cost effective as no upfront fees are payable.	You may not have control over where your benefit is invested in the new fund On resignation from your new employer you will again have to transfer your benefit elsewhere You will not have access to your benefit prior to your resignation or retirement from the new employer.
Cash Payment	You have the cash available.	You did not preserve your benefit for retirement Your benefit will be taxed much less favourably than at retirement. Also, the tax free portion is only allowable once in your lifetime.

The tax payable should you elect to take a full or partial cash payment, is currently as follows:

Taxable Income from Retirement Lumpsums	**Rate of Tax**
R0 – R 25 000	R 0.00
R 25 001 – R660 000	18% of the amount exceeding R 25 000
R 660 001 – R 990 000	R 114 300 + 27% of the amount exceeding R 660 000
R 990 001 Plus	R 203 400 + 36% of the amount exceeding R 990 000
Taking cash benefit will result in reduced retirement savings as the money is not preserved for retirement. An amount taken as a cash withdrawal benefit (post 1 March 2009) and all severance benefits (post 1 March 2001) prior to retirement will have the effect of increasing your tax liability at retirement as these amount will be aggregated with the retirement lumpsum benefit and applied to the retirement tax scale.	

Please note that if you are dismissed due to theft /fraud /misconduct, section 37D of the Pension Fund's Act makes provision for pension fund benefits to be used to refund the employer for damages.

2. Retirement

The goal of the pension fund is to provide you with an income after retirement. In the previous newsletter we focussed on the tools you can use to ensure that you can retire comfortably. So, let's look at the when and how you can retire from the fund.

Our normal retirement date is the end of the year in which we turn 65 years old.

You can however elect to retire earlier at any stage after your 55th birthday. Whenever you elect to retire, the benefit remains the same as your fund credit is the benefit that becomes payable. The longer you remain a contributing member of the fund, the higher your fund credit is likely to be.

On retirement you can elect to take up to 1/3rd of your fund credit in cash. The remainder of your fund credit must be used to purchase an annuity providing you with a monthly income. The higher the value used to purchase an annuity the higher your monthly income would be.

When selecting an annuity you have to be aware that there are many options available to you. The first decision you need to make is what type of annuity you want to purchase. It is very important to start looking at these options **at least 7 years** before you actually retire in order to ensure that you are properly prepared and to ensure that your pre-retirement investment strategy is aligned with the annuity you want to purchase.

This decision can be very complex and therefore it is essential to have a relationship with a financial planner who understands your retirement needs and to assist you with your retirement planning.

There are many different types of annuities you can choose from. These can be summarised as follows:

Conventional / Guaranteed Annuities:

When you buy a conventional annuity the insurance company is taking on the risk of how long you will live. In other words, the insurer will pay you a monthly income for as long as you live, in return for a fixed capital amount. If you live longer than expected, the insurer will suffer a loss, but conversely, if you live shorter than expected, they will make a profit. There are three types of conventional annuities: With-Profit Annuity; Inflation-linked Annuity and Level Annuity.

With-Profit Annuity
An annuity is purchased from an insurer, who will pay you a pension. The starting pension is guaranteed for the life of the principal member and when he/she dies a reduced pension for the life of the surviving spouse, if applicable, or if you have so elected.
The insurer determines your starting pension based on the amount of capital transferred, and your profile (factors including your age and that of your spouse, if applicable), and the Post Retirement Interest (PRI) rate. The PRI is effectively the minimum rate of interest (or investment return) that the retirement annuity fund must earn to cover the guaranteed annuity.

The insurer invests the assets in order to meet the contractual obligations to pensioners. For this type of annuity, the investment is generally a mix of bonds and equities. The equity element brings the potential for higher investment returns, which then translate into annual increases.

There is no guarantee that increases will keep pace with inflation. Everything depends upon the performance of the underlying investments. Increases are "smoothed" which means that in times of good investment performance insurers hold back some of the returns and use these in times of low returns. The objective is to provide consistent increases.

Good points about a With-Profit Annuity are:

- Pension cannot reduce;
- Insurer manages the investments;
- Pension continues as long as you live – no matter how long.

Negative points of a With-Profit Annuity are:

- Annual increases are based on investment performance, so you are sharing some of the risk
- Pension stops on last person dying; even if earlier than expected
- Once you have invested you cannot change to any other annuity.

Inflation-Linked Annuities
Inflation-Linked Annuities offer pensioners an income that is guaranteed to increase in line with inflation for the duration of the pensioner's life. Increases are based on the CPI (Consumer Price Index). The pension increases can be linked to a variety of CPI options eg. 75%CPI, 100%CPI, CPI+1%, CPI+2%
Points to Consider:

- Pension payments are guaranteed for life as Old Mutual manages the mortality risk.
- The CPI-linked Annuity provides the desired level of inflation protection

Level and Guaranteed Escalating Annuities
Level annuities offer pensioners a guaranteed level monthly income, where payments are guaranteed never to decrease. Guaranteed Escalating annuities provide, in addition to the guaranteed monthly income, annual increases guaranteed at the escalation percentage elected at the outset of the annuity contract. Increases, once granted, become part of the basic pension and can never be reduced.
Points to Consider:

- Pension payments are guaranteed for life as the Insurer manages the mortality risk.
- The Level Annuity offers no inflation protection which must be provided from another source.
- The Guaranteed Escalating Annuity offers a measure of inflation protection, but there is still inflation risk as future inflation is unknown

Living Annuity

A living annuity is simply an investment account from which you withdraw an income. The amount withdrawn is limited by SARS to a range between 2,5% and 17,5% of capital per year. Income is usually drawn in monthly payments like a pension, although other payment options exist. The withdrawal rate can be changed once a year on the anniversary date of commencement. When you die, the residual can be left to a spouse or children, depending on who survives, failing which it goes to your estate.
With a living annuity you enjoy all the rewards of successful investment, but you also carry all the risk that this may not be the case. It is important that these risks be thoroughly understood. They are:-

- There are no guarantees of any sort;
- You may withdraw too much too soon;
- You may live longer than expected;
- Your investment may not perform well;
- The market may decline dramatically.

The net effect of this is that secure increases in income depend entirely upon investment performance and the rate of your withdrawals. Income can of necessity decrease if the capital value drops too low.
Unlike a pension from a pension fund or guaranteed annuity, where your pension is guaranteed for however long you live, irrespective of market conditions, in a Living Annuity you cannot afford to consume all your capital too quickly in case you live longer than expected - **unless you have other sources of income.**
Good points of a Living Annuity are:

- If you die, and there is money left it can go to your estate;
- You can choose your own pension amount each year;
- If you are not happy with the product you can move your money to any other annuity.

Negative points:

- Low increases due to poor investment performance;
- If you chose a pension that is too high; your money will run out before you die.

It is also possible to start off with a living annuity and then converting the living annuity into a guaranteed annuity at a later stage. Once you have purchased a guaranteed annuity this decision cannot be undone. **Good financial advice is essential.**

When deciding to take an amount in cash (remember the maximum you can take in cash is 1/3rd), it is important to remember that any amounts taken in cash is taxable. Currently this would be taxed according to the following table:

Taxable Income from Retirement Lumpsums	Rate of Tax
R0 – R 500 000	R 0.00
R 500 001 – R 700 000	18% of the amount exceeding R 500 000
R 700 001 – R 1 050 000	R 36 000 + 27% of the amount exceeding R 700 000
R 1 050 001 Plus	R 130 500 + 36% of the amount exceeding R 1 050 000
Any previous retirement benefit (post 1 October 2007), withdrawal benefit (post 1 March 2009) and all severance benefits (post 1 March 2011) will need to be added to the current retirement benefit to determine the effective rate of tax.	

3. Disability Benefits / Ill Health

As a member of the University of Johannesburg Pension Fund, you are covered in the event that you can no longer perform your duties due to ill health or an accident.

The benefit payable is equal to 82.5% of your monthly pensionable salary and will be paid monthly if your claim is accepted by the Insurer. The Insurer will assess medical evidence provided and will advise should they require any further information. As a potential claimant you have a 6 month waiting period in which to confirm your claim. Each claim is handled on an individual basis.

The University will provide you with an income during the waiting period, once your claim is accepted you will be paid by the Insurer. From the income paid 7.5% will be deducted as your contribution to the Fund as you will remain a member of the Fund. Please note that this is a benefit paid by an insurance policy and therefore not subject to tax, but you will receive not allowances or other benefits from the University whilst in receipt of this income.

This benefit will continued to be paid to you until such time as you recover, pass away or reach your normal retirement age. At retirement age you will retire from the pension fund. If you pass away, your death benefit from the Fund will be paid to your beneficiaries.

4. Death Benefits

As a member of the Fund, we also provide a benefit should you pass away whilst you are an active member of the Fund.

All members who joined the University of Johannesburg (after the merger) have a death benefit equal to a lump sum benefit equal to:

- member's Fund Credit
  plus
- 4 times the member's annual pensionable salary.

All former members of the RAU-Pensioenfonds who enjoyed benefits under the defined contribution dispensation of that fund, former members of the National Tertiary Retirement Fund who enjoyed benefits under the defined contribution dispensation of that fund, who were entitled to the death and disability benefits applicable in terms of the rules of that fund immediately prior to 1 September 2002, have a death benefit equal

- A lump sum benefit equal to 2 times the member's annual pensionable remuneration at death,
  plus
- a Qualifying Partner's pension equal to 40% of the member's annual pensionable remuneration at death,
  plus
- a Qualifying Children's pension equal to 10% of the member's annual pensionable remuneration at death per child for the first 3 children. If there are more than 3 children, the maximum amount of the benefit is 30% of the member's annual pensionable remuneration at death.

If there is no Qualifying Partner, the children's pension doubles. If the value of the death benefit as calculated by the actuary is less than the member's Equitable Share, the total death benefit will be equal to the member's Equitable Share.

Former members of the National Tertiary Retirement Fund who enjoyed benefits under the defined contribution dispensation of that fund, who were entitled to the death and disability benefits applicable in terms of the rules of that fund immediately after 1 September 2002:

- A lump sum benefit equal to the member's Equitable Share plus 4 times the member's annual pensionable

In addition to the above death benefits from the Fund, you also have further death benefit cover from the University of Johannesburg's Group Life Assurance Policies. The cover is reflected on your benefit statement under additional benefits.

These benefits are paid out in terms of Section 37C of the Pension Funds Act.

The objective of Section 37C of the Pension Fund's Act
Section 37C gives the board of trustees discretion, to be exercised fairly and reasonably, to distributed the member's death benefit. The objective of this section is to ensure that those persons who were dependent on the deceased member are not left destitute after his/her death, irrespective of whether or not the deceased was legally required to maintain them or included them in his / her nomination of beneficiary forms.

Section 37C of the Act confirms that:

- death benefits do not form part of the deceased estate of the member (unless the member had no dependants), but will be placed under the control of the relevant fund;
- death benefits are not subject to the law of marriages, which means it does not form part of the joint estate in the case of parties married in community of property;
- the member's freedom of testation is limited – the trustees are not bound by the deceased's will or beneficiary nominations; and
- the law of intestate succession does not apply (where the member died without a valid will).

Duty of the Board of Trustees
Section 37C imposes three duties on the board of trustees, namely to:

1. identify and trace "dependants" (as defined in section 1 of the Act) and those persons, if any, who have been nominated by the deceased member;
2. make benefit allocations on a fair and equitable basis; and lastly
3. determine an appropriate mode of payment of the death benefit.

There is a duty on the Board to conduct a proper investigation to determine all the "dependants" of the deceased member. What this means is that the trustees cannot merely follow the beneficiary nomination made by the member during his/her lifetime – the Board must establish who the persons are who fall within the definition of "dependant" as defined in the Act.

The Act defines three categories of dependants:

1. Legal dependants – include dependants in respect of whom the member owed a legal duty to support, such as a spouse and children (including illegitimate and adopted children). In order to fall within the ambit of this category one would have to prove that the deceased was legally obligated (i.e. in terms of legislation, common law or a legal obligation) to maintain you;
2. De facto (factual) dependants - those persons to whom the deceased owed no legal duty of financial support but who nevertheless depended on him financially. This would include a spouse in respect of whom the marriage or union is not recognised by any law or a financially independent major child. In order to fall within the ambit of this category one would have to prove that the deceased financially maintained you despite not having any legal obligation to do so;
3. Future dependants – those persons whom the deceased did not financially maintain at the point of his death, but whom he would have maintained in future, had he not died. This would typically include elderly parents or a fiancé. In order to fall within the ambit of this category one would have to prove that the deceased would have become liable to maintain you, had he not died.

Please note that the fact that someone falls within the definition of *"dependant"* only entitles him/her **to be considered** by the Board when making the benefit allocation decision. It does not mean he/she automatically qualifies to share in the death benefit payable.

Accordingly, Section 37C determines that the trustees are not bound by nomination forms completed during the member's lifetime. **The nomination forms will serve as an essential guide to the trustees. Nomination forms can also assist the Board in identifying persons who could potentially qualify as dependants.** Please ensure that you keep your nomination forms up to date when your circumstances change. You can simply contact your HR business partner to assist you. They can provide you with the forms and will also place the completed forms on your personnel file. These forms are treated with utmost confidentiality. As these forms are held by UJ HR this information will not reflect on AfOnline.

I trust that the above summary explains some of your benefits from the Fund in more detail. As always, the Trustees take this opportunity to remind you that good financial advice is essential, whether it is retirement planning or ensuring that you have sufficient death benefit cover.

Should you have any queries, questions or suggestions, please do not hesitate to contact me.

Yours Faithfully

Evette Vanrenen-Linford
Principal Officer UJ Pension Funds.