RESIGNATION OPTIONS

Cash option

- Your resignation benefit is payable immediately and subject to tax (see "Taxation of benefits").
- You have complete flexibility in deciding how you wish to use your after tax resignation benefit.
- However, you must remember if you don't set this money aside for your retirement, you will have less money available when you finally retire. The reality is that many people retire with inadequate money because they have not left their resignation benefit for retirement.

Preserve your benefit

Preservation Fund

If you transfer your resignation benefit to a Preservation Provident Fund with a financial services company, please note that the CPUT Retirement Fund must be a participating Employer in the Preservation Fund you wish to transfer to.

- In this case no tax is payable until you receive a benefit from the Preservation Fund.
- If you take a benefit prior to retirement, it will be taxed as a resignation benefit.
- Any benefit you receive at retirement will be taxed as part of your retirement benefit.
- The advantage of a Preservation Fund is that you may make one cash withdrawal prior to your retirement. (You may even take the full amount as a cash withdrawal.) Once you have made such a withdrawal, the balance of your money must be left in the Preservation Fund until you retire.
- You can transfer from one Preservation Fund to another, but there are costs involved.
- The main disadvantage of this option is that your costs are higher compared to leaving your money in the CPUT Retirement Fund. You could pay commission at entry and the on-going administration fee could be as high as 0,5% per annum of the market value of your assets. The investment management fee could be as high as 1,5% per annum of the market value of your investment.
- You (or your advisor) also need to monitor the performance of the investment managers with whom your money is invested on an on-going basis.

Points to note:

- If you elect to receive any part of your resignation benefit in cash prior to your retirement, you reduce the amount you have for your retirement. This may result in you not having sufficient money in your retirement.
- If you elect to invest your money in a Preservation Fund make sure that you get full details of the commission, on-going administration fee and investment fees. An additional cost of say 1% per annum over 20 years will reduce your retirement benefit by as much as 20%!

Retirement Annuity Fund

- You will not pay any tax at the time you transfer the money and you will be preserving your benefit for your retirement.
- Importantly you can only receive a benefit from a Retirement Annuity Fund on your retirement on or after age 55 (or on your earlier death or ill-health retirement).
- You may only take up to one-third as a cash lump sum at retirement, with the balance paid to you as a monthly pension.

- You should also be aware that the cost structure of a retirement annuity will be higher than becoming a deferred pensioner of the Fund.

New Employer's Retirement Fund

The tax treatment here is complex and depends on whether the new Employer's Fund is a Pension or a Provident Fund.

Tax will almost certainly be the main determinant of whether it is sensible to transfer your resignation/dismissal benefit to the new Employer's Fund. Assuming that you are considering transferring your benefit in this way, this option makes most sense when the new Employer's Fund is a Provident Fund.

The possible advantages of this option are:

- You preserve your benefits for your ultimate retirement.

- It is likely to be a cheaper option (e.g. no commissions are payable).

Leave your benefit in the CPUT Retirement Fund (Become a deferred pensioner)

You may elect to become a deferred pensioner of the Fund. In this case:

- You will leave your benefit in the CPUT Retirement Fund to earn investment returns until you reach age 65 (or up until your earlier of death or ill-health retirement). You will have the same investment choices as you have as an in-service member.

- You will pay no tax until you retire (at which time the benefit will be taxed as a retirement benefit by the South African Revenue Services).

- The main drawback of this option is that you cannot access the money you have left in the CPUT Retirement Fund until you retire. Of course the advantage is that you are "forced" to preserve your benefit for your retirement.

- The main advantage of this option is that your costs are likely to be much lower. There is no commission. The investment management fees are at the level that the Fund has negotiated for all its investments, and therefore you will benefit from the economies of scale that the Fund has been able to achieve, instead of most likely paying higher fees associated with 'retail' savings options such as preservation funds

- You also have the advantage that the Trustees monitor the performance of the investment managers with whom your money is invested on an on-going basis.