Cape Peninsula University of Technology

CAPE PENINSULA UNIVERSITY OF TECHNOLOGY RETIREMENT FUND

BENEFITS AND OPTIONS PROVIDED BY THE FUND ON

WITHDRAWAL

Withdrawal options refer to the options you are entitled to in the event of **resignation, dismissal or retrenchment** prior to retirement.

In this booklet, we summarise the options available to you. These options will also be explained to you in a meeting set up with the principal officer and/or your human resources officer. Please contact Ms Rushnah Davids on: 021 460 3404 or e-mail: **DavidsRu@cput.ac.za** to make an appointment or discuss these options further.

The benefits outlined in this booklet do not constitute financial advice and instead explains the various options available to you with your retirement savings (referred to as your Member Share Account).

Disclaimer

- **The information in this guide does not constitute advice by either the Board of Trustees or its professional advisors. Members are encouraged to seek expert advice from a personal financial advisor before taking decisions regarding their benefits from the Fund.**
- **The Fund will try to ensure that the material in this guide is up to date and accurate, but this cannot be guaranteed at all times.**

RESIGNATION BENEFIT

When you leave the Fund, your benefit is your **MEMBER SHARE ACCOUNT**.

RESIGNATION OPTIONS AVAILABLE

When you leave the Fund, you automatically become a "PAID-UP MEMBER" of the Fund – your full Member Share Account will remain in the Fund, earning the same net investment returns as you have previously received.

However, you can make the following choices, either immediately or at a later stage (all these options are discussed in detail later on in the document):

- You can leave the full benefit in the Fund (and remain a "paid-up member") – This is the default if no option is selected; OR

- You can transfer the full benefit to another retirement fund (an approved Preservation Provident Fund, Retirement Annuity Fund, or your new employer's retirement fund), immediately or at a later stage; OR

- You can take the full benefit in cash as a lump sum (though this will be subject to tax, and will reduce your ability to enjoy a financially comfortable retirement) – This may have financial consequences and we recommend that the member seeks financial advice ahead of selecting this option.

You can choose a combination of part cash and part transfer to another fund.
While you are a "paid-up" member of the Fund, a monthly charge will be deducted from your Member Share Account to help cover the costs of operating the Fund.

The issues to consider in deciding what to do with your resignation benefit are quite complex. The next section deals with these options in more detail.

RESIGNATION OPTIONS IN DETAIL

1. BECOMING A PAID-UP MEMBER

- This option is the default option on withdrawal. This means that you automatically become a paid-up member of the CPUT Retirement Fund when you resign, are dismissed or get retrenched.
- By becoming a paid-up member, your savings (Member Share Account) remains in the Fund until you decide to take your benefit.
- You may withdraw the whole of your Member Share Account at any stage after becoming a paid-up member.
- As a paid-up member, you will not be allowed to make any contributions to the Fund, but your investments will continue to grow with investment return. Your investments will continue to benefit from compound interest.
- The investment option selected prior to becoming paid up will remain in force.
- You may receive a retirement benefit at any time from age 55 onwards, if you elect to take a retirement benefit from the CPUT Retirement Fund. In this case, you will be entitled to any of the retirement options available from the fund (explained in a separate booklet titled "Retirement Benefit Options").
- Your account will be debited with reasonable administration and other fund expenses as determined by the Trustees. These expenses will not be more than the expenses of active members of the Fund.

- On electing to become a paid-up member, you will receive a paid-up certificate from the CPUT Retirement Fund which will contain all relevant details of your paid-up status.

NOTE: This is the default, however it is still recommended that you complete a form to; confirm your investment choice, update beneficiaries, and update your contact details.

2. TRANSFERRING YOUR RETIREMENT SAVINGS

2.1. Transferring to a new Employer's Fund

- You have the option to transfer your retirement savings to your new employer's fund.
- Tax will almost certainly be the main factor in deciding whether it is sensible to transfer your resignation benefit to the new Employer's Fund. The tax treatment on transfer depends on whether your new employer's fund is a Pension Fund or a Provident Fund. If you are considering transferring your benefit in this way, this option makes most sense when your new employer's fund is a Provident Fund.
- Importantly, establish the type of fund of your new employer and the rules relating to the fund so that you are best able to understand how you are able to take your benefit from that fund.

2.2. Transferring to an approved retirement annuity fund

- You may transfer your retirement savings tax-free to a retirement annuity.
- You may have an existing retirement annuity or may have to elect one. Either way, there are many retirement annuity offerings from different insurers, all with different costs to consider. You will have to discuss this with your financial advisor.
- Importantly, if you elect this option, you may only take your benefit at age 55 onwards and will be restricted to a maximum of one third as a lump sum and the balance must be received as an annuity.
- When electing this option, ascertain the costs of the annuity, both upfront and on-going if applicable.

2.3. Transferring to an approved preservation fund

- You are able to transfer your benefit, in full or part, to a preservation fund.
- In this case no tax is payable until you receive a benefit from the Preservation Fund.
- There are both preservation pension funds as well as preservation provident funds.
- Like retirement annuity funds, there are a range of preservation funds offered by different insurers, again also with different cost structures. Speak to your financial advisor on the different options available to you.
- Currently, you are allowed a once-off withdrawal from the preservation fund at any time after transfer. This withdrawal can also be in part or full. If you take a benefit from the Preservation Fund before retirement, it will be taxed as a resignation benefit. If you make a partial withdrawal, the remaining balance will only be available on retirement, at age 55 onwards.
- Any benefit you receive as a retirement benefit from age 55 onward will be taxed as part of your retirement benefit.
- You will likely however pay a commission on transfer and an on-going administration fee and you are urged to consider these fees before deciding on this option.

3. CASH LUMP SUM

- You are able to elect to receive your full benefit as a cash lump sum.
- If you elect this option, you will pay tax on the benefit taken as cash.
- Should you elect to receive your Member Share Account as a cash lump sum, you are encouraged to seek financial advice on the manner in which to invest part or all of this lump sum. Non-preservation of savings during working years often contributes to why South Africans do not retire

financially independent. In fact, legislation that required funds to introduce a paid-up option forms part of national treasury's aim of improving the retirement outcomes for members of funds.

- If you decide on this option, be aware of all the risks that you potentially face. These include, but are not limited to, inflation risk, longevity (you outlive your savings), poor health or unexpected medical expenses, poor investment decisions, reduced income on retirement.

4. PART TRANSFER AND PART CASH

- You may elect to receive part of your benefit in cash and transferring the balance as described in transfer options explained in 2 above.

TAX TREATMENT OF ANY CASH RESIGNATION BENEFIT

The tax treatment of any cash resignation benefit is as follows:

The tax-free amount in respect of withdrawal benefits is such portion of your original AIPF value that was subject to a zero tax rate (if applicable) plus R27 500. However, the R27 500 is a 'once-off' cumulative value and once the limit of R27 500 is reached, tax-exemption on future withdrawals is not available.

Very important to also note that the tax-exempt amount of R27 500 reduces the once-off tax exempt amount of R550 000 at retirement. Also note that the tax rates at withdrawal are higher in certain brackets than those applicable at retirement.

Lump sum resignation benefit	Tax liability
R0 to R 27 500	0%
From R27 501 to R726 000	18% of amount above R 27 500
From R726 001 to R1 089 000	R 125 730 plus 27% of amount above R 726 000
R1 089 001 and above	R223 740 plus 36% of amount above R1 089 000
The tax-threshold of R27 500 is cumulative and applies to the aggregate amount of a member's resignation benefits over the member's lifetime.	

IMPORTANT CONSIDERATIONS

- The **paid-up** option is a low cost way to preserve your savings. You benefit from the fund's investment strategy, at a low cost and there is no commission paid on becoming a paid-up member in the CPUT Retirement Fund. Furthermore, the costs that apply are reasonable and may not exceed the costs that apply to active members of the CPUT Retirement Fund.
- You may at any time elect to receive your benefit and you are not "locked in" the option.
- **Transferring** your benefit allows you also to preserve your retirement savings, but you need to make sure you understand the rules and the legislation that governs the transferee fund. Furthermore, you must consider the costs that apply to the transferee fund.
- Electing a **cash lump sum** may assist with short term needs. However, this is not a way to generate wealth leading up to retirement and is the least favoured option.