

# BENEFITS AND OPTIONS PROVIDED BY THE FUND ON **RETIREMENT**

## 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.**



# INTRODUCTION

## Congratulations on your retirement from the CPUT Retirement Fund!

Now that you are retiring from employment and starting a new chapter of your life, you need to make some important decisions. There are a number of options available to you and these are discussed later on in this note. Furthermore, attached is a detailed guide called “**Options available to you when you retire**” which explains all the options in great detail.

### Important note:

At the time of retirement, you will remain a paid-up member until you elect in writing to receive your retirement benefit. What this means is that your benefit will stay in the Fund until you decide to retire from the Fund. Another term often used for this is that you become a “deferred pensioner” in the Fund.

## TIMING OF RETIREMENT

Your normal retirement age is 65, but you are allowed to retire early from age 55 onwards.

## YOUR RETIREMENT BENEFIT

Once you decide to retire from the Fund, your retirement benefit will be the full amount that has built up in your Member’s Share Account.

The CPUT is a Provident Fund and because of this you can choose how much of your Member’s Share must be paid to you as pension and/or a lump sum. If you want your entire benefit to be a lump sum, you must provide the Trustees with evidence that you have taken financial advice.

Once you have received your retirement benefit, you leave the Fund. This means that you and your dependants have no further claim for benefits against the Fund. There is one exception to the above - you can elect to be paid a "living annuity" from the Fund.

Thus, at retirement you face two important choices, namely:

- How much of your benefit you should take in cash; and
- What type of pension you should receive in retirement.

Please note that if you do NOT make a decision, you will become a **paid-up member/deferred pensioner in the Fund**.

## TRUSTEES PREFERRED OPTION

The Trustees are required to look at the options available to members and select a preferred option for the membership in general. We would note that this option may not be appropriate to you and as such you should consider both the reasons provided below for selecting this option as well as the other options available.

The Trustees preferred option is a with profit life annuity at retirement. The reasons for this are provided below:

- Annuity is guaranteed for life for you and your spouse (if spouse option selected), and as such there is no risk of running out of money before passing on;
- Spouse is able to be provided for upon death and member is able to select the level of this protection;
- No complicated investment decisions are required by the member, these are done by the insurer;
- Annuity cannot reduce, but still has access to potential investment growth; and

- Pension cannot decrease (unless in unlikely event that the insurer defaults).

The member should consider the amount of cash lump sum required, but you should not take more money than you can afford. You should consider the minimum amount required as an income and then only consider taking cash if the pension available to purchase is above that. There are tax considerations that the member should also consider outlined below.

## WHAT PENSION CAN I SECURE WITH MY RETIREMENT SAVINGS?

- You can take the **full benefit in cash** as a lump sum (though this will be subject to tax) OR
- You can use the **full benefit to buy a pension** from an insurer or from the Fund (the pension payments will be subject to tax) OR buy
- You can take **some of the benefit in cash** and use the rest to a pension from an insurer or the Fund

The pension offered by the Fund is called a Living Annuity, which functions like a bank account where you decide where the money is invested (within certain limits); and how much pension you take (within certain limits).

## TAKING PART OR YOUR FULL BENEFIT AS A CASH LUMP SUM

Any amount of your retirement benefit that you take in cash is subject to tax. The Tax-Exempt (tax-free) portion is: Up to R500 000 (plus such portion of your AIPF transfer value that was subjected to a zero tax rate) of the retirement benefit will be exempt from tax.

**This tax exempt amount of R500 000 will be reduced by any tax-exempt amounts that you have received previously on withdrawal from a Pension or Provident fund.** Any contributions that have been made by the member that were not previously tax-exempt will also be taken into account and will be added to the R500 000, thus increasing the tax-free portion of R500 000.

If a member has previously received lump sum cash payments from a Retirement Fund, these amounts will be taken into account (at the tax rates applicable at retirement) thereby reducing the R500 000 tax- exempt portion.

Any amount of the retirement benefit that is taken in cash and that exceeds the limits stated above will be taxed as follows:

Amount taken as a lump sum at retirement	Tax payable
R0 – R500 000	0%
R500 001 – R700 000	18% of the amount above R500 000
R700 001 – R1 050 000	R36 000 + 27% of the amount above R700 000
Above R1 050 001	R130 500 + 36% of the amount above R1 050 000

***The more cash you take, the less is available to fund your pension.***

## BUYING A PENSION

You can choose to take a Life Annuity (from an Insurer) or a Living Annuity (from the Fund or from an external provider such as an insurer or asset manager). Though they sound the same, they are very different. The differences are briefly shown in the table below:

	Life Annuity – Insurer	Living annuity – CPUTRF OR Insurer OR asset manager
<b>Vehicle</b>	Insurance Policy	“Bank account”
<b>Payable</b>	As long as you live	Until living annuity balance is depleted

<b>Pension amount</b>	Set by insurer depending on type of pension, increases and terms	You decide this on an annual basis (within certain limits)
<b>Investment choice</b>	None	You decide how the living annuity balance should be invested – from the portfolios on page 5.
<b>Decision making</b>	At point of purchase for terms	Annual – amount of pension and investment
<b>Inheritability</b>	None (except where agreed)	Remaining living account balance
<b>Ability to change later</b>	Not permitted	Permitted – can purchase another living annuity of life annuity
<b>Risks</b>	Loss of capital on early death	Risk of outliving your capital

The Fund does offer a Living Annuity. For further information please see the “**Options available to you when you retire**” guide attached.

Though the Fund does not offer a Life Annuity, the Fund will obtain for you a commission free quotation from two providers for a with profits pension. For further information please see the “**With Profits Annuity**” guide attached.

Of course there are other Life Annuities and Living Annuities available to you. For further information please see the “**Options available to you when you retire**” guide attached.

There is no tax payable on the amount used to purchase an annuity of any type, though the pension paid will be subject to income tax.

## COSTS

### Administration and Fund costs applicable to deferred pensioners and living annuitants:

- Deferred pensioners: Administration costs are currently in discussion with the Fund Administrators and once agreed will be communicated and amount will be deducted from member individual account
- Living annuitants: Initial fee = R856 plus VAT (once -off fee. Administration costs of R75.00 pmpm plus VAT deducted from living annuity balance.

**Switching costs** (cost of changing investment decision) – first switch in the year is free. Thereafter R350 plus VAT is deducted from your account per switch.

## WHAT NEXT STEPS YOU MUST TAKE

The Fund holds quarterly sessions at either the Cape Town or Bellville Campus for members approaching retirement. You are invited to attend one or more of these sessions. At this session the information contained in this guide will be explained and you will have the opportunity to ask questions. Furthermore, there are video tutorials on this subject which we have created. Please contact Rushnah Davids to find out how you can download these videos.

Importantly, if you wish to explore options outside the Fund you must consult with your financial advisor.