

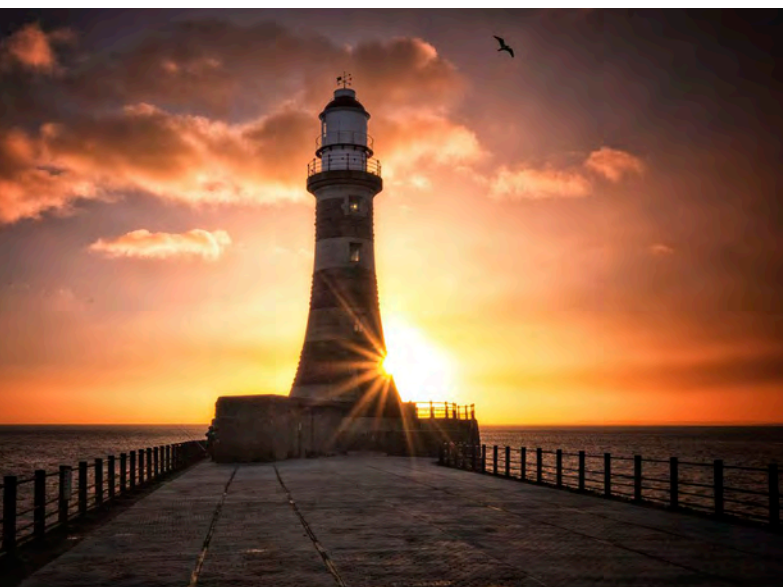


ISASA

Independent Schools Association of Southern Africa

PROVIDENT FUND RETIREMENT OPTIONS

PROVIDENT FUND RETIREMENT *Options* JUNE 2020



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WHAT ARE MY OPTIONS AT RETIREMENT?




Your school decides the normal retirement age. Early retirement is at any age within 10 years of your normal retirement age, with permission from your school. When you retire you stop working and your money starts working for you.

OPTIONS

When reaching retirement age you need to decide if you want to take your retirement fund benefit immediately or if you would rather defer your retirement until later. (For example, you may not want to receive a monthly income from your retirement fund immediately because you have another source of income. You can defer your retirement until you need your retirement fund money). **You have two options:**

- ✓ Defer your retirement (leave your benefit in the Fund and take it at a later stage)
- ✓ Take your retirement fund benefit immediately

If you decide to take your retirement fund benefit you will need to choose how you want this benefit paid. **You have the following choices:**

-  Take your retirement fund benefit in cash, and pay tax on your money
-  Consider buying a Living Annuity or Life Annuity of your choice from any of the registered insurers in the market
-  Consider the Fund's two Default Annuity products, the Old Mutual Fund Select Annuity (Life Annuity) and/or the Old Mutual Max Income Investment Funded Income Annuity (Living Annuity).

These annuities are supported by a helpful at-retirement guidance process that you can follow with the assistance of either your Old Mutual Retirement Benefits Counsellor or your personal financial adviser.

DEFER YOUR RETIREMENT

The Fund allows you to defer your retirement, i.e. leave your Accumulated Credit (Fund savings) in the Fund and continue membership in your personal capacity after reaching normal retirement age and leaving your employer. This means that you are no longer required to take your retirement benefit from the Fund immediately. You will not be allowed to make further contributions to the Fund upon reaching your retirement age. The death, disability and funeral benefits will cease. Your money will continue to be invested in the portfolio you have elected previously, but you may elect to change your portfolio.

I. TAKE YOUR RETIREMENT BENEFIT IN CASH

When you retire, your total Accumulated Credit in the Fund may be paid out as a cash lump sum. It will however be vital to consider purchasing a pension once you stop working.

DO YOU NEED TO TAKE A PORTION IN CASH?

If you decide to take your benefit you must decide if you want to take a portion of your benefit in cash - remember you will pay tax on this amount.

TAX TABLE WHEN TAKING CASH

Lump sum cash retirement benefit	Tax Liability
First R500 000	0% (provided you have not used this exemption before)
R500 001 to R700 000	18%
R700 001 to R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

Please note that the R500 000 tax-free and the table are applied to your cumulative lump sum retirement benefits from all funds, i.e. will include both pension and provident sections and retirement annuities, over your lifetime.

These tax rates and limits can change, so make sure you get up to date information on the effect tax will have on your benefits before you make any decisions.

SPEAKING TO A FINANCIAL ADVISER

It will be wise to speak with an accredited financial adviser before you elect to take a portion of your benefit in cash, as it may be necessary to use most of your retirement fund benefit to purchase a pension.

Your adviser will also consider your Fund investment portfolios and will ensure that the investment of your Accumulated Credit in the Fund between now and your retirement is invested in line with your future financial needs.

For example, if your financial adviser recommends that you should consider a living annuity, then you may wish to exercise Member Investment Choice and remain invested in a portfolio with higher exposure to equities and not participate in the default LifeStage portfolios that transition from high risk to lower risk assets, such as bonds and money market investments. (In terms of this example, the Fund allows the option to elect to remain in the more aggressive LifeStage portfolio, Performer.)

The Fund's default LifeStage Model moves your assets from a higher risk portfolio (with more exposure to equities) to a lower risk portfolio (with more exposure to cash and bonds) as you get closer to retirement. The LifeStage Model is suited for members who wish to purchase a guaranteed annuity.





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2. CONSIDERING ANNUITY OPTIONS AVAILABLE IN THE MARKET

Purchasing the correct pension will go a long way to making sure that your money lasts as long as you do. There are many different annuities to choose from. Here is an overview of the basic annuities available from most large insurers.

LEVEL ANNUITY

Your monthly pension will remain exactly the same from year to year.

This annuity therefore does not offer any protection against inflation.

FIXED ESCALATION ANNUITY

Your monthly pension will increase at a pre-determined rate each year, offering some protection against inflation.

WITH-PROFIT ANNUITY

Pensioners share in actual investment returns – even though the size of each increase is not guaranteed.

This pension could keep up with inflation if correctly structured.

INFLATION- LINKED ANNUITY

Your monthly pension will increase at an inflation-related rate.

This pension will keep up with inflation.

LIVING ANNUITY

Your benefit is invested in the stock market and other asset classes like bonds and property, and will therefore be affected by investment profits and losses. You can choose to draw between 2.5% and 17.5% from your capital as a pension income.

The risk lies with you to ensure that your investment keeps up with inflation and that your money lasts for the remainder of your life.

Under this annuity, your dependants or beneficiaries will receive the remaining capital when you die.

These products are also called annuities for life. With any of these annuities, you will exchange your retirement capital for a guaranteed income for your full lifetime.

Under the guaranteed annuities, your benefit stops when you die, unless you choose that it should continue to your spouse. You must make this decision when you buy the annuity. You can make provision for your dependants by selecting additional options such as "Joint and Survivorship" or "Term Certain and Thereafter", or by choosing a Capital Preservation option. Each extra option has a cost and affects the starting pension.




These annuities may be chosen on their own or in a combination, if your retirement fund benefit is large enough. Please speak to your financial adviser to establish which approach is most appropriate for your circumstances.



2.1 CONSIDERING BUYING A LIFE (GUARANTEED) ANNUITY?

Life annuities (also known as compulsory annuities) are simply monthly pensions that are paid to you for your whole life by the insurer from which you elected to buy the pension. This means that in exchange for your savings when you retire, the chosen insurer will pay you a pension every single month, even if you live to be 110 years old! So you don't have to worry about outliving your savings, because the insurer takes on the risk of paying you, even if you live for a very long time.

The amount of monthly pension you receive will depend on a number of factors, e.g.:

-  your age at retirement;
-  how much money you have saved; and
-  which options you choose.

When you buy a life annuity, there are three key decisions you need to make:

- a. The type of increases you want to receive going forward;
- b. Whether or not your spouse should receive some income in the event that you pass away before your spouse (this is called the spouse's reversion); and
- c. Whether you want your beneficiaries to get anything if you pass away after you retire within a certain time (this is called a guarantee period).

It is important to remember that each of these decisions will affect the amount of monthly pension you receive. Let's take a closer look:

a. INCREASES

Think back on what things cost at the start of the millennium ... a loaf of white bread cost R3.25 in January 2000; and the cost this year is between R12 and R15, meaning that prices have more than tripled over the last 20+ years. As a working person, you receive salary increases to help combat inflation; but when you retire, you need to decide on the type of pension increase you want to receive. Imagine if you retired in 2000 and didn't receive an increase. Would you still manage to put food on the table? Importantly as well, medical inflation is generally higher than normal inflation and this is often a key issue for pensioners. The ability to ensure that your income will increase to take rising costs into account is very important. Life annuities are quite flexible, and set out below are short explanations of the types of pensions you can buy with respect to:

A LEVEL PENSION

A level pension offers no increase at all. This type of pension is risky, because your income will not keep pace with inflation. People sometimes take it because it offers the highest monthly pension payment initially, but if you think of the bread example above, the risk of inflation is dangerous.

A GUARANTEED INCREASE PENSION

This pension offers a guaranteed annual increase of, for example, 4%. This is better than the pension above, because it at least provides some increase in monthly pension, however it is not linked to inflation at all. If inflation exceeds the level of your guaranteed increase, the risk of the cost of living exceeding your income remains.

A "WITH-PROFIT" PENSION

This pension increase targets an inflation-related increase. The insurer manages the assets and depending on the investment return earned, will grant an increase. While the increases aren't guaranteed, the assets are very carefully managed, aiming to reach the targeted increases over time. While it is possible that in some years there will be no increase granted, it is also possible that in other years, the increases will exceed inflation. Your pension will also never decrease as increases may not be negative and, once granted, can never be taken away.

AN INFLATION-LINKED PENSION

This pension guarantees increases equal to inflation. While this may sound perfect, and is in fact the least risky option, it is also the most expensive pension. This means that the monthly pension you start with is the lowest out of all the pensions described above. It is sometimes said that you can eat well or sleep well, but not both!

b. SPOUSE'S PENSION

Often when couples live together, income and expenses are shared – at least to some degree. As a result, you may want to ensure that in the event that you pass away before your partner (if you have a partner), he or she will continue to receive an income. The amount of income is flexible – you can elect the level; for example, you can choose that 50% of your pension is paid to your spouse in the event that you pass away. Again, the cost associated with this option depends on a number of things, like your spouse's age and the level you choose. The cost of the spouse's pension will also affect your starting pension – if you include a spouse's pension, your starting pension will be lower than if you choose not to have a spouse's pension.

c. GUARANTEE PERIODS

Guarantees ensure that if you pass away within a certain period (e.g. within the first 5 years of the date that your pension started) your full pension will still be payable for the remainder of that period. Some people are concerned about what would happen if they purchased a pension and passed away shortly thereafter. To address this, you can choose to have a guarantee period applied to your pension. For example, if you choose to have a 5-year guarantee period, and you pass away in year 3, your full pension as at date of death plus increases will still be paid to your beneficiaries for the remaining two years as a lump sum. As with the other options, if you elect a guarantee period, the "cost" of it will translate into a lower starting pension.

2.2. CONSIDERING THE FUND'S DEFAULT ANNUITY - OLD MUTUAL FUND SELECT ANNUITY

If you are considering a Life Annuity - you should consider selecting the Fund's Default Annuity, the Old Mutual Fund Select Annuity (FSA).

Since there are so many annuity options at retirement, making the right choice can be difficult. That's why the ISASA Trustees offer you the FSA. The Trustees believe it is a good solution for many members because it is easy to invest in, and it provides a reliable monthly pension for life.

Best of all, it is cost effective because the charges you will pay are similar to those that are usually only available to staff of big companies, not individuals.

BENEFITS OF THE FSA:

- ✓ It is safe – as it will last your whole life;
- ✓ It is cost-effective – as it's offered to you at good rates that would normally only be available to employees retiring from a big company; and
- ✓ It is trusted – it has been chosen by your Fund trustees and is offered by Old Mutual.

Members who are ten years from retirement will receive an FSA quotation via e-mail. The quotation will give you a good idea of what you can expect to receive as a monthly income after retirement, based on your current Accumulated Credit. Thereafter you will receive these quotes every six months until you retire.

REMEMBER: The FSA does not replace personal financial advice. If you are unsure about any big financial decision, getting personal financial advice is always a good idea.

If the FSA sounds like it could be a good way for you to secure your retirement income for life, why not find out more by contacting **Old Mutual Fund Select Annuity Service Centre** on **0860 388 873** or email FundSelect@oldmutual.com



2.3 CONSIDERING A LIVING ANNUITY?

These annuities are usually deemed suitable for individuals with large accumulated savings that are more than sufficient to provide for their income needs during retirement. They are not deemed suitable for individuals who have not saved enough and want to risk all their capital in the market in the hope of achieving a higher investment return.

A **living annuity** works like an individual savings account. It is different to the Life Annuity explained above as it **does not guarantee income for life**.

You can draw money out of your savings account for as long as you are able to within certain limits – between a minimum of *2.5% a year and a maximum of 17.5% of your total balance. You also decide how to invest the money. Both the investment return earned, the amount you withdraw and how long you live would affect your income. You face both longevity risk – that is, the risk of outliving your savings and investment risk – that is, the risk that your investments don't perform well enough for you to maintain your standard of living.

**Due to the Covid-19 pandemic the drawdown rate has changed to between 0.5% and 20% effective 1 June to 30 September 2020.*

Once the money runs out or your balance is too little for you to live on, this option does not provide anything else. There are no safety nets to protect you from poor investment returns or living a long life. There are generally a wide range of investment options available and ongoing financial advice is usually required to select and maintain an appropriate investment strategy and determine a suitable income drawdown rate.

Unlike Life Annuities, the capital balance of a Living Annuity post a member's passing may be bequeathed to a beneficiary. The commissions and ongoing advice fees and investment management charges in respect of these products are often high and you should be aware of this in the event that you seek financial advice. That being said, good rates can be negotiated.



2.4 CONSIDER THE FUND'S DEFAULT ANNUITY - THE OLD MUTUAL MAX INCOME INVESTMENT FUNDED INCOME ANNUITY

If you are considering a Living Annuity - you should consider selecting the Old Mutual Max Income Investment Funded Income Annuity.

This living annuity allows you to choose which investment portfolio your retirement savings are invested into from a set of Trustee-selected investment portfolios. You also choose what percentage (also called a drawdown rate) of your total invested amount will get paid to you as an income.





In exchange for this flexibility, there is no guarantee that this income in retirement will continue for the rest of your life. You therefore need to make good decisions about how much income you want to receive.

Should you pass away before your capital is used up, the remaining amount can be left to your loved ones or form part of your estate or to be used to support a living annuity in the name of your nominated beneficiary.



3. RETIREMENT BENEFITS COUNSELLING

The Fund provides Retirement Benefits Counselling. Benefit Counselling means the disclosure and explanation, in clear and understandable language, including risks, costs and charges, of:

-  the available investment portfolios;
-  the terms of the fund's annuity strategy;
-  the terms and process by which a fund handles preserved benefits;
-  any other options made available to members.

Retirement Benefits Counselling will assist members with all product-related questions and queries and will provide information BUT NOT advice. Members who require advice should speak to a financial adviser.

FOR FREE GUIDANCE, call your Retirement Benefits Counsellor (RBC) on **0860 38 88 73**.



4. GENERAL NOTES

DIVORCE

If there is a **Decree of Divorce Order** against part of your retirement benefit in the Fund, the Fund is obliged to settle the value of the Divorce Order before paying any benefits to you. Thus, if you elect to purchase an annuity, the value of the divorce agreement will be deducted from your retirement fund benefit before the balance is transferred.

A divorce order is enforceable against the Fund if the following 3 requirements are met:

1. The Fund is named in or identifiable from the order;
2. The order must reflect that the fund should pay the pension interest to the non-member spouse; and
3. The amount or percentage of the pension interest due or assigned to the non-member spouse must be clearly specified.

The Fund's practice is that all three requirements above must be met.

HOME LOANS

If you have a **Housing Guarantee** provided by the Fund, the outstanding value of the guarantee will be deducted from your retirement fund benefit, before any part of the benefit is paid to you. You are liable for the income tax that must be paid as a result of the settlement of the housing guarantee. Thus, if you elect to purchase an annuity, tax will be deducted from the benefit in respect of the housing guarantee before the balance is transferred. Your Housing Guarantee will be settled if you become a Deferred retiree or elect to buy an annuity.





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DISINVESTMENT PROCESS

Your benefit in the Fund is invested in accordance with your investment choice or in the default LifeStage Model portfolio(s). The benefit will be disinvested from the market when the administrator has received official notice that you have left the Scheme via the electronic claim notification.

It is important to note that should you NOT complete the Benefit Option Section on the claim form, your benefit will remain invested in the market until such time as the administrator receives your election in writing.

A completed Retirement Benefit claim form which does not confirm the option selected, merely serves as notification that you have left employment, it does not serve as notification that you are exiting the Scheme.

Once your benefit has been disinvested from the market, the benefit will remain in the Fund's bank account until the administrators are in a position to pay your benefit. Interest will then be added to your benefit at call rates earned in the Fund's bank account from date of disinvestment to the date of payment of the benefit.

It is thus important that all relevant documentation related to the payment of your benefit and your retirement from the Fund be communicated to the administrator before you leave the Fund, failing which your benefit will remain in the Fund's bank account.



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5. HOW TO CLAIM YOUR BENEFIT FROM ISASA PENSION FUND?

- ✓ Go to your Bursar/HR
- ✓ Complete the Retirement Benefit Claim Form

Please ensure the following documents are attached to your Claim Form:

- ✓ A certified copy of your Identity Document (ID).
- ✓ A copy of your bank statement to confirm your banking details in the case of a cash withdrawal.
- ✓ Original certified copy of Divorce Order (if applicable).
- ✓ Annuity forms (including the financial adviser's/broker's name and contact details) or a letter stating your intention to transfer the full or part of the benefit containing the institution's contact details and policy details (if applicable).
- ✓ Latest statement of home loan if applicable.
- ✓ A copy of your latest utility bill (for FICA purposes).

If all the above requirements are met and your tax affairs are in order, your fund benefit should be paid within four weeks after receipt of all relevant documents.

6. HOW TO CLAIM YOUR BENEFIT IF YOU HAVE ELECTED THE DEFERRED OPTION?

Contact the Fund Administrator, Old Mutual on **0860 455 455**, alternatively you may send an email to isasa@oldmutual.com.



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7. WHO TO CONTACT?

Members have access to the following channels for enquiries and management of retirement funding issues:



You may **log onto** www.isasapensionfund.co.za for more information. Make sure you view the Fund's three videos.



Old Mutual Website <http://www.oldmutual.co.za/about-us/self-help-services/online-secure-services.aspx> This enables you to have access to your retirement funding via the Internet.



Old Mutual Service Centre number: 0860 455 455
This enables you to make telephonic enquiries with regard to your accumulated credit.



Old Mutual e-mail address: isasa@oldmutual.com
This enables you to make electronic enquiries with regard to your accumulated credit.



Old Mutual fax number: (021) 509-2564
This enables you to enquire in writing with regard to your accumulated credit.

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"The goal of retirement planning is to create a plan. It feels silly to come out and say that, but from what I've seen, most investors never actually take the step of creating a concrete plan. Instead, they read a few articles about various retirement planning topics and they leave it at that. (And many investors don't even do that much.) The more specifically you've planned how you'll manage your portfolio — and your finances in general — the less likely it is that you'll have to go back to work or dramatically reduce your spending later on in retirement."

- Mike Piper

