

1 March 2023

Transfer of the Independent Schools Association of Southern Africa (ISASA) Provident Fund into the ISASA Retirement Fund (Part II)

Volume 2 Communication

Dear Bursar

We wrote to you in October 2022 confirming the Board of Trustees' decision to transfer the Provident Fund membership to the Pension Scheme on 1 March 2024.

This decision was based on changes made to the taxation structure of provident funds at **retirement** from 01 March 2021 and to improve members' benefit outcomes. In light of these changes, the Board also resolved **to change the name of the Pension Scheme to the Independent Schools Association of Southern Africa Retirement Fund**. We are happy to advise that the Financial Sector Conduct Authority (FSCA) approved the name change on 16 February 2023.

Based on our discussions with Bursars and queries received, we now clarify the options available to schools that are currently participating in the Provident Fund.

A: If the school only participates in the ISASA Provident Fund

We will register your school as a participating employer in the Retirement Fund (Part II). The school and members will be able to contribute at the same rate as they did in the Provident Fund. The normal retirement age will remain the same, the death cover will improve, and the disability benefit will remain largely unchanged. There will be changes to the premium rates for death (0.20% decrease in rates) and disability cover (0.021% increase), but the net effect will be roughly neutral.

B: If the school participates in the ISASA Retirement Fund and ISASA Provident Fund.

The transfer from the Provident Fund will be to the Retirement Fund Part II. If the contribution rates between the Retirement Fund Part II and Provident fund are different, the school will have the following options:

- Create another category in the Retirement Fund Part II so that the Provident Fund contribution rates can transfer into it.

The Death Cover for this option is 0.55%

Or

- Change the Provident Fund contribution rates to match those of the Retirement Fund Part II members. In this case, the Death Cover option will be the same category for all members in Part II. In other words, if the school chose the 1.55% Death Cover category, all the Provident Fund members transferring into the Part II Retirement Fund will have the same cover.

Provident Fund members 55 or over

According to the changes in the tax legislation, **members aged 55 or over on 1 March 2021** can still take their full benefit in cash when they retire, provided they retire from the same fund.

When the ISASA Provident Fund members transfer to the Retirement Fund Part II on 1 March 2024, the value of the member account in the Provident Fund will be transferred and ring-fenced in a separate “vested pot” in the Retirement Fund Part II. **At retirement, the full value of this “vested pot” plus investment growth will be available to the member as a cash lump sum.**

Contributions to the new fund (Retirement Fund Part II) from 01 March 2024 will go into a second “non-vested pot”. **At retirement, the value of this “non-vested pot” plus growth will be subject to the annuitisation regime.** In other words, this second “non-vested pot” must be used to purchase an annuity at retirement if the lump sum exceeds the threshold of R247 500. If the lump sum at retirement is below the threshold, it may also be taken as a cash lump sum, together with the cash lump sum in the “vested pot”.

For example, if a member has R1 million in the first pot at retirement, this can be taken in a cash lump sum. If the member has R300 000 in the second pot, they can still take R100 000 as a cash lump sum and annuitise R200 000.

We expect **fewer than 20% of the ISASA Provident Fund members 55 or over on 1 March 2021 will accumulate more than R247 500 in their second “vested pot” and will need to annuitise that portion of their retirement savings.**

Provident Fund members below 55

According to the **changes in the tax legislation, provident fund members under 55 on 1 March 2021 have vested rights on their fund values. When they retire, they can take this vested benefit in a cash lump. After 1 March 2021, the annuitisation law will be applicable.**

When the ISASA Provident Fund members transfer to the Retirement Fund Part II on 1 March 2024, their vested rights in the Provident Fund will be ring-fenced in a separate “vested pot” in the Retirement Fund Part II. Their non-vested contributions from 01 March 2021 in the Provident Fund will be transferred to the non-vested pot in the Retirement Fund Part II.

At retirement, the full value of this “vested pot” plus investment growth will be available to the member as a cash lump sum. The second “non-vested pot” must be used to purchase an annuity at retirement if the lump sum exceeds the threshold of R247 500. If the lump sum at retirement is below the threshold, it may also be taken as a cash lump sum, together with the cash lump sum in the “vested pot”.

We project that roughly 10% of ISASA Provident Fund members will be below the threshold balance **at retirement and still be able to take their second-non-vested retirement savings as a cash lump sum.**

The Death Cover (expressed as multiples of annual Pensionable Salary) for the Provident Fund and Retirement Fund Part II members as of 1 March 2023 are as follows:

Age Bands	Provident Fund	Retirement Fund (0.55% Category)	Improvement
Age 18-35	2.97	3.66	0.69
Age 36-40	2.52	3.43	0.91
Age 41-45	1.95	3.29	1.34
Age 46-50	2.06	2.84	0.78
Age 51-55	1.84	2.72	0.88
Age 56-60	1.63	2.68	1.05
Age 61-64	1.52	2.44	0.92
Age 65-69	1.74	1.95	0.21

As seen in the table above, the death benefit multiples of current Provident Fund members improve significantly when they transfer to the Retirement Fund. **Not only does the death cover increase, but the premium also reduces from 0.75% of pensionable salary to 0.55% of pensionable salary.**

Schools will also have the option to transfer these members to other death benefit categories with even higher cover. This would, however, require an increase in premium to either 1.05% or 1.55% of pensionable salary.

Improvements in cover if they transfer to 1.05% Death Cover Category

Age Bands	Provident Fund	Retirement Fund (1.05% Category)	Improvement
Age 18-35	2.97	7.32	4.35
Age 36-40	2.52	6.87	4.35
Age 41-45	1.95	6.59	4.64
Age 46-50	2.06	5.59	3.53
Age 51-55	1.84	5.04	3.20
Age 56-60	1.63	4.25	2.62
Age 61-64	1.52	3.80	2.28
Age 65-69	1.74	2.79	1.05

Improvements in cover if they transfer to 1.55% Death Cover Category

Age Bands	Provident Fund	Retirement Fund (1.55% Category)	Improvement
Age 18-35	2.97	10.53	7.56
Age 36-40	2.52	9.98	7.46
Age 41-45	1.95	9.34	7.39
Age 46-50	2.06	8.70	6.64
Age 51-55	1.84	7.87	6.03
Age 56-60	1.63	6.41	4.78
Age 61-64	1.52	5.49	3.97
Age 65-69	1.74	3.80	2.06

The Disability Benefits for the Provident Fund and Retirement Fund are as follows:

	Provident Fund	Retirement Fund
Premium Rate	1.016%	1.037%
Basic Benefit	87% (75% pensionable salary plus 12% Employer Waiver). The benefit may not exceed the member's total Guaranteed Package after the deduction of tax at the start of the waiting period.	87% (75% of pensionable salary plus 12% Employer Waiver) The benefit may not exceed the member's total Guaranteed Package after the deduction of tax at the start of the waiting period.
Maximum Benefit	R165 000 p.m.	R165 000 p.m.
Waiting Period	3 months	3 months
Escalation	CPI with a maximum of 4%	CPI to a maximum of 4%
Employer waiver	12%	12%
Death Cover	Continues while in receipt of this benefit	Continues while in receipt of this benefit
Free Cover Limit	R120 000 p.m.	R136 000 p.m.

As can be seen, the free cover limit improves when the member transfers into the Retirement Fund Part II, although the premium rate increases by 0.021%. The increase in the disability benefit premium of 0.021% is virtually offset by the reduction in the death benefit premium of 0.20%

Note that death and disability benefits are reviewed annually, and, we will confirm the rates closer to the transfer time.

There is also impending legislation to introduce **a Two-Pot system on 1 March 2024**. Under the two-pot retirement system, two-thirds of a member's contributions will go into a **retirement pot** and **one-third into a savings- pot**. Further details will follow.

The Provident Fund schools must complete Annexure A or B and return it to the Fund by 15 May 2023. Should you require further information, please contact the Consulting Team below.

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ANNEXURE A: SCHOOLS THAT ONLY PARTICIPATE IN THE ISASA PROVIDENT FUND (PARAGRAPH A)

Name of School			
Contribution rates	Transfer the current Provident Fund contribution rate to the newly opened Retirement Fund Part II	YES	NO
Death Cover	Transfer the Provident fund membership into the 0.55% category of death cover	YES	NO
If NO, please provide reasons			
Signed by the duly authorised employer representative			
Date			
Email by 15 May 2023	Sibusiso Mkiva <SMkiva@oldmutual.com>		

ANNEXURE B – SCHOOLS THAT PARTICIPATE IN THE ISASA PROVIDENT FUND AND ISASA RETIREMENT FUND PART II (PARAGRAPH B)

Name of School			
Contribution rates	Transfer the Provident fund members to the same contribution rate as the current Retirement Scheme Part II members.	YES	NO
Death Cover	Transfer the Provident Fund members to the same Death Cover Category as the Retirement Fund Part II members.	YES	NO
If NO, please provide reasons			
OR			
Contribution rates	Transfer the members into the Retirement Fund with the same contribution rate as the Provident Fund	YES	NO
Death Cover	Transfer the members into the Retirement Fund in the 0.55% Death Cover Category		
If NO, please provide reasons			
Signed by the duly authorised individual at the employer			
Date			
Email by 15 May 2023	Sibusiso Mkiva <SMkiva@oldmutual.com>		