Incentivised Retrenchment and Early Retirement

Voluntary Retrenchment and your Retirement Fund Benefit

What happens to my UCTRF benefit if I take voluntary retrenchment?

Your risk benefits will cease within 30 days of leaving service. You have the option to convert your separate group life cover to an individual life policy free of underwriting. (This does not include your disability cover.)

You have the following options in respect of your Fund credit

- Leave your benefit in the Fund (deferred pensioner);
- Transfer it to your new employer's retirement fund;
- Transfer it to a preservation fund;
- Transfer it to a retirement annuity;
- Cash lump sum;

Leaving your benefit in the Fund

- You remain a member of the fund but no further contributions are payable (and there is no risk cover)
- Your benefit will continue to earn fund returns
- You have the same investment options
- A monthly administration fee is payable from your fund credit
- Your full benefit can be transferred to another fund or taken in cash at any time (once amendment 5 is registered)
- You have the choice to remain on the fund until you retire.

Transferring your benefit to your new employer's retirement fund

- There is no tax payable
- You will need to complete the necessary forms (RoT)
- Most employer funds do not charge an additional administration fee if you add additional assets to your fund credit under their fund
- You will be subject to the terms and conditions of your new employer's fund
- You will not have access to your benefit until you leave your new employer's service
- You need to compare costs and returns
- If you transfer to a pension fund, you will not be able to take the full benefit in cash when you retire

Transferring your benefit to a preservation fund

- There is no tax payable on transfer
- You will be subject to the rules of the preservation fund
- You may take one cash withdrawal before retirement (but it will be taxed)
- You cannot make any further contributions
- You will need to ensure that you understand the fees and the investment portfolios available
- There may be commission payable if you do this through a financial advisor

Transferring to a retirement annuity

- There is no tax payable on transfer
- You will be subject to the rules of the retirement annuity fund
- You can't withdraw your cash until you reach 55
- You will not be able to take the full benefit in cash when you retire
- You can make further contributions (depending on the retirement annuity rules)
- You will need to ensure that you understand the fees and the investment portfolios available
- There may be commission payable if you do this through a financial advisor

Taking your benefit as a cash lump sum

Because this is a benefit payable on retrenchment, it will be taxed the same as on retirement BUT this will reduce the tax free amount available to you when you retire.

*Note an ordinary withdrawal from service is taxed at higher rates.

Early Retirement
What needs to be considered

Questions to ask

- How much do I have?
- How much do I need?
- How much pension can be purchased with the benefit I have?

How much do I have?

- Your Annual Benefit Statement
- UCTRF website link to the Sanlam Retirement Fund Web or go straight to https://www.retirementfundweb.co.za/
- Register in a few easy steps – your username is you member number
- Check your balance whenever you need to

How much do I need?

- This is a much more difficult question!
- For most members, the Retirement Fund Benefit is the largest asset they will ever own
- Sources of guidance include the retirement calculator and financial advice

Change in expenditure at retirement

- Some expenses will reduce:
  - You won't be saving for retirement any longer
  - You won't be travelling to work every day
  - Your home may be paid off, and so on
- Others may increase, especially medical expenses
- Conventional wisdom is that one should aim for a 70%-80% *replacement ratio*, i.e. ratio of post-retirement income to pre-retirement
- But that's a blunt weapon: takes no account of a member's personal circumstances or retirement age.

How much pension can be purchased with the benefit I have?

It is important to understand how much pension your benefit in the UCTRF can purchase. The cost of your pension is affected by a number of factors:

- The total amount saved
- How much you take in cash on retirement
- How old you are when you retire
- If you are male or female
- What type of pension you want (e.g. do you want your pension to increase over time/do you want a spouse's pension).
- The annuity rates on the day you retire.

Try the Retirement Calculator in the **Toolbox** on the UCTRF website for projected Retirement Benefits based on your chosen options.
www.uctrf.co.za

Why not retire early?

- Thanks to the magic of compound interest, the greatest gains (in Rand terms) on your accumulated savings will occur between the ages of 60 and 65; so you'll have more cash if you delay retirement.
- And because life expectancy reduces with every additional year, every Rand of accumulated retirement benefits will purchase you more retirement income the later you retire; so your income conversion rate is improved.
- The combined effect means a healthier post-retirement income if you delay retirement as long as possible.

The Case of Careful Kevin

- Kevin is 54 and has worked at UCT for 10 years. He earns R14 000 a month.
- Kevin's DPA is 80% of his CoE. When he joined UCT he transferred his retirement benefit from his previous employer to the UCTRF and he now has R1 500 000 saved in the fund.
- If Kevin retires at 55 he will have saved a total of **R 1 607 353 .** This will buy him a pension of **R6 408** (i.e. **46%** of his CoE).
- If Kevin waits to retire at 65 he will have **R3 971 941** which will by him a pension of **R22 559.** In **today's terms** this is the equivalent of R11 884 - i.e. **85%** of his CoE).

*Calculations done assuming no lump sum taken on retirement and no spouse's pension.

What happens on early retirement from UCT?

Your risk cover will cease 30 days after your last day of employment. However, you have the **option** to continue cover under the **separate UCT group life arrangement** until 65 and pay the monthly premium by debit order.

- **You can defer your retirement from the Fund**

  In this case your benefit will remain in the Fund until you decide to retire. No further contributions will be made but the normal investment choices apply. You can choose when you want to retirement from the Fund.

- **You can retire from the Fund**

  In this case you will be paid a benefit from the Fund.

The UCTRF is a *Provident fund*: benefit provided as a lump sum, with member options for conversion into a retirement income.

Choosing between cash and a retirement income

- If you take cash you will be taxed. What you take in cash, you sacrifice in income. But anything converted to income will be taxed, so it's worth considering taking the tax free amount in cash. This can be converted into an annuity on more favorable terms, if desired (so-called Compulsory Purchase Annuity).
- Other considerations would depend on your personal circumstances such as outstanding debt, plans post retirement etc.

Tax implications on retirement/severance

Lump sum tax rates:

R0 – R500 000	0%
R500 001 – R700 000	18% of the amount exceeding R500 000
R700 001- R1 050 000	R36 000 plus 27% of the amount exceeding R700 000
R1 050 001 and above	R130 500 plus 36% of the amount exceeding R1 050 000

AIPF transfer value tax-free, in addition to the above.

These tax levels & rates are cumulative per taxpayer over their lifetime. Contributions previously disallowed for tax purposes will be added to the tax free amount.

Any tax tree amount taken on withdrawal after 1 March 2009 will reduce the tax free amount of R500,000 at retirement. In addition, any tax free amount received on retrenchment (including any tax free amount received from your employer as a severance package) will reduce the tax free amount available on retirement.

What type of Pension?

This is the biggest decision you'll need to make at retirement, so it's worth spending some time outlining the respective features of each.

There are various types of annuities available

- **Living annuities**

  These can be provided by the Fund or a licensed provider in the market.

- **Guaranteed Pensions**

  There are various types available and you will need to choose a suitable one depending on your personal circumstances.

Taking financial advice is advisable!

Speaking to a financial advisor

- Financial advisor checklist:
    - Ask for referees/clients
    - Necessary FSB & FAIS registration?
    - Preferably CFP-qualified (or with equivalent professional credentials)
    - Independent or affiliated?
    - Relationships/networks with other players in the financial services sector?
    - Ensure costs and commissions disclosed in full
    - Be aware of vested interests; you want impartial advice!

- HR & UCTRF – provide information, not advice

Useful information sources

www.uctrf.co.za

www.retirementfundweb.co.za

www.fpi.co.za

hr.uct.ac.za

Retirement Seminar on 27 July for over 55s and on 25 August for under 55s

There will also be a Retirement Workshop on 15 September for those members who are retiring to assist with obtaining retirement quotes

HR information on Early Retirement

PROCESS FLOW

- http://www.hr.uct.ac.za/sites/default/files/image_tool/images/236/IER_VSP_process_flow.pdf

Tax implications on retirement/severance

NB:

- Tax affairs must be in order (IT 88s)
- Previous retrenchment or cash-in of annuities will be taken off first
- Must choose whether first R500 000 tax free will be taken into account for leave pay or retirement benefit or both

Other considerations on early retirement

- UIF payable on voluntary severance and early retirement – around 6 months
- Leave Pay – based on CoE
- Email for life
- Staff tuition rates and library facilities
- Post-retirement medical aid subsidy (2% per annum wef June 2000 to a maximum of 50% of Coastal Saver)

Other considerations on early retirement

Member Detail	2016 Subsidy
Principal member	**931**
Member + adult dependant	**1630**
Member + child dependent	**1306**
Member + adult + child	**2005**
Member + adult + 2 children	**2380**

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- The Fund, the Fund Trustees, the Principal Officer and UCT do not accept responsibility for any loss or damage suffered resulting from any action taken by any representee based on this presentation or any discussions relating thereto.
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Thank you

Questions?