



UCT RETIREMENT FUND

Secure your future – it's never too late to start



# Incentivised Retrenchment

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# HR information on *Voluntary* Retrenchment

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## PROCESS FLOW

& [http://www.hr.uct.ac.za/sites/default/files/image\\_tool/images/236/IER\\_VSP\\_process\\_flow.pdf](http://www.hr.uct.ac.za/sites/default/files/image_tool/images/236/IER_VSP_process_flow.pdf)





## Tax implications on severance

Lump sum tax rates:

✂ <b>R0 – R500 000</b>	0%
✂ <b>R500 001 – R700 000</b>	18% of the amount exceeding R500 000
✂ <b>R700 001- R1 050 000</b>	R36 000 plus 27% of the amount exceeding R700 000
✂ <b>R1 050 001 and above</b>	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 free 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.



## Tax implications on 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 – around 6 months
- ⌘ Leave Pay – based on CoE



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# What you need to know about your UCTRF benefit

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## What happens to my UCTRF benefit on 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

- No tax is payable.
- 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.
- You have the choice to remain on the fund until you retire.

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## Transferring your benefit to your new employer's retirement fund

- There is no tax payable on transfer.
- 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 need to complete the necessary forms (RoT).
- You will be subject to the rules of the preservation fund.
- You may take one cash withdrawal before retirement (but it will be taxed as a normal withdrawal and not a retrenchment benefit).
- 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 need to complete the necessary forms (RoT).
- 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.

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## 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.



# What you need to know before you choose to take cash

It is important to understand the implication of taking cash on your retirement benefit.

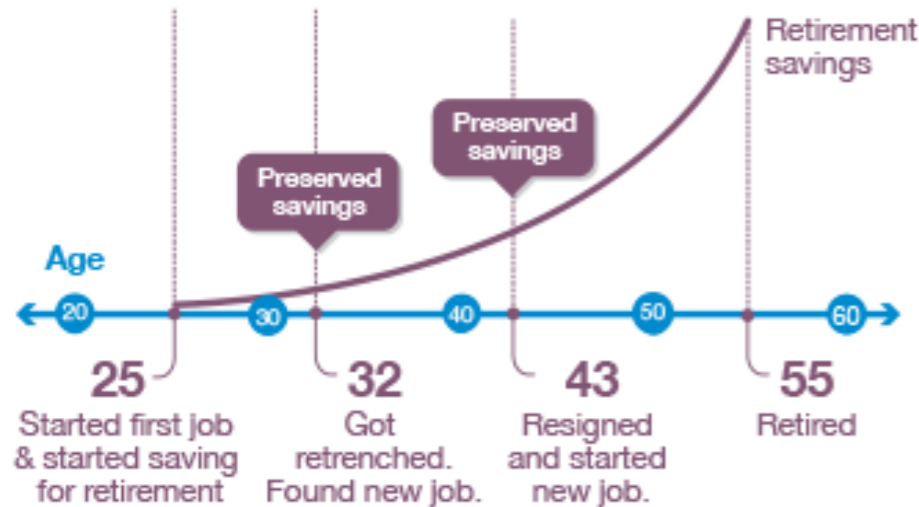
- Tax
- Loss of capital
- Loss of interest



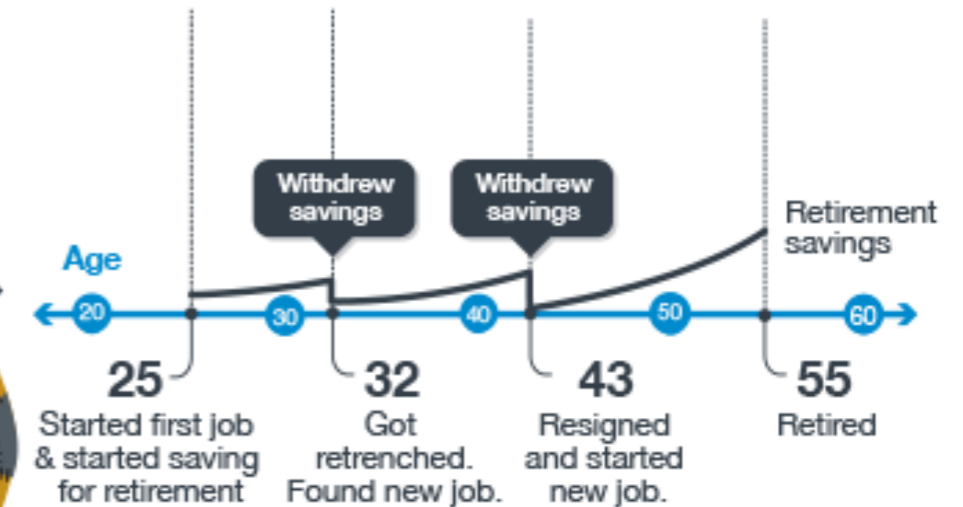
# The Power of Preservation

Why you should reinvest all your retirement money when changing jobs

## Scenario 1: Thembi preserved her savings & retired comfortably



## Scenario 2: Thembi cashed in her savings & retired short on cash



**R 496 317**

Total capital contribution over 30 years

**R 496 317**

Total capital contribution over 30 years

**R 1 017 226**

Interest earned in retirement fund

**R 203 484**

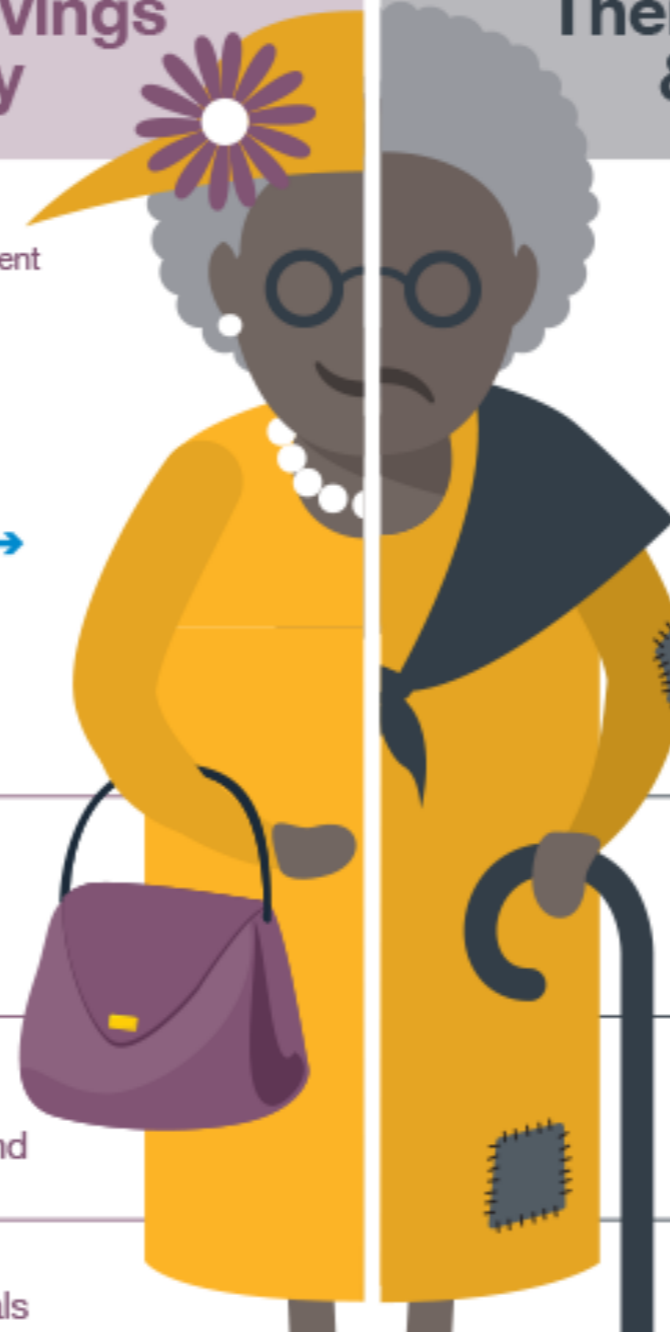
Interest earned in retirement fund

**R 0**

Total withdrawals

**R 261 072**

Total withdrawals



R 0

Total withdrawals  
over 30 years

R 261 972

Total withdrawals  
over 30 years

R 1 513 543

Total retirement  
savings after 30 years

R 527 079

Total retirement  
savings after  
30 years

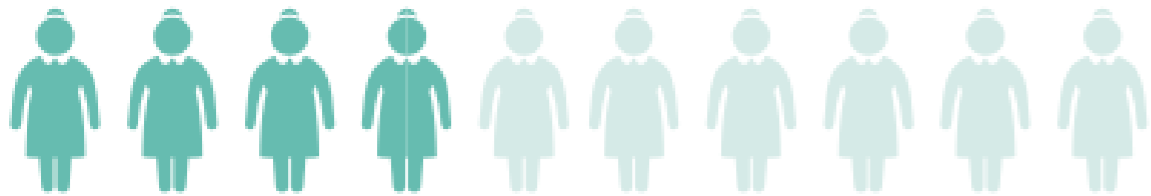
Almost 3x the savings, simply by preserving

Assumptions: 9% p.a. interest earned on retirement savings; starting salary of R5000 p.m.; salary increases by 7.5% p.a. on average over career; contributes 8% of gross salary to retirement savings.

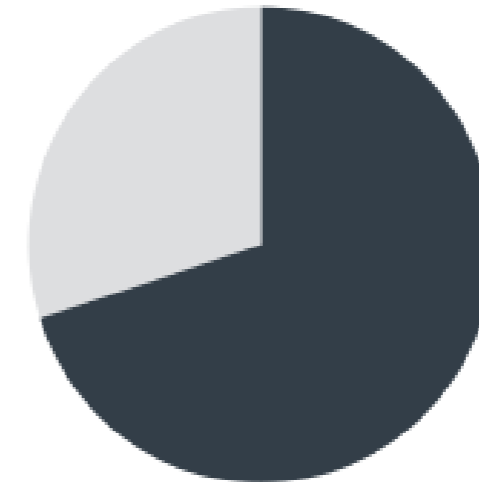
77% of members took some or all of their benefits in cash when withdrawing from a retirement fund. Of these:



45% did not understand the impact on their savings



39% regret withdrawing their savings early



70%

of retirement fund trustees believe not preserving is one of the biggest mistakes a member can make





# Insufficient understanding



"Small"  
80 – 140m<sup>2</sup>

**R 900 000**



"Medium"  
141 - 200m<sup>2</sup>

**R 1 300 000**



"Large"  
221 - 400m<sup>2</sup>

**R 2 000 000**



Female, aged 55

**R 4 285 p.m.**

**R 6 189 p.m.**

**R 9 522 p.m.**

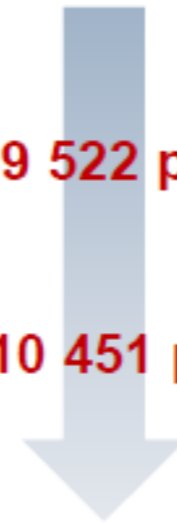
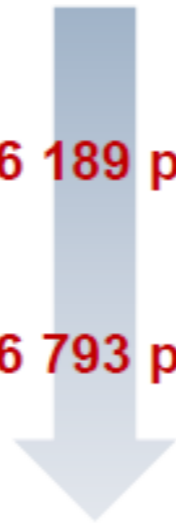
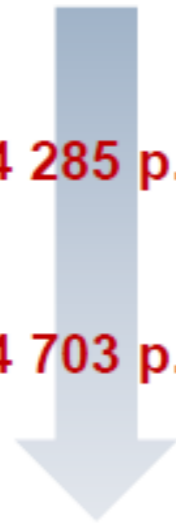


Male, aged 55

**R 4 703 p.m.**

**R 6 793 p.m.**

**R 10 451 p.m.**



Only 10.6% of retirees scaled down their residence.  
84% did not scale down.

\*Assumes single person, buying a guaranteed annuity, payments are guaranteed for 10 years after retirement, payments increase by 5% p.a.  
Masthead Annuity and Investment Rates applicable from 28 Mar – 1 Apr 2016; ABSA House Price Index January 2016

N = 151





## 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



## 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



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## Useful information sources

[www.uctrf.co.za](http://www.uctrf.co.za)

[www.retirementfundweb.co.za](http://www.retirementfundweb.co.za)

[www.fpi.co.za](http://www.fpi.co.za)

[hr.uct.ac.za](http://hr.uct.ac.za)





## Disclaimer

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Thank you

Questions?

