SURF
STELLENBOSCH UNIVERSITY RETIREMENT FUND | STELLENBOSCH UNIVERSITEIT AFTREDEFONDS

Stellenbosch University Retirement Fund (SURF): Guide to the retirement process

The essence of this guide

To help SURF members navigate the process of retirement.

1. Introduction

Your pre-retirement decisions about your financial future will determine what your years in retirement will look like. Among others, it is important to consider how much your monthly living expenses add up to, as your monthly pension should at least be enough to cover those. In addition, you should ensure that your pension will grow to protect yourself against inflation.

This guide is intended to help you make informed decisions regarding the Stellenbosch University Retirement Fund (hereinafter 'the Fund'). Please read through it carefully and consult a financial adviser if you need any further assistance. If you are over 53, you qualify for free financial advice from a member of our panel of advisers. (See also section 7 for more in this regard.)

For any other assistance, please contact the Human Resources Client Service Centre at 021 808 2753 or sun-e-hr@sun.ac.za.

2. Background: How does the Fund work?

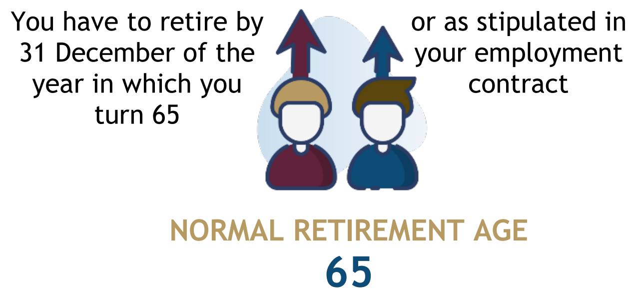
The Fund is a defined-contribution fund. This means that contributions are calculated as a fixed percentage of a member's pensionable salary and paid into the Fund on a monthly basis. These contributions are then invested with the aim of earning an investment return. All investment returns, including interest and capital growth, are allocated daily as investment income. The Fund's assets are invested in balanced investment portfolios that include investments in various asset classes, namely shares, bonds and property. The market value of these assets can be volatile, so the growth on these investments constantly changes and could even be negative over certain periods.

In addition, as part of employees' cost to company, SU pays monthly contributions (insurance premiums) for death and disability cover. The Fund's administration costs are also paid from these contributions. A SURF member's accumulated contributions, together with the growth on investment, represent the person's fund credit.

3. Retirement age

The normal retirement age is 65 (i.e. you have to retire by 31 December of the year in which you turn 65) or as stipulated in your employment contract.

Deciding at what age to retire is important. Your fund credit, together with any other funds you may have saved up, must be sufficient to support you throughout your retirement. The later you retire, the more time your fund credit has to grow.



4. Retirement benefit

When you retire, you may choose to take all or a portion of your vested pot contributed up to 28 February 2021, plus growth thereon, in cash. You may also take your savings pot in cash. The balance is used to buy an annuity (pension). The Fund's administrators, who will be calculating your fund credit, need to know what portion of your benefit you wish to withdraw in cash and/or in what annuity product you wish to invest (the balance of) your fund credit. More information is available here.

5. Options available at retirement

5.1 Defer retirement from the Fund, i.e. take your retirement benefit at a later stage

Choosing this option will make you a 'deferred' or 'phased retiree'. This means that your money will remain invested in the same portfolio in the Fund until such time that you choose to retire from the Fund. You will still be able to make investment choices and switch your investments. If you are employed by SU on a temporary basis and the contributions are deductible via payroll, you will also be able to make further contributions. However, the approved life cover (spouse's and children's pension) will cease upon retirement from employment.

If you pass away while being a deferred retiree, the provisions of section 37C of the Pension Funds Act will apply. The trustees of the Fund will decide on the allocation of the death benefit, taking into account the beneficiaries nominated on your beneficiary nomination form. This is why it is important to keep your nomination form up to date.

Deferred retirees should also keep the Fund informed of their contact details to ensure ongoing communication.

5.2 Transfer your full retirement benefit to a retirement annuity fund

You have the following annuities to choose from:

5.2.1 Life or guaranteed annuity

A guaranteed annuity is a contract between you and the insurance company under which the insurer undertakes to pay you a regular monthly pension for the rest of your life in exchange for you paying a set once-off amount to the insurer. This type of annuity protects you from exhausting your retirement capital.

The Fund does not guarantee the amount of the monthly income, as the monthly amount depends on:

- the value of your retirement benefit under the Fund;
- what portion of your benefit you used to buy a pension product; and
- the benefits that the specific insurance company offers.

Insurers consider many factors when calculating the monthly amount that you will receive. While these factors are set out briefly below, please also discuss them in greater detail with a financial adviser.

Your age

Insurers require a larger initial amount from a younger retiree. This is because a younger person is expected to live longer post-retirement, in which case the insurer expects to make more pension payments. For the same reason, an older person with the same capital amount will be able to buy a larger monthly pension.

Provision for your spouse

You can arrange for pension payments to continue after your death, in which case it will be paid to your spouse or another person you have nominated. Insurers set a higher asking price for a pension product that provides for a spouse or other beneficiary, as they expect to pay this type of pension for a longer period. Therefore, although your monthly pension will be smaller, you will have the peace of mind that you have provided for the financial care of your spouse or another dependant after your death.

Inclusion of a guaranteed payment period

Normally, if you are unmarried or have not provided for a spouse's pension, and you die shortly after your retirement, your pension payments will stop or reduce. However, you could consider including a guaranteed payment period in your pension contract in order for your full pension to continue to be paid to your nominee or estate for the remainder of the guaranteed period.

The most common guaranteed periods are either five or ten years.

A pension product that provides for a guaranteed period will cost somewhat more.

Provision for pension increases

If your pension amount remains the same each year, inflation will start eating away at the buying power of your pension. Say, for instance, that the cost of living increases by 6% per year, but your pension remains unchanged. Twelve years into retirement, you will be able to afford only half of what your pension could buy when you retired. Therefore, it is vital that you provide for pension increases through your life annuity. This is done in various ways.

A pension that does not provide for sufficient future increases will deliver greater income in the early years of your retirement, but as you grow older, your standard of living will fall dramatically.

5.2.2 Living annuities

With a living annuity, your lump sum is invested in an investment portfolio of your choice, which is linked to your annuity. Once a year, you decide what level of income you wish to withdraw from this investment portfolio. This must be between 2,5% and 17,5% of the market value of the investment. The difference between the amount that you withdraw from the investment and the return that the investment has earned is reinvested so that the investment portfolio can continue growing. Therefore, the smaller the amount you withdraw each year, the larger your investment portfolio will become.

However, living annuities do carry certain risks, such as that:

- inflation may overtake the buying power of your investment portfolio if your initial withdrawals are too high;
- you might use up your entire pension before you die; and
- you carry the full investment risk attached to the portfolio yourself.

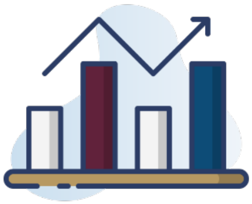
You will need expert advice to decide on a suitable living annuity product, the level of the annual withdrawal, and a wise investment strategy. If you are interested in purchasing such a product, please consult a financial adviser.

5.2.3 In-fund living annuity

The Fund's in-fund living annuities offer a seamless transition from contributing member to pensioner. If you choose to participate in the in-fund living annuities, you don't have to leave the Fund on retirement. The amount you saved up for retirement as a member of the Fund and that is not taken as a cash lump sum will be used to buy you a monthly pension.

The Fund offers both a default and a customised option. The **default option** represents the trustees' view of the best option for the average member. Withdrawal rates under the default option are fixed, and no investment choice is allowed. Specifics about the default option are as follows:

- A minimum amount of R247 500 is required.
- The administration fee is 0,1% of your assets per annum, capped at an asset value of R4 million.
- The investment base fees are approximately 1% of assets per annum.
- In the event of your death, the benefits are distributed in terms of section 37C of the Pension Funds Act. A spouse can continue with the in-fund living annuity.
- You can opt out at any time and transfer the benefit to an approved life or living annuity at another approved provider in terms of section 14 of the Pension Funds Act.
- You cannot transfer money into the Fund from other approved funds at or after your retirement date.



In contrast, the **customised option** offers members an investment choice as well as more flexibility in terms of withdrawal rates.

Current withdrawal rates are as follows:

Age band	Trustees' Default option withdrawal rate for males	Trustees' Default option withdrawal rate for females*	Customised option withdrawal rate for males and females
55 to 59	4.0%	3.5%	2.5% to 7.0%
60 to 64	4.4%	3.8%	2.5% to 8.0%
65 to 69	4.9%	4.2%	2.5% to 9.0%
70 to 74	5.6%	4.7%	2.5% to 10.0%
75 to 79	6.3%	5.2%	2.5% to 12.0%
80 to 84	7.3%	5.8%	2.5% to 15.0%
85 and older	8.7%	7.0%	2.5% to 17.5%

You may switch from the default option to the customised option at any time. Switching from the customised option to the default option, however, is only possible on the anniversary of your retirement.

5.3 Take a portion in cash, and use the rest to buy an annuity (pension)

You will be liable to pay tax on any portion of your retirement benefit that you withdraw as a cash lump sum. This tax is calculated according to the South African Revenue Service (SARS) retirement tax table. Please ask a financial adviser to assist you with information on how much tax you will pay according to the specific lump sum you might consider taking. Also take note of the retirement reforms that took effect on 1 March 2021.

Should you opt to take part of your benefit in cash and use the rest to purchase an annuity, the rest of your funds will then be transferred to the annuity provider of your choice, who will purchase your chosen pension product (see outline of options under 5.2). From that point onwards, you will receive a monthly income from the annuity you bought. The monthly pension amount is taxable.

5.4 Take your full retirement benefit as a cash lump sum

Taking your full retirement benefit in cash will render you liable for tax as per the SARS retirement tax table. It is best to consult a financial adviser to explain the full tax implications of this option to you. Be sure to give the adviser full details of all other provisions for retirement you have made so as to obtain the most accurate advice.

The Fund administrators are obligated to deduct your tax liability directly from your lump sum payment and pay out only the net benefit to you. Payout to you may only be made once SARS has issued the administrators with a tax directive. If your tax affairs are not in order, SARS may withhold the directive, which will delay payout of your retirement benefit.

6. Retirement fund benefit counselling

Since 1 March 2019, the Fund has been offering face-to-face retirement benefit counselling to members before they retire from the Fund. During a retirement benefit counselling session, members receive a clear and easy-to-understand explanation of the risks, costs and charges of the available Fund options.

More specifically, members will be guided through:

- the available investment portfolios;
- the preservation options available in the Fund;
- the Fund's annuity (pension) strategy; and
- any other available options.

Some six months prior to your normal retirement date, the retirement benefit counsellor will send you a retirement information document. It will explain the Fund's annuity strategy and the options offered by the Fund. The document will include illustrative quotations for an inflation-linked annuity from three preferred service providers, namely Momentum, Sanlam and Just SA, as well as illustrative drawdown rates of the in-fund living annuity. Thereafter, the counsellor will contact you to arrange a face-to-face session.

Note, however, that retirement benefit counselling does NOT include advice, not even on tax matters. For professional advice, the Fund offers members the option to see an adviser of one of its five preferred financial advisory firms (see section 7 below).

7. Financial advice

You may benefit from consulting a financial adviser before deciding which annuity product to buy or how to structure the withdrawal of your retirement benefit. Particularly members who are considering early retirement and wish to exercise individual investment choices are encouraged to approach an adviser.

To assist you in this regard, the Fund has contracted a panel of five firms of financial advisers for members to consult. This advisory service is free of charge for members aged 53 and older. The service providers represented on the panel are as follows:

AlexForbes Financial Planning Consultants: +27 (0)21 809 3750 / wesselsw@alexforbes.co.za

Consult (Momentum): +27 (0)861 777 750 / mc.theart@consultm.co.za

Finfocus: +27 (0)21 861 7000 / usafadvies@finfocus.co.za

Graviton: +27 (0)21 883 9192 / arissik@gravitonwm.com

Sanlam Financial Advice: +27 83 375 9831 / hanlie.wethmar@sanlam.co.za

The Fund will pay for two consultations with one of the preferred service providers. The first consultation may be scheduled at any time from the age of 53, and the second in the 12 months prior to retirement.

Using the benefit is easy – simply follow these steps:

1. Select a service provider.
2. Contact the Human Resources Client Services Centre (+27 (0)21 808 2753 / sun-e-hr@sun.ac.za) to obtain a consultation voucher.
3. Make an appointment with your selected service provider, and take the voucher along as proof that you are entitled to use the service.

You may request that the adviser discloses their commission earning level.

8. Questions and answers

8.1 If my retirement benefit is not paid out at the required time, will I continue earning income on the amount?

Yes, investment return is allocated up until the date of payment.

8.2 When can I expect to receive my retirement benefit?

The administrators try to pay out retirement benefits within six to eight weeks after the last month of service, provided that:

- the retirement claim form has been completed in full and been checked by Human Resources;
- information has been supplied about the annuity product for which funds must be transferred (if you have chosen to buy an annuity product);
- the administrators have calculated the retirement benefit, including the investment return earned on the benefit; and
- SARS has issued a tax directive.

The most common reasons for delayed payment of benefits are incomplete claim forms and SARS refusing to issue a tax directive because of issues with the member's tax affairs.

NOTE

This guide addresses only a few key aspects regarding retirement from SU's employ and is not meant as a complete, comprehensive document.

Although the content of the guide is updated from time to time, changes in legislation or University policy may cause some discrepancies. A financial adviser will be available to inform staff about any recent changes in legislation.

The guide describes various benefits offered under the Fund. The benefits are set out in the registered Fund rules. While the guide was compiled with the greatest care to ensure accuracy, the Fund rules will prevail in the event of any contradictions.