SURF

STELLENBOSCH UNIVERSITY RETIREMENT FUND | STELLENBOSCH UNIVERSITEIT AFTREDEFONDS

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

(in instances *other than* retirement on pension)

The essence of this guide

To assist Stellenbosch University Retirement Fund (SURF) members with the process of withdrawing from the Fund (i.e. for reasons other than retirement on pension).

1. Introduction

When employees leave Stellenbosch University's employ before retirement, they are often faced with decisions that could influence their long-term financial security. It can be tempting to spend one's withdrawal benefit on a new vehicle or a holiday. However, SURF would advise members to preserve their withdrawal benefit with a view to providing better financial outcomes for retirement.

This guide is intended to assist members of SURF ('the Fund') who leave the University's employ before retirement. In addition to this guide, employees should also read "SURF: Guide to the retirement process" and strongly consider consulting a financial adviser for professional assistance.

2. Background: How does the Fund operate?

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 substantial 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. Benefit payable upon termination of employment before retirement age

The most important decision that members need to make when leaving SU’s employ is whether to take their withdrawal benefit as a once-off cash payment or preserve their benefit for retirement, either by keeping the money in the Fund or transferring it to another fund.

Withdrawal benefits that are taken in cash are taxable according to the South African Revenue Service (SARS) withdrawal tax table. On the other hand, preserving the benefit in the Fund or transferring it to another approved fund – whether another preservation fund or a retirement annuity fund – will not attract taxation upon leaving SU.

4. The available options

4.1 Preserving the benefit in the Fund

Members may choose to leave their benefit in the Fund and become a paid-up member when leaving the University’s employ. Once a paid-up member, you will be able to take the full amount as a cash lump sum or transfer the money to another approved fund at any stage, or decide to leave the money until retirement age.

As a paid-up member, the following will apply:

- Your fund credit will remain invested in the portfolio it was in when you left the University’s employ, where it will continue to earn returns. You will also be able to switch to the other available portfolios from the age of 53.
- Although you will no longer be able to contribute to the Fund, you will still be required to pay administration costs.
- You will no longer qualify for any risk benefits.
- In the event of your death, your fund credit will be distributed in terms of section 37C of the Pension Funds Act.
- You will receive an annual benefit statement.

It is important to note that you will automatically become a paid-up member if the Fund does not receive your specific instruction on what you wish to do with your fund credit.

4.2 Preserving the benefit outside the Fund

Members may request that their withdrawal benefit be preserved for their eventual retirement, but outside the Fund. In such instances, the benefit must be transferred to another approved fund. The new fund must acknowledge receipt of the transferred value by signing an acknowledgement-of-receipt form. As soon as the Fund has received this form, it must request SARS to issue a zero-tax directive, which means that no tax is due on the transfer.

The fund to which members have their benefit transferred must be the fund of a new employer, a retirement annuity fund, or a preservation fund. A brief explanation of each follows below:

Fund of a new employer:

Employees who leave SU for an employer that also offers its staff a retirement benefit may be entitled to transfer their withdrawal benefit from SURF to such new employer's fund if the new fund's rules provide for this. The benefits that members will have under their new employer's fund, and the options available to them, will ultimately depend on that fund's rules and benefits structure.

NB: Members may transfer their benefit from a provident fund (such as SURF) to a pension fund without any tax implications. In terms of retirement reforms that took effect on 1 March 2021, when such member retires, the accrued benefit in a provident fund as at 28 February 2021 or any future investment returns thereon will be available for withdrawal in cash. However, of the portion of the benefit accumulated after 1 March 2021, the member will only be allowed to take up to a third in cash and will be obligated to buy a pension with the rest.

Retirement annuity fund:

A retirement annuity fund is an individual policy offered by an insurance company in which the policyholder invests money up until retirement. Upon retirement, up to a third of the policy value may be paid out in cash. The policyholder must use the balance to buy a pension product, usually with an insurance company or annuity provider. Policyholders may withdraw funds only once they have turned 55.

SU employees who already have a retirement annuity policy may request that their Fund benefit be transferred to their existing policy. If so, the name of the retirement annuity policy and the policy number must be clearly indicated on the withdrawal form.

Preservation fund:

Preservation funds are established to serve as receiver funds for withdrawal benefits. Benefits that are transferred to preservation funds will be invested until the employee decides to retire. A preservation fund takes the form of either a preservation *pension* fund or a preservation *provident* fund. Since the Fund is a provident fund, SU employees may only select other preservation *provident* funds when opting to preserve their benefit. Transfers may be made to only one such fund.

Upon retirement, fund members invested in a preservation provident fund may choose either to receive their full retirement benefit in cash (as a lump sum) or use a portion of their benefit to buy an external pension.

A unique feature of preservation funds is that members may make one withdrawal before their actual retirement date, although such withdrawals are taxable.

5. Cash benefit

Members who decide to receive their full withdrawal benefit in the form of a once-off cash payment will be taxed according to the South African Revenue Service (SARS) withdrawal tax table. SARS determines the tax amount to be levied. Once the administrators of the Fund have calculated the benefit, they must apply to SARS for a tax directive. The administrators of the Fund are obligated to deduct the tax from members' benefits and pay it over to SARS. This also means that members whose tax affairs are not in order will encounter delays in the payment of their Fund benefit. The member will receive a tax certificate from the administrators as proof that the tax was indeed paid.

The balance of the benefit (i.e. after tax as per the directive) will be paid over to the member, into the account indicated on the withdrawal claim form.

6. Retirement fund benefit counselling

Should you leave the University's employ before retirement, the Fund's retirement benefit counsellor will contact you to arrange a face-to-face counselling session. During this session, the counsellor will provide you with a clear and easy-to-understand explanation of the options available to you, and the risks, costs and charges associated with each. More specifically, you will be guided through:

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

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 professional financial advice before deciding into which fund or in what form to receive your withdrawal benefit. To assist you in this regard, the Fund offers members the option to see an adviser of one of its five preferred financial advisory firms. The cost of this service for members aged 53 and older is carried by the Fund. Members below 53 who access the service will carry the cost themselves.

8. Questions and answers

8.1 How should I inform the administrators of the Fund of my prospective withdrawal?

If you will be leaving the University's employ for reasons other than retirement, you should complete SU's prescribed resignation form and submit it to Human Resources via your line manager. The retirement benefit counsellor will then contact you to schedule an appointment to discuss your various options.

8.2 What will happen after I have completed and submitted the SURF claim form that I received from the retirement benefit counsellor?

If you choose to preserve your benefit in the Fund, you will become a paid-up member, and the administrators will provide you with a paid-up certificate.

If you choose to transfer your benefit to another fund or to take it in cash, either in part or in full, the administrators of the Fund will process your instruction as efficiently as possible, but only after:

- your resignation form has been completed;
- you have indicated to which fund the withdrawal benefit must be transferred (if this is what you have chosen); and
- the administrators have calculated the benefit, among others by adding the investment income you have earned and subtracting the tax as per SARS's directive.

8.3 When can I expect to receive my withdrawal benefit?

The administrators try to pay out withdrawal benefits within four to six weeks of receipt of all the necessary information, including the tax directive from SARS.

8.4 May I receive part of the withdrawal benefit as a once-off cash payment and have the balance transferred to a preservation fund?

Yes, this is permitted.

8.5 May I receive part of the withdrawal benefit as a once-off cash payment and preserve the balance in the Fund?

No, this is not currently permitted in terms of the Income Tax Act.

8.6 May I cede part of the withdrawal benefit to a third party?

No, the Pension Funds Act prohibits cession of any part of withdrawal benefits to third parties.

8.7 If the withdrawal benefit is paid out late, will any interest be accrued?

Yes, investment income/returns are allocated up until the withdrawal date.

NOTE

This guide addresses only a few key aspects regarding termination of service at SU in instances other than retirement 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.