www.fsca.co.za

Retirement Planning

The key to a comfortable retirement

FSCA
Financial Sector
Conduct Authority

What you need to know when planning for retirement

At some point, your working career will come to an end and you will retire. How do you see yourself in retirement? Will you have enough money to cover your monthly expenses? Unfortunately, too many of us do not plan well enough for that day.

You can start planning for retirement at any time, but the earlier the better. Good planning will also help you make decisions now to achieve your ideal retirement later.

Definitions

It is important that you have clarity from your insurance company on their definitions, common words and phrases.

Beneficiary
A person or group of people who received money as a result of a deceased member who contributed to a retirement fund, or who qualifies for surplus benefits.

Beneficiary (nominated)
As a member of a retirement fund, you will be asked to choose or nominate one or more beneficiaries to receive what you have saved should you die before or during retirement.

Beneficiary fund
When a member or a former fund member dies, lump-sum death benefits which are due to the members' defendants may be paid into a beneficiary fund and distributed as per the fund's discretion to the beneficiaries.

Benefit
A benefit is the money that gets paid from a retirement fund to a member or former member.

Causal event charges
A charge imposed by the insurer of a retirement annuity fund when a member prematurely stops paying or reduces contributions or chooses to retire before the predetermined retirement date.

Contributions
Financial instalments paid into a pension plan by active members are called contributions. These contributions build a pool of funds that are invested for your future benefit.

Dependant
A person who was, at the date of the death of a member whilst still employed, dependent on the member for financial support. This can be a child (including an adopted/disabled child), parent, spouse, relative or a person for whom the member was legally liable for maintenance.

Investment

The process of putting money in an investment product such as a collective investment scheme (CIS), shares, or property. Contributing to a pension fund is also considered an investment.

Legal guardian

A person or persons who have been legally appointed to protect and take care of a child/children and/or incapacitated persons.

Lump-sum benefit

A lump-sum death benefit is a once-off payment to beneficiaries or dependents of a former fund member. The benefit is the total of the remainder of any pension savings (less charges and taxes) and can be taken as a lump-sum or reinvested in an annuity. The benefit is paid out only after all beneficiaries and dependents have been identified.

Side hustle

A side/additional job that you do in addition to your current employment to make extra money.

Surplus benefit

Surplus refers to any retirement fund benefits owed to an individual that was not paid or claimed after a person resigned, was dismissed, retrenched or retired. Even if you claimed and received your benefits after leaving a fund, you may not have received all the benefits due to you.

Trustees

Trustees are groups of individuals who direct, control and oversee the operations of retirement funds. They are required to act with care and diligence, and in good faith. Trustees can be held personally responsible for all decisions made by the fund.

Unclaimed benefits

Unclaimed benefits are benefits that have not been paid to or claimed by a pension or provident fund member or a possible beneficiary within 24 months from the date it became due for payment or claiming.

Contents page

1. Let us plan

Look at your life today and take into consideration your current financial responsibilities. How much money do you think you will need when you retire to cover your monthly expenses? It is unwise to assume that you will be in a better financial situation than you are in right now or that you will sort things out when you get to retirement. You might be too old, frail or have an injury or illness that may prevent you from working beyond retirement.

The earlier you start saving, the more time you give your retirement savings to increase in value. If you have not started saving yet, you should start now.

First, let us clear up some misconceptions and myths about retirement:

I'm too young to think about retirement

The earlier you begin saving for retirement, the more money you will have when you retire. You can also invest and enjoy the benefits of saving pre-tax income in a registered pension fund.

It is too late to start saving for retirement

Beginning to save, is better than not saving at all. You can either be more aggressive in your saving, plan to work beyond age 65, or earn additional income from a side hustle.

I do not have enough money to invest

It is not about how much you have but rather to save what you have, even if it is R200 a month. As time goes on you can increase the amount. Speak to an authorised financial services provider (FSP)/financial advisor or broker about how to save for retirement.

Many of us are living longer, which means that our retirement money needs to last longer. You may believe that your living expenses will drop once you retire, but even if they are less in some areas, they may increase in others. For example, while your housing costs drop as you pay off your bond, you may start to pay more in medical expenses. It is also a common expectation that children will look after their parents (or grandparents) once they retire. What happens if they do not or are unable to?

Once you've made the decision to save for retirement, make an appointment with an authorised FSP who can assess your current financial situation and help you work out how much you will need to put away each month to have enough money to live on when you retire.

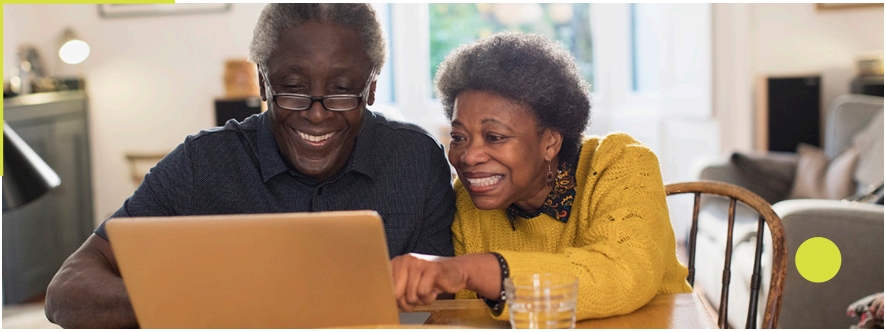
To ensure a comfortable retirement, you should plan on saving enough to have a monthly retirement income that is equal to 75% of the last pay cheque you earned.

Most employers offer a retirement fund that employees must contribute to. This is one of the simplest ways to save for retirement as your employer deducts your contribution directly from your salary. It is possible to make additional voluntary contributions to your retirement fund. You can also take out additional annuities or contribute to a fund separate from the one offered by your employer if you want to grow the pot of money you have available for retirement. People usually choose this option if they work for themselves or if their employers do not offer a company pension plan.

2. What is a retirement fund?

A **retirement fund** is a broad term that refers to a pension fund, retirement annuity, provident fund or preservation fund. Pension and provident funds are often referred to as **workplace** or **occupational funds** because they are offered through your employer.

Money invested in a retirement fund is protected under the Pension Funds Act (No. 24 of 1956 - the 'PFA'). Different funds have their own options and sets of rules and are governed by a board of trustees.



3. Types of retirement funds

A. Pension funds

PENSION FUND FACTS
A pension fund is a workplace fund and it is usually **compulsory** to become a member. This means that you must belong to the fund if your employer has one.
You, your colleagues and your employer contribute monthly to that fund and that pool of money is invested collectively to make it grow. Your monthly contribution is automatically deducted from your pre-tax salary.
If you **resign, are retrenched, dismissed or retire** you are entitled to receive the total amount of your contributions as well as the returns, positive or negative, earned on the investment.
If you **resign, are retrenched or are dismissed** and have been contributing to your employer-provided pension fund, you can withdraw your savings or transfer them into a preservation fund or into the pension fund of your new employer or leave it paid up in your previous employer's fund.
If you **retire,** you are allowed to take up to one third in cash (up to R500 000) tax free (2020). The balance must be used to purchase an annuity. Should your fund credit be less than R247 500 you will be allowed to take the entire benefit in cash. The amount and percentage are reviewed annually by the South African Revenue Service (SARS).
Some people consider withdrawing their pension savings to pay off debt or treat themselves to a holiday, but there are tax implications for withdrawing your savings before you reach retirement age. When you preserve (save or reinvest) your savings in the fund or transfer it to a different fund you will not receive a tax bill and your money will grow tax-free until you retire.

B. Provident funds

PROVIDENT PRESERVATIONS FUND FACTS
Like a company pension fund, a provident fund is also a workplace fund but only the employee makes contributions.
When retiring from a provident preservation fund, you will be required to use two thirds of the proceeds to purchase either a living annuity or a life annuity, which would in turn provide an annuity income.
If you were age 55 or older on 1 March 2021 and not yet retired from your provident preservation fund you are entitled to 100% of the benefit as a cash lump sum, including any fund returns.
If you were under 55 years of age on 1 March 2021, you will only be required to purchase an annuity of two thirds of the funds invested after 1 March 2021 – and you will be able to take the full lump-sum amount that was invested prior to this date, taxable as per the retirement lump sum tax tables.

C. Retirement annuities

RETIREMENT ANNUITY FUND FACTS
A retirement annuity is a type of savings plan – it is like having your own private pension scheme.
This savings plan is independent from an employer and is a good option if you want to have additional savings towards your retirement or if you are self-employed.
Only you make monthly contributions into a retirement annuity.
You can withdraw up to one third of its value at retirement. The other two thirds must be used to purchase an annuity.
Depending on your chosen retirement age, you can access your savings from the age of 55 onwards.
If, at retirement, the annuity is valued at less than R247 500 (2020), you can withdraw the entire amount. If your investment is larger, two thirds must be used to secure a monthly pension income. You are also not required to withdraw the funds; you can leave them in your annuity to continue to grow until you are 75 years old.
Early withdrawal will have a tax penalty. SARS reviews and updates the tax rate annually – check with them or your authorised FSP.
You can buy a retirement annuity directly from an insurance company or through an FSP. Whichever option you choose, make sure the insurance company is licensed by the Prudential Authority (PA) to conduct insurance business, and the FSP is authorised by the Financial Sector Conduct Authority (FSCA) to provide you with financial products and services.
Changing jobs before retirement does not affect your annuity as it would a pension. More importantly, you cannot dip into the fund as you can with a company pension fund when you change jobs.

D. Preservation funds

PENSION PRESERVATION FUND FACTS
When you leave one workplace for another, you have four choices: • Save (preserve) the money in the fund you belonged to at your previous employer. • Transfer the money to the fund of your new employer, untouched. • Withdraw a portion of the money and then transfer the rest to a preservation fund. • Transfer the entire benefit to a preservation fund.
If you change jobs, or are retrenched or dismissed, you can transfer the money you have saved in your company pension fund to a preservation fund, where you preserve your savings until you retire. You can transfer the total amount you have saved tax-free.
You can make one cash withdrawal at any time before you retire.
There is a possible consequence of not having enough money after you retire if you decide to make a cash withdrawal. People tend to be surprised by how little money they actually receive after taxes and retirement administrators' charges have been deducted. They then want to change their minds. Unfortunately, the **choice to cash out a benefit** is **irreversible**.

E. Government Employee Pension Fund (GEPF)

South Africa has approximately 1.7 million government workers whose pension contributions are paid into the GEPF. It is not overseen by the FSCA but is managed and administered by the Government Pension Administration Authority (GPAA), with its assets invested through the Public Investment Corporation (PIC).

It was established by the Government Employees Pension Law as a defined benefit pension fund in 1996. This means that benefits are based on years of service and average salary in the last two years of employment multiplied by the accrual rate – not on the performance of the fund. Unlike a private pension fund, GEPF guarantees its beneficiaries a level of benefits no matter the underlying performance of the investment portfolio.

Beneficiaries are guaranteed an income for life and a 50% pension for a spouse if the main member dies. GEPF benefits are also guaranteed for the first five years. If the member dies during this period, the full annuity is paid to their spouse or named dependants/beneficiaries.

4. Default options

Government has put in place laws to discourage the withdrawal of money before retirement because it does so much damage to the final amount saved and is such a temptation for so many people.

To help people avoid this mistake, as of 1 March 2019, the PFA requires pension funds to establish a **default investment portfolio.**

This means that:

- Money can be transferred from other retirement and preservation funds into the default investment portfolio at no extra cost.
- Fund managers have to ensure that the default option meets the needs of the majority of their members.
- The board of trustees of each fund must set out the conditions under which a member will be enrolled in the default investment portfolio.

Default preservation and portability

- Unless a retirement fund has a valid exemption, it must amend its rules to allow for the default preservation of pension savings. This is especially important for retirement plans that employees enter into as part of their employment contract.
- Older retirement funds did not usually allow members to leave their accumulated savings in the fund when they changed employers or stopped working before retirement but are now required to amend their rules to make it easier to preserve members' savings or transfer the savings to another fund.
- When you choose to preserve your benefit, the fund will be required to present you with a paid-up membership certificate within two (2) calendar months of being notified of you leaving the services of your employer.

Annuity strategy

All funds must have an annuity strategy that makes provision for:

- Offering members the option to use their savings to buy an annuity at retirement that will provide a regular monthly income.
- Being cost effective and meeting the needs of its members, and informing members of the strategy in clear, plain language.
- Offering the chosen annuity as an option but the fund is not allowed to market it as the only option for retirees.

5. Your rights and responsibilities as a member of a retirement fund

You have the right to:

- Be informed of your rights as a member of the fund.
- A set of the fund rules and a member's booklet.
- A benefit statement at least once a year.
- Elect 50% of the board members (trustees) and know who they are.
- Know who administers the fund.
- Timeous payment of contributions and benefits once you submit all the necessary documents.
- Lodge a complaint.

Your responsibilities include:

- Monitoring the fund's performance.
- Holding the trustees of your fund accountable.
- Notifying the trustees of any changes to your personal information, including who you have named as beneficiaries.
- Obtaining expert advice from an FSP authorised by the FSCA, if necessary.
- Repaying a loan, if you borrow from your fund for housing purposes, before you retire, if you want to receive your full benefit at retirement.
- Becoming as informed as possible about retirement and your fund.
- Noting the tax implications when cashing out a retirement investment – it is important that you are familiar with the tax rates on withdrawal, and the retirement benefits that are reviewed at the beginning of every tax season.
- Making sure you are notified of any changes in legislation by either your fund or your FSP.
- Making sure your employer is paying over the employer and employee contributions to the pension fund.

TIPS TO REMEMBER FOR PAID-UP RETIREMENT FUND MEMBERS

While you are a paid-up member, the fund must:

- Charge fair and reasonable fees for administration which must correspond with the costs of providing administration services to people still employed.
- Not levy any initial once-off charge on your preserved benefit as a result of your paid-up membership status.
- Not allow any new contributions to the fund.
- Not make deductions for risk benefits from your preserved benefit.
- Allow you to take a benefit in cash or transfer benefits to another fund and provide retirement benefits counselling before you make any such choice.
- Allow the transfer of a preserved benefit without adding a charge.
- Allow you to voluntarily choose to preserve your retirement money; it cannot force you to do so.
- Issue a paid-up membership certificate.
- Provide for your benefit (retirement savings) to be saved automatically if you fail to make a choice.

6. Risk and retirement benefits counselling

Because there is always a risk of losing your money in any investment, including retirement funds, members are now entitled to retirement benefits counselling before they make any decision.

Retirement fund risks

Before a fund member decides to take, to preserve or to transfer a benefit to another retirement fund, funds must disclose and explain the following in clear and understandable language:

- The risks, costs and charges of the available investment portfolios.
- Their annuity strategy.
- How they preserve benefits.
- All other options available to members.

Counselling

- Counselling must be in plain language by consultants who understand the available options and is designed to help retirees make informed choices when they stop working.
- Counselling may include in-person meetings where information is shared, and questions are answered in easy-to-understand language.
- Retirement benefits counselling is not financial advice. This must be pointed out to you.
- Someone providing counselling does not need to be an authorised FSP. However, your investment fund must be confident that the counsellor is qualified to share information and answer questions.

Note: Retirement fund counselling is not limited to the items listed above and may be provided at any time. Counselling is also required when someone joins a fund as a new member, and at least six months before a person reaches the normal retirement age.

7. Frequently asked questions

Q: What happens to my retirement money if I die before I retire?

A: Your benefit from a pension or provident fund does not form part of your estate. Should you die while in service your benefits will be distributed amongst your dependants and/or nominees, at the discretion of the trustees of the fund and following an investigation to determine who your dependants and/or nominees are. The trustees have sole discretion on the manner in which the benefit will be distributed; however, keeping your beneficiary nomination form up to date will make it easier for the trustees to identify your dependants and assist in distributing the benefit in a timely manner to your beneficiaries.

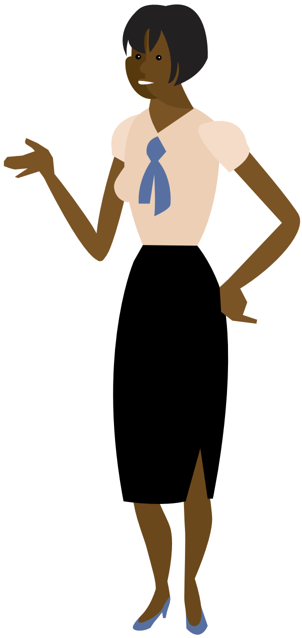
BENEFICIARY FUNDS AND DEPENDANTS

- When a fund member or former fund member dies, **lump-sum death benefits** payable to dependants from a pension or provident fund may be paid into a beneficiary fund. Section 37 (c) of the Pension Fund Act provides a period of 12 months for the pay-out of lump-sum benefits to beneficiaries or dependents of the fund member. However funds are not forced to distribute funds within this period and it can take even longer to access this benefit. These may be lump-sum death benefits payable to the member's minor or adult dependants.
  - **Minor dependants:** Lump-sum death benefits due to a deceased member's minor dependants may be paid to a beneficiary fund instead of their guardian.
  - **Adult dependants:** Lump-sum benefits payable to an adult may also be paid into a beneficiary fund if the member consents to it, or if the fund believes that it is better for the financial wellbeing of the adult for the money to be kept in a beneficiary fund.
- The benefits may then be used to cover costs for a dependant's education or monthly amounts may be paid to a legal guardian to cover a dependant's living costs.
- The capital amount will be paid, in the case of a minor, when the minor becomes an adult.

Q: What happens if I or my beneficiaries do not claim a benefit?

A: If you or your beneficiaries do not claim a benefit from the fund for a period of 24 months from the date it becomes due to you the benefit will be classified as an **unclaimed benefit**. An unclaimed benefit can be held in the pension or provident fund until it is claimed, or it can be transferred to an unclaimed benefit fund.

Unclaimed benefit funds trace beneficiaries, who may be former retirement fund members or their dependants and pay the benefits due.



Q: Which laws determine how your fund benefit should be paid?

A: The Office of the Pension Funds Adjudicator (OPFA), the registered rules of your retirement fund and the Income Tax Act determine how and when your benefits pay out. The OPFA also applies to retirement annuities and preservation funds. The intent of the OPFA is to ensure that retirement funds provide benefits as set out in the fund rules and are managed with due care and diligence.

8. How to lodge a complaint

If you have a retirement fund-related problem, you need to follow the proper complaints process steps as stipulated below.

Step 1 Write a formal complaint to your fund or the fund administrator and try to resolve the issue through the company's own complaints resolution system.

Step 2 If you are not happy with the way your complaint was dealt with, you can contact the OPFA and request assistance to resolve your complaint. You will need to submit a written complaint explaining the nature and details of your complaint. You can also use the online submission form available on the OPFA website. You must provide a copy of your ID, proof that you are a member of the fund and documentation in support of your complaint. The OPFA manages the mediation or consultation process and will make a final decision (called "a determination") if you and the fund or the fund administrator cannot come to an agreement.

Step 3 If you, the fund or the fund administrator are not satisfied with the determination of the OPFA, you can appeal the determination with the Financial Services Tribunal at no cost.

Note: If you have a complaint or want to settle a dispute, you have three years from the date of the event that gave rise to a dispute. The administrator of the fund you have lodged a complaint against has 30 days to respond to your complaint.

Notes

Notes

Useful contacts

To report unlawful conduct or unfair treatment in relation to retirement funds, contact one of the following:

Financial Sector Conduct Authority (FSCA)

To check if a financial services provider or financial advisor is authorised to sell you financial products and services, as well as which products they can sell you, contact the FSCA.
Call centre: 0800 20 3722 (FSCA)
FSCA switchboard: 012 428 8000
Fax number: 012 346 6941
E-mail: info@fsca.co.za
Unclaimed benefits enquiries:
Pension.Queries@FSCA.co.za
FSCA.PensionsUnclaimed@FSCA.co.za
SMS enquiry – ID no: 30913
SMS enquiry – general request: 30766
Physical address:
Riverwalk Office Park, Block B, 41 Matroosberg Road, Ashlea Gardens, Pretoria 0081
Postal address:
P.O. Box 35655, Menlo Park, Pretoria, 0102
Website: www.fsca.co.za

FSCA's Consumer Education Department (CED)

For more consumer financial education information contact CED.
E-mail: CED.Consumer@fsca.co.za
Website: www.fscamymoney.co.za

Office of the Pension Fund Adjudicator (OPFA)

If you have a complaint against your pension, provident, preservation or retirement annuity fund that you have not been able to resolve, you may lodge a complaint with the OPFA.
Call centre: 086 066 2837
Telephone: 012 748 4000 or 012 346 1738
Fax: 086 693 7472
Physical address:
41 Matroosberg Road, Riverwalk Office Park, Block A, Ashlea Gardens, Pretoria 0081
Postal address:
P.O. Box 580, Menlyn 0063
Website: www.pfa.org.za

Office of the Ombud for Financial Services Providers (FAIS Ombud)

If you have a complaint against a product provider or FSP, you can contact the FAIS Ombud.
Telephone: 012 762 5000
Share call: 086 066 3247
Fax: 012 348 3447/012 470 9097
E-mail: info@faisombud.co.za
Complaints about our service:
hestie@faisombud.co.za
Enquiries on status of complaints:
enquiries@faisombud.co.za
Physical address:
Kasteel Park Office Park, Orange Building, 2nd Floor, 546 Jochemus Street, Erasmus Kloof, Pretoria, 0048
Postal address:
P.O. Box 74571, Lynnwood Ridge 0040
Website: www.faisombud.co.za

Government Employee Pension Fund (GEPF)

The GEPF manages and administers pensions and other benefits for government employees in South Africa. If you have any enquiries or complaints regarding your pension contact the GEPF.
Telephone: 012 319 1000/1911
Call centre: 0800 117 669
Fax: 012 326 2507
Postal address:
Private Bag X63, Pretoria, 0001
Physical address:
34 Hamilton Street, Arcadia 0083
Website: www.gepf.gov.za