



IN-FUND LIVING ANNUITY QUESTIONS & ANSWERS



RETIREMENT FUND

Securing your retirement

UPDATED AS AT **SEPTEMBER 2021**

This booklet has been designed to provide Fund members with information. It does not constitute advice. The Fund Counsellor is available to expand on the content of this document. You are also encouraged to discuss your options with a registered financial adviser.

In July 2015 the National Treasury issued draft regulations on default strategies to be implemented by all funds. An update was issued in late 2016 and the update was open for comments until the end of February 2017. The final regulations were issued on 1 September 2017 and were effective from 1 March 2019. All retirement funds are, amongst other things, required to have an annuity strategy for retiring members. The Board of Trustees pre-empted these requirements when they introduced a cost-effective in-fund living annuity with effect from 1 July 2016 which complies with the new final regulations.

The Fund's annuity strategy enables you to easily convert all or a part of your retirement benefit to a very cost-effective monthly pension from the Fund. The in-fund living annuity's flexible structure enables you to choose the level of your monthly pension.

All retiring members are encouraged to familiarise themselves with this offering and the following Q&A should answer most, if not all, of your questions.

What is the minimum amount that can be “invested” in the in-fund living annuity?

The minimum amount that can be invested in the in-fund living annuity is R300 000. This minimum is based on current market practices and is meant to ensure a cost effective living annuity structure. The board of trustees will review the minimum from time to time.

How much will I receive as a monthly pension?

This will be dependent on the percentage (also called draw down rate) you draw each month from your retirement capital.

- If you elect the trustee endorsed option, the percentage is specified and it is automatically reviewed every 5 years. The reviewed rate is implemented on the first of the month in which you attain the age of the next age band.

Example: You retire at age 65 with R2 000 000 retirement capital and you elect to transfer the full amount to the fund's living annuity pool. In the trustee endorsed option, you will start with a monthly pension of R10 000 (i.e. 6% of capital paid out monthly).

- If you elect the customised option, you may select your own percentage from a range applicable to your age band. You may change your draw down rate once a year on the anniversary of your retirement.

Example: You retire at age 65 with R2 000 000 retirement capital and you transfer the full amount to the fund's living annuity pool. In the customised option, you may choose between 2.5% and 9% of your retirement capital as a monthly pension. This means that your starting pension may range between R4 167 to R15 000 per month.

Age bands	Trustee endorsed option draw down rate	Customised option draw down range (min to max) (draw down rates in multiples of 0.5%)
<65	5.0%	2.5% to 8.0%
65 to 69	6.0%	2.5% to 9.0%
70 to 74	6.5%	2.5% to 10.0%
75 to 79	8.0%	2.5% to 12.0%
80 to 84	9.5%	2.5% to 15.0%
85 to 89	14.0%	2.5% to 17.5%
90 & older	17.5%	2.5% to 17.5%

What is the difference between the trustee endorsed and customised annuity options?

The trustee endorsed option is cost effective, simple to administer and communicate and requires very little intervention from you, the retired member. It is designed to be sustainable. The investment strategy is defined as moderate and aims for investment returns of inflation plus 4% (net of fees) 60% of the time over five year rolling periods with cognisance of capital protection over any 24 month rolling periods. A fixed percentage of the retirement capital can be drawn as a monthly pension with this percentage automatically reviewed every 5 years.

The trustee endorsed option therefore invests in one investment portfolio and has a fixed draw down rate and this rate is reviewed every 5 years (at ages 65, 70, 75 etc.).

The customised option offers retiring members flexibility. However, increased flexibility requires increased responsibility. You are allowed to invest in as many as four of the fund's investment options. You are also allowed to select a draw down rate (within limits applicable to your age band) and you may change this percentage on an annual basis.

May I change from the trustee endorsed option to the customised option and vice versa?

Yes, this option is available annually and such a switch may only be implemented on the anniversary of your retirement. Written instruction of such a change must be received by the administrator by no later than one month prior to your retirement anniversary date.

What are the costs if I elect the in-fund living annuity?

Firstly, your member share that is transferred to the fund's living annuity pool on your retirement is invested in the same underlying investment portfolio(s) as for active members. This means that

the investment management fees paid will be the same as the very favourable fees that you paid when you were still in-service and contributing to the fund. The investment management fees are reported in the monthly investment fact sheets and these are available on the fund's website (www.laretirementfund.co.za).

All other expenses are summarised at the end of this document. The administration expenses are recovered from your retirement capital balance in the fund. They are not deducted from your monthly pension.

As an in-fund annuitant, where is my retirement capital invested?

- **If you have chosen the trustee endorsed option:** It is invested in the consolidation phase of the Fund's default lifestage investment strategy. This is a moderate risk investment portfolio and aims to earn inflation plus 4% p.a. (net of fees) 60% of the time over five year rolling periods with cognisance of capital protection over any 24 month rolling periods.
- **If you have chosen the customised option:** You are permitted to select where your retirement capital is to be invested i.e. you may select one or both of the two life stage phases of the life stage investment strategy, namely accumulation and consolidation. You also have the option of the preservation phase and the Shari'ah portfolio. In addition, you may also select the investment option from where your monthly income must be paid.

For example, you select the customised option and you choose to invest 40% of your retirement capital in the accumulation phase, 30% in the consolidation phase and 30% in the preservation phase with the monthly income (i.e. your pension) to be paid from the capital held in the preservation option.

CUSTOMISED OPTION

The following provisions relate to the disinvestment of monies to pay the monthly income:

- If you do not provide a formal instruction confirming the investment portfolio from where your monthly income **must be disinvested**, the disinvestment will be made in full from the investment portfolio with the lowest risk profile (i.e. preservation, then consolidation and finally accumulation phase);
- If you provide a formal disinvestment instruction and the value of the selected portfolio reduces to zero, then future disinvestments will be made from the portfolio with the next lowest risk profile. You can correct this situation by switching between portfolios and/or formally presenting the administrator with an amended disinvestment instruction.

Will I be allowed to change my investment selections and if so, how often?

Trustee endorsed option:

You cannot switch between investment options. Your retirement capital will remain invested in the consolidation phase.

Customised option:

You are allowed to invest in any of the fund's four investment options and you are also allowed to switch between the options. You may switch as often as you require and a switching fee will be

levied from the 2nd investment switch received in a fund year (1 July to 30 June). The switching fee is reported at the end of this document.

Will I be allowed to transfer monies from other retirement vehicles to my in-fund living annuity (e.g. from my retirement under a private retirement annuity)?

No, only the retirement benefit originating from the fund can be transferred to the in-fund living annuity.

On what date will my pension be paid?

Your monthly pension payment dates for the year will be reported at the end of the previous year. Please refer to the pensioner section of the fund's website (www.laretirementfund.co.za).

Will I receive a pension increase each year?

A living annuity pays a percentage of your retirement capital as a monthly pension.

Example: A member retires at age 65 with R2 000 000 retirement capital and elects to transfer the full amount to the fund's living annuity pool with the trustee endorsed default draw down rate. The retiring member starts by drawing 6% of his/her capital in the first year. If during that year the investment return is 10%, it means that the retirement pool will stand at R2 080 000 at the end of that year. During the next year (i.e. age 66) the monthly pension will be R10 400.

This means that the difference between the drawn down rate and the investment return earned will be the next year's increase. It is important to understand that a negative increase is also possible (i.e. when the preceding year's drawn down rate was higher than the investment return earned during the same period which means that the remaining capital has reduced and no increase applies).

The effect of inflation must also be borne in mind. If inflation during the first year was 5%, it means that the increase (of 4%) is equal to 80% of inflation.

On what date will my pension change?

Trustee endorsed option:

Your pension will change once a year on the anniversary of your retirement (e.g. if you retired on 1 March it will be 1 March annually thereafter).

When you reach the age of 65, 70, 75, 80, 85 and 90, you will move to the revised draw down rate on the first of the month following attainment of this age. In these instances, your monthly pension may change twice during that anniversary period.

Customised option:

You may change your draw down rate on the anniversary date of your retirement.

Will I pay income tax on the part of my retirement fund capital transferred to the living annuity pool of the fund?

No, the transfer to the living annuity pool is a tax-free transaction.

Will I pay income tax on the income received from the in-fund living annuity?

Yes, this is a taxable income like any other pension.

How do I know that my retirement capital will not run out and my pension be stopped?

The draw down rate for the trustee endorsed option is set at a level to try to prevent this (e.g. 6% at age 65 reviewed every 5 years). More importantly, the capital is invested in a structure that aims to earn real investment returns of 4% p.a. (i.e. inflation + 4% p.a.). 60% of the time over five year rolling periods with cognisance of capital protection over any 24 month rolling periods.

The board is also required to monitor the sustainability of all in-fund annuitants' pensions. If any vulnerability is identified, the fund is required to communicate with the affected annuitants.

How do I know that my retirement capital is safe in the fund?

All investments of the fund are governed by the Pension Funds Act and Regulation 28 in particular. In the defined contribution environment, the fund's governance structure has a bias towards the management of the fund's investments. In fact, the majority of the trustees' time is spent on investment related matters, which includes constant communication in order to keep members informed and to manage their expectations.

Will I be allowed to nominate and vote for trustees of the fund during member elections?

Yes, in-fund annuitants are seen as fund members and are therefore eligible to be nominated and will be part of member trustee elections.

As an in-fund annuitant, what happens when I die?

When you die the value of your remaining retirement capital becomes payable. The payment thereof is governed by section 37C of the Pension Funds Act and involves a formal distribution of the benefit to your dependants and/or beneficiaries on a basis as decided on by the board of trustees. Individuals who are largely dependent on you at the time of your death can apply to the Fund for an advance payment whilst the formal distribution process is underway and the Board's preliminary and final decisions are pending. Such application must be addressed to the Principal Officer who is mandated to consider such payments.

You will be required to complete and return a confidential beneficiary nomination form on an annual basis to record your wishes on how the benefit must be apportioned. It is important to note that the final decision rests with the board of trustees.

Your spouse may, after the allocation is concluded by the trustees, select one or more of the following options:

- Take the amount allocated to her/him as a lump sum (subject to prevailing taxation of lump sum benefits); OR
- Continue with the in-fund living annuity; OR
- A combination of the two options above.

Allocations to other dependants will be paid as a lump sum (also subject to taxation).

May I terminate my in-fund living annuity?

Yes, on condition that the money is transferred to another approved pension-generating vehicle (e.g. another living annuity, assurance company, etc.).

This process is expected to take at least six months since such a transfer needs to be approved by the FSCA (in accordance with section 14 of the Pension Funds Act). The transfer of the remaining retirement capital may only proceed after receipt of the FSCA's approval. Whilst the approval is outstanding, the fund will continue to pay your monthly pension to you.

Fees for the drafting of and submission to the FSCA of a formal application to transfer out of the in-fund living annuity will be recovered from the amount to be transferred (i.e. from your remaining retirement capital to be transferred out of the fund).

How do I know how much retirement capital I have left at any stage?

Whilst you were a contributing member of the fund you could access the administrator's system via the fund's secure website to obtain the value of your member share at any point and this will continue whilst you are in receipt of the in-fund living annuity. You will still be able to access your fund records and on a daily basis see the movement in the value of your retirement capital.

Once a year you will also receive a statement from the administrator to report the value of your retirement capital on a particular date.

Is there a point at which I can apply for the total value of my investment in the in-fund annuity to be paid in cash?

Yes, the fund's rules allow for this and are guided by Income Tax legislation. When your remaining balance in the Fund drops below R 125 000 you are allowed to apply to have the balance settled in cash (subject to income tax) and participation in the in-fund living annuity will cease permanently.

Will I receive a monthly pension statement?

Yes, a statement confirming your monthly pension, deductions, income tax, etc. will be sent to you.

Will the fund make my medical aid and other deductions from my monthly pension?

Yes, if requested and properly instructed, a deduction for medical aid will be made and paid to your

old employer. No private deductions will be allowed. You will be required to make provision for these via debit orders from your banking account.

May my spouse purchase an in-fund living annuity if I die in-service (i.e. before my retirement)?

Yes, your spouse is permitted to transfer all or part of the fund death benefit allocated to him/her by the trustees to the in-fund living annuity. Your spouse will be subject to the same conditions and have the same options in the living annuity as other annuitants, except that at their death the balance remaining in the account will be paid as a lump sum strictly in accordance with their written nomination and, in the absence of a formal nomination to their estate.

When does the option to become an in-fund living annuitant expire?

This option is available to all members at retirement from the Fund. If you have however already elected to take a cash retirement benefit and/or you have opted to buy a pension outside the fund, you cannot at a later stage return to exercise this option. The same principle applies to spouses receiving a death benefit. The decision to enter the fund's living annuity must be part of the benefit payment.

As mentioned earlier, you can opt-out of this option at any time in the future. You cannot however return to this option after you have exited the fund and your benefits were paid out as originally requested.

What forms of communication can I expect to receive from the fund?

On a monthly basis you will receive a pension statement reporting your gross pension and relevant deductions.

On an annual basis you will receive:

- (i) a benefit and projection statement,
- (ii) a switch form allowing you to exercise the options available to you,
- (iii) a confidential beneficiary nomination form, and
- (iv) a certificate of existence.

The nomination form will be kept on record as your expression of wish in the event of death and the certificate of existence is a routine document for you to confirm your personal details. The latter is a requirement for the fund to continue paying your pension.

You can also expect to receive ad-hoc communication with a focus on investments. You are also encouraged to regularly visit the fund's website (www.laretirementfund.co.za) as a way of keeping yourself informed.

In-fund living annuitants in the trustee endorsed option will be presented with a specific option at age 80. How will this work?

In the 6 months prior to reaching the age of 80, you will be presented with the opportunity to convert the balance in your in-fund living annuity account to a pension backed by an assurance company. The fund will obtain and provide quotations to you and you will be required to elect an option. If no option is exercised, your in-fund living annuity will continue. This automatic option will only apply to you if you have chosen the trustee endorsed option and only when you approach the age of 80.

It is however relevant to note that this option is voluntarily available at any age (before or after age 80) and is also available to you if you have chosen the customised option. Irrespective of the option you have chosen, you may, at any stage, consider converting your in-fund living annuity balance to an assurer backed pension (or any type or provider of an approved compulsory pension). This will however be at your request and will be processed under the voluntary termination basis with the resultant costs and subject to the FSCA's approval.

Can I appoint a financial adviser to assist me with all my options?

Yes, the Fund encourages members in the customised option to constantly seek financial advice on all fund matters and particularly when considering the drawdown percentages and investment strategy in the in-fund living annuity. The Fund also allows for the payment of fees to any financial adviser provided they are within limits set by the Trustees. Any fees will be deducted from the balance in your living annuity account and paid to the adviser. The fee payable to the adviser is calculated annually (on your anniversary date) and paid to the adviser quarterly in arrears. The Trustees have set the following maximum fee structure for all advisers: No initial fees and a maximum annual advice fee (VAT incl.) of 0.5% on the first R3m and 0.4% on that part in excess of R3m.

The appointment of an adviser is voluntary (i.e. at your discretion) and can be changed or cancelled by giving the Fund advanced written notice. If you plan to appoint an adviser please ensure that the applicable form (Annexure B to the Fund's retirement claim form) is completed and signed by both you and the adviser.

You may also contact the Fund Services Centre and a Fund Counsellor will assist you free-of-charge by providing you with information related to the in-fund living annuity option.

What options are available if I elect the trustee endorsed option and when will they take effect?

When joining the in-fund annuity pool (i.e. at your retirement or as a spouse of a deceased fund member), you must select between the trustee endorsed and customised options (subject to the minimums set by the fund).

If you have chosen the trustee endorsed option, you do not have to make any specific selection following your initial selection. Your pension will be recalculated each year on the anniversary of your retirement and in the month following attainment of the age of 65, 70, 75, 80, 85 and 90.

You may:

- Annually on the anniversary of your retirement elect to convert to the customised option (subject to the minimum set by the fund). This will allow you to make an investment and draw down rate selection which will be implemented on your retirement anniversary date;
- At any stage elect to terminate participation in the in-fund living annuity and transfer your remaining capital to another approved retirement instrument;
- In the 6 months prior to age 80, elect to convert to a guaranteed annuity;
- Should your balance reach a level as determined by legislation, apply to have your full remaining retirement capital balance paid as a lump sum.

What options are available if I elect the customised option and when will they take effect?

You have a fair amount of flexibility. The following applies to you if you elected the customised option when you purchased your in-fund living annuity or when you changed from the trustee endorsed option to the customised option:

- You may split your investment between the fund's accumulation, consolidation and preservation phases and you may change this investment instruction as often as you like;
- You may invest in the Shari'ah investment portfolio;
- You may change your draw down rate (within the limits set for the customised option) once a year, on the anniversary date of your retirement;
- You may at any stage elect to terminate your participation in the in-fund living annuity and you may transfer your remaining retirement capital to another approved retirement instrument;
- You may convert to the trustee endorsed option. This instruction will be implemented on your retirement anniversary date and one month prior notice is required. Your retirement capital will automatically be transferred to the consolidation phase and a draw down rate based on your age will be implemented. Your monthly pension will be recalculated annually thereafter, on your retirement anniversary date.
- Should your retirement capital balance reach a level as determined by legislation, you may apply to have the full remaining balance paid as a lump sum.

Can I purchase more than one pension from different entities of which one is this in-fund living annuity option?

Yes, the Fund rules do allow you to purchase more than one pension at retirement subject to certain conditions laid down by SARS. Since 1 March 2021, the in-fund living annuity can be one of the compulsory pensions purchased by retirees opting for multiple pensions at retirement.

Example: You retire at age 65 with R2 000 000 retirement capital and you decide to transfer R1 000 000 of the amount to the fund's living annuity pool, you purchase a retail life (or guaranteed) annuity from a registered financial services provider with R700 000 and lastly you elect to take the balance of R300 000 in cash.

If you decide to secure multiple pensions from multiple annuities, please ensure that you understand the SARS requirements.

In summary, if you opt to purchase a pension on retirement, you have one of the following options (subject to the annuitisation rules* below):

- Purchase the in-fund living annuity by converting 100% of your retirement capital.
- Take a cash lump sum and convert the balance of your retirement capital into the in-fund living annuity.
- Purchase more than one annuity of which one is the in-fund living annuity (subject to SARS requirements) using 100% of your retirement capital.
- Take a cash lump sum and use the balance of your retirement capital to purchase more than one annuity of which one is the in-fund living annuity (subject to SARS requirements).
- Transfer fully to a retirement annuity or preservation fund, subject to SARS approval.

Annuitisation rules with effect from 1 March 2021:

1. Members who were younger than 55 on this date -

Vested right: They may take their full member share as at 28 February 2021 plus growth to retirement as a cash lump sum and/or they can purchase a pension.

Non-vested right: A minimum of 2/3rds of all contributions from 1 March 2021 and growth thereon to retirement must be used to purchase a pension. The balance may be taken as cash.

2. Members who are 55 and older on this date and retire from the Fund -

Vested right: These members may continue to take their full retirement benefit in cash and/or they can elect to purchase a pension.

3. Members who are 55 and older on this date and transferred into the LA Retirement Fund after this date and then retire from the Fund -

Vested right: The transfer value plus growth to retirement may be taken as cash.

Non-vested right: A minimum of 2/3rds of all contributions and growth to retirement from the date of transfer must be used to purchase a pension on retirement.

If the non-vested right amounts to less than R247 500 at retirement; the full amount may be taken in cash.

What happens to the insurance benefits associated with the fund when I retire?

All insurance benefits (death, disability, funeral and the voluntary critical illness benefit) cease when you retire from the Fund. If you purchase the In-Fund Living Annuity you have the once-off option of purchasing an affordable funeral cover option for yourself and your spouse through Sanlam Sky Solutions. You may choose the cover amount applicable to your age group. The application form provides all the details you need – access it from the forms section of the Fund's website (under retirement).

If you elected the Voluntary Extended Family Funeral cover benefit as an active member of the Fund, this cover continues into your retirement as you are the policyholder of a Sanlam Sky Solutions policy.

Summary of all recurring and ad hoc administration expenses as at 1 July 2021

Description	Frequency	Amount (incl. VAT)
Basic administration fee	Monthly	R91.56
Contribution to fund level expenses	Monthly	R100
Contribution to fund level expenses	Monthly	1/12th of 0.17% of retirement capital
Investment fee	The estimated total annual investment cost of the available investment options are listed in the next column. The cost is recovered monthly, but is expressed per annum.	Depends on the investment portfolio/s chosen. Includes asset management fee + performance fee + trading costs: Accumulation – 0.83% Consolidation: – 0.84% Preservation – 0.72% Shari'ah – 1.19%
Investment switching fee	Ad hoc	R350
Transfer out (section 14 application)	Ad hoc	R485

These fees are recovered from the balance held in the living annuity account. They are not deducted from monthly pensions.

These fees are reviewed annually on 1 July and the Trustees are committed to keeping increases in line with inflation.

Belmont Office Park, Twist Street, Bellville 7530
PO Box 4300, Tyger Valley 7536
Tel: 021 943 5305
Fax: 021 917 4114
email: support@laretirementfund.co.za
website: www.laretirementfund.co.za
Whatsapp: 081 806 9959
Fund Registration No: 12/8/1278/2

