



# PHASED RETIREMENT QUESTIONS & ANSWERS



**RETIREMENT FUND**

Securing your retirement

UPDATED: SEPTEMBER 2021

One of your options on retirement is to elect to keep your full fund benefit in the fund until you need it at some point in the future. You would effectively be postponing receiving your retirement benefit from the fund even though you have retired from employment. This option is called “phased retirement”.

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

## WHAT EXACTLY IS PHASED RETIREMENT?

The Taxation Laws Amendment Act of 2014 introduced the term “phased retirement”. The definitions in the Income Tax Act were changed so that a member who retires from employment will not be compelled to retire from the fund and elect their chosen retirement option. If you choose this option, your member share remains invested in your chosen investment portfolio until you decide when it is appropriate for you to take your retirement benefit.



## WHEN DOES THIS OPTION BECOME AVAILABLE?

When you retire from employment and become eligible for a retirement benefit in accordance with the fund rules.

## IS THIS OPTION STILL APPLICABLE IF I ELECT TO RETIRE BEFORE MY NORMAL RETIREMENT AGE?

Yes, phased retirement is available to every member who is eligible to receive a retirement benefit from the fund.



## WHY SHOULD I THINK ABOUT PHASED RETIREMENT?

The ability to retire from the fund at a later stage is important for at least the following two reasons:

- 1. People are living longer.** The life expectancy of members who retire at age 65 has increased by an average of 20 years and, it is expected to increase in coming years, given the advances in medical science. The implication for members is that on average, retirement will be longer and they will therefore require more retirement capital to fund an income for an extended duration. Members will therefore need to think about retiring later and/or contributing more money to the fund in order to be able to retire at the same income level enjoyed whilst still actively employed.
- 2. The world of work is changing.** Whilst employees are productive for longer, employers in South Africa are requiring their employees to retire at younger ages. The 2014 Sanlam Benchmark Survey showed that just under 30% of new employees are required to retire at age 60 and just over 45% retire at age 65. Of the retirees who participated in

the 2013 Sanlam Benchmark Survey, 48% voluntarily retired early between age 55 and 60. Many members do not know the very high cost they have to pay to retire early. Members' retirement fund benefits generally double in the last 6 years before their retirement. A member whose retirement fund benefit is estimated to provide them with a monthly income equivalent to 50% of their monthly salary at retirement at age 60 will be able to retire at age 66 with an income equivalent to 72% of their monthly salary at retirement even if no further contributions are made to their member share in the fund for those additional 6 years.

In order to benefit from phased retirement, you have to be able to live on other investments or income for the duration of the time that you elect to postpone receiving your retirement benefit from the fund e.g.: You officially retire from employment and accept an offer from your employer to contract your services to your employer for a fixed period of time or you officially retire from employment and embark on a second career of your choice that provides you with sufficient income.

If you are in a financial position to choose phased retirement, you will benefit as your retirement benefit will remain invested in the fund for longer and will therefore have the opportunity to continue to grow with investment returns. In addition, for every year that you postpone your retirement from the fund, the cost of purchasing a life annuity from an insurer reduces.



## **ARE THERE CIRCUMSTANCES THAT CAN PREVENT ME FROM EXERCISING THIS OPTION?**

If there is a lawful claim against your benefit then the option is not available. The most common example is the fund's obligation to settle an outstanding pension backed housing loan amount. (Remember that up to 60% of your member share may be used as surety for a pension backed housing loan.) Another example is a legal claim by your Employer against your fund benefit as compensation for damage.

If you have an outstanding pension backed housing loan on retirement from employment, you are encouraged to settle the balance of the housing loan from other monies and not from your member share value in the fund. If you do this, you will be allowed to elect the phased retirement option.



## CAN I TAKE A PORTION OF MY BENEFIT IN CASH ON RETIREMENT FROM EMPLOYMENT AND LEAVE THE BALANCE IN THE FUND UNTIL A LATER POINT?

No, legislation currently requires that the full amount must be retained in the fund if you elect the phased retirement option.

## WILL INCOME TAX BE PAYABLE IF I CHOOSE PHASED RETIREMENT?



You will not pay any income tax if you elect the phased retirement option. Any lump sum eventually taken on retirement from the fund will be taxable on the same basis as any other lump sum payment from a fund.



## WHAT ARE THE COSTS IF I ELECT THE PHASED RETIREMENT OPTION?

Firstly, your member share remains 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.

In addition to the above, an administration fee is payable and is deducted from your member share on a monthly basis. The administrator has committed to keeping fee increases in line with inflation.

The fund also deducts a monthly fee as a contribution to the fund's governance and general operational expenses. This amount is channelled to the fund's Contingency Reserve Account from where fund expenses are paid. This amount is reviewed by the Board of Trustees from time to time.

## WHEN MAY I ACCESS MY RETIREMENT BENEFIT?

You may elect to take your retirement benefit at any point as there is no maximum age applicable to this option. Your full benefit will become payable on the date chosen by yourself.



You have one of the following 5 available options (subject to the annuitisation rules\* below) when you choose to take your retirement benefit:

1. Use your full benefit to purchase a cost effective in-fund living annuity from the LA Retirement Fund – please refer to the in-fund living annuity Q&A for details regarding this option **OR**
2. Elect to take part of your benefit as a cash lump sum and use the balance to purchase a cost effective in-fund living annuity from the LA Retirement Fund – please refer to the in-fund living annuity Q&A for details regarding this option **OR**
3. Purchase more than one annuity of which one may be the in-fund living annuity (subject to SARS requirements) using 100% of your retirement capital **OR**
4. Take a cash lump sum and use the balance of your retirement capital to purchase more than one annuity of which one may be the in-fund living annuity (subject to SARS requirements).
5. 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.

## **WILL THE STRUCTURE OF MY VESTED AND NON-VESTED MEMBER SHARE ACCOUNTS BE AFFECTED BY THIS OPTION?**

Electing a phased retirement will not affect my vested and non-vested rights, as introduced on 1 March 2021 by the Tax Laws Amendment Act.



### **WHERE WILL MY MONEY BE INVESTED WHEN I SELECT THE PHASED RETIREMENT OPTION?**

You retain access to all the investment options offered by the fund. The fund's default investment strategy is the Life Stage structure and if you were invested in this option before your retirement from employment, this strategy will continue after you have exercised the phased retirement option.

You can also opt out of the Life Stage investment strategy and select any one of the two Life Stage building blocks (i.e. the Accumulation or Consolidation phases) and in addition, you also have access to the Preservation phase, the Cash Plus option and the Shari'ah compliant investment portfolio.

## **WILL I BE ALLOWED TO CHANGE MY INVESTMENT SELECTIONS AND IF SO, HOW OFTEN?**

You may change your investment selection. You are allowed a maximum of 2 switches per fund year (1 July to 30 June) and the first of these switches is free.



The switching fee is paid from your member share held in the fund. Refer to the table on the last page for the second switching fee.



## **HOW WILL I KNOW THE AMOUNT OF MY MEMBER SHARE BALANCE AT ANY STAGE IN THE FUTURE?**

Whilst you were a contributing member of the fund you could access the administrator's system via the fund's secure website or via the administrator's app to obtain the value of your member share at any point and this will continue if you elect the phased retirement option.

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.

## **CAN I CONTINUE TO CONTRIBUTE TO THE FUND WHEN I ELECT THE PHASED RETIREMENT OPTION?**



No, legislation does not allow you to continue to make additional contributions to the fund. Your benefit will remain in the fund and will continue to grow with investment returns.



## **WILL I REMAIN COVERED UNDER THE FUND'S GROUP LIFE POLICY, DISABILITY POLICY AND FUNERAL POLICY APPLICABLE TO ME WHEN I WAS AN ACTIVE FUND MEMBER?**

No, your death benefit, disability income benefit, funeral cover and voluntary critical illness benefit cease when you terminate service. Depending on the insurance cover you elected while a contributing member, you may be able to convert your death benefit to a private policy of assurance with the insurer within 90 days of your exit from employment. Please visit the fund's website for more detail on the conversion option. Disability cover may not be converted on your retirement from employment on attaining your normal retirement age and funeral cover may not be converted on your exit from employment at any age.

## **WHAT HAPPENS SHOULD I DIE BEFORE I HAVE ELECTED A RETIREMENT BENEFIT?**



Your total benefit becomes payable on death. The payment thereof is governed by section 37C of the Pension Funds Act and involves a formal disposal of the benefit to your dependants and/ or beneficiaries on a basis as decided on by the Board of Trustees. 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:

1. Take the amount allocated to her/him as a lump sum (subject to prevailing taxation of lump sum benefits); OR
2. Purchase the cost effective in-fund living annuity offered by the fund; OR
3. A combination of the two options above.

Allocations to other dependants will only be paid as cash lump sums (also subject to taxation).

Currently a once-off fee is levied by the fund administrator for the investigation into your social circumstances at the time of your death. This investigation is required by section 37C of the Pension Funds Act. This fee will be deducted from the total benefit payable and the fee is reviewed annually by the administrator.

## HOW DO I KNOW THAT MY MONEY 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.



## AS A MEMBER WHO HAS ELECTED PHASED RETIREMENT, WHAT FORMS OF COMMUNICATION CAN I EXPECT TO RECEIVE FROM THE FUND?

On an annual basis you will receive (i) a benefit statement and (ii) a confidential beneficiary nomination form. The nomination form will be kept on record as your expression of wish in the event of your death. 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](http://www.laretirementfund.co.za)) as a way of keeping yourself informed. It is your responsibility to keep the fund informed of your current contact details (i.e. postal address, email address and cell phone number) in order to ensure that you receive fund communication.

**AS A MEMBER WHO HAS CHOSEN PHASED RETIREMENT, WILL I BE ALLOWED TO NOMINATE AND VOTE FOR TRUSTEES OF THE FUND DURING MEMBER ELECTIONS?**



Yes, you remain a fund member and are therefore eligible to be nominated and will be part of member trustee elections.



**MAY I APPOINT A FINANCIAL ADVISER TO ASSIST ME WITH ALL MY OPTIONS WHEN I ELECT TO RECEIVE MY RETIREMENT BENEFIT?**

Yes, the fund encourages members to constantly seek financial advice on all fund matters and particularly when benefits become payable. Please note that the fund will not pay fees or commissions to any financial advisers other than when you have voluntarily agreed to a fee arrangement with your adviser on purchasing the In-fund Living Annuity. In this case, you will need to complete Annexure B to confirm that an amount may be deducted from your invested retirement capital and paid to your financial adviser. Fee arrangements between a member and their financial adviser must be dealt with directly between the member and the adviser.

You may also contact the Fund's Retirement Benefit Counsellor (RBC) who will explain, in detail, all the Fund's options on retirement. This service is free-of-charge.

Phone 021 943 5305, e-mail HYPERLINK "mailto:[support@laretirementfund.co.za](mailto:support@laretirementfund.co.za)" support@laretirementfund.co.za or whatsapp 081 806 9959 (from 08h00 to 16h00).

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

Description	Frequency	Amount (incl VAT)
Basic administration fee	Monthly	R22.25
Contribution to fund level expenses	Monthly	R100
Additional contribution towards 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 cost: Accumulation: 0.83%pa Consolidation: 0.84%pa Preservation: 0.72%pa Shari'ah: 1.19%pa
Investment switching fee	Ad-hoc	R350

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

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