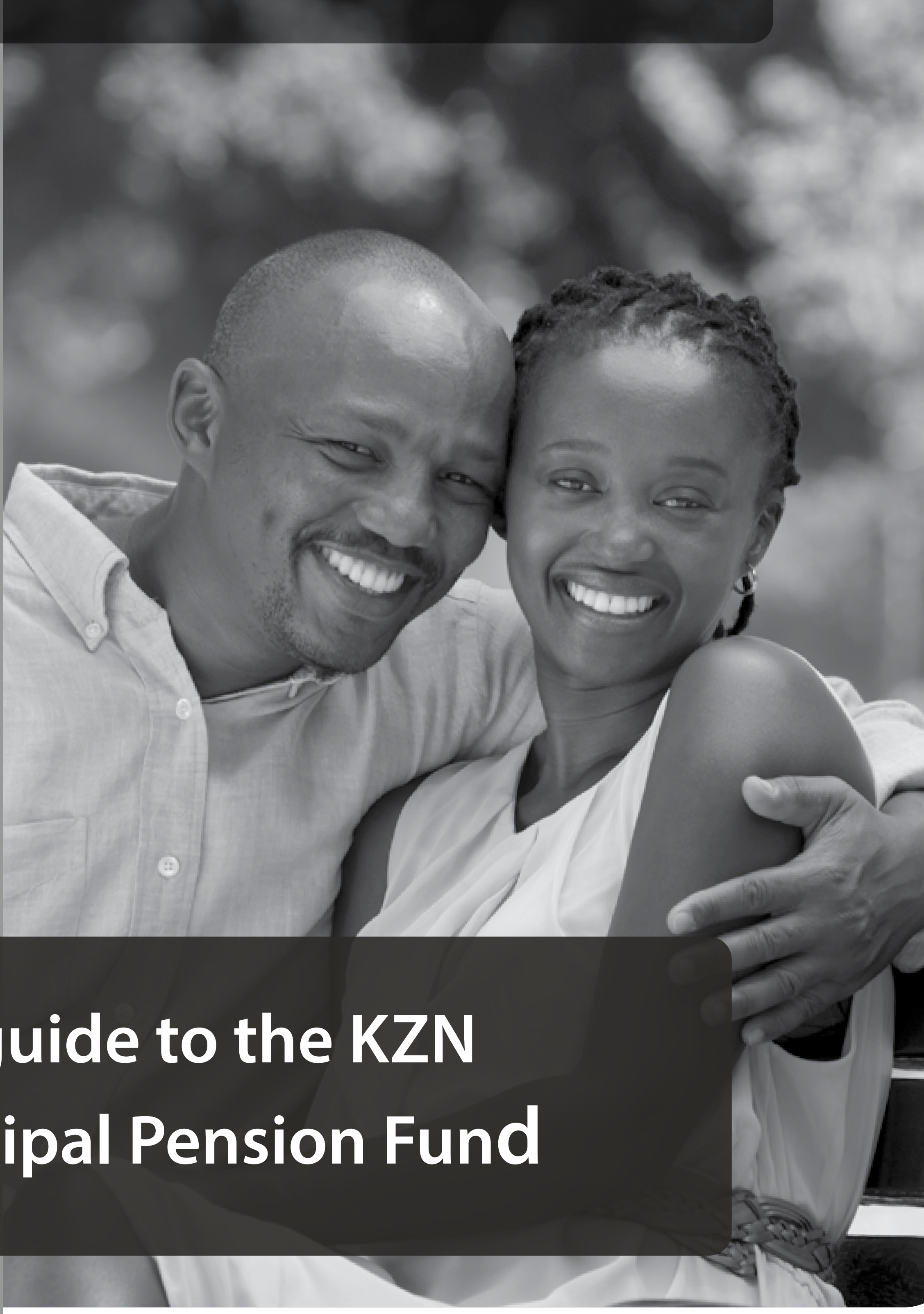

Your guide to the KZN Municipal Pension Fund

Partners for the future

KZN

MUNICIPAL PENSION FUND

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THE POWER OF PARTNERSHIPS

It's always easier to reach a goal by working together than alone. If one of your goals is to have a comfortable retirement, look no further than the ***KZN Municipal Pension Fund*** to find a partner for your future.

Think about this:

- More South Africans are retiring earlier and living longer.
- Many South Africans are forced to retire earlier than they had planned.
- You'll need a large amount of money at retirement for you to maintain your standard of living and to enjoy the things you've been looking forward to, such as travelling.
- In South Africa you are unlikely to get a state pension that will give you enough money to live comfortably.

The fund was established to help give you a regular and reliable income after retirement, but it does much more than this. Certain benefits associated with the fund help you and your family if you get too sick to work or die.

This booklet provides you with an overview of how the fund works, explains the benefits you get as a member of the fund and how you can make the most of this partnership for the future.

Separate brochures and benefit summaries are also available. These brochures provide more detail about the various fund benefits.

It's good to be a member of a retirement fund

Here are five of the most important reasons why it's good to be a member of a retirement fund:

1 | Retirement funds get favourable tax treatment

Government encourages all South Africans to save for their own retirement, have enough money to live comfortably and be financially independent in their old age.

2 | You save more money

The costs of running a retirement fund are far less than those of similar schemes (such as retirement annuities) that are available to individuals. More of your money is invested towards your future.

3 | Retirement funds are managed by trustees

The trustees manage the fund in the best interests of its members. They also get advice from experts and professionals to keep the fund's money in good hands.

4 | You have to take part

Membership of your retirement fund is a condition of your employment. When you get your salary in your account your retirement fund contributions have already been taken off. This means you don't even see the money so it's very hard to miss it. It's much easier to save if you don't even see the money coming in and out of your account.

5 | It's a long-term plan

A retirement fund is a long-term savings plan. Any savings plans that stretch over five years or more should grow better and faster than a plan that lasts for no longer than two years. This is because you earn more interest on interest over a longer time period.

How the fund works

The ***KZN Municipal Pension Fund*** is flexible, easy to understand and works like a savings account. Every month you and your employer contribute a percentage of your pensionable salary to the fund. Specialist investment managers invest these contributions.

Each month that you are a member of the fund, the money made from investing your contributions is added to your account in the form of investment returns. This account is known as your fund credit.

The size of the final benefit you get when you leave the fund depends on how much you and your employer contribute to the fund towards your retirement benefit, and how well the fund's investments perform. This type of fund is known as a defined contribution fund.

Your fund is a pension fund

As a member of a pension fund you can take up to one-third of your fund credit as cash when you retire. The other two-thirds must be used to buy a pension from a registered insurer.

Remember: When you take any benefit as cash you will be taxed. You must always look at all your options before taking your benefit as cash so you can avoid paying tax.

Not everyone can be a member of the fund

You are eligible to be a member of the ***KZN Municipal Pension Fund*** if you:

- Are a full-time, permanent employee of the eThekwini Municipality or any other municipality that participates in the fund
- Are under the age of 63 years (unless you have a retirement age of 65 in terms of your employment contract)
- Haven't previously chosen to participate in another retirement fund sponsored by your employer.

Being a member of the fund is a condition of employment. This means that you can't take your money out of the fund while you're still employed by the municipality.

A percentage of your salary goes into the fund each month

Think of every member, including your employer, as a partner. The goal of this partnership is a comfortable retirement. It's reassuring to know that you and the other members of the fund all play a part in this important goal. It's all about success in numbers.

Your own contributions

You can choose to contribute 5%, 7.5%, 9%, 12% or 18% of your fund salary to the fund each month. This amount is kept aside for your retirement. You can also change your contribution rate at the end of each financial year. If you don't choose a contribution rate, you'll automatically contribute 7.5% of your salary.

The more you contribute to the fund, the bigger your benefit will be when you leave the fund one day.

The more you save, the bigger your benefits will be.

Your employer's contributions

Your employer contributes 18% of your fund salary to the fund every month. A maximum amount of 9% of the 18% will be used to pay for the insured death and disability cover and the fund's expenses. In reality far less than 9%, is used for fund expenses and insurance costs. Once these costs have been deducted the rest of the money also goes towards your retirement savings.

Definitions

Risk Costs: The cost of providing the death and disability benefit cover.
Annuity: A pension you buy from an insurance company. It must give you a monthly income and must pay it to you for the rest of your life.
Fund: The **KZN Municipal Pension Fund.**
Fund salary: Your basic salary.
Member: A person employed by the eThekwini Municipality (or other participating municipality) and hasn't chosen to participate in another fund sponsored by their employer.
Trustee: A person responsible for managing the business of your fund.

Fund investments

The trustees of the fund make sure that your retirement savings are looked after by investing your money responsibly. They have set up a special finance and investment sub-committee to monitor your retirement savings and also get advice from experts to help set and monitor the fund's investment strategy.

All investments carry some investment risk and in a defined contribution fund, like the ***KZN Municipal Pension Fund***, you have to carry this risk. The investment risk is that your fund credit could become less in months when the share markets go down. But the good news is that when the investments do well and give good returns, your fund credit will grow faster. The fund can't promise that the investments will always grow, because investment markets go up and down all the time.

But always remember that you're saving for your retirement, which is a long-term investment. That means you are probably saving for about 30 years. When you're younger you can invest a portion of your money in shares on the stock market. Over short periods of time (one month, one or two years) shares may go down, but over 30 years or more, investing in shares could make sure that you have enough money to give you a monthly income when you retire.

In general greater expected long term returns can only be achieved by accepting greater short term risk. The management of one type of risk is often only achieved at the expense of another.

The trustees realise that to maximise the members' expected retirement benefits, younger members must be mostly invested in shares. It may be appropriate to reduce members' exposure to shares as they approach retirement.

Once in retirement, the focus of the investment strategy must shift towards protection against capital loss and negative real returns.

As a result, the fund uses a lifestage model as its investment strategy.

The lifestage model automatically transfers members from a high equity portfolio, through various lower equity portfolios and finally ends in low equity (more stable) portfolio. This is referred to as the fund's lifestage model. The trustees believe that this strategy will achieve the fund's investment objective of getting long-term real returns for members of at least inflation (CPI) plus 5% (before investment fees) per year over five-years. They also believe that this is the return needed to satisfy members' reasonable benefit expectations.

The fund offers members investment choice.

If the lifestage model doesn't suit your needs the trustees offer members a range of investment portfolios to choose from. Member investment choice allows members to closely match their investment strategy to their own personal circumstances. Members that use member investment choice will also be able to switch between the member choice portfolios, although an investment switch fee will apply.

> Members who want to choose their own investment portfolios can do so by selecting from a range of portfolios made available by the fund. Those who don't want to make their own selections will be invested in the fund's lifestage model.

Each month, the actual net investment return (positive or negative) earned by the investment portfolios in which you are invested (whether the lifestage or your own investment choice) is allocated to your fund credit.

You can keep track of the fund's investment returns by reading the fund communication that is distributed to members on a regular basis or you can access your personal information through the Alexander Forbes online facility and see your daily balance in the fund.

The "**Member Investment Choice" booklet** gives more detail on the fund's lifestage model and the member investment choice portfolios you can choose to invest in.

A PARTNERSHIP FOR THE FUTURE

Retiring from a pension fund

When you retire at your normal retirement age of 63, you can choose to buy a pension (annuity) in your name from a registered insurer. Using your fund credit, you can also choose to get your pension from the fund as a living annuity. If you buy a pension with your fund credit (from a registered insurer or the fund), you won't pay lump sum tax on it. However, the monthly pension payments will be subject to income tax.

> Refer to the fund's "**Options on Retirement" brochure** for more details about all of your annuity options at retirement.

You can choose to take up to one-third of your fund credit as a cash lump sum. If you take one-third as cash you'll have to pay tax on it. A portion of your cash lump sum will be tax free.

Refer to the **"Taxation of Fund Benefits" booklet** for more information on how your retirement benefit will be taxed when you retire.

The balance of your fund credit must be used to buy a pension. The insurance company or the fund will pay you a monthly income for your retirement years, depending on the type of pension you choose.

Your fund credit is equal to:

- All the company's contributions made on your behalf, towards your retirement benefits
- Your contributions towards retirement benefits
- Any amounts transferred into the fund from a previous fund
- Any interest earned on these amounts.

Definitions

Interest or investment returns: The contributions made on your behalf towards your retirement savings are invested by the fund. The total contributions towards retirement plus the fund's investment returns or interest make up the total assets of the fund. The higher the investment growth achieved, the higher the benefits you'll get from the fund. However, there is always the risk that the markets won't be stable. If this happens, your fund credit could decrease. The fund's interest is calculated daily, based on the performance of its investments. This is added to your fund credit each day. The trustees will tell you how much interest has been added to your fund credit in your benefit statements (issued twice a year). You can also see your fund information and values online.
Normal retirement age: 63 or as indicated in your employment contract
Normal retirement date: This is the day you would normally retire and is the first day of the month following your normal retirement age.

You can retire early but your savings will be less

You can retire early from age 55. If you decide to take early retirement you must give the municipality written notice. Early retirement works the same as normal retirement. It's important to remember that if you choose to retire early, you'll have less money saved than if you retire on your normal retirement date. Your money will have had less time to grow and you'll have paid in fewer contributions. Make sure you have saved enough money before deciding to retire early.

The following is a rough guide of how much money you'll need when you retire to retire comfortably:

Retirement age	Multiple of your salary
55	18.7 x annual salary
60	17.0 x annual salary
63	16.0 x annual salary
65	15.2 x annual salary

Each year, the fund will give you a projection statement that tells you how you're progressing towards your retirement so you can see if you're on track for a comfortable retirement.

The projection statement will also tell you how much extra you need to contribute to the fund if you're behind target.

You can retire early if you are too sick to work

If you become too sick to carry on working you may become eligible to retire early because of ill health, even if you're younger than age 55. A disability benefit will also be payable to you.

You can retire late with more savings

You can, with the municipality's permission, work after your normal retirement date, but no later than age 65. The municipality will still contribute to the fund on your behalf. Late retirement works the same as normal retirement except that you should have more money when you retire because you would have saved for longer and paid more contributions into the fund.

Invest your money wisely

Once your fund credit has been paid to you as cash or to an insurer as a pension (annuity), you won't receive any more benefits from the fund. This is why it's so important for you to invest your fund credit wisely.

A PARTNERSHIP FOR NOW

All of this is going to make a lot more sense to you when you finally reach retirement age. This will be the time of your life when you get to sit back and enj oy the fruits of all your years of hard work. But what happens if you leave your employer before you reach retirement age as a result of resignation, retrenchment or dismissal? It's just as important for you to think about now, as it is for you to plan for your future.

The benefit you get if you leave before retirement

If you resign, are retrenched or dismissed, you'll become entitled to your fund credit. You can take this as a cash lump sum, after tax has been deducted, or you can choose to preserve your benefits until retirement. The default option is to preserve your benefit in the Fund.

Any amount you take in cash will be taxed. This amount will also reduce the amount you can receive tax free at retirement so it is certainly not tax effective to take your benefits in cash before retirement. More details of how exit benefits are taxed are contained in the fund's **"Taxation of Benefits" booklet.**

Research has shown that less than 10% of members of retirement funds retire comfortably. The main reason for this is that members don't preserve their retirement fund benefits when they change jobs.

When you leave the ***KZN Municipal Pension Fund*** you can preserve your benefits by transferring your retirement savings to:

- A **preservation pension fund** tax free
- A **retirement annuity fund** tax free
- Your **new employer's** pension fund tax free, or provident fund after payment of tax.

To make preservation even easier for you, the fund also offers an option to **keep your benefits in the fund as a deferred benefit.**

You can find out more about your options by reading the fund's **"Options of Leaving" brochure.**

Your family will get a benefit if you die

A portion of the municipality's contribution is used to help your dependants and loved ones with money if you die while working for the municipality.

A small portion of the employer contributions is used to provide a lump sum death benefit to your family.

Death before normal retirement age

If you die before your normal retirement age, while still working for the municipality and the insurer accepts your death claim, your dependants will get a lump sum death benefit equal to:

- Your **fund credit** paid to you by the fund
- A **multiple of your annual fund salary** This is an age-related benefit. Members with less than three years of service receive a lower multiple of annual salary. After three years the scale applies according to their age.

Full details of the insured death benefit are set out in the fund's "**Death Benefits" brochure**. The brochure also explains what documents the insurer will need if a death claim needs to be submitted. This information will help your family claim your death benefits.

This death benefit cover may be subject to medical examinations. You may be required to go for a medical check-up if your potential death benefit cover is higher than the death cover limit. If this is the case, the fund will let you know in writing.

Death after normal retirement age

If you die after your normal retirement age, while still working for the municipality, your dependants will get a lump sum benefit equal to your fund credit only.

Tax
The death benefit will be taxed as if the deceased member retired on the date of their death. The **"Taxation of Benefits" booklet** explains this in more detail.

The trustees share the death benefit out according to the law

This is one of the most important tasks set out for trustees in the Pension Funds Act. Firstly, they have to decide who qualifies for the benefit and then they have to decide what percentage of the benefit each person will get, and how the benefits should be paid (in cash or into a beneficiary fund).

Trustees must make sure a thorough investigation of all those claiming or qualifying as a dependant or nominated beneficiary is done. They must also take all reasonable steps to identify, trace and contact all dependants and nominated beneficiaries. Then, taking into account the relevant circumstances, the trustees divide the lump sum in a fair and equitable way. This process can take up to 12 months to complete.

This may seem easy to do, but when a nomination of beneficiaries form hasn't been completed, and family members are difficult to contact, the procedure becomes complicated and as a result there may be a delay.

Always keep your nomination of beneficiaries form up to date

You must update your nomination of beneficiaries form each time your circumstances change, such as divorce, marriage or the birth of a child.

The nomination of beneficiaries form acts as a guide for the trustees. The trustees aren't compelled to distribute the death benefit according to this form. It only shows them who you'd like to get some or all of your death benefit. The final decision of who gets the benefit lies with the trustees.

Your Will can't tell the trustees who gets the benefit

The law says that your Will and nomination of beneficiaries form can't affect the distribution of your death benefits from your retirement fund. If you state in your nomination of beneficiaries form that you'd like your death benefit to go to a particular person, the trustees still have the authority to override these wishes and distribute your death benefit in a way that they feel is fairer considering each situation individually.

If you have a beneficiary or dependant that you **would not** like to get a death benefit you need to name them on your nomination of beneficiaries form as 0%, and give a valid reason for your decision.

You can get these forms from your liaison officer or the fund's front office.

Definitions

Nominated beneficiaries: These are the dependants and nominees that you nominate to get your death benefit on your nomination of beneficiaries form.
Dependants: These are the people you are legally or financially responsible for looking after such as your spouse or life partner, children or elderly parents.
Beneficiaries: These are the people who actually get a portion of the death benefit.

The fund also offers a funeral benefit that is paid if you, your spouse or child younger than 21 dies.

Your nearest liaison officer will help you make a funeral benefit claim. In the event of the member's death, the benefit will be paid to one of the member's primary beneficiaries to pay funeral costs.

Full details of the funeral benefit and associated repatriation benefit is included in the fund's "**Death Benefits" brochure**.

The fund helps if you become disabled

What would you do if you couldn't ever work again because you became very sick? How would you and your family cope? As a member of the fund, you qualify for certain disability benefits which are paid for from the municipality's contribution to the fund.

The fund provides members with three types of disability benefits:

- Temporary benefit
- Permanent benefit
- Terminal illness benefit

Temporary disability benefit

If, due to injury or illness you are unable to perform with reasonable continuity the material and substantial duties of your own job or any other reasonably suitable job that your employer can offer you, you will be entitled to a monthly disability benefit. This monthly benefit is subject to a maximum rand amount set by the insurer from time to time.

This disability benefit is subject to medical check-ups needed by the insurer, if your potential disability benefit cover is more than the disability cover limit set by the insurer.

You'll stay a member of the fund and both you and the employer will carry on contributing to the fund while you are receiving the temporary disability benefit, which means you will still be eligible for withdrawal, retirement and death benefits.

Tax
Your monthly income disability benefit will be taxed the same way your monthly salary is taxed.

Permanent disability benefit

If, due to injury, disease or illness, you are **totally and permanently** unable to perform the material and substantial duties of any occupation in the open labour market for which you are qualified or suited or could reasonably be expected to become qualified or suited taking into account the degree of your disability and your knowledge, training, education, ability, experience and age, you will retire from the fund and be entitled to an ill-health early retirement benefit made up of:

- **Your fund credit paid to you by the fund**
- **A multiple of your annual fund salary (this is the same age related benefit that applies on the death of a member).**

This benefit is paid after a waiting period.

The ill-health early retirement benefit is treated in the same way as a normal retirement benefit from a tax perspective.

Once you get this ill-health early retirement benefit, you'll no longer be a member of the fund and the fund will have no further liability to you.

Tax
Your ill health early retiirement benefit will be taxed in the same way as a normal retirement benefit.

Certain terms and conditions apply to these disability benefits which are explained in the fund's **"Disability Benefit" brochure.** The brochure also explains the fund's disability benefits in more detail.

FUND COMMUNICATION

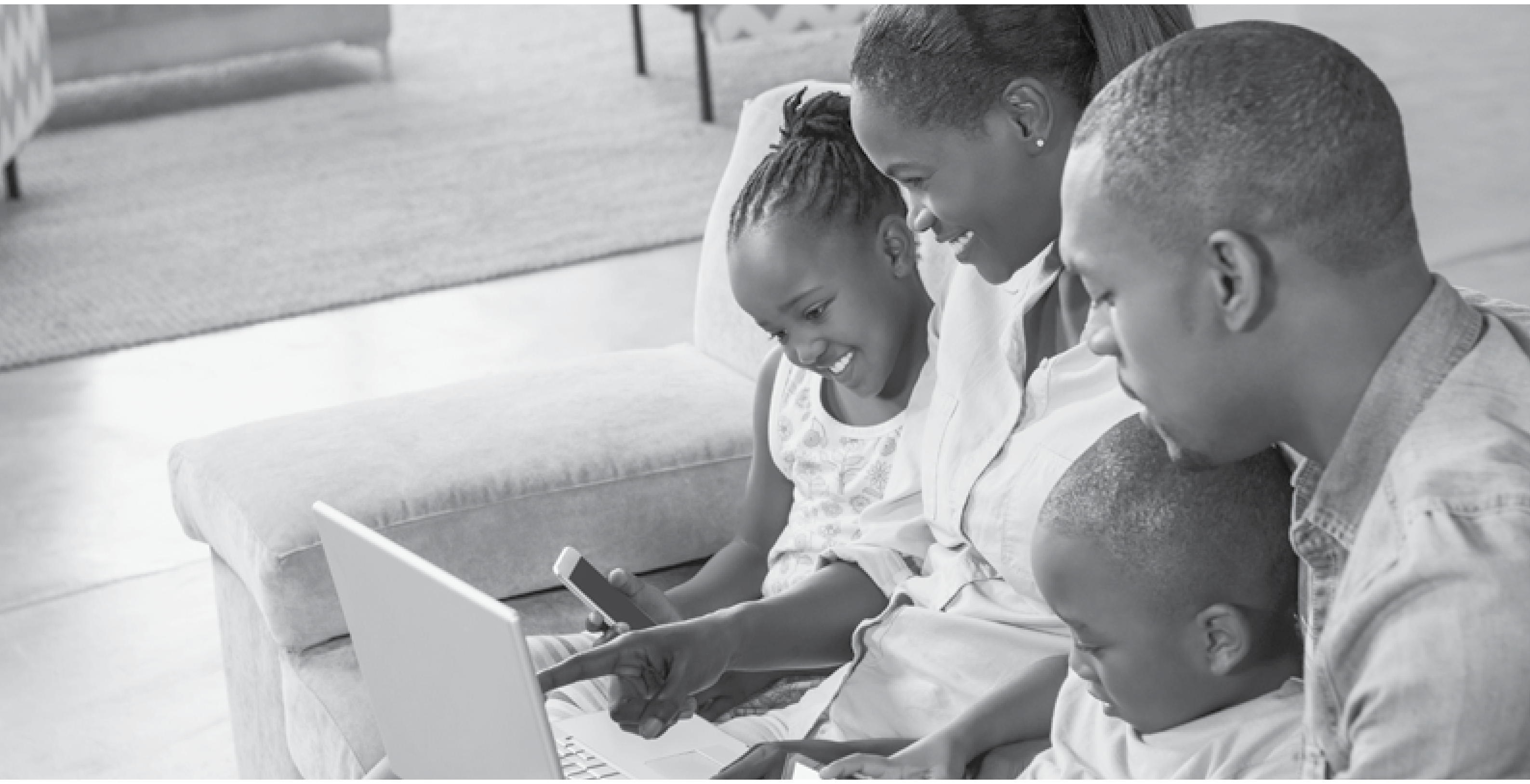
The fund sends you communication to keep you up to date with fund information. This includes:

- **Benefit statements:** Given once a year confirming your value in the fund as at 30 June. These statements are issued in September and March each year.
- **Projection statements:** Prepared with your annual benefit statement. These statements tell you how well you are progressing towards your retirement goal.
- **Annual trustees' report:** Gives a summary of the fund's activities over the previous year so you can keep up to date with what is happening in the fund. The report is prepared as at 30 June (the fund's yearend) and is distributed in February of the following year.
- **Member contribution letter:** Used to be sent out once a year, however a rule amendment was done to allow members to change this as and when they feel fit to change.
- **Pre-retirement seminars:** Presentations are given to members nearing retirement. The presentations help prepare members for their retirement.
- **Investment presentations:** From time to time the fund offers investment presentations to members where the fund's investment strategy and member investment choice options are explained, so that members can make informed investment choices.

The fund also issues communication when a change takes place and gives members separate brochures explaining some fund benefits in more detail. These include:

- **Taxation of benefits booklet**
- **Member investment choice booklet**
- **Options on exit brochure**
- **Options on retirement brochure**
- **Deferred benefit brochure**
- **Living annuitant brochure**
- **Death benefit brochure**
- **Disability benefit brochure**

Members of the fund also have instant access to their fund values on **www.afonline.co.za.** You'll need to log on to the website and register to have access. The website also has useful tools that will help with your retirement plans.



OTHER INFORMATION

The pension funds adjudicator and complaints

The office of the pension funds adjudicator exists to hear and adjudicate retirement fund members' complaints

The adjudicator deals with complaints about fund administration, asset investment or fund rule interpretation and application.

If you have a problem with the fund, you must first send your complaint in writing to either the fund or your employer. If the fund or your employer doesn't reply to you within 30 days, or if you are not satisfied with the reply, then you can send your complaint to the adjudicator.

After hearing both parties' cases (either in writing or in a hearing), the adjudicator will make a ruling.

You can find contact details for the office of the pension funds adjudicator on **www.pfa.org.za.**

Enquiries

It's very important for you to understand what benefits are available to you as a member of the fund. We have tried to make this guide as understandable as possible. If, after reading through this guide you still don't understand your benefits, please speak to your liaison officer, one of the trustees or the fund's front office.

The rules

Every retirement fund must, by law, be run according to a set of rules approved by the Registrar of Pension Funds and the Financial Services Board. The provisions of the fund are described in detail in these rules. The fund is run strictly according to these rules.

In a simple booklet such as this one, it's not possible to give all the details of the fund in every situation. We've tried to make this guide as accurate and understandable as possible, but if there is any difference between this guide and the rules, the rules will apply. If a dispute arises, the dispute resolution mechanism detailed in the rules of the fund will apply.

A copy of the rules, the financial statements or the most recent financial review, which are all available on the company intranet.

Fund's name:	**KZN Municipal Pension Fund**
Reference number:	12/8/36983/1
Front office:	5 Walnut Road, SmartXchange Building
Contact number:	031 322 9001

Our fund members