Options on Leaving (excluding retirement)

Partners for the future

KZN

MUNICIPAL PENSION FUND

This document briefly sets out your basic options of what to do with your benefit from the Fund on withdrawal. You should note that your choices have tax implications and we strongly recommend that you seek professional advice before making such a choice. If you do not have a financial advisor, please contact the Fund Front Office, who will put you in touch with a financial advisor utilised by the Fund.

Your withdrawal benefit from the Fund will be your full Fund Credit. This is made up as follows:

- Transfers in from a previous fund (if applicable), PLUS
- Your contributions to the fund, PLUS
- Your employer's contributions to the fund, PLUS
- The investment return earned by the fund.

You may elect to take your withdrawal benefit in one of the following ways:

- Transfer your fund credit to a preservation fund, retirement annuity or to your new employer's fund.
- Opt for the deferred benefit option. (This is the default option)
- Take your fund credit in cash.
- Combination of 1 and 3 above.

ALWAYS PRESERVE!

Research shows that only 10% of retirement fund members have enough money saved in the pension fund to be financially secure in retirement. The main reason for this is that members take cash when they change jobs instead of preserving or saving their fund credit.

A PRESERVATION FUND

A preservation fund is a registered retirement fund specially designed to receive your withdrawal benefits without you having to pay any tax. If you transfer your fund credit to a preservation pension fund tax-free, it will be invested on your behalf until the date you choose to retire. Note there will be tax implications if you transfer your benefit to a preservation provident fund.

Advantages
Your retirement savings are preserved for retirement. You can take one withdrawal from the preservation pension fund if you ever need emergency funds. This one withdrawal also allows you to withdraw all your savings in the preservation fund.
No tax is paid on transfer, but tax will have to be paid on any amounts you withdraw from the preservation pension fund.
You have full control of your retirement savings transferred to the preservation pension fund, and can switch investment portfolios.

Disadvantages
You will reduce your retirement benefit if you use your once-off withdrawal option.
No extra contributions can be paid into the preservation fund.
Commissions and retail administration fees apply.

A RETIREMENT ANNUITY

If you choose this option, your retirement savings in the fund will be transferred tax-fee to a retirement annuity fund of your choice.

Advantages
You preserve your savings until retirement.
You transfer your retirement savings tax-free.
You can make additional monthly contributions to a retirement annuity fund. These contributions may be tax deductible.

Disadvantages
You can't withdraw any money until retirement.
You can only take up to one-third of your retirement savings as cash at retirement, the balance must be used to buy a pension from a registered insurer.
Commissions and retail administration fees apply.

YOUR NEW EMPLOYER'S FUND

If you choose this option, your retirement savings in the fund will be transferred tax-fee to your new employer's fund if it is a pension fund. There will be tax implication if you transfer from this Fund (pension fund) to a provident fund.

Advantages
You preserve your savings until retirement.
You transfer your retirement savings to your new employer's fund tax-free if this is also a pension fund
There are no costs involved.

Disadvantages
You may not have control over the future investment choice of your retirement savings.
If you leave your new employer before retirement you will have to transfer your retirement savings, once again, from this employer's fund.
You may not have access to your retirement savings until retirement age.

THE DEFERRED BENEFIT OPTION

You may elect to become a deferred pensioner by leaving your benefit in the Fund as a paid-up benefit. Your benefit, being your Fund Credit, will remain in the fund and earn the return earned by the Fund until the occurrence of any one of the following:

- You elect, in writing, to have the benefit paid to you prior to Normal Retirement Date. This will be paid to you as a cash lump sum or transferred to a Pension Preservation Fund, Retirement Annuity Fund or another Approved Pension Fund.
- You reach Normal Retirement Date. You will be required to purchase an annuity of your choice from a registered insurer with at least two thirds of your benefit. The balance may be paid to you as a cash lump sum.
- You die prior to Normal Retirement Age. Your benefit will be paid to your dependants as a cash lump sum.

Although your benefit remains in the fund, neither you nor the Municipality will continue to contribute to the Fund and you will not be eligible for the insured risk benefits (i.e. death, disability and funeral benefits).

Please note that, in terms of the Fund Rules, you may retire at any date after reaching age 55. If you are over age 55 and wanting to leave the Municipality, you should consider this option as it may be more appropriate from a taxation point of view.

If you choose this option, your retirement savings in the fund will be moved to a separate section within the fund that doesn't require ongoing contributions to be paid to the fund.

Advantages
You preserve your savings until retirement.
You can claim payment of your fund benefit at any time.
This option is tax free.
You can continue with your current investment strategy. You have access to the range of investment portfolios offered by the fund.
Administration fees are less than retail fees and there is no commission payable.

Disadvantages
You will reduce your retirement benefit if you claim your benefits before retirement.
No extra contributions can be paid into the fund.

TAKING CASH

You may take your entire benefit in cash. The portion of your benefit accruing in respect of service prior to March 1998 plus an amount of R25 000 will be tax-free. The balance of your benefit is taxed at your average tax rate.

You should ensure that you are registered as a taxpayer and have your tax affairs in order. This is necessary for the Receiver to issue the relevant tax directive.

Advantages
You will have direct access to cash to use at your own discretion.

Disadvantages
Your benefit is taxed according to the withdrawal tax table. You can take the tax-free amount once during your lifetime.
You will reduce your retirement benefit and you may not have enough money to live on after you retire.

The trustees don't recommend this option. You should at all times try to preserve your retirement savings for its real purpose which is to provide you with a sufficient pension at retirement.

A COMBINATION OF TAKING CASH AND TRANSFERRING YOUR FUND CREDIT

You may take a portion of your benefit in cash and transfer the balance to an approved Preservation Pension Fund. If you transfer to a Preservation Pension Fund, you are allowed one further withdrawal from the Preservation Pension Fund before you retire.

Your financial advisor will be able to assist you in determining the most tax effective split.

Please note that, whilst we have endeavoured to ensure that the tax implications as set out in the options above are correct, we cannot guarantee the correctness thereof.