

QUANTUM LEAP

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EVERYTHING YOU NEED TO KNOW ABOUT YOUR OPTIONS IN THE QUANTUM ELITE GROUP UMBRELLA FUND

Members are often unaware that there are options available to them within a retirement fund during their membership of the fund and also when they withdraw or retire.

Some of these options are unique to a retirement fund, but there are also generic options available which could, if properly understood and used, add value to your retirement fund credit.

In terms of new Regulations Boards of Trustees are re-



sponsible to communicate retirement fund options to members in a way that is easi-

ly understood.

We urge members to take the time to read and seek to understand the information, as it is in their best financial interest to make informed decisions regarding their retirement fund credit.

This edition of Quantum Leap focuses on the generic options available within the Quantum Elite Group Umbrella Fund.

Options during membership

Contribution Options:

Your contributions to the fund are set out in the rules of the fund and will be deducted from your salary monthly. You are however allowed to make additional voluntary contributions if you wish to increase your retirement savings.

You are able to claim a tax deduction up to 27.5% of your total taxable income on the contributions you make towards your retirement fund. Please arrange with your human resources officer if you would like to

make additional voluntary contributions.

Investment Options:

There are different investment options available within the Quantum Elite Group Umbrella Fund.

These range from conservative funds with a guarantee to market related funds without any guarantee.

Your human resources officer will be able to tell you how your fund credit is invested, and what other investment options are available to you. Should you wish to have your

fund credit invested in a different way than the default option, you will need to inform us in writing by completing an investment option form. This form will be available from your human resources office.

When making changes to your retirement fund, it is best to consult with a qualified personal financial planner who will assist you with these changes.

We will be able to provide you with contact details if you don't have your own advisor.

“IT'S SIMPLE:

TO MASTER MONEY

YOU MUST

MANAGE MONEY”

T Harv Eker


fairsure
employee benefits



“It is in your best interest to be aware of all the options before you decide how to apply your fund credit.”

Options at withdrawal

It is in your best interest to be aware of all the options before you decide how to apply your fund credit. We also suggest that you consult a qualified personal financial advisor who will help you to make the decision that is in your best interest.

The options when you resign from your employer are as follows:

Option 1: Remain a paid-up member

Option 2: Transfer to a Preservation Fund

Option 3: Transfer to your new Employer’s Pension or Provident Fund

Option 4: Transfer to a Retirement Annuity Fund

Option 5: Cash Lump Sum

Option 1: Remain a Paid-Up member

You may leave your fund credit in the Quantum Elite Umbrella Fund. In this instance it will remain invested in the portfolio/s that you are currently invested in. We will require written instruction should you wish to change your investment strategy. A market related administration fee will be deducted on a monthly basis. While you are a paid-up member of the fund, you will not be making any further contributions and you will not qualify for any insured benefits.

You will be able to withdraw, if you have reached the age of 55 retire from the fund at any time in future by completing and submitting the relevant claim forms to us. It is important that you keep us

informed of your contact details when they change, so that we may be able to communicate with you and keep you up to date with any future developments.

Option 2: Transfer to a Preservation Fund

The Quantum Elite Umbrella Fund appointed the Sanlam Plus Preservation Fund as its default preservation fund should you wish to preserve your money.

Alternatively, you may transfer your benefit to any other Preservation Fund that you prefer. A preservation fund generally will have a larger range of investment portfolios than what is currently available in the Quantum Elite Group Pension and Provident Fund, and there may be fees payable on the transfer. Although your benefit on transfer is not subject to tax, we will need to apply for a tax directive when you transfer to a Preservation Fund.

Option 3: Transfer to a future employer’s Pension or Provident Fund, or to a Retirement Annuity

You may transfer your fund credit to your future employer’s retirement fund or a retirement annuity, to be invested along with your future contributions. Although the benefit will not be taxable on transfer, we will need to apply for a tax directive before we are able to transfer your fund credit.

Option 4: Transfer to a Retirement Annuity Fund

You may transfer your fund credit, or a portion thereof to a retirement annuity fund and

secure a monthly income that will become payable at your retirement.

There are many options within a Retirement Annuity Fund, and it is important that you discuss these options and the implications of each option with a personal financial planner before you make a final decision. The financial planner will charge commission and/or fees for his advice to you.

Once you have transferred your fund credit to a Retirement Annuity Fund, you will not be able to withdraw any monies from the fund unless you have reached the age of 55 years. It is not advisable to cancel a retirement annuity before retirement as early termination penalties may apply.

Option 5: Cash lump sum

You may take your fund credit as a cash lump sum. This is normally not recommended as the amount may be subject to tax and only the first R25 000 of all your cash withdrawals over a lifetime of employment is paid free of tax. Furthermore, you will lose out on future tax-free investment returns if you take your fund credit as a cash lump sum.

A meaningful retirement benefit accrues over a lifetime of employment, and those who save and continue to preserve their benefits as they move from one employer to the next are much more successful in retiring without having to lower their standard of living.

Options at retirement

There are important financial decisions for you to make at retirement. It is of utmost importance that you make an informed decision as it will directly affect your financial wellbeing during your retirement years.

At retirement the first R500 000 that is paid out to you in cash will not be taxable if you have not taken any amounts as a cash withdrawal during your years of employment.

A qualified personal financial planner will be able to explain the various options available to you and the benefits of each option. Fairsure strongly recommends that you seek financial advice before retiring. It is crucial that benefits are arranged correctly to provide financial security after retirement.

The options are as follows:

Option 1: Remain a paid-up member

Option 2: Transfer to a Retirement Annuity Fund of your own choice or choose the Fund Annuity Strategy

Option 3: Transfer to a Preservation Fund

Option 4: Cash Lump Sum (Only available under certain circumstances)



Option 1: Remain a paid-up member

You may leave your fund credit in the Quantum Elite Umbrella Fund. In this instance it will remain invested in the default portfolio which is specific to

your retirement fund until such time that we receive your written instruction as to how you want to have your fund credit invested in a different available portfolio, or how you want your fund credit paid. A market related administration fee will be deducted on a monthly basis. While you are a paid-up member of the fund, you will not qualify for any insured benefits.

You will be able to retire from the fund at any time in future by completing and submitting the relevant claim forms to us. It is important that you keep us informed of your contact details as and when it changes, so that we may be able to communicate with you and keep you up to date with any future developments.

Option 2: Transfer to a Retirement Annuity Fund of your choice or choose The Fund Annuity Strategy

You may transfer your fund credit, or a portion thereof to a retirement annuity fund from which a monthly income will be paid to you. There are many kinds of annuities that you could purchase, and it is important that you discuss these options and the implications of each option with a personal financial planner before you make a final decision.

You can either select a **life annuity or a living annuity**. These choices are not available without use of a financial advisor.

A **life annuity** will pay a certain amount to you or your dependents for a number of years. This type of annuity can also be purchased with a guarantee, regular inflation adjustments, and/or with a smaller amount paid to your spouse or partner in the

event that you pass away before your spouse or partner.

The key **advantages** of the life annuity option are:

- Value for money - low cost compared to traditional alternatives.
- Income is guaranteed for life and you cannot run out of money.
- The product provider takes care of the ongoing management of the investment.

There are various optional features as indicated below that can be added to the policy. These features come at additional costs.

The **disadvantages** and risks of the living annuity option are:

- No flexibility – the payment terms and optional features are fixed at the start and cannot be changed later.
- You cannot switch from a life annuity to a living annuity.
- There may be no benefit to your beneficiaries after your death

Options available in a life annuity:

Life annuities can be set up so that there is a certain guaranteed period. In this instance the monthly payments will continue up until the expiry of the guarantee period or your date of death, whichever occurs last. Should you pass away before the guarantee expires, the monthly income will continue to your dependents up until the date that the guarantee expires.

Life annuities could be secured with an annual inflationary adjustment, or with the option that the monthly income payments will continue to your spouse or partner after your death.

Fairsure strongly recommends that you seek financial advice before exiting the fund. Contact Graviton toll free at 0800 872 635 or per e-mail at advice. graviton.co.za

A **living annuity** is an instrument where you can draw a certain percentage of the capital invested, depending on your needs. It is important with this type of annuity that you are regularly kept up to date with the investment returns, so that your monthly drawdowns are in line with what your investment is earning.

The key advantages of the living annuity option are:

- Value for money - low cost compared to traditional alternatives
- You will have a choice of investment portfolios from a trustee approved menu.
- There are higher potential long-term returns provided you are willing to take on additional investment risk.
- Flexibility – you can change your income level once a year.
- Your unused retirement capital can be passed on to your dependants after you pass away.
- You do have the option to transfer to another provider or convert to a guaranteed annuity at any time.

The disadvantages and risks of the living annuity option are:

- Your investment grows according to the returns you earn and is depleted according to the income you draw, so if you draw too much income or your investment returns are poor, you could run out of money.
- You are responsible for the ongoing management of the investment, which is more complex than for life annuities.

The financial advisor through whom you arrange the living annuity will set out the various investment options available to you, as well as the details and risk associated with each option.

Your **minimum** drawdown rate is 2.5% in terms of current South African income tax legislation.

Your **maximum** drawdown rate is limited to 17.5% to protect your income security.

You may change your drawdown rate, usually once per annum, but this will be set out in the policy document. Note that it is advisable that you consult with your financial planner before you increase your drawdown rate.

Your monthly pension (net of income tax) is paid into your personal bank account monthly in arrears.

You may transfer your entire member share into another compulsory annuity offered by any other registered provider at any time, but there may be termination charges involved.

Costs and charges

The costs and charges should be set out and explained to you by your financial advisor.

The Fund Annuity Strategy

The Trustees of the Quantum Elite Group Umbrella Fund have implemented a Fund Annuity Strategy, for those members who do not feel comfortable to decide which annuity is best for them.

It is a low cost alternative and based on conservative investment guidelines. Members would need to select either a life annuity or a living annuity, with certain limited options available under both choices. The Fund Annuity could be implemented with or without the assistance of a qualified financial advisor.

More information is available from your Human Resources officer or from Graviton.

Option 3: Transfer to a Preservation Fund

The Quantum Elite Umbrella Fund has appointed the Sanlam Plus Preservation Fund as its default Preservation Fund should you wish to preserve your money.

Alternatively, you may transfer your benefit to any other Preservation Fund of your choice. A preservation fund generally will have a larger range of investment portfolios than what is currently available in the Quantum Elite Group Pension and Provident Fund, and there may be fees payable on the transfer.

You will not be allowed to make any future contributions to a Preservation Fund.

You may retire from the Preservation Fund after having reached the age of 55 years. At retirement the same options will be available to you as if you are retiring from a Pension or Provident Fund.

Where you have already reached retirement age at your employer you will not be entitled to the one pre-retirement withdrawal option that is available to members who transferred their withdrawal benefit to a Preservation Fund.

Although your benefit on transfer is not subject to tax, we will need to apply for a tax directive when you transfer to a Preservation Fund.

If you require more information on the Sanlam Plus Preservation fund, please contact Graviton at 0800 872 635 or e-mail Advice@Graviton.co.za

Option 4: Cash lump sum

This option is only available to you if you retire from a Provident Fund, or if your fund credit is less than R247 500 when you retire from a Pension Fund. If you retire from a Provident Fund you may take your full retirement benefit as a cash lump sum.

If you retire from a Pension Fund a maximum of one-third of your fund credit may be taken in cash (unless your fund credit is less than R247 500) and the balance needs to be used to purchase a monthly income.

We will need to apply for a tax directive if you elect to have your fund credit paid out to you in cash, and there may be tax

deducted. At retirement the first R500 000 taken in a cash sum may be paid free of tax if you have not taken cash withdrawals previously from a pension or provident fund.

It is generally not advisable to take too much of your retirement benefit as a cash lump sum as the portion taken in cash will reduce the monthly income that your fund credit will be able to secure.

We find that people live longer now than what they did at the time of our grandparents, and it is in your best interest to apply your retirement savings wisely so that it can provide you with a monthly income until your date of death.

It is generally not advisable to take too much of your retirement benefit as a cash lump sum

Dashboard of options

	Available at withdrawal	Available at retirement	Protecting retirement savings	Financial implications	Flexibility	Tax Implications
Remain a paid up member						
Transfer to a Preservation Fund						
Transfer to your new Employer's Pension or Provident Fund						
Transfer to a retirement annuity fund						
Cash Lump Sum (limited to 1/3 of total fund credit in a Pension Fund)						