

Retirement Glossary

Additional Voluntary Contributions (AVC's)

Contributions made by either a member or their employer, over and above their normal contributions to a retirement fund, in order to secure additional tax benefits for the member. A retirement fund cannot accept pre-tax amounts as an AVC; it must first be taxed before going into the fund. Accordingly, a member cannot decide not to take his bonus, but instead to pay it to the fund as an AVC, in order to avoid paying tax on the bonus. The AVC is added to the normal contributions made by and on behalf of the member to determine the maximum contributions allowed as a tax deduction.

Administrator

An administrator is an entity, usually an insurance company, that specialises in the administration of retirement funds.

A retirement fund can be self-administered.

An administrator has to obtain the approval of the SARS before it may administer a fund. This is done in terms of section 13B of the Pension Funds Act.

Administration fee

The amount paid for the administration of an employee benefit product/scheme.

Advisory Body / Management Committee

In respect of an umbrella fund, the second tier of management under the board of management, i.e. a group of people at the employer, some of whom must be appointed by the employer and some elected by the members.

The advisory body acts on behalf of the participating employer and provides information and make recommendations to the board of management of the umbrella fund, taking the interests of the members employed by the participating employer into account.

Approved Fund

A fund that has been approved by SARS in terms of the Income Tax Act as a pension fund, a provident fund, a pension preservation fund, a provident preservation fund or a retirement annuity fund and in respect of which a member meets the eligibility requirements for admission to membership thereof.

Beneficiary

A nominee of a member, or a dependant who is entitled to a benefit, as provided for in the rules of the relevant retirement fund.

Beneficiary Fund

A fund that may only administer, invest and pay death benefits received from occupational retirement funds and/or from employer owned group life policies on the death of a member.

Benefit

The amount payable to a member or beneficiary in terms of the rules of that fund on the happening of a specified exit event.

Board / Board of Management (Trustees)

The trustees of the retirement fund as appointed and elected in terms of the rules of the fund. Every fund must have a board of management consisting of at least 4 board members, at least 50% of whom have to be elected by the members, unless exempted from this requirement under section 7B of the Pension Funds Act.

Umbrella funds, and retail funds (preservation and retirement annuity funds) and beneficiary funds may apply for such an exemption.

Commissioner

The Commissioner or the Deputy Commissioner of the Financial Sector Conduct Authority as appointed in terms of the Financial Sector Regulation Act, 2017.

Consultancy/Consulting fee

The amount paid to the consultant/adviser for advice services provided to a participating employer about their employee benefits.

Contributions

The amount of money that a participating employer and/or member pay to a retirement fund.

Default Annuity

Pension, pension preservation and retirement annuity funds are required to have an annuity strategy. If the rules of a provident or provident preservation fund allow for a member to choose an annuity, it must also have an annuity strategy. The default annuity can either be in-fund or out of fund. It can also be either a living annuity or a life annuity. The default annuity is an "opt-in", which means that a member has to choose to buy into the product, as opposed to a forced purchase.

Default Investment Portfolio

A portfolio for members of occupational retirement funds who do not specifically choose how their retirement savings should be invested. The Default Regulations require a board of a defined contribution pension and provident fund to provide one or more default investment portfolios to its members.

Default Preservation

Pension and provident funds have to offer a default in-fund preservation arrangement to members who leave the employment of a participating employer. The funds should allow such members to leave their accumulated retirement savings in the fund and become a "paid-up" member without paying any additional fees.

Default Regulations

Regulations under the Pension Funds Act that require the trustees of the listed retirement funds to offer:

- Pension and Provident Funds: Default investment portfolio and default preservation
- Pension, pension preservation and retirement annuity Funds: An annuity strategy, with a default annuity product.

Defined Benefit Fund

The rules of a defined benefit fund specify the amount of pension payable at retirement according to a defined formula. The formula relates to length of service and the level of earnings shortly before retirement.

The earnings on which the pension is based may be basic salary only or may include items such as commission and overtime. In this arrangement, the employer carries the risk of poor investment performance. If the return on investment is poor, or when inflation is high, the employer may have to contribute more than budgeted for, in order to meet the defined benefit promise. A formula also defines the benefit to be paid on withdrawal.

Defined Contribution Fund

The rules of a defined contribution fund specify the contributions paid by the employer and the member, but do not specify or guarantee the amount of the retirement or withdrawal benefits. These benefits depend on factors such as the amount of contributions made by the employer and the member, the return on the investment and the costs paid.

This investment will grow over time, but the member does not know what the end benefit will be until retirement. This is because the end benefit equals the total contributions, minus costs, plus the return on investments. The end amount is also dependent upon the performance of the investments. If the investments perform well, the member will get more money at retirement than if the investments perform poorly. The member therefore carries the investment risk.

Dependant

A person as defined in the Pension Funds Act. Broadly speaking, there are three categories of dependants:

- legal dependants;
- factual dependants, and
- future dependants.

Employee benefits

Additional benefits that an employer pays to or makes available to its employees, such as participation in and making contributions to a retirement scheme, group risk arrangement and medical scheme.

Financial Adviser

A person or organisation employed by an individual or institution to manage assets or provide investment advice.

Financial advisory/advice fee

The amount paid to the financial adviser for financial advice.

Financial Sector Conduct Authority (FSCA)

An organisation that regulates the market conduct of the financial services industry in South Africa.

Fund expenses

The amount paid by a member of the retirement fund towards general fund costs, such as trustee fees, audit fees and member communication.

General Rules

In respect of an umbrella fund, the rules that apply to the fund in general and to all the participating employers within the fund. General Rules must be registered by the FSCA.

Government Employees Pension Fund (GEPF)

A defined benefit fund that manages and administers pensions and other benefits for government employees.

Group insurance/risk benefits

Insurance benefits available to employees as part of a group, such as life insurance, critical illness, disability insurance, income protection, education insurance and funeral benefits.

Inactive member / Paid-up member

A member who has left employment and no longer pays contributions to the fund and has not made an election to receive his/her benefit or who has decided to keep his benefit in the fund until a future date.

Member

A person who joined a retirement fund and whose membership of the fund has not yet come to an end.

Monitoring Person

The function of this person is to monitor and ensure compliance with section 13A of the Pension Funds Act, which is the section dealing with the payment of contributions to the fund. The monitoring person must bring non-payment of contributions to the attention of the board of the fund, and to the attention of the members and the FSCA if so required by the board.

Nominee

A person who is not a dependant of the member and whom the member has nominated to receive a benefit upon the member's death.

Non-member spouse

A person who is no longer the spouse of that member due to the dissolution of the relationship by court order and to whom the court ordering or confirming the dissolution of the relationship has granted a share of the member's pension interest in the fund.

Participating Employer

An employer that participates in an umbrella fund for the benefit of its employees.

Pensionable Salary

The salary that is used by the employer to calculate the contributions payable to the retirement fund. This includes any fixed remuneration but excludes variable amounts.

The pensionable salary is usually a specified percentage of the member's total cost to company, which represents the total costs incurred by the employer in relation to the employee.

Pensioner / Annuitant

A member who has retired and who is entitled to receive a pension/annuity in accordance with the fund's rules.

Pension / Annuity

A stream of cash flows received over a period of time.

Pension Fund

A pension fund is a retirement savings vehicle approved for tax purposes by the South African Revenue Services (SARS). Not all pension funds are registered under the Pension Funds Act. Pension funds that have been established under a separate Act, such as the GEPF, currently do not have to apply for registration under the Pension Funds Act.

On retirement, a member can take up to one third of their benefit as a lump sum and must buy an annuity with the remainder of the benefit.

Pension Funds Adjudicator

Appointed by the Minister of Finance in terms of the Pension Funds Act to deal with complaints retirement fund complaints. The Adjudicator's duty is to ensure that all complaints are dealt with fairly, swiftly and economically.

Pension interest

A term defined in the Divorce Act, which forms parts of the assets of the spouses under certain circumstances. Pension interest is:

- Pension or provident fund: the benefit the member would have gotten had he resigned on the date of divorce;
- Pension preservation or provident preservation fund: the benefit the member would have gotten had he resigned or retired on the date of divorce;
- Retirement annuity fund: the total amount of the member's contributions to the fund up to the date of the divorce, plus total amount of annual simple interest on those contributions up to that date. The rate of interest is the repurchase (repo) rate as determined from time to time by the South African Reserve Bank, plus 3,5 % p/a.

Preservation Fund

A specialised retirement planning vehicle registered under the Pension Funds Act and approved for tax purposes by the South African Revenue Service (SARS), which meets the requirements as set out in the definition of "pension preservation fund" and "provident preservation fund" in section 1 of the Income Tax Act.

Principal Officer

The fund's official representative or contact person with the FSCA for the purpose of compliance with the Pension Funds Act. The principal officer fulfils the function of a liaison or administrative officer.

The Pension Funds Act does not require the principal officer to be a member of the fund's board of management and it does not grant the principal officer any special management powers. It merely makes the principal officer responsible for compliance with the various provisions of the Act.

Provident Fund

A retirement savings vehicle approved for tax purposes by the South African Revenue Service (SARS), which meets the requirements set out in paragraphs (a) to (c) of the definition of "provident fund" in section 1 of the Income Tax Act. Not all provident funds are registered under the Pension Funds Act. Provident funds that have been established under a separate Act currently do not have to apply for registration under the Pension Funds Act.

On retirement, a member can take the entire benefit as a lump sum; they do not have to buy an annuity.

Recognition of Transfer (ROT)

This form is used by the transferring fund to obtain information to enable the fund to correctly complete the tax directive application and to provide the receiving fund with the relevant information regarding the lump sum benefit that is being transferred.

Regulation 28

One of the regulations issued under the Pension Funds Act. It limits the extent to which retirement funds may invest in particular assets or in particular asset classes. The main purpose is to protect the members' retirement savings from the effects of poorly diversified investment portfolios.

Replacement Ratio

The ratio of the income a member receives from his pension once he retired to the salary he was receiving just before retirement.

Retail Fund

A retirement fund not linked to employment, such as a retirement annuity fund and a preservation fund. An individual can join these funds without their employer participating in the fund.

Retirement Annuity Fund

A retirement savings vehicle registered under the Pension Funds Act and approved for tax purposes by the South African Revenue Service (SARS), which meets the requirements set out in paragraphs (a) to (c) of the definition of "retirement annuity fund" in section 1 of the Income Tax Act.

Retirement Date

The date on which a member of a retirement fund elects to retire and in terms of the rules of that fund, becomes entitled to an annuity or a lump sum benefit.

Section 37C of the Pension Funds Act

Deals with any benefit payable by a registered fund upon the death of a member. The death benefit will not form part of the deceased member's assets in the estate, but will rather be distributed in accordance with the provisions of this section.

South African Revenue Services (SARS)

The revenue service of the South African government. It was established by legislation to collect revenue and ensure compliance with tax law.

Special Rules

Each participating employer in an umbrella fund must have a set of special rules that contain employer specific information. The special rules have to be read in conjunction with the general rules of the fund. In the event of there being a discrepancy between the general rules and special rules, the general rules shall apply. Special Rules must be registered by the FSCA.

Spouse

A person who is the permanent life partner or spouse or civil union partner of a member in accordance with the Marriage Act, the Recognition of Customary Marriages Act, or the Civil Union Act, or the tenets of a religion.

Standalone Fund

A standalone fund is a fund that an employer sets up specifically for their employees.

This is a fund in which only that employer and its subsidiaries, if applicable, participate. A standalone fund can be a pension fund or a provident fund. It is administered by a "professional" administrator such as an insurance company or by the employer, as long as the insurance company or the employer is registered as an administrator with the Financial Sector Conduct Authority in terms of Section 13B of the Pension Funds Act.

Tax Directive

An instruction given by SARS to a fund / fund administrator or insurer on how to deduct tax from a member's benefit when the member exits the fund.

Umbrella Fund

An umbrella fund consists of a number of different, often unrelated, participating employers and their employees. An employer can join the fund as a participating employer and does not need to register a new fund. An umbrella fund can be a pension or a provident fund. An administrator undertakes the administration of the fund. As a single board of management is appointed for the umbrella fund, there is no need for each employer to have its own board of management.

Unclaimed Benefit Fund

A type of preservation fund set up specifically for the purpose of receiving and administering a benefit that has become payable to a member or beneficiary in terms of the rules of a previous fund that the member belonged to, but has not been paid within the period set out in the definition of "unclaimed benefit" in the Pension Funds Act.

Instead of paying a death benefit where there are no dependants, nominees or an estate to the Guardian's Fund, the board can decide to pay the benefit into an unclaimed benefit fund.

Underwritten Fund

When a pension or provident fund enters into an arrangement with an insurance company whereby members' benefits are secured by policies of insurance.

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