

## **YOUR PACKAGE STRUCTURING OPTIONS RELATIVE TO RETIREMENT AND RISK BENEFITS**

### **Summary:**

If you are remunerated on the Total Remuneration Package (TRP) basis you have two structuring options relative to your retirement fund membership:

#### **1. Setting the Fund Salary on which your retirement fund contributions will be calculated.**

- You can select a Fund Salary of between 55% and 80% of your TRP.
- Your **death and disability benefits will be based on the Fund Salary level** that you choose.

#### **2. Setting your Contribution Rate.**

- The default contribution rate is 22.5% of Fund Salary, but you can also select the 17.5% or 27.5% of Fund Salary contribution rate.
- If you want to choose the 17.5% of Fund Salary contribution rate option; your Fund Salary selection must be between 70% and 80% of your TRP.
- Your death and disability benefits are not affected by the contribution rate you choose, but your contribution to retirement funding will be 5% of Fund Salary *less* if you select the 17.5% contribution rate or 5% of Fund Salary *more* if you select the 27.5% contribution rate, which will impact on your eventual retirement benefit. The higher your contribution rate, the higher your retirement benefit will be.

The UKZN Retirement Fund Trustees recommend that, to secure the best possible retirement and risk benefits, you set your contribution to the Fund at either 22.5% or 27.5% of Fund Salary, and choose a Fund Salary of at least 70% of your TRP.

**If you are forced by circumstances to select a lower Fund Salary or contribution rate, you are encouraged to review your choice as soon as your financial circumstances allow this.**

### **Introduction**

Since 1 January 2009 all new employees have been remunerated on a Total Remuneration Package (TRP) basis. The University also offers this option to existing employees, and many have taken it up. The TRP concept allows employees various options to structure their salary package so that it suits their individual circumstances. This flexibility includes options relative to the UKZN Retirement Fund (the Fund).

The contributions paid to the UKZN Retirement Fund and the UKZN Benefit Arrangement on your behalf are based on your **Fund Salary**. The Rules of the Fund define "Fund Salary" for members who are remunerated on the basis of TRP, as a defined percentage of the member's Total Remuneration Package. Employees who are remunerated on the TRP basis are allowed to set their Fund Salary at any level between 55% and 80% of TRP (see Option 1 for details).

**Your choice of Fund Salary level and contribution rate will impact the benefit that you can expect to receive at retirement, as well as your take home pay. Furthermore, your choice of Fund Salary also affects the level of your death and disability benefits as these are based on the level of your Fund Salary.**

The Fund's Rules allow a choice of three contribution rates:

- A default contribution level of 22.5% of Fund Salary.
- An optional higher level of 27.5% of Fund Salary (see Option 2 for details).
- An optional lower level of 17.5% of Fund Salary (see Option 2 for details).

This notice explains some of the implications of these choices, in order to enable you to make an informed decision.

## Option 1 – Choosing your level of Fund Salary

If you choose either the 27.5% or the (default) 22.5% of contribution rates, you may choose a Fund Salary of between 55% and 80% of your TRP.

**The lower the level of Fund Salary that you choose, the lower will be the value of your contributions to retirement and the lower your death and disability benefits will be. The higher the level of Fund Salary that you choose, the higher will be the value of your contributions to retirement and the higher your death and disability benefits will be.**

By choosing a **low level of Fund Salary** you will **increase your take-home pay**. However, choosing a **low Fund Salary** will significantly impact your eventual retirement benefit. By choosing the 55% of TRP level of Fund Salary, you will have a lower retirement income and lower death and disability benefits (see Annexure A), but a higher monthly take-home pay. The lower your Fund Salary (and hence your Fund contribution), the more tax you will pay.

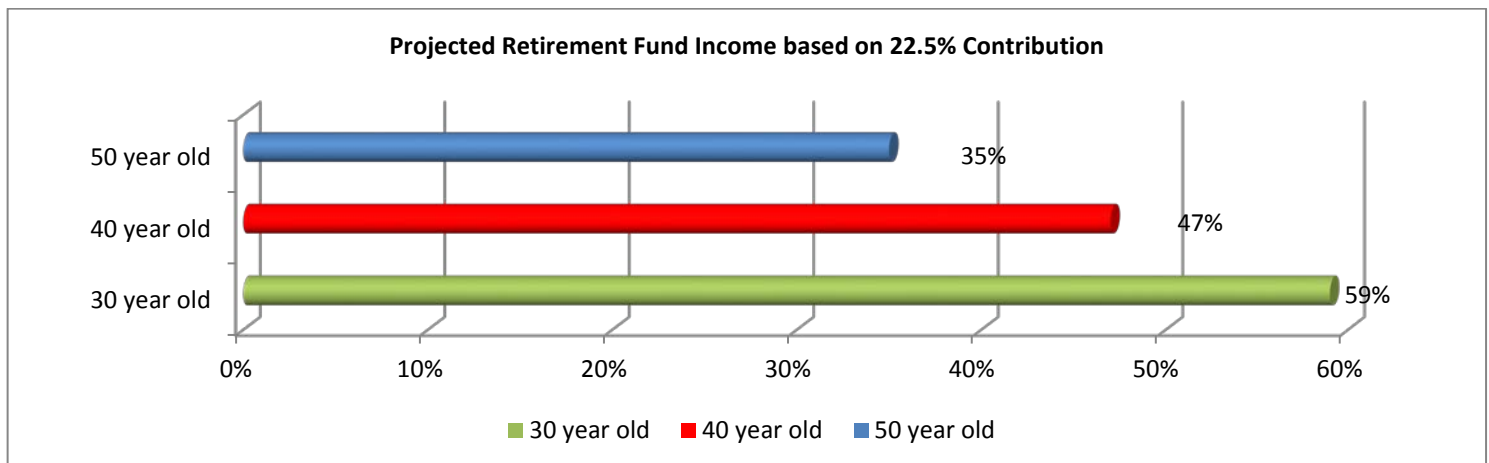
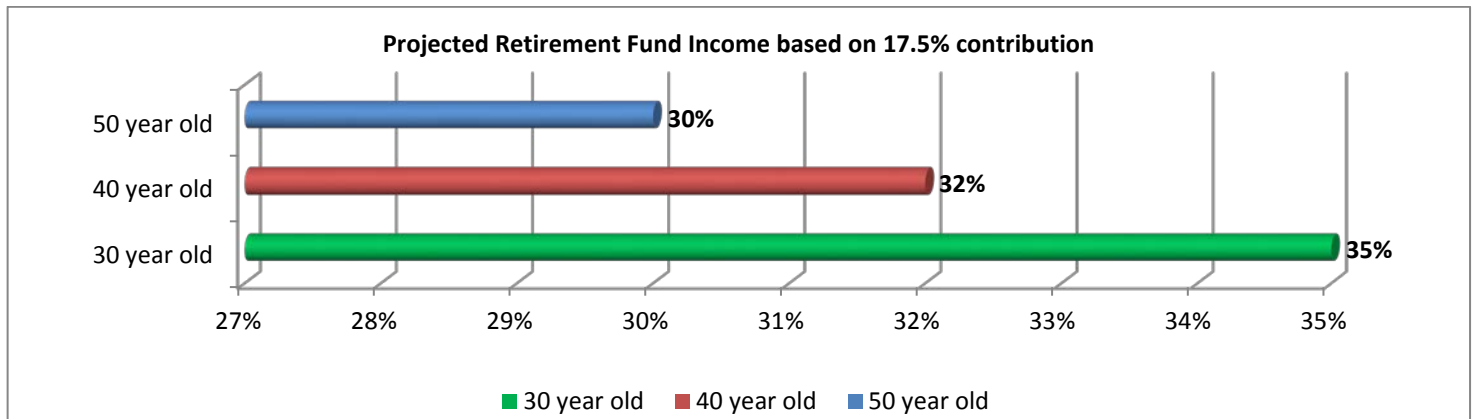
By choosing a **high level of Fund Salary**, you can save more towards your retirement in a tax-effective manner. In addition, your death benefit and disability cover will be higher. However, this will **reduce your take-home pay**. By choosing the 80% of TRP level of Fund Salary, you can maximise your retirement savings in the Fund and make up for any identified shortfalls in your retirement savings.

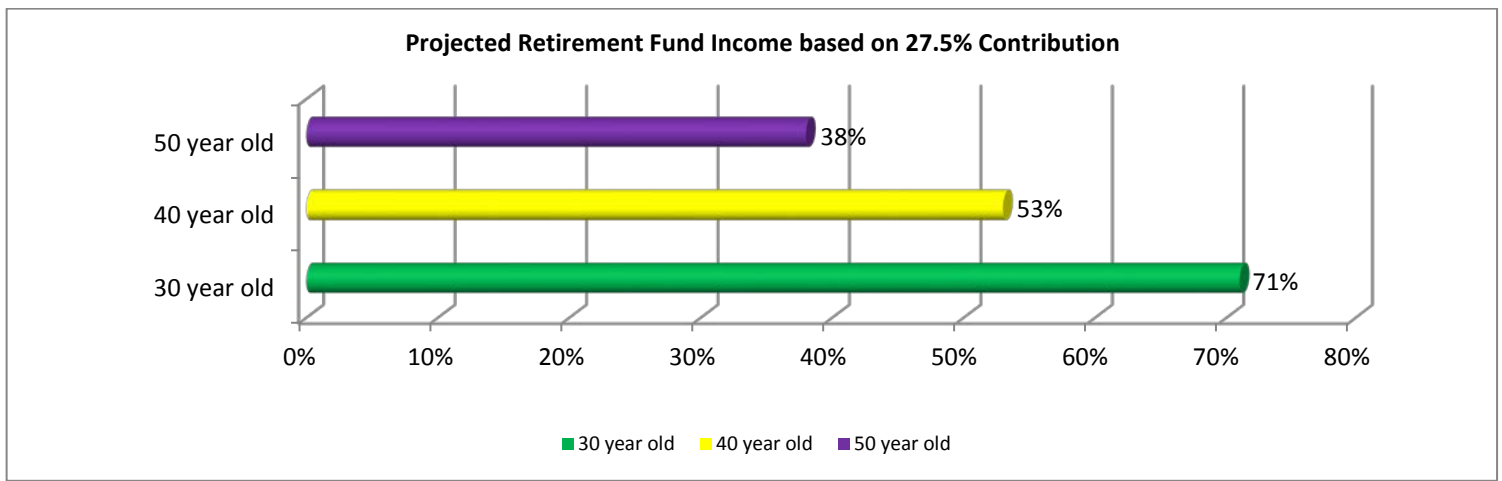
## Option 2 – Choosing a contribution category

- **The Fund's default contribution level is 22.5% of Fund Salary.**
- With effect from June 2016, the Fund has introduced a higher contribution rate option of 27.5% of Fund Salary.
- Members on TRP, who set their Fund Salary level at not less than 70% of TRP, have the option to select a **lower contribution rate of 17.50% of Fund Salary**. This choice will **reduce your retirement income, but will not affect the level of your risk benefits**.

The risk and administration costs are the same for all contribution categories. If you elect the contribution rate of 17.5% of Fund Salary, the amount being allocated to your retirement savings will be reduced by the full 5% of your Fund Salary. Conversely, if you elect the contribution category of 27.5% of Fund Salary, the amount being allocated to your retirement savings will be increased by the full 5% of your Fund Salary.

In choosing your contribution level, remember that contributing at the 17.5% of Fund Salary contribution level throughout your membership will mean that your retirement income will be substantially lower than if you had contributed at the default contribution rate of 22.5% or the 27.5% contribution level. The graphs below illustrate this.





If you wish to increase your take-home pay, choosing the lower Fund contribution rate allows you to do this **without reducing your risk benefits. Hence, if you have dependants, this would probably be the better option for you, rather than choosing a lower Fund Salary (which would also reduce your death and disability benefits).**

### Further information available

A tax calculator has been made available by UZKN that will allow you to review the taxation consequences of these options.

The Alexander Forbes AFOnline ([www.alexanderforbesonline.co.za](http://www.alexanderforbesonline.co.za)) facility will allow you to work out your projected retirement income at different contribution levels.

**Annexure A** provides examples showing how various choices will affect your death and disability benefits. The funeral benefit is a fixed rand amount that is not impacted by the level of Fund Salary chosen.

### Conclusion

In terms of UKZN's current policy, you have an option to change the level of your Fund Salary and/or your Contribution Category when there is:

1. A general pay award or overall package increase granted to staff.
2. An increase in your package resulting from your promotion, or salary adjustment resulting from a job regrading.

Before making a decision about your Fund Salary level or contribution rate, consider carefully your current personal circumstances, the security of your family in the event of your death or disability, and the long-term future financial implications of your provision for retirement.

It is recommended that you seek independent financial advice before making important financial decisions and that you consider both the long and short term consequences of your financial decisions. Financial advisors visit the various campuses quarterly and offer advice to members at no cost. If you are concerned about the decision you have made and wish to review it, you can set up an appointment when next you receive an email advising you of the dates on which this service is available.

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June 2016**

ANNEXURE A

UNIVERSITY OF KWAZULU-NATAL RETIREMENT FUND

For illustrative purposes, below are three examples of risk benefits at various Fund Salary and Contribution levels .

**Example 1**

Total Remuneration Package

R 200 000 per annum  
R 16 667 per month

R 200 000 per annum  
R 16 667 per month

R 200 000 per annum  
R 16 667 per month

**27.5% Fund Salary**

**Default 22.5% Fund Salary**

**17.5% of Fund Salary**

Fund Salary Level	
80% of TRP	70% of TRP
Fund Salary per annum	R 160 000
Fund Salary per month	R 13 333

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 160 000	R 140 000	R 120 000	R 110 000
R 13 333	R 11 667	R 10 000	R 9 167

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 160 000	R 140 000	R 120 000	R 110 000
R 13 333	R 11 667	R 10 000	R 9 167

Fund Salary Level	
80% of TRP	70% of TRP
R 160 000	R 140 000
R 13 333	R 11 667

Total Retirement Fund and Benefit Arrangement Contribution

Contribution	per month
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R 3 666,67	R 3 208,33	R 2 750,00	R 2 520,83
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R 3 666,67	R 2 625,00	R 2 250,00	R 2 062,50
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R 3 666,67	R 2 041,67
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Death and Permanent and Total Disability from 1 March 2015

R 800 000	R 700 000	R 600 000	R 550 000
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R 800 000	R 700 000	R 600 000	R 550 000
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R 800 000	R 700 000	R 600 000	R 550 000
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R 800 000	R 700 000
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Monthly Disability benefit For maximum 21 months

R 11 667	R 11 667	R 10 000	R 9 167
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R 11 667	R 11 667	R 10 000	R 9 167
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R 11 667	R 11 667	R 10 000	R 9 167
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R 11 667	R 11 667
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**Example 2**

Total Remuneration Package

R 500 000 per annum  
R 41 667 per month

R 500 000 per annum  
R 41 667 per month

R 500 000  
R 41 667

**27.5% Fund Salary**

**Default 22.5% Fund Salary**

**17.5% of Fund Salary**

Fund Salary Level	
80% of TRP	70% of TRP
Fund Salary per annum	R 400 000
Fund Salary per month	R 33 333

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 400 000	R 350 000	R 300 000	R 275 000
R 33 333	R 29 167	R 25 000	R 22 917

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 400 000	R 350 000	R 300 000	R 275 000
R 33 333	R 29 167	R 25 000	R 22 917

Fund Salary Level	
80% of TRP	70% of TRP
R 400 000	R -
R 33 333	R -

Total Retirement Fund and Benefit Arrangement Contribution

Contribution	per month
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R 9 166,67	R 8 020,83	R 6 875,00	R 6 302,08
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R 9 166,67	R 6 562,50	R 5 625,00	R 5 156,25
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R 9 166,67	R -
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Death and Permanent and Total Disability from 1 March 2015

R 2 000 000	R 1 750 000	R 1 500 000	R 1 375 000
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R 2 000 000	R 1 750 000	R 1 500 000	R 1 375 000
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R 2 000 000	R 1 750 000	R 1 500 000	R 1 375 000
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R 2 000 000	R -
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Monthly Disability benefit For maximum 21 months

R 29 167	R 29 167	R 25 000	R 22 917
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R 29 167	R 29 167	R 25 000	R 22 917
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R 29 167	R 29 167	R 25 000	R 22 917
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R 29 167	R 29 167
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**Example 3**

Total Remuneration Package

R 1 000 000 per annum  
R 83 333 per month

R 1 000 000 per annum  
R 83 333 per month

R 1 000 000 R 1 000 000  
R 83 333 R 83 333

**Default 27.5% Fund Salary**

**Default 22.5% Fund Salary**

**17.5% of Fund Salary**

Fund Salary Level	
80% of TRP	70% of TRP
Fund Salary per annum	R 800 000
Fund Salary per month	R 66 667

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 800 000	R 700 000	R 600 000	R 550 000
R 66 667	R 58 333	R 50 000	R 45 833

Fund Salary Level			
80% of TRP	70% of TRP	60% of TRP	55% of TRP
R 800 000	R 700 000	R 600 000	R 550 000
R 66 667	R 58 333	R 50 000	R 45 833

Fund Salary L Fund Salary L	
80% of TRP	70% of TRP
R 800 000	R 700 000
R 66 667	R 58 333

Total Retirement Fund and Benefit Arrangement Contribution

Contribution	per month
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R 18 333,33	R 16 041,67	R 13 750,00	R 12 604,17
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R 18 333,33	R 13 125,00	R 11 250,00	R 10 312,50
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R 18 333,33	R 10 208,33
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Death and Permanent and Total Disability from 1 March 2015

R 4 000 000	R 3 500 000	R 3 000 000	R 2 750 000
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R 4 000 000	R 3 500 000	R 3 000 000	R 2 750 000
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R 4 000 000	R 3 500 000	R 3 000 000	R 2 750 000
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R 4 000 000	R 3 500 000
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Monthly Disability benefit For maximum 21 months

R 58 333	R 58 333	R 50 000	R 45 833
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R 58 333	R 58 333	R 50 000	R 45 833
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R 58 333	R 58 333	R 50 000	R 45 833
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R 58 333	R 58 333
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