Sanlam Staff Umbrella Pension and Provident Funds (SSUF)

Note to members on the new tax legislation that becomes applicable as from 1 March 2015

<u>Explanation of abbreviations</u>

- ***SSUF*** = *Sanlam Staff Umbrella Pension and Provident Funds*
- ***TGP*** = *Total Guaranteed Package*
- ***PEAR*** = *Pensionable Earnings ∴80 % of TGP*

The new tax legislation will have an effect on:

1. The premiums you pay for your disability income cover;
2. Your remuneration;
3. Your benefits payable should you be declared disabled;
4. Your monthly savings to the SSUF; and
5. When your retirement benefits become payable.

Let's unpack each of these:

1. The premiums that you pay for your disability income cover;

Effective 1 March 2015 the premiums for disability income cover will no longer be tax deductible for employees.

However, as from 1 March 2015 the premium for disability income cover reduces by 13 % from 1.017 % to 0.885 % of TGP.

2. Your remuneration;

The premium for disability cover will become a separate after tax deduction from employees' pay and will result in a small reduction in their take home pay.

It will be reflected as follows on your payslip.

<u>Example: Current payslip</u>

EARNINGS			DEDUCTIONS	
DESCRIPTION	TAXABLE	PAYABLE	DESCRIPTION	AMOUNT
Cash Salary **Disab. Income Taxable Ben**	12 900,00 **152,55**	12 900,00	Tax Umbrella Fund Employee UIF EE Contribution Group Premium Trauma Insurance	1 099,50 900,00 130,53 76,03 41,18
TOTALS	13 052,55	12 900,00		2 247,24

Example: March 2015 payslip

EARNINGS			DEDUCTIONS	
DESCRIPTION	TAXABLE	PAYABLE	DESCRIPTION	AMOUNT
Cash Salary	12 900,00	12 900,00	Tax Umbrella Fund Employee UIF EE Contribution Group Premium Trauma Insurance **Disab. Income Premium**	1 099,50 900,00 129,00 76,03 41,18 **133,00**
TOTALS	12 900,00	12 900,00		2 378,71

- Deductions from 1 March = R2 378.71
- Deductions before 1 March = R2 247.24

  Reduction in the take home pay = R 131.47

Should the employee not be able to afford the reduction in take home pay, then he/she can during the annual flex event at the end of April 2015 select a lower employer contribution rate to the fund. (If not already on the minimum rate of 7.5 %).

Warning:
A reduction in fund contributions, in order to increase take home pay, will result in an increase in the tax payable by the employee.

3. Your benefits payable should you be declared disabled;

Should an employee be declared disabled he/she will receive a tax free disability income.

The structure/formula of the disability benefit will no longer be a fixed percentage, i.e. 75 % of TGP as applicable before 1 March 2015. The benefit payable will be calculated according to a sliding scale linked to the tax scales to ensure that the benefit payable to members who are declared disabled on or after 1 March 2015 is equal to the net of tax benefit that would have been applicable before 1 March 2015.

Example:

Current disability benefit (before 1 March 2015)	**Benefit payable from 1 March 2015**
TGP: R15 000 pm Gross benefit = R11 250 **Less** Tax = R 901 Net benefit payable = R10 349	TGP: R15 000 pm Gross benefit = R10 349 Tax = R 0 Net benefit payable = R10 349

Important:

- Although the gross disability benefit is reduced, the net benefit will still be the same, as the new benefit will not be taxable.
- The member contributions (7.5 % of PEAR) and employer contributions (10.7 % of PEAR), both payable by the insurer in respect of a disabled member, to the SSUF will remain unchanged and will still be calculated on the member's PEAR applicable before disability. The new legislation will therefore not adversely affect the retirement provision of members.

Note: *There will not be a reduction in the disability income of members who are already on disability. Their net income will increase from 1 March 2015 as their disability income will no longer be taxable.*

4. Your monthly savings to the SSUF;

Members will save more for retirement because the employer contribution to the SSUF will no longer be reduced by the premium for the disability income cover.

Example:

Current fund contributions		**Fund contributions as from 1 March 2015**	
TGP: R15 000 pm / PEAR: R12 000		TGP: R15 000 pm / PEAR: R12 000	
Employer contributions (17.5 %)	= R2 100.00	Employer contributions (17.5 %)	= R2 100.00
Less premium for death cover	= R 120.00	**Less** premium for death cover	= R 120.00
Less premium for disability income cover	= R 152.55	**Less** premium for disability income cover	= R 0.00
Savings for retirement	= R1 827.45	Savings for retirement	= R1 980.00

Important: If you reduce your employer contribution with flex you will save less for retirement.

5. When your retirement benefits become payable

Employees have to retire from the service of the employer on their normal retirement date, as contracted between the employee and the employer. However, employees may elect for early retirement within 10 years before their normal retirement date.

Important: The employer's permission is required for retirement more than 5 years before the employee's normal retirement date.

As from 1 March 2015 members will be allowed to postpone the **payment** of the retirement benefits by the fund (SSUF), i.e. on retirement from the employer the member can elect to preserve his/her benefit in the SSUF until a date elected by the member when the benefit must be paid. The benefit will accrue for tax purposes only when it becomes payable.

The following very important rules apply when the payment is postponed:

- The member will not be allowed to make any further contributions to the SSUF
- The member will not qualify for any death or other risk benefits. At retirement date the member will have to make use of the continuation or conversion options for risk benefits.
- The benefit will be invested in the SSUF portfolios as selected by the member. The member will also be allowed to make investment switches. The same rules apply as for any other active employee who is a member of the SSUF.
- A monthly administration fee will be payable by the member and such fee will be recovered on a monthly basis from the accumulated fund value of the member.

If the member dies during the period of postponement, the accumulated fund values become payable as a death benefit.

At retirement Group Human Resources Support Services (HRSS) will communicate the detail of the procedure to postpone the payment of the retirement benefit with the member (employee).

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