# A Members Guide to the CPSA Provincial Pension Fund

AUGUST 2016

# TABLE OF CONTENTS

## 1 INTRODUCTION

Saving for your retirement is probably one of the most important things you will do in your life. The fund takes care of more than just provision for your retirement. As a member of this fund, you are also covered for unforeseen events such as your death or disability whilst you're still a member of this fund. This provides some peace of mind, not just for you, but for your family.

This member guide is a summary of the main features of the CPSA Provincial Pension Fund and aims to answer some of the most frequently asked questions you may have about your fund. However, it does not form part of the official Rules of the Fund. The full rules of the CPSA Provincial Pension Fund can be located on the Anglican Church webpage: www.anglicanchurchpension.co.za

Please read this guide carefully and if you have any questions regarding the information provided, please contact either your Diocesan Secretary or alternatively the Principal Officer of the Pension Fund, Rob Rogerson, who can be contacted on the following email address: rogerson@anglicanchurchsa.org.za

Important note:

Please note that should there be any conflict between this Member Guide and the official Rules, the provision of the Rules will apply.

## 2 WHAT TYPE OF FUND IS THE CPSA PROVINCIAL PENSION FUND?

TThe CPSA Provincial Pension Fund is a Defined Benefit Fund. Being part of a Defined Benefit Fund means that the retirement benefits that accrue to members are fixed and determined by a formula. In the case of your pension fund benefits these are calculated using the following formula: - final stipend x years of service x 3.75%. The 3.75% is the accrual rate used in the calculation.

In the case of Bishops of this Province the formula is the same except that the accrual rate is 4.29%.

As an example, for a priest, assuming a pensionable fund salary of R10 000 and 30 years of service the pension payable would be calculated as follows:

R10 000 x 30 x 3.75% which would give a pension of approximately R11 250 per month. All calculations are however subject to an actuarial calculation at time of retirement.

## 3 WHO MAY BELONG TO THE FUND?

Since 1 January 2011 the CPSA Provincial Pension Fund has been a closed fund. What this means is that the fund is closed for new membership from the aforementioned date. Newly ordained clergy joining a Diocese after 31 December 2010 are now required to join the ACSA Retirement Fund. The CPSA Provincial Pension Fund membership consists of full time, stipendiary clergy.

Membership of the Fund is compulsory for all full time, stipendiary clergy ordained prior to 1 January 2011 and it is required that you remain a Member for as long as you are in the employ of a Diocese and meet the above criteria.

- **How much do you contribute to the fund?**

Members pay the monthly equivalent of 7.5% of your Fund Stipend each month.

- **How much does your Diocese contribute to the fund?**

Your Diocese will pay the monthly equivalent of 36% of your Fund Salary each month on your behalf. Originally the Diocesan contribution was 30% however in order to keep funding levels of the Fund above 100% the dioceses have agreed to increase the contributions by 3% per annum for 4 years. The position of the Fund will be reviewed after the 4 years and decisions on future contribution rates taken. This review will take place at the end of December 2018.

The above contributions exclude the costs of administration and any other expenses in connection with the Fund.

- **How will the money be invested?**

The Board of Trustees has appointed an Investment Sub-committee who meet quarterly to monitor the Fund investments. At present the Fund assets are invested in through a number of asset managers and daily monitoring is managed by Novare Actuaries and Asset Consultants. Being a defined benefit Fund, the CPSA Provincial Pension Fund needs to maintain Fund earnings at a relatively high level and at present the earnings goal that is aspired to is CPI + 3.75%. This goal is reviewed every three years following the statutory actuarial valuation of the Fund. This review sees a revised Investment Policy Statement (IPS) generated which, once approved by the Board of Trustees, is submitted to the Financial Services Board.

- **When can you retire?**

The Fund retirement age is 66 for clergy who were members of the Fund prior to 1 January 2003. For clergy ordained after this date the retirement age is 65. The retirement age for Bishops is 65. Clergy ordained before 1 January 2003 are able to take retirement at age 65 without incurring any penalties for taking early retirement. Should your Diocesan Bishop and the Board of Trustees agree, you may remain a Member after reaching normal retirement age. If a cleric remains in service after normal retirement age his/her contributions continue to be paid and enhance the value of pension available on the date that formal retirement is taken.

## 4 YOUR BENEFITS

- **What benefits will you receive when you retire?**

On retirement there are various options available to members. One year prior to date of retirement a retirement quote will be generated which, in addition to the Principal Member data, will also provide an indication of the pension available depending on the options chosen at the time of retirement. These options, in addition to providing a 100% pension option, also provide for a provision for the spouse to receive a pension in the event of the death of the principal member. An example of the various options is given in the two tables below:

| Spouses Pension Provision | 100% Pension | 75% Pension | 50% Pension | 25% Pension | 0% Pension |
|---|---|---|---|---|---|
| Full Pension | 136 649 | 145 504 | 155 585 | 167 167 | 180 613 |
| Or | | | | | |
| Cash Commutation | 620 781 | 620 781 | 620 781 | 620 781 | 620 781 |
| Post Cash Commutation | 91 009 | 97 008 | 103 723 | 111 445 | 120 408 |

Based on the provision made and in the event of the death of the Principal member, the spouses pension provision is as follows:

| Spouses Pension Provision | 100% Pension | 75% Pension | 50% Pension | 25% Pension | 0% Pension |
|---|---|---|---|---|---|
| Full Pension | 136 649 | 109 128 | 77 792 | 41 791 | 0 |
| Or | | | | | |
| Post Cash Commutation | 91 009 | 72 752 | 51 862 | 27 861 | 0 |

An explanation of the tables above is as follows: If a member opts for a pension which makes provision for a 75% spouse's provision, the member will receive a full pension of R145 504 per annum. If, in addition to making the 75% spouse's provision, the member also takes the cash commutation, the pension payable to the member will be R97 008 per annum. If the member predeceases his spouse, the spouse will receive a full annual pension of R109 128 or a reduced annual pension of R72 752 if a commutation is taken.

It should be noted that the examples given above presume that the commutation is at the maximum permissible in terms of the Pension Funds Act. Members may however choose any percentage of commutation up to 33.3%. By taking a lower commutation value the annual pension payable will be enhanced. It should also be noted

- **What benefits will you receive if you leave your Employer's service?**

If you leave church service before you reach Normal Retirement Age you will receive an amount equal to your Share of Fund.

The benefit can be taken in any of the following ways:

(i) as a cash lump sum; or

(ii) payment into a single premium retirement annuity; or

(iii) payment into a Pension Preservation Fund, or

(iv) transfer to your new Employer's Fund subject to agreement between the Funds.

It should be noted that there are tax liabilities that should be considered in the event that the share of fund is taken in cash.

- **What benefits will your dependants receive if you die?**

If you die in service before Normal Retirement Age, whilst a Member of the Fund, your dependents will receive a payout equal to ten times your annual fund salary as at date of death.

Following retirement an amount equal to seven times your fund salary as at date of retirement will be paid to your dependents. The fund salary at date of retirement continues to increase at the rate of pension increase on an annual basis.

- **Ill-health retirements**

The Fund recognizes that there will be instances where members are forced to take ill health retirement. There is a procedure in place for such eventualities and requires medical reports from the member's General Practioner, the Specialists that have been consulted and a Member and Diocesan motivation for the ill-health retirement.

## 5 OTHER IMPORTANT INFORMATION

- **How will you know what your benefits are?**

You will receive a personal benefit statement on joining the fund and at yearly intervals. This will be provided to you approximately 6 to 8 weeks after the Fund's Revision Date. The Fund's revision date is 1 January annually.

- **Can you take a loan against your pension fund?**

Current Pension Fund legislation precludes the Fund from making personal or other short term loans to members.

- **Are housing loans available?**

Home loans are available from the Fund but the conditions under which loans may be given are strictly controlled by the Pension Fund Act. These loans are secured against the member's commutation value in the Fund. Loans can only be given for homes that are registered in the member's name or that of the member and his/her spouse. Loans are given for purchase of homes, renovations to homes owned by the member or for settling bond finance through one of the registered banks. Loans are required to be paid in full on date of retirement and in the event that there is a balance outstanding on this date, the outstanding balance is deducted from the commutation payable. Loans granted currently attract interest of Prime – 2%. Members interested in a home loan should approach their Diocesan Secretary for an application form.

## 6 TAXATION OF BENEFITS

Commutation values are subject to a minimum of the tax-free amount set out in the Second Schedule to the Income Tax Act as amended from time to time. Monthly pension payments will also be subject to income tax.

| RETIREMENT FUND LUMP SUM WITHDRAWAL BENEFITS | RATE OF TAX |
|---|---|
| R0 – R25 000 | 0% of taxable income |
| R25 001 – R660 000 | 18% of taxable income above R25 000 |
| R660 001 – R990 000 | R114 300 + 27% of taxable income above R660 000 |
| R990 001 and above | R203 400 + 36% of taxable income above R990 000 |

**Tax payable on commutation of pension**

| RETIREMENT FUND LUMP SUM BENEFITS | RATE OF TAX |
|---|---|
| R0 – R500 000 | 0% of taxable income |
| R500 001 – R700 000 | 18% of taxable income above R500 000 |
| R700 001 – R1 050 000 | R36 000 + 27% of taxable income above R700 000 |
| R1 050 001 and above | R130 500 + 36% of taxable income above R1 050 000 |

## 7 DEFINITIONS

The following definitions may assist you in understanding this Guide.

***Administrator:*** This is the organisation chosen by the Fund to provide the specialised administration services required by the Fund. The Administrator is Liberty Specialised Corporate Consultancy, a division of Liberty Group Limited Reg. No. 1957/002788/06, an authorized Financial Service Provider in terms of the FAIS Act (License No. 2409).

***Dependant:*** This is your spouse either by law, by customary union or by religious tenet; your children, including adopted children; anyone for whom you are legally liable for maintenance and anyone you are actually maintaining at the time of your death.

***Fund Salary:*** This is your annualised basic stipend. Your Employer may also decide to include any other amounts earned such as allowances and bonus. In general, however, your Fund Salary will normally be less than your total remuneration package.

***Board of Trustees:*** This is the body established to manage the business of the fund. The Trustees make all the decisions on behalf of the Fund. The Rules make provision for at least 50% of the Trustees to be elected by Members of the fund. Due to the unusual structure of the Church, Trustees are elected by house. At present the Trustees of the Fund are as follows:

| | |
|---|---|
| Most Revd T C Makgoba | Chairperson and Bishop's representative |
| Rt Revd S Diseko | Bishop's representative |
| Revd G Sharp | Retired member representative |
| Revd D Edwards | Member representative |
| Ms L Letlape | Member representative |
| Dr S Seoka | Synod elected Trustee |
| Adv R Bracks | Synod elected Trustee |

The Board needs to appoint one further Trustee from the house of Retired clergy and that appointment will hopefully be finalized by the September 2016 meeting of the Board of Trustees.

***Revision Date:*** This is the date each year on which the details of the Fund, the Dioceses and its Members are verified. At present it is 1 January each year.

***Share of Fund:*** This is each Member's share of the distributable value of the entire Fund and basically consists of the following:

(i) contributions made by yourself and on your behalf by your Diocese, less the costs of Fund administration and risk benefits which will include all statutory expenses,

(ii) any amount transferred into the Fund by yourself from any other approved Retirement Fund,

(iii) any voluntary contributions paid by yourself into the Fund,

(iv) the investment growth on all of the above.

## 8 PREPARING FOR RETIREMENT

Whilst the CPSA Provincial Pension Fund is an outstanding pension fund, clergy find themselves in a unique environment during the course of their ministry. Unlike secular organizations, clergy are provided with significant non-monetary benefits which have an impact on providing for retirement. Dioceses provide housing, parishes pay for telephone, electricity and services, and vehicle allowances are part of the 'packages' provided to clergy. The difficulty is that none of these benefits are pensionable and accordingly when clergy reach retirement, the loss of these benefits is significant.

Bearing the above in mind it is never too late to begin planning for your retirement. There are some steps that every member of the pension fund should take to ensure a seamless move into retirement.

- **Financial Advisor**

It is essential for all members to form a relationship with a FAIS registered financial planner. A FAIS registered advisor is registered with the Financial Services Board and is licensed to provide financial advice to clients, both corporate and private.

The benefit of having a professional look at your overall financial well-being is that shortfalls in your planning will be identified and remedial steps put into place to correct the financial under-provision. Diocesan Administrators and the Principal Officer are not licensed to provide advice to individuals and it cannot be stressed enough the importance of finding the services of an advisor who you trust and who can assist you in your financial planning.

One way of providing extra funding for your retirement is to make voluntary contributions into the CPSA Provincial Pension Fund. This can be done through your Diocesan Office. The benefit of making voluntary contributions into the Fund is twofold. On the one hand the additional retirement funding put into the pension fund will enhance the value of pension on date of retirement. The second advantage is that, unlike Retirement Annuities, the voluntary contribution cost of administration and investment is carried by the pension fund and to that end all of the voluntary funds contributed are applied to retirement funding.

- **Tax**

We see it time and time again. A member submits documentation to proceed on retirement and the payout of the commutation is delayed because either the member is not registered for tax or the member's tax is not up to date. It is vitally important that members are registered for tax and that this tax status is maintained after retirement.

Maintaining your tax status after retirement is important because on the death of the member the seven times death benefit becomes due and payable to the member's beneficiaries. Significant delays are often experienced by widows and their children when the tax directive that is applied for by the Administrators is not received. Registering and maintaining you tax status is your responsibility and it is not possible for the Diocese or the Administrator to obtain tax clearance.

- **Nomination of Beneficiary Forms**

On the death of a member the Board of Trustees is required to disburse the death benefit. Although it is only a guide to the wishes of the member, it does assist the Trustees enormously to have the member's expression of wish on file when determining the distribution of the death benefit. These forms are available from you Diocesan Secretary or from the Principal Officer.

- **Wills**

Whilst having a will in place is not a requirement for the Pension Fund, having a will in place does assist your spouse in winding up the estate. If an individual dies without a will the estate is classified as 'intestate' and this status compounds time taken to finalise an estate principally because the spouse needs to register with the master of the High Court to be appointed the executor of the estate.

- **Other retirement planning**

For many people retirement is an emotionally difficult time in their life. However retirement doesn't have to be emotionally painful. Retirement can be a wonderful stage in anyone's life if they prepare adequately for it. Whilst in no way being definitive there are four significant challenges faced by retirees.

There is fear of the unknown. While many people have done financial planning to prepare for their retirement years, very few take the time to think about, explore and plan what they will actually do when they retire. Not knowing what to do when retired, and facing a lack of structure can often be terrifying.

Other emotions are relief and a sense of freedom. When people have had their whole lives structured by parents, teachers, having children, the church, the thought of structuring their own time is wonderful. They look forward to doing what they want to do, when they want to do it. They anticipate the flexibility they will have when they're on their 'own clock,' and find that very exciting. They may use their new freedom to do the things they've dreamed of doing for years and never had the time to things such as gardening, home repairs, golfing every day, volunteering, traveling, etc.

A fourth emotion is depression. If people don't develop interests and activities that are relevant and meaningful to them, they may slip into depression as increasing numbers of older people are doing. Both men and women whose identities are so closely connected to their careers tend to have an especially difficult time in this transition if they haven't cultivated other interests and don't seek help in doing so.

In this regard the Board of Trustees have embarked on a process of developing a DVD aimed at providing guidance for clergy approaching retirement in the hope that the transition from ministry to retirement can be as free of anxiety as possible.

## IN CONCLUSION

We hope this guide has proven useful to you. Please contact the Principal Officer or your Diocesan Secretary if you have any questions relating to the information in this guide.

## NOTES

CONTACT DETAILS
Principal Officer: CPSA Provincial Pension Fund
Postal Address: PO Box 53014, Kenilworth 7745
Physical Address: Braehead House, Braehead Road,
Kenilworth 7708, Cape Town
Phone: 021 763 1316
Fax: 021 797 8319
Email: rogerson@anglicanchurchsa.org.za