



FundsAtWork Umbrella Funds: options at withdrawal

A. Summary

When the General Rules of the FundsAtWork Umbrella Pension and Provident Funds (the FAW Umbrella Funds) were revised from 1 July 2015, the Financial Services Board (FSB) queried the validity of our auto-preservation rule that has been part of the General Rules since 2009. This rule provided for the automatic transfer of a member's withdrawal benefit to the Momentum Corporate Pension and Provident Preservation Funds (the Preservation Funds) if the member did not choose to have this benefit paid to him or transferred on his behalf to another fund within 3 months after his withdrawal.

In July 2015, National Treasury published Draft Default Regulations. One of these defaults related to default preservation, which provided that fund rules should allow for paid-up members to remain in the fund. We took this as our guideline and then changed the General Rules with effect from 1 March 2016 to allow for preservation in the FAW Umbrella Funds, instead of the automatic transfer to the Preservation Funds. We also made other small changes thereafter to clarify a few issues. This document deals with those changes.

B. Different exit types

The General Rules of the FAW Umbrella Funds provide for 5 types of exit benefits:

1. Retirement;
2. Retrenchment;
4. Disability;
3. Withdrawal; and
5. Death.

Legal Update 11 of 2016 deals with a member's right to elect to postpone his retirement, retrenchment and disability benefits in the FAW Umbrella Funds.

This document sets out the requirements for the preservation of a member's withdrawal benefit in the FAW Umbrella Funds, and also deals with other provisions around withdrawal.

Legal Update 10 of 2016 deals with death benefits payable from a retirement fund.

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C. When does a member become entitled to payment of a withdrawal benefit?

A member becomes entitled to payment of a withdrawal benefit if he withdraws from the FAW Umbrella Funds.

Rule 6.3.1.2 states that a member withdraws if he leaves the FAW Umbrella Funds before his normal retirement date (as stipulated in the Special Rules of his employer) as a result of –

- a. his resignation or dismissal;
- b. his contract of employment coming to an end;
- c. the liquidation of his employer;
- d. the termination of his employer's participation in the Fund; or
- e. any reason other than those referred to elsewhere in the Rules. (This would then exclude retirement, retrenchment, disability and death).

It is important to note that a member who no longer meets the eligibility criteria, for instance if he becomes a manager and managers have to become members of another fund, does not become entitled to payment of a withdrawal benefit. Such a member can only leave the FAW Umbrella Funds if he becomes a member of another fund in which his participating employer participates; his withdrawal benefit will then be transferred to that fund (refer to Rule 2.2.2.4).

D. What options does the member have at withdrawal?

The member can choose to:

1. preserve his whole withdrawal benefit in the FAW Umbrella Fund;
2. transfer his whole withdrawal benefit to another fund*;
3. take a portion of his withdrawal benefit in a lump sum and transfer the balance to another fund*;
4. split his withdrawal benefit between different funds*; or
5. take his whole withdrawal benefit in a lump sum.

* Refer to Rule 6.3.3.2 of the General Rules of the FAW Umbrella Funds to see to which funds the benefit may be transferred.

We suggest that before a member takes his whole withdrawal benefit in a lump sum, he first consults with a financial adviser to understand the impact of that decision on his retirement planning.

E. When will a member's withdrawal benefit be preserved in the FAW Umbrella Funds?

A member's benefit will be preserved in the FAW Umbrella Funds if –

1. he chooses to preserve it in the FAW Umbrella Funds;
2. he does not choose any one of options 2 to 5 under paragraph D above within 90 days after his withdrawal; or
3. he absconded or is deemed to have absconded and does not return to work within 90 days.

F. What happens when a member's withdrawal benefit is preserved in the FAW Umbrella Funds?

The member will become a non-contributing inactive member. This change in status will happen –

1. 3 months after his withdrawal, if he does not choose any one of options 2 to 5 under paragraph D above;
2. when the FAW Umbrella Fund receives confirmation that the member has absconded;
3. 90 days after the FAW Umbrella Fund has last received any contributions or payment of any of the expenses, fees and costs for a specific member, unless the member's employer has asked for an exemption from this provision before the end of the 90 day period; or
4. when the FAW Umbrella Fund receives the member's election to preserve his withdrawal benefit in the FAW Umbrella Fund.

The following will then apply for this member:

- a. No further contributions, including additional voluntary contributions, will be payable;
- b. the FAW Umbrella Fund will continue to debit fund expenses, asset management fees and asset-based fees for administering the Fund against the member's retirement savings account;
- c. no product option or investment portfolio change instructions requested by the advisory body or an investment adviser, on the advisory body's behalf, after the member became an inactive member will apply to the member;
- d. the member will remain in the investment portfolio that applied to him before he became an inactive member, but he will still be able to make investment portfolio changes;
- e. the member will still be able to make product option changes;
- f. the member will not be entitled to any insurance benefits, which includes the Family Protector benefit;
- g. the FAW Umbrella Fund will deduct the outstanding housing loan guarantee amount, plus interest, that is due to the specific financial institution, from the member's benefit, and pay it to that financial institution;
- h. the member will become entitled to his retirement savings account on the date elected by him as the date on which his withdrawal benefit should be paid;
- i. on his withdrawal, the member will have the same options as listed under paragraph D above; and
- j. if the member dies before the withdrawal benefit becomes payable, his withdrawal benefit will be paid as a death benefit and the rules applying to the payment of a death benefit will apply.

G. What is the difference between preserving a withdrawal benefit in the FAW Umbrella Funds and preserving it in the Momentum Corporate Preservation Funds (the Preservation Funds)?

As an active member of the FAW Umbrella Funds, the member would be covered for the BASE Funeral Benefit and BASE Education Benefit under the Family Protector policy issued to his employer. If he is a member of Momentum Health, he will also be covered for the BASE Health Premium Waiver under that same policy. If this member transfers his withdrawal benefit from the FAW Umbrella Funds to the Preservation Funds, he will keep the BASE Funeral Benefit. If he has taken out an individual Momentum Myriad lump sum death benefit policy, he will also keep the BASE Education Benefit. In addition, if he is a member of Momentum Health and has cover under an individual Momentum Myriad disability policy or a lump sum death policy, or both, he will keep his cover for the BASE Health Premium Waiver.

These Family Protector benefits will only be paid if the member has at least R5 000 in his retirement savings account at the time. If that same member preserves his withdrawal benefit in the FAW Umbrella Funds, his cover under the Family Protector policy will come to an end.

A member of a preservation fund is allowed to make one withdrawal from his benefit before he reaches his retirement age. He can choose to only withdraw a portion of his benefit and leave the balance in the preservation fund until retirement. A member who preserves his withdrawal benefit in the FAW Umbrella Funds is allowed to withdraw his benefit before retirement, but is not allowed to only withdraw a portion of his benefit and leave the rest in the FAW Umbrella Fund until retirement.

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