

THE SARPA RETIREMENT FUND

The SARPA Retirement Fund (the fund) is probably the most attractive savings vehicle that SARPA-members can invest in. The importance of the SARPA Retirement Fund is highlighted in this edition of the SARPA Newsletter. Only about 12% of people retiring from a career can do so without any worry! The other 82% have great difficulty surviving after their retirement and are dependent on family or government pension payments for survival!

Why is the fund so attractive?

It is uniquely designed for professional rugby players with a retirement age from **age 32**. This is a big advantage since employees **are normally** only allowed to retire from **age 55** under a retirement annuity or a company's pension and provident fund. As a result, you already receive the favourable tax treatment on receipt of your retirement savings from **age 32** whereas it only applies to other employees upon retirement from **age 55**.

Who must join the fund?

Some of the other **attractive features** of the fund are:

- the contributions that are made to the fund are made with earnings before tax is deducted;
- the accumulation of investment returns in the fund is **not taxable**;
- at least a portion of the benefits that are paid from the fund is **tax-free**, irrespective of whether a member withdraws before **age 32** or retires thereafter; and
- the fund is **flexible** and offers a **range of choices** to suit individual preferences.

The beneficial status of the fund is conditional on the membership of the fund being **compulsory** for **all eligible SARPA-members**. As a result, provision was made in the **2010 collective agreement** between **SAREO and SARPA** that all **eligible SARPA-members** must become members of the fund. Furthermore, the collective agreement provides for the provinces to deduct the monthly contribution due to the fund from **a player's remuneration** and remit it to the fund by not later than the 5th of the month following the deduction.

The only players who are not eligible to join the fund are those who joined SARPA **before 2006** and elected at that time **not** to join the fund. All our other players **must** join the fund. Those who have not done so yet must join the fund with effect from the date that they **first** became eligible to join the fund.

How much can be contributed to the fund?

Each player can agree with his provincial union, on an **annual basis** and within certain limits, which proportion of his **total salary package** should be contributed to the fund. Every month the union will contribute the agreed amount on a **pre-tax basis** as an **employer contribution** to the fund. For every month that a salary is paid, a contribution has to be made to the fund.

Have you planned for your retirement?

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In terms of the rules of the fund, the contributions to the fund can either be a **fixed amount** of **R1 000 per month** or, alternatively, it can be based on a “**contribution rate**” that is applied to a player’s “**pensionable salary**”.

A player can select one of the following contribution rates, namely **5%, 7.5%, 10%, 12.5%, 15%, 17.5% or 20%** of pensionable salary, depending on how much of his earnings he wants to save for his long-term **financial security** and his **life after** being a professional **rugby** player.

A player's pensionable salary is based on a percentage of his total salary package. This percentage can also be chosen, subject to a **minimum of 50%** of the total salary package.

An example will illustrate how it works:

Let's use a player with a total salary package of **R20 000 per month**.

He can either choose to contribute a **R1 000 per month** to the fund or a specific percentage.

If he chooses to contribute a percentage, he must first decide what percentage of the R20 000 per month would define his pensionable salary. The minimum is **50%**, which gives a monthly **pensionable salary** of **R10 000**. The maximum is **90%**, which gives a monthly pensionable salary of **R18 000**.

Now, let's assume he **chooses 75%**. This gives a pensionable salary of **R15 000 per month**, calculated as 75% of **R20 000**.

He then needs to decide whether to contribute **5%, 7.5%, 10%, 12.5%, 15%, 17.5% or 20%** of the pensionable salary (which he chose to be **R15 000**).

If he chooses a contribution rate of **10%**, he has to contribute **10%** of **R15 000**, namely **R1 500 per month** to the fund. If he chooses a higher contribution rate of 15%, he has to contribute 15% of R15 000, namely R2 250 per month to the fund.

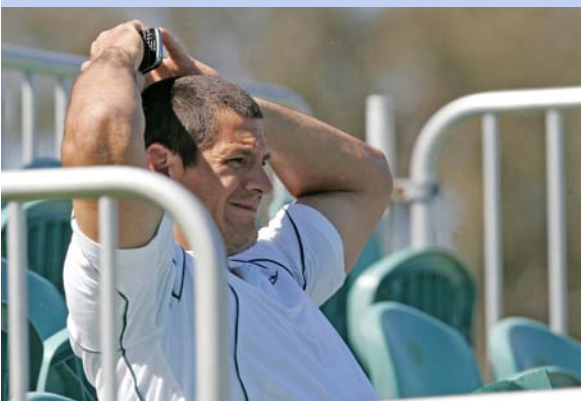
In the above example, the minimum monthly contribution that is possible is calculated **as 5%** of **50%** of R20 000, namely **R500**. The **maximum** monthly contribution is **20%** of 90% of R20 000, namely **R3 600**.

How will the benefit under the fund be accumulated?

The benefit that a player accumulates under the fund will depend on the amount that he contributes to the fund, as well as the **investment returns** that are earned on the contributions and the impact of costs and taxes.

The gross fund benefit (before any taxes that are payable upon exiting the fund) will be calculated as:

- the **contributions** to the fund (after allowance was made for administrative expenses);
Plus
- **investment returns** earned (after allowance was made for investment expenses).



**Only rugby players
can retire at the age
of 32! All other em-
ployees must wait
until the age of 55!**

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How will the contributions be invested in the fund?

A wide range of **investment portfolios** is available under the fund and a player can select in which portfolio(s) his contributions should be **invested**. The range of investment portfolios include the multi-manager portfolios with **different risk profiles** of Investment Solutions as well as a range of South African unit trusts and even a managed share portfolio.

A player's contributions will be invested in the **Investment Solution Performer Portfolio**, unless the player wants to make his own selection of investment portfolios. **The Investment Solutions Performer Portfolio** gives an investor the **maximum allowable exposure** to **international assets** as well as exposure to a **balanced local investment portfolio**, which is currently being managed by a number of reputable asset managers like **Coronation** and **Allan Gray**. More information on the available investment portfolios, including the Investment Solutions Performer Portfolio, is available on their website on www.alexanderforbesonline.co.za

What are the costs of the fund?

A number of institutions are involved with the management of the fund, but the main one is **Alexander Forbes Financial Services**. They handle the **member administration** of the fund and are also the **advisors** to the **fund** and the players, **if required**. Furthermore, Investment Solutions provides the **multi-manager investment portfolios** to the fund, which are managed by a range of asset managers, and performs the investment administration services. These institutions are **remunerated** in a number of ways for their services, which is summarised below (**excluding VAT**). The member application form provides full detail of the costs involved.

Type of expense	Initial fee (as % of contributions)	Ongoing fees per annum (as % of assets)
Administration	0.50%	0.50%
Fund consulting	1.00%	0.25%
Financial advisory fee, if approved by the member	1.5% to 2.0%	Max. 0.75%

When does a player's membership of the fund terminate?

Membership of the fund **terminates** when a player **stops** to be a professional rugby player in South Africa. When this happens, the **fund benefit** becomes payable.

For example, the **fund membership** of a player who transfers from **one province** to another does **not** stop as he remains a professional rugby player in South Africa. In this case, no benefit amount becomes payable. However, the fund membership of a player who decides to **go and play overseas** terminates as he is no longer a professional rugby player in South Africa. As a consequence, his benefit under the fund will become **payable**.

Fund membership can **terminate** in a number of ways. The way in which a player's fund membership terminates, has certain **tax** and other **implications** (See page 13).

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What are the administrative arrangements that players should be aware of?

As mentioned before, **all players** who have **joined SARPA** after **1 January 2006** and who have not joined the fund yet **must** join the fund **now**. SARPA has made arrangements with every province to facilitate this process by deducting the monthly contribution to the fund from each player's remuneration with effect from **1 June 2010**.

Although the **contributions** to the fund are important for the **long-term financial security** of rugby players, we understand that it will affect each player's **immediate cash** flow negatively. As a result, we have arranged with the provinces to deduct **the minimum** amount that is **legally required** from each player's remuneration and to remit it to the fund as a monthly contribution.

In other words, the **smaller of R1 000 or 5% of 50%** of a player's **monthly total salary package** will be deducted from the **remuneration** and contributed to the fund by each province in respect of **all eligible SARPA-members** who have not joined the fund yet. Each affected player can decide whether to change the amount to a higher level depending on his circumstances. Eligible players who are already fund members will not be affected by this arrangement.

Please note that unless a player makes a **different selection**, his contributions will be invested in the **Investment Solution Performer Portfolio**. A player can have a selection of up to **5 investment portfolios** at a time.

Every eligible player must complete the fund's Member Application Form as soon as possible. The forms are available from your local SARPA representative and assistance is available for every player (see below).

How can players communicate with the fund?

Once a player's fund membership has been **activated**, Alexander Forbes will supply him with his **membership details** (including a **PIN number**) and relevant additional information. He can expect to receive a **benefit statement** on an **annual basis** as well as other relevant information as and when appropriate. He will also have **access via the internet** to his **personal information** as well as information about his **investment portfolio** and **investment performance**.

Should a player's membership of the fund **terminate** in future, Alexander Forbes will supply him with the **necessary documentation** to enable the processing of his benefit payment.

The client interaction centre can be contacted on **0860 66 4444** or e-mail investadmin@forbes.co.za to help players with any **day-to-day administrative** queries. Either will assist players with the application forms to be completed, and will put players in contact with an **accredited financial adviser** who will assist in determining a **player's risk tolerance** and advising on an **appropriate asset allocation** and the most appropriate **investment portfolio** to choose.

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Options upon termination of fund membership

The way in which a member of the SARPA Retirement Fund (the fund) terminates his membership under the fund will have **certain tax and other implications**. (Any reference to tax is based on current legislation and is subject to change).

1. Retirement at normal retirement age 40

It is unlikely that a player will play professional rugby until age 40. However, should it happen, the member will be obliged to retire from the fund at age 40.

In such a case, the member will be entitled to receive up to one third of his retirement benefit in cash. The balance can be utilised by the member to purchase a monthly pension (including a living annuity) from an insurer of his choice.

A portion of the cash amount is tax-free, whilst the monthly pension is taxable as income.

2. Termination between age 32 and age 40

Should the player's services be terminated in any way after age 32 but before age 40, the following options will be available:

- The member can be regarded as an early retirement. In such a case the member will be entitled to receive up to one third of his retirement benefit in cash. The balance can be utilised to purchase a monthly pension (including a living annuity) from an insurer of the member's choice. A portion of the cash amount will be tax-free, whilst the monthly pension will be taxable as income.
- The member can be regarded as a resignation. In such a case the full retirement benefit can be received in cash, after tax has been paid. Alternatively, the retirement benefit can be transferred to another approved pension fund (including a preservation fund) without any tax payable at time of transfer.
- The member can be regarded as a deferred member. In such a case, the member defers his retirement to any date until he reaches age 40. The retirement benefit that remains in the fund, will earn further investment returns until retirement. At retirement, whether before or on age 40, the member will be entitled to receive up to one third of the retirement benefit in cash. The balance can be utilised to purchase a monthly pension (including a living annuity) from an insurer of the member's choice. A portion of the cash amount is tax-free, whilst the monthly pension will be taxed as income.

3. Resignation before age 32

Should a member ceases to play professional rugby in South Africa before age 32, he will be regarded as a resignation. The following options will be available:

- the full fund benefit will be payable in cash, after tax has been deducted; or
- the full fund benefit, , can be transferred to another approved pension fund (including a preservation fund) without tax being payable at the date of transfer; or
- the member can elect to become a deferred member. In such a case, the benefit remains in the fund, where it will earn further investment returns.

At any time between his date of resignation and age 40, the member has the option to receive his benefit in cash, after tax has been deducted, or to transfer the benefit to another approved pension fund (including a preservation fund) without tax being payable at the date of transfer.

However, he also has the option to keep the benefit in the fund until he retires between age 32 and 40. At retirement, whether before or on age 40, the member will be entitled to receive up to one third of the retirement benefit in cash. The balance can be utilised to purchase a monthly pension (including a living annuity) from an insurer of the member's choice. A portion of the cash amount is tax-free, whilst the monthly pension will be taxed as income.

Please note that a member's membership under the Fund will continue uninterruptedly (and the benefit will not become payable) should a player's service as a professional rugby player be transferred from one union to another union in South Africa.

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4. Death

The member's full retirement benefit (after deduction of tax) is payable in the event of a member dying. The benefit will be paid to the member's dependants and/or beneficiaries, as determined by the trustees of the fund, with SARPA's input.

5. Disability

Should a member be forced due to an illness or injury to cease being a professional rugby player, the same options will be available as in the case of termination between age 32 and age 40, irrespective of the player's age at the time of disability.

A. Taxation on lump sums at retirement (between age 32 and 40) and death

The following table applies to lump sums paid by the fund to a member on retirement or death. A portion of the cash amount is tax-free and the balance is taxable at a specific rate of tax. The tax-free portion of the cash lump sum and the rate of tax on the balance are calculated as follows:

Lump sum from the fund	Rate of tax
R0—R300 000	R0
R300 001 – R600 000	1 8% of amount exceeding R300 000
R600 001 – R900 000	R54 000 + 27% of amount exceeding R600 000
R900 000 +	R135 000 + 36% of amount exceeding R900 000.

Any previous retirement benefit (post 1 October 2007) or withdrawal benefit (post 1 March 2009) will need to be added to the current retirement benefit to determine the effective rate of tax.

As mentioned above, money that is not taken as a lump sum but used to buy an annuity is transferred tax-free to the insurance company. Pension payments from the annuity are taxed in a similar way to your monthly salary while you are still working.

B. Taxation on lump sums at resignation

If you take your benefit as a cash lump sum before retirement, it will be taxed as follows:

Value of lump sum	Rate of tax
R0 - R22 500	No tax
R22 501 – R600 000	18% of amount exceeding R22,500
R600 001 – R900 000	R103,950 + 27% of amount exceeding R600,000
Value exceeding R900 000	R184,950 + 36% of amount exceeding R900,000

Withdrawal and retirement tax-free amounts are combined over your lifetime. This means that the more withdrawal benefits you take in cash, the less you will get free of tax on retirement.