Important factors to consider when transferring benefits from the Central Retirement Annuity Fund to another Fund

The Board of Trustees of the Central Retirement Annuity Fund (CRAF) is of the opinion that it is unlikely to be in a member's best interest to transfer, in terms of Section 14 of the Pension Funds Act, his/her Fund Benefit (i.e. retirement annuity policy) to another retirement annuity fund (RA Fund).

We therefore **urge** you to **study** this article **carefully** to assist you in making an **informed decision** and to simultaneously consider **alternative options** that exist within the CRAF.

Members usually request a section 14 transfer if

- the **cost-effectiveness** of the policy providing the benefits is being questioned;
- the **investment portfolio** choices within the policy are limited;
- the policy is not **flexible** enough;
- the death and/or disability **cover** under the policy seems too expensive.

Despite claims to the contrary, traditional retirement annuity policies offer **excellent value for money**. If the contributions are paid until retirement, the retirement proceeds are similar (and in some cases even better) than those offered by retirement annuity unit trust products.

Attractive features of new generation retirement annuity policies

The structure of Sanlam's retirement annuity policies has changed significantly over the years. The latest generation of policies, available since 2000 and known as **Stratus**, offer all the **flexibility** and **choice** any person could ever need, therefore alleviating any reason to transfer.

The flexibility and choice offered by the Stratus product range are illustrated by the following:

1. Stratus offers a **wide range** of unit trust portfolios, managed by the leading asset managers in South Africa, to choose from for the underlying assets of the policy.
2. Stratus offers investment portfolios with **similar mandates** as the main unit trust funds, but which, in general, have much **lower asset management fees** than the unit trust funds.
3. Stratus also offers investment portfolios with **investment guarantees** as well as **smooth bonus** portfolios.

4 Stratus offers a **Life Time Investment Option**, an automatic switching facility, where close to retirement the investment is gradually moved from more volatile assets to more stable ones.

5 You can **switch** between different investment portfolios at any time. The first two switches per year are free.

6 You can **split** your contributions among up to ten different investment portfolios. And you can change this split at any time, free of charge.

7 **Daily unit prices** for all the investment portfolios are available on the Sanlam website in order to establish the value of your benefits.

8 In the event of financial difficulty you could apply for a **premium holiday** (when contributions are temporarily stopped without any premium reduction charges being levied) of up to 12 months.

9 **Risk benefits** like waiver of premium in the case of disability are available (e.g. if you become disabled, contributions to the retirement annuity policy will be made on your behalf).

A preferable alternative to a Section 14 transfer for old generation retirement annuity policies

Old generation (i.e. The One Retirement Annuity) policies offer a very limited investment portfolio choice and do not offer the same flexibility offered by new generation policies. But instead of a Section 14 transfer the member has the option to **convert** an old generation retirement annuity policy to a Stratus retirement annuity policy. This will provide the member with all the **flexibility** and **choice** described above for **Stratus**. The only fee attached to such a conversion is a once-off transaction fee of R550.

A conversion offers several benefits:

1 There are no early termination charges, i.e. the fund value on the existing policy is carried over to the new Stratus policy **without any early termination charges**.

2 You will be rewarded with a **loyalty bonus** on the new Stratus policy.

3 According to legislation a transfer to another retirement fund is a lengthy process, but must be finalised within 180 days, while a conversion to a Stratus policy will only take a **couple of days**.

Other things that you should consider before doing a conversion:

- There may be a possible **loss of cover** on the old generation policy.
- There is a possibility of a **market value adjustment** (if market conditions warrant it) on an old generation policy invested in the Stable Bonus Fund.

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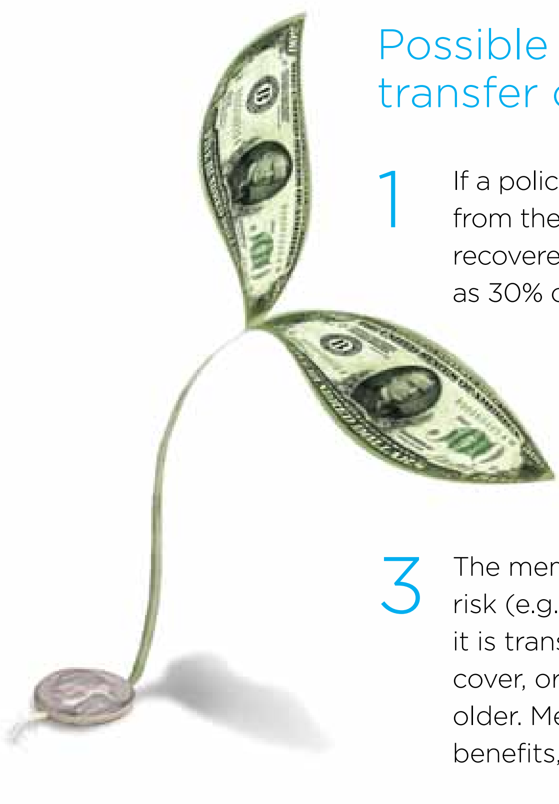

Possible negative impact of a Section 14 transfer on your retirement planning

1 If a policy is terminated early, an **early termination charge** is usually **deducted** from the policy to recoup initial expenses that would otherwise have been recovered over the term of the policy. The termination charge can be as much as 30% of the fund value of the policy if issued before January 2009.

2 The member may **forfeit** valuable **investment guarantees** when the policy is transferred.

3 The member will **forfeit** any existing **life cover**, disability cover or other risk (e.g. waiver of premium on disability) benefits on the existing policy if it is transferred. After a transfer the member may no longer qualify for the cover, or the same benefits may be more expensive because the member is older. Medical loadings and/or exclusion clauses may be applied to the new benefits, while the member will potentially have to be underwritten again.

The level of saving required in fees to make up for the early termination charge

The fund value less the early termination charge will be transferred to the new RA Fund. The product within the new RA Fund will levy ongoing fees to pay for the yearly administration costs, the asset management fees and any ongoing advice fees (if any). For the transfer to be worthwhile the member needs to pay lower ongoing fees, compared to that of the existing policy, over the remaining term of the new product in order to make up for the termination charge.

The table below gives an indication of the difference in the ongoing fees required in order to make up for the termination charge:

EARLY TERMINATION CHARGE AS % OF THE FUND VALUE	TERM TO RETIREMENT (YEARS)			
	20	15	10	5
5%	0,1%	0,3%	0,5%	1,0%
10%	0,3%	**0,5%**	1,0%	2,1%
15%	0,4%	0,8%	1,5%	3,3%
20%	0,5%	1,1%	2,0%	4,5%
25%	0,6%	1,4%	2,6%	5,9%
30%	0,8%	1,7%	3,2%	7,3%

An original 25-year term policy is assumed. This means that if the member originally took out a 25-year term policy and wants to transfer, with 15 years remaining to retirement and a 10% termination charge (say), he/she would have to find a product with ongoing fees that are at least 0,5% lower than the existing product. **As policies are competitively priced, this will be very difficult.**

Any initial advice fees payable to the intermediary who is responsible for the transfer to the new RA Fund must be included in the early termination charge percentage in the above table in order to quantify the saving required to justify these fees.

The conditions for a Section 14 transfer

Before you can go ahead with a section 14 transfer, the following will apply:

1 You must request the transfer in writing.

2 The RA Fund receiving the transfer must be registered by the Registrar of Pension Funds and approved under the Income Tax Act.

3 The transfer benefit is equal to the fund value of the policy less any early termination charge. This calculation is done in line with the actuarial rules of the policy and Part 5 of the Regulations of the Long-term Insurance Act. You will be informed in writing of the amount of the early termination charge.

4 Along with the transfer application, you must complete and sign a declaration absolving the transferring RA Fund, its trustees and its administrator from any liability for any prejudice that you or any beneficiary may suffer as a result of the transfer.

5 Formal Section 14 transfer documents as prescribed by the Registrar of Pension Funds must be approved and signed by the trustees of both Funds.

6 In some instances the transfer must be approved by the Financial Services Board (FSB).

7 The whole process must be finalised within 180 days.

In conclusion

A Section 14 transfer is unlikely to be in your best interest, as your retirement nest egg will usually be depleted by early termination charges as well as new administration costs when you join the new RA Fund.

In most cases, a more cost-effective and less time-consuming alternative is to make use of the options available under the CRAF of which you are a member.

Please speak to your intermediary or contact the Sanlam Life Client Contact Centre at 021 916 5000 for assistance or more information.