

DURBAN PENSION FUND

(the Fund)

EXPLANATION OF PENSION BENEFITS

2010 Edition

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INTRODUCTION

This booklet has been prepared in question and answer form to indicate to members, in simple terms, the benefits of the Fund.

The information produced has been based on the Rules in force at **2010-12-31**.

The contents of this booklet are, of necessity, brief and are not binding on the Fund and do not modify the Rules which in every eventuality will take precedence.

If you have any problems in relation to your Fund benefits which cannot be answered by your Staff Clerk, please direct them to:-

The Pension Fund Administrator
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Florence Mkhize Building
251 Anton Lembede Street
DURBAN

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1. WHAT TYPE OF FUND DO WE BELONG TO?

The Durban Pension Fund is a Defined Benefit Fund. A Defined Benefit Fund specifies the amount of Pension that will accrue to the member on his retirement.

2. WHAT IS THE PURPOSE OF THE FUND?

The purpose of the Fund is to provide pensions and other benefits for its members and their dependants at retirement/death/withdrawal.

3. MEMBERSHIP OF THE FUND?

The Fund was closed to new members with effect from 2001-11-01.

4. WHAT ARE THE MAIN BENEFITS AVAILABLE?

- (a) A Monthly Pension - which is payable to either retiring members, their widows, widowers or minor children.
- (b) A Gratuity - which is a once-off lump sum payment by the Fund to a retiring member or in the event of his premature death, to his dependants.

5. HOW MUCH DO I CONTRIBUTE?

Members contribute, at present, 7.5% of their pensionable emoluments to the Fund each month. In addition, the Municipality contributes R2.62 to the Fund for each R1 paid by the member.

6. AT WHAT AGE CAN I RETIRE?

The normal retirement age for all members is 63 years. Members who have had at least 10 years pensionable service may apply for early retirement from the age of 55 in which case the benefits will be based on the appropriate discounted pension factor.
(See notes 12 and 14)

A member who has had at least 40 years continuous service with eThekweni Municipality or 40 years qualifying service may retire without any discount in the pension factor.

For every five years that a Fireman serves in the three platoon systems he may retire a year earlier.

7. WHAT FACTORS ARE PENSION CALCULATIONS BASED ON?

There are three relevant factors which vary for each member:

- (a) the length of pensionable service;
 - (b) the final 12 months average pensionable emoluments; and
 - (c) the age at retirement.
- (See note 14).

8. WHAT IS PENSIONABLE SERVICE?

This is the length of time in completed months and years that you have been contributing to the Fund (including pensionable service transferred in from another pension fund) plus bonus service.

It is possible to purchase additional pensionable service to enhance your pension at retirement. It should be noted that the South African Revenue Services allows for a tax deduction for members purchasing additional pensionable service.

9. WHAT IS QUALIFYING SERVICE?

This is your pensionable service excluding bonus service and any pensionable service purchased.

10. WHAT IS BONUS SERVICE?

On completion of 20 years qualifying service, a member is entitled to 1 year of bonus service and, thereafter, a second and third year of bonus service at 25 years and 30 years qualifying service, respectively. Bonus service is not taken into account when calculating gratuity.

Example : A member retiring with 27 years qualifying service will receive a pension calculated on 29 years service (27 years plus 2 bonus years).

11. WHAT ARE FINAL AVERAGE EMOLUMENTS?

This is the average rate of salary of a member for the final twelve completed months of service, excluding overtime payments and fringe benefits but including long service allowance.

12. WHAT IS DISCOUNTING FOR EARLY RETIREMENT?

The pension factor for normal retirement which is 63 years is 2.25% for each year of pensionable service. This pension factor is reduced proportionately depending on the age at retirement and begins with a minimum factor of 1.482955% if a member chooses to retire at the age of 55. (See note 14 for all factors).

13. IS THE GRATUITY PAYMENT ALSO SUBJECT TO DISCOUNTING FOR EARLY RETIREMENT?

Yes, the Gratuity factor is also reduced proportionately from 7% applicable at age 63 to 4,335% applicable at age 55. (See note 14 for all factors.)

14. HOW IS MY PENSION/GRATUITY CALCULATED?

Your benefit is calculated by multiplying your final average emoluments (see note 11) by your length of pensionable service (see note 8) and the factor applicable to your age as set out below:

AGE AT RETIREMENT	PENSION FACTOR	COMMUTATION FACTOR	GRATUITY %
55	1.482955	12.62	4.335
56	1.564773	12.33	4.668
57	1.656818	12.04	5.001
58	1.748864	11.74	5.334
59	1.840909	11.43	5.667
60	1.932955	11.13	6.000
61	2.035227	10.82	6.333
62	2.137500	10.51	6.666
63	*2.250000	10.20	*7.000

*Applicable at any age after completion of 40 years qualifying service

EXAMPLES

A member retires at age 63 with 36 years qualifying service and final average emoluments of R72 000 (Example A). A member retires at age 57 with 27 years qualifying service and final average emoluments of R72 000 (Example B).

PENSION CALCULATION	<u>EXAMPLE A</u>	<u>EXAMPLE B</u>
(1) Length of service	36 years	27 years
(2) Bonus Service	<u>3</u>	<u>2</u>
(3) Pensionable Service	<u>39</u>	<u>29</u>
(4) Final Average Emoluments	R72 000.00	R72 000.00
(5) Pension Factor	2.25%	1.656818%
(6) Annual Pension ((4) x (3) x (5))	R63 180.00	R34 594.36
(7) Monthly Pension ((6) ÷ 12)	R 5 265.00	R 2 882.86
GRATUITY CALCULATION	<u>AGE</u>	<u>AGE</u>
	<u>63</u>	<u>57</u>
(8) Gratuity Factor	7%	5.001%
(9) Gratuity Payable ((4) x (1) x (8))	R181 440.00	R97 219.44

15. CAN I COMMUTE A PORTION OF MY PENSION?

Yes, with the consent of the Board of Trustees a retiring member may elect to commute (convert to a lump sum) up to 33.33% of his/her pension for a one-time lump sum payment.

The amount of the commutation is calculated by multiplying your annual pension by the percentage commuted and then by the commutation factor.

If the members in Examples A and B (see note 14) elect to commute the maximum amount of 33.33% of their pension, they would receive:-

COMMUTATION	<u>EXAMPLE A</u>	<u>EXAMPLE B</u>
(1) Annual Pension	R63 180.00	R34 594.36
(2) % of Pension Commuted	33.33%	33.33%
(3) Commutation Factor (See note 14)	10.20	12.04
(4) Commutation Lump Sum ((1) x (2) x (3))	R214 812	R138 839
(5) Monthly Pension after Commutation ((1) x (100% - (2)) ÷ 12)	R3 510.18	R19 200.00

16. SHOULD I COMMUTE A PORTION OF MY PENSION?

You should take the following into account:-

- (a) Your ability to make sound investments and particularly investments which will give you capital growth over a period of years to offset at least some of the effects of inflation. (Your pension is at least partially inflation-proofed by the annual increases paid by the Fund).
- (b) The need to monitor your investments on a continuous basis in case the need arises to switch out of one of the investments into another in order to protect your capital.
- (c) The affect of the payment of tax on your investment earnings. This will depend on your tax bracket and nature of your earnings.
- (d) The fact that the commutation of your pension does not affect the pension payable to your spouse.

You should think very carefully before investing in any interest bearing type of investment (eg. Fixed deposit, participation bond, mortgage bond, Government stocks, tax free deposits, etc.), where the income from the investment and the capital value of the investment may not increase over the years, and where taxation and inflation absorb a part of what otherwise looks like an attractive investment.

Whilst you may initially be well off with this type of investment, the return may not increase in line with your living costs which increase with inflation, making it more difficult as the years go by to meet your living expenses from the income.

You are strongly advised to seek the advice of a reputable registered financial adviser to assist you in the above regard.

17. WHAT ARE MY BENEFITS IF I WERE TO BE MEDICALLY BOARDED?

- (a) A member who, in the opinion of the Board of Trustees of the Fund, is incapacitated from discharging his duties for medical reasons and whose entrance into the Fund was not qualified in terms of (b) below, is entitled to receive a pension from the Fund.

The pension shall be based either on his actual service or on 60% of his potential service, whichever is the greater.

- (b) When a member entered service and if the medical officer found that a member had a health condition that could result in a shortened life expectancy the member will not qualify for a pension from the Fund should that particular health condition be the reason for his premature retirement unless he has served at least 15 years. In such instances, a lump sum amount is paid in lieu of a pension, together with a gratuity.

For example if a member who is prematurely retired for health reasons at age 50 after 20 years pensionable service with final average emoluments of R72 000 will receive the benefits based on the greater of actual or potential service calculated as follows:-

<u>PENSION</u>	<u>ACTUAL SERVICE</u>	<u>POTENTIAL SERVICE</u>
(1) Length of service	<u>20 years</u>	<u>33 years</u>
(2) Bonus Service	<u>1</u>	<u>0</u>
(3) Total Service	<u>21</u>	<u>33</u>
(4) Final Average Emoluments	R72 000.00	R72 000.00
(5) Pension Factor	2.25%	1.35% (2.25% x 60%)
(6) Annual Pension ((4) x (3) x (5))	R34 020.00	R32 076.00
(7) Monthly Pension ((6) ÷ 12	R 2 835.00	R 2 673.00
(8) Gratuity Factor	7%	7%
(9) Gratuity Payable ((4) x (1) x (8))	R100 800.00	-

The member would get an ill-health pension of R34 020.00 per annum (R2 835.00 per month) based on actual service and a gratuity of R100 800.

The ill-health retirements are categorised as follows:

CATEGORY 1	CATEGORY 2	CATEGORY 3
Terminal Condition (Life Threatening) (i.e. Cancer, Aids etc)	Non-Life Threatening Member cannot be gainfully employed	Non-Life Threatening Member can be gainfully employed

No commutation is permitted for a Category 3 ill-health retirement.

18. WHAT HAPPENS IF I DIE BEFORE REACHING THE NORMAL RETIREMENT AGE?

- (a) Pensions automatically become payable to your dependants ie. your spouse and/or minor children. The size of the pension is calculated along similar lines to that of the ill-health pension ie. based on 60% of potential service, and is payable to your dependants.
- (b) A lump sum death benefit and a gratuity are also payable to your dependants.

For example If a member aged 40 years with 10 years service and final average emolument of R72 000 dies in service. His dependants will receive the following:-

	<u>ACTUAL OR</u>	<u>POTENTIAL SERVICE</u>
(1) Length of service	<u>10 years</u>	<u>32 years</u>
(2) Bonus Services	<u>0</u>	<u>0</u>
(3) Total Service	10	32
(4) Final Average Emoluments	R72 000.00	R72 000.00
(5) Pension Factor	2.25%	1.35% (2.25% x 60%)
(6) Annual Pension ((4) x (3) x (5))	R16 200.00	R31 104.00
(7) Monthly Pension ((6)÷12)	R 1 350.00	R 2 592.00
(8) Commutation Factor	15.25	15.25
(9) Death Benefit ((1/3 x (6) x (8))	R82 349.99	R158 112.32
(10) Gratuity Factor	7%	7%
(11) Gratuity ((4) x (1) x (10))	R45 360.00	-

In this instance the member's dependants would receive a once off Death Benefit of R158 112.32, a Gratuity of R45 360.00 and a spouse pension of R2 592.00 per month.

- (c) A pension may be paid to the parents of a deceased member if they were dependent on the deceased member and if there is no spouse or child pensions payable.
- (d) If the deceased member has no dependents or nominees, lump sums representing the automatic commutation and the gratuity will be paid to the deceased's estate.

19. SHOULD I MAKE A WILL?

Yes. To avoid unnecessary delays in the payout of any benefits, all members are advised to specify in their will the persons to whom they wish their benefits from the Fund to be paid. The Board of Trustees has, subject to the Funds rules and relevant legislation a discretion in determining to whom benefits shall be paid.

20. FOR HOW LONG ARE CHILD PENSIONS PAID?

Child pensions are payable until the eligible child reaches the age of 18 years or 24 years should the eligible child continue in full-time education.

21. WHAT DOCUMENTATION IS REQUIRED ON RETIREMENT

Retiring members must contact the Fund's office at least 6 weeks prior to retirement with the following documents/details:-

1. Member's Identity Document
2. Spouse's Identity Document
3. Marriage Certificate/Certificate of Customary Union
4. Childrens' Identity Documents
5. Bank Account Number
6. Postal and Residential Address
7. Tax Number
8. Current Payslip
9. Passport size photo for pensioner's card

Should you have any queries on the above matter please contact the following staff:-

Resignation Benefits :	Stanley Madlala	- Tel (031) 311 1610
Retirement Benefits :	Ms Rabia Moosa	- Tel (031) 311 1604
	Ms Thando Sokhela	- Tel (031) 311 1605

22. WHAT BENEFITS ARE PAYABLE ON RESIGNATION?

On resignation or termination of service from the Municipality a member will receive the greater of his minimum individual reserve as calculated by an Actuary or a lump sum equal to his total contributions to the Fund plus 5/12 percent for each month of pensionable service and in addition a further 5 percent for each completed year up to a maximum of 100 percent of this figure.

23. TAXATION OF LUMP SUM BENEFITS ON RETIRMENT

It must be noted that all service prior to 1 March 1998 is tax free (vested rights) and only the lump sum benefits in respect of service after 1 March 1998 will be taxable. The taxable portion of lump sum benefit will be taxed as indicated in the table below:

Taxable Amount	Rate of Tax
R0 - R315 000	0%
R315 001 - R630 000	18%
R630 001 - R945 000	27%
Amount exceeding R945 000	36%

As the Fund is obliged to seek a tax directive from South African Revenue Services it is important that members ensure that their tax affairs are in order to avoid unnecessary delays in the payment of their benefits.

24. WHAT HAPPENS WHEN A PENSIONER DIES?

If the deceased pensioner leaves a spouse to whom he was married before retirement the spouse will receive the same pension as the deceased for a period of 3 months and thereafter will qualify for a pension representing 60% of his uncommuted pension. If the marriage was registered after his retirement date the percentage applicable will be 40%. In certain circumstances minor children of the deceased will also qualify for pension benefits.

25. DOES A FEMALE MEMBER RECEIVE SIMILAR BENEFITS?

Yes. The Fund does not discriminate between male and female members. Furthermore the widower of a female member is entitled to the same benefits as those of the widow of a male member.

26. WHAT IS A DEFERRED PENSIONER?

A member who resigns from the Fund with at least 10 years or more membership does not have to accept a resignation benefit.

Such a member is given an option of becoming a deferred pensioner. The contributions are retained in the Fund and the member will be entitled to receive a pension from the Fund based upon his salary and service at the date of his resignation. This pension and gratuity will become payable at age 63 years, but a deferred member may elect to take early retirement or resign.

(Notes 12 and 22 refers).

The pension and gratuity that the member will receive on attaining the age of 63 years, will be the benefits as calculated when he deferred, augmented by any increases granted to other Fund pensioners after his date of deferring his pension.

A deferred pensioner retains the same death and ill-health retirement benefits as he was entitled to prior to resignation.

27. ARE PENSIONS INCREASED AFTER RETIREMENT?

Yes. Pensions are currently increased on 1 July each year by 60% to 100% of the increase in the annual (CPI) depending on affordability.

28. HOW ARE PENSIONS PAID?

A pension is paid direct to the pensioner's Bank account each month.

29. WHO MANAGES THE FUND?

The management of the Fund is vested in a Board of Trustees which consists of twelve trustees, six are appointed by the employer and six are elected by members. The elected member trustees consist of active members and pensioner members in proportion to the number of active members and principal pensioner members in the Fund.

30. PURCHASE OF PENSIONABLE SERVICE (BUY BACK)

Members may purchase additional pensionable service in the Fund which will enhance the pension and gratuity that they will receive at retirement.

The cost of such purchase is based on the salary and the age of a member.

Pensionable service may be purchased by means of lump sum payments. Members may only purchase service back to the age of 16 years.

31. TEMPORARY ABSENCE

When a member is granted leave on less than full pay, the member shall continue to contribute on the basis of his full pensionable emoluments. Any shortfall in contributions shall be recovered not later than 6 months after the member returns to duty.

32. MATERNITY LEAVE

When a female member is on maternity leave she may elect to:

- (a) pay the normal rate (7.5%) of contributions on her full pensionable emoluments;
- (b) defer payment until she returns to work and make up the arrear contributions over a period of 6 months; or
- (c) make no contribution during this period, and receive no benefits in respect of this period.

33. RULES

The purpose of this booklet is to indicate in simple terms the main benefits available from the Fund for the information of each member. The Rules will always prevail in the event of any dispute. Members are requested to contact the offices of the Fund should they require further information on any aspect of the Rules.