aviation union of southern africa

AUSA UMBRELLA RETIREMENT FUND

COMMUNICATION FROM THE BOARD OF TRUSTEES TO MEMBERS

DEAR MEMBER

The purpose of this communication is to keep members informed of the current status and recent developments regarding the fund. The board wishes to provide information regarding the management of the fund, investments, financial information and other matters relevant to members.

1. MANAGEMENT BOARD

In our previous communication we confirmed that the board members currently in office are:

NAME	CAPACITY
Maemili Ramataboe	Independent Trustee and Chairperson
John Rollason	Independent Trustee
Pieter Vorster	Independent Trustee and Principal Officer
Jacques Krige	Member Trustee
Frank MacKenzie	Member Trustee
Riaan Smit	Member Trustee

On 15 November 2016, Mrs Ramataboe's term as chairperson expired and Mr MacKenzie was appointed as chairperson for the ensuing year. Mr Smit has resigned from SAA with effect from 15 December 2016 and will therefore be replaced with effect from 1 January 2017.

The board, which was appointed with effect from 16 March 2016, meets regularly to discuss matters relating to the fund. The board's first meeting was held on 5 May 2016, with further meetings held on 3 June, 28 June, 20 September, 21 October and 15 November 2016. Regular meetings and workshops have also been held with various stakeholder groups, in order to address the outstanding matters leading to the liquidation of the fund.

2. INVESTMENTS

2.1 INVESTMENT PERFORMANCE

The **average** return the fund declared to its members for the reporting period ended 30 September 2016 is as set out below. These returns are net of all investment and administration costs over a 12 month period.

Investment Portfolio	Net Investment Growth for the 12 months ended 30 September 2016 (%)	Benchmark (%)
Aggressive	12.05	CPI + 5
Moderate	6.31	CPI + 4
Cautious	5.48	CPI + 3
Conservative	4.41	CPI + 1

2.2 LIFE STAGE MODEL

The fund's investment strategy determines that members' benefits are invested on an age-related structure, which results in younger members' benefits being invested in the Aggressive Portfolio. As members become older, benefits are transferred to the other portfolios in the following manner:

Age of Member	Investment Portfolio
Up to age 45	Aggressive
Between ages 45 and 55	Moderate
Between ages 55 and 60	Cautious
From age 60	Conservative

SWITCHING BETWEEN PORTFOLIOS

As members reach the respective cut-off age of the investment portfolio, their accumulated benefits and new contributions are switched from the current to the new portfolio at the next quarter end, i.e. 31 March, 30 June, 30 September or 31 December.

3. FINANCIAL INFORMATION

The fund's year-end is 30 June and the accounts for the year ended 30 June 2016 have been finalised. Below is a summary of the audited accounts of the fund for the 12 months ended 30 June 2016:

	Rand	Rand
Total Funds and reserves – 30 June 2015		498 143 481
Plus: Investment growth, net of investment management fees	37 446 914	
Plus: Contributions received	11 162 874	
Total Receipts		48 609 788
Less: Benefits paid to members	(55 531 029)	
Less: Operational expenses and risk benefit premiums	(2 377 315)	
Total disbursements		(57 908 344)
Total Funds and reserves - 30 June 2016		488 844 925

The annual audit of the fund was finalised and the audited and signed financial statements were submitted to the Registrar of Pension Funds.

4. FUTURE OF THE FUND

Participation in the fund was terminated by all the participating employers, AUSA, SAA and SAA Technical, with effect from August 2016. Therefore, the fund now has to be terminated in terms of its rules and the board is in the process of appointing a "liquidator" who will oversee the distribution of the Fund's assets to members.

This process is strictly regulated in terms of the Pension Funds Act to ensure that all stakeholders' rights are protected. In order to assist members in understanding how the process is undertaken, we provide an overview of the most important aspects of the intended termination of the Fund in the attached document.

BOARD OF TRUSTEES
January 2017

AUSA UMBRELLA RETIREMENT FUND
EXPLANATORY MEMORANDUM – LIQUIDATION PROCESS

1. LIQUIDATION

The term "Liquidation" should not be mistaken for the liquidation of a company which often implies some sort of financial difficulty. In this instance it is just the terminology used in the Act to describe the orderly winding down of a fund that ceases to exist.

As per the fund's latest audited financial statements the Fund's assets were at least equal to all the benefits accrued for members in the Fund. It would be the liquidator's duty to ensure that all members receive the benefits due to them from the fund.

2. APPOINTMENT OF LIQUIDATOR

The board of trustees has nominated a liquidator in terms of the fund's rules, Mr Corné Heymans of Argen Actuarial Solutions (Argen). Mr Heymans is an experienced liquidator and was appointed based on his and Argen's credentials and track record.

The Registrar of Pension Funds must approve the liquidator nominated by the board of trustees. On the date that the Registrar approves Mr Heymans' appointment, the fund is officially in liquidation. On this date the appointment of the board of trustees and Principal Officer comes to an end.

3. LIQUIDATION PROCESS

Once the liquidator is appointed by the Registrar, the liquidation process will commence and briefly entails the following:

- The administrator of the fund, Brefco, must prepare the financial statements of the fund for the period 1 July 2016 to date of liquidation. These accounts must be audited by the fund's external auditors and will be approved by the liquidator.
- Once these financial statements are finalised and submitted to the Registrar, the liquidator will prepare preliminary liquidation accounts and submit them to the Registrar. These accounts will show the amount of assets available for distribution and will include a distribution schedule of each member's benefit.
- The Registrar will consider the accounts and, if he has no objections or concerns, the accounts will be approved for publication. Should the Registrar however have any concerns, the liquidator will first have to resolve these before the accounts may be published.
- Once the accounts have been approved, the liquidator will proceed to advertise the accounts as required by legislation and the accounts will lie open for public inspection.
- Should any person have any objections to the liquidation, the objections must be lodged with the liquidator within 30 days of the advertisement.
- The liquidator must then respond to all objections, if any.
- Once all objections have been dealt with, the liquidator will submit the objections and his responses to them, to the Registrar.
- Assuming that there are no valid objections that may require a change to the preliminary accounts, the liquidator will then apply to the Registrar for approval to commence with payment of benefits.
- Should the Registrar believe that any objections have not been adequately dealt with, the liquidator will first have to resolve these before payment may commence.

- Once permission to commence with payment is granted, the liquidator will request the members who are to receive benefits to indicate their option selected in terms of the fund's rules. See Section 5 below for more information on available options.
- Once members have indicated their options, the liquidator will instruct the administrator to pay the liquidation benefits to the beneficiaries as listed in the liquidation accounts, increased with interest from the liquidation date up to the date of payment.
- Once all benefits and other accounts have been paid, the liquidator will prepare final accounts indicating how the assets were distributed and request the Registrar to cancel the registration of the fund.
- The process can potentially take 6 – 12 months to finalise, provided there are no unforeseen delays. Typically, delays occur if the Registrar delays approving the preliminary liquidation accounts, or if there are material objections to the liquidation accounts which need to be dealt with by the liquidator.
- Once the liquidator has been appointed by the Registrar, the fund's bank account and investments are effectively frozen until the final liquidation accounts are approved by the Registrar and the Registrar gives the liquidator permission to pay benefits. Your benefits will not be accessible until the liquidation process is concluded. Should you retire or resign in the near future and your benefit has not yet been paid by the time the liquidator is appointed, the payment of your retirement benefit from this fund could be delayed due to the liquidation process. The administrator undertook to pro-actively manage any exits over the next couple of month to avoid this situation as far as possible.
- You may apply for payment of a portion of your benefit prior to finalisation of the liquidation, provided you can prove financial hardship. The liquidator must also apply to the Registrar for approval to pay partial benefits in these circumstances.
- It is the liquidator's intention to consolidate all the fund's assets into a Money Market portfolio for the duration of the liquidation in order to provide the necessary liquidity to make payments while protecting the capital value of members' benefits as outlined in the preliminary liquidation accounts.

4. LIQUIDATOR'S FEES

The liquidation fee quoted by Mr Heymans and Argen, which is less than the maximum allowed legislated fee, is as follows:

- 0.5% of the Fund's total assets at date of liquidation, plus
- 10.0% of the interest earned during the liquidation process, capped at 6 months from date of liquidation.

This fee includes the fees charged by the administrator to process benefit payments and provide other possible administrative services during the liquidation.

Also, Mr Heymans and Argen have agreed to the following additional fee reductions compared to the legislated fees:

- The fees per member as per legislation have been waived.
- Payment of interest is capped at a maximum of 6 months to serve as an incentive to finalise the liquidation in the shortest possible time.
- Investment consulting fees (currently 0.40% of assets) and administration costs will discontinue once the liquidator is appointed.
- Any additional actuarial expertise that may be required, will not be charged for additionally, but will be funded from the above fees.

5. OPTIONS AVAILABLE TO MEMBERS

As per the fund rules, all members will have the following options regarding the payment of their benefits:

- Payment in cash, after deduction of tax as directed by the South African Revenue Service (SARS).
- Transfer to a preservation provident fund, which is-tax free on transfer.
- Transfer to another approved pension or provident fund, which is tax-free on transfer, (this can include your primary fund).
- Transfer to a retirement annuity fund.
- Your benefit can be used to purchase an annuity from a long-term insurer under specific circumstances.

Each of the options above has implications for members. Some of these implications are set out below:

5.1 Payment in Cash

You may elect to receive your full benefit in cash. Income tax, as directed by SARS, will first be deducted from your benefit. The table according to which income tax is deducted is as follows:

Benefit (R)	Rate of Tax (R)
0 – 25 000	None
25 001 - 660 000	18% of the amount above 25 000
660 001 - 990 000	114 300 + 27% of the amount above 660 000
990 001 and above	203 400 + 36% of the amount above 990 000

5.2 Transfers to Preservation Provident Fund

Should you elect to transfer your benefit to a preservation provident fund, you may do so free of tax. You may select any preservation provident fund available in the market. Any future costs associated with the selected product are for your own account. You may also not make any further contributions to the preservation fund.

Once transferred to a preservation provident fund, you may elect a once-off withdrawal of all or part of the funds in the preservation provident fund, or you may elect to retire from the fund in future. Should you take a once-off withdrawal from the preservation provident fund in future, your benefit will be taxed in accordance with the table in section 5.1 above.

Should you later retire from the preservation provident fund, your benefit will be taxed according to the following table:

Benefit (R)	Rate of Tax (R)
0 – 500 000	None
500 001 - 700 000	18% of the amount above 500 000
700 001 – 1 050 000	36 000 + 27% of the amount above 700 000
1 050 001 and above	130 500 + 36% of the amount above 1 050 000

5.3 Transfers to another Approved Pension or Provident Fund

You may elect to transfer your benefit to another approved pension or provident fund. In these circumstances this may include your primary fund, i.e. the Transnet Retirement Fund or the Momentum FundsAtWork Umbrella Pension Fund. Such a transfer will be free of tax.

It is important to note that both the primary funds referred to above are pension funds. The AUSA Umbrella Retirement Fund is a provident fund. Legislation provides that when you retire from a provident fund, your entire benefit may be paid to you as a lump sum. Conversely, only one-third of the benefit at retirement from a pension fund may be taken in a lump sum and the remaining two-thirds must be utilised to purchase a lifelong pension.

If you elect to transfer to your primary fund, your benefit from this fund will become subject to the one-third/two-thirds rule at retirement. To illustrate the implications of transferring your benefit to your primary fund, which is a pension fund as opposed to a provident fund, please refer to the following examples.

The two scenarios in the table below are as follows:

- Scenario 1: This example assumes that you transfer your liquidation benefit in this fund to another provident fund and you retire from both funds (the provident fund and your primary fund) at the same time.
- Scenario 2: This example assumes that you transfer your liquidation benefit in this fund to a pension fund such as your primary fund and you therefore retire from only your primary fund.

	Scenario 1	**Scenario 2**
Benefit assumed for the example: • Liquidation benefit from the AUSA URF (provident fund) • Fund value in Primary fund (pension fund) • Total benefit at retirement	 R300 000 R1 200 000 R1 500 000	 R300 000 R1 200 000 R1 500 000
	Effect if you transfer your liquidation benefit to a Provident Fund	**Effect if you transfer your liquidation benefit to a Pension Fund**
Amount which can be taken as a lump sum at retirement: • From your new provident fund • From your primary fund (pension fund) • Total lump sum available • Tax payable on lump sum • Lump sum after deduction of tax	 R300 000 R400 000 R700 000 R36 000 R664 000	 N/A R500 000 R500 000 R0 R500 000
Amount which **must** be used to provide a pension at retirement	R800 000	R1 000 000
Estimated initial monthly pension at retirement assuming you invest in a living annuity using only the two-thirds amount to purchase your pension (see note 1 below)	R2 666.67	R3 333.33
Estimated initial monthly pension at retirement assuming you invest in a living annuity using the lump sum after tax PLUS the two-thirds amount	R4 880.00	R5 000.00

Note 1: In the calculation of the estimated monthly pension, we have assumed that the member will purchase a living annuity at retirement and elect to withdraw 4% of the capital per annum to provide a pension in the first year. Legislation provides that you may elect to withdraw between 2.5% and 17.5% of your capital each year to provide a pension.

5.4 Transfers to a Retirement Annuity Fund

Should you elect to transfer your liquidation benefit to a retirement fund, this transfer will also be free of tax. It is important to note that:

- Your full benefit at retirement will be subject to the one-third/two-thirds rule at retirement.
- You cannot access the funds transferred to a retirement annuity before age 55.

- On retirement your lump sum will be taxed according to the table in paragraph 5.2 above.
- You may not take a withdrawal benefit from a retirement annuity prior to age 55.
- Should you die at any time before you retire from the retirement annuity, your benefit will be paid to your dependants/beneficiaries as set out in Section 37(C) of the Pension Funds Act.
- You may make further contributions to your retirement after commencement to increase your benefit at retirement. These contributions are tax deductible within certain limits.

5.5 Purchase an Annuity from a Long-term Insurer

You may elect to utilise your liquidation benefit to purchase an annuity from an insurer of your choice. There are numerous features, terms and conditions to consider when purchasing an annuity and you are advised to obtain financial advice to guide you with such a decision.