SOUTHWOOD
FINANCIAL PLANNING cc

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RETIREMENT FUND MEMBER INFORMATION

OPTIONS ON RESIGNATION, RETRENCHMENT OR DISMISSAL

If you resign, or are retrenched or dismissed, your membership of your retirement fund will come to an end. The fund credit that has built up in your name will become payable to you. What should you do with it?

You have two basic choices, to preserve your benefit or to take the cash.

A: Preserve You can choose to preserve your retirement benefit by requesting the fund to transfer the entire benefit, tax-free, to another approved fund such as: 1. a preservation fund, 2. a retirement annuity, or 3. your new employer's fund.	**OR**	**B: Take Cash** You can choose to receive your entire withdrawal benefit as a taxable lump sum.

A. Preserving your Benefit:

You can choose to preserve your retirement benefit by requesting the fund to transfer the entire benefit, tax-free, to another approved fund such as:

- A preservation fund
- A retirement annuity
- Your new employer's fund

Preserving your benefit is usually more preferable than taking a cash lump sum from your retirement fund. After all, you have to bear in mind that the money in your fund was intended to build your retirement capital.

Time in the market counts, so preserve, don't withdraw.

	Preservation Fund	Retirement Annuity	New Employer Fund
Will my transfer be taxed?	NO	NO	NO, unless it is from a pension to a provident fund
Can I make withdrawals before age 55?	YES, one withdrawal allowed	NO withdrawal after transfer	Withdrawal only possible if you leave the new Employer
When can I access my money?	At any stage, however, after one withdrawal, the money is bound until you reach age 55	Bound until you reach age 55	Depends on the new fund's rules
Can I make contributions after transfer?	NO	YES	YES
How can I take my retirement benefit?	**Pension Preservation Fund:** max 1/3 in cash; remainder (2/3) as a monthly income **Provident Preservation Fund:** No restriction on cash	Maximum 1/3 in cash; remainder (2/3) as a monthly income	**Pension Fund:** Max 1/3 in cash; remainder (2/3) as a monthly income **Provident Fund:** No restriction on cash
Is estate duty payable?	NO	NO	NO

B. Taking the Cash

Not only is the cash withdrawal taxable, but you also lose the power of compound interest. If you take the cash, a large portion of the cash may be taxed. Tax will be calculated according to the following cumulative tiered tax table (applicable at the time of writing this document), depending on whether you have resigned or been dismissed, or retrenched:

Resignation / Dismissal / Retrenchment	
Withdrawal Benefit (resignation / dismissal)	**Rate of Tax**
Up to R25 000	0%
R25 001 – R660 000	18% of the amount over R25 000
R660 001 – R990 000	R114 300 plus 27% of the amount over R660 000
R990 001 upwards	R203 400 plus 36% of the amount over R990 000

Withdrawal Benefit (retrenchment)	Rate of Tax
Up to R500 000	0%
R500 001 – R700 000	18% of the amount over R500 000
R700 001 – R1 050 000	R36 000 plus 27% of the amount over R700 000
R1 050 001 upwards	R130 500 plus 36% of the amount over R1 050 000

Example:
If you withdraw R500 000 on resignation, R25 000 will be tax-free, and the remaining R475 000 will be taxed at 18%. Tax of R85 500 will therefore be payable, and you will only "take home" R414 500, after tax. You would have paid no tax had you transferred to a preservation fund.

Remember that these tables are cumulative. This means that if you take cash when you withdraw from Employer A, then you take cash again when you leave Employer B in a future year, your previous withdrawal will be taken into account when calculating the tax payable. This will affect your tax on your eventual retirement.

The R25 000 (in the case of resignation or dismissal) or the R500 000 (in the case of retrenchment) is only a "once-off", and jeopardizes not only your R500 000 "tax-free" at retirement, but also the rate at which you are taxed at retirement. (You could, for example, be taxed at 27% instead of 18% at retirement, depending on what had been taken at an earlier withdrawal). Any benefits received from previous withdrawals after 1 March 2009 need to be added to the current benefit to determine the tax rate that is applicable.

Before making a final decision in respect of your retirement benefit, it is highly recommended that you discuss the matter with an independent financial advisor. Please feel free to contact either Lisa Hudson-Peacock or Angela Sayle of Southwood Financial Planning on 021 701-1161.

OPTIONS AT RETIREMENT

If you retire at your normal retirement age or earlier, there are many considerations to take into account, from general issues such as where you will live and what you will do, to specific financial decisions that you have to make, which will affect your financial security into retirement. **This information focuses specifically on your choice of an annuity.**

If you are a member of a pension fund, you may use up to 1/3 of your benefit (available as a cash lump sum) as you wish or to clear your debt. However, you should still consider this as part of your retirement benefit. It is possible to purchase a Voluntary Purchase Annuity (income) for a set period with your voluntary cash (that is, the portion you are not "forced" to purchase an annuity with.) The capital portion is exempt from tax, which makes it very tax efficient.

With the balance of your benefit (minimum 2/3 for a pension fund member), the Fund will buy one or more annuities from a registered insurer on your behalf, from which your monthly pension will then be paid. This is to ensure that the larger part of your Fund credit is used for its original purpose, namely to provide you with a monthly income when you are no longer working.

Please note: If you are a member of a provident fund, there is no restriction on the portion you can take in cash. However, bear in mind that this money is intended for your retirement.

An Overview of the Basic Annuities

Level Annuity	**Fixed Escalation Annuity**	**With-profit Annuity**	**Inflation-linked Annuity**	**Living Annuity**
Your monthly pension will remain exactly the same from year to year. This annuity therefore does not offer any protection against inflation.	Your monthly pension will increase at a pre-determined rate each year, offering some protection against inflation.	Pensioners share in actual investment returns – even though the size of the increases are not guaranteed, the actual pension plus past increases are guaranteed and paid until you die. This pension should keep up with inflation.	Your monthly pension will increase at an inflation-related rate. Your pension plus increases are guaranteed and paid until you die. This pension will keep up with inflation.	(also called investment-funded income) Your benefit is invested in the stock market and will therefore be affected by investment profits and losses. You can choose to draw between 2.5% and 17.5% from your capital as pension income.

These are also called annuities for life. With any of these annuities, you will exchange your retirement capital for a guaranteed income for your full lifetime	The risk lies with you to ensure that your investment keeps up with inflation and that your money lasts until your death.

Under the guaranteed annuities, your benefit stops when you die, unless you choose that it should continue. You must make this decision when you buy the annuity. You can make provision for your dependants by selecting additional options such as "Joint and Survivorship" or "Term Certain and Thereafter", or by choosing a Capital Preservation option.	Under this annuity, your dependants or beneficiaries will receive the remaining capital when you die.

These annuities may be chosen on their own or in a combination, if you have a big enough retirement benefit.

Summary: Annuity Payout Profiles Compared

	Guaranteed Annuity (annuity for life)	**Living Annuity (investment-funded income)**
Initial Income	**Level**: Highest **Fixed Escalation**: Intermediate **With-profits**: Intermediate **Inflation-linked**: Lowest	Depends on drawdown rate. Annual income limited to 2.5% to 17.5% per annum
Annual Increases	**Level**: None **Fixed Escalation**: Guaranteed increase of 1%, 2%, 3%, 4% or 5% **With-profits**: Targets inflation **Inflation-linked**: Guarantees inflation	If investment performance is consistently – **Greater** than your drawdown rate: Sustainable annual increases **Equal** to your drawdown rate: Increases not sustainable **Less** than your drawdown rate: Risks rapid depletion of funds and consequent reduction in income
Capital to Beneficiaries on death	No *	Yes, provided funds have not been completely depleted before death
Protection against living too long (longevity protection)	Yes (all types)	No, unless investment performance is consistently greater than your drawdown rate

*Exceptions: Single life annuity with guaranteed term and Capital preservation option

Please remember the original purpose of your retirement fund benefit – it is to provide you with an income after you retire. Before making plans on how to spend your cash lump sum, carefully look at the quotes you will receive from insurers. (These quotes will show you how much your monthly pension will be.) You may then decide to rather invest part or all of your lump sum to provide you with an additional monthly income.

The tax you pay depends on the amount you commute (take) in cash. The following (cumulative) tiered tax table is used at retirement:

Retirement Lump Sum Benefit	**Rate of Tax**
Up to R500 000	0%
R500 001 – R700 000	18% of the amount over R500 000
R700 001 – R1 050 000	R36 000 plus 27% of the amount over R700 000
R1 050 001 upwards	R130 500 plus 36% of the amount over R1 050 000

Before making a final decision in respect of your retirement benefit, it is highly recommended that you discuss the matter with a financial advisor.