



# FORESIGHT

FINANCIAL SERVICES



## LEAVING A Retirement Fund

pros & cons

Members are likely to exit from the Fund:

1. On leaving the Company (resignation or retrenchment).
2. At retirement.
3. In the event of death.

## Options available in respect of Retirement Fund Benefits

On leaving the company members may transfer the Pension or Provident

- To a Pension or Provident Preservation Fund.
- To a Retirement Annuity.
- To their new employer's Pension or Provident Fund or members may take the benefit in cash.

### Options in More Detail

#### 1. Transferring to a Preservation Fund

The fund value is transferred tax-free from the current employer's fund to an umbrella Preservation Fund in the name of the member.

##### Advantages

1.1 The fund value is preserved for ultimate retirement.

However, the member may take one withdrawal from the Preservation Fund should he/she ever need emergency funds. This one withdrawal also allows the member to withdraw all his/her funds in the Preservation Fund.

**Note:** Any lump sum withdrawal when transferring to the Preservation Fund constitutes one withdrawal. This includes indebtedness to the Employer repaid by members on such transfer.

1.2 No tax is payable on transfer.

From the outset the member has full control of his/her investment transferred to the Preservation Fund, and may switch investment portfolios from time to time.

**Foresight Financial Planning Consultants** will assess each member's risk profile and recommend the most appropriate investment portfolios, thereby assisting members in making their initial investment choice. Foresight Financial Services also provides on going financial advice and service.

##### Disadvantages

It could be said that having the facility to access some, or all, of the funds as a once off withdrawal is a disadvantage in that the fund value will be reduced prior to retirement.

#### 2. Transferring to a Retirement Annuity

The member may transfer his/her fund value tax-free from the current employer's retirement fund, to a Retirement Annuity.

##### Advantages

- 2.1 The fund value is preserved until retirement.
- 2.2 The fund transfer is tax-free.

##### Disadvantages

- 2.3. No withdrawals are allowed.
- 2.4 Up to one third of the benefit at retirement from the Retirement

Annuity is payable in cash. The balance of the fund value must be used to purchase an annuity, even if the proceeds were transferred to the Retirement Annuity from a Provident Fund. (Retirement can be from age 55).

### 3. Transferring to the new employer's Pension or Provident Fund

The fund value is transferred tax-free from the current fund to the new employer's fund.

#### Advantages

- 3.1 The fund value is preserved for ultimate retirement.
- 3.2 No tax is payable on transfer. Payment of Retirement Proceeds

#### Disadvantages

- 3.3 The member may not have control over the future management of his/her funds transferred.
- 3.4 If the member leaves the new employer before retirement he/she will have to transfer the fund value, once again, from this employer's fund.
- 3.5 The member may not have access to these funds until retirement age.

### 4. Taking the benefit in cash

If the benefit is taken in cash, the first R1 800 is tax-free and the balance is taxed at the member's marginal tax rate. This is not recommended, unless the fund value is extremely low, as the member should aim to preserve his/her ultimate retirement benefit.

## Payment of Retirement Proceeds

*At retirement, proceeds are payable as follows:*

#### Provident Funds

- Fully in cash
- Partly in cash, and partly as an annuity, or
- as a full annuity

#### Pension Funds/Retirement Annuities

- Up to one-third of the proceeds may be payable in cash
- The balance of the fund value must be payable as an annuity
- Tax portion on cash payments

#### In summary:

- Up to a maximum of approximately R120 000 (depending on years of service and salary) of any cash payment at retirement may be tax-free and the balance is taxable at the member's average (as opposed to marginal) tax rate.
- Funds transferred to purchase an annuity are transferred tax-free to the annuity arrangement. The ongoing annuity payments are fully taxable at the member's marginal tax rates.

## Annuities at Retirement

At retirement members are compelled to invest in an annuity with at least two-thirds of the fund value of a Pension Fund, a Pension Preservation Fund and/or a Retirement Annuity arrangement.

If in a Provident Fund and/or a Preservation Provident Fund the full amount is payable in cash, subject to a tax-free amount, with the balance of the cash payment being taxed at the member's average tax rate. However, it is often prudent (mainly for tax reasons) to also choose to purchase an annuity with some or all of this fund value, less the tax-free portion.

It is therefore important to briefly explain the different types of annuities available.

## Factors affecting Choice of annuity

There are many different types of annuities available and the choice will depend, inter alia, on the following factors:

- Marital status
- Age of annuitant and that of the spouse
- Dependents, their ages and circumstance
- The need to leave money in the estate on death
- The member's health and that of the spouse, and their perceived life expectancy
- The member's financial position at retirement

The member would then choose the type of annuity he/she wishes to receive, usually paid monthly in arrears.

## In the event of Death

### Single Life Annuity

In the event of the death of a member, while in service, the member's fund value is payable to the nominated beneficiaries in the same way as for retirement, in terms of the rules of the member's Retirement Fund. (See "Payment of Retirement Proceeds" above).

Annuities (See "Annuities at Retirement" above) are purchased in the name of the beneficiary(ies) based on their age(s) at date of purchase.

## Summary of life Annuity Options

### Single Life Annuity

- Payable until the death of the annuitant
- Guarantee periods (normally 5 to 10 years) can be included.

The longer the guarantee period (e.g. the period over which the annuity is guaranteed to be paid regardless of whether or not the annuitant dies), the lower the annuity amount.

### Joint Life Annuity

- Normally spouses are joint annuities
- Payable until the death of the last surviving spouse

A guarantee period can be included

## Capital Preservation Plan

- This annuity is payable as a single life annuity to the annuitant. On the death of the annuitant, the annuity ceases, and the original purchase price of the annuity is payable tax-free to the surviving spouse.
- This annuity amount is lower than the annuities described above, since a portion of the annuity is used to pay premiums on a life policy. This policy is structured to refund the original purchase price, tax-free, to the surviving spouse on the death of the annuitant, as described in the paragraph above.

## Living Annuity

- At retirement the member selects a fixed amount required as an annuity income (between 5% and 20% of the capital sum).
- The capital is reinvested in an investment portfolio.
- On the death of the annuitant, the fund value may be paid to the beneficiary(ies) either as an annuity over a period of five years, or the annuity can continue to be paid to the beneficiaries on the same basis as it was previously paid to the annuitant.

## Escalating Annuities

- Annuities (other than Living Annuities) may be paid as a level amount throughout, or they may escalate to compensate for inflation, usually up to 15% per annum.
- The higher the escalation rate selected, the lower the initial annuity payment
- Some assurers offer annuities that do not escalate at a fixed percentage but escalate in line with underlying investment performance of the portfolio paying the annuities, sometimes known as "with profit" annuities.

## Options in a nutshell

### Advantages

- Tax-free transfers to Preservation Fund
- Fund value is preserved for your retirement years
- Entitled to one withdrawal prior to retirement
- Choice of underlying investment portfolios
- Tax-free transfer to new employer's fund
- Fund value is preserved for your retirement years
- Tax-free transfer
- Fund value is preserved for your retirement years
- Choice of underlying investment portfolios
- As long as you have attained age 55 you may retire from the Retirement Annuity Fund, regardless of whether you have retired from the service of your employer
- You may use the cash benefit to pay off debt (e.g. bond, car)
- You will be able to reinvest the money at your discretion in a voluntary/flexible investment vehicle and take ad hoc, tax-free withdrawals

### Disadvantages

- The facility for one withdrawal will reduce your ultimate retirement benefit
- You are not entitled to a withdrawal
- Only one-third of your benefit may be taken as cash
- The remaining two-thirds must be used to purchase an annuity, even if transferred from a Provident Fund
- No control of the management of your funds transferred
- You cannot access your benefit unless you withdraw or retire from your new employer
- Retirement benefit is taxable at average rates, less R1800
- You will deplete your retirement benefit and you may not have enough money to provide you with sufficient income at retirement
  - Note: Continuation of Death and Disability Benefits.- Most funds offer a facility to continue these benefits by effecting a personal insurance policy on leaving the Fund, with no medical evidence being required.



TEL: (+2711) 728-0892 FAX: (+2711)728-7177

EMAIL: [darryl@foresightfs.co.za](mailto:darryl@foresightfs.co.za) WEBSITE: <http://www.foresightfs.co.za>