OPTIONS AVAILABLE TO MEMBERS ON LEAVING
(Applicable to members leaving post March 2009)

REASONS FOR LEAVING YOUR RETIREMENT FUND

You are likely to leave your fund:

1. If you leave your company due to resignation, dismissal or retrenchment (for retrenchments refer to the Options on retrenchment guide)
2. On retirement.

Always preserve!

Research has shown that only 10% of retirement fund members retire with enough money saved in their pension or provident funds to be financially secure on retirement. The main reason for this is that members in general don't preserve their retirement fund benefits when they change jobs.

Your options on leaving your company

If you resign or are dismissed, you can transfer your pension or provident fund benefit (your withdrawal benefit) as follows:

- From pension fund to pension preservation fund or from provident fund to provident preservation fund (both tax-free) at the time of transfer.
- A retirement annuity fund.
- Your new employer's pension or provident fund (as long as the rules of the fund allow this).

Or… you can take your money as cash. Let's look at all these options in more detail…

TRANSFERRING TO A PRESERVATION

Your fund benefit is transferred tax-free to a preservation fund in your name.

Advantages	Disadvantages
1. Your fund benefit is saved for your retirement years – the time when you will need it most. You are allowed only one withdrawal from the preservation fund, if you need emergency funds. This one withdrawal also allows you to withdraw all or part of your money in the preservation fund. 2. You don't pay tax on transfer 3. You have full control of your investment transferred to the preservation fund and can switch investment portfolios when you need to	1. It could be said that having the facility to access some or all of your money as a once-off withdrawal is a disadvantage because this will reduce your retirement savings 2. Where any deductions were made prior to you transferring to a preservation fund, that deduction could be considered as the once-off withdrawal and the member might not be allowed a further withdrawal from the preservation fund depending on the rules of the preservation fund. 3. Making cash withdrawal (whether partial or full) is a disadvantage because it will reduce your retirement savings. In addition, you will be taxed on any cash amounts taken

Initial financial advice

Alexander Forbes Financial Planning Consultants are available to offer you professional individual advice. This includes putting together a risk profile for your unique situation and recommending the most appropriate investment portfolios to help you make your initial investment choice. Your appointed consultant will discuss the fees with you.

Ongoing advice and service

Alexander Forbes Financial Planning Consultants will also provide ongoing advice and service. Also, through Alexander Forbes you have

- Daily real-time market value of your funds
- Access to information 24 hours a day, 7 days a week, 365 days a year through the internet
- Bi-annual statements.

TRANSFERRING TO A RETIREMENT ANNUITY

You can transfer all or a part of your benefit to a retirement annuity tax-free.

Advantages	Disadvantages
1. Your fund values is preserved until retirement 2. You don't pay tax on transfer 3. You can retire any time after you have reached age 55 4. You can make additional contributions to a retirement annuity fund	1. No withdrawals are allowed until retirement 2. Up to one-third of your benefit at retirement can be paid to you as cash. The other two-thirds must be used to buy a monthly annuity, even if this money was transferred to a retirement annuity from a provident fund

TRANSFERRING TO YOUR NEW EMPLOYER'S PENSION OR PROVIDENT FUND

Your fund benefit is transferred to your new employer's fund tax-free unless you transfer from a pension fund to a provident fund. If you do transfer from a pension fund to a provident fund, your entire benefit will be taxed.

Advantages	Disadvantages
1. If you don't take any withdrawals, your fund value is preserved until retirement 2. You don't pay tax on transfer unless the transfer is from a pension fund to a provident fund	1. You may not have control over the future management of your money 2. If you leave your new employer before you retire you will have to transfer your fund value again when you leave 3. You won't be able to access this money until you leave your new employer, retire or die 4. The full amount will be taxed if you transfer from a pension fund to a provident fund

TAKING YOUR MONEY AS CASH

If you take your benefit as cash you will have to pay tax, depending on how much money you take.

Advantages	Disadvantages
1. You will have direct access for cash for use at your own discretion	1. Your retirement benefit is taxable as per the below tax table, less a tax-free amount of R22 500 as a once-off allowance throughout your lifetime 2. You will deplete your retirement benefit and you may not have enough money to provide you with sufficient income after retirement

Taxable income from Retirement lump sums	Rate of tax
R0 - R22 500	R0
R22 501 - R600 000	18% of amount exceeding R22 500
R600 001 - R900 000	R103 950 + 27% of amount exceeding R600 000
R900 001 +	R184 950 + 36% of amount exceeding R900 000
This will result in reduced retirement savings as the money is not preserved/saved for retirement. An amount taken as a withdrawal benefit (post 1 March 2009) prior to retirement will have the effect of increasing your tax liability at retirement. As these amounts will be aggregated with the retirement lump sum benefit and applied to the retirement tax scale.	

This is not recommended unless your fund benefit is extremely low because you should be saving this money for its actual purpose, retirement.

Continuing with death and disability benefits

Most funds offer a facility to continue these benefits by changing it to a personal insurance policy when you leave the fund with no medical evidence needed (this depends on the fund rules or policy conditions).

The payment of retirement benefits

At retirement you can choose to take your fund benefit as follows, depending on the rules of your fund:

Provident funds	Pension funds	Retirement Annuities
• As a full annuity** • Partly in cash* and partly as an annuity** • Fully in cash*.	• Up to one-third in cash* • Two-thirds paid as an annuity**	• Up to one-third in cash* • Two-thirds paid as an annuity**

***** Subject to tax
****** An annuity means a non-cash benefit used to buy a policy to provide income.

Please see tax table below, note that this table is effective from 01/03/2011

Taxable income from Retirement lump sums	Rate of tax
0 - R315 000	R0
R315 001 - R630 000	18% of amount exceeding R315 000
R630 001 - R945 000	R56 700 + 27% of amount exceeding R630 000
R945 001 +	R141 750 + 36% of amount exceeding R945 000
Any previous retirement benefit (post 1 October 2007) or withdrawal benefit (post 1 March 2009) will need to be added to the current retirement benefit to determine the effective rate of tax.	

Annuities at retirement

If you are a member of a **pension fund** you must use a minimum of two-thirds of your benefit at retirement to buy an annuity.

If you are a member of a **provident fund** you can choose how much of your benefit to use to buy an annuity or how much you want to take as cash. A portion will be tax-free. The rest of your benefit will be taxed according to the table above.

It is always better (mainly for tax reasons) to choose to buy an annuity with some or all of your benefit to give you an ongoing income.

It is very important to think about how much money you will need to meet your living expenses and to make sure the income you receive each month is enough to meet these expenses. So, you must make sure the monthly income from your annuity increases over time because your expenses will increase by inflation. You also need to make sure you will be paid for the rest of your life. If you have a spouse at retirement, it is important to take this into account. Always remember that your circumstances are unique – you must speak to a financial adviser before making any decisions.

Factors affecting your choice of annuity

There are many different types of annuities available and your choice will depend on some of these factors:

- Your marital status
- Your and your spouse's ages
- Your dependants, their ages and circumstances
- The need to leave money in your estate when you die
- Your and your spouse's health
- Your and your spouse's perceived life expectancy
- Your financial position at retirement.

These factors will give your financial planner a good idea of which annuity would suit you best.

Summary of life annuity options

Single Life Annuity	• Monthly pension paid until your death • Guarantee periods (normally five to ten years) can be included – where payments will continue even if you pass away. The longer the guarantee period, the lower the monthly annuity payments
Joint Life Annuity	• Spouses are normally joint annuitants • Payments continue after you die and end when your spouse dies • Guaranteed periods can be included
Capital Preservation Plan	• Payments made until your death. When you die, the original purchase price of the annuity is paid tax-free to your surviving spouse or children • The monthly annuity payments are lower than the Single Life and Joint Life annuities because a portion of the annuity is used to pay premiums on a life policy • There are no inflation or escalation benefits
Living Annuity	• At retirement you choose a set amount needed as an annuity payment (between 2.5% to 17.5% of the capital amount). The capital is reinvested in an investment portfolio • When you die the fund value can be paid to your beneficiaries either as annuity or lump sum (which is taxed)
Escalating Annuity	• Annuities (other than Living Annuities) can be paid at a set amount throughout or increase with inflation • The higher the payment increases each year (escalation rate), the lower the initial annuity payment • Some insurers offer annuities that don't increase at a set percentage but increase in line with investment performance of the portfolio paying the annuity – this is known as a with-profit annuity

Alexander Forbes Financial Planning Consultants (Pty) Ltd (FPC) and the Individual Advice Centre

FPC offers comprehensive, individual financial planning advice and servicing to members of corporate retirement funds and private clients.

FPC has a division called the Individual Advice Centre that gives new and existing clients financial planning advice and servicing of client investments.

Alexander Forbes' financial planning services include:

- Money management and preservation
- Retirement and investment planning
- Tax and estate planning
- Analysis of risk benefits
- Offshore (outside South Africa) investment advice, including international tax and estate planning
- Counselling for members joining and leaving funds, or transferring to other funds
- Death and disability benefit counselling.

The Alexander Forbes Individual Advice Centre's contact details are as follows:

Share call number:	0860 100 983
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Fax number:	011 263 2260
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Disclaimer

This document gives you a guide on the options available to you on leaving the fund and should not be used as the basis of any decision. Each individual should obtain advice relating to his/her own specific needs and circumstances. The final choice of investment vehicle and investment manager rests with the individual concerned.

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