



Financial  
**SAFEGUARD**



More about



Retirement:  
Planning for retirement

## Introduction

There are different types of investments in South Africa, and we have a world class financial services industry with lots of investment options for every type of investor. Our financial services industry is regulated by the Financial Sector Conduct Authority (FSCA) which oversees investment products and how they are marketed.





## 1. Retirement

When most people start worrying about retirement, it is often far too late to do anything about it. None of us want to be poor when we are old and weak and could need expensive medical care. One way of building a nest-egg for your retirement is by contributing towards a retirement fund.

### 1.1 What is a retirement fund

A retirement fund is a fund comprising the net contributions of the employer (company you work for) and the employee (you) over your working years, together with investment returns thereon. However, not all retirement funds require employer contributions.

Depending on the type of retirement fund, these contributions can be made monthly with a view to provide you with a monthly income when you retire. Retirement funds are registered with the Financial Sector Conduct Authority (FSCA).

## 2. Types of retirement funds

Your employer may offer employees a pension or provident fund, and you can become a member. You can also buy your own retirement annuity as a way of increasing your pension income when you retire. A preservation fund is another type of retirement fund that permits you to preserve your withdrawal benefits until you retire.

Pre-retirement: there are four types of funds that you can invest in:

### 2.1 Pension fund

You and your employer contribute a certain percentage of your salary monthly towards this retirement fund. Should you wish to take a portion of your pension in cash at retirement, you will be allowed by law to take up to 1/3 in cash. The balance must be invested to give you a regular pension.



Note:

- Contributions are paid after income is taxed
- You may cash up to 1/3 at retirement
- Tax rates apply on contributions and interest on payout

### 2.2 Provident fund

This is another kind of retirement fund that an employer may offer you. Contributions to the provident fund work almost in the same way as that of a pension fund. However, when you retire, you are allowed to take your full retirement benefit as a lump sum, or you may decide to use it to provide you with a monthly pension.



Note:

- Contributions are included in taxable income
- You may take the full amount as a lump sum
- Tax rates apply on payout and contributions are excluded



### 2.3 Retirement annuities

It is a long-term savings plan for retirement. You can buy an RA from a registered long-term insurance company called an insurer. Make sure that the insurer is registered with the Financial Sector Conduct Authority (FSCA) before investing your money with it. If you use the services of an intermediary (insurance/investment broker) in buying an RA, find out if the person is authorised with the FSCA to sell investment products. You should also enquire about the costs associated with the RA if you prematurely stop contributions because underwritten RA funds may be subject to causal event charges. Some unit trust companies also offer RA's, which are not underwritten by an insurer. You pay a monthly contribution to the RA. The retirement benefit payable when you reach your chosen retirement age is similar to that of a pension fund. You have access to the benefits from the age of 55 years depending on your chosen retirement age.



Note:

- Contributions are paid after income is taxed
- You may cash up to 1/3 at retirement
- Tax rates apply on contributions and interest on payout

### 2.4 Preservation funds

When you leave a company for another, your fund benefit becomes payable. A preservation fund enables you to preserve ("save") your fund benefit by transferring it tax-free to the preservation fund until retirement. You will be allowed to make one cash withdrawal at any time before you retire.



Note:

The same rules apply as for pension and provident funds on preservation funds

## 3. Considerations when selecting retirement options

When deciding on a retirement solution, you need to take into account what your investment plan indicates, i.e.:

- When will you need the money?
- What kind of risk appetite do you have?
- Which financial product will give you the most beneficial tax breaks?
- What products provide you with the right estate planning advantages?

Legislation specifies tax benefits, contributions and withdrawal rules. Retirement solution options include:

- A retirement annuity fund allows you to save for your retirement in a tax-efficient way
- A preservation fund allows you to "preserve" and grow your existing retirement benefits
- A living annuity allows you to withdraw funds from your investment after your retirement
- An endowment policy allows you to grow your money

In 2016, the government signed into law the 2015 Taxation Laws Amendment Bill, which affects the tax treatment of retirement's funds; these changes are most beneficial for the investor saving towards retirement.



## More about



Whether you are saving in a retirement annuity, provident or pension fund, you are now able to save up to 27, 5% of all your income for retirement tax-free, limited to a maximum contribution of R350,000 per year.

If you have access to the internet, the Financial Sector Conduct Authority (FSCA) provides a retirement savings calculator that you can use to determine what you should be saving to ensure that you have a comfortable retirement. Visit, [www.fscaconsumered.co.za](http://www.fscaconsumered.co.za) to make use of this calculator.

### 3.1 Pensions and provident funds

The employer may offer employees a pension or provident fund and an employee can become a member of the chosen fund. The employee can also buy a retirement annuity as a way of increasing his/her pension income when he/she retires. When a person leaves a company for another, he /she may preserve his/her fund benefit by transferring it into a preservation fund or by transferring it to the retirement fund of the new employer until retirement.

Where a member belongs to a pension fund, he or she and his/her employer contribute a certain percentage of his/her salary monthly towards this retirement fund. Upon retirement, a member belonging to a pension fund is allowed to take up to 1/3 in cash of his/her retirement benefit. The balance must be invested to give him or her a regular income.

Provident Fund is another retirement fund that an employer may offer employees. Contributions to the provident fund work almost in the same way as that of a pension fund. However, when a member belonging to this fund retires, he or she is allowed to take the full retirement benefit as a lump sum, or he or she may decide to use it to provide him or her with a monthly income.

### 3.2 Retirement annuities

A retirement annuity is a savings vehicle that provides you with a tax-efficient way of saving for your retirement. Its primary function is to help you accumulate and grow your savings so that you can earn an income when you are retired. Upon retirement, you can withdraw up to one-third of the savings as a cash lump sum. The balance has to be invested in an income generating investment like a living annuity or a life annuity to ensure that you continue to enjoy the benefits of your life-long savings and investment plan.

Bear in mind that you cannot draw any money from your retirement annuity before the age of 55 and this product is only available to individuals.

The retirement capital of a retirement annuity fund is untied, which means that you can purchase an annuity from any insurance company. This gives you the benefit of shopping around for the best provider who offers the best annuity rates in the market.



### 3.3 Important information regarding annuity, pension and provident fund

#### 3.3.1. The benefits

- Provides you with a means of saving for your retirement.
- Allows you to supplement your existing retirement savings.
- Allows you to add to your already accumulated savings from a pension, preservation or provident fund.
  - Note: Additional contribution cannot be added to a Preservation fund.
- Provides the flexibility of allowing you to stop and resume your contributions as you need to.
  - Note: Depending on the individual company rules RAs can be reinstated within a set term. Only Linked Investment Services Providers (LISP) platforms can resume at any point in time.
- Allows you the flexibility of selecting your underlying investment instruments, i.e. you can choose which unit trust you want to invest in, within the product rules.
- Makes provision for payment of your proceeds to your beneficiaries in the event of your death.

#### 3.3.2. Tax implications

With a retirement annuity, there is no tax payable on the interest, dividends or capital gains earned from the underlying investment instrument. Tax is payable on the lump sum that you take at retirement.

**Note:** This is after you have calculated the 1/3rd tax free portion.



The income that is generated off living annuities or post-retirement annuities is also taxable when those income payments are realised.



**Note:** This is dependent on tax tables and minimum income. Visit [www.sars.org.za](http://www.sars.org.za) for the latest tax tables.


#### 3.3.3. Rules

- Retirement annuities are governed by a stringent set of rules to protect you, the investor.
- You can withdraw your investment if you emigrate. (Note this is only if you officially/financially emigrate.)
- You may retire early due to ill health or disabilities, within the parameters of the fund rules.
- If you have invested less than R7,000, you may withdraw the full amount. Bear in mind that this withdrawal will be taxed.
- You may retire from the fund any time after age 55.
- You may withdraw one-third of the investment amount at retirement. The balance must be used to buy an annuity which will generate a monthly income.
- If at retirement your investment amount is less than R247,500, you may withdraw the full amount. (Note: This figure is reviewed with the tax budget annually.)
- You may not use your investment as security for a loan.
- You may transfer your investment to another annuity product provider.
- Your investment is protected from your creditor, and cannot be used to absolve your debt.
- In the event of your death, your investment will be distributed to your beneficiaries in accordance with the rules as determined by the trustees of the Retirement Annuity.
- Fund in terms of Section 37C of the Pension Funds Act, of 1956. These beneficiary disbursements are not subject to estate duty.
- Retirement funds are governed by a stringent set of rules to protect you, the investor.



#### 3.3.4. Risk of investing

- Your investment is linked to the market value of an underlying instrument. As we have already indicated, the market is not predictable or guaranteed.
- You need to manage this risk by ensuring that you are comfortable with the risk your money is exposed to, based on the underlying investment instrument that you have chosen.
- Retirement funds are not protected in the event of a divorce. Therefore, should you get divorced during the lifetime of the annuity, the funds will be distributed between you and your ex-spouse, in accordance with the divorce decree, at maturity.
- Retirement funds are also not protected from the Receiver of Revenue and SARS is entitled to attach your cash lump-sum payout for any unpaid taxes that you may owe.

 **Note:** This is now done at date of divorce and agreed divorce decree that any tax implication, if withdrawn from the fund and not transferred to another regulated fund, is taxable in the hands of the spouse and not the policy holder.

Another dependable that will be considered was if you were married in community of property or with an anti-nuptial contract.

- Retirement annuities are also not protected from the Receiver of Revenue and SARS is entitled to attach your cash lump-sum payout for any unpaid taxes that you may owe.
- Retirement Funds are subject to Regulation 28. Section 36(1)(bB) of the Pension Funds Act, 1956 that empowers the Minister of Finance to make regulations limiting the amount and the extent to which a retirement fund may invest in particular assets, e.g. equities. Regulation 28 specifically addresses these limitations.

In 2011, new asset classes were introduced and defined; previous asset classes were better redefined, and some asset class limits were changed.

Perhaps the most important addition to Regulation 28 was the requirement for individual member compliance with the different asset class limits. In other words, retirement funds now need to comply with Regulation 28 on a total fund basis but also on an individual member level when the fund provides individual member choice.

#### 3.3.5. Fees

You will pay the following fees:

- An ongoing investment administration fee, which is deducted from your investment account.
- Asset management fees are payable to the asset manager in whose unit trust you have invested. These fees are incorporated into your unit trust price.
- Advice fees are charged by the financial advisor if you used one.
- Processing and governance fees are also charged to cover retirement fund expenses.
- Fund management charges may also be levied depending on the kind of fund you have invested in.



## 4. Rights and Responsibilities

### 4.1 Rights

When you belong to a retirement fund you have the following rights:

- Members have a right to a set of the fund rules;
- You have the right to a member booklet;
- You have the right to a benefit statement at least once a year;
- The right to elect board members;
- You have a right to know who the board members are;
- The right to know the administrator of the fund;
- The right to timeous payment of contributions;
- Members have a right to timely payment of benefits, provided that all the necessary documents have been submitted; and
- You have the right to complain.

### 4.2 Responsibilities

Along with your rights comes your responsibilities. When you belong to a retirement fund as a member you are responsible for the following:

- You have the responsibility to monitor the fund performance;
- You have the duty to hold the trustees of your fund accountable;
- To notify the trustees or the fund of any changes to your personal particulars;
- To obtain expert advice from a financial advisor who is registered with the FSCA, when necessary;
- If you borrow from your fund, try to pay off the loan before retirement, so that you receive your full pension benefit when you retire.

## 5. Complaints

How to deal with a complaint regarding a problem with the intermediary (broker) who sold you an RA?

### Step 1:

Discuss your problem with the contact person at the insurer (insurance company) or administrator you normally deal with.

### Step 2:

If you are not happy with the way in which your complaint was dealt with, you can contact the Ombudsman for Financial Services Providers [See contact details below].

### Step 3:

You may decide to take legal action as a last resort to resolve the matter.



## More about



### Where do you complain if you have a retirement fund related problem?

Direct your complaint to your fund or administrator. If you are dissatisfied with the response you receive, you can take your complaint to the Office of the Pension Funds Adjudicator (OPFA) [See contact details below].

### Who is the Pension Funds Adjudicator?

The Pension Funds Act provides for the appointment of the Pension Funds Adjudicator by the Minister of Finance. This office was formed to enable the ordinary person in the street who cannot afford the high legal cost involved in taking a complaint to court, to lodge a pension fund complaint free of charge with the Adjudicator. The Pension Funds Adjudicator does not represent a retirement fund or its members or an insurer and will try to resolve the complaint in a fair, economical and speedy manner.

## 6. Post-Retirement

- Post-retirement: avoid common mistakes made by the investor:
- Consider the withdrawal rate and the tax effects
  - Draw a rate that will allow your investment to last longer
- Understand the fee breakdown
  - Always ask for full disclosure of fees, i.e. fund administration, advice and management fees
- Take inflation into account and its effect on your investment growth
  - Review the portfolio your money is invested in and see whether it is performing.
- Quantify your withdrawal for 2 to 3 years and move it to a stable fund
- Do not make emotional decisions
  - If invested in equities, do not withdraw your money when the markets are volatile.

Speak to an authorised financial advisor to help you make informed financial decisions.

## 7. Contact details

### The Pension Funds Adjudicator (PFA)

If you have a complaint against your pension, provident, preservation or retirement fund that you have not been able to resolve with your employer, you may lodge a complaint with the PFA in writing.

41 Matroosberg Road, Ashlea Gardens  
Ext 6, 0081  
Call centre: 086 066 2837  
Tel: 012 346 1738 / 012 748 4000

Fax: 086 693 7472  
E-mail: [enquiries@pfa.org.za](mailto:enquiries@pfa.org.za)  
Website: [www.pfa.org.za](http://www.pfa.org.za)

### Ombudsman of Financial Services Providers (FAIS Ombud)

Do you have a complaint against a product provider or financial advisor?

Enquiries on status of complaints:  
[enquiries@faisombud.co.za](mailto:enquiries@faisombud.co.za)

Tel: 012 762 5000 / 012 470 9080

Fax: 012 348 3447 / 012 470 9097 /  
086 066 3247  
E-mail: [info@faisombud.co.za](mailto:info@faisombud.co.za)  
Website: [www.faisombud.co.za](http://www.faisombud.co.za)