YOUR OPTIONS ON RETRENCHMENT FROM YOUR COMPANY

If you are retrenched, 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.
- To a retirement annuity fund.
- To 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 FUND

Your fund benefit is transferred tax-free at the time of transfer 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. 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 assessing your 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 fund tax-free at the time of transfer.

Advantages	Disadvantages
1. Your fund value 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 fund 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 R25 000 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

Tax payable on voluntary termination of employment

Please see tax table below:

Taxable income from Retirement lump sums	Rate of tax
R0 - R25 000	R0
R25 001 - R660 000	18% of amount exceeding R25 000
R660 001 - R990 000	R114 300+ 27% of amount exceeding R660 000
R990 001 +	R203 400 + 36% of amount exceeding R990 000

This will result in reduced retirement savings as the money is not preserved /saved for retirement. An amount taken as a lump sum withdrawal benefit (post 1 March 2009) and all severance benefits (post 1 March 2011) prior to retirement will have the effect of increasing the tax liability at retirement, as these amounts will be aggregated with the retirement lump sum and applied to the retirement tax scale.

Tax payable on involuntary termination of employment (Retrenchment)

The tax payable on involuntary termination of employment (retrenchment) in terms of paragraph 2(1)(a)(AA) or (BB) of the Second Schedule to the Income Tax Act 58 of 1962 is as follows:

Note that this table is effective from 01/03/2014

Taxable income from Retirement lump sums	Rate of tax
0 – R500 000	R0
R500 001- R700 000	18% of amount exceeding R500 000
R700 001 – R1 050 000	R36 000 + 27% of amount exceeding R700 000
R1 050 001 +	R130 500 + 36% of amount exceeding R1 050 000
Any previous lump sum retirement benefit (post 1 October 2007) or lump sum withdrawal benefit (post 1 March 2009) and all severance benefits (post 1 March 2011) will need to be added to the current retirement benefit to determine the tax payable.	

Continuing with death and disability benefits

Most funds or employer owned policies offer a facility to continue these benefits by changing it to a personal insurance policy when you leave employment 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 01/03/2014

Taxable income from Retirement lump sums	Rate of tax
0 – R500 000	R0
R500 001- R700 000	18% of amount exceeding R500 000
R700 001 – R1 050 000	R36 000 + 27% of amount exceeding R700 000
R1 050 001 +	R130 500 + 36% of amount exceeding R1 050 000
Any previous lump sum retirement benefit (post 1 October 2007) or lump sum withdrawal benefit (post 1 March 2009) and all severance benefits (post 1 March 2011) will need to be added to the current retirement benefit to determine the tax payable.	

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.

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
Email address:	iac@aforbes.co.za
Fax number:	011 263 2260
Postal address:	PO Box 785451, Sandton, 2146

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.

Alexander Forbes Financial Services (Pty) Ltd, Alexander Forbes Life Limited and Alexander Forbes Financial Planning Consulants (Pty) Ltd shall not be liable for any loss of any kind arising from the reliance on the information provided in this guide.