OPTIONS WHEN YOU RETIRE

Member Education

FINANCIAL SERVICES

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WHAT TO DO WITH YOUR FUND CREDIT WHEN YOU RETIRE

This guide explains the different options available to you when you retire from your fund. It does not give you financial advice but factual information to help you make the best choices.

YOUR RETIREMENT OPTIONS EXPLAINED

You can decide to take your retirement benefits in a number of different ways, depending on what fund you retire from. These options are:

Provident funds	Pension funds	Retirement annuity funds
You can take your full fund credit as cash.	You can take up to one-third of your fund credit as cash.	You can take up to one-third of your fund credit as cash.
You can use some of your fund credit as cash and use the rest to buy a pension.	You must use at least two-thirds of your fund credit to buy a pension.	You must use at least two-thirds of your fund credit to buy a pension.
You can use all your money to buy a pension.	You can use all your money to buy a pension.	You can use all your money to buy a pension.

It is recommended that you use as much of your benefit as possible to buy a pension from an insurance company. Any income you receive from a pension will be taxed according to the prevailing tax laws.

TAX IN A NUTSHELL

If you take cash, you will have to pay tax according to the table below.

Amount taken as cash at retirement	Tax rate
R0 – R500 000	0%
R500 001 – R700 000	18%
R700 001 - R1 050 000	27%
R1 050 001 and more	36%

Note: Any previous retirement benefit that you may have taken (after 1 October 2007) or withdrawal benefit that you may have taken previously (after 1 March 2009) will be added to any cash amount you take at retirement to work out your tax rate.

All retirees are now eligible for a tax-free lump sum of R500 000 over their lifetime. This applies to the total of all retirement amounts from different funds to which you may have belonged over your working life. If, for example, you receive a tax-free amount from a retirement annuity before retiring from the fund, this will reduce the amount you can get free of tax when you retire from the fund.

You must consider how best to invest your tax-free amount to both supplement and give you access to cash. Money that is used to buy a pension is transferred tax-free to the insurance company. Pension payments are taxed in a similar way to your monthly salary while you are still working.

Important!

Although both pension and provident funds allow you to access a portion of your benefit in cash, think carefully before taking cash because any amount taken in cash will ultimately reduce your monthly pension.

It may take between four and six weeks for the retirement benefit that is payable to you to be paid. This is because tax must be applied for on any cash lump sum taken, and the amount used to buy an annuity must be transferred to the insurance company you choose. The process will be delayed further if your tax affairs are not in order and if the documentation for the buying of the annuity has not been completed correctly.

CHOOSING THE RIGHT PENSION FOR YOU

When choosing a pension, there are a few things you need to think about:

1. Your marital status.
2. Your age and that of your spouse.
3. You and your spouse's health and anticipated life expectancy – what are the chances you may live longer than you expect?
4. Do you have other savings as well as your retirement fund?
5. Will your spouse need a pension if you pass away?
6. Will your dependants still be dependent on you after your retirement and for how long?
7. Do you need or want to leave money in your estate to provide for your spouse and dependants?
8. What is your cost of living? Remember to consider medical expenses too.
9. Can you risk leaving your savings in the stock market and stay invested for longer?
10. Will your pension keep up with inflation?

Let's look now at some of these factors in more detail.

YOUR EXPENSES

Some important things to consider when you retire would be:

- Will you have paid off your home? Your car? Any other debt?
- If not, the monthly debt repayments will drain your pension income.
- Do you have any pets?
- Will you need to travel to see your children?

Every little thing will add up – don't forget about items like TV and car licences, subscriptions and insurance premiums.

You may find that you spend less on petrol or transport when you retire because you won't be travelling to work every day. You also won't be contributing to your retirement fund anymore!

YOUR DEPENDANTS

If there are people who are dependent on you, you will have less pension income for yourself. When you consider your dependants, remember to look at whether your spouse also has retirement savings that the two of you can use when you retire.

If your spouse will still be working after you retire, you need to consider how long you expect this to be for. You also need to consider whether your children will still be at school or need money for college or university. Remember to include anyone else you help financially in your planning.

MEDICAL COVER

Your medical costs will probably increase during your retirement years and it's important to plan for medical expenses.

WHEN CHOOSING YOUR PENSION

If you have any questions regarding your options or need advice, speak to an accredited financial adviser.

They will be able to explain these options to you in more detail and help you decide which option will best suit your needs at retirement. If you do not have one, the employee benefits or human resources department can put you in touch with one.

See the next page for different pension options available.

The following table gives you an overview of the main type of pensions you can choose from. Speak to a financial adviser before you make any investment decisions.

Type of pension	Pension increases	Advantages	Disadvantages
Inflation-linked pension This pension is guaranteed to keep up with inflation.	Pension increases are based on the inflation rate for the preceding year.	• Your pension keeps up with inflation and is protected against increases in the cost of living. • The pension is paid for as long as you are alive.*	• The pension is expensive to buy because increases are fully linked to inflation. • The pension increases can be low (or even 0%) if the inflation rate is low.
With-profit pension This pension allows you to share (with the insurance company) in the investment profits made on your pension portfolio.	The annual pension increases are determined by the insurance company, based on actual investment performance.	• The starting pension amount and subsequent yearly increases that are declared by the insurer are guaranteed. The pension increases can be good if investment performance is good. • The pension is paid for as long as you are alive.*	• The pension may not keep up fully with inflation. • You may also have a 0% pension increase in years where investment returns are poor.
Fixed increase pension An escalating pension pays you a lower starting income, but the pension increases each year at a fixed percentage (as chosen by you).	Annual pension increases at a fixed percentage each year. You have to choose the increase category when you buy the pension.	• The pension increases are predictable as they increase every year at the fixed percentage you chose. • The pension is paid for as long as you are alive.*	• The increase percentage chosen at retirement is fixed for life and can't be changed. • The pension may not keep up fully with inflation.
Level pension Also known as a standard pension, this option pays the same income for the rest of your life.	No annual increases. The pension stays at the same level as the year in which you bought it.	• The starting pension is higher (if no increase chosen). • The pension is paid for as long as you are alive.*	• You are not able to adjust your income level as time goes by. It remains fixed for life. • The pension will not increase at all over time and will therefore not keep up with inflation.
Living pension and Alexander Forbes LifeStage pension A flexible pension that allows you to draw between 2.5% and 17.5% of your capital each year.	Pension increases depend on how much of your capital you decide to draw each year.	• The pension is flexible and you can leave money to your beneficiaries.	• You can easily run out of money if you draw too much of your capital in your retirement years. It's also only appropriate if you have more than R1 million to invest.

* If you choose the pension continuation option, your spouse will receive a pension when you pass away.

If you would like more information about your financial planning needs please log on to **www.afonline.co.za** or contact the Alexander Forbes contact centre on 0860 100 333, open Monday to Friday from 8:00 to 17:00.

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