PENSION AND PROVIDENT FUNDS

WHAT IS A PENSION OR PROVIDENT FUND?

A pension fund is a workplace fund. If you are employed by a company which has a pension fund scheme and/or a provident fund scheme and you are eligible to join as an employee, you must contribute towards either or both of these funds depending on the company rules. It is usually a condition of your employment contract. The main objective of these funds is to build enough wealth to sustain your income and lifestyle during your retirement years, when you are not earning an income from any employment, or to supplement any other retirement fund you may have.

HOW DO THE CONTRIBUTIONS WORK?

Both the employer and employee contribute to the fund:

Employer Contribution:
Employer contributions to pension and provident funds will be included as a fringe benefit for the employee and are calculated differently depending on the type of fund. The full contribution is deductible for the employer with no limits to the deduction.

Employee Contribution:
A tax payer is afforded a combined deduction for all contributions to pension, provident and retirement annuity funds. This is equal to 27.5% of your gross remuneration or net income (whichever is greater), but subject to an annual limit of R350 000. Any deductions not allowed during the current year, can be rolled over to the following tax year.

CAN I ACCESS THE MONEY?

You can withdraw at least R2 000 from your **savings component**, provided you have not made a withdrawal in the same tax year, this withdrawal is taxed at your marginal tax rate.

You will not be able to withdraw from your **retirement component**.

The rules that currently apply when you resign will continue to apply to your vested component. For example, if you are a member of the Pension or Provident Fund you will be able to access 100% of your **vested component** when you resign. These withdrawals are taxed according to SARS's retirement fund withdrawal tax table.

WHAT HAPPENS WHEN I RETIRE?

From the age of 55 onwards you are able to retire from the fund.

1. Savings Component
   You can withdraw the entire amount as cash, this will be subject to tax according to the South African Revenue Service (SARS) retirement fund lump sum tax table.

   You do have the option to transfer all or part of this amount tax-free to a retirement income product, such as a living annuity or a guaranteed life annuity, however any income you receive from the annuity will be taxed at your marginal tax rate.
2. Retirement Component
   You must transfer the entire value of your retirement component to a retirement income product at the time of retirement, unless the total amount from all your retirement accounts in the relevant fund is R165 000 or less, you do not have to transfer it to a retirement income product.
3. Vested Component
   You can withdraw up to one-third of the vested component as cash, the remaining two-thirds must be used to purchase a retirement income product. Withdrawals from the vested component are taxed according to the pre-two-pot regime, which means they will be taxed based on SARS's retirement fund lump sum tax table.

WHAT HAPPENS TO THE MONEY WHEN I DIE?	Retirement funds are governed by the Pension Funds Act, so the benefit will be allocated by the trustees of the fund. The trustees consider all dependants, as well as nominated beneficiaries. If there are no dependants and no nominees, the fund value will be paid into your estate. The fund value will be taxed as if you have retired prior to your death.
WHY DID WE RECOMMEND THE PRESERVATION FUND?	In putting together this recommendation we have considered all of the following options: • Withdrawing all of your funds (paying tax on the value of the withdrawal amount exceeding R25 000) and investing the after-tax funds into a discretionary investment (e.g. unit trust or endowment structure). • Withdrawing the tax-free portion (currently R25 000) and investing the balance into a Preservation Fund. • Taking no withdrawals and preserving all of your capital into a Preservation Fund. • Retiring from the investment (if you are above the age of 55) and drawing a regular income from the investment to meet your monthly income needs. Considering that these funds are earmarked for retirement and you would not like to make any withdrawals prior to retirement but would like to option in the event of an emergency, we have recommended that you transfer the entire amount to a preservation fund. We have also considered the option of withdrawing and investing the funds into an endowment or a unit trust structure. However, this would not meet your need of preserving the capital for retirement.

** Do speak to your financial planner to find out more about these options and which one is more suitable for you.*

As with any investment, there are terms and conditions. Speak to your financial planner for more information on the investment vehicle and to fully understand its benefits, features and risks.