



Tax Planning on Retirement

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What is in the Fund

- While employed (permanent staff):
 - Retirement savings (contributions plus investment return)
 - 6 x DPA life cover
- On retirement (permanent staff):
 - 6 x DPA life cover ends (not paid out as only for death prior to retirement)
 - Retirement savings

What is outside the Fund

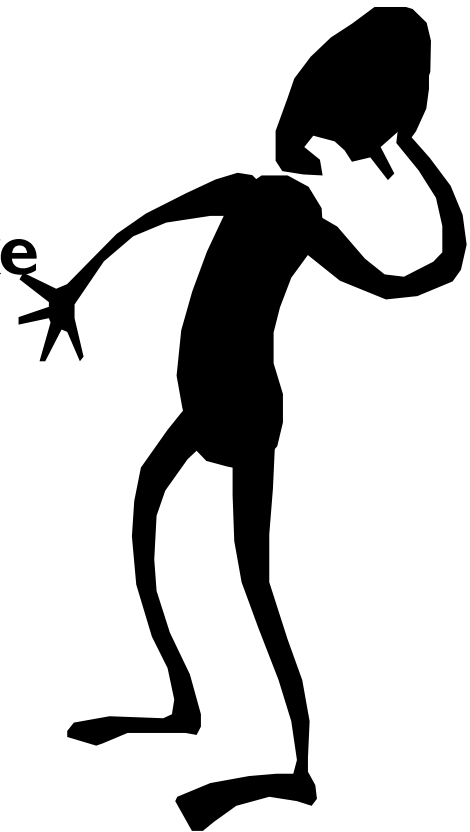
- While employed (permanent staff)
 - 1 x DPA life and disability cover
- On retirement (permanent staff):
 - Cover ends

Retirement savings

- Options:
 - Take all savings as a lump sum
 - Partial lump sum and the rest for a pension
- Money taken from Fund ends Fund liability
- Pension (living annuity) may be obtained from the Fund

The future of retirement benefits

- Provident fund status will be protected
 - If you are **55 or over** in January 2015.
- Can still take out 100%
- **If you are not 55 then the provident fund will operate like a RAF or pension fund**
 - **Can only take 1/3 in cash if retirement**



Tax effects of options- large fund

- Assume Prof A retires with retirement savings available of R5 million, of which R750 000 was from the former AIPF (and therefore tax-free). Prof A did not make any additional contributions to the Fund while employed.
 - (a) Prof A takes the full amount as a lump sum
 - (b) Prof A takes R1 250 000 as a lump sum and uses the remaining savings for a living annuity
 - (c) Prof A takes the full amount from the Fund and buys a life annuity from an insurer

Tax effects – Option (a)

- Lump sum of R5 000 000 carries tax of R1 282 500
 - The AIPF amount of R750 000 and the first R500 000 of the lump sum are tax free
 - The remaining R3 750 000 carries the tax.
 - Cash of R3 717 500 remains (being R5 million less the tax of R1 282 500) – this must fund your retirement!
 - By taking the retirement savings in full, the Fund has no further liability.

Tax effects – Option (b)

- Lump sum is tax free as it comprises:
 - AIPF amount of R750 000; and
 - R500 000 tax-free amount
- Living annuity is taxed in terms of the normal tax rates.
 - Assuming a draw-down R17 000 per month as a living annuity and no other income, tax of R1 578 will be withheld leaving a monthly income of R15 422.
- Savings in the Fund grow with investment return
- Can only drawn down between 2.5% and 17.5% of the balance (but this may be limited by the Trustees)
- You can also take a living annuity outside of the Fund

Tax effects – Option (c)

- As the full amount is taken to buy a life annuity from an insurer, no immediate tax effects
- Each annuity payment carries tax at normal rates
- A portion will be tax-free (representing capital returned with each payment)
- Life annuities come with various options regarding growth; life expectancy etc. – financial advice **MUST** be obtained

Tax effects of options- small fund

Assume a fund of R1000 000 or R800 000.

1. Take all as cash!!!!
2. Buy a pension with full amount
3. Living annuity

Lower lumpsums- estimates

Take in cash	R1 000 000	R800 000
Tax	117 000	63 000
Cash available	R883 000	R737 000
Life expectancy 15yrs		
R883000/15/12	R4 905 per month	R4 094 per month

Lower lumpsums- estimates

	R1 000 000	R800 000
Buy a pension		
No immediate tax	nil	nil
Rough calc 1000000/15/12	R5555 pm (not taking investment returns into account)	R4 444 pm
	No tax monthly as below the threshold	No tax monthly as below the threshold

Lower lumpsums- estimates

Living annuity	R1 000 000	R800 000
$1000000 \times 2\% / 12$	2 083 per month	1 666 per month
$1000000 \times 10\% / 12$	8 333 per month	6 666 per month
No tax under threshold	nil	nil
$8\ 333 \times 12 \times 15$	1 499 940 (will run out of money in 10 yrs)	1 199 880 (will run out of money in 10 yrs)
5% per month will break even	4 166 per month	3 333 per month

Divorce

- Divorce orders may include pension benefits
- Tax treatment depends on when divorce occurred and divorce order granted
- Effect must be considered when evaluating retirement options

Retirement vs Withdrawal

withdrawal	Rates of tax
0 – 25,000	nil
25 001 - 660 000	18% of the amount over 25 000
660 001 – 990 000	114 300 + 27% of the amount over 660 000
990 001 +	203 400 + 36% of the amount over 990 000
Retirement	Rates of tax
0 – 500 000	nil
500 001 – 700 000	18% of the amount over 500 000
700 001 – 1 050 000	36 000 + 27% of the amount over 700 000
1 050 001 +	130 500 + 36% of the amount over 1 050 000

Questions and factors

- Where will you retire?
 - Will it be in South Africa or not? Tax effects can change as a result of residence
- Do you have dependents?
 - Consider during your retirement years and effects should you pre-decease your dependents
- Do you have debts still owing?
 - May affect your retirement choice
- Have you ever previously withdrawn or retired from a Fund?
 - Your tax-free portion may be less and the tax higher – tables are cumulative

Questions and factors

- Do not only consider tax in making your retirement choice
- Your circumstances and needs must be considered
- The amount must last your retired life
- What about living too long?
- If taking a lump sum, consider re-investing the amount for an additional income stream if you have paid your debts
- **SEEK FINANCIAL ADVICE**