



**FWP**

## Financial Wellbeing Programme Member Information Guide

Leaving your retirement fund? Make the most of your options

**FIN360°**

Empowers management, professionals and retirement fund members to design a successful financial future





Statistics show that South Africa remains a country with low levels of private savings. The recent Old Mutual Savings Monitor research has highlighted this trend, revealing a disturbing culture of non-saving, low financial literacy levels, and over-indebtedness particularly given recent tough economic conditions.

Old Mutual is a key player in the economic transformation of South Africa and committed to investing in the financial future of South Africans. Sharing knowledge through FIN360° forms part of our greater drive to ensure a financially literate society and participate in the collaborative efforts by business, government and other interested stakeholders to mobilise and grow the nation's savings.

Old Mutual's Financial Wellbeing Programme, of which FIN360° forms part, has a range of financial wellbeing solutions for retirement fund members and company employees. FIN360° is a holistic offering that empowers management, professionals and retirement fund members to design a successful financial future.

We live in a country that holds promise and possibilities for our people to realise their dreams. As we learn new ways of managing our money, we strengthen the fabric of our families and communities and ultimately, we are able to secure positive futures.

Through the FIN360° Programme, Old Mutual wants to share the wisdom we have acquired over 165 years to help customers "do great things" and make informed financial decisions.

**Kuseni Dlamini**

CEO, Old Mutual South Africa and Emerging Markets

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**DISCLAIMER:** The information contained in this document has been compiled in order to explain the various options available on exiting a retirement fund and does not constitute advice. It has been compiled in good faith, however, no representations or warranties, express or implied, are made with regard to accuracy, and no responsibility or liability is accepted by Old Mutual for any damages or losses that may flow, directly or indirectly, from the use or reliance on any of the information herein contained.

April 2010

## Where to go for help

**This booklet is intended to help you better understand your options on leaving your retirement fund, but we encourage you to speak to an accredited financial adviser before making any decision on exiting a retirement fund.**

Accredited Old Mutual Financial Advisers follow a thorough six-step financial planning process involving gathering and analysing all necessary information, drawing up a written plan based on the analysis of your unique situation, and regular monitoring and review. Among the financial solutions offered by Old Mutual and designed to help you create, manage, and protect your wealth are:

- Retirement and "At Retirement" planning (including tax planning)
- Individual risk profile analysis
- Estate Planning and fiduciary services (including wills, trusts)
- Product choice
- Death and disability protection
- Short-term insurance
- Corporate Business Assurance
- Domestic and offshore investments
- Tax analysis

## Decision-making when leaving your retirement fund prior to retirement

If you leave before retirement, then preservation of your retirement savings should be your first consideration, as they will remain safe, will not be reduced by tax and will keep on growing. As a last resort, you can always access part or all of your retirement savings later.

Secondly, one should also take steps to preserve the life, disability and medical cover that you currently enjoy.

### Access to an Old Mutual Financial Adviser

Should you not already have a financial adviser or broker, or wish to access an Old Mutual Financial Adviser who is accredited on Fund-specific and general financial planning matters, contact Member Support Services at 0860 388 873 or [membersupportservices@oldmutual.com](mailto:membersupportservices@oldmutual.com) to request access to advice.

An adviser will ensure that the decisions you make regarding your retirement fund are the right decisions for you taking your future retirement needs into account.

An adviser can also assist to ensure that your life and disability cover is preserved and also consider medical scheme options.

### Self-managed preservation option

You may want to preserve your retirement savings on a self-managed basis (i.e. without the counsel of an adviser), in which case you will need to be sure that you have the requisite skills and knowledge to make the decisions that will need to be made.

For more information on the preservation options offered by Old Mutual, contact your broker or financial adviser or visit [www.oldmutual.co.za/fwp-preservation](http://www.oldmutual.co.za/fwp-preservation) and access the document: *Leaving your Fund? Make the most of your benefits...*

**For further information or support,  
Member Support Services  
can be contacted at 0860 388 873 or  
[membersupportservices@oldmutual.com](mailto:membersupportservices@oldmutual.com).**

**The first step in planning for a financially secure future for you and your loved ones is an appointment – contact us today!**

## Section 1 – Withdrawal

### If you resign, or are retrenched or dismissed

#### Why read this booklet?

Gone are the days when we worked for the same employer for our whole lives – most people change jobs several times in their lifetime. Many people, when changing jobs, view their withdrawal payout from the fund as a bonus to spend on that new car, clothing or a holiday. But there are in fact quite a few options that you should consider very seriously, rather than simply taking your withdrawal benefit in cash.

This booklet offers an overview of the options available to you and the issues you need to consider when withdrawing from your fund. By reading this booklet and discussing your options with a financial adviser, you will have a far better chance of choosing an option that will be in your best interests in the long run.

#### When you leave, ask yourself...

What other benefits may I lose on leaving my employer, and how can I go about replacing these?

##### ■ Life Cover

Life cover is not a “nice to have”; it is core to your financial plan. The wellbeing of your family may depend on your life cover, should something happen to you.

##### ■ Disability Cover

The income that you produce also needs to be protected with disability cover. It is likely that you have life cover and disability cover with your current employer’s fund and you need to investigate whether the fund offers a conversion option.

##### ■ Medical Aid

Replacing medical aid is also critical – medical inflation is higher than ordinary inflation and the average person incurs 60% of their total healthcare costs after age 60.

#### What will you receive if you withdraw?

If you resign, are retrenched or dismissed, your membership of your retirement fund will come to an end and you will become eligible for a withdrawal benefit. This is determined according to the specific rules of your fund. In general:

- if you are a member of a defined contribution fund, your benefit is determined by the contributions paid into the fund less expenses accumulated with investment returns.
- if you are a member of a defined benefit fund, your benefit is determined according to a formula.
- You will need to decide what to do with your withdrawal benefit.



Speak to an accredited  
Old Mutual financial adviser  
about your options.

Your two basic choices - Preserve or take cash

**Although many members simply take their retirement benefit in cash when they withdraw, there is another (more advisable) option...**

When you withdraw from the fund, there are normally two basic choices (or a combination thereof) as to what you can do with your retirement fund benefit:

#### **A: Preserve**

You can choose to preserve your retirement benefit by requesting the fund to transfer the entire benefit, tax-free, to another approved fund such as:

1. a **preservation fund**,
2. a **retirement annuity fund**, or
3. your **new employer's fund**.

**OR**

#### **B: Take cash**

You can choose to receive your entire withdrawal benefit as a taxable cash lump sum.

Before making this very important decision, you should consider the following and discuss the details with your financial adviser:

- Tax implications
- Flexibility
- Opportunity for growth
- Your own needs

**You will find more detailed information about all these options in the pages that follow. However, as you will see below, a strong case can be made for preserving your benefit.**

## The case for preserving your benefits

If you are retrenched, or if you resign from your place of employment, your retirement fund payout is generally a substantial amount of money. What you do with this money will affect your future financial security, so you have to consider your options very carefully.

Preserving your retirement benefits (by transferring them to a preservation fund, a retirement annuity fund or your new employer's fund) is usually more preferable than taking a cash lump sum from your retirement fund. After all, you have to bear in mind that the money in your fund was intended to build your retirement capital.

### **Will you have enough to retire, if you don't preserve?**

An average retiree needs around 13 times his/her final year's annual salary to be able to retire relatively comfortably. It takes a long time to build up so much capital! By taking your fund benefit in cash, rather than preserving it, you run the risk of not having enough retirement capital when you retire.

### **Weighing up your options**

There are a number of considerations when weighing up whether to take your benefit in cash, or whether to preserve your retirement savings to ensure you meet your retirement needs. The tax payable, for instance, is one important factor. But also consider the effects of inflation and loss of compound interest should you withdraw cash from your retirement fund instead of preserving the accumulated benefit for your retirement.

**Time in the market counts,  
so preserve, don't withdraw!**

**Although it is ultimately your choice whether you want to preserve your benefit or not, it is highly advisable that you seek professional advice before deciding what to do. The following more detailed information can help you prepare for a meaningful discussion with your financial adviser about which option would suit you best.**

## Your options in more detail

You can choose to preserve your benefit in either a preservation fund (option A1 below), or a retirement annuity (option A2 below), or both.

### A1. Preserve- Transfer to a Preservation Fund

**This option provides for a tax-free transfer as well as a once-off withdrawal, before retirement.**

A preservation fund is either a pension fund or a provident fund, approved by the Registrar of Pension Funds and the South African Revenue Services, which has been specifically established for the purpose of preserving withdrawal benefits until retirement age.

You can transfer your benefit from a pension fund into a preservation pension fund, or from a provident fund into a preservation provident fund.

The benefits paid from a preservation fund at retirement are taxed in the same manner as the benefits paid from a normal retirement fund at retirement.

#### Advantages

- Your benefit can be transferred free of tax. Provident fund withdrawal benefits are transferred to a provident preservation fund, and pension fund withdrawal benefits are transferred to a pension preservation fund.
- You may make one cash withdrawal (full or part) from your benefit in a preservation fund before you reach retirement age. This withdrawal is subject to tax. (However, a cash withdrawal from a preservation fund is not encouraged, as it could lead to insufficient retirement provision at the end of your working life.)

- Your benefit in the preservation fund will grow until your retirement age, depending on the type of assets that your money is invested in.
- Your benefit will earn investment return until your retirement age. The amount of investment return will depend on the type of assets that your money is invested in.
- At retirement you will have a high degree of flexibility in terms of the type of annuity that you can buy.
- No tax is levied on the build-up of capital within the preservation fund (you are only taxed on retirement).
- Retirement lump sums or annuities paid on the death of the member are free of estate duty.
- The first R945 000 lump sum (restricted to one-third) taken at retirement is effectively only taxed at 15% and no Capital Gains Tax is payable.
- Your benefit is protected against creditors and insolvency in terms of the Pension Funds Act.
- You generally have a choice of investment portfolios.
- You do not have to retire from the preservation fund at the same time as you retire from employment.

#### Disadvantages

- No further contributions can be paid into a preservation fund.
- If you take any part of your withdrawal benefit in cash from the fund, you will not be permitted to take a further withdrawal, unless the cash amount is the result of a divorce or maintenance order deduction.

**There are numerous preservation funds available in the market, each with its own specific rules. You should compare these before you choose one. Your financial adviser will be able to assist you.**



### Summary – Preservation Funds

- No tax is payable on transfer.
- You have access to the cash in the form of one withdrawal, subject to tax.
- Certain preservation funds provide you with a choice of investment options.

## A2. Preserve - Transfer to a Retirement Annuity (RA) Fund

**This option secures your retirement savings until you reach a minimum age of 55.**

A retirement annuity (RA) fund can be described as a private retirement fund. It is regulated in terms of the Pension Funds Act and Income Tax Act. It is often used as a "top-up" retirement savings vehicle.

### Advantages

- Your benefit can be transferred tax-free into an existing retirement annuity that you have (with some cost savings) or into a new retirement annuity.
- Your benefit will earn investment returns until your retirement age. The amount of the investment return will depend on the type of assets that your money is invested in.
- At retirement you will have a high degree of flexibility in terms of the type of annuity that you can buy.
- Further contributions can be made into a retirement annuity fund. These contributions are tax-deductible up to certain limits. (Unused deductions can be carried forward to future years or used to increase the tax-free amount at retirement.)
- No tax is levied on the build-up of capital within the RA (you are only taxed on retirement).

- Retirement lump sums or annuities paid on the death of the member are free of estate duty.
- The first R945 000 lump sum (restricted to one-third) taken at retirement is effectively only taxed at 15% and no Capital Gains Tax is payable.
- Your benefit is protected against creditors and insolvency in terms of the Pension Funds Act.
- You generally have a choice of investment portfolios.
- You can extend your retirement age beyond 55 (there is no maximum retirement age) and proceeds on death will not be subject to estate duty. In addition, contributions to retirement annuities after retirement can be used to reduce tax paid on annuity income received.

### Disadvantages

- It makes no provision for withdrawal benefits. You may not access your money before a minimum age of 55 (other than in certain instances such as in the event of disability). Although this is actually an advantage as it helps to protect your retirement nest egg.

**All retirement annuities are subject to the same laws, but there are a wide variety of investment channels. Old Mutual Financial Advisers are well-placed to conduct a personal retirement needs analysis and, if necessary, make recommendations as to the need for an RA and the RA product best suited to you.**



### Summary – Retirement Annuity Funds

- No tax is payable on transfer.
- You can make further contributions, tax deductible up to a point.
- You can only access your money from age 55.
- No estate duty is payable.

### A3. Preserve - Transfer to your new Employer's Fund

#### An option when you join a new employer.

You may transfer your benefit from your existing pension fund or provident fund to another approved pension or provident fund with your new employer.

If you transfer your benefit from a pension fund to your new employer's pension fund, you will only be allowed to take a maximum of one-third of your benefit in cash when you retire from that pension fund and the balance will be used to provide you with a pension in terms of that fund's rules. If you transfer your benefit from a pension fund to your new employer's provident fund, the full benefit can be taken as a cash lump sum at retirement (subject to tax on transfer as if you had taken it in cash).

#### Advantages

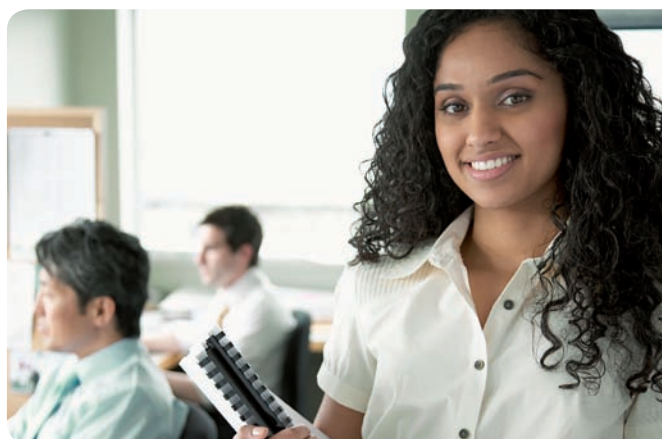
- Transfers between approved pension funds, between approved provident funds and from an approved provident fund to an approved pension fund are tax-free.
- Your benefit will earn investment returns until your retirement age. The amount of the investment return will depend on the type of assets that your money is invested in.
- At retirement you should have a high degree of flexibility in terms of the type of annuity that you can buy.
- Further contributions can be paid into your new employer's fund.

- No tax is levied on the build-up of capital within the new fund (you are only taxed on retirement).
- Retirement lump sums or annuities paid on the death of the member are free of estate duty.
- The first R945 000 lump sum (restricted to one-third) taken at retirement is effectively only taxed at 15% and no Capital Gains Tax is payable.
- Your benefit is protected against creditors and insolvency in terms of the Pension Funds Act.

#### Disadvantages

- You are likely to have no say, or very limited choice, regarding where the money is invested once your benefit has been transferred into your new employer's fund (unlike in a preservation fund or RA).
- If you transfer from an approved pension fund to an approved provident fund, your benefit will be taxed as if you had taken it in cash.
- You will only be able to access the money when you leave your new employer's fund (although this is actually an advantage, as it helps you to protect your retirement nest egg).

**It is recommended that you discuss the options available to you with your new employer and a financial adviser, and that all the implications of this option are explained to and understood by you before selecting this option.**



#### Summary – New Employer's Fund

- No tax is payable on transfer (unless from a pension to a provident fund).
- You can only access your money when you leave the Employer.
- You are likely to have little choice regarding where your money is invested.

**A. Summary of the preservation options**

	Preservation Fund	Retirement Annuity (RA) Fund	New Employer Fund
<b>Will my transfer be taxed?</b>	NO	NO	NO, unless it is from a pension fund to a provident fund
<b>Can I make withdrawals before age 55?</b>	YES, one withdrawal allowed	NO withdrawal after transfer (other than, for example, in the event of disability)	Withdrawal only possible if you leave the new Employer
<b>When can I access my money?</b>	At any stage, however, after one withdrawal, the money is bound until you reach age 55	Bound until you reach age 55	Depends on new fund's rules
<b>Can I make contributions after the transfer?</b>	NO	YES	YES
<b>How can I take my retirement benefit?</b>	<b>Pension preservation fund:</b> maximum 1/3rd in cash; remainder (at least 2/3rds) as a monthly income; <b>Provident preservation fund:</b> no restriction on cash	Maximum 1/3rd in cash; no restriction on cash remainder (at least 2/3rds) as a monthly income	<b>Pension fund:</b> Maximum 1/3rd in cash; remainder (at least 2/3rds) as a monthly income; <b>Provident fund:</b> no restriction on cash
<b>Is estate duty payable?</b>	NO	NO	NO

**B. Taking the cash**

**This is a tempting option, but the implications could be costly.**

Not only is a cash withdrawal taxable, but you also lose the power of compound interest.

**If you resign or are dismissed**

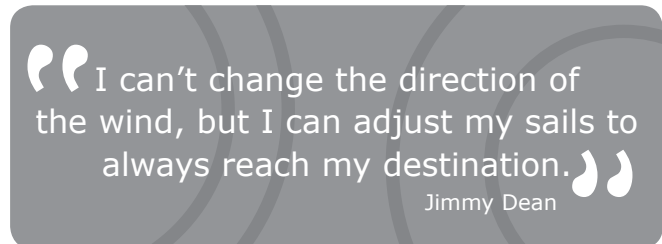
If you take the cash, a large portion of the cash may be taxed. Tax will be calculated according to the following cumulative tiered tax table (applicable at the time of writing this document):

Withdrawal benefit (resignation/dismissal)	Rate of tax
<b>Up to R22 500</b>	0%
<b>R22 501 - R600 000</b>	18% of the amount over R22 500
<b>R600 001 - R900 000</b>	R103 950 plus 27% of the amount over R600 000
<b>R900 001 upwards</b>	R184 950 plus 36% of the amount over R900 000

**Example**

If you withdraw R500 000 on resignation, R22 500 will be tax-free, and the remaining R477 500 will be taxed at 18%. Tax of R85 950 will therefore be payable, and you will only "take home" R414 050, after tax. You would have paid no tax had you transferred to a preservation fund.

Note that the tax on cash withdrawals is cumulative. This means that if you take cash when you withdraw from Employer A, and then you take cash again when you leave Employer B in a future year, your previous withdrawal will be taken into account when calculating the tax payable.



**If you are retrenched**

If you are retrenched (your employer ceases to trade or intends ceasing to trade, or you are made redundant as a consequence of a general reduction in personnel or a particular class of personnel, excluding employees or Directors who own more than 5% of the share capital/interest in the employer company), the portion you elect to take in cash from your retirement fund together with any severance package (for the same reasons or if you are over 55), will be taxed according to the same table as that applicable to retirement or death (see Section 2).

Withdrawal benefit (retrenchment)	Rate of tax
Up to R315 000	0%
R315 001 - R630 000	18% of the amount over R315 000
R630 001 - R945 000	R56 700 plus 27% of the amount over R630 000
R945 001 upwards	R141 750 plus 36% of the amount over R945 000

Note, however, that this does not mean it's necessarily a good idea to take the cash. Disadvantages include the R315 000 and tax-tiers used on the table not being available when you eventually retire (the tables are cumulative) and the loss of compound interest. The concession has been included to assist those desperate for cash as a result of retrenchment.

**Taxed – when you retire**

This will also affect your tax on your eventual retirement because the tables are cumulative. The R22 500 (in the case of resignation or dismissal) or the R315 000 (in the case of retrenchment) is only a "once-off", and taking this as cash jeopardises not only your R315 000 "tax-free" at retirement, but also the rate at which you are taxed at retirement. (You could, for example, be taxed at 27% instead of 18% at retirement, depending on what had been taken at an earlier withdrawal). Any benefits received from previous withdrawals after 1 March 2009 need to be added to the current benefit to determine the tax rate that is applicable.

**Ensure that your tax affairs are in order if you choose to receive your benefit as a cash payment. Otherwise, the Receiver will not issue a tax directive and this will delay the payment of your benefit. The South African Revenue Services may also claim a portion of your benefit for any arrear taxes that are due. This arrear tax will be payable over and above the normal tax deduction referred to above.**

**Summary – Taking the cash**

- Two different tax tables are used for resignation/dismissal on the one hand, and retrenchment on the other hand.
- Taking cash on withdrawal may mean that your tax-free lump sum at retirement could be reduced and your tax rate at retirement could be affected.
- Using your retirement benefit for short-term needs may result in financial hardship in the long term.

## Frequently asked questions

### How will the other benefits I may receive on retrenchment be taxed?

You may qualify for a severance package from your Employer. According to law, this is equal to one week's pay for each completed year's service (although some Employers may offer more).

If you are over age 55 and you become unemployed because your Employer has either stopped doing business or has made you redundant, your severance package will be taxed according to the retirement table. The severance package will thus be taxed according to the same table your retirement benefits are taxed at upon retirement.

#### Example

If you are retrenched and receive the following lump sum benefits:

- R1 000 000 paid by the retirement fund
- R500 000 paid by your employer as severance package.

The tax payable would be calculated on R1 500 000 by applying the retirement table i.e.: R341 550 (R141 750 + 36% of R555 000) and you would "take home"  $R1\ 500\ 000 - R341\ 550 = R1\ 158\ 450$ .

### How can I avoid using my withdrawal benefit for short-term financial needs, especially if I am retrenched?

Resolve not to withdraw any of your preservation money, unless all alternative sources of income have been exhausted. Carefully assess your alternative income sources:

- If you find new employment, you do not need to draw any preserved retirement monies.
- If you are retrenched, calculate how much unemployment insurance (payable by the UIF) is due to you and for how many months you will be paid (or ask a financial adviser to assist you).
- Calculate how many months your retrenchment payout will provide you with an income.

Assess to what extent you and your family can cut back expenses and get by on a single income and savings.

### How will a claim against my fund benefits, such as a divorce order, affect my withdrawal benefit?

If an award is made to your ex-spouse in terms of the Divorce Act after you have transferred your benefit to a preservation fund, your non-member or ex-spouse may elect to transfer the divorce award from a pension preservation fund to another pension preservation fund, or from a provident preservation fund to another provident preservation fund, and this will not affect your one withdrawal.



## Section 2 – Retirement

### If you retire at your normal retirement age, or earlier

#### Why read this booklet?

There are many considerations for someone approaching retirement - from general issues such as where you will live and what you will do, to specific financial decisions that you have to make, which will affect your financial security into retirement.

#### Your role

Before you retire, please:

- work through the information in this booklet,
- discuss your needs with your family members and
- discuss your retirement plans with a qualified financial adviser.

**Before you look at your options when you retire, you need to think about your circumstances and needs - which is what the next topic is all about...**

“The past cannot be changed.  
The future is yet in our power.”  
Mary Pickford

#### Questions to ask yourself...

##### Consider the following before you read further...

Your plans for retirement - will your plans for retirement result in increased spending, such as buying a new car, house or travelling?

##### Your dependants

Do you have a spouse and/or children? Is your spouse dependent on you for financial support, or will he/she be dependent on you in the future? Does your spouse have any retirement provision? Do you have children or anyone else who will still be financially dependent on you when you retire? For how long will they be dependent?

##### Your health and life expectancy

How healthy are you? Do you have good medical insurance, or how do you see yourself handling increasing medical costs in your old age? Do you have a family history of life-threatening illnesses, or family members living to an older-than-average age? Have you possibly been tested positive for a dread disease such as cancer or HIV, which may mean a reduced life expectancy?

##### Your financial strength

How much do you have as a retirement benefit? Is that your only retirement provision, or do you also have other investments, policies or annuities? How much debt do you have?

##### Your financial knowledge

How much do you know about financial planning and investments? Do you have enough knowledge about the risks associated to decide on your own retirement income levels?

In addition, you have to think about what other benefits you may lose on leaving your employer, and how you can go about replacing these.

##### Life Cover

Life cover is not a “nice to have”; it is core to your financial plan. The wellbeing of your family may depend on your life cover, should something happen to you.

##### Medical Aid

Replacing medical aid is also critical – medical inflation is higher than ordinary inflation and the average person incurs 60% of their total healthcare costs after age 60.

**Do you know what you need to do once you have decided to retire? Turn the page to see what lies ahead...**

Speak to an accredited  
Old Mutual financial adviser  
about your options.

## A countdown to retirement

### Three years to retirement

You should start thinking about:

- Your financial decisions with regard to retirement.
- Getting financial advice about structuring your retirement benefit in such a way that you will avoid unnecessary taxation.

### 6 months to retirement

You should:

- notify the fund of your approaching retirement.
- request a quote of your fund value.

### 3 months to retirement

Get quotes on the annuity products that you consider investing in. It would be advisable at this stage to discuss your options with a financial adviser.

### 6 weeks to retirement

You should ensure that:

- your exit documents have been sent to the fund.
- the fund has your tax registration number.
- you have selected the type of annuity product (or combination of annuities) that best suits your retirement needs.

### 1 month to retirement

You should by now have requested your final quote and have arranged for the purchase of your annuity. The application form for your preferred retirement annuity product (or combination of annuities) should have been completed and signed.

### Retirement date – your big day!

At the end of this month you should receive your cash lump sum (subject to the required tax clearance being obtained from the Receiver of Revenue) and your first pension payment from the annuity product you have selected (provided all the required information and documents have been given to the insurer).

“ Retirement may be an ending, a closing,  
but it is also a new beginning. ”

Catherine Pulsifer

## What will you get when you retire?

### When do I have to retire?

Your normal retirement date is defined in your fund's rules. A financial adviser and your employer can assist you to determine the date on which you are compelled to retire.

You may also retire early, but should only consider doing so if you know that you have built up enough retirement capital. See Frequently Asked Questions later in this guide for more information on how much you need to retire on.

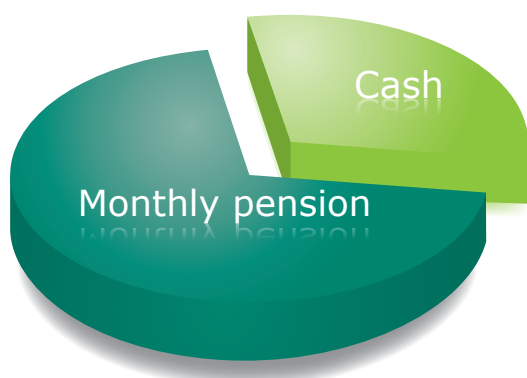
### What will I receive?

**In a defined contribution fund:** You will receive the value of your retirement benefit in the fund, namely your contributions plus your employer's retirement funding contributions, plus any transfers in, plus investment growth, minus expenses.

**In a defined benefit fund:** You will receive a benefit that is calculated according to a formula and is usually based on your years' pensionable service and the salary you have been earning in the last two years before retirement.

## What are your basic options?

If you are a member of a pension fund, you may use up to one-third of your benefit (available as a cash lump sum) as you wish or to clear your debt. However, you should still consider this as part of your retirement benefit and invest accordingly, and you should also consult an adviser before deciding on the size of the amount you wish to take in cash, because taking your full one-third available to you may not necessarily be your best option.



It is also possible to purchase a Voluntary Purchase Annuity (income) to help fund your retirement for a set period with your voluntary cash (that is, voluntary savings you may have as well as, depending on your circumstances and any tax payable, possibly the portion you are not 'forced' to purchase an annuity with). The capital portion is exempt from tax, which makes it very tax efficient.

With the balance of your benefit (minimum two-thirds for a pension fund member), you must purchase an annuity (a monthly pension) from a registered insurer. This is to ensure that the larger part of your Fund credit is used for its original purpose, namely to provide you with a monthly income when you are no longer working.

Please note: If you are a member of a provident fund, there is no restriction on the portion you can take in cash. However, bear in mind that this money is intended for your retirement. (You will find more information on investing your lump sum in the pages that follow.)

You can choose between different kinds of annuities. The choices you make should depend on your circumstances and will affect, for instance:

- how much of a role you want to play in investment decisions.
- how big your pension income will be,
- whether you will receive increases and, if so, how big these will be,
- whether your dependants will receive a benefit after your death, and
- for how long, and even whether, and to what extent, you will be able to control your income after retirement.

**Most insurers offer the same four kinds of annuities, even if the names of the specific annuities differ. Turn the page to see an overview of your options...**

An overview of the basic annuities

**Level Annuity**

Your monthly pension will remain exactly the same from year to year. This annuity therefore does not offer any protection against inflation.

**Fixed Escalation Annuity**

Your monthly pension will increase at a pre-determined rate each year, offering some protection against inflation.

**With-profit Annuity**

Pensioners share in actual investment returns – even though the size of increases is not guaranteed, the actual pension plus past increases are guaranteed and paid until you die. This pension should keep up with inflation.

**Inflation-linked Annuity**

Your monthly pension will increase at an inflation-related rate. Your pension plus increases are guaranteed and paid until you die. This pension will keep up with inflation.

**Living Annuity**

(also called investment-funded income)  
Your benefit is invested in a variety of assets and will therefore be affected by investment profits and losses. You can choose to draw between 2.5% and 17.5% from your capital as a pension income.

The risk lies with you to ensure that your investment keeps up with inflation and that your money lasts until your death.

These are also called annuities for life or guaranteed annuities. With any of these annuities, you will exchange your retirement capital for a guaranteed income for your full lifetime.

**Combining more than one annuity**

These annuities may be chosen on their own or in a combination, if you have a big enough retirement benefit. Note there are rules regarding splitting annuities.

The advantages of combining different annuities are that you will have far more flexibility in terms of determining your income levels and increases and providing for your different needs, as well as the peace of mind of not having “all your eggs in one basket”.

It is also possible to purchase a Voluntary Purchase Annuity (income) for a set period with your voluntary cash (that is, voluntary savings you may have as well as, depending on your circumstances and any tax payable, possibly the portion you are not “forced” to purchase an annuity with). The capital portion is exempt from tax, which makes it very tax efficient.

**Making provision for dependants**

**Level Annuity**

**Fixed Escalation Annuity**

**With-profit Annuity**

**Inflation-linked Annuity**

**Living Annuity**

When you die, the balance of your capital could be paid to your dependants, or they could choose to continue to receive a pension.

With any of these annuity types, you can make provision for your dependants by selecting additional options such as “Joint and Survivorship” or “Term Certain and Thereafter”, or by choosing a Capital Preservation option.

**Annuity payout profiles compared**

	<b>Guaranteed annuity (annuity for life)</b>	<b>Living annuity (investment-funded income)</b>
<b>Initial Income</b>	<b>Level:</b> Highest <b>Fixed Escalation:</b> Intermediate <b>With-profits:</b> Intermediate <b>Inflation-linked:</b> Lowest	Depends on drawdown rate. Annual income limited to 2.5% to 17.5% p.a.
<b>Annual Increases</b>	<b>Level:</b> None <b>Fixed Escalation:</b> Guaranteed increase of 1%, 2%, 3%, 4% or 5%. <b>With-profits:</b> Targets inflation <b>Inflation-linked:</b> Guarantees inflation	If investment performance is consistently - <b>Greater</b> than your drawdown rate: Sustainable annual increases. <b>Equal</b> to your drawdown rate: Increases not sustainable. <b>Less</b> than your drawdown rate: Risks rapid depletion of funds and consequent reduction in income.
<b>Capital to beneficiaries on death</b>	No*	Yes, provided funds have not been completely depleted before death.
<b>Protection against living too long (longevity protection)</b>	Yes (all types)	No, unless investment performance is consistently greater than your drawdown rate.

\*Exceptions: Single life annuity with guaranteed term and Capital preservation option

**Investing your lump sum**

Often, retiring members regard the cash lump sum as “extra” money, almost like a bonus, that can be spent as they wish.

It is true that what to do with your cash lump sum is entirely your choice.

However, please remember the original purpose of your retirement fund benefit – it is to provide you with an income after you retire. Before making plans about the size of your cash lump sum, or how to spend your cash lump sum, carefully look at the quotes you will receive from your financial adviser. (These quotes will show you how much your monthly pension will be.) You may then decide to rather invest part or all of your lump sum to provide you with an additional monthly income.

There are various ways in which you can invest your lump sum (or part of it) to your best advantage. Discuss your options with a financial adviser (see contact details later in this document).

There are two main options. You can either use this money to invest it in a living annuity (as described above) or use it (after

tax) to buy an additional guaranteed pension on a voluntary basis. Note that the suitability of these options depends on a variety of factors, including possible tax payable if you were to take the cash, and a decision should therefore only be made in consultation with your adviser. The main advantages of a voluntary annuity are:

- you will only be taxed on the growth portion of this annuity (as per a formula applied by the Receiver of Revenue), and
- the income is guaranteed for the term.



### Tax – how to avoid paying too much

The tax you pay depends on the amount you commute (take) in cash. Every case is unique – depending on your personal circumstances, other investments and your marginal tax rate after retirement, the options range from:

- taking no cash at all (that is, using your full benefit to purchase an annuity),
- taking only part or all of your “tax-free” portion (summarised below), or
- taking more than your tax-free portion.

The following (cumulative) tiered tax table is used at retirement (and retrenchment – see Section 1):

Retirement lump sum benefit	Rate of tax
Up to R315 000	0%
R315 001 - R630 000	0 + 18% of the amount over R315 000
R630 001 - R945 000	R56 700 plus 27% of the amount over R630 000
R945 001 upwards	R141 750 plus 36% of the amount over R945 000

On retirement, the taxable amount may be reduced before using the table by, for example, “disallowed contributions”. These are, for example, all contributions you made to a

provident fund, or contributions you made to a retirement annuity or pension fund which were not deductible by you at the time. If you have excess money at retirement, you could also, for example, make a lump sum injection to a retirement annuity after retirement, which can be used to reduce the tax you would pay on annuity income received.

#### Example

If the one-third you could commute in cash from your pension fund, was for example, R1 million and your marginal rate after retirement will be 30%, one of your considerations might be that you would not want to take anything higher than R945 000, as you would pay tax on the higher rate (36%) than you would on your monthly pension. If you therefore took R945 000 in cash, the first R315 000 will be taxed at 18%, and the remaining R315 000 would be taxed at 27%. The total tax (calculated using the “third tier” above) would therefore be R141 750 (R56 700 + 27% of R315 000) and you would “take home” R945 000 – R141 750 = R803 250.

**This is really not something you should reach a decision on without specialist knowledge. Old Mutual’s financial advisers are well-equipped to assist you with your decision-making.**



### Frequently asked questions

#### How can I determine whether I can retire early?

If you retire early, you would have built up less retirement capital than in the case of normal retirement, but would need the capital to last for a much longer period. Whereas an average retiree needs around 13 times his/her final year’s annual salary to be able to retire relatively comfortably, you would probably need more than this (depending on how early you want to retire). Should you consider retiring early, you are urged to speak to a financial adviser.

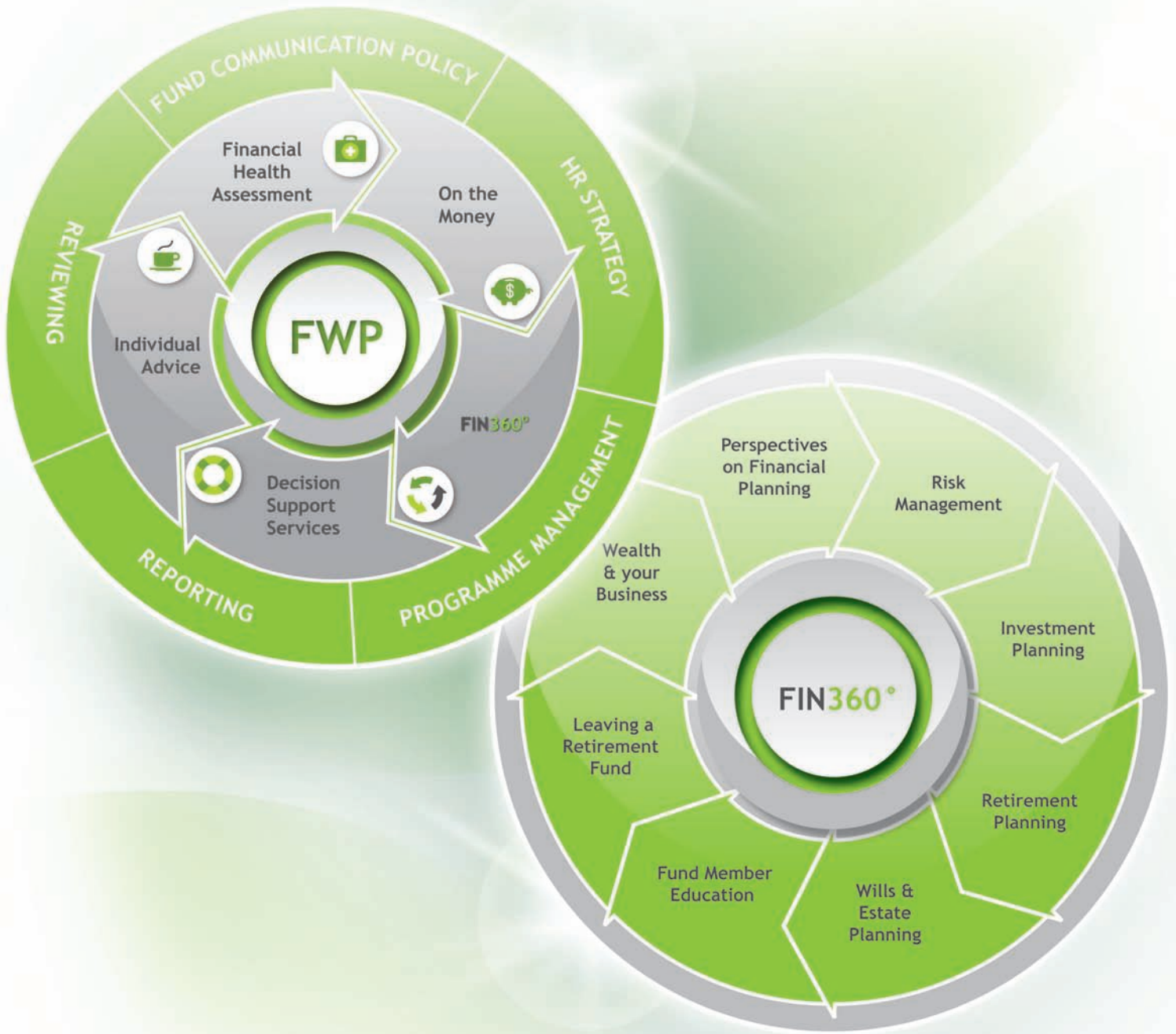
## Important terms

Term	What it means
<b>Member</b>	An individual who belongs to a pension or provident fund is a "member" of that fund.
<b>Fund Rules</b>	The rules of a fund govern the procedures that apply to all members of a fund. It defines, among other things, what kind of fund it is, what benefits are available on retirement, disability and death, at what age a person can retire, etc.
<b>Defined Benefit Fund</b>	In this type of fund, the employer carries the risk of investment returns, as a member's benefits are calculated according to set formulae, regardless of how markets may have performed. This could be either a pension or a provident fund.
<b>Defined Contribution Fund</b>	In this type of fund, a member's withdrawal (and retirement) benefit is the total fund value at date of withdrawal (retirement date) made up of their own contributions, employer contributions, and investment returns. The investment risk is carried by the member.  This could be either a pension or a provident fund.
<b>Provident Fund</b>	In a provident fund a member may commute (take in cash) the full amount in their fund (accumulated credit) on retirement. Member contributions are not tax deductible, but do help to increase the tax-free portion on retirement.
<b>Pension Fund</b>	In a pension fund, a member may only commute up to one-third in cash on retirement. Member contributions are tax deductible up to the greater of either 7.5% of pensionable remuneration or R1 750.
<b>Pensionable remuneration/salary</b>	The portion of your salary that your employer uses to calculate retirement fund contributions.
<b>Withdrawal</b>	The termination of your membership of a fund due to resignation, retrenchment or dismissal and the point at which a withdrawal benefit becomes payable.
<b>Preservation</b>	"Saving" a withdrawal benefit payable by a fund by transferring it to an approved fund, rather than taking the benefit in cash.

Notes

Notes





Holistic support. Creating tomorrow today.

Empowering management, professionals and retirement fund members to design a successful financial future.

For more information, contact your Old Mutual financial adviser, corporate consultant, broker or contact Old Mutual Business School on 021 504 4199, [www.oldmutual.co.za/fwp](http://www.oldmutual.co.za/fwp)



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