

# FINANCE WORKSHOP

## Employee Assistance Services

### Project Tshehetsa

## Unpacking the options on leaving the fund: Cash

### ADVANTAGES:

1. Funds can be used to settle debt
2. Excess funds can then be invested in a voluntary investment vehicle

### DISADVANTAGES:

1. Subject to Taxation
2. Retirement savings depleted

#### New sliding scale



- R0 to R500 000 is tax free
- R500 001 to R700 000 is taxed at **18%**
- R700 001 to R1 050 000 is taxed at **27%**
- R1 050 001 and more is taxed at **36%**

#### Taxation on withdrawal



#### Knock-on effect

- Any cash taken prior to retirement will increase your tax liability at retirement
- Full amount will be added to retirement lump sum and applied as per retirement tax scale

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## Why is your retirement fund so important?



### Replaces your salary at retirement

- Industry benchmark is 75% of salary
- Does not take into account commissions or bonuses



### Assumptions

- There is no bond to pay
- There are no school fees to pay



### Is this achievable?

- Yes,
- if you contribute a realistic amount to a retirement fund
- continuously during your working years



### If you are contributing enough what else can you focus on?

- Short-term savings and investments
- Settling debt

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### Transfer to new employer

#### ADVANTAGES:

1. Tax free transfer from pension to pension fund
2. Fund value is preserved for retirement
3. Cost savings

#### DISADVANTAGES:

1. No access to the funds
2. No/limited control of the management of the funds

### Retirement Annuity

#### ADVANTAGES:

1. Tax free transfer
2. Fund value is preserved for retirement
3. Freedom of investment choice
4. May retire anytime from 55
5. Ongoing contributions are allowed (tax efficient)

#### DISADVANTAGES:

1. No access to funds prior to age 55
2. Only a third may be taken as a cash lump sum on retirement
3. Product costs – retail products are more expensive

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### Preservation Fund

#### **ADVANTAGES:**

1. Tax free transfer – must be pension to pension preservation fund or provident to provident preservation fund.
2. Fund value is preserved for retirement
3. One withdrawal allowed prior to age 55 – taxed as per scale
4. Freedom of investment choice

#### **DISADVANTAGES:**

1. Withdrawal will reduce your ultimate retirement benefit
2. No ongoing contributions allowed
3. Product costs – retail products are more expensive

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## Unpacking the options on leaving the fund In-Fund Solution

### ADVANTAGES:

- 1.No minimum amount
- 2.Growth of retirement savings is in-line with the portfolios selected
- 3.No upfront administration, advice or investment fees charged by the fund
- 4.Trustees will oversee distribution of your death benefit

### DISADVANTAGES:

- 1.Your risk benefits such as disability cover will cease
- 2.No ongoing contributions allowed
- 3.On withdrawal you must take all the money out

## Tax on withdrawal



The lump sum formulas will be applied on a cumulative basis over the taxpayer's lifetime