

PENSION FUNDS

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WHAT IS A PENSION FUND?

A pension fund is established by an employer for the investment of employees' retirement fund savings, contributed by the employer and/or employee. It is intended to provide long term capital growth in order to enable the ultimate provision of a sustainable post-retirement income for employees.

KEY BENEFITS OF PENSION FUNDS

- ◆ Contributions are tax deductible within certain limits.
- ◆ All investment returns (interest, dividends and capital gains) within the product are completely tax-free.
- ◆ The funds are protected against claims by creditors.
- ◆ Retirement from the fund can be delayed and can thus aid retirement income planning.
- ◆ The full fund value is accessible, after applicable taxes, in the event of death or early retirement due to ill-health or infirmity.
- ◆ At termination of employment, the full fund value can be withdrawn, after applicable taxes, or can be transferred to a pension preservation fund, tax-free, subject to scheme rules.

KEY CONSTRAINTS

- ◆ The investment needs to comply with Regulation 28.
- ◆ The funds can ordinarily be accessed from age 55 or any time thereafter, subject to scheme rules.
- ◆ Contributions are dependent on continued employment.
- ◆ The range of underlying investment alternatives is often inflexible and is established and defined by the fund trustees.

TAX IMPLICATIONS BEFORE RETIREMENT

- ◆ The combined total of employer and employee contributions to pension funds, provident funds and retirement annuities are limited to the lessor of R350 000 or 27,5% of remuneration or taxable income.
- ◆ Any contributions over and above the limitations are carried forward and deductible in future years.
- ◆ Any contributions that did not qualify for deduction pre-retirement are deductible against withdrawals after retirement.

TAX IMPLICATIONS AFTER RETIREMENT

- ◆ A maximum of 1/3rd of the fund value can be withdrawn at retirement while the balance is used to purchase a life annuity or living annuity.
- ◆ Lump sum withdrawals are subject to the applicable retirement tax tables and all previous withdrawals are aggregated to determine the tax liability at retirement.
- ◆ The first R500 000 lump sum can be withdrawn tax-free, subject to the above aggregation.
- ◆ No tax is payable on amounts transferred to a life annuity or living annuity.
- ◆ All income withdrawals from the living annuity or life annuity are taxed at individual marginal income tax rates.

IMPLICATIONS ON DEATH

- ◆ Beneficiaries can be nominated to receive the proceeds.
- ◆ A lump sum benefit, annuity or a combination of the two may be elected by beneficiaries.
- ◆ Both lump sum and annuity benefits are generally free from Estate Duty but are subject to taxation.
- ◆ Lump sum and annuity benefits received by beneficiary/ies are subject to taxation.

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