WHAT TO DO WITH YOUR FUND CREDIT WHEN YOU CHANGE JOBS OR RETIRE

This brochure tells you what you can do with your retirement savings when you leave the Legal Provident Fund.

What you'll find in this brochure

You have to leave the Legal Provident Fund if you:

- Resign from your employer
- Are dismissed
- Are retrenched
- Retire

What you can do with your money when you leave the fund because you resigned, were retrenched or dismissed

If you leave the fund because you resigned, were retrenched or dismissed you'll get your retirement savings in the fund.

This brochure explains what you can do with that money. We'll also show you the advantages and disadvantages of each option when you leave the fund.

We'll explain what you can do with your retirement savings when you retire. We'll show the tax you'll pay if you take cash from your fund when you retire and what types of pensions you can buy to best suit your needs at retirement.

Never be tempted to spend your retirement savings: Research shows that only 10% of members have enough money saved to see them through retirement. This is mainly because they take cash from their funds when they change jobs. If you save your retirement money, you could secure your financial well-being and retire with enough money.

You can transfer your money to a preservation fund

A preservation fund keeps your retirement fund savings until you retire.

Advantages	Disadvantages
• You save your money for your retirement years – when you'll need it most. • You can make one cash withdrawal in an emergency. • You don't pay tax when you transfer your money to the preservation fund. • You may be able to choose which portfolios to invest in.	• You'll have less money when you retire if you take an emergency withdrawal. • You can't make extra contributions.

You can transfer your money to a retirement annuity fund

Advantages

- You keep your savings for your retirement.
- You don't pay tax when you transfer your money to a retirement annuity.
- You can take your money out of the fund from age 55.
- You can make extra contributions.

Disadvantages

- You cannot take any money before age 55.

You can transfer your money to your new employer's retirement fund

Advantages	Disadvantages
• You keep your savings for your retirement. • You don't pay tax when you transfer.	• You might not be able to choose your investment portfolios.

You can take your money as cash

If you take cash, you will have less money to take tax-free when you retire. You will also have less money saved for your retirement years. **Remember:** the longer you stay invested, the more interest you can earn.

Advantages	Disadvantages
• You'll have money to spend.	• You'll pay tax (see tax table). • You'll have to start saving for retirement all over again.

The tax you'll pay

If you take cash when you resign, are dismissed or retrenched, you'll have to pay tax. If you're retrenched you qualify for a bigger tax-free cash amount than if you resign or are dismissed.

Amount of cash you take when you change jobs	Tax rate	Amount of cash you take when you're retrenched	Tax rate
R0–R25 000	0%	R0–R500 000	0%
R25 00–R660 000	18%	R500 001–R700 000	18%
R660 001–R990 000	27%	R700 001–R1 050 000	27%
R990 001 and more	36%	R1 050 001 and more	36%
• **Remember:** You can't take R25 000 tax-free every time you change jobs – this amount is for your lifetime.		• **Remember:** The R500 000 tax-free amount is for your lifetime. So if you get a tax-free qualifying retrenchment benefit before you retire, you'll have to take less (or nothing) tax-free when you retire. For more information on qualifying retrenchments please speak to your human resources department.	

What you can do when you retire from the fund

Option 1: Use all of your savings to buy a pension	• You can use all your money to buy a pension. A pension will give you a regular income for your retirement years.
Option 2: Use some of your savings to buy a pension	• You have to use at least two-thirds to buy a pension.
Option 3: Take cash	• You can take your savings as cash. You'll have to pay tax on any cash you take according to the table below.

The tax you'll pay

If you take cash out of your retirement savings when you retire, you'll have to pay tax as follows:

Amount of cash you take when you retire	Tax rate
R0–R500 000	0%
R500 001–R700 000	18%
R700 001–R1 050 000	27%
R1 050 001 and more	36%

Things to consider when you buy your pension

Type of pension	Pension Increases	Advantages	Disadvantages
Inflation-linked pension This pension is guaranteed to keep up with inflation.	Pension increases are based on the inflation rate for the previous year.	• Your pension keeps up with inflation and is protected against increases in the cost of living. • The pension is paid for as long as you live. • You can choose for your spouse to get your pension when you pass away.	• The pension is expensive because increases are fully linked to inflation. • The pension increases can be low (even 0%) if the inflation rate is low.
With-profit pension This pension allows you to share (with the insurance company) in the investment profits made on your pension portfolio.	Yearly pension increases are determined by the insurance company, based on how your money in your investment portfolios grow.	• The starting pension amount and yearly increases are guaranteed. • Increases can be good if investment performance is good. • The pension is paid for as long as you live. • You can choose for your spouse to get your pension when you pass away.	• The pension may not keep up with inflation. • You could have a 0% pension increase if investment returns are poor.
Fixed increase pension An escalating pension pays you a lower starting income, but the pension increases each year at a fixed percentage that you choose.	Yearly pension increases are at a fixed percentage each year. You choose the increase category when you buy the pension.	• The pension increases are predictable. • The pension is paid for as long as you live. • You can choose for your spouse to get your pension when you pass away.	• The increase percentage you choose is fixed for life. • The pension might not keep up with inflation.
Level pension Also known as a standard pension, this option pays the same income for the rest of your life.	No yearly increases. The pension stays at the same level as the year you bought it.	• The starting pension is higher. • The pension is paid for as long as you live. • You can choose for your spouse to get your pension when you pass away.	• You can adjust your income level. • The pension will not increase over time and will not keep up with inflation.
Living pension A flexible pension that allows you to draw between 2.5% and 17.5% of your money each year.	Pension increases depend on how much of your money you decide to draw each year.	• The pension is flexible and you can leave money to your beneficiaries.	• You could run out of money if you draw too much too soon. Only suitable if you have more than R1 million to invest.

The pension you choose to buy when you retire depends on a few important factors that you need to think about:

Your expenses

Think about how much money you will need every month when you retire. Some important things to consider:

- Will you have paid off your home? Your car? Any other debt? If not, the monthly debt repayments will drain your pension income.
- Will you need to travel to see your children?
- Will you go on holidays every year?

You should spend less on transport when you retire because you won't be travelling to work every day. You also won't be contributing to your retirement any more. Every little thing will add up – so don't forget about things like TV and car licenses, subscriptions and insurance premiums.

Your dependants

If there are people who are dependent on you, you will have less pension income for yourself. When you consider your dependants, remember to look at whether your spouse also has retirement savings that the two of you can use when you retire. If your spouse will still be working after you retire, you need to consider for how long. Will your children still be at school or need money for college or university? Is there anyone else who relies on you financially?
How dependent are they on you?

Medical cover

Your medical costs will probably increase during your retirement years – make sure you'll have enough money for higher medical expenses.

You can defer your retirement

You don't have to retire from your retirement fund when you retire from the service of your employer. You can elect t retire from the fund at a later date, that is, after the normal retirement age set out in your fund's rules.

This means that you will retire from your employer at your normal retirement age, but you can keep your retirement savings invested in the fund until a date you choose to leave the fund. This is known as your deferral date.

Points to remember if you choose to defer retirement:

- You decide on the date you want to collect your benefit from the fund.
- You and your employer won't contribute to your retirement fund.
- You won't be covered by the fund's insured benefits.
- Your retirement investment will stay in the fund.
- There will still be investment fees and administration costs.
- Positive or negative investment returns will be added to or deducted from your investment in the fund until your deferral date.

If you choose to defer your retirement you will need to give the fund your contact details so that we can communicate with you. You will remain invested in the investment portfolio you were invested in at the retirement date from the employer unless you make an investment switch. You will continue to have the same range of investment choice that active members have.

To defer your retirement date, you will have to inform your employer and the fund that you want to do this in the retirement claim form.

You will not be able to defer retirement if there is a tax accrual at retirement date from the employer. For example, if you have an outstanding housing loan that the fund stands surety for, the loan falls due in terms of the contract at the normal retirement date. If you can't settle the loan at this point and the surety is called on, the fund will need to settle the outstanding balance and process the retirement benefit.

Financial advice

You can contact the FPC Individual Advice Centre for advice on financial planning and investments.

Alexander Forbes Individual Advice Centre contact details:
Tel: 0860 100 444
Email: iac@aforbes.co.za