Presentation on Pension, Provident and also Retirement Annuity Fund

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What is Pension or Provident Fund

- Pension or provident fund are form of social safety net into which workers must contribute a portion of their salaries and employers must contribute on behalf of their workers. The money in the fund is then paid out to retirees, or in some cases to the disabled who cannot work or employees that terminate their employment with a company.

What is Retirement Annuity

- Retirement annuity fund is a savings vehicle for investors looking for a flexible tax-efficient way to save for retirement. Investors can only access their money when they retire. Minimum retirement age is 55 years.
- Basically its an investment vehicle for individuals and it targets individual who do not participate in a pension or provident fund

Purpose of pension, provident also retirement annuity fund

- The purpose of both pension and provident funds is to provide employees with an income upon retirement.

- An retirement Annuity helps you to build up capital during your working years so that you have enough income to enjoy the same standard of living when you retire.

How pension or provident fund works!

- A pension fund pays a third of the benefit as a lump sum on retirement and the remaining two thirds of the benefit is paid out over the beneficiary's lifetime. A provident fund pays all its retirement benefits as a lump sum cash benefit on retirement. Please take into account the **reformation provident fund 1 March 2016.**
- Employers may deduct up to 10% of the remuneration (John Snow Inc.) of an employee or a higher amount approved by the taxman for pension or provident funds. Currently the taxman allows employers to deduct up to 27.5% of the contributions made for an employee. Therefore for pension fund, an employee may deduct the greater of R1 750 or 7,5% of remuneration.

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How retirement annuity fund works!

- Your contributions to an retirement annuity are tax deductible and the returns you earn while invested are tax free.
- The restrictions in an retirement annuity aim to ensure your money is kept for your retirement and that it is protected from potential creditors.
- It is restricted on how much you can invest in the types of investments that are considered higher risk , for example equities and offshore investments. Funds have to be 28 regulated.

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Retirement Fund Comparison – from 1 March 2016

Source: Mr Kevin Yeh

	Pension Fund	Retirement Annuity/ Group retirement Annuity	Provident Fund
Employee/ Employer Contribution	Up to 27.5% of taxable income, tax – deductible in the hands of employee		
On resignation	Can withdrawal (Tax implication) or transfer to a preservation fund (No tax implication)	Cannot withdraw or can transfer to individual retirement annuity	Can withdrawal (Tax implication) or transfer to a preservation fund (No tax implication)
On retirement	All funds contributions and growth from 1 March 2016 : Up to 1/3 paid out as lump sum, balance to an annuity		

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Who should consider using a retirement annuity

- Self-employed people
- Employees in organisations that do not provide a pension or provident fund
- Employees who earn a significant amount of passive taxable investment income (from interest, rent, annuities etc.,) and wish to increase their retirement savings
- Employees who wish to claim retirement fund contributions at the maximum permitted rate or amount (27,5% of gross remuneration or taxable income, subject to an annual cap of R350,000) but are not permitted to make additional voluntary contributions at their workplace pension or provident fund
- Retirement annuities can also be used to house the proceeds of your pension or provident fund when terminating your employment.

Tax benefits of a retirement annuity

There are **three tax benefits**:

- **Contributions are tax deductible** – you may deduct up to 27,5% of your gross remuneration or taxable income in respect of your total contributions to a pension, provident or retirement annuity fund, subject to an annual limit of R350,000.
- **Investment returns are tax free** – there is no capital gains tax on the investment return earned in a retirement Annuity.
- **Benefits are taxed on a favourable basis** – lump sum benefits are taxed on a sliding scale with a portion of the benefit tax free (see details under "What is the tax on your RA benefits?").

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