



Leaving your job? make the right choices

Life after retirement can be rewarding, but this will depend on how well you have planned and made provision for it. The low percentage of South Africans who are able to retire financially independent is receiving increased attention in the media. There are also many different views on exactly how much you need to save to retire comfortably. It's all about making the right choices.

If your membership of the Sanlam Umbrella Provident Fund: Sanlam Group ("the Retirement Fund") is terminated due to resignation, retrenchment or dismissal, it is essential that you consider preserving your accumulated fund value – your retirement savings – instead of spending it.

YOU HAVE RECEIVED A BENEFIT FROM THE RETIREMENT FUND AS A RESULT OF TERMINATION. SO WHAT ARE YOUR OPTIONS?

Transfer your benefit to a preservation fund

Preservation funds are specially designed pension or provident funds that are managed by a board of trustees. Your benefit can be transferred tax-free to a preservation fund, and you will be allowed one opportunity to withdraw part of the value or the full value in the preservation fund before retirement.

Transfer your benefit to a retirement annuity

Transfers to retirement annuities are tax-free. Your benefit will be preserved until you are at least 55, after which you may take the benefit as a retirement benefit. A retirement annuity is not as flexible as a preservation fund, and you cannot make withdrawals from it before retirement.

Transfer your benefit to a new employer's fund

If you are moving to another company, you may have the option to transfer your accumulated retirement savings to your new employer's fund.

No tax is payable on the transfer if it's done from a provident fund to a provident or pension fund. However, if you transfer your funds from a pension to a provident fund, tax is payable on the transfer. In this instance you could consider transferring your benefit to a preservation fund, as this would mean a tax-free transfer.

Take your benefit in cash

You may be tempted to opt for a cash payment of your accumulated retirement savings. Generally, this is not a good idea! Not only will the taxman make you pay for this 'privilege' but you will also build up less capital for your retirement. The tax payable depends on the cash amount payable and the applicable tax rates.

WHY YOU SHOULD RESIST THE TEMPTATION OF A CASH PAYMENT

Research has shown that it is most important for members not to take their retirement benefit in cash, but rather to preserve it as part of their provision for retirement.

Younger members in particular are often tempted to take their benefit in cash at termination of employment, because they believe they still have lots of time to save for retirement.

Calculations done by Simeka Consultants and Actuaries show that if a member with 10 years' service takes their benefit in cash at termination of employment, that member

will have to increase future contribution rates from 13,3% to 26% of your pensionable earnings over the remaining term in order to yield a pension equalling 75% of their salary at retirement.

The table below illustrates the projected contribution rates over a period of 35 years for a member who wishes to receive a pension equal to 75% of their salary at retirement. It also indicates the way in which the member's contribution rate will have to be increased should they take their benefit in cash at termination of employment.

Contribution rate needed for a pension = 75% of salary

Assumed real rate of return	3%	5%	7%
No cash value taken	20,6%	13,3%	8,3%
Cash value taken after 5 years' service	26,3%	18,2%	12,3%
Cash value taken after 10 years' service	34,3%	25,5%	18,5%
Cash value taken after 15 years' service	46,3%	36,9%	28,8%

The maximum contribution rate members of the Retirement Fund can select is 27,5%. Therefore, it is important for members who have previously taken a cash benefit on termination of employment to determine whether they have made adequate provision for retirement.

Please note: the above examples are for a hypothetical member and should in no way be construed as advice. Each member has specific needs. You are strongly advised to make any decision regarding your retirement benefits with the help of an accredited financial adviser