



# RETIREMENT PLANNING

APPLY TECHNICAL SKILLS AND KNOWLEDGE TO ADVISE AN  
INDIVIDUAL ON RETIREMENT PLANNING



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# ADVISE AN INDIVIDUAL ON PLANNING FOR RETIREMENT



UNIT STANDARD NUMBER: 242613



LEVEL ON NQF: 5



CREDITS: 5



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# OUTCOMES

## Applying

Applying knowledge of legislation to retirement planning.

## Assessing

Assessing objectives and provisions to determine a financial strategy.

## Constructing

Constructing a portfolio for a specific client based on a client's risk tolerance and objectives.

## Recommending

Recommending changes to a retirement plan after an unplanned life event.



# IMPLICATIONS

1

Impact of lifestyle  
on the cost of  
retirement products

2

Impact of age on  
the cost of  
retirement products

3

Impact of  
assumptions about  
mortality and  
socio-economic  
status



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## FEATURES

Retirement Annuities

Pension Funds

Provident Funds

Preservation Funds

Annuities



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# GROUP PRODUCTS

- PENSION FUND
- PROVIDENT FUND
- GROUP RETIREMENT ANNUITY
- GROUP LIFE
- GROUP DISABILITY
- GROUP DREAD DISEASE
- INCOME PROTECTION



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# RETIREMENT ANNUITY

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Private Pension Fund

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Contribution Tax Deductible (limits)

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Untaxed fund

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1/3 Lump sum

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2/3 Purchases an Annuity – pension

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Protected from creditors

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No Loans or collateral



# PENSION FUNDS

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Contribution Tax Deductible (27.5% with R 350 000 Max pa)

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Untaxed fund

---

1/3 Lump sum

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2/3 Purchases and Annuity – pension

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Protected from creditors

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No Loans or collateral apart from certain company specific loans – Home Loans, Education loans and losses to company



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# PENSION LUMP- SUM TAX TABLE

## Taxable income from lump sum benefits

## Rates of tax

0 – 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000



# PROVIDENT FUNDS

Contribution  
Tax  
Deductible

Un taxed  
fund

100% Lump  
sum  
available

Can be used  
to purchase  
an annuity

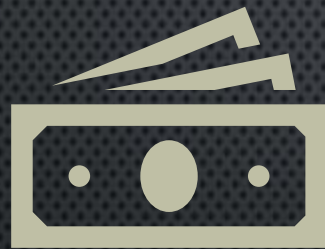
Protected  
from  
creditors

No Loans or  
collateral





# TYPES OF FUNDS



Stand alone funds



Umbrella Funds

# PRESERVATION FUNDS

Provides a home  
for capital from  
pension or  
provident funds on  
resignation

Protected from  
creditors





# ANNUITIES



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# ANNUITIES

## TWO MAIN TYPES

- VOLUNTARY ANNUITY
- COMPULSORY ANNUITY

USUALLY INVESTED IN  
GOVERNMENT BONDS  
AND GUARANTEED  
INCOME INSTRUMENTS  
OR VERY SAFE EQUITIES

## THESE CAN BE:

- NIL GUARANTEE
- GUARANTEED PERIOD
- JOINT AND SURVIVOR
- INSURED
- EQUITY OR LIVING



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# ANNUITY TYPES

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Conventional Annuity

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Nil Guarantee – High income, capital lost on death

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Guaranteed term – Pays until period is reached

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Joint and survivor – Pays until last surviving spouse

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Living or Equity Annuity - Flexible



# Key features of the different annuities

	Living Annuity	Guaranteed Annuity	With-Profit Annuity
Longevity risk	Annuitant carries all the longevity risk	<ul style="list-style-type: none"><li>• Insurer carries all the longevity risk</li><li>• Income and increases are guaranteed for life</li></ul>	<ul style="list-style-type: none"><li>• Longevity risk is pooled i.e. partly carried by the annuitants in the pool and partly carried by the insurer</li><li>• A minimum income is guaranteed for life</li></ul>
Investment risk	Annuitant carries all the investment risk	Insurer carries all the investment risk	<ul style="list-style-type: none"><li>• Annuitant is exposed to investment risk as increases are linked to investment performance</li><li>• Part of the investment risk is taken by the insurer because, regardless of investment returns, income is not allowed to decrease</li></ul>
Death benefit	Beneficiaries receive any remaining market value	No benefit, unless a guaranteed period or joint annuity is purchased	No benefit, unless a guaranteed period or joint annuity is purchased
Income flexibility	Annuitant can adjust income annually at anniversary (between 2.5% – 17.5% of annuity market value)	Annuitant has no control over income increases as this is determined at the time of entering the annuity	Annuitant has no control over increases as these are linked to investment performance



# LEGISLATION

- PENSION FUND ACT
- INCOME TAX ACT
- LABOR RELATIONS ACT
- LONG TERM INSURANCE ACT
- DIVORCE ACT
- MAINTENANCE OF SPOUSES ACT



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# OBJECTIVES

Bond repayments

Children's education needs

Contingency money

Emergency fund

Provision for medical expenses

Covering debt

Income at retirement.







## RISK BENEFITS

- FUNERAL COVER
- DEATH BENEFITS
- SPOUSES COVER
- DREAD DISEASE
- DISABILITY INCOME
- PURE DISABILITY
- ACCIDENTAL DEATH AND DISABILITY BENEFITS
- TRAUMA BENEFITS

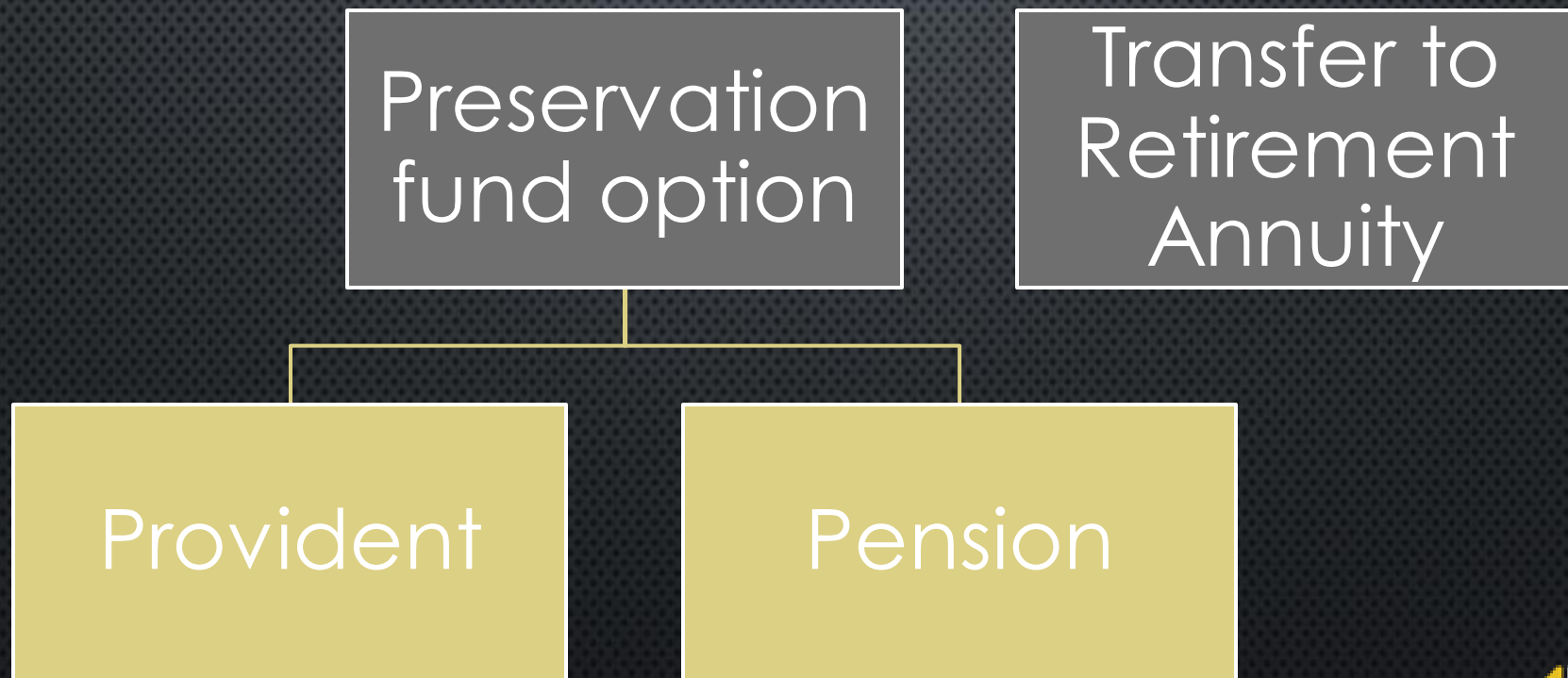
# DISABILITY

- DISABILITY BENEFITS
- ACCIDENT COVER
- TRAUMA COVER
- DISABILITY INCOME
- CAPITAL/PURE DISABILITY
- PARTIAL DISABILITY
- DREAD DISEASE





# TERMINATION OPTIONS



# BENEFITS

- FUND RULES
  - DEATH BENEFITS
  - RETIREMENT FUND BENEFITS
- TAXATION
  - L/S TAXED – OLD AND NEW
  - BALANCE PURCHASES ANNUITY – TAXED AT MARGINAL RATE





# TYPES



Defined  
benefit



Defined  
contribution



Smooth Bonus



Managed  
Funds



Market  
Related Funds



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# INVESTMENT VEHICLES

Market related

Absolute return

Structured  
products

Smoothed  
bonus products

Multi-manager  
products

Other variations  
developed to  
meet changing  
needs.



# RISK ANALYSIS



	Unit Trusts	Living Annuities	Endowment Policies	Retirement Funds
Risk Tolerance	<i>Medium to High</i>	Low	<i>Medium to high</i>	Low
Term	<i>Medium to Long</i>	Long	<i>Medium</i>	Long
Liquidity	High	Low to medium	<i>Medium</i>	Low
Tax	<i>On interest earned – depending on exemptions on marginal tax rate</i>	<i>Income drawn is taxable on normal tax rates</i>	<i>Taxed at a rate of 30% within the fund (four fund approach)</i>	<i>Tax effective – no tax in build up period</i>
<b>Cost</b>	<i>Low – depending on type</i>	<i>Medium – depending on factors, e.g. age, occupation</i>	<i>Increased premium up to 20% per annum</i>	<i>Medium to High depending on age</i>



# LIFE EVENTS THAT COULD IMPACT

- RETRENCHMENT
- RESIGNATION OR DISMISSAL
- DIVORCE
- DISABILITY
  - PERMANENT
  - TEMPORARY



MATCHING  
ANTICIPATED  
PERSONAL  
RETIREMENT NEEDS  
TO AVAILABLE  
PRODUCTS.

# MATCH NEEDS TO PRODUCTS



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# INVESTMENT SOLUTIONS

REVISITING AN INVESTMENT SOLUTION AND ADJUST IT  
TO MEET CURRENT NEEDS



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# THE FINANCIAL PLANNING PROCESS

ASSETS  
PROPERTY  
CASH  
SHARES  
BUSINESS INTERESTS  
PENSION  
RETIREMENT ANNUITIES

LIABILITIES  
BONDS  
HP/CREDIT CARDS  
ESTATE DUTY  
CGT  
TAX ON LUMP SUMS

= BALANCE  
BALANCE X RETURN

## Rates and Assumptions

Interest Rate      Term/Life exp.

Inflation Rate      Tax Rates

Annuity Rates

INCOME FROM ASSETS  
INCOME FROM RA ANNUITY  
LESS INCOME TAX  
= NET INCOME  
NET INCOME – NEED = SHORTFALL OR  
EXCESS



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