

# RETIREMENT BENEFITS COUNSELLING

With your retirement date approaching, it can be an exciting and daunting task of determining the next steps in your retirement journey to secure a comfortable retirement.

For your information, this is a summary of the options available to you in respect of your retirement fund savings when you elect to retire.

## What to consider before you retire

It is important to determine if you have sufficient savings to retire that will allow you to draw a sustainable drawdown that can meet your post-retirement living expenses. You should plan for your savings to sustain you with an income that can last at least up to the of age 95 - 100, while some can expect to live even longer.

You will need to carefully factor the effect of inflation on your living expenses, such as medical bills, that will increase each year. In addition, you will also need to account for income tax on the annuity income you receive.

It is strongly recommended to seek guidance from your financial adviser when choosing an annuity that is best suited to your unique circumstances and will help to ensure that you have a sustainable income during retirement.

## Your options at retirement

The options available to you at retirement are indicated below:

Retirement Annuity & Preservation Pension Funds	Preservation Provident Funds
Invest the full retirement value into an annuity.	Invest the full retirement value into an annuity.
Take a portion in cash up to the maximum of one third as a once-off cash lump sum* of the retirement value and invest the balance into an annuity.	Take a portion as a cash lump sum* and invest the balance into an annuity.
Take the full retirement value as a once-off cash lump sum*. <i>(Please note that this option is only available if the total retirement value in the Fund, taking into account all policies, at the time of processing the claim is below R 247 500.)</i>	Take the full retirement value as a once-off cash lump sum*.

*\*It's important to note that any cash lump sum taken at retirement shall be taxed according to the retirement fund lump sum withdrawal benefits tax table. A tax directive will be obtained from the South African Revenue Service (SARS) to indicate the tax amount to be withheld from any lump sum payment.*

## What is an annuity?

An annuity is a type of retirement income solution that you purchase with a portion or your full retirement benefit. It pays a regular retirement income for life or a set period depending on the type of annuity purchased.

There are two types of annuities, a living annuity or a life annuity.

With a living annuity the income is not guaranteed, your funds are invested, and you may draw an income from the capital value of the assets in the fund. If the capital is depleted before your death, you will no longer be able to draw an income.

A life annuity pays a guaranteed income to you until you pass away. The life annuity may be taken on a single life or on joint lives and the annuity income will cease when the last survivor dies. Depending on the type of life annuity purchased, any capital remaining at your death may be paid to your beneficiary or estate.

## Tax treatment on an annuity

Income tax will apply on the income that you receive from any life annuity or living annuity.

Your annuity income payment is taxed according to your marginal rate of tax. The returns generated by your annuity is exempt from capital gains tax and dividend withholding tax. Interest income, foreign dividends and rental income earned within the Fund are also currently untaxed in South Africa.

## Your annuity options with PPS Investments

### 1. PPS Living Annuity

This is a post-retirement solution which allows you to invest your accumulated retirement funds with a long-term insurer for continued growth. You can choose the amount of your income drawdown, between 2.5% and 17.5% per annum (calculated on the capital value invested in the living annuity) and the income is not guaranteed.

You can customise the PPS Living Annuity to suit your needs. You may choose your income drawdown levels annually and choose the underlying investment option(s). [Consult the PPS Living Annuity brochure for more information here.](#)

### 2. PPS Default Living Annuity Solution

New pension fund regulations require retirement funds to offer members a default annuity strategy when they retire. This is an optional annuity available to members who are not comfortable selecting their own drawdown income levels and the underlying investment options.

The Board of Trustees have elected the PPS Living Annuity as the funds' default annuity strategy. This will be called the PPS Default Living Annuity Solution and is made up of the following:

- The PPS Balanced Fund of Funds which has been elected as the default Investment Option for the PPS Default Living Annuity Solution. [Click here](#) for the latest Minimum Disclosure Document for more information on the Investment Option.
- The below maximum drawdown levels which have been approved by the Trustees

Age	Male	Female
55-59	3.0%	2.5%
60-64	3.0%	3.0%
65-69	3.0%	3.0%
70-74	3.5%	3.0%
75-79	4.0%	3.5%
80-84	4.0%	4.0%
85+	4.5%	4.5%

At commencement, members can elect to drawdown an amount between the 2.5% regulatory minimum and the maximum applicable to you, based on your gender and age at your next birthday.

On an annual basis, the drawdown amount will be increased by 5.7% throughout the life of the annuitant, but within the 2.5% to 17.5% limits of the Living Annuity.

## Factors to consider when purchasing a living annuity

When considering a living annuity, you will bear both the investment and longevity risk in full.

Investment risk refers to the risk of your investment performance being below the targeted benchmark, causing your capital to deplete sooner than expected which may result in you not being able to draw a sustainable income.

Longevity risk refers to the possibility that you may outlive your retirement savings, as your income is not guaranteed in a living annuity.

## What happens at death in a living annuity

Upon death, the proceeds of your living annuity will flow directly to your nominated beneficiaries. This amount is determined by the market value of your living annuity. Your beneficiaries may choose to receive the money as an annuity or a lump sum payment. Retirement lump sum tax may be incurred should your beneficiary elect to receive their death benefit as a cash lump sum. If no beneficiary is nominated, proceeds will be paid to your estate.

## Explanation of fees applicable

Two fee components apply, namely administration and investment fees for all PPS Investments annuity solutions.

### Administration fees

Value of total investments with PPS Investments	Applicable administration fees (excl. VAT)
First R1 500 000	0.60%
Amounts thereafter above the first R1.5 million)	0.30%

Please note that this excludes PPS Enhanced Yield and Allan Gray Money Market Fund assets. Furthermore, these funds are charged 0.4% fixed fee excluding VAT. Refer to the Terms, Conditions and Declarations of the PPS Living Annuity on the [www.pps.co.za](http://www.pps.co.za).

### Investment fees

Investment fees are charged on the Investment Option elected. For applicable fees on the elected Investment Options refer to the latest Minimum Disclosure Document on [www.pps.co.za](http://www.pps.co.za).

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**Note:** This brochure is for information purposes only and should not be deemed as financial advice. We strongly recommend that you consult your PPS Investments accredited financial adviser before making any financial decisions that may affect your retirement outcome.

Disclaimer: The PPS Living Annuity is a policy issued by PPS Insurance Limited under the Long-Term Insurance Act, No 52 of 1998. The Professional Provident Society Holdings Trust No IT 312/2011 (PPS), PPS Investments (Pty) Ltd, PPS Multi-Managers (Pty) Ltd, PPS Investment Administrators (Pty) Ltd and PPS Insurance Company Ltd are licensed financial services providers. PPS Management Company (Pty) Ltd (RF) is a licensed collective investment scheme manager.

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## Glossary

**Annuity** An annuity is a type of retirement income solution that you purchase with a portion or all of your retirement benefit. It pays a regular retirement income for life or a set period depending on the type of annuity purchased.

**Default Investment Option(s)** Refers to unit trust portfolios selected as default investment options and made available within the PPS Default Living Annuity Solution.

**Default Regulations** Refers to the recent amendments of the Pension Funds Act (The Act). The new Retirement Funds Default Regulations (Default Regulations) effective 1 March 2019.

**Drawdown rules** Refers to the drawdown annuity strategy that policyholders may follow should they retire from any of the Funds and opt to follow the PPS Default Living Annuity Solution.

**Income tax** A tax levied by Government via the South African Revenue Service (SARS) on personal income (or on business income) according to prescribed tax rates.

**Investment Option(s)** Refers to the unit trust portfolios available.

**Life annuity** A life annuity pays a guaranteed income to you until you pass away. The life annuity may be taken on a single life or on joint lives and the annuity income will cease when the last survivor dies.

**Living annuity** With a living annuity the income is not guaranteed, your funds are invested, and you may draw an income of between 2.5% and 17.5% of the capital value of the assets in the fund. If the capital is depleted before your death, you will no longer be able to draw an income.

**Market value** The current value of your investment in market terms (usually the unit price x the number of units).

**Minimum Disclosure Document (MDD)** Also known as a fund fact sheet that discloses key information about the fund.

**PPS Insurance** Means Professional Provident Society Insurance Company Limited, a licensed financial services provider (licence no. 1044).

**PPS Investments** Means Professional Provident Society Investments Propriety Limited, a licensed financial services provider (licence no. 39270).

**PPS Investment Secure Online Services** An online portal that allows clients and financial advisers to transact online from anywhere, and at any time ([www.ppsisecure.co.za](http://www.ppsisecure.co.za)).

**PPS Investments website** An online portal that offers additional information about the PPS Investments range of investment products and funds ([www.ppsinvestments.co.za](http://www.ppsinvestments.co.za)).

**PPS Default Living Annuity Solution** Means the PPS Living Annuity which follows a predetermined drawdown strategy and has been elected by the Retirement Funds as the approved default annuity solution, in terms of Regulation 39 of the Pension Funds Act, for its retiring members.

**PPS Living Annuity** Refers to the PPS Living Annuity, whether or not it follows the drawdown rules or is invested in the default Investment Option(s) of the PPS Default Living Annuity Solution drawdown rules.

**Retirement Funds** Refers to the PPS Retirement Annuity Fund, PPS Personal Pension Retirement Annuity Fund, PPS Preservation Pension Fund, PPS Preservation Provident Fund,

**Total Expense Ratio (TER)** A measure of the total costs associated with managing and operating a unit trust. Total costs are expressed as a percentage of the total assets under management. The higher the TER percentage, the greater the overall cost to the investor.

**Transaction Cost (TC)** The total cost incurred in buying and selling the underlying assets of your Investment Option(s).