Retirement Benefits Counselling

INVESTMENTS

It can be both an exciting and daunting task to determine the steps to take to ensure a comfortable retirement. To assist you, we have compiled this document outlining the options available to you at retirement.

What to consider before you retire

It is important to determine if you have sufficient savings to retire. Your savings must allow you to draw a sustainable income that can meet all your post-retirement expenses. You should plan to have an income that can last up to the of age 95 - 100, while some can expect to live even longer.

Furthermore, you will need to carefully factor the effect of inflation on your living expenses that will increase yearly. In addition, you need to account for income tax on the annuity income you receive.

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

Your options at retirement

One of the first steps is to choose one of the following options available to you at retirement based on the pre-retirement product/s you have.

Product type	Option 1	Option 2	Option 3
Retirement Annuity & Preservation Pension Funds	Invest the full retirement value into an annuity.	Take a portion as a lump sum (a maximum of one third of the retirement value) and invest the balance into an annuity. *Vested benefits may also be taken as a lump sum in addition to the one third.	If the total investment value in the Fund is R247 500 or less (inclusive of all policies and excluding any vested* benefits) you may take the full value of your benefit as a cash lump sum.
Preservation Provident Funds	Invest the full retirement value into an annuity.	Take a portion as a lump sum (a maximum of one third of the retirement value) and invest the balance into an annuity. *Vested benefits may also be taken as a lump sum in addition to the one third.	If the total investment value in the Fund is R247 500 or less (inclusive of all policies and excluding any vested* benefits) you may take the full value of your benefit as a cash lump sum.

* Refer to the below for more information on vested vs non-vested benefits.

Vested benefits depend on your age when the law governing provident funds changed:

If you were a member of a provident fund or preservation provident fund, and you were **55 years or older on 1 March 2021**, all contributions and investment returns can be taken as a lump sum at retirement, regardless of the balance.

If you were a member of a provident fund or preservation provident fund, and you were **55 years or older on 1 March 2021**, and you transferred your benefit to another fund before retirement, then all contributions made prior to the transfer to the new fund, plus investment return, become vested and can be taken as a lump sum at retirement.

If you were a member of a provident fund or preservation provident fund and you were **younger than 55 years on 1 March 2021**, then the contributions made before that date, plus investment return become vested and can be taken as a lump sum at retirement.

Tax implications

It's important to note that any lump sum taken at retirement will be taxed according to the SARS retirement fund lump sum tax table below. The lump sum calculation is cumulative, meaning that all lump sums taken from all retirement funds are considered in determining the taxable amount. A tax directive will be obtained from SARS to indicate the tax amount to be withheld from any lump sum payment, if applicable. If you have any unpaid taxes, SARS will require PPS Investments to pay these taxes to SARS from your retirement benefit.

Taxable income from all lump sum benefits	Rates of tax
Up to R550 000	0%
R550 001 - R770 000	18% of amount that exceeds R550 000
R770 001 – R1 155 000	R39 600 plus 27% of amount that exceeds R770 000
Above R1 155 000	R143 550 plus 36% of amount that exceeds R1 155 000

What is an annuity?

An annuity is a long-term insurance policy you purchase from an insurer with your retirement benefit. The annuity pays a monthly, quarterly, or annual retirement income. Your annuity income payment is taxed according to your marginal rate of tax. The insurer will deduct the tax from your income payment based on tax tables. If you have annuity income from multiple sources, it is possible to obtain a more accurate tax directive from SARS so that you do not need to pay in additional tax at the end of the tax year.

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

Income differences

With a living annuity the income is not guaranteed as it depends on investment return and the amount you choose to draw as an income. You can select a drawdown percentage between 2.5% and 17.5% per annum from the capital value of the investment and may change this drawdown percentage every year on the anniversary of the policy.

A life annuity pays a guaranteed fixed income to you until you pass away. It is a risk policy where the income is calculated by actuaries, based on your estimated life expectancy determined by your age and gender. You can elect to add an automatic annual increase of income to keep up with inflation.

Beneficiaries

If the capital in your living annuity is depleted before your death, you will no longer be able to draw an income. You may nominate beneficiaries to receive the remaining capital on your death. Your beneficiaries can elect to either take the capital value as a lump sum (subject to tax on the lump sum) or to continue receiving an income from their own living annuity policy. If you do not nominate a beneficiary, the remaining capital will be paid to your estate as a lump sum.

The life annuity may be taken on a single life, or on joint lives, in which case the annuity income will cease when the survivor dies. You may elect to have a guarantee on the policy for a term, of say five years, so that if you pass away during the guarantee period, a lump sum representing the remaining term, will be paid to your nominated beneficiary or estate.

Key feature differences
The advantage of a living annuity is that you can control your level of income with your choice of drawdown level and choice of investment portfolio, and you are able to leave a capital amount for your beneficiaries if you do not deplete the capital. You may convert your living annuity into a life annuity should you later change your mind. When considering a living annuity, you will bear both the investment risk* and longevity risk* in full.

The advantage of a life annuity is that you will have a pre-determined income no matter how long you live, the disadvantage is that you have no control over the income as your needs may change over time and there is no investment to leave your beneficiaries. Once you have selected a life annuity, you cannot later convert this to a living annuity.

** **Investment risk** refers to the risk of your investment performance being below the targeted benchmark, which may result in your capital to deplete sooner than expected and 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.*

Annuity options at PPS Investments
Once you have decided which option you choose at retirement, you need to select an annuity insurer of your choice. If you would like to continue your financial journey with PPS Investments, your annuity options are:

Product	Summary	Key features	More information
PPS Living Annuity	Invest retirement savings for continued growth while drawing an income. Income can fluctuate with market movement and the value of the capital. Income amount is not guaranteed.	Minimum annual amount which may be withdrawn is 2.5% of your net investment value and the maximum is 17.5% per annum. You can customise the annuity to suit your needs. You may choose the underlying investment option(s) and change them at any time. You may change your chosen drawdown percentage once a year on the anniversary of your annuity.	Click here to view the PPS Living Annuity brochure for more information. Click here to view the PPS Living Annuity application form.
PPS Default Living Annuity Solution	If you prefer a living annuity, but you are not comfortable selecting the drawdown percentage and the investment options, then the trustees of the retirement fund have made available a default annuity strategy.	The PPS Balanced Fund of Funds has been selected as the default investment option. At commencement, you 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. The drawdown amount will be increased by 5.7% annually throughout your life, but within the 2.5% to 17.5% limits of the living annuity. If you have selected the PPS Default Living Annuity Solution, you may opt out of this at any time. You may change to the PPS Living Annuity.	Click here to view the PPS Default Living Annuity Solution terms and conditions for more information. Click here to view the PPS Default Living Annuity Solution application form.

PPS Living Annuity with Lifetime Income	The PPS Living Annuity with Lifetime Income incorporates the benefits of a life annuity (where the risk of running out of funds due to poor investment performance or living longer is not borne by the policyholder) into a living annuity. The Lifetime Income portfolio is provided and underwritten by Just SA who ensures the payment of a monthly lifetime income into your living annuity for the rest of your life.	Monthly lifetime income is paid from the Lifetime Income portion to the unit trust portion. Living Annuity income is paid from the unit trust portion into your bank account. A maximum of 75% of your Living Annuity value can be allocated to a Lifetime Income portfolio/portfolios at every Lifetime Income portfolio commencement. Only available through a financial adviser.	Click here to view the PPS Living Annuity with Lifetime Income brochure for more information. Click here to view the PPS Living Annuity with Lifetime Income Terms and Conditions for more information.

*The below maximum drawdown levels 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%	2.5%
75-79	4.0%	3.5%
80-84	3.0%	2.5%
85+	3.0%	2.5%

Fees

Two fee components apply, namely the 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	0.50%
Next R3 500 000	0.20%
Thereafter	0.10%

Please note that this excludes PPS Enhanced Yield and Allan Gray Money Market Fund assets. Furthermore, these funds are charged 0.40% fixed fee excl VAT. Refer to the Terms, Conditions and Declarations of the PPS Living Annuity on the www.pps.co.za/invest.

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/invest.

The importance of a financial adviser

It is essential that you obtain financial advice before making your decision. A financial adviser can explain the tax implication of the various options and can recommend an annuity product suitable for your financial circumstances. If you do not have a financial adviser, please let us know and we can put you in touch with an accredited financial adviser.

If you have any queries regarding the above, please contact your financial adviser or the Client Service Centre on 0860 468 777 (0860 INV PSS)/+27 (0) 21 672 2783 between 08:00 to 17:00, Mondays to Fridays, or email us at clientservices@ppsinvestments.co.za.

Contact details

Tel: 0860 468 777 (0860 INV PPS)
Fax: 021 680 3680
Email: clientservices@ppsinvestments.co.za
Website: www.pps.co.za/invest

Address: PPS House, Boundary Terraces, 1 Mariendahl Lane
Newlands, 7700