

STREETWISE FINANCE

“To provide basic financial literacy (‘be streetwise’) to the people of South Africa, one group at a time; thereby creating a broader, more financially literate community and nation.”

Module 4 Retirement

Hollard.

This booklet will help you gain an understanding about retirement



Preparation



Products



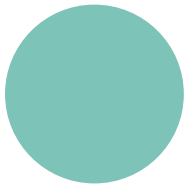
Factors and mistakes

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Retirement statistics

1. 9 out of 10 people in South Africa do not have sufficient income when they retire.
2. According to a survey of South Africans who have reached the age of 65: Financially independent means that they will receive approximately 75% of their final salary during retirement. The reason this statistic is so low is because the remaining 94% of people don't save enough and/or don't start saving early enough during their careers. Due to this, they'll have to work for much longer before they can retire – if they can even afford to retire.



46 %

forced to
continue working
or take up
second careers



31 %

dependent on
relatives



17 %

dependent on a
state pension



6 %

financially
independent

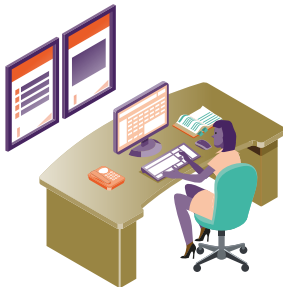
The Two-Pot retirement system

What is the Two-Pot retirement system?

The Two-Pot retirement system in South Africa, introduced on 1 September 2024, is aimed at balancing short-term financial flexibility with long-term retirement security. Your retirement savings is divided into two pots:

Why is the Two-Pot Retirement System useful?

- It helps you save for retirement and have money available for emergencies.
- You're less likely to dip into your retirement savings because you have a savings pot for short-term emergency needs.
- Encourages better financial discipline and peace of mind.



Purpose:

Provides limited access to retirement savings before retirement for emergencies or financial relief.



Contributions:

Receives one-third of all new retirement contributions from 1 September 2024 onward.



Access prior to retirement:

- One withdrawal allowed per tax year (unless a member exits the fund and the value of the savings pot is less than R2000, a second withdrawal is permitted).
- Minimum withdrawal: R2,000.
- Maximum withdrawal: Full balance of the pot.
- Withdrawals are taxed at your marginal income tax rate.

**Seeding Capital:**

On 31 August 2024, 10% of your vested pot, capped at R30,000, was transferred into this pot as a once-off. Your vested pot holds all retirement savings accumulated before 1 September 2024.

**Access at Retirement:**

- Full value may be taken in cash (taxed at the retirement lump sum tax tables)
- Any value not taken in cash must be used to purchase an annuity from a life Insurer

2. Retirement Pot

**Purpose:**

Preserves the bulk of your retirement savings until retirement age.

**Contributions:**

Receives two-thirds of all new contributions from 1 September 2024 onward.

**Access:**

- Only accessible at retirement.
- Follows standard retirement rules: up to one-third can be taken as a lump sum (taxed at the retirement lump sum tax tables), the rest must be used to purchase an annuity.
- Benefits from compound growth over time



What are the disadvantages of withdrawing from your Savings Pot?

- You lose the power of compound growth VV your money misses out on earning interest on interest.
- You pay tax at your marginal income tax rate when you withdraw prior to retirement, which is usually higher than the tax rate you will pay at retirement.
- Your retirement savings shrink, which means less money to live on when you stop working.
- You may need to work longer or reduce your lifestyle in retirement.



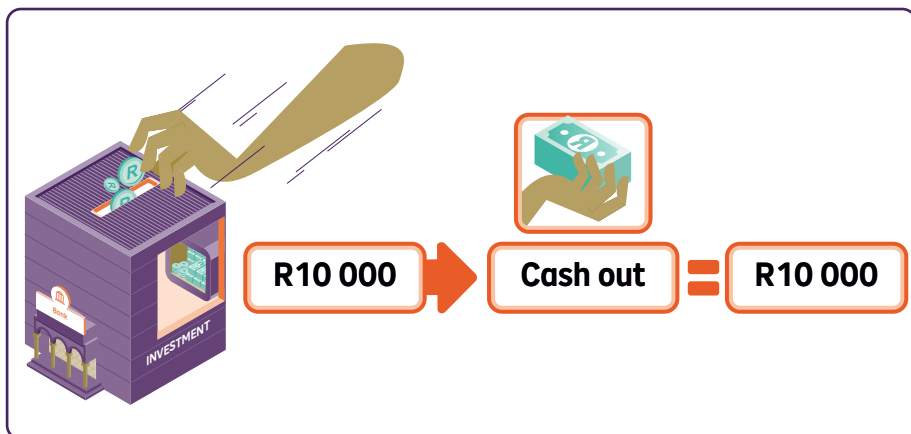
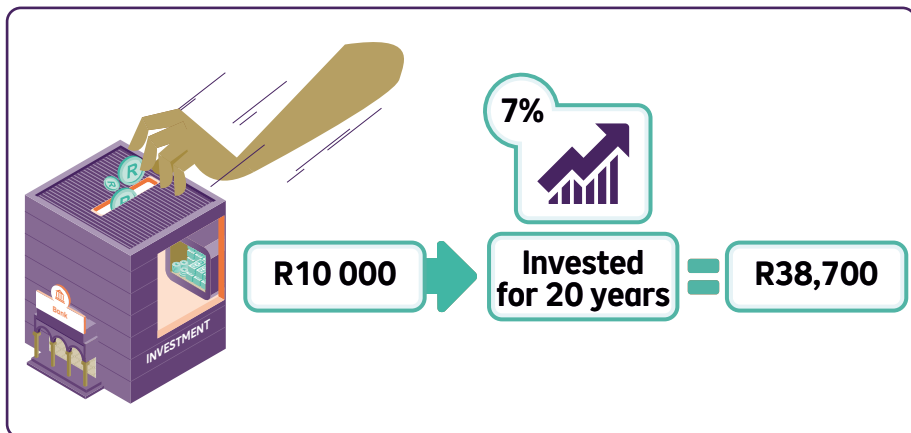
What are the advantages of not withdrawing from your Savings Pot?

- Your savings continue to grow through compound interest and capital growth over the years.
- You benefit from tax advantages by leaving money in until retirement - no interest income tax, capital gains tax or dividends tax applies to retirement funds while remaining invested.
- You have a larger amount to support you through retirement.
- You have more financial security and flexibility in your later years.

When you leave your savings invested until retirement, your money has the chance to grow over time.

Withdrawing from your Savings Pot might seem like a quick way to get cash, but it can seriously reduce the amount you have when you retire impacting your financial independence at retirement.

Example:



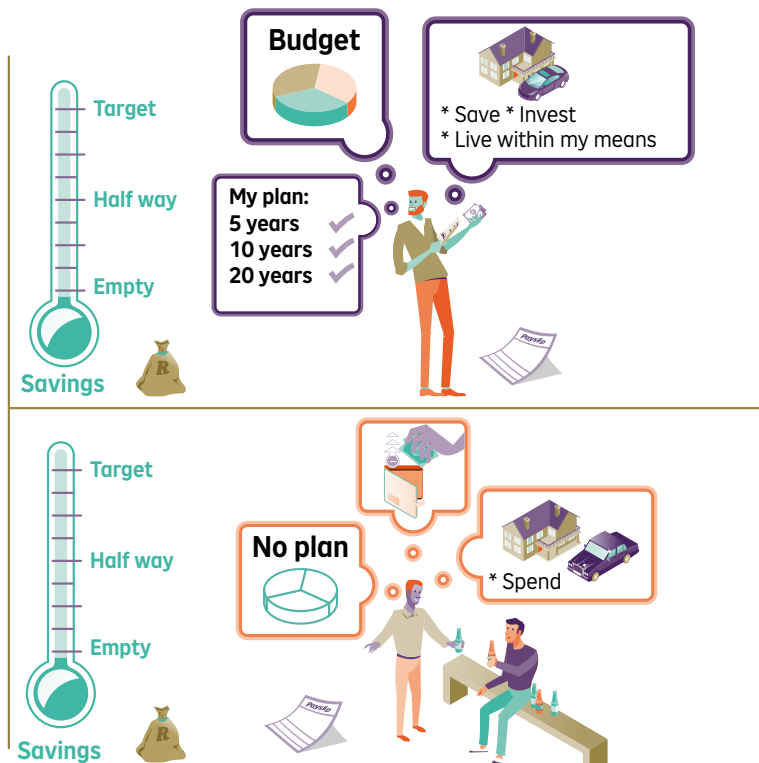
Imagine you have R10,000 saved and you leave it invested for 20 years with an average return of 7% per year. If you leave it invested, after 20 years, it could grow to R38,700. If you cash it out now, you get only the R10,000 (before tax) with no extra growth.

Key Takeaway

Think carefully before withdrawing from your Savings Pot. It should only be used for true emergencies. The money you save now can grow and provide a much better future for you.

Retirement planning life cycle

Proper retirement planning begins with determining where we are in the retirement planning life cycle. The three stages in the retirement planning life cycle are:

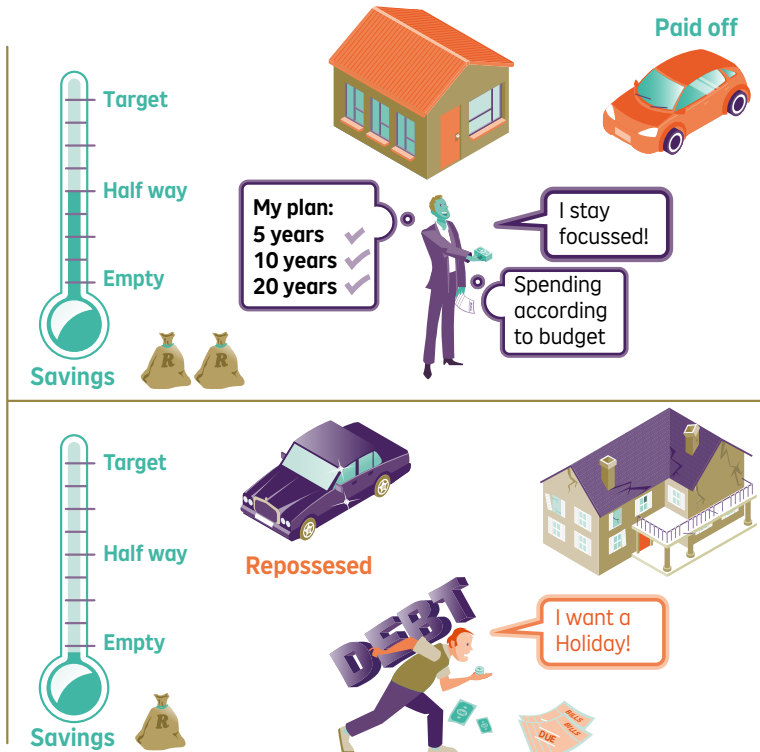


Starting out

- This stage is from age 25 through to 45.
- This is the time when it is most optimal to save, since the earlier one begins to save, the easier it is to attain one's goals.

Retirement planning life cycle (continued)

Final preparation

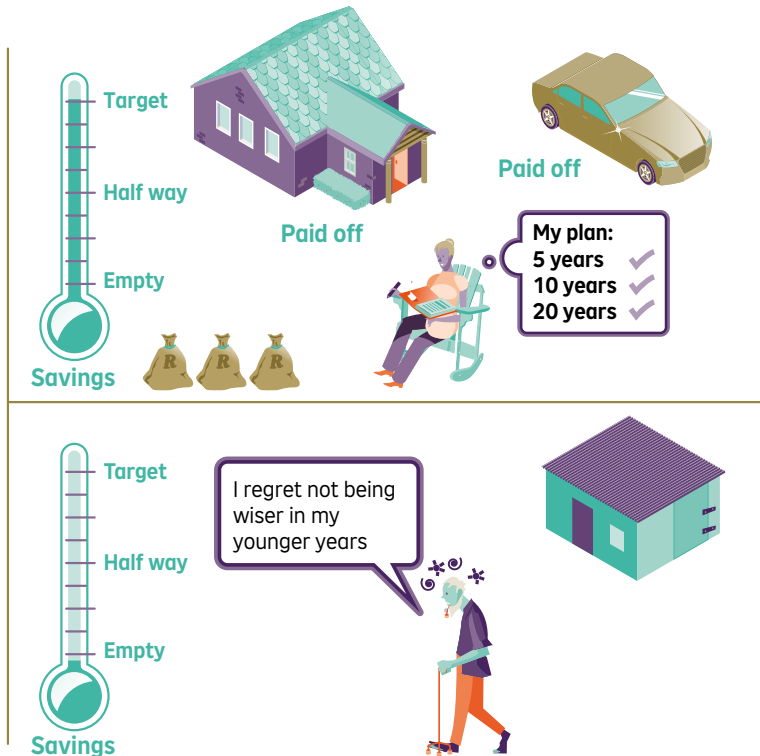


Final preparation

- This stage ranges from 45 to the date one retires.
- It is during this stage that one must regularly review the status of one's accounts and then adjust saving and organise/consolidate accounts in a way that increases the likelihood of success.
- This stage is the last step before retirement; it is critical that it be done right.

Retirement planning life cycle (continued)

Retirement



Retirement

- This is the time when your lifetime of saving and proper planning pays off.
- Once in this stage you will have accumulated enough assets to carry you through the rest of your life.
- You will have determined how to best organise various asset accounts as well as made proper elections on your pensions (including Social Security).
- Without such thrift, saving and planning your retirement can be a rather dismal time in your life.

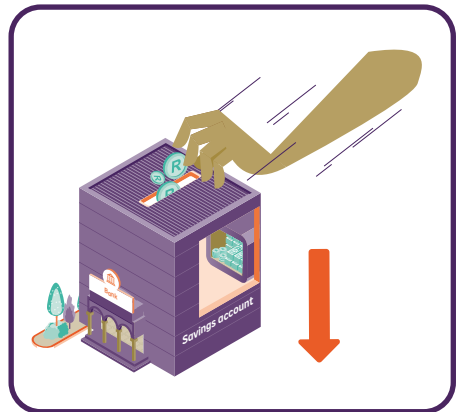
Why do you need to plan for retirement?

Many people dream about their retirement as a time they will spend doing what they love. However, to ensure you are financially taken care of when you reach retirement you need to start planning in your younger years, because you may need more money than you expect.

Here are some reasons why you may find yourself without enough income:



Increasing number of years spent in retirement



Low returns on normal savings

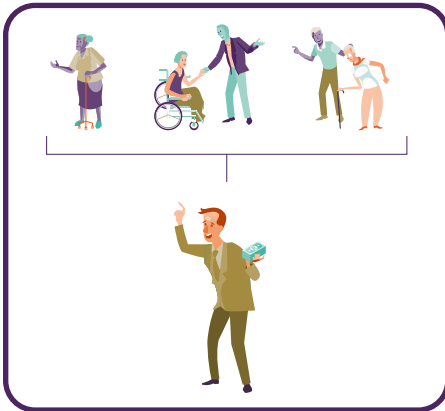


Unforeseen events

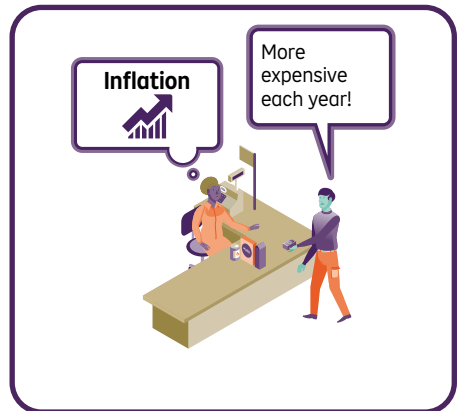


Increasing medical costs

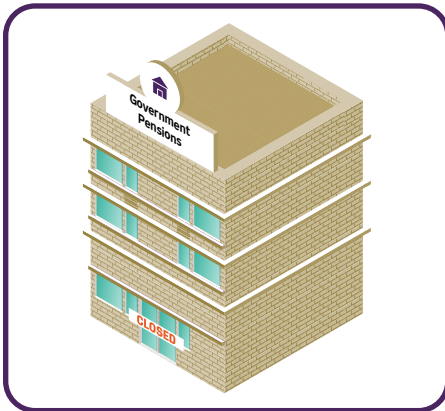
Why do you need to plan for retirement? (continued)



Family unable to support older generations



Inflationary trends (general increase in the price of goods and services over time)

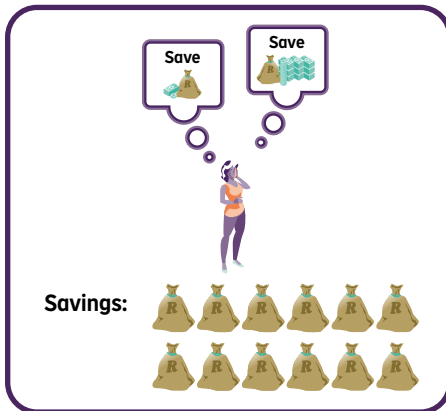


Lack of Social Security benefits from the government

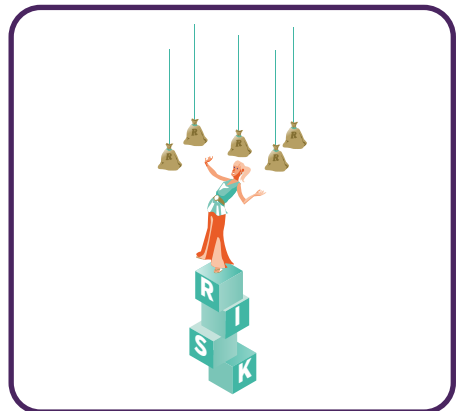


Desire to enjoy hobbies such as going on fishing trips or playing golf

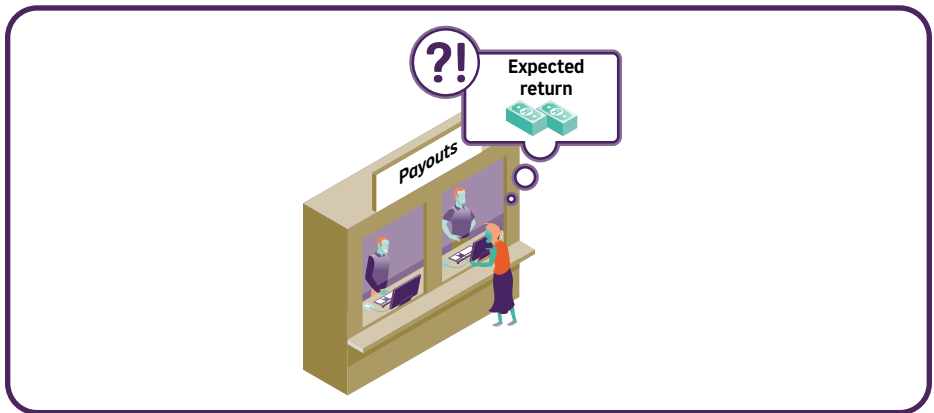
Preparation



Save as much as you can, as soon as you can

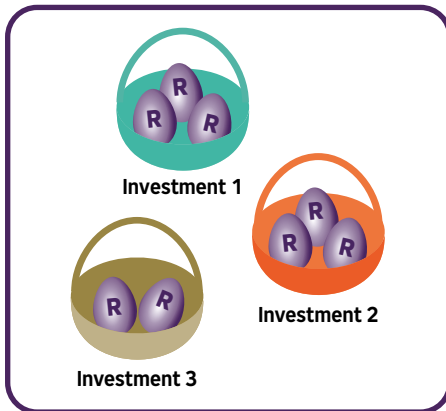


Understand your appetite for risk

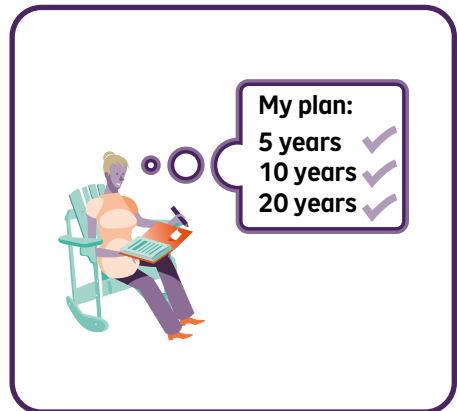


Realistic return expectations

Preparation (continued)



Have a varied investment portfolio



Have the longer term in mind



Receive a tax benefit by having a retirement fund

Retirement products



A retirement annuity is taken out by an individual.



Pays out at retirement age.

Payout: Lump sum or monthly pension

Tax benefit: Maximum of 7.5% of salary



An employee pension fund run by the employer or government. Employer contribution = maximum 20% of salary.

Or: Can be transferred to a new pension fund, when changing jobs.
A maximum of 1/3 of final benefit paid as cash.



Pays out for the rest of your life.

Payout: 1/3 paid as lump sum, the rest as monthly payouts

Tax benefit: Maximum of 7.5% of salary

Retirement Annuities

Pension Fund



An employee provident fund run by the employer. Maximum contribution of 20% of your salary.

Or: Pays out when employee leaves job. Can be transferred to a new provident fund, or taken as a lump sum (taxed).



Pays out at retirement age

Payout: Prior to 1 Mar '21 - lump sum. From 1 Mar '21 - 1/3rd lump sum, the rest as monthly payouts

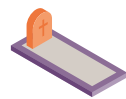
Tax benefit: Maximum of 7.5% of salary)



An insurance product bought by an individual.



Pay day!



Payment end

Payout: Monthly payouts from retirement age. This continues for as long as individual is alive.

Provident Fund

Life Annuities

Retirement products (continued)



An insurance product bought by an individual.



Capital

Payout: Monthly payouts while the rest gets invested so it can grow, to make it last longer. You can run out of funds.



An insurance product bought by an individual.



Limited payments

Payout: This annuity will give monthly payouts for a fixed period of time only.

Living Annuity

Term Annuities



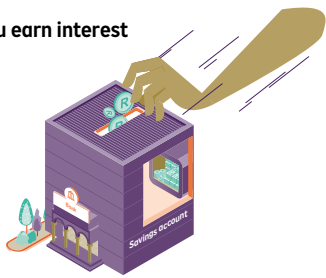
Buying shares that are pooled to be collectively managed by a trust.



Units

Payout: Dividends are earned or the individual can sell their units at any time to get access to their funds.

 You earn interest



Payout: Savings account earns very low interest but individual has immediate access to funds.

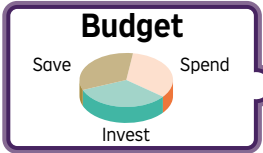
Unit Trust

Bank Savings Account

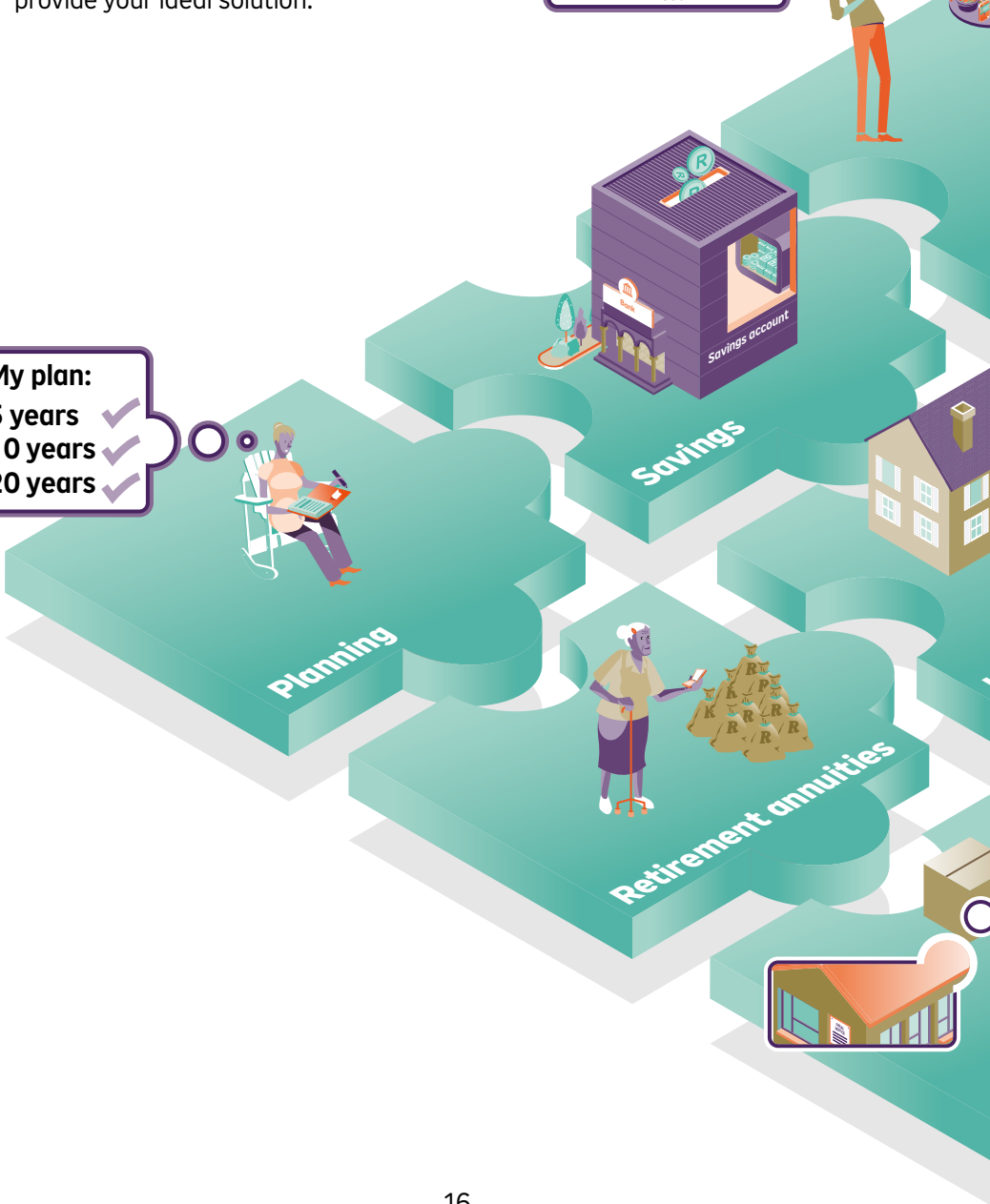
Retirement planning

Retirement planning involves fitting together many puzzle pieces to provide your ideal solution.

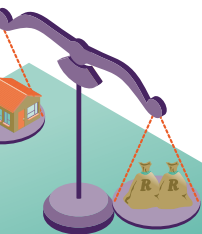
My plan:
5 years ✓
10 years ✓
20 years ✓



Exp



enses



Income

Budgeting



Bond

House bond



Moving house



Education



Debt



Insurance

My own retirement goals

What sort of lifestyle would you like to have when you retire and what costs are involved with this? Make some notes on items you need to take action on now; for example, find out about the different retirement funds your company offers.

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Contact Details

South African Insurance Association	011 726 5381
Association for Savings and Investments SA	021 673 1620
FAIS Ombudsman	0860 066 3274
Short- Term Insurance Ombudsman	011 726 8900
Life Assurance Ombudsman	021 657 5000
Financial Sector Conduct Authority	0800 203 722
National Credit Regulator	0860 627 627
National Financial Ombud Scheme (NFO)	0860 800 900
Banking Ombudsman	0860 800 900