It is very important to have a retirement plan to provide for you in your old age. The sad reality, however, is that when most people start to worry about their old age, it is too late to do anything about it. None of us wants to be poor when we are old and weak and when we are in possible need of expensive medical care. Yet most people will have to work for the rest of their lives just to keep body and soul together! It is therefore in your best interest to choose a retirement plan that can provide you with a monthly income until you die, interest earned on your money, and cover rises in cost of living. There are many types of investments which build up capital or provide a monthly income when you retire. These include:

Retirement funds

Some employers offer a retirement fund. This may be a pension fund or a provident fund. It is your responsibility to find out exactly what retirement scheme your company is offering you. It is also good to know that there is no legal obligation for employers to establish employee benefit schemes for their employees, but most do so for some of the following reasons:

A moral duty, as the State does not provide sufficiently and most individuals do not realise the need to save until it is too late.
To prevent being approached for finance when an employee retires or needing to assist with the maintenance of dependents when an employee dies.
To make use of the tax benefits provided by the State on all or part of their fund contributions, investments growth and final benefit.
In order to attract and retain staff.

What are the different exit options for members of a Pension/Provident Fund or Retirement Annuity Fund?

A member of a Fund has two exit options at the time of retirement, namely the compulsory purchase annuity or voluntary purchase annuity option.

+ Conventional or fixed-interest Annuity

When a person retires from a pension fund or retirement annuity fund, they are compelled by law to take a minimum of two-thirds of the total retirement benefit value as a compulsory pension/annuity. This is then paid to them as a regular pension until they die. If the fund does not pay pension directly they can purchase such an annuity from a long-term insurance company.

+ Voluntary Annuity

When an individual retires from a provident fund they will receive their entire retirement benefit as a cash lump sum. In this case, they are not compelled by law to purchase a pension although it is an option to consider. If they would like to receive a monthly pension, the member can buy a voluntary annuity from a long-term insurance company.

How do you make sure your retirement fund beats inflation and lasts as long as you do?

You will receive a benefit statement once a year, which will give you details of the current position of your fund. Review your situation regularly and make adjustments to your investments when necessary. It is essential to invest extra money while you are still working.

Some retirement funds allow for top-up contributions. If yours does not, you should make additional investments (usually a retirement annuity or an endowment policy) as soon as you can.

The important thing is to invest as much money as you can every month to make sure your retirement fund will be enough to live on safely and securely when you are old. Avoid cashing in a retirement fund when you change your job – but if you do, transfer the money to a preservation fund.

Lump sum Investments

If you have a lump sum to invest, decide carefully what your objectives are and choose the appropriate investment, depending on when you will need the money. Each type of investment has its own risks, rewards, time-frames and advantages, depending on your reasons for investing.

Example 1: If you become entitled to a lump sum payment from your pension or provident fund when you resign from a company, you should transfer this to a preservation fund. This would not only save you from being taxed on the lump sum now, but also ensure it is there for you for retirement.

Example 2: If you want a medium-sized lump sum for five years or more, collective investment schemes may be a better option.

Example 3: If you are interested in investing R50 000 or more for at least five years at a time, you should consider a premium endowment policy.

Retirement Annuity Funds

A retirement annuity fund is a good, safe long-term savings plan for old age. It is safe because you cannot take out the money before the selected maturity date – anywhere between the ages of 55 and 70. You can only draw on the retirement fund that you are entitled to draw on, subject to two conditions: (i) you must have reached retirement age and (ii) your retirement fund has reached the age of 55. At retirement age, you receive a lump sum investment amount in monthly installments, which will grow at a fixed rate, determined by your retirement fund.