YOUR NEWSLETTER
Your LIFE

ISASA
Independent Schools Association of Southern Africa

PENSION SCHEME AND PROVIDENT FUND

BACK TO BASICS

THE DIFFERENCE BETWEEN PENSION AND PROVIDENT FUNDS

PENSION FUND IN A NUTSHELL

If a pension fund member retires, they will receive up to a third of the total benefit in a cash lump sum. The remaining two-thirds must be used to buy a monthly pension, for the rest of their lives.

The advantage of a pension is that you will receive a monthly income for the rest of your life. And, if you buy a guaranteed annuity there is no risk of spending it all too soon and not having enough left for the remainder of your life.

You also have the flexibility to use all your retirement savings to buy a pension/annuity and in many cases this is a better alternative to taking one third in cash, especially if your retirement fund savings are less than a million Rand.

PROVIDENT FUND IN A NUTSHELL

With a provident fund, you have more flexibility and the entire lump sum can be paid out to you in cash. Members must remember that only the first R500 000 taken in cash is tax-free. Careful thought has to be given to how this money will be used and invested so that you will have enough for the remainder of your life.

Provident fund members may also use their entire fund savings or a portion thereof to buy a pension/annuity for life. ***REMEMBER*** **-** The ISASA Pension Scheme Parts I and II are pension funds whilst the ISASA Provident Fund is a provident fund.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

Saving for retirement is one of those tasks that the majority of people know that they must do, but often choose to postpone to some later date. Sadly, by the time they start saving they have lost valuable time and the powerful benefit of compound interest.

To determine if your retirement savings are adequate, you need to determine the "replacement ratio" that you can achieve on your retirement. Replacement ratio compares your expected after-retirement income with your before-retirement income. A replacement ratio of 70% is generally accepted as adequate to ensure a comfortable retirement. To achieve this, studies have shown that you need to save at least 15% of your income over a career of 35 years or longer.

From 1 March 2016 employee and employer contributions will form part of an employee's taxable income. Individuals will be able to receive a tax deduction on employer and employee contributions to all retirement funds up to 27.5% of the greater of remuneration or taxable income. A maximum of R350 000 per year will apply to all funds combined.

In short, making AVCs to your fund is one of the most tax-efficient ways of saving and investing, as income and capital gains within the Fund are tax-free.

We recommend that you consult a financial adviser before you decide to increase your retirement savings by way of additional voluntary retirement contributions.