



UNIVERSITY  
OF  
JOHANNESBURG

## Department of Finance and Investment Management

# Retirement Planning

FPL06X7

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### FINAL ASSESSMENT OPPORTUNITY

29 October 2015

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Time: 3 hours

Marks: 105

Assessor: Hester van der Merwe

External Moderator: Leta Myburgh

#### INSTRUCTIONS:

- This paper consists of 7 pages.
- Answer ALL questions in the **answer book** provided.
- Silent, non-programmable calculators may be used, unless otherwise instructed.
- Where applicable, show all calculations clearly.
- Answers with Tippex and in pencil will **not** be marked.
- Answers not in the prescribed format (i.e. bulleted list or table etc.) will **not** be marked.
- Scratch out all open spaces and empty pages.
- Round all calculations to the nearest rand.
- Good luck!

Question	Topic	Marks	Time
1 - 3	Retirement planning	17	31
4 - 6	Retirement planning	60	108
7 - 9	Retirement planning	23	41
		<b>100</b>	<b>180</b>

### QUESTION 1

**[11 marks]**

Sally (53) will be retrenched at the end of the month. Discuss the nature of each amount as well as the tax implications at retrenchment. Discuss all possible options using a bulleted list. *(No calculations required.)*

- one week's remuneration for every completed year of service (4)
- her full annual bonus (2)
- pay out for leave not taken while in service (2)
- membership value of the provident fund she belonged to (3)

### QUESTION 2

**[13 marks]**

Don (a businessman aged 72) inherited a cash lump sum of R6 000 000 from his brother. The amount is currently in his money market account. He has been advised to make a lump sum contribution of the amount to a retirement annuity.

#### Question 2.1

**(4)**

Discuss four positive points of investing in a retirement annuity.

#### Question 2.2

**(6)**

Don's only beneficiary is his daughter Ann. What amount (if any) will be taxable if Ann decides to commute the annuity after his death when the value will be R7,500,000? (Show all calculations and assume that no part of the R6 000 000 contribution was tax deductible upon contribution)

#### Question 2.3

**(3)**

Briefly discuss the announcement in the 2015 Budget speech regarding the above approach and include a discussion of any group of people who may be disadvantaged if the proposed change is implemented.

### QUESTION 3

**[12 marks]**

Thapelo (date of birth 1 March 1963) is a member of a Provident Fund. On 1 March 2016 the fund interest will be R2 000 000. Thapelo will continue to contribute to the provident fund. After 9 years (from March 2016), Thapelo will resign. The R2 000 000 will have grown to R5 000 000.

Thapelo's new contributions (and the growth thereon) amounts to R1 500 000. Upon resignation Thapelo will transfer the R6 500 000 to a preservation fund where the funds will grow at 10% p.a. till retirement.

He will retire from the fund when he turns 65.

**Question 3.1**

**(3)**

Draw a timeline to show which dates will be apply to calculations of tax and withdrawals at retirement:

**Question 3.2**

**(9)**

Thabelo assumes that he will be able to withdraw 100% of his preservation fund value at retirement. Advise Thabelo if is assumption is correct and show all calculations.

**QUESTION 4**

**[3 marks]**

Bandise is a member of his employer's Pension Fund. As a result of a serious accident, Bandise is temporarily disabled and will not be able to work for a period. He applies to the Pension Fund for financial relief.

Will Bandise succeed with his application? Motivate your answer.

**QUESTION 5**

**[14 marks]**

From March 2016 the calculation of deductible contributions to retirement funds will change.

**Question 5.1**

**(8)**

Lwazi is a member of a defined benefit fund. Explain to him how his employer's contribution to the fund will impact his taxable income going forward (2). What difficulty regarding this is specific to a defined benefit fund (4) and what solution has been implemented to eliminate the problem (2).

**Question 5.2**

**(6)**

Nosi is a member of her employer's provident fund. She receives the following income per year:

Remuneration	R 1,100,000 (Basic salary: R 700,000)
Taxable rental income	R 120,000

Her employer contributes 20% of her basic salary and Nosi contributes 7.5% of her basic salary to the provident fund.

Nosi also contributes R15 000 per month to a retirement annuity.

Will Nosi be able to deduct the full contribution towards retirement funds during the 2016/17 tax year?

## **QUESTION 7**

**[11 marks]**

Zaheer (age 69) and his wife, Yasmin (age 59) approach you for advice. Zaheer will retire at age 70 at the end of December as per his pension fund's rules. Yasmin is a housewife with no retirement provision of her own. Zaheer's pension fund value is expected to amount to R7,000,000 at retirement. Zaheer's health is not good.

### **Question 7.1**

**(8)**

Explain to them what the consequences will be if Zaheer dies before Yasmin for each of the following instruments:

- a. Living annuity
- b. Traditional annuity with no escalation
- c. Traditional annuity with a ten year guarantee period
- d. Traditional annuity (joint lives)

### **Question 7.2**

**(3)**

Recommend one of the options above to Zaheer and Yasmin and motivate your recommendation.

## **QUESTION 8**

**[9 marks]**

Elsa (age 60) is a member of the GEPP. She is married to Greg.

### **Question 8.1**

**(6)**

Use the information below and calculate Elsa's retirement benefit at retirement:

Final salary	R 600,000
Service date	20/08/1993
Retirement	20/08/2015

### **Question 8.2**

**(3)**

Advise Elsa and Greg what Greg's situation with regards to the GEPP will be if Elsa dies first.

**QUESTION 9**

**[8 marks]**

Lauren plans to retire from her pension fund at the end of the year. The expected fund value at retirement is R4,500,000 and she would like to take the maximum lump sum from the fund. Contributions to the pension fund in the amount of R130,000 did not qualify as a deduction for income tax purposes. Lauren also withdrew a lump sum of R650,000 in 2013. Calculate the tax Lauren will have to pay when she retires from her pension fund.

**TOTAL 100 MARKS**

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**Table A**

0 - 25,000		0%	of taxable income		
25 001 - 660 000	R 0	+	18%	of taxable income exceeding	R 25,000
660 001 - 990 000	R 114,300	+	27%	of taxable income exceeding	R 660,000
990 001 +	R 203,400	+	36%	of taxable income exceeding	R 990,000

**Table B**

0 - 500 000		0%	of taxable income		
500 001 - 700 000	R 0	+	18%	of taxable income exceeding	R 500,000
700 001 - 1 050 000	R 36,000	+	27%	of taxable income exceeding	R 700,000
1 050 001+	R 130,500	+	36%	of taxable income exceeding	R 1,050,000

Years	F(Z)	Years	F(Z)	Years	A(X)
19	0.090	37	0.159	55	12.135
20	0.092	38	0.163	56	11.948
21	0.094	39	0.167	57	11.755
22	0.096	40	0.171	58	11.556
23	0.098	41	0.176	59	11.351
24	0.101	42	0.181	60	11.140
25	0.103	43	0.186	61	10.923
26	0.107	44	0.190	62	10.702
27	0.112	45	0.195	63	10.475
28	0.116	46	0.201	64	10.243
29	0.120	47	0.205	65	10.007
30	0.124	48	0.210	66	9.768
31	0.129	49	0.214	67	9.526
32	0.134	50	0.218	68	9.280
33	0.139	51	0.221	69	9.033
34	0.145	52	0.225	70	8.784
35	0.149	53	0.228	71	8.534
36	0.153	54	0.231	72	8.285
				73	8.036
				74	7.790
				75	7.547

Years of pensionable service x final salary x F(Z)

G + [(A x A(X))

(1/55 x fin salary x yrs of pensionable service) + R360

(1/75 x final salary x years service) + 360

5.85% x final salary x years of pensionable service

6.72% x final salary x years of pensionable service

$$A = \frac{B}{C} \times D$$