



Department of Finance and Investment Management

**Retirement Planning
FPL06X7**

**LAST ASSESSMENT OPPORTUNITY
21 NOVEMBER 2016**

Time: 3 hours

Marks: 100

Assessor: S Naidu

Internal Moderator: Y Singh

External Moderator: L Myburgh

INSTRUCTIONS:

- This paper consists of 9 pages.
- Answer ALL questions in the answer book provided. Only answers in your own handwriting in the official answer book will be considered.
- Silent, non-programmable calculators may be used. The use of any other electronic devices for whatever reason will lead to immediate expulsion from the examination as well as from the course.
- Where applicable, show all calculations clearly.
- Use today's date for all calculations unless instructed differently.
- Answers that have been corrected by the use of Tippex and answers in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- Good luck!

Question	Topic	Marks	Time
1	Multiple Choice Questions	20	36
2	True / False Questions	10	18
3	Retirement Gap	30	54
4	Retirement Benefits	19	34
5	Retirement Tax	21	38
		100	180 minutes

QUESTION 1

[20 marks]

QUESTION 1.1

Promise is a member of his employer's pension fund. He plans to resign from his current employment within the next year and has been advised that the value of his expected pension benefit will be R1 250 000. Promise would like to transfer the entire amount of R1 250 000 to his new employer's provident fund. Indicate the correct statement:

- a) In order to ensure that Promise has access to funds in an emergency, he should rather transfer the benefit to a retirement annuity fund.
- b) Promise would become liable for tax on the entire amount of R1 250 000 in the event that he transfers the benefit to his new employer's provident fund.
- c) The transfer would be tax free since it is a transfer to an approved fund.
- d) Promise will be able to access one third of the lump sum benefit and use the balance of two thirds to purchase an annuity. **(2)**

QUESTION 1.2

Jacky is planning to retire very soon and is considering, on the advice of her financial planner, investing in a living annuity. Indicate the incorrect statement:

- a) Jacky is able to draw an annual income of between 2.5% and 17.5% of the annual capital value of the assets in the fund.
- b) The drawdown percentage between 2.5% and 17.5% can be reviewed on an annual basis.
- c) Jacky will carry the investment and longevity risk.
- d) Upon Jacky's death, the annuity will cease and any remaining capital will be lost. **(2)**

QUESTION 1.3

Which of the following statements are not descriptive of a defined benefit fund?

- (i) it favours older members (entrants).
- (ii) benefits are calculated using the money purchase method.
- (iii) early retirement will attract a penalty.
- (iv) contributions are payable according to a fixed scale.

- a) i, ii, iii only.
- b) i, ii, iv only.
- c) ii, iv only.
- d) All of the above. **(2)**

QUESTION 1.4

Payment options by the board of trustees of a fund upon the death of a member may include the following. Indicate which statement is incorrect.

- a) The benefit can be paid to the beneficiary in cash.
- b) The benefit can be paid to a beneficiary fund or trust (or guardian of a minor beneficiary).
- c) The benefit could be paid into a court administered fund.
- d) If the beneficiary is a minor, the fund has the option of paying the benefits in instalments.

(2)

QUESTION 1.5

Stuart (aged 57) is a member of a provident fund. On 1 March 2016, his fund benefits was R1 500 000. Stuart will continue to contribute to the provident fund until his retirement at age 60. At retirement, the fund benefits will be R1 650 000. Indicate the amount that Stuart will receive as a lump sum at retirement.

- a) Stuart will be able to take R1 500 000 at retirement.
- b) Stuart will be able to take R1 650 000 at retirement.
- c) Stuart will be able to take R550 000 at retirement.
- d) Stuart will be able to take R500 000 at retirement.

(2)

QUESTION 1.6

With respect to retirement annuities, which of the following statements is incorrect?

- a) The entire benefit can be withdrawn prior to retirement due to ill health.
- b) The entire benefit can be withdrawn prior to retirement provided that the benefits amount to less than R7000.
- c) Members can remain members of the retirement annuity fund after the age of 70 and can access benefits before the age of 55.
- d) Members are allowed to take up to one third as a lump sum upon retirement unless the lump sum amounts to R247 500 or less.

(2)

QUESTION 1.7

In terms of the Pension Funds Act, all funds with effect from 15 December 1998, must have a board of management to direct and control the everyday operations of the fund. Indicate the correct statement:

- a) Sections 7A to 7F of the Pension Funds Act represents the key sections dealing with the duties and liabilities of the board.
- b) Each fund is required to have a board consisting of at least six trustees, of which the members have the right to elect at least 50%.
- c) Funds can apply to the Registrar to have a board of less than six members if such number is impractical and expensive.
- d) In pursuing their duties, boards of management must ensure that they only comply with the Pension Funds Act.

(2)

QUESTION 1.8

The Board of Trustees are required to adhere to certain fiduciary duties as codified in the Mouton Committee Report. These duties include Indicate the incorrect statement:

- a) To act with impartiality.
- b) To act independently.
- c) To ensure that adequate information is communicated to members informing them of their rights, benefits and duties.
- d) To act with due care, the standard of care required is that of a reasonable person. **(2)**

QUESTION 1.9

Section 7(7) of the Divorce Act 1979 deems member spouse's pension interests to be part of his assets when determining the patrimonial benefits to which any of the parties may be entitled to. Which of the following statements do not relate to these pension interests within the context of the Divorce Act?

- a) The order can also be made applicable to parties married out of community of property after 1 November 1984 in terms of the ante nuptial contract which excludes community of property, community of profit and loss and the accrual system.
- b) Section 7(8) of the Divorce Act refers to the ability of the court granting a divorce to grant an order obliging the fund to make payment to a non- member's spouse.
- c) The order that the court makes must be contained in the divorce order failing which it will not be enforceable against the fund.
- d) An order in terms of section 7(8) may be granted in respect of a customary marriage in terms of the Recognition of Customary Marriages Act 1998. **(2)**

QUESTION 1.10

Regulation 28 contains some of the most important guidelines for investing. Which statement does not relate to Regulation 28?

- a) Funds must at all times adhere to asset class exposure limits.
- b) Funds must adhere to certain principles and the board continues to retain responsibility for the investment mix even where service providers are appointed.
- c) The limits of Regulation 28 may not be exceeded even where excess is due to change in the fair value or characteristic of an asset.
- d) A fund may not use an asset structure to circumvent the limits set by Regulation 28. **(2)**

QUESTION 2

[10 marks]

State if the following statements are true or false and provide a motivation with your answer.

PLEASE NOTE THAT MARKS WILL ONLY BE AWARDED IF THE MOTIVATION HAS BEEN PROVIDED AND IF THE MOTIVATION IS CORRECT.

2.1 The Code of Responsible Investing in South Africa (CRISA) was launched in 2011 and its compliance is mandatory upon all investors.

(2)

2.2 Defined benefit funds favours older (entrants) members.

(2)

2.3 A retirement fund lump sum death benefit is taxed in the hands of the beneficiary.

(2)

2.4 With regards to the process of claiming pension interests payments in terms of a section 7(8) order, the fund has 45 days from the date it was informed of the non- member spouse's election to pay or transfer the pension interest as the case may be.

(2)

2.5 A fund has 24 months to trace dependants before making any payment exclusively to a nominee.

(2)

QUESTION 3

[30 MARKS]

Question 3.1

Nomkhita (aged 45), an administrator, seeks your expert advice with regards to her retirement planning. She informs you that she would like to retire at age 60 and would like to provide for income until age 90. She furnishes you with the following information:

- She would like to receive a pre- tax annual income of R425 000 (in today's monetary terms)
- She would like this income of R425 000 to escalate annually by 6%
- She requires a lump sum of R475 000 (in today's monetary terms) at retirement to settle any outstanding debt and to embark on a Caribbean boat cruise
- Her current salary is R500 000 per annum
- She expects her salary to increase by 5% per annum
- She currently contributes 7.5% of her salary to her employer's pension fund
- Nomkhita indicates to you that she believes she can achieve a growth rate of 10% on any investments she makes
- She is comfortable escalating any future savings contributions by 8% per annum
- You both agree on an assumed rate of inflation of 6%

Her current investment portfolio is as follows:

- Provident preservation fund – R150 000
- Her current pension fund is valued at R75 000
- She has one paid up retirement annuity policy, the illustrative value of this policy is expected to be R250 000 at age 60
- She also has a collective investment scheme to which she no longer contributes towards and the expected value of this at age 60 is R100 000

REQUIRED:

3.1.1 Advise Nomkhita whether she has made sufficient provisions to retire comfortably in line with her stated needs. Show all steps and calculations, including formulae where applicable.

(19)

3.1.2 Calculate the first annual escalating premium Nomkhita will have to save in order to meet the shortfall calculated in 3.1.1 above.

(8)

Question 3.2

Despite your advice to the contrary, Nomkhita decides that she would like to withdraw R100 000 from her provident preservation fund in order to fund her cosmetic surgery. She also informs you that in terms of a divorce order granted on 1 October 2015, R75 000 was transferred to her ex-husband. The board of trustees have informed her that this latest withdrawal (of R100 000) is therefore not possible.

REQUIRED:

Advise Nomkhita whether this later withdrawal of R100 000 can be made. **(3)**

QUESTION 4

[19 MARKS]

Question 4.1

Barney and Nomonde's divorce was finalised on 2 September 2016. In terms of the divorce order, Barney was awarded 45% of Nomonde's pension interest in her provident fund. Barney duly lodged his claim with the provident fund on 1 October 2016. Barney requires a deposit quite urgently to secure the purchase of a townhouse as the family residence was sold when the couple got divorced. He seeks your advice.

REQUIRED:

Advise Barney of the process followed when these types of claims are lodged. Illustrate the process with the applicable dates and timeframes. **(8)**

Question 4.2

Barney calls you a few days later to inform you of the latest developments. It appears that soon after the divorce order was finalised (but before Barney had lodged the claim with the provident fund), Nomonde had decided to resign and therefore ceased to be a member of her employer's provident fund. Her employer submitted a request to the board of trustees of the fund to immediately transfer, in its favour, an amount of R175 000 (to be deducted from the fund benefits) in terms of section 37D of the Pension Funds Act.

This amount of R175 000 comprises of the following:

- R27 500 – in respect of a housing loan granted to Nomonde by her employer
- R55 000 – this amount represents losses sustained by the employer in terms of a civil judgment issued by the Magistrates Court following Nomonde's conviction for fraud
- R92 500 – this amount related to a written admission of liability signed by Nomonde after she had accidentally crashed her vehicle into the computer lab at her employer's premises

REQUIRED:

4.2.1 Advise Barney whether Nomonde's employer is authorised to deduct these amounts, all or any of them, in terms of section 37D of the Pension Funds Act. Give reasons for your answers. **(5)**

4.2.2 Barney is also concerned about how these deductions referred to in 4.2.1 impacts upon his claim. Explain to Barney how his claim ranks vis a vis all of the other deductions/claims referred to above. **(3)**

4.2.3 Nomonde's employer is insistent that Nomonde remains liable for the amount of R92 500 representing the damages sustained to its property (i.e the computers). They are of the opinion that the written admission of liability suffices in validating their claim. The case of Sibanyoni v Concor Holdings (Pty) Ltd addressed the issue of what constitutes a valid written admission of liability.

REQUIRED:

List three of the requirements that must be met in order for such written admission to be legitimately admitted against Nomonde's pension interest. **(3)**

QUESTION 5

[21 marks]

Question 5.1

Gift Mpofo (aged 62) retired from Wise People (Pty) on 1 August 2016. He received a lump sum amounting to R3 570 000 from his employer's provident fund. Gift opted to receive the maximum lump sum available to him. Contributions to the provident fund up until 29 February 2016 amounted to R160 000.

In March 2013 Gift had resigned from Silly People (Pty) Ltd and received a lump sum of R2 200 000 from this employer, Silly People (Pty) Ltd's pension fund. He opted to withdraw R525 000 to pay for a New Year's Mpofo family reunion in the Maldives and transferred the balance to his new employer's, Wise People (Pty) Ltd, provident fund. The total contributions to the pension fund that did not qualify for a tax deduction amounted to R25 500.

Gift had also resigned from a previous employer, Dumb and Dumber (Pty) Ltd in July 2008. He became entitled to a lump sum of R2 500 000. He opted to withdraw R275 000 and transferred the balance to a preservation fund.

REQUIRED:

Calculate the tax payable on the lump sum received from Wise People (Pty) Ltd. **(10)**

Question 5.2

Francois Malan resigned from the Gauteng Department of Education Pension Fund on 1 March 2006. He joined the fund on 1 March 1988. Francois became entitled to a resignation benefit of R2 150 000. The full amount was transferred into a retirement annuity fund. Francois eventually retires from the retirement annuity fund on 1 November 2015. He became entitled to a lump sum of R4 750 000 and he decided to commute one third of the total lump sum.

REQUIRED:

Calculate the tax payable upon Francois's retirement from the retirement annuity fund on 1 November 2015. Show all calculations and formulae where applicable. **(11)**

Appendix A

Withdrawal lump sum benefits

Lump sums accruing between 1 March 2014 and 28 February 2017

Taxable income (R)	Rate of tax (R)
0 – 25 000	0% of taxable income;
25 001 – 660 000	0 + 18% of taxable income above 25 000
660 001– 990 000	114 300 + 27% of taxable income above 660 000
990 000 and above	203 400 + 36% of taxable income above 990 000

Retirement, death and severance lump sum benefits

Lump sums accruing between 1 March 2014 and 28 February 2017

Taxable income (R)	Rate of tax (R)
0 – 500 000	0% of taxable income
500 001– 700 000	0 + 18% of taxable income above 500 000
700 001– 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000