UNIVERSITY OF JOHANNESBURG

Department of Finance and Investment Management

Retirement Planning
RPL8x02

FINAL ASSESSMENT OPPORTUNITY
11 NOVEMBER 2019

Time: 3 hours **Marks: 100**

Assessor: N Brown
Internal Moderator: S Naidu
External Moderator: L Alsemgeest

INSTRUCTIONS:

- This paper consists of **11** 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
3-6	Longer Questions	70	126
		100	**180 minutes**

QUESTION 1 [20 marks]

QUESTION 1.1

Section 37D of the Pension Funds Act 24 of 1956 seeks to protect retirement benefits by restricting the types of deductions that can be made from these benefits. Indicate which of the following is **not** an authorised deduction?

a) Amounts due to a non-member spouse as a result of a divorce in terms of the Divorce Act 70 of 1979 or in terms of a court order with respect to Islamic marriages.
b) Amounts due to a fund in respect of loans in terms of Section 19(5).
c) Medical aid contributions or insurance premiums which the member or beneficiary instructs the fund to deduct.
d) Amounts due to an employer in respect of loans in terms of Section 19(5).

(2)

QUESTION 1.2

When calculating the tax payable on a withdrawal benefit, a number of deductions could apply. Some of these deductions include the following, **except…**

a) Lump sums transferred from a retirement annuity to a pension preservation fund on behalf of a non-member spouse.
b) Amounts transferred from one fund to another approved fund.
c) Member contributions that did not rank for an income tax deduction.
d) An amount transferred into the fund from a government pension fund to a private sector fund as represented by the tax free portion (before 1 March 1998).

(2)

QUESTION 1.3

In order to lodge a complaint with the Pension Funds Adjudicator, a complainant must allege the following (indicate the **incorrect** statement):

a) That a decision taken by a fund was in excess of its powers or an improper exercise of its powers.
b) Personal prejudice in consequence of maladministration of the fund.
c) That a dispute of fact or law has arisen.
d) That an employer has transgressed the conditions of an employment contract.

(2)

QUESTION 1.4

Severance benefits are defined inter alia… (Indicate the **incorrect** statement):

a) Such relinquishment, termination, loss, repudiation, cancellation or variation of a person's employment is due to retirement.
b) Such relinquishment, termination, loss, repudiation, cancellation or variation of a person's employment is due to a person having become redundant in consequence of a general reduction in personnel or reduction of a particular class of employees.
c) Any amount received or accrued in respect of relinquishment, termination, loss, repudiation, cancellation or variation of a person's employment if such person has attained at the age of 55 years.
d) Such relinquishment, termination, loss, repudiation, cancellation or variation of a person's employment is due to sickness. **(2)**

QUESTION 1.5

There are various types of annuities from which a retired member can choose. Complete the statement: a life annuity ….

a) is an annuity where the annuitant carries the longevity risk.
b) is one where if there no beneficiary nominated, the benefit will be paid into the estate of the deceased annuitant.
c) is one where upon the death of the annuitant, the annuity ceases and the capital is lost.
d) is an annuity where the annuitant carries the investment risk.

(2)

QUESTION 1.6

In terms of the Pension Funds Act 24 of 1956 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) Funds can apply to the Registrar to have a board of less than 6 members if such number is impractical and expensive.
b) In pursuing their duties, boards of management must ensure that they need only to comply with the Pension Funds Act 24 of 1956.
c) Each fund is required to have a board consisting of at least 6 trustees, of which the members have the right to elect at least 50%.
d) Section 7A to 7F of the Pension Funds Act 24 of 1956 represents the key sections dealing with the duties and liabilities of the board. **(2)**

QUESTION 1.7

The different types of retirement funds can be divided into two broad categories, namely occupational and non-occupational (individual) funds. Some of the characteristics of an occupational fund includes the following (indicate the **incorrect** statement):

a) These funds must be permanent bona fide funds established for the purpose of providing annuities to members or dependants of members.
b) Membership is compulsory for all new employees and existing employees have 12 months within which to elect to join the fund concerned.
c) In the case of a pension fund, a maximum of 1/3 can be taken as a lump sum at retirement, except where the total amounts to less than R247 500 which in that case, the full lump sum benefit can be accessed.
d) Members are permitted to remain members of the occupational fund after the age of 70 but cannot access the benefits before the age of 55.
e) Occupational funds necessitate an employer-employee relationship, an exception granted to partnerships in terms of the Income Tax Act. **(2)**

QUESTION 1.8

Andile is a member of his employer's pension fund. He has decided that he would like to resign from his employment in the near future to live on an island in the Bahamas. Andile has been advised that the expected value of his pension benefit will be R1 120 000. Andile would like to transfer the entire amount to a provident preservation fund. Identify the **correct** statement.

a) Andile would become liable for tax on the entire amount of R1 120 000 in the event that he opts to transfer the benefit to a provident preservation fund.
b) After the transfer, Andile would be able to access a 1/3 lump sum benefit and use the balance to purchase an annuity.
c) The transfer would be tax free since it is a transfer to an approved fund.
d) In order to ensure that Andile has access to funds in an emergency, he should rather opt to transfer the benefits to a retirement annuity. **(2)**

QUESTION 1.9

In terms of Section 37C of the Pension Funds Act 24 of 1956 "legal dependents" are defined as beneficiaries dependant on a member for maintenance where such dependence is as a result of a legal duty. The following requirements must be fulfilled (indicate which statement is **correct**):

a) The person claiming maintenance must prove that the member would have become legally liable to maintain him/her had the member not died.
b) The person claiming maintenance must be unable to support himself/herself.
c) The relationship between the parties must be such that the law imposes a duty of support.
d) The person called upon to provide the maintenance must have the resources at the time of his/her death to maintain the claimant. **(2)**

QUESTION 1.10

Adriaan is planning to invest in a living annuity once he retires. Which statement does **not** apply to a living annuity?

a) Adriaan's wife will enjoy the benefit of the annuity in the event of his death if he nominates her as the beneficiary.
b) Adriaan, along with his financial planner, remains responsible for the selection of the underlying investment choices.
c) Adriaan is able to switch to a life annuity and back to a living annuity once only.
d) Adriaan is allowed to draw between 2.5% and 17.5% from his living annuity but if he selects the maximum withdrawal rate, there is a risk that he could outlive the capital. **(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 Palesa purchased a compulsory annuity with a guaranteed period for 10 years. This means that she must survive the guaranteed period else the annuity will cease. **(2)**

2.2 Luvuyo purchased a living annuity on 1 March 2018 and selected the drawdown rate of 5%. Six months later, Luvuyo realises that the selected drawdown rate is too inadequate for his needs and on 1 January 2019, Luvuyo will be able to increase the drawdown rate provided the increased rate is within the prescribed limits. **(2)**

2.3 The only categories of voluntary annuities that do not qualify for the Section 10A capital element exemption, are annuities payable under pension and retirement annuity funds, inherited annuities and annuities for services. **(2)**

2.4 One of the advantages of living annuities is that it is transparent and the value is easily ascertainable. **(2)**

2.5 A deceased member’s estate does not qualify as a nominee in terms of Section 37C of the Pension Funds Act 24 of 1956. **(2)**

QUESTION 3 [42 MARKS]

Thembi (aged 45), a pre-school teacher, seeks your advice regarding her retirement planning. She indicates that she would like to retire at age 60 and would like to provide for income until age 90. Thembi shares the following information with you:

- She would like to receive a pre-tax annual income of R515 000 (in today's monetary terms).
- She would like this income of R515 000 to escalate annually by 6% in retirement.
- She requires a lump sum of R525 000 (in today's monetary terms) at retirement to settle any outstanding debt and to build herself a retirement cottage on her brother's property.
- Her current salary is R562 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.
- Thembi believes that she can achieve a growth rate of 10% on any investments she makes before and after retirement.
- She is comfortable escalating any future savings contributions that might be required by 8% per annum.
- You both agree on an assumed rate of inflation of 6%.

Thembi's current investment portfolio is as follows:

- Pension preservation fund – R225 000
- Her current pension fund is valued at R62 500.
- She has one paid up retirement annuity policy, the illustrative value of this policy is expected to be R175 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 R112 500.

REQUIRED:

3.1.1 Advise Thembi 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 that Thembi will have to save in order to meet the shortfall calculated in 3.1.1 above. **(8)**

3.2 During a subsequent meeting with Thembi it becomes apparent to you that she appears to be agitated and under some stress. She has begun to trust you as her financial planner and relays to you her source of anxiety. It transpires that Thembi was engaged to be married to Kotane who had passed away 15 months ago. She had been contacted by the trustees of the retirement fund that Kotane had been a member of just prior to his death. They informed her that they had decided to award her 75% of the total death benefits, the balance to be distributed to his sister, Dudu, who alongside with Thembi was nominated as a beneficiary. Just the previous day, Thembi had received further communication from the trustees informing her that Dudu was disputing the distribution to Thembi as Thembi was not Kotane's spouse. Dudu has approached the Pension Funds Adjudicator's Office. Thembi is visibly upset by this turn of events and hopes that by sharing this with you, matters could be made clearer for her.

REQUIRED:

Based on the facts given above, advise Thembi what the final decision of the Pension Funds Adjudicator is likely to be. Does Thembi indeed qualify as a dependant as defined? **(4)**

3.3 As a result of all the stress that Thembi has endured, she decides to resign from her employment. She learns from Human Resources that her employer had submitted a request to the board of trustees of her pension fund to immediately transfer, in its favour, an amount of R55 000 (to be deducted from her pension benefits) in terms of Section 37D of the Pension Funds Act 24 of 1956.

The amount of R55 000 is comprised as follows:

- R12 500 – in respect of a housing loan granted to Thembi by her employer
- R25 000 – this amounts represents monetary losses sustained by her employer in terms of a civil judgment issued by the Magistrates Court following Thembi conviction for theft
- R16 750 – this amounts relates to a written admission of liability signed by Thembi after she accidentally spilt a flask of tea on her printer at her place of work
- R750 – in respect of medical aid contributions which the employer claims it has paid to the medical aid in favour of Thembi

REQUIRED:

Advise Thembi whether her employer is authorised to instruct the board of trustees to deduct any of these amounts in terms of Section 37D of the Pension Funds Act 24 of 1956 our answer must address all of the items listed above in 3.3 and full reasons must be provided in support thereof. **(6)**

3.4 Thembi's employer indicates to the board of trustees of the fund that the written admission of liability signed by Thembi, relating to the amount of R16 750 referred to in 3.3 above is sufficient in supporting their claim. They refer to the case of Sibanyoni v Concor Holdings (Pty) Ltd.

REQUIRED:

Discuss the requirements, as highlighted in the Sibanyoni case, that must be met for such written admissions of liability to be legitimately lodged against Kotane's pension fund. **(5)**

QUESTION 4 [14 MARKS]

Zanele aged 61 recently retired from Zolo (Pty) Ltd. She became entitled to a retirement benefit lump sum from a provident fund in the amount of R2 650 000. Zanele had contributed R92 000 to the provident fund – none of which qualified as a deduction for income tax purposes.

In April 2009, Zanele resigned from a previous employer and became entitled to a pension fund benefit of R712 000. She elected to transfer R512 000 to Zolo's provident fund (Zanele paid the tax levied upon this transfer) and used the balance to treat herself to a little leisure boat.

A few months prior to Zanele's retirement, she decided to file for divorce from her ex-husband, Mandla – a serial adulterer. The divorce was finalised prior to Zanele's retirement and Mandla was eventually awarded R450 000 of her pension interest. Mandla, in turn, elected to transfer R400 000 to a retirement annuity fund and the balance was spent keeping his latest girlfriend, Boity, happy.

REQUIRED:
4.1 Calculate the tax payable on the lump sum received from Zolo (Pty) Ltd's provident fund. Show all steps and calculations. **(12)**

Upon the urging of Boity, Zanele's ex- husband, Mandla contacted her regarding a SARS directive he received with respect to the tax payable on the lump sum distributed to him in terms of the divorce order. Boity is of the opinion that Zanele is responsible for the tax levied on the lump sum (Boity is actually eager to go on another shopping spree). Zanele contacts you – livid with anger.

REQUIRED:

4.2 Advise Zanele who is actually liable for the tax on the divorce lump sum. Motivate your answer fully. **(2)**

QUESTION 5 [3 MARKS]

Question 5.1
Your client is the Managing Director of a printing company, Print Easy (Pty) Ltd. He has approached you to comment on and advise the executive committee regarding the company's intention to convert the existing pension fund from a defined benefit fund to a defined contribution fund.

REQUIRED:
Advise the executive committee whether the company or the employees of Print Easy, as members of the fund will benefit more from the proposed conversion. **(3)**

QUESTION 6 [11 MARKS]

Question 6.1

Lucy is a 60 year old company executive. She has never been married, but legally adopted her nephew, Dumi (aged 14) when he was just a year old. Dumi has had numerous developmental challenges and Lucy is very concerned for his future if she is no longer around to take care of him. Lucy is now considering her retirement needs and is confused about the type of compulsory annuity that would address her needs. In particular, Lucy is concerned that once she selects the living annuity, she is bound to remain in the product.

REQUIRED:
Based on the facts, advise Lucy whether the living annuity would be most appropriate for her needs. Your answer must also address all of the benefits of a living annuity that are applicable and relevant for Lucy's needs in light of the facts provided. **(9)**

Question 6.2
Lucy still requires further assurance regarding your recommendation in 6.1 above. You hope to convince her by discussing the standards observed in the industry.

REQUIRED:

Discuss any two requirements of Standard One issued by ASISA that must be observed by the industry with respect to living annuities. **(2)**

Appendix A - INCOME TAX: INDIVIDUALS & SPECIAL TRUSTS

Rates of normal tax payable by persons (other than companies and trusts or approved public benefit organizations and recreational clubs) in respect of the year of assessment ending 28 February 2020.

Taxable income (R)	Rate of tax (R)
0 – 195 850	18% of taxable income;
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

Appendix B - RETIREMENT FUND LUMP SUM WITHDRAWAL BENEFITS

Taxable income (R)	Rate of tax (R)
R0 - R25 000	0% of taxable income
R25 001 - R660 000	R0 plus 18% that exceeds R25 000
R660 001 - R990 000	R114 300 plus 27% that exceeds R660 000
R990 001 and above	R203 400 plus 36% that exceeds R990 000

Appendix C - RETIREMENT FUND LUMP SUM BENEFITS OR SEVERANCE BENEFITS

Taxable income (R)	Rate of tax (R)
R0 - R500 000	0% of taxable income
R500 001 - R700 000	R0 plus 18% that exceeds R500 000
R700 001 - R1 050 000	R36 000 plus 27% that exceeds R700 000
R1 050 001 and above	R130 500 plus 36% that exceeds R1 050 000