Your retirement fund: LIVE LARGE OR PLAY IT SAFE?

When retirement is just a few months away, it might be tempting to take all your savings as a cash lump sum and start your retirement with a bang. Henri le Grange, an Old Mutual personal financial adviser, explains what you have to ask yourself first.

HENRI LE GRANGE is a Certified Financial Planner® and his practice was named the 2019 Old Mutual Personal Financial Advice Practice of the Year. In 2018, he was in the top five in the Financial Planning Institute of South Africa's Financial Planner of the Year awards.

You have spent your entire career investing for your retirement. When the time comes, you will have to consider how to get the most bang for your buck. If you have a provident fund, the full amount can be taken as a lump sum, whereas you can take only a third if you belong to a pension fund. In both cases, the more important question is not how much you can take, but how much you should take. Answering these questions will help you to decide:

Q: Do you have outstanding debt?
Ideally, all your debt should be paid off by the time you retire. If you still have debt, you should try to pay off as much as possible to free up your cash flow and give you more spending money every month. Also, as you probably are paying more interest on debt than you will earn on an investment, it's better to pay off debt first.

Q: Do you have an emergency fund?
Your emergency fund can help you to pay for unexpected expenses, whether large or small, without having to borrow money. It is advisable to have at least three times your monthly expenses in an emergency fund.

Q: Will you need cash for new projects?
You might want to use some of your savings for a project you are passionate about and it's usually best to focus on something that will create lasting value. The decision will ultimately depend on the amount you have in your retirement fund and in other investments.

Q: How much tax will you pay?
The tax you will pay on your lump sum withdrawal is worked out according to a sliding scale.

<u>Amount taken as a lump sum and the tax due</u>

R0 to R500 000	0%
R500 001 to R700 000	18% of the amount above R500 000
R700 001 to R1 050 000	R36 000 + 27% of the amount above R700 000
R1 050 001 and above	R130 500 + 36% of the amount above R1 050 000

For example, if your total retirement savings equal R4 million and you decide to take the full amount in cash, the tax will be R130 500 plus R1 062 000 (36% on the amount above R1 050 000), leaving you with R2 807 500 instead of R4 million.

Also remember that if you have previously withdrawn one or more lump sums from your fund, they will be added to the amount you want to take when you retire when calculating the tax. Withdrawing a lump sum earlier therefore will not help you to avoid paying tax on it. ■

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