LIBERTY

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# Your retirement money pot

You can manage your retirement plan more effectively by separating your retirement savings from your short- and medium-term savings (like your child's education or a deposit for a home). You can use a **retirement savings vehicle,** such as your company pension/provident fund or a retirement annuity (RA)**,** to put your retirement money in a separate 'money pot'.

A retirement savings vehicle is a savings plan that helps to create a disciplined approach to retirement savings and also gives you tax benefits and protection from creditors. We look at how some of these retirement vehicles work, and what their benefits are.

## Protection from temptation

Retirement savings vehicles help keep your retirement money safe. Because you have limited access to your money, you can't be tempted to use your retirement savings for short-term spending – but make sure that you also have emergency savings for those unexpected events.

## Protection from creditors

Creditors (people you owe money to) can't claim funds held in any pension fund, provident fund or retirement annuity policy. When you buy an annuity on retirement, creditors also cannot claim the capital value.

However, legal changes allow payments to be made from a retirement fund, for example to an ex-spouse in the case of a divorce.

## Tax benefits

You can invest up to 15% of your income into a retirement vehicle without having to pay capital gains tax or interest income tax on this investment. This tax saving has a significant impact on your final retirement nest egg.

When you retire, you will not pay capital gains tax or interest income tax on money transferred to a post-retirement vehicle such as a living annuity. Only the monthly withdrawals are taxable as income.

Since 1 January 2009 there is no estate duty on approved retirement fund benefits, but if the benefit pays out as a lump sum, income tax will be applied.

## Where to invest? Company fund or RA

A sound financial strategy is to save 15% of any income over and above your pensionable salary into a retirement vehicle as this saving is tax-free.

If your company allows you to invest 15% of your bonus into your existing provident or pension fund, this can be a cost-effective way of increasing your retirement savings as the costs of a large pension fund can be lower than that of an RA. However, this is difficult to administer and not all companies offer this option.

You can then consider an RA which lets you invest a monthly amount, or pay in a lump sum at the end of the year to take advantage of your tax-free allowance. Your financial adviser would be able to calculate this amount for you.

The benefit of an RA over a company pension fund is that your RA is not affected when you change employers. It also gives more investment flexibility as company pension funds usually limit your investment choices.

## 5 tips for retirement planning

1 | Choose 55 as your retirement age. You can always extend the age and it provides you with more flexibility around structuring your retirement.

2 | Invest 15% of your bonus into a retirement vehicle to maximise the tax advantage.

3 | You don't have to convert to an annuity immediately on retirement. You can keep your money invested in a retirement product benefiting from tax-free growth until you need to draw an income.

4 | When retiring, first use your savings you invested outside of your retirement vehicle. The income from these investments is generally not taxable if you did not receive a tax benefit when saving in those vehicles.

5 | Once you've retired, keep saving a portion of your income so that you build up a safety net for emergencies.