

Pension and Provident Funds

Differences between a Pension and a Provident Fund

ASPECT	PENSION FUND	PROVIDENT FUND
Purpose	The main purpose of the fund is to provide financial security at retirement.	The main purpose of the fund is to provide financial security at retirement.
Retirement Benefits	<p>At retirement, up to one-third of the total pension benefit may be taken as a cash lump sum. The rest is paid to the member as a regular pension (e.g. Monthly, quarterly, etc) for life.</p> <p>If the member decides to take a cash lump sum from the pension benefit, the regular pension will be reduced.</p>	<p>At retirement, the entire benefit is paid out as a cash lump sum.</p> <p>Many members see a cash lump sum as a "cash injection" to be used on a house or a car. The member must remember that money accumulated in the Provident Fund should be regarded as a savings for retirement, and it is strongly advised that the cash lump sum be invested in such a manner as to provide both capital growth and a regular income as required by the individual.</p>
Death Benefits	If a member dies before retirement, the benefits paid to dependants will be stipulated in the Rules of the Fund. In addition, the deceased member's Share of Fund value will also be paid.	If a member dies before retirement, the benefits paid to dependants will be stipulated in the Rules of the Fund. In addition, the deceased member's Share of Fund value will also be paid.
Member Flexibility	Limited flexibility, utilizing only one-third cash lump sum of the entire benefit.	Maximum flexibility utilizing the entire benefit as a cash lump sum.
Tax: Employee Contributions	Contributions to the Fund are deducted before tax and thus reduce the member's taxable income. Tax deduction subject to the greater of R 1 750 per annum or 7.5% of a member's retirement funding income. A member may also deduct up to R 1 800 per annum for voluntary past service contributions.	Contributions to the Fund are deducted after tax. The member's take home pay is therefore less.
Tax: Employer Contributions	Contributions to the Fund are tax-deductible up to an amount equal to 20% of the wage-bill.	Contributions to the Fund are tax-deductible up to an amount equal to 20% of the wage-bill.
Tax on Retirement Benefits	The regular income on retirement is subject to tax at normal PAYE or SITE rates and tax is deducted at the individual's marginal rates. The tax-free portion of the lump sum taken at retirement is calculated according to a formula.	Tax-free portion at retirement is calculated according to a formula. The tax-free portion is increased by the contributions paid that were previously not tax-deductible (a minimum of R 24 000). Thereafter, tax is calculated at the member's average tax rate.
Tax on Death Benefits	The tax-free portion of the lump sum paid on death, is calculated according to a formula. There is a minimum tax-free amount of the greater of R 60 000 or double the member's annual salary (up to a maximum of R 120 000). Thereafter, tax is calculated at the member's average rate of tax.	The tax-free portion of the lump sum paid on death, is calculated according to a formula. There is a minimum tax-free amount of the greater of R 60 000 or double the member's annual salary (up to a maximum of R 120 000). The tax-free portion is increased by the contributions paid that were previously not tax-deductible. Thereafter, tax is calculated at the member's average rate of tax.
Leaving the Fund	If a member leaves the fund before retirement, the first R 1 800 of the benefit is tax-free. The balance is taxed at the member's average rate of tax.	If the member leaves the fund before retirement, the greater of R 1 800 and the employee contributions paid are tax-free. The balance is taxed at the member's average rate of tax.
Fund Income	The investment income of the fund (returns on invested Pension Fund contributions) is subject to 18% tax.	The investment income of the fund (returns on invested Provident Fund contributions) is subject to 18% tax.