PRESERVATION FUNDS

WHAT IS A PRESERVATION FUND?

A Preservation Pension Fund and a Preservation Provident Fund is created to preserve your Pension or Provident Fund benefits for retirement. Benefits from a Pension Fund can be transferred to a Preservation Pension Fund and benefits from a Provident Fund can be transferred to a Preservation Provident Fund. Funds can be transferred to a preservation fund in the event of dismissal, retrenchment or resignation. By doing this you preserve your savings and benefit from a tax advantage. Additional contributions cannot be made to a preservation fund, your investment will therefore only grow with its net investment returns.

WHY SHOULD I PRESERVE MY FUNDS?

The main objective of your Pension or Provident Fund is to build enough wealth to sustain your income and lifestyle during your retirement years. To prevent you from cashing out these benefits, the state enforces a tax incentive to encourage this saving. Your transfer to a preservation fund is free of tax, on condition you transfer from a Pension Fund to a Preservation Pension Fund (or RA) or from a Provident Fund to a Preservation Provident Fund (or RA). There is no tax on the returns earned within the preservation fund. Withdrawing the funds will incur tax consequences according to the SARS withdrawal tax tables.

WHAT IF I NEED MONEY?

You can access your preservation fund via one partial or full withdrawal, prior to age 55. This withdrawal will be subject to withdrawal tax as per the SARS withdrawal tax tables (currently only R25 000 is taxed at 0%). If a partial withdrawal was taken the balance will only be accessible after the age of 55. There are no loans or cessions allowed. You may however transfer to another approved fund, subject to the rules of the original Pension or Provident Fund.

WHAT HAPPENS WHEN I RETIRE?

From the age of 55 onwards, you are able to retire from the fund.

- **Retirement from the Preservation Pension Fund**
  If you have a balance of R247 500 or less you may access the full fund value. If the value is above this limit, you can take out a maximum of 1/3 of the fund value in cash (subject to retirement tax tables, currently R500 000 is taxed at 0%. The balance must be used to purchase an income, either via a Living Annuity or a Guaranteed Annuity.
- **Retirement from a Preservation Provident Fund**
  Effective 1 March 2021, Provident Funds will be subject to the compulsory annuitisation regime.

  To protect historic vested rights of a member of a Provident Fund, the following will apply:
  Provident fund members younger than 55 on 1 March 2021: Balances in Provident Funds as at 1 March 2021 and any subsequent growth thereon need not be annuitized. Contributions made on/after 1 March 2021 and subsequent growth thereon will be subject to the annuitisation regime (unless the value of such contributions plus growth thereon is less than R247 500;

  Provident fund members 55 years of age or older on 1 March 2021: the mandatory annuitisation requirements will not apply to such members (i.e. will still be allowed to take the full retirement interest as a lump sum on retirement, if such person remains a member of the provident fund until retirement.

  However: if the member transfers the retirement interest in a provident fund to any other fund on/after 1 March 2021, any contributions made plus growth will be subject to the annuitisation regime (unless the value of such contributions plus growth thereon is less than R247 500. The amount transferred from the provident (or provident preservation) fund plus growth thereon will however not be subject to the annuitisation regime.

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WHAT HAPPENS TO THE MONEY WHEN I DIE?	Retirement funds are governed by the Pension Funds Act, the benefit will therefore be allocated by the Trustees of the fund. The Trustees consider all dependants, as well as nominated beneficiaries. If there are no financial dependants and no nominees, the fund value will pay into your estate and be distributed according to your Will. The fund value will be taxed as if you have retired prior to your death.
WHY DID WE RECOMMEND THE PRESERVATION FUND?	In putting together this recommendation we have considered all of the following options: • Withdrawing all of your funds (paying tax on the value of the withdrawal amount exceeding R25 000) and investing the after-tax funds into a discretionary investment (e.g. unit trust or endowment structure). • Withdrawing the tax-free portion (currently R25 000) and investing the balance into a Preservation Fund. • Taking no withdrawals and preserving all of your capital into a Preservation Fund. • Retiring from the investment (if you are above the age of 55) and drawing a regular income from the investment to meet your monthly income needs. Considering that these funds are earmarked for retirement and you would not like to make any withdrawals prior to retirement, we have recommended that you transfer the entire amount over to a Preservation Fund. We have also considered the option of withdrawing the funds and investing it into an endowment or unit trust structure. However this would not meet your need of preserving the capital for retirement.

* As with any investment there are terms and conditions. Speak to your Financial Planner for more information on the Investment vehicle and to fully understand its benefits, features and risks.