OPTIONS WHEN YOU LEAVE YOUR RETIREMENT FUND

What to do with your fund credit when you change jobs

REASONS FOR LEAVING YOUR RETIREMENT FUND

You are likely to leave your fund:

1. If you leave your company because you resigned, were dismissed or if you are retrenched.
2. When you retire.

Always preserve!
Research shows that only 10% of retirement fund members have enough money saved in their pension or provident funds to be financially secure in retirement. The main reason for this is that members take cash when they change jobs instead of preserving or saving their fund credit.

YOUR OPTIONS ON LEAVING YOUR COMPANY

If you resign or are dismissed, you can transfer your pension or provident fund benefit (your withdrawal benefit) as follows:

- From a pension fund to a pension preservation fund or from a provident fund to a provident preservation fund (tax-free at the time of transfer).
- To a retirement annuity fund.
- To your new employer's pension or provident fund (as long as the rules of the fund allow this).

Or you can take your money as cash. Let's look at these options in more detail.

TRANSFERRING TO A PRESERVATION FUND

Your fund benefit is transferred tax-free to a preservation fund in your name.

Advantages	Disadvantages
Your fund benefit is saved for your retirement years – the time when you will need it most. If you do take part of your benefit as cash, you can save the rest in a preservation fund.	Once you have transferred to a preservation fund, you are allowed only one withdrawal from the fund before retirement (assuming no previous withdrawals). You will also have to pay tax on any cash you take.
You don't pay tax on transfer.	It could be said that having the facility to access some or all of your money as a once-off cash withdrawal is a disadvantage because this will reduce your retirement savings. For this reason you should always think carefully about taking any money out of your retirement savings.
You have full control of your investment transferred to the preservation fund and can switch investment portfolios when you need to.	

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TRANSFERRING TO A RETIREMENT ANNUITY FUND

You can transfer all or part of your benefit to a retirement annuity fund tax-free at the time of transfer.

Advantages	Disadvantages
Your fund value is preserved for your retirement.	You cannot withdraw any money until you retire.
You don't pay tax on transfer.	You can take up to one-third of your benefit as cash when you retire. You must use the other two-thirds to buy a monthly pension, even if the money was transferred to the retirement annuity from a provident fund.
You can retire (take your money) any time from age 55.	
You can make additional contributions to a retirement annuity fund.	

TRANSFERRING TO YOUR NEW EMPLOYER'S PENSION OR PROVIDENT FUND

You can transfer your fund benefit to your new employer's fund tax-free unless you transfer from a pension fund to a provident fund. If you transfer from a pension fund to a provident fund, the whole amount will be taxed.

Advantages	Disadvantages
If you don't withdraw any cash, your fund value is preserved for your retirement.	You may not have control over the future management of your money.
You don't pay tax on transfer unless the transfer is from a pension fund to a provident fund.	If you leave your new employer before you retire, you will have to transfer your fund value again when you leave.
	You won't be able to access this money until you leave your new employer, retire or die.
	The full amount will be taxed if you transfer from a pension fund to a provident fund.

TAKING YOUR MONEY AS CASH

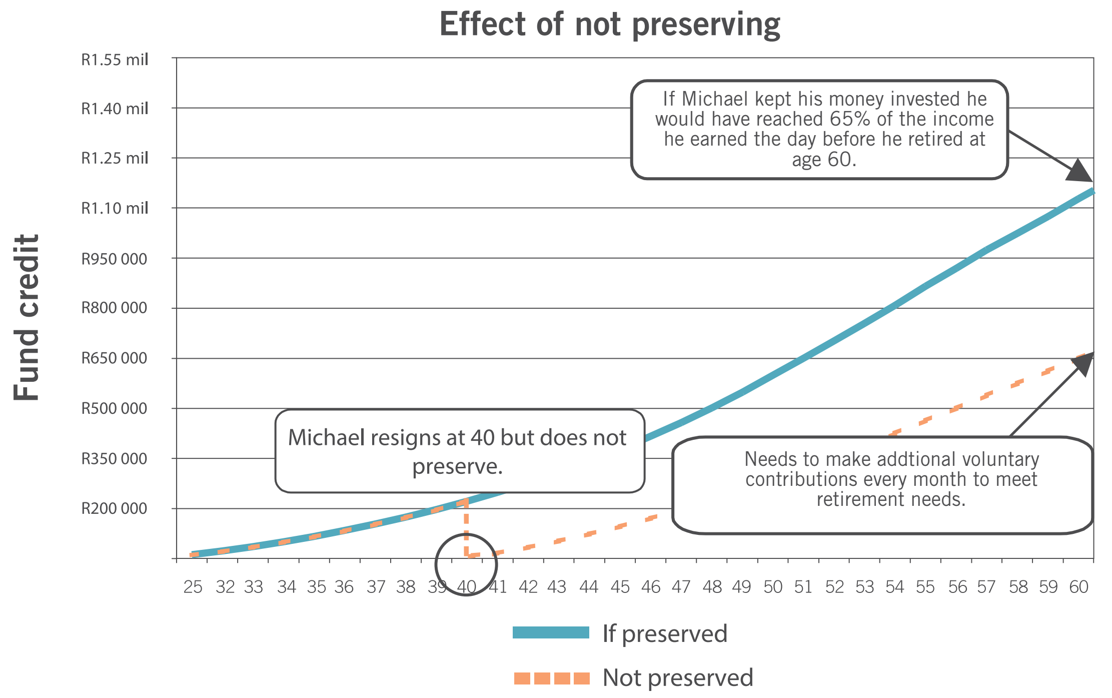
If you take your benefit as cash you will have to pay tax, depending on how much money you take.

We strongly discourage you from taking cash unless your fund benefit is extremely low. Rather save your money for its actual purpose, your retirement.

Advantages	Disadvantages
You will have direct access to cash to use at your own discretion.	Your retirement benefit is taxed according to the withdrawal tax table below. You can take a total of R25 000 tax-free once during your lifetime.
	You will deplete your retirement benefit and you may not have enough money to live on after you retire.

Amount of cash taken when you change jobs	Rate of tax
R0 – R25 000	0%
R25 001 – R660 000	18%
R660 001 – R990 000	27%
R990 001 and more	36%

Remember: You will have less money to take tax-free when you retire if you take cash when you change jobs.



THE PAYMENT OF RETIREMENT BENEFITS

When you retire you can choose to take your fund benefit as follows, depending on the rules of your fund:

Provident funds	Pension funds	Retirement annuities
Use all your money to buy a pension**	Take up to one-third in cash*	Take up to one-third in cash*
Take some as cash *and use the rest to buy a pension.**	Use two-thirds to buy a pension**	Use two-thirds to buy a pension**
Take all your money as cash.*		

*You will have to pay tax on any cash you take (as per the next table).

** A pension will give you a regular income in retirement.

Amount of cash taken when you retire	Rate of tax
R0 – R500 000	0%
R500 001 – R700 000	18%
R700 001 – R1 050 000	27%
R1 050 001 and more	36%

For more options available to you when you retire, see the brochure for 'Options When You Retire'.

WITHDRAWALS AND INVOLUNTARY RETRENCHMENT

If you are subject to an involuntary retrenchment and you receive a lump sum from your retirement fund through this retrenchment, this lump sum will be taxed as though it was a retirement benefit. Such a benefit will still form part of the aggregation of all lump sum benefits received from a retirement fund.

In simple terms: essentially it would just give you earlier access to R500 000 tax-free amount.

CONTINUING WITH DEATH AND DISABILITY BENEFITS

Most funds offer a facility to continue these benefits by changing it to a personal insurance policy when you leave the fund, with no medical evidence needed. (This depends on the rules or policy conditions.)

OTHER THINGS TO CONSIDER

What can be deducted from my benefit before I receive it or it is transferred?

Section 37D of the *Pension Funds Act* allows for specific deductions from your benefit when you withdraw from your fund. These may be:

- A home loan from the fund
- A divorce order
- An admission of guilt that you are responsible for a loss suffered by the company.

SECTION 37D & UNCLAIMED BENEFITS

If a benefit from a fund is payable to you or your beneficiaries and is not claimed within a period as specified in the *Pension Funds Act,* it will be regarded as an unclaimed benefit. Usually benefits become unclaimed for the following reasons:

- When the administrator does not have your banking details or your tax number to pay your benefit as a result of your exit from the fund.
- If a fund has sent you a statement confirming that a benefit is payable to you and you fail to provide the fund with an instruction of how to pay these benefits.
- Your tax affairs are not in order.
- The administrator does not have your contact details.

Usually the rules of your fund will say that if the benefit is not paid to you within a certain time period, the benefit will become unclaimed. According to the amendment to the *Pension Funds Act,* which came into effect on 1 November 2008, this period has now been legislated as 24 months from the date the benefit first became due. This means that if a benefit that is due and payable remains unclaimed for a period of 24 months, it will be regarded as an unclaimed benefit.

Previously where a benefit remained unclaimed for longer than six months, the fund was obliged to apply GN 35 tax at a rate of 40% and then pay the tax deducted over to SARS.

This position remains unchanged if the benefit became unclaimed as a result of the member's exit before 1 March 2009. However, with effect from 1 March 2009, SARS has indicated that General Note 35 will no longer apply to benefits that arise as a result of an exit event that occurred on or after 1 March 2009 that are not claimed.

In a nutshell: no tax will apply to a benefit that becomes unclaimed after 24 months and funds are now allowed to transfer this unclaimed benefit to an unclaimed benefit fund.

THE ROLE OF A FINANCIAL ADVISER

You should never make important financial decisions on your own and it is always best to speak to an accredited financial adviser to ensure consistency with your personal long-term financial objectives. Professional assistance in managing your financial affairs can provide good long-term benefits to you and your family.

If you would like more information about your financial planning needs either log on to www.afonline.co.za or contact the Alexander Forbes contact centre on 0860 100 333, open Monday to Friday from 8am to 5pm.

Disclaimer

This document is a guide of the options available to you on leaving the fund and should not be used as the basis of any decision. Each individual should get advice about their specific needs and circumstances. The final choice of investment vehicle and investment manager rests with the individual concerned.

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