

# Preservation funds

Practice Note 3 version 2 March 2020



## Introduction

The Operations & Administration division (O&A) issue practice notes to:

- Increase awareness and provide insight into the best practices and procedures adopted by Alexforbes for the effective administration of your fund
- Clarify our administration role
- Align expectation between Alexforbes, trustees, employers and members of the retirement funds.

**Please note that in an event of a conflict, the fund's rules, applicable legislation or the signed service level agreement will take precedence over the processes set out in this practice note.**

In this issue, we deal with the transfer of a member's benefit from an occupational retirement fund to a preservation fund. This Practice Note defines the best practices adopted by Alexforbes with regard to provisions of the Pension Funds Act and the Income Tax Act governing transfers to a preservation fund.

## How many different funds is the member allowed to transfer his benefit to?

### Amounts derived from a pension fund:

1. May be transferred to only one preservation fund.

**Example 1:** Transfer value: R500 000.00 – may only be transferred to one preservation fund and cannot be transferred to two or more preservation funds.

Or

2. May be transferred to a combination of one preservation fund and one retirement annuity fund. The member is only allowed to split the transferring benefits once.

**Example 2:** Transfer value of R500 000.00 – can only be split between a combination of one preservation fund and one retirement annuity fund e.g. R300 000.00 to ABC Preservation Fund and R200 000.00 into XYZ Retirement Annuity.

## Can a member request a cash payment prior to the transfer of his or her benefit to a preservation fund?

Yes, a member can request a part cash payment prior to transfer to a preservation fund. In addition, any permitted deductions made in terms of Section 37D of the Pension Funds Act, (inclusive of tax) will be deducted from the gross benefit prior to the balance of the benefit being transferred to the preservation fund.

## How many cash payments may the member request from the preservation fund?

In terms of current legislation, the member may submit only one request for a pre-retirement cash payment, which may be all or part of the benefit, during his/her membership of the preservation fund. SARS's current view is that any deductions made in respect of divorce orders, maintenance orders and housing loan settlements are not considered a once-off withdrawal. If a member formally immigrates from South Africa they will be entitled to withdraw the full preservation fund benefit even if they have taken up the one pre-retirement cash payment.

Can a member transfer between preservation funds? A member may transfer his benefit from one preservation fund to another. Section 14(1) of the Pension Funds Act will not apply and the transfer will be tax-neutral.

## Can a member retire from a preservation fund while still currently employed?

It is accepted by SARS that a member who has attained the age of 55 years if provided for in the fund's rules, may become entitled to a retirement benefit from the preservation fund prior to retirement from the his or her current employer. The member must lodge the claim directly with the preservation fund. Alexforbes Individual Client Administration (AFICA) have the current preservation funds available for a member to transfer to:

- **The Preservation Pension Fund (includes AF Retirement Income Solution (AFRIS) Preservation Pension - where members belong to a fund that has taken up the AFRIS option)**
- **The Preservation Provident Fund (includes AF Retirement Income Solution (AFRIS) Preservation Provident- where members belong to a fund that has taken up the AFRIS option).**



The rules of the fund must allow for the split in the benefit.