RETIREMENT SAVINGS

ASISA FOUNDATION
WAGEWISE
FINANCIAL LITERACY FOR THE WORKFORCE

Types of retirement savings

PENSION FUND

This is a long-term savings method that provides a pension for a member when they retire. A pension fund is usually arranged by an employer for a group of employees as part of their employee benefits. The member can withdraw their Vested Pot and their remaining Savings Pot as a cash lump sum on retirement, while their Retirement Pot must be used only on retirement to purchase an annuity which will pay out a monthly annuity.

PROVIDENT FUND

A provident fund is also a retirement savings method arranged by an employer. Prior to 1 March 2021 at retirement you could take all your retirement savings as a lump sum in cash but after tax if the amount exceeded R550 000. With the reform that came into effect on 01 March 2021, both provident and pension funds are going to be the same. Under the new Two-Pot Retirement System members of both provident and pension funds can withdraw their vested pots and savings pots as a cash lump sum on retirement. This will be taxed only if the amount exceeds R550 000. Members can also withdraw savings from their savings pot once a tax year but will pay tax on that withdrawal. The retirement pot must be used only to buy an annuity when you retire and is paid out as a monthly annuity or pension during your retirement. The new Two-Pot Retirement System excludes members of Provident Funds who were 55 years or older on 1 March 2021, who will still be allowed to withdraw their full savings as a cash lump sum on retirement. Members may elect to join the Two-Pot Retirement System if they want to, however these members have until 1 September 2025 to opt in. For those less than 55 years old on 1 March 2021, the new Two-Pot rules will apply to all new contributions made after 1 September 2024. Members whose total savings are below R247 500, may also take all their savings as a cash lump sum.

RETIREMENT ANNUITY

A retirement savings method for members who are self-employed and wish to save for their retirement. This method can also be used by employed people and members of pension and provident funds as an additional way to save towards their retirement. The member can withdraw their Vested Pot and their remaining Savings Pot as a cash lump sum on retirement, while their Retirement Pot must be used only on retirement to purchase an annuity which will pay out a monthly annuity or pension. Consult a certified financial planner to discuss which retirement annuity would be best for you.

PRESERVATION FUNDS

If you are moving to a new job, have been retrenched or been dismissed it is important to think about keeping your retirement savings intact. You can transfer your pension or provident fund savings to a preservation fund. The full fund credit will be transferred tax free giving you maximum tax benefits as well as keeping your valuable retirement savings protected and still earning an investment return. If you are currently in a pension fund you would transfer to a preservation pension fund and if you are in a provident fund you would have to transfer to a preservation provident fund. You are however able to withdraw your fund savings as a cash lump sum after tax if you leave the fund.