

Can I Cancel My Provident Preserver Policy And Withdraw Everything?



We recently responded to another Moneyweb reader question which we believe could be a beneficial read for anyone who has been retrenched. Please feel free to share this article far and wide.

Question

"I was retrenched at the end of March 2021 and cashed in a small portion of my provident fund before putting the rest of it in the provident preserver fund with Liberty Life. I thought I'd be employed by now but I am unfortunately in financial distress and I'm behind with my bond repayments.

Is it possible for me to cancel my provident preserver policy and withdraw all my money to be able to pay my bond and live on the balance until I find employment?"

Our response

Dear Reader,

A preservation fund is a retirement fund that preserves proceeds transferred from a pension or provident fund where a person leaves their employer prior to retirement, for example on resignation or retrenchment.

It is not a requirement that the full fund benefit in the retirement fund be transferred to a preservation fund. A member may take a cash withdrawal and transfer the balance to a preservation fund. The rules of the transferring fund may however provide that the full benefit must be transferred into a preservation fund.

As we have limited information the below is a general response to your question.

We need to consider your age as there are different options for persons below the retirement age (55) and persons above age 55.

Option for persons below age 55

- Withdrawal option

Preservation fund members are allowed one full or partial withdrawal from their capital before retirement. This withdrawal will be taxed in accordance with the retirement fund withdrawal tax table.

Please note that you may be liable to pay tax as you had previously taken a cash lump sum before transferring your benefit to the Liberty Life Provident Preserver Policy.

Option for persons above age 55

- Retirement option

You are permitted to retire from a provident preservation fund from age 55 onwards.

Prior to March 1, 2021, provident preservation fund members were permitted to withdraw 100% of their fund benefits at retirement as a cash lump sum.

As of March 1, 2021, regardless of the type of retirement fund and with specific exceptions you will now only be able to receive one-third of your retirement savings

as a cash lump-sum payment.

The balance is to be transferred to a post-retirement annuity. The exceptions are included in grandfathering provisions where the new law will only apply to fund contributions on or after March 1, 2021 and not to members who are close to retirement. Thus, the changes do not affect members who were 55 or older on March 1, 2021.

Please note that if you had received a retrenchment package you may be liable to pay tax if you decide to take a cash portion, as the retrenchment package would have affected your R500 000 tax-free portion.

If the preservation fund is transferred to an income-generating annuity there is no tax payable on transfer, however the income you receive will be taxed as per the normal income tax rates.

Another exception is made where the total retirement benefit is less than R247 500. In such a case, the retirement benefit may also be paid as a full cash lump sum. The cash withdrawal will be taxed in accordance with the retirement tax table.

We would advise you to contact a financial advisor who can look at your overall position and do a complete analysis and provide guidance on the most suitable option.

Please feel free to contact us for further questions