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RESOLUTE WEALTH MANAGEMENT | EST. 2004

Resolute Wealth Management (Pty) Ltd
20 Georgian Crescent East Hampton Office Park, Eastbury House, Bryanston, 2191
www.resolutewealth.co.za | infoJHB@resolutewealth.co.za | +27 11 514 0840
FSP No. 13798 | **VAT No.** 4420214860 | **Reg No.** 2004/0114616/07
Directors: Quinton Scott Ralph | Gareth Keith van der Merwe

Preservation Funds

Product Description

A preservation fund is a vehicle in which a pension or provident fund pay-out is "parked" when a person resigns from, or is retrenched from, a job before reaching retirement age.

Suitability

A preservation fund is ideal for investors that want to preserve retirement capital.

How does it work?

Retirement capital can be transferred from a retirement fund to a preservation fund without paying tax on the transfer amount. Once the capital has been transferred to the preservation fund, no additional contributions can be made into the preservation fund i.e. monthly premiums or ad hoc contributions. There are two types of preservation funds, namely a pension preservation fund and a provident preservation fund. The type of preservation fund will be determined by whether the original fund was a pension or provident fund. The rules of the original fund apply to the capital until the investor retires from the preservation fund.

Registered with the authorities?

A preservation fund must be registered with the Financial Services Board and may only invest in assets as prescribed by the Pension Funds Act.

Unit trust linked preservation funds

Unit trust linked preservation funds are flexible in that linked investment service providers (LISPs) allow the investor to move his/her funds from one unit trust to another. This allows for more active management and construction of an investment portfolio to fit the individual's personal needs and risk profile.

Nature of returns

Dependent on the underlying asset classes used in the fund, it can earn interest, dividends and have capital gains or losses.

Guarantees

Investment capital and investment returns in the underlying unit trusts are not guaranteed.

Taxation

There is no tax payable on interest earned, dividends received, or any capital gains made when the units are sold in the preservation fund. At retirement a certain portion of the lump sum withdrawal is tax-free, and the balance will be taxed according to the ruling tax legislation.

Accessibility of funds

Dependent on the rules of the fund, an investor is allowed to make one withdrawal from the preservation fund before retirement. Money invested in a preservation fund is normally accessible at death, disability, or age fifty-five, subject to the rules of the transferring fund.