

Exit Options Available to Provident Fund (Tier 3) Contributors

Occupational Tier 3 Pension Schemes, or Provident Funds, are pension schemes set up under the Pension Act 2008, Act 766, which allow employees and/or employers to voluntarily contribute up to 16.5% of employees' income tax free. Contributions into a Provident Fund are made before any tax is assessed on income, which can lead to significant tax savings for employees.

In order to keep the tax relief, contributions and associated gains must be kept in the Provident Fund for at least ten years. With the exception of a withdrawal to secure a mortgage for the purchase of a primary residence, any redemption of the benefit before the ten-year limit will attract tax at the income tax rate.

The law offers options that allow employees to keep their Provident Fund tax savings even after the employee leaves the service of their employer.

Option 1: Maintain Your Benefit With Your Current Trustee

An exiting employee may maintain his or her contributions with their current trustee by electing to join a Personal Pension Scheme provided by that trustee. This election should be communicated to the trustee as soon as possible after exiting the company. Members of Petra Opportunity Pension Scheme may instruct Petra to move their contributions into a Personal Pension Scheme upon exiting service with their enrolled employer. The Personal Pension Scheme is managed with the same diligence as the employer scheme. The exiting employee can continue to make additional tax-free contributions into the Personal Pension Scheme until the individual elects to redeem.

Option 2: Transfer Funds Completely to a New Trustee

When an employee selects this option, the old trustee will transfer all the employee's accrued benefit to the new trustee selected by the employee. The new Tier 3 scheme can be a Personal Pension Scheme or the Provident Fund associated with the employee's new employer. The law allows a maximum of 90 days for a trustee to complete the process of transferring funds from one scheme to another. This option has no tax implications as contributions remain in a Tier 3 scheme.

The statements expressed herein are informed opinion, speak only to the stated period, and are subject to change at any time based on market or other conditions. This publication is intended merely to highlight issues and not to be comprehensive or to provide advice. For further information or advice, please contact Petra Trust or visit our website.

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