SIMEKA CONSULTANTS & ACTUARIES

MEMBER NEWSLETTER
June 2014

Over the past couple of years the government has put forward a number of proposals aimed at changing the retirement fund industry.

The **Taxation Laws Amendment Act, 2013** which was signed into law on 12 December 2013, introduces the first of these changes. Let's take a closer look at how these changes will impact members of retirement funds.

Retirement Reform Changes

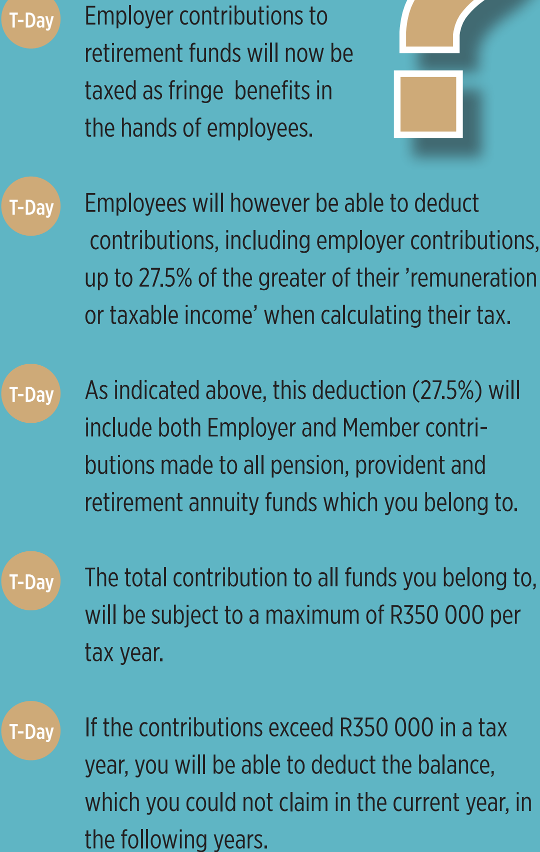
The first set of changes will be implemented on **T-day** which is set as **1 March 2015.**

On this date we will see a change in how retirement funds are administered in terms of tax relief and retirement benefits. Underpinning these changes is the harmonisation of retirement-saving funds i.e. in future the differences between pension and provident funds, and to a lesser extent retirement annuity (RA) funds, will be removed.

1. TAX RELIEF ON CONTRIBUTIONS

The rules governing the tax deductibility of contributions to pension, provident and retirement annuity funds, which is currently very different, will be harmonised across all these different types of retirement-saving funds. This means that all retirement-saving funds will have the same tax treatment with regard to contributions and retirement benefits.

T-Day Changes – 1 March 2015



What will change?

- T-Day Employer contributions to retirement funds will now be taxed as fringe benefits in the hands of employees.
- T-Day Employees will however be able to deduct contributions, including employer contributions, up to 27.5% of the greater of their 'remuneration or taxable income' when calculating their tax.
- T-Day As indicated above, this deduction (27.5%) will include both Employer and Member contributions made to all pension, provident and retirement annuity funds which you belong to.
- T-Day The total contribution to all funds you belong to, will be subject to a maximum of R350 000 per tax year.
- T-Day If the contributions exceed R350 000 in a tax year, you will be able to deduct the balance, which you could not claim in the current year, in the following years.

In order to identify the pre-T-Day balance at retirement, provident funds will need to have two member records – one in respect of the balance as at T-Day (1 March 2015) and one in respect of the contributions after T-Day.

2. RETIREMENT BENEFITS FOR PROVIDENT FUND MEMBERS

Retirement benefits payable in respect of contributions made after T-Day can only be taken as a cash lump sum if the amount is less than R150 000. If it is more than R150 000, only one-third can be taken in cash and the balance must be annuitised.

> What does *annuitised* mean?
>
> This is when a retirement lump sum benefit or a part thereof is used to buy a pension that is paid in monthly amounts.

Therefore, with effect from 1 March 2015:

- T-Day Members of all retirement funds will only be allowed to take up to one-third of their total retirement benefit as a cash lump sum payment.
- T-Day The balance (at least two-thirds) must be used to buy a monthly pension.

However,

- T-Day **Members' current rights will be protected**
  All provident fund balances as at 1 March 2015 plus future investment growth (or interest) on these balances will not be subject to the annuitisation rules i.e. at retirement, a member will still be allowed to receive their pre-T-Day balance (plus investment growth or interest) in the form of a cash lump sum and will not be forced to have to buy a monthly pension with this portion of their retirement benefit. This will apply whether the balance remains in the same fund or is transferred to another retirement or preservation fund.
- T-Day **After T-day**
  All contributions made to a fund after T-day will, however, be subject to the annuitisation rules i.e. up to one-third cash lump sum and at least two-thirds monthly pension.
- T-Day **Benefit to members**
  This law brings with it a huge benefit for members. Due to the harmonisation of funds, all transfers of retirement savings between pension and provident funds and preservation and retirement annuity funds will be tax-free.

Exceptions

- T-Day Provident fund members aged 55 years and older on T-day (1 March 2015) and who remain in the same provident fund will not be affected by the new annuitisation requirements. These members will still be allowed to take their full retirement benefit (even contributions made after 1 March 2015) in one cash lump sum, at retirement.
- T-Day Should a member's full lump sum retirement benefit be equal to R150 000 or less, the member will be allowed to take the whole benefit as a cash lump sum and will not need to buy a monthly pension.

3. THE FUTURE TAX TREATMENT OF DISABILITY INCOME REPLACEMENT POLICIES

Another change being introduced from T-Day is that of the tax treatment of disability income replacement policies. From 1 March 2015 premiums paid in respect of disability income replacement benefits (also known as PHI benefits) will no longer be tax deductible.

What will change?

- **T-Day** Premiums in respect of disability income replacement benefits will now be taxed as fringe benefits in the hands of employees. This will reduce your take-home pay by the amount of fringe benefit tax you will pay.
- **T-Day** The good news is that from T-day all disability income replacement benefits paid to disabled employees will be tax free.
- **T-Day** This will apply to employees who become disabled in future as well as existing disabled employees who currently receive a disability income replacement benefit.

P-Day

P-Day is the date when preservation rules will change for all retirement funds. It is still under discussion with trade unions and other stakeholders; therefore, an exact date is yet to be established.

A number of *preservation*-related measures will be introduced from P-day and the concept of compulsory preservation is likely to be introduced.

What does *preservation* mean?

Preserving your retirement benefit would be to keep it in tact or in existence and to make it last until your retirement.

COMPULSORY PRESERVATION

From P-day members will be encouraged not to take their withdrawal benefits in cash. In terms of current proposals, members may in future only be allowed to take one-tenth of their withdrawal benefit in cash each year. Although draft legislation is expected in early 2015, at this stage the actual date and full details remain unclear.

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