TO: All Pension Fund members

RETIREMENT REFORM – WHAT DOES IT REALLY MEAN?

Over the past number of years we have regularly heard the words **"retirement reform"** Many rumours have gone around and some of them have raised a lot of concern among retirement fund members.

One such a rumour is that retirement reform means the nationalization of retirement funds – THIS RUMOUR IS FALSE.

WHAT IS RETIREMENT REFORM?

Retirement reform is aimed at the following:

1. Encouraging employees to save for their retirement.
2. Encouraging employers, formal and informal, to make retirement funds available to all employees – the aim is to have retirement funds available to everyone in South Africa.
3. Ensuring that these retirement funds and their service providers treat the members of the funds fairly and keep costs as low as possible.
4. Ensuring that all members receive clear and adequate information about their retirement savings.

According to Alexander Forbes' research, only 6% of members belonging to occupational retirement funds can afford to retire in South Africa. The main aim of retirement reform is to assist more members in achieving a comfortable retirement.

SO WHAT IS CHANGING?

Two main changes will be taking place.

The First change: T-Day (tax-day) changes take effect on 1 March 2015.

On T-day, all types of retirement funds will be treated the same going forward in terms of the Income Tax Act. Currently there are three types of retirement funds in South Africa – Pension Funds, Provident Funds and Retirement Annuities. The differences between the different types of funds can be summarized as follows:

CURRENT SCENARIO:

	Pension Fund	Provident Fund	Retirement Annuity
Tax Deductibility of Employer Contributions	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are tax exempt in the hands of the Employee.	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are tax exempt in the hands of the Employee.	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are tax exempt in the hands of the Employee.
Tax Deductibility of Member Contributions	Contributions up to 7.5% of taxable income can be deducted.	No tax deduction.	Tax deduction is limited to the greater of R 1 750 per year Or R 3500 of pension fund contributions Or 15% of non-retirement funding income.
Benefit at Retirement	Member can take up to 1/3 in cash, the balance has to be used to purchase a monthly income.	Member can take the entire benefit in cash.	Member can take up to 1/3 in cash, the balance has to be used to purchase a monthly income

CHANGES AS OF 1 MARCH 2015:

	Pension Fund	Provident Fund	Retirement Annuity
Tax Deductibility of Employer Contributions	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are taxed as a fringe benefit in the hands of the Employee.	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are taxed as a fringe benefit in the hands of the Employee.	Contributions are tax deductible for the Employer. Contributions made by the Employer on behalf of the employees to the fund are taxed as a fringe benefit in the hands of the Employee.
Tax Deductibility of Member AND Employer Contributions	The employee can claim a tax deduction for both the member and employer contributions to all the retirement funds in which he/she participates to a maximum of 27.5% of the greater of remuneration or taxable income subject to a maximum of R 350 000 per year.		
Benefit at Retirement	Member can take up to 1/3 in cash, the balance has to be used to purchase a monthly income.	Member can take up to 1/3 in cash, the balance has to be used to purchase a monthly income. (There are some exclusions – see below)	Member can take up to 1/3 in cash, the balance has to be used to purchase a monthly income.

In terms of the retirement benefits payable from a provident fund, the future benefits will be the same as for a Pension Fund and a Retirement Annuity. However, provident fund members who are over the age of 55 at 1 March 2015, will still be able to take their entire retirement benefit in cash at retirement. For all other provident fund members who are not yet age 55, the legislation will only apply to their new contributions made after 1 March 2015 – The benefits they have accrued in their provident fund to 28 February 2015, will be subject to the current legislation and not the new legislation. They can therefore still take that portion of their fund credit in cash at retirement together with the future growth on that amount.

As can be seen from the table above, there are not many changes for pension fund members other than the taxation of contributions to your pension fund. Although you will be paying fringe benefit tax on your employer contributions to the Fund, you will also have a greater tax deduction, placing most members in a tax neutral position.

Should you have various retirement policies, the Trustees recommend that you discuss these changes with your financial planner to see how these tax changes affects your personal tax situation.

The Second change: P-Day (preservation day)

At this time no indication has been given to confirm when the legislation will become effective. Currently when a member resigns from employment, they are entitled to take their benefits in cash. Based on the research by Alexander Forbes only between 6% and 10% of members preserve their benefits when they exit a retirement fund. This is one of the main contributors to members not being able to retire when they reach retirement age.

P-Day changes may possibly include that members upon exiting a fund, will have to preserve their benefits until retirement. Once again it has been confirmed that all benefits built up in your retirement fund before P-Day, will remain subject to the current legislation (can thus be taken in cash) and only the future contributions will be subject to the new P-Day legislation. No confirmed date or further clarification regarding this change has been communicated at this time.

I trust that the above has clarified what retirement reform is about. Should you however have any further queries in this regard, please do not hesitate to contact me.

Sincerely,

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