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Page: 38



# Retirement reforms explained

National Treasury plans to get South Africans to save enough for retirement, which will lead to more changes to pension and provident funds in March 2016.

By Buhle Ndweni

Only about 5% of South Africans save enough to be able to retire adequately, according to Brian Butchart, MD at Brenthurst Wealth.

Hence pensioners often run out of retirement savings prematurely and become dependent on relatives or government grants. To curb this, National Treasury proposed reforms aimed at encouraging saving towards retirement.

Treasury's amendments mean that, by default, your retirement savings will be preserved when you change jobs and your benefit will be converted to an annuity when you retire, rather than the current situation where your money gets paid out as cash by default, explains Hugh Hacking, head of Old Mutual Corporate Consultations.

Provident fund members who resign from their jobs will however still be able to take all their retirement savings as a cash lump sum upon resignation, with tax implications. Alternatively they can preserve their money with a financial institution, or previous or new employer – without tax implications, to motivate people to save.

However, at retirement, provident fund members will also be required to convert at least two-thirds of their retirement savings into an annuity or pension, instead of receiving a large one-off sum of cash.

## Tax implications

Starting from March 2016, Treasury will harmonise tax treatments of retirement fund contributions in provident, pension and retirement annuity funds.

> Tax deduction benefits will be extended to provident fund members as well, but the tax-deductible contribution will be capped or limited to **27.5%** of the taxable income or R350 000 per annum for high-income earners.

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All growth, interest and dividends earned in either the pension, provident or retirement annuity is tax free, says Butchart.

Treasury also proposed that pension and provident funds have a preservation fund to preserve their benefits when resigning from a job. There is currently no preservation fund policy. There is also no effective date of implementing such a policy. Retirement annuity funds have a preservation fund where one cannot withdraw funds until at least the age of 55.

**Renee Eagar**
Financial adviser at Brenthurst Wealth

**Brian Butchart**
MD at Brenthurst Wealth

## WHAT THE REFORM MEANS FOR PROVIDENT FUND MEMBERS

As of March 2015, provident funds are treated more like pension funds. But this does not mean the end of provident funds.

Prior to the reform, pension fund members could receive a third of their total benefits in cash, while two-thirds were paid out as pension for the rest of the member's life. The provident fund member, on the other hand, could get one withdrawal before retirement and their full benefit paid in a cash lump sum.

With the new reform, a member aged 55 or older as of March 2015 – when the reform was implemented – will not experience any changes in access to their funds. Such provident fund members will still be entitled to the benefits of the provident fund structure as we currently know it, says Butchart.

If the retirement fund member had not reached the age of 55 on the implementation date, then the vested value in their current funds will be notarised. "That portion of your funds, as well as the growth on that portion of the funds, will be dealt with in the applicable tax dispensation as was previously the case. Additional premiums and growth after the effective date will be dealt with as per the new tax dispensation and will need to be annuitised at retirement in the same manner as a pension fund," says Butchart.

## What happens if your company does not have a compulsory retirement fund?

A retirement annuity (RA) is a good option, says financial adviser at Brenthurst Wealth, Renee Eagar. "An RA is such a good tax-efficient vehicle. When you contribute to an RA you get a tax reduction, there is no capital gains tax [and] no retirement fund tax within an RA. So what this means is your money is growing at a real return without having to take taxation into consideration." ■

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**AS OF 1 MARCH 2014, THE FOLLOWING ADJUSTMENTS WERE IMPLEMENTED TO ALLOW FOR INFLATION. THESE ADJUSTMENTS WERE ALSO AIMED AT ENCOURAGING PEOPLE TO SAVE MORE TOWARDS RETIREMENT:**

- The tax-free amount of a withdrawal prior to retirement is now R25 000 (up from R22 500); subject to aggregation.
- The cumulative tax-free amount at retirement (including retrenchment and death) is now R500 000 (up from R315 000). Certain withdrawals prior to specific dates may be excluded when aggregation is applied.
- Pension funds and retirement annuities are restricted to a one-third lump sum at retirement and two-thirds to a life or living annuity to generate an income.
- Provident funds allow one withdrawal prior to retirement and full access to the total lump sum at retirement, although this is not always advised due to the tax implications.

SOURCE: Brenthurst Wealth Managing Director Brian Butchart



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