PSG Wealth

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EMPLOYEE BENEFITS NEWSFLASH

News you need to know

Retirement fund developments

Recently there have been two important proposed changes to the regulatory environment impacting retirement funds:

1. Default strategies
2. Taxation Laws Amendment Bill 2015

Default strategies

National Treasury published draft retirement reform proposals aimed at improving market conduct in the retirement industry and lowering the costs of retirement savings products. These included a set of default strategies that all retirement funds will have to put in place. Should the proposals pass, retirement funds will have to apply three mandatory default strategies:

Default investment strategy

All defined contribution funds (including retirement annuity funds) will be required to have a simple, cost-effective and transparent default investment strategy in place. This will be used to invest the retirement savings of members who do not make any investment choices.

Default annuity strategy

All defined contribution funds (including retirement annuity funds) will be required to have an appropriate default post-retirement annuity strategy in place. This will be available to members who retire from the fund, but they will not be compelled to follow the strategy. Members must be given access to a retirement benefits counsellor before they retire, who must provide them with information about the default annuity strategy. The cost of the retirement benefits counsellor will be carried by the fund.

Default preservation strategy

All retirement funds will be required to make in-fund preservation the default course of action for any members leaving the service of their employer before retirement. Although resigning members will not be compelled to make use of the fund's default preservation strategy, the retirement benefits counsellor must provide them with information about the default. The cost of the retirement benefits counsellor will be carried by the fund.

Preservation funds, retirement annuity funds and beneficiary funds are excluded from this provision, but all employer-sponsored retirement funds, union funds and umbrella funds are included.

PSG Employee Benefits welcomes any attempts by the Regulator to improve South Africans' retirement outcomes.

Taxation Laws Amendment Bill 2015

The Taxation Laws Amendment Bill of 2015 was released for public comment. The following items of interest to retirement funds and their members were included:

- The reform of the tax treatment of retirement fund contributions (also known as the 'T-Day' proposal, which was postponed in October 2014). This will allow for a single tax-deductible contribution rate, irrespective of the type of fund.

- The tax treatment of employee or member contributions to the different types of retirement funds (pension, provident and retirement annuity funds) are inconsistent. The proposed change will see the introduction of a tax-deductible limit of the higher of 27.5% of taxable income or 'remuneration'. Employer contributions to pension and provident funds will be deemed an employee fringe benefit. They will therefore be regarded as employee contributions (and will thus be included in the employee's deduction). An overall annual tax deductible limit of R350 000 will apply. Contributions in excess of this are allowed but will not qualify for tax deduction.

- Retirement benefits paid by provident funds will be similar to pension and retirement annuity funds. To protect vested rights, only the portion of the fund interest relating to contributions after 1 March 2016 will be subject to the new regime. Members older than 55 on 1 March 2016 will not be subject to the regime at all.

- The minimum amount below which benefits at retirement will not be subject to annuitisation requirements will be increased from R75 000 to R150 000.

- All transfers between approved funds, including transfers from pension to provident funds, will be tax free from 1 March 2016.

There are further proposals affecting public sector and retirement annuity funds specifically, which are not dealt with here for the sake of brevity. If you would like more information on these aspects please contact your adviser.

It is important to point out that the 'T-Day' proposals still need to be approved through a consultative process, and the possibility exists that they may be further delayed. We will be sure to keep you updated on developments as they unfold.