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Cape Retirement Fund for Local Government Registration Number: 12/8/32689/2
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RETIREMENT REFORM

Retirement Reform in South Africa is often associated with negative perceptions. Very often our members are concerned and take steps which are often not in their best interest. The reform proposals which have been announced last year by the Minister of Finance may create challenges for Pension Funds regarding their rules and administration, but it can be regarded as necessary and in the interest of members.

1. New Appointments

The pension industry was pleasantly surprised when two very important appointments were announced during last year.

- Ms Muvhango Lukhaimane as Pension Funds Adjudicator and
- Ms Rosemary Hunter as Deputy Executive Officer Pensions at the FSB

Both these ladies have proved themselves to be extremely worthy of these appointments and have impressed since their appointments. The new Adjudicator has almost obliterated a backlog of many years during her first six months in office.

2. Reform Proposals

I will only dwell on the most salient proposals affecting our members. Those who are interested in more detail can study these proposals on the website of National Treasury.

A. <u>T Day: 1 March 2015 (envisaged date)</u> (T = Taxation)

Taxation rules relating to pension contributions will change on this day:

- Employer contributions will become part of taxable income.
- The maximum tax deduction will be 27.5% of the greater of remuneration and taxable income. Employer contributions will be added to income for the purpose of calculating the 27.5% that may be deducted.
- The 27.5% deduction will include the cost of risk benefits.
- A maximum of R350 000 may be deducted in a tax year.

<u>Discussion:</u>

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The above entails that when this comes in operation, a member should obtain income tax advice. At present the CRF contribution rate is 27% of salary. 27.5% of remuneration, which includes all perks as well as the 18% employer contribution to the CRF, will mean that members will be able to contribute 5-10% more tax free to the CRF as a voluntary contribution. The 27.5% is a maximum per taxpayer and not per fund. This includes contributions to retirement annuities.

B. P Day: 1 March 2016 (envisaged date) (P= Preservation Day)

Pre-retirement

- From P-day, a member cannot receive the fund value on resignation from a fund, unless it is below a determined amount.
- The fund value must be kept in a preservation fund or transferred to a new fund or to another default or preservation fund in its entirety (may not be split).
- Preservation fund members may annually withdraw the same amount as the old age grant or 10% of the initial amount deposited, whichever is greater.
- Vested rights on amounts in the fund up to P-Day and growth thereon are not affected.

Retirement

- The fund value received on retirement can no longer be taken fully in cash. One third can be taken and two-thirds must be used to buy a pension (annuity).
- The means test for the old age grant will be phased out by 2016.
- Members who are 55 years or older on T-Day (not P-Day) will not be affected and their vested rights remain, even with regard to contributions made after T-Day.
- The vested rights of members younger than 55 on T-Day will be protected, but contributions made after T-Day will be affected by the one-third cash, two-thirds pension rule.
- Fund values of R150 000 or less will not be affected and can be taken in cash.