Key retirement reforms set to become a reality on T-day

2016 is set to be an important year for the South African retirement fund industry following the announcement this week by National Treasury that President Zuma has signed into law the 2015 Tax Administration Laws Amendment Act No. 23 of 2015 and Taxation Laws Amendment Act No 25 of 2015.

©Gunnar Pippel via 123RF

According to Michelle Acton, principal consultant, Old Mutual Corporate Consultants, this means that the first batch of long-awaited and extensively debated retirement reforms related to tax harmonisation of retirement funds is set to become a reality on 1 March - or T-day, as it has become known.

Notable changes

Acton says the changes to be implemented on T-day have the potential to deliver more benefits to retirement fund members. These changes include the following:

• Members of all approved funds (Pension, Provident and Retirement Annuity Funds) will be afforded a contribution deduction of 27.5% of the greater taxable income or remuneration, subject to a yearly maximum of R350,000.

• Employer contributions to retirement funds will be taxable as fringe benefits, with these contributions being deemed to be employee contributions for the purposes of claiming the deduction.

• The rights of Provident Fund members to take retirement benefits in cash will be protected for all benefits that they have accumulated up until T-day plus the growth thereon until their retirement. This amount will not form part of these members' "retirement interest" for the purposes of applying the annuitisation requirements (explanation below) that they will be subject to from T-day.

• The de minimis annuitisation amount will be increased from R75,000 to R247,500. This means that, from 1 March 2016, members who retire from approved retirement funds with 'retirement interests' (i.e. for Provident Fund members, only their post T-day savings plus growth) in the fund of less than R247,500, may take their entire balance in the fund in cash and will not have to annuitise any amount. If their 'retirement interest' in the fund at retirement is above this de minimis amount, the member can take one-third of their 'retirement interest' in cash and the remaining two-thirds of the 'retirement interest' will need to be used to purchase an annuity. For Provident Fund member savings, any pre T-day savings plus growth thereon may always be taken in cash.

Acton believes the effects of these changes are generally very positive for all retirement fund members, especially for Provident Fund members whose contributions will now be tax deductible. In most cases this will translate to increased take-home pay.

Action by employers and advisors

"While the T-day reforms have the potential to deliver benefits for fund members, unlocking these benefits in full will require action by employers and their advisers, in consultation with employees and members. Members will need to be consulted on whether they want to merely benefit from any cost savings that may become available or whether they prefer to leverage the reforms to save more towards their retirement.

"Doing this could be especially advantageous to those fund members who are behind on their retirement savings."

Acton advises that there are a number of key actions that employers and advisers need to consider taking in the lead-up to T-day. These include:

• Adaptation of HR and payroll systems to meet the new SARS requirements as a result of the changes;

• Careful assessment of the impacts of transfers for Provident Fund members who are over 55 years as at 1 March 2016;

• Member communications that explain the upcoming changes, including the benefits of additional voluntary contributions and how to make these, and reinforce the message that members do not need to resign to protect their retirement savings or their rights as a fund member.

"Old Mutual Corporate welcomes the T-day changes and is well on track to implement the systems and processes required to accommodate them," concludes Acton.