Six steps to help staff retire more comfortably

As of 1 March 2016, the tax laws around retirement fund contributions have changed significantly, with the main changes affecting how much employees can contribute and deduct from their taxable income.

Romeo Msipha, Senior Consultant of Old Mutual Corporate Consultants

These changes enable most employees, who are members of a company retirement fund, to make bigger tax deductible contributions into their fund every month, which will ultimately boost their retirement savings.

Romeo Msipha, senior consultant at Old Mutual Corporate Consultants, says, "Employers should make it as easy as possible for employees to take advantage of this opportunity in order to maximise their retirement outcomes.

"Employers' contributions to employees' retirement funds will now be taxed as a fringe benefit. However, employee members do not need to be overly concerned about this because the taxman now views these employer contributions, as employee contributions, for the purposes of claiming deductions. Employees' contributions are now tax deductible up to a maximum of 27.5% of the greater of taxable income or remuneration, with a maximum fund contribution of R350,000."

For most employee members of pension and provident funds, the fringe benefit inclusion in respect of employer contributions is more than offset by the newly increased deductions claimable by these members.

Example

Where the employer contributes 10% and the employee member contributes 7.5% of pensionable salary; this amount is now seen to have been contributed by the employee member. The maximum contribution deduction from 1 March 2016 is 27.5%, therefore, the member is able to claim the full 17.5% (10% employer contribution + 7.5% employee member contribution) as a deduction. This offsets the fringe benefit inclusion. Assuming the member makes no other contributions to any other retirement fund, the member may contribute a further 10% to the pension fund and still enjoy a deduction (17.5% + 10% = the maximum yearly limit of 27.5%).

Six steps to achieve maximum outcomes

Making it easy for employees to contribute more towards their retirement savings is one of the best ways an employer can help their employees save more towards their retirement in the most tax efficient manner.

To achieve maximum retirement outcomes, employers can offer employees the opportunity to change the amount of money that they can contribute towards their retirement funding through six simple steps.

1. **Assess current minimum contribution**

   Assess the current compulsory minimum contribution and look at the total contribution of both the employee and employer. Consider whether this minimum contribution will realistically ensure the majority of employees will be saving enough to enjoy a comfortable retirement. Fund members should invest a minimum of 15% of their monthly income over their working lifetime from the age of 25. This amount will however vary depending on each person's personal circumstances and the age they started saving for retirement.

2. **Define a flexible contribution scale that works for the business and its employees**

   Choose a range of contributions that allows employees the flexibility to contribute more to their fund, without it becoming an administrative challenge for the HR department. To do this, choose manageable contribution increments (for example 2.5%) to prevent too wide a spread of options. The maximum total contribution should be more than the tax-deductible amount of 27.5% of income because members close to retirement may find this attractive, as they will be able to deduct any un-deducted amounts when they access their retirement benefits. In this regard, these un-deducted contributions will firstly be applied to reduce the taxable amount of any lump sum accessed and thereafter be applied to any compulsory annuity income received by the member.

3. **Negotiate and update employment contracts**

   Have conversations with your employees that centre on the value of the new, flexible contribution structure and the way it allows them to take advantage of the new increased tax deductions to contribute more and grow their retirement savings. If the minimum contribution rate is going to be increased, employers should be sensitive to the possible impact on the take-home pay of some employees. If the previous contributions were part of employment contracts, these will need to be amended. In addition, the new higher contributions rates may only be implemented for new employees and are voluntary for existing employees to ensure smooth implementation.

4. **Find out if changes need to be made to the fund rules**

   Employers need to confirm if the Master Rules of their retirement fund make provision for additional voluntary contributions. This will remove the need to make any changes to their Master Rules or Special Rules.

5. **Partner with employees to help them make the right choices**
   There are a few ways to make this process easier for employees:

   - Give employees easy-to-understand guidelines on the contribution rates that would lead to a comfortable retirement. This could include face-to-face workshops and presentations so members understand the impact of contributing more.

- Use ‘triggers’ to prompt them to take the right actions. This could involve reminders about the value of increasing their contributions accompanying their benefit statements or increases or bonuses.
- Make sure every employee fully understands the default contribution rate and that they will be paying that minimum if they do not specifically choose another rate.
- Make it easy for employees to communicate with HR or payroll about how much they want to contribute. Also, ensure that they know when they can change this rate and the frequency.
- Give employees easy access to financial advice, through workplace advisers or consultants.

6. **Adjust the contributions on monthly payroll submission**
   Employers will need to adjust their monthly payroll file submission to their pension or provident fund administrator, so that this includes any additional contributions chosen by the employees.