

ANNUITISATION OF PROVIDENT FUNDS

BACKGROUND ON THE ANNUITISATION OF PROVIDENT FUNDS

The annuitisation of provident funds was postponed several times to allow for proper consultation with labour. The Minister of Finance confirmed in his Medium-Term Budget Policy Statement (MTBPS) on 28 October 2020 that the implementation will be effective from 1 March 2021. The difference in the tax treatment of pension and provident funds was already aligned from 1 March 2015, allowing provident fund members to deduct contributions for tax purposes.

WHAT DOES THE ANNUITISATION OF PROVIDENT FUNDS MEAN?

In short, the annuitisation of provident funds comes down to the alignment of pension and provident funds, whereby provident funds will, in future, require members to purchase an income (pension) at retirement. As with pension funds, an employee will be able to take a maximum of one-third in cash and the balance must be used to purchase a compulsory income.

HOW WILL THIS INFLUENCE MEMBERS' EXISTING BENEFITS?

The implementation of the legislation will have no influence on your accumulated fund value up to 28 February 2021. It will only apply to your contributions made from 1 March 2021. Employees aged 55 years or older on 1 March 2021 will not be affected at all.

WILL THERE BE ANY COST IMPLICATIONS?

It will be necessary for administrators to keep separate records of existing benefits and contributions made from 1 March 2021. We believe that this could potentially result in an increase in administration fees.

WHAT WILL BE REQUIRED FROM EMPLOYERS AND TRUSTEES?

It will be important for employers and trustees to consult with their employee benefit consultants to ensure that proper prior communication with employees takes place so that employees understand the effect of this change. A full cost analysis by employers and trustees will be imperative to ensure that employees are not negatively influenced by possible cost increases.

TO SUMMARISE: WHERE DOES THIS LEAVE PROVIDENT FUND MEMBERS?

It is important that you, as a provident fund member, do not panic and first speak to your financial advisor to discuss your personal and unique circumstances.

It is clear from the legislation that, no matter your age, when you retire your entire member share before 1 March 2021 will be unaffected and the old provident fund rules will still apply for that portion of your member share when you retire.

If you are younger than 55 on 1 March 2021 and you want to retire, for example, on 1 June 2030, and you wish to do so, you can take all of your retirement savings accumulated before 1 March 2021 in a lump sum. Of the retirement savings that you accumulated from 1 March 2021, you will only be allowed to take one-third in cash. With the remaining two-thirds you will have to buy a pension.

If you are older than 55 on 1 March 2021, you will not be affected by the new legislation at all. If you, for example, retire on 1 June 2030, and you wish to take the full benefit in cash, you will be allowed to do so.

You and your employees' wellbeing are important to us and we will continue to communicate with you regularly. You can contact your Efficient Benefit Consultant directly or contact us on 021 007 1550 or e-mail info@efbc.co.za.