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RETIREMENT FUND CHANGES THAT COULD BE ON THE WAY IN 2024

NEWSLETTER

September 2022

Draft legislation around retirement funds was released by the National Treasury for public comment on 29 July 2022 and the National Treasury's draft response presented to Parliament on 20 September 2022 highlighted some changes. In a nutshell, if you are a retirement fund member when the proposed legislation changes are implemented, you will have a 'two-pot system' when it comes to your retirement savings.

INTRODUCING THE PROPOSED 'TWO-POT SYSTEM', WHICH, IN OUR VIEW, IS A 'THREE-POT SYSTEM'

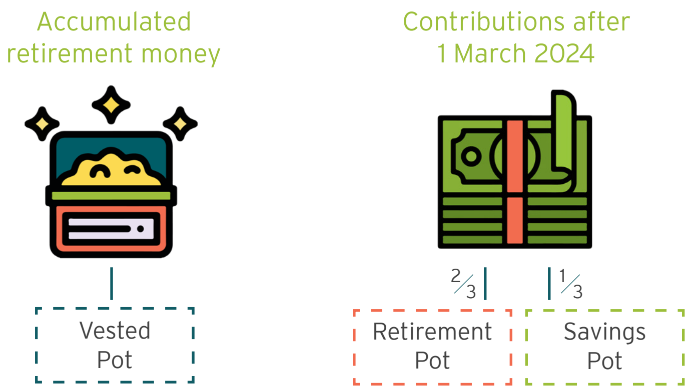
The two main reasons for the proposed legislation changes are to address the following concerns:

- **Not enough money is being saved for retirement:** Low preservation of retirement fund money when people change jobs, leading to inadequate retirement capital at retirement.
- **In case of emergencies:** Households who are in financial distress have no access to their retirement fund money in case of an emergency. In many cases, people opt to resign from their employer to gain full access to their retirement capital, leaving them with very little savings for retirement.

IF GIVEN THE GREEN LIGHT, WHEN WOULD THIS PROPOSAL BE IMPLEMENTED?

The original proposed date for the implementation of the new Revenue Laws Amendment Bill was 1 March 2023 but has now been moved to 1 March 2024. Although pushed out, this will still be a challenge to achieve, as retirement fund administrators will have to make changes to their administration systems, fund rules will have to be amended, and the South African Revenue Service (SARS) will have to make changes to their systems.

The draft legislation makes provision for a vested pot, a retirement pot, and a savings pot. The vested pot will hold all of your retirement savings up to 29 February 2024. Contributions made from 1 March 2024 will be paid into the retirement pot and the savings pot. A maximum of one-third of your contributions will go into the savings pot and the balance into the retirement pot. The National Treasury said that it will "consider" allowing members to make a once-off transfer into their savings pot of the retirement savings that they have accumulated prior to the implementation of the two-pot system.



Your savings pot and your retirement pot will start on 1 March 2024 (if the proposed legislation is, indeed, implemented on this date).

You will be able to access your savings pot once in a 12-month period after 1 March 2024. You will have access to a minimum amount of R2 000. You will not have access to your retirement pot until you retire, even if you resign from your employer before retirement. Regarding your vested pot, the 'old' rules will apply, meaning that you can still access this pot when you resign from your employer.

Now that you know how the proposed pot system is going to work, let us take a look at the tax implications. This is where the process can become more complicated. It will be important for you to understand the tax implications before making any decisions.

Your contributions towards your retirement fund will remain tax deductible in line with the current tax regime, subject to certain limits, i.e. a maximum of 27.5% of your gross remuneration, subject to an overall maximum of R350 000 per tax year.

WHAT WILL HAPPEN IF YOU DECIDE TO RESIGN, AND YOU WANT TO TAKE YOUR RETIREMENT SAVINGS AS A LUMP SUM?

Vested pot

You will still be allowed to withdraw your money upon resignation, retrenchment, or dismissal. Your withdrawal benefit will be taxed according to the current withdrawal tax tables.

Savings pot

One-third of your monthly contributions will be allocated to your savings pot. The draft legislation currently reads that you can only make one withdrawal during any 12-month period without any conditions. Such a withdrawal will be subject to a minimum amount of R2 000. You, therefore, do not have to resign to get access to your savings pot. Unlike a vested pot withdrawal, a savings pot withdrawal will be added to your taxable income in the year of withdrawal. You will be taxed at your marginal rate, not the current withdrawal tax tables applicable to retirement funds. You will, therefore, pay more tax when you withdraw money from your savings pot.

Retirement pot

You will not have access to your retirement pot before retirement, even if you resign from your employer. You can either transfer your retirement pot to another fund's retirement pot, tax-free, or leave your retirement pot in the fund as paid-up.

In the case of retrenchment, members will be allowed to make limited income-based withdrawals from their retirement pot, subject to certain conditions.

WHAT WILL HAPPEN IF YOU RETIRE, AND YOU WANT TO TAKE PART OF YOUR RETIREMENT SAVINGS AS A LUMP SUM AT RETIREMENT?

Vested pot

Upon retirement, you will still be able to take one-third of your money in the vested pot as a lump sum. The balance must be used to provide you with a lifelong monthly pension. The lump sum will be taxed according to the current retirement tax tables.

Savings pot

Upon retirement, you can withdraw your savings pot in full as a lump sum, or it can be added to your retirement pot to buy a lifelong monthly pension. If you do withdraw money from your savings pot as a lump sum, it will be taxed according to the current retirement lump sum tax tables.

Retirement pot

You will not be able to take any part of your retirement pot as a lump sum. The total value in your retirement pot will have to be used to provide you with a lifelong monthly pension.

INVESTMENT STRATEGIES WILL NEED TO BE REVIEWED

The trustees and fund committees will have to review their fund's investment strategy and amend their investment policy statement. There may be different investment strategies for the savings pot and the retirement pot.

Short-term liquidity will be important for the savings pot, as money can be withdrawn at any point during a 12-month period. You will probably see portfolios with low equity exposure and high fixed interest-bearing assets being used as a default for the savings pot.

Most of the current investment strategies and default investment portfolios are designed for long-term investing and we, therefore, will not see significant changes to these strategies for the vested pot and for the retirement pot.

COSTS WILL MOST LIKELY ESCALATE

Based on the proposed legislation changes, we foresee that retirement funds will become even more complex. This added complexity will lead to additional costs being charged by administrators - costs that retirement fund members, who already carry the burden of high industry costs, ultimately, may pick up.

Although we support the proposed changes and believe that these will assist to better the retirement outcomes of retirement fund members, our concern is the impact that these changes will have on retirement fund costs (changing administration systems and other associated costs). Trustees and fund committees must scrutinise any additional costs, such as implementation costs and administration costs, that consultants and administrators might want to charge. We cannot allow retirement fund members to absorb all of these additional costs.

Efficient Benefit Consulting is an approved financial services provider that offers independent retirement fund advice to trustees, fund committees, and members. To speak to one of our experienced consultants, please call 021 007 1550, or send an e-mail to info@efbc.co.za.

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