Retirement Reform and the Taxation Laws Amendment Act

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Agenda

1. Employee Benefits Industry Trends and Statistics
2. SA’s Retirement Crisis
3. Retirement Reform Objectives
4. Regulator Updates
5. Taxation Laws Amendment Act
“KNOWLEDGE IS POWER”
You **CREATE** the memories, we **INSURE** the journey.
Employee Benefits Industry Trends

- Move towards umbrella funds increasing among large standalone funds
- Normal Retirement Age on average 62 – no legislated NRA in SA
- It takes retirees an average of 2.42 years to deplete their retirement capital
- Employer contributions on average 9.66% and employee contributions 6.44% - total contribution of 16.1%
- Risk benefits 2.6% and administration 1% leaving on average 12.5% for retirement investment – only 10.5% in umbrella funds
- Average lump sum death benefits are 3.5 x annual salary
- Increasing member apathy – 90% of members do not engage at all after initial choices and implementation
SOUTH AFRICA’S RETIREMENT CRISIS

The results of the 2013 Sanlam BENCHMARK Survey show where employees are going wrong with their retirement planning – leading to a grim reality for our pensioners...

MISTAKES

MADE BY EMPLOYEES DURING WORKING LIFE

56% start saving at 28 – recommended age 23.

On average we invest only 7% of our salary every year – 15% is minimum needed.

62% of us don’t reinvest our retirement savings for retirement if we change jobs or are retrenched.

90% of us don’t relook retirement savings after initially signing up.

38% of us never get professional advice about our retirement savings.

REALITIES

AFTER RETIREMENT

51% of South Africa’s pensioners can’t make ends meet.

A 1/3 of pensioners don’t have enough funds to cover their medical expenses (their second biggest expense).

61% are unable to save for a ‘rainy day’ fund after retirement due to pressures of expenses.

33% are still in debt after they stop working and still have adult dependants to support.

62% would strongly advise the youth of today to start their saving and planning for retirement EARLY.

WHAT YOU NEED TO RETIRE COMFORTABLY:

After working for 10 years, you need to have saved: 2 x your annual salary.

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Source: www.sanlambenchmark.co.za Design: Lilian van Zyl
Retirement Reform Objectives

• Simplicity and portability – alignment of all retirement instruments in terms of contributions and benefits
• Preservation – reduce leakage where appropriate
• Economies of scale through consolidation of the industry
• Improving disclosure of all costs and fees in retirement funds
• Increased regulation, more effective supervision, better intermediary advice
• Easily accessible and appropriate defaults
• Making retirement saving compulsory – NSSF
Regulator Updates - FSB

• What can we expect from the Financial Services Board this year:
  • Redrafts of:
    • Directive 4 on Liquidations – transfer of unclaimed benefits to UBF
    • Directive 5 on Principal Officers – deputy Principal Officer
    • Directive 6 on Section 14 Transfers – more strict timelines
  • Board Notice on valuation exemptions
  • Board Notice on fit and proper requirements for Trustees
  • Retail Distribution Remuneration document
Regulator Updates - FSB

• What can we expect from the Financial Services Board this year – Pension Funds Act:
  • Third Party Payments will be allowed under certain circumstances
  • Surplus may be allocated directly to members
  • Allow for deduction of maintenance in terms of divorce order from member’s fund credit
  • Beneficiary funds may now receive death benefits from unapproved funds
  • Personal liability for employers for payment of fund contributions
Regulator Updates - SARS

• What can we expect from the South African Revenue Service this year:
  • More “mandatory information requests”
    • Minimum information when applying for tax directives
    • Additional information from beneficiaries who are in receipt of a portion of the death benefit from a fund - increased trustee responsibility
  • SARS wants to pre-populate all taxpayer’s information for e-filing
  • Re-draft and re-issue of General and Retirement Fund Notes
    • All practice notes will be issued as interpretation notes and will clarify legislative practices. These notes will be binding on all taxpayers
Taxation Laws Amendment Act

COMPONENTS

• Contributions to Retirement Instruments – DONE DEAL
• Annuitisation – DONE DEAL
• PHI/ICB Contributions – DONE DEAL
• Preservation – NOT DONE DEAL!!!
Taxation Laws Amendment Act - Contributions

- T-day 1 March 2015 – Contributions to pension funds, provident funds and retirement annuity funds will be aligned
- All employer contributions unlimited tax deduction for the employer
- These employer contributions will become taxable fringe benefit for employee but will be deemed an employee contribution
- Employee can claim tax deduction for both contributions up to 27,5% of greater of remuneration or taxable income subject to R350 000 maximum pa
- Tax neutral effect on employer and employee – no negative cash flow
- Carry over of deductibility against lump sums and against annuity income
- De minimus threshold increases to R150k
- 27,5% includes cost of life cover and administration costs
Taxation Laws Amendment Act - Annuityisation

• T-day 1 March 2015 – No more than 1/3 of retirement benefit may be commuted to a single payment for any retirement instrument

• Exclusions:
  • Contributions made before 1 March 2015;
  • A member of provident fund or provident preservation fund who is 55 years of age or older on T-day, any contributions made after T-day to the provident fund of which that person is a member on T-day
  • Any fund return on the above
What change will happen from T-day if I belong to a provident fund – under 55?

T-day (1 March 2015)

Limited access – must annuitise 2/3

‘new’ contributions plus growth thereon

Accumulated fund credits

X

Growth on X

Y

Full access

X + Y + 1/3 of Z

Maximum cash at retirement =

Z
What change will happen from T-day if I belong to a provident fund – over 55?

T-day (1 March 2015)

Accumulated fund credits

Full access

'new' contributions plus growth thereon

X

Growth on X

Y

Z

Maximum cash at retirement =

X + Y + Z = No Change
Taxation Laws Amendment Act – PHI/ICB

- T-day 1 March 2015 – Change in tax deductibility of PHI/ICB contributions and tax treatment of benefits
- Both employer owned and individual owned policies
- Contributions taxable – benefit will be tax free
- Will apply to disability claimants as at T-day
A form of default preservation may be introduced from which members can opt out fully – referred to as “P-day soft”. This amounts to a change from making preservation an “opt in” to making cash the “opt in” option. The details are expected to be released in June 2014 and it is possible that this be introduced in 2015.

“P-day hard” which relates to compulsory pre-retirement preservation with limited access to savings (but protection of vested rights) is a medium to long term proposal. It is not in any draft legislation as yet and therefore there isn’t any proposed date for when this will come into effect. This proposal is still in discussion at NEDLAC.

So in the words of Douglas Adams “Don’t Panic”
Questions???

Thank You

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