NEWS FLASH: 7 FEBRUARY 2014

MGF

RETIREMENT REFORM

Further to previous communication regarding the retirement reform by government, it can now be announced that the first phase of legislation namely the Taxation Laws Amendment Act, 2013 has been approved by parliament and signed into law on 11 December 2013 by the President.

Government kept its promise to protect vested rights as previously explained in the news flash of 15 February 2013 and 25 March 2013. In fact it even softened the impact on pension fund members. The main aspects of the Act that will have an impact on members are as follows:

1. All members being 55 years and older on 1 March 2015 will in any event be exempted from the new arrangement explained in paragraphs 2 & 3 below. It is business as usual for these members.
2. From March 2015 a maximum of one-third of the fund credit accumulated from 1 March 2015 may be taken as a lump sum. The balance must be applied to purchase a monthly pension. This arrangement is only applicable to new contributions from 1 March 2015 plus growth on such. The full fund credit as at 28 February 2015 will be kept in a separate account which, together with future growth, may all still be taken as a lump sum. In other words the new arrangement will not apply to the moneys in this **"old"** fund credit account.
3. A **new** fund credit account must be created for each member to which contributions must be allocated from 1 March 2015. If a member retires after 1 March 2015 with less than R150 000 in his **new** fund credit account, the new arrangement will not be applicable. Only when the **new** fund credit account becomes greater than R150 000, then two-thirds must be left behind to purchase a monthly pension. This threshold of R150 000 may be adjusted upwards in future to cater for inflation. This means that depending on the salary level and market returns but calculated on the median salary of Fund members and average market return it may take about 3 years after 1 March 2015 before the new arrangement will have any impact on the majority of members. Even thereafter the impact will be gradually over the ensuing years as the **new** fund credit account grows.
4. From March 2015 employer contributions to retirement funds will be taxed as fringe benefits in the hands of employees. For tax purposes these employer contributions will be deemed to have been made by the employees. Employees may deduct up to 27,5% of remuneration or taxable income in respect of contributions (employer plus employee) towards retirement savings, subject to an annual cap of R350 000. Contributions in excess of the annual limits maybe rolled over to future years and eventually be set off against pension payouts.

Although municipal funds are currently not included in the above arrangements due to a technical drafting oversight, it is expected that the Act will be amended during 2014 to also include municipal funds when these arrangements take effect on 1 March 2015.

If you feel uncertain about how the retirement reform would affect you, please contact the Fund for more information. You are sincerely cautioned not to act upon false rumours about government who is going to take your pension savings after 1 March 2015. Such rumours are unsubstantiated and void of any truth. Rather contact the Fund before you make uninformed decisions about your future which may hurt you afterwards.

Yours sincerely

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