MGF
Wealth creator of choice

MUNICIPAL GRATUITY FUND
14 Bedfordview Office Park, 3 Riley Road, Bedfordview, 2007
Private Bag X1190, Bedfordview, 2008
Tel: (011) 450-1224/5 • Fax: 086 682 9178 / 086 678 7733 / 086 675 8586
Website: www.mymgf.co.za • FSCA Reg. No: 12/8/29256/2

NEWS FLASH 25 FEBRUARY 2021

1. Pension Backed Home Loans: Administration fees and interest rate

Standard Bank informed the Board that the interest rate on all new loans with effect from 1 March 2021 will be reduced to the prime banking rate less 1.25%. All current loans will remain at the interest rate of prime less 1%. Standard Bank will not increase the monthly administration fees in 2021.

The interest rate of FNB is still the prime banking rate minus 1.25% and a slight increase in the monthly administration fee is expected later on in 2021.

The following is the fee comparison on pension backed home loans between the two banks:

	Initiation Fee	Admin Fee	Interest Rate
FNB	R300	R23	Prime of 7% less 1.25% = 5.75%
Standard Bank	R571.67	R37.52	Prime of 7% less 1.25% = 5.75%*

*This interest rate is only applicable on all new loans from 1 March 2021, the loans up to 28 February 2021 remain on prime less 1%, which is currently 6%.

If there are municipalities who have not yet signed the letter of undertaking with one of the banks, please contact the Fund to facilitate such meeting and arrangement to secure pension backed home loans for our members.

2. Reduction in contribution towards the Risk Account

At the Board meeting on 10 February 2021 the Board, in consultation with the actuary, resolved that the contribution towards the Risk Account be reduced from 3.45% to 2.95% of pensionable salary, with effect from 1 March 2021, without compromising the superior risk benefits provided by the Fund. The 0.55% of pensionable salary contributed towards administration cost will remain the same, which together with the 2.95% totals to 3.5%.

Thus from 1 March 2021 only 3.5% of the monthly contributions will be allocated for administration cost and risk benefits, which compares very favourable to the cost of other pension funds.

3. Paid-up membership

The MGF offers an in-fund preservation option to all members who leave the service of their employer. In the Rules of the Fund it is referred to as paid-up membership. Members who chose this option will remain invested in the same portfolio as prior to their exit date and may make member investment choices to switch between the four investment portfolios. These members no longer make any monthly pension contribution to the Fund. In other words, members leaving the municipality may leave their fund credit as is with the Fund without making any further contributions and earn market returns until such time as the member may wish to withdraw his benefit. There is no time/age limit in which the paid-up member needs to withdraw the benefit. The full fund credit needs to be preserved and no partial withdrawal is allowed. This is a very cost effective option as the fees payable by the member is the standard administration fee and asset management fees according to the portfolio the member is invested in.

Members who choose to become paid-up members still enjoy funeral cover, but in the event of death or disability only the fund credit is payable to the dependants according to section 37C of the Pension Funds Act.

4. Compulsory annuitisation (Retirement Reform)

As from 1 March 2021 the new taxation laws are applicable. Members who are 55 years and older on 1 March 2021 are not affected by the compulsory annuitisation. The news flash of 20 November 2020 is very comprehensive and available on request, thus all the detail will not be repeated.

The administration system will be split into the vested portion of your fund credit, thus the full cash portion up to 28 February 2021 and a non-vested portion being the new contributions building up from 1 March 2021. The February 2021 contribution will still fall under the vested portion once receipted on the admin system. The June 2021 benefit statement will reflect two values, the vested and non-vested portions, which added together is the total fund credit. The vested portion is the amount that may be taken in full cash at retirement, whereas of the non-vested portion only one-third may be taken in cash, provided that this non-vested portion exceeds R247 500. If the non-vested portion is less than R247 500 a member may take the amount in full cash. It is important to note that the Fund does not pay a monthly pension, thus an annuity needs to be secured from an Insurer as chosen by the member.

Just to clarify some concerns raised by members and employers. Some of the members say that they do not want this ⅔ compulsory annuity and would rather resign now and take everything in cash. This does not make any sense, because if a member would not like it, why resign now at say 40 years of age and why not at 64 years and eleven months? As long as a member resigns before reaching the normal retirement age of 65, even if it only one month before reaching 65, such member may still take the full fund credit in a one lump sum payment. The ⅔ compulsory annuity is only applicable to retirement and not to resignation. The extra tax payable in the event of resignation compared to retirement is the same whether resigning now or later. Currently in the event of resignation R25 000 is tax free whereas at retirement R500 000 is tax free.

Kind regards

CSeierlein

Christine Seierlein
CHIEF EXECUTIVE OFFICER