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ISASA

Independent Schools Association of Southern Africa

MEMBER UPDATE

PENSION SCHEME AND PROVIDENT FUND

January 2016

RETIREMENT REFORM TAKES A BIG STEP FORWARD

There have been lots of press coverage and misleading/erroneous statements issued on Retirement Reform and this has caused unnecessary panic and confusion amongst members.

There is no need to panic!
Very simply, the aim of Retirement Reform is to make the retirement industry work better for members by:

- Improving governance;
- Reducing costs, and
- Making it easier for YOU, the member to save more.

The Tax Laws Amendment Bill was passed by the National Assembly on 26 November 2015 and by the National Council of Provinces the next day. The Bill has also been signed by President Zuma, so 'T-day' will become a part of our law with effect from 1 March 2016.

So, what changes will be implemented on 1 March 2016?
There are two changes that have been legislated and will come into effect on 1 March 2016:

The first change affects the tax on the money you contribute towards your retirement savings.

Currently, the amount of the tax deductions applicable to your contributions differs if you belong to a **Pension, Provident or Retirement Annuity Fund.**

With effect from 1 March 2016 **contributions and tax deductions for all retirement funds will be treated the same** and the amount that you can contribute tax-free is much more generous.

What does this mean for you?

You will be able to make a total tax-deductible retirement fund contribution of up to 27.5% of the greater of your salary, benefits or taxable income.

Your contributions will however be **subject to** an annual tax deduction limit of R350 000.

In a nutshell, from 1 March 2016 you can **save more for your retirement, and enjoy the benefits of a bigger tax deduction.**

The second change affects the options available to you at retirement

Currently, as a member of a Provident Fund you can take your total retirement savings in cash when you retire.

From 1 March 2016 you will only be able to take a maximum of one third of your retirement savings in cash and the balance must be used to purchase a pension.

However, there is no need to panic!

Your total provident fund savings as at 1 March 2016 and any future interest earned on this will not be affected by this change. **We refer to this as your "Provident Cash Entitlement".**

This change will **only affect contributions which you make after 1 March 2016.** However, if the contributions you make after 1 March 2016 plus any growth are **less than R247 500 when you retire, you do not have to buy a pension - you can take your total retirement savings in cash.**

Remember, if you are a provident fund member who will be **55 years or older on 1 March 2016, you will not be affected by these changes.** Your retirement savings will be treated the same way as they currently are, **provided that you remain a member of the same provident fund until you retire.**

Let's quickly recap on some of the changes that have already taken place:

- Premiums in respect of disability income policies are no longer tax deductible but the proceeds will be paid tax free.
- A new tax free savings vehicle has been made available.

It is important to remember that If you resign from your employer, your options will stay exactly the same and you will still be able to access all your retirement savings in cash.

While the aim of the Retirement Reform is to encourage South Africans to save more, ultimately **the responsibility lies with YOU……only YOU have the power to choose a comfortable retirement.**