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Legal UPDATE

October 2014

Executive Summary

- The implementation of some of the retirements reforms have been delayed.

A DELAY IN THE T-DAY RETIREMENT REFORM

Background

Subsequent to consultation between NEDLAC and Government, it has been decided to delay certain of the proposed retirement reforms targeted for 1 March 2015. The initial delay will be for a one year period to 1 March 2016, however, should no agreement be reached at NEDLAC by end of June 2015, the implementation date can be postponed to 1 March 2017.

The Revised Draft Bill and Regulations, as released by National Treasury, are expected to be tabled in Parliament on 22 October 2014.

So what changes will be delayed?

- **The post-retirement alignment of provident funds with pension funds** – until future notice, pension and provident funds will still be two separate legal entities and their retirement benefits treated differently. I.e. under a pension fund a maximum of one-third of a member's retirement benefit may be taken as a cash lump sum and the balance must be used to purchase a monthly pension income. Members will still have the option to take their total retirement benefit as a cash lump sum under provident funds.

- **The current status and deductibility of retirement fund contributions** – the existing deductible limits for contributions into pension and provident fund will apply

Which changes will be implemented?

- **The new disability income tax regime** – as from 1 March 2015 an employee / member will be taxed on the premiums paid by the employer for a disability income benefit. However, the benefit, when paid, will be tax-free. This may result in a decrease in the take home pay for certain members.

- **The right to postpone your retirement date** – the amendment to the definition of "retirement date" will give members the right to elect when they want to retire. Currently members can only retire and take advantage of the beneficial tax concessions when reaching their fund's normal retirement age.

- **Tax free savings scheme** – the implementation of the tax free investment up to an annual maximum of R30 000 and a lifetime maximum of R500 000.

Conclusion

The postponement is unfortunate as the initial changes were aimed at increasing savings levels and members' income at retirement. As a positive, the buy in of all role players could result in a more efficient retirement system in South Africa. We will keep you updated with all future developments.

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