WE ANSWER YOUR QUESTIONS

Retirement reform

Despite all the media attention on retirement reform very few changes from 1 March 2016, affect **pension** fund members. We take you through the questions you may have about these changes.

1 What is retirement reform?

The government proposed changes to the retirement industry to encourage retirement fund members to save more and ultimately retire with enough money to live on in retirement.

Retirement reform is a process that started a few years ago and will continue in the future. There are three changes happening this year that are part of retirement reform.

2 What has changed?

The three changes are:

- tax on the contributions to a retirement fund from 1 March 2016
- the amount you must have in your fund to buy a pension from 1 March 2016
- estate duty from 1 January 2016 being applied to certain contributions.

3 Can I take my pension fund money if I resign, or if I'm dismissed or retrenched?

Yes. You can take all your money in the fund in cash, less tax, if you leave your company before you retire.

4 Will I still be able to take one-third of my savings as cash when I retire?

Yes. There is absolutely no change to this for pension fund members. The requirement to buy a pension with at least two-thirds of retirement savings when a member retires has always been in law and hasn't change from 1 March 2016 for pension fund members.

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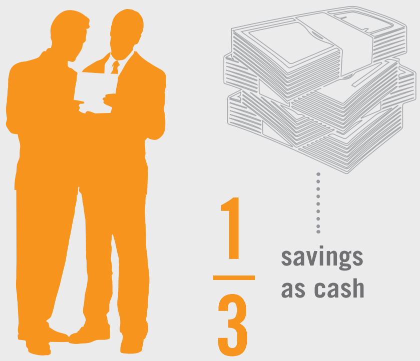
Here's an example. Joe retires from his pension fund at age 65 and has a total of R530 000 in savings. If Joe would like to take some of this amount in cash, then he can take a maximum of one-third of this amount in cash which is R176 667, less any tax. The remaining R353 333 must be used to buy a pension from a registered insurance company.



5 Should I resign to have access to my savings?

No. You will still have full access to your savings as cash before you retire. Your money in your pension fund and future contributions will continue to be invested by the fund for growth.

6 Can I take more money in cash at retirement?

Possibly. Before 1 March 2016 if your retirement benefit was less than R75 000 at retirement you could withdraw the full amount in cash and didn't need to use two-thirds of your savings to buy a pension. This amount has now increased to R247 500. This means that after 1 March 2016 if your benefit is less than R247 500 when you retire the full amount can be withdrawn in cash.

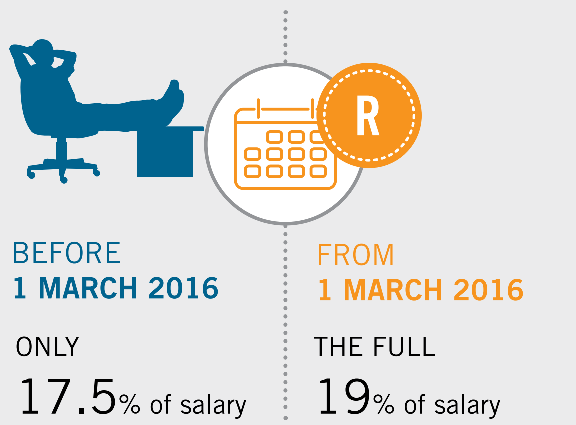
Here's an example. Joe retires from his pension fund at 65 and has saved R240 000 in the fund. If Joe wants to take this amount in cash, then he can take the full R240 000, less any tax. He doesn't have to use any of this money to buy a pension from a registered insurance company.

7 Do my contribution rates change to my pension fund?

No. Your contribution rates don't change because of the new tax laws, unless your employer has decided to change contribution rates to your fund. But the tax deduction you get may change.

Before 1 March 2016 you didn't pay tax on your contributions up to 7.5% of your salary and your employer contributions were made with before tax money. From 1 March 2016 your employer contributions are included in your taxable income, but the total tax deduction you will get is 27.5% of gross salary (with an overall maximum limit of R350 000) across all contributions you and your employer make to any retirement funds. This means that you can contribute more money on a before tax basis to your pension fund than you were able to before 1 March 2016, depending on your current contribution rate.

Here's how this works. Joe contributes 9% of his salary and his employer contributes 10% of his salary to his pension fund. Before 1 March 2016 only 17.5% of his salary is contributed with before tax money. From 1 March 2016 the full 19% of his salary can be contributed with before tax money, subject to a maximum amount of R350 000.



8 Are there changes that have been moved or are not happening?

There are two other changes that were going to happen on 1 March 2016. The government has pushed these changes out to 1 March 2018. These changes are:

1. Tax-free transfers from pension to provident funds
2. Provident fund members having to use two-thirds of a portion of their savings to buy a pension at retirement.

9 What is estate duty and why is it being applied to my retirement fund contributions?

Estate duty is the tax that's applied to your estate when you die. The government is closing a tax loophole with this change because all contributions were excluded from the dutiable estate of a deceased member.

Estate duty applies to any amount contributed after 1 March 2015, which was not tax deductible for a person who died on or after **1 January 2016**. Estate duty will not apply to any contributions to a fund for which you received a tax deduction.

If you have any questions about retirement reform or your retirement fund, please call the Alexander Forbes call centre on **0860 100 333**.

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