The Connector

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The compulsory annuitization provisions that come into effect from 1 March 2021 only apply to provident fund members and affect the amount of benefit that can be taken in cash and what must be used to purchase a pension at retirement.

If you are a pension fund member, there will not be any change to the way your benefit can be paid to you at retirement.

The concept of retirement reform was raised in South Africa in the 2000's. At that time, contributions to pension, provident and retirement annuity funds were taxed differently, members of pension, provident and retirement annuity funds could receive their retirement benefits differently. There were also concerns that members leaving their employer were able to take their benefit in cash and not have enough savings at retirement. The regime was confusing and did not treat all members similarly.

It's been a long road to create harmonization in retirement savings vehicles. From 1 March 2016, the deduction for retirement fund contributions was changed so that there is now a deduction of 27.5% of the greater of remuneration or taxable income up to a cap of R 350 000 to all contributions paid to a pension, provident or retirement annuity fund. Before that, different caps and deductions were allowed for the three different types of funds.

The reforms that were meant to have been introduced from 1 March 2016 initially included a provision that provident fund members would have to use two-thirds of their fund benefit to buy a pension at retirement. This provision was postponed as it was agreed that more consultation was needed on this point.

This consultation has now taken place and the new provisions will apply from 1 March 2021. There is no restriction on how benefits are paid when you leave your employer because of resignation, retrenchment, or dismissal.

WHAT DOES COMPULSORY ANNUITISATION MEAN?

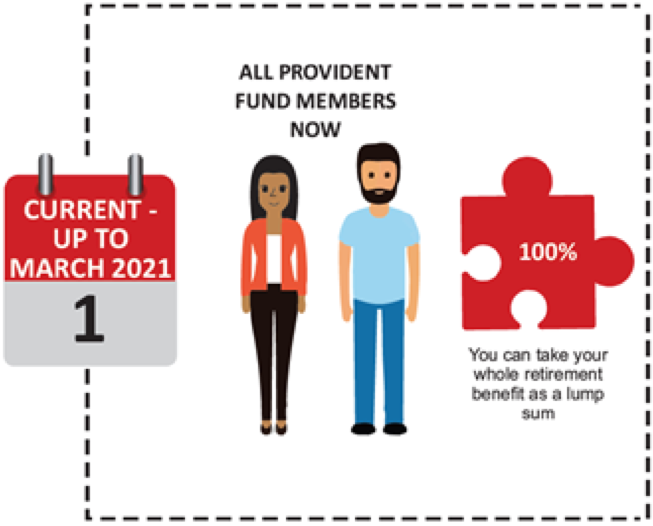
The new compulsory annuitization provisions only affect provident fund members. The new provisions mean that provident fund members will be treated similarly to pension fund members. The new provisions affect the amount of benefit that can be taken in cash and what must be used to purchase a pension at retirement. These new provisions come into effect on 1 March 2021.

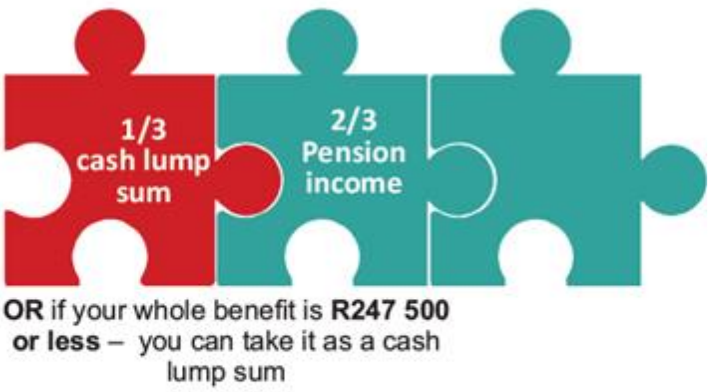
Before 1 March 2021, provident fund members can take their full benefit in cash when they retire and do not have to buy a pension (annuity) when they retire. This effectively means that provident fund members can take their full benefit in cash on retirement. However, pension fund and retirement annuity fund members must use at least two-thirds of their benefit at retirement to buy a pension, unless the total benefit is less than R 247 500. This means that members of provident funds and pension and retirement annuity funds are treated differently at retirement before 1 March 2021 but will be treated similarly after that date.

AS A PROVIDENT FUND MEMBER, HOW MUCH WILL I BE ALLOWED TO TAKE AS A LUMP SUM IN FUTURE WHEN I RETIRE? WHAT IS CHANGING?

Before 1 March 2021, provident fund members can take their full benefit in cash on retirement.

The law is being changed from 1 March 2021.





From 1 March 2021, every member of a provident fund (like all other types of funds) will only be able to take one-third of their retirement benefit as a cash lump sum and the rest must be taken as a pension or annuity.

The exception to this is if your whole retirement benefit (less your vested benefit – explained on page 3) is R247 500 or less, in which case you may then take your whole benefit as a cash lump sum.

The new laws do not apply to withdrawal benefits from a provident fund, which may still be taken in full as a cash lump sum (after paying tax).

YOUR VESTED BENEFITS

Don't be worried – there are protections built in for you

Some of your savings in the provident fund will always be allowed to be taken as a cash lump sum on retirement (so they don't have to be paid as an annuity or pension). How much of your savings will still be allowed to be taken as a cash lump sum depends on your age on 1 March 2021.

IF YOU ARE YOUNGER THAN AGE 55 ON 1 MARCH 2021

When you retire, you can still take all your savings in the provident fund before 1 March 2021 plus all fund return on these savings as a cash lump sum when you retire.

Any other savings in the provident fund, for example your contributions and fund return on those contributions after 1 March 2021 will have to be taken as an annuity or pension when you retire.

If your whole retirement benefit (less your vested benefit) is R247 500 or less, then you can still take your whole benefit as a cash lump sum.

IF YOU ARE AGE 55 OR OLDER ON 1 MARCH 2021

All your savings in the provident fund at any time can always be taken as a cash lump sum when you retire.

The exception to this is if you were not a member on 1 March 2021 of the provident fund that you retire from, then two-thirds of your retirement savings will have to be taken as an annuity or pension.

If your whole retirement benefit (less your vested benefit) is R247 500 or less, then you can take your whole benefit as a cash lump sum.

YOUR SAVINGS IF YOU WERE UNDER AGE 55 ON 1 MARCH 2021

CASH

Savings before 1 March 2021 and all fund returns on this plus 1/3rd

PENSION INCOME

2/3rds of any other savings in the fund (if your whole benefit is R247 500 or less, you can still take it in cash)

YOUR SAVINGS IF YOU WERE AGE 55 OR OLDER ON 1 MARCH 2021

CASH

All your savings in a fund were a member of on 1 March 2021 plus 1/3rd of your savings in a fund you were not a member of on 1 March 2021

PENSION INCOME

2/3rds of savings in a fund you were not a member of on 1 March 2021 (if your whole benefit is R247 500 or less, you can still take it in cash)

YOUR INVESTMENTS IN QUARTER 3 OF 2020

This year has seen economies nosedive on the back of Covid-19, and then start rebounding with the easing of lockdowns. Global markets finally wobbled after a five month winning streak as most global market stocks saw a jaw dropping 10% dip within a few days in early September.

While markets managed to draw a breath and recover slightly, they then experienced their deepest correction since March, falling 8% as a new wave of Covid-19 infections in Europe started rising and lockdown fears returned.

Although Covid-19 numbers escalated in areas such as the UK, France, and Spain, there was a glimmer of hope in the air. Pfizer was hinting that a Covid-19 vaccine could be ready by the end of the year and the Food and Drug Administration (FDA) was expecting at least one vaccine approval by late November. By December 2020, vaccines have started to be administered to high risk individuals where these have been approved for use.

In the United States, the Federal Open Market Committee (the equivalent of the South African Monetary Policy Committee) signalled that interest rates were set to remain close to zero through to 2023. The combination of these positive developments made for an improved global market sentiment.

In South Africa, there has been some news of increased consequences for corruption. Several politicians were arrested, and the ANC has agreed to repay what looks to be a fair price for an ANC delegation hitching a ride to Zimbabwe on an official SA Air Force flight.

On the economic front, the announcement of a tender for 12,000MW of electricity and a briefing from ICASA on the spectrum auction provided welcome news. All the above-mentioned are small movements in the right direction. While not enough has been done yet, there are concerns about the South African economy.

In anticipation of the Medium Term Budget Policy Statement delivered on Wednesday, 28 October 2020 markets were pricing in the worst news. Until we see a strong social compact between government, business, and labour, the South African outlook remains grim.

KEY INDICES TO 30 SEPTEMBER 2020

KEY INDICES	1 month to 30 Sept 2020	3 months to 30 Sept 2020	1 year to 30 Sept 2020	3 years to 30 Sept 2020	5 years to 30 Sept 2020
Local shares FTSE/JSE All Share TR ZAR	(1.58%)	0.67%	2.01%	2.39%	4.75%
Local resource shares FTSE/JSE Resources 10 TR ZAR	(2.95%)	5.71%	27.40%	19.76%	14.89%
Local industrial shares FTSE/JSE Industrials I 25 TR ZAR	(1.68%)	(2.54%)	6.89%	0.69%	3.72%
Local financial shares FTSE/JSE Financial 15 TR ZAR	3.36%	0.47%	(31.38%)	(8.26%)	(4.20%)
Local property FTSE/JSE SA Listed Property TR ZAR	(4.22%)	(15.19%)	(49.12%)	(26.89%)	(16.87%)
Local bonds Beassa ALBI TR ZAR	(0.05%)	1.45%	3.58%	7.33%	7.56%
Local cash STeFI Composite ZAR	0.35%	1.16%	6.20%	6.93%	7.11%
Global shares MSCI ACWI	(4.68%)	3.92%	22.11%	15.54%	15.13%

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