Annuitisation of Provident Funds

The Taxation Laws Amendment Act No. 34 of 2019 **January 2021**

Guiding you towards independence in retirement

Executive summary

The **Taxation Laws Amendment Act No. 34 of 2019** seeks to **align the annuitisation of pension, provident and retirement annuity funds.** The new legislation, **effective from 1 March 2021** (referred to as **T-Day**), aligns the retirement benefits of retirement funds (being pension, provident and retirement annuity funds), **subject to certain vested rights in provident funds.**

Currently **members of provident funds** have the option, but not the obligation, to take part of their retirement benefit as a **lump sum** and purchase an annuity (regular pension) with the balance. However, the full retirement benefit can be taken as a cash lump sum should a member so choose. Pension fund members, however, must use at least two–thirds of their retirement benefit to buy a pension when they retire, unless the total benefit is **less than R247 500**.

In summary, there are two major changes which support the Government's policy of **encouraging members** of retirement funds to **secure a post-retirement income** in the form of an annuity (regular pension). These changes **do not impact the value of members' retirement savings within the fund**.

Firstly, in terms of the Taxation Laws Amendment Act, on or after T-Day, retirement **benefits accrued within provident funds** will be s**ubject to compulsory annuitisation**, subject to certain **vested rights**, which are described below.

Members of provident funds **will only be able to take a maximum of one-third** of their retirement savings in the form of a **cash lump sum**. The **balance** must be used to **purchase a compulsory annuity** (regular pension). From T-Day, pension and provident fund retirement benefits **will be subject to the same rules**, with **vested rights applying to provident fund** members' retirement benefits as described below.

Secondly, **transfers between retirement funds** (pension, pension preservation, provident and provident preservation funds), and transfers from any fund to a retirement annuity fund **will be tax free with effect from T-Day.**

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CURRENT LEGISLATION

Provident Fund

- Up to 100% as a cash lump sum
- **Annuitisation:** Up to 100% optional annuitisation

Any variation of these options is available

LEGISLATION WITH EFFECT 1 MARCH 2021

Pension, Provident & Retirement Annuity Funds

Pre-retirement: Members under 55 Provident Fund

- **Vested:** Accumulation of retirement fund value up to T-Day: 100% may be taken in cash, at retirement
- **Non-vested:** Accumulation of all contributions & fund growth after T-Day: Two thirds of this value must be used to purchase an annuity, the rest may be taken in cash, at retirement

New rules have the greatest affect on members in this group

Members 55 and over Provident Fund

- May withdraw 100% of the value of the fund in cash, at retirement
- **Annuitisation:** Optional 100% available

Options for these members remain unchanged

New members Provident Fund

- **Cash lump sum:** Maximum of one third of the retirement value may be taken in cash
- **Annuitisation:** Two thirds of the fund value must be used to purchase an annuity

These members will not be affected by the rules prior to T-Day

SPECIAL RULES

- If the fund value is less than R247 500, the full amount may be taken in cash.
- Transfers between funds will be tax-free from T-Day.
- Retirement Annuity Funds may only transfer to Retirement Annuity Funds.
- Withdrawal options remain available and the withdrawal rules remain unchanged. The full fund value may still be taken in cash.
- No withdrawals from Retirement Annuity Funds are allowed.

How T-Day will affect retirement benefits

T-Day legislation **changes only apply** to the payment of retirement benefits for members in provident funds **when they retire**. There are **no changes** for members **withdrawing** their benefit **prior to retirement. Before retirement** members m**ay still take 100% of their retirement savings in cash** from both pension and provident funds.

Vested rights

- Members who are **55 years or older** on T-Day **will not be affected** by the new retirement benefit payment rules, if their benefits **remain in the same provident fund**. They will still be permitted to take 100% of their retirement benefit in cash when they retire.
- Members who are **under the age of 55 years** at T-Day will have their **benefits split** into '**Vested Member Share'** (before T-Day benefit) and '**Non-vested Member Share**' (after T-Day benefit) portions.

Cash lump sum retirement savings

Any retirement savings that accrues to a member in a **provident fund** in respect of contributions and investment returns **after T-Day**, will be **subject to annuitisation**. This means that a **maximum of one-third** of a member's **post T-Day retirement savings** will be **available** in the form of a **cash lump sum at retirement.** The **balance must be used to buy an annuity** (regular pension), **unless the total benefit** accrued since T-Day **is less than R247 500**, in which case the member will still be allowed to take **the full benefit as a cash lump sum.**

The **Vested Member Share** (i.e., provident fund balance saved before T-Day), **plus future returns** on this balance until retirement, **will not be affected** and can be taken as a **full cash lump sum on retirement.** The **one-third cash lump sum maximum** will **not apply** to members who have attained the age **55 or older** than this on T-Day, **unless** the member **transfers to another retirement fund** after T-Day. The retirement savings accrued in the new fund will be subject to the **new annuitisation rules.**

Transfers from pension to provident funds

Transfers between retirement funds (pension, pension preservation, provident and provident preservation funds) and transfers from any fund to a retirement annuity fund **will be tax free with effect from T-Day.** Transfers from pension funds to provident funds were previously taxable.

It should be noted that a member of a **retirement annuity fund** can **only transfer to another retirement annuity fund.** This restriction will continue to apply as a member of a retirement annuity fund **cannot withdraw from the fund before retirement** except upon emigration.

To watch **GTC's video on Harmonisation of Pension and Provident Funds** click here. If you would like to discuss how this annuitisation rule will affect your financial planning, please contact us.

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