

Quantum Leap

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THIS ISSUE FOCUSES ON THE TAX HARMONISATION AND RETIREMENT REFORM WHICH WILL BE EFFECTIVE 1 MARCH 2016.

Tax harmonization and retirement reform 1 March 2016

The long awaited tax harmonization of pension and provident funds will be implemented as from 1 March 2016. Both Houses of Parliament have passed the Taxation Laws Amendment Bill, 2015, and our President signed it. The Act will be effective as from 1 March 2016.

Retirement Benefits

In terms of this law, members of Pension, Provident and Retirement Annuity Funds will qualify for a total tax deduction of their contributions up to 27.5% of their remuneration, subject to a maximum of R350 000 per year.

This means that if you add all your and your employers' contributions on your behalf to your Pension, Provident and Retirement Annuity Fund together, you will be able to claim the total as a tax deduction if it is 27.5% of your remuneration, or less. The maximum rand amount permitted in any year to be claimed as a tax deduction is R350 000.

This rule will benefit members of Provident Funds who currently do not receive a tax deduction in respect of their member contributions. Members of Pension funds will ultimately not be affected by the revised taxation as they currently are not taxed on their employee and employer contributions. (subject to the current limits of 7.5% in respect of member contributions and a maximum of



20% in respect of employer contributions)

The new legislation also allows for retirement benefits to be treated differently. As from 1 March 2016, if you retire from a Pension or Provident Fund, and the whole of your retirement benefit is R247 500 or less, you may take the whole of the benefit

in a cash lump sum. Also, if you are age 55 or older on 1 March 2016, you will still be able to take the whole of your Provident Fund benefit in a cash lump sum at retirement.

Members who retire from a Pension Fund will be able to take one-third of their retirement benefit in cash, and the balance must be used to purchase a monthly income, if the amount exceeds R247 500.

Members who are younger than age 55 on 1 March 2016, and who retire from a Provident Fund will in future be able to take a maximum of one third of their retirement benefit in cash, if the amount that accrued from 1 March 2016 up to their date of retirement exceeds R247 500. The balance must be used to purchase a monthly income. In other words, if you retire from a Provident Fund, the entire value of your benefit that accrued as at 1 March 2016, inclusive of investment returns from 1 March 2016 could be taken as a cash lump sum. The portion of your benefit that accrues

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after 1 March 2016, can be taken in a cash lump sum if it is R247 500 or less. If it is more than R247 500, you will be able to take one third in cash, and you will need to decide what kind of monthly income you want to purchase with the balance.

There are many different kinds of monthly pensions available. Some are guaranteed for a number of years, some will automatically increase with inflation, and some will continue payments to your spouse in the event of your death. It is really important that you

find out what kind of monthly income will suit your financial situation the best. You should meet with a qualified personal financial advisor who will explain all the options to you, so that you can make an informed decision.



Withdrawal benefits

Note that there are no changes to withdrawal benefits. The above changes are only applicable if you retire from the fund. If you withdraw before reaching retirement age, you have a number of options as to how you want to have your fund credit paid to you:



There are NO changes to withdrawal benefits

You can take the whole amount in a lump sum cash payment. We have warned against this practice in previous issues, as it takes so long to make up the savings that you already have in your fund. Also, if you take your withdrawal benefit and spend it before retirement, you will have a very small retirement benefit at the time of your retirement, and it will be insufficient to provide you with a meaningful benefit. Note also that if you take your money in cash, you will be taxed on the benefit.

You can transfer your withdrawal benefit to a future employer's pension or provident fund. This is a good idea, as your savings will continue to grow with future contributions and earn interest up to the date of

your retirement. You will not pay tax on the amount that you transfer to a future employer's retirement fund. You can transfer your withdrawal benefit to a Preservation Fund. This is also a wise decision, as your money will continue to earn interest up until the day that you retire. You will not pay tax on the amount that you transfer to a Preservation fund.

If you have an individual retirement annuity, you will also be able to transfer your withdrawal benefit from your Pension or Provident Fund to the Retirement annuity. This is a good decision, as your money will be protected and will continue to grow until you reach retirement age. You will not pay tax on the amount that you transfer to a Retirement Annuity Fund.



There will be no changes to your withdrawal benefits.

NOTE

If you are aged 55 or older on 1 March 2016, you will still be able to take your entire benefit from a Provident Fund in a cash lump sum when you retire from the fund.

Still don't understand? Perhaps the following table might help.

| | Current Legislation | Changes effective 1 March 2016 |
|---|--|--|
| Contributions to Pension Funds | Member contributions are deductible up to 7.5%. Employer contributions are deductible up to 20% of pensionable earnings. | Member and employer contributions to all Pension, Provident and Retirement Annuity funds will be deductible up to 27,5% of total remuneration, or R350 000, whichever is less. |
| Contributions to Provident Funds | Member contributions are not deductible. Employer contributions are deductible up to 20% of pensionable earnings. | Member and employer contributions to all Pension, Provident and Retirement Annuity funds will be deductible up to 27,5% of total remuneration, or R350 000, whichever is less. |
| Retirement from Pension Funds | Maximum of 1/3 can be taken as a cash lump sum, the balance must be applied to purchase a monthly income. If the amount is R75 000 or less, the entire amount can be taken as a cash lump sum. | Maximum of 1/3 can be taken as a cash lump sum, the balance must be applied to purchase a monthly income. If the amount is R247 500 or less, the entire amount can be taken as a cash lump sum. |
| Retirement from Provident Funds | The entire amount that accrued as at 1 March 2016 can be taken as a cash lump sum, or used to purchase a monthly income. | No change if you are 55 or older on 1 March 2016. If you are younger than 55 at 1 March 2016, the following will apply: The entire amount that accrued as at 1 March 2016 , plus investment returns can be taken as a cash lump sum, or used to purchase a monthly income. Maximum of 1/3 of the amount that accrues after 1 March 2016 can be taken as a cash lump sum, the balance must be applied to purchase a monthly income. If the amount that accrues after 1 March 2016 is R247 500 or less, the entire amount can be taken as a cash lump sum. |
| Withdrawal benefits | Withdrawal benefit can be taken as a cash lump sum or transferred to another fund or a Preservation Fund | No change |

Investment Performance Figures December 2015

| Money Market | 1 year | 3 years | 5 years |
|------------------------------------|--------|---------|---------|
| Quantum Elite Money Market Fund | 6.80% | 6.20% | 5.90% |
| Guaranteed Funds | 1 year | 3 years | 5 years |
| Old Mutual Absolute Stable Growth | 14.30% | 16.70% | 14.90% |
| Sanlam Monthly Bonus Fund | 11.73% | 15.17% | 12.91% |
| Momentum MM Smooth Growth Global | 15.67% | 18.39% | 15.13% |
| Conservative Investment Portfolios | 1 year | 3 years | 5 years |
| Quantum Elite Absolute Return | 6.70% | 11.20% | 10.60% |
| Investment Solutions Conserver | 6.65% | 9.72% | 10.68% |
| Moderate Investment Portfolios | 1 year | 3 years | 5 years |
| Quantum Elite Moderate Portfolio | 10.60% | 12.00% | 11.30% |
| Investment Solutions Performer | 11.64% | 15.69% | 15.43% |
| Aggressive Investment Portfolios | 1 year | 3 years | 5 years |
| Quantum Elite Growth Fund | 10.70% | 11.90% | 11.00% |
| Headline Inflation | 4.77% | 5.31% | 5.53% |

Note: Past performance is never an indication of future performance

All performance figures are shown as at December 2015.

Sources of information : Novare, Investment Solutions, Liberty, Old Mutual, Sanlam

Fairsure is a Registered Financial Services Company. We are registered as Consultants and as an Administrator of retirement funds in terms of Sec 13 B of the Pension Funds' Act . We are also licensed to provide advice with regard to retirement funds. We provide consulting services to more than 120 Funds.



“Think deeply
speak gently
love much
laugh often
work hard
give freely
pray often
be kind”

Anonymous



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