Quantum Leap

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Focus on Additional Voluntary Contributions

The Tax Reform changes and the increased tax deductibility of contributions made to a Retirement fund , as explained in our February 2016 edition, suddenly highlighted additional voluntary contributions (AVC's).

It has always been permitted for any member to contribute to his retirement fund more than what is contractually stipulated, but the increase in the tax deductibility of retirement fund contributions highlighted this aspect of funds. As an administrator of retirement funds, we have certainly experienced that there was a sudden increase in members who make additional voluntary contributions.

The new tax regime enables a person to deduct for tax purposes up to 27.5% of the greater of his remuneration or taxable income of contributions made to a retirement fund. This is not the only tax relief available to members of pension, provident or retirement annuity funds. The investment growth in the fund is also completely exempt from tax. In effect, this means that if you invest R100, and it grows to R1000 while invested in the fund, you would not pay tax on the R900 growth.

Retirement funds are therefore extremely valuable saving's instruments, and the recent increase in the allowable tax deductions, emphasized the potential value of your contributions.

Additional voluntary contributions are those contributions that are not contractual. In other words, if you contribute 6% to the fund in terms of the contract, you are allowed to make additional contributions in order to boost your savings account. These contributions can be made either as an additional percentage or a fixed amount, say R500. You could also decide to use a portion of your year end bonus and to have this paid into your retirement fund as a once off additional voluntary contribution. The implication of the new tax regime is that you can increase your contributions to the fund, by making additional voluntary contributions, up to 27.5% of your remuneration or taxable income and still get a tax deduction for those contributions.

It gets better! If you have taxable income other than your normal salary, you could invest up to 27.5% thereof as well in to a retirement fund and get a tax deduction.

Editor:

Ilze van der Berg

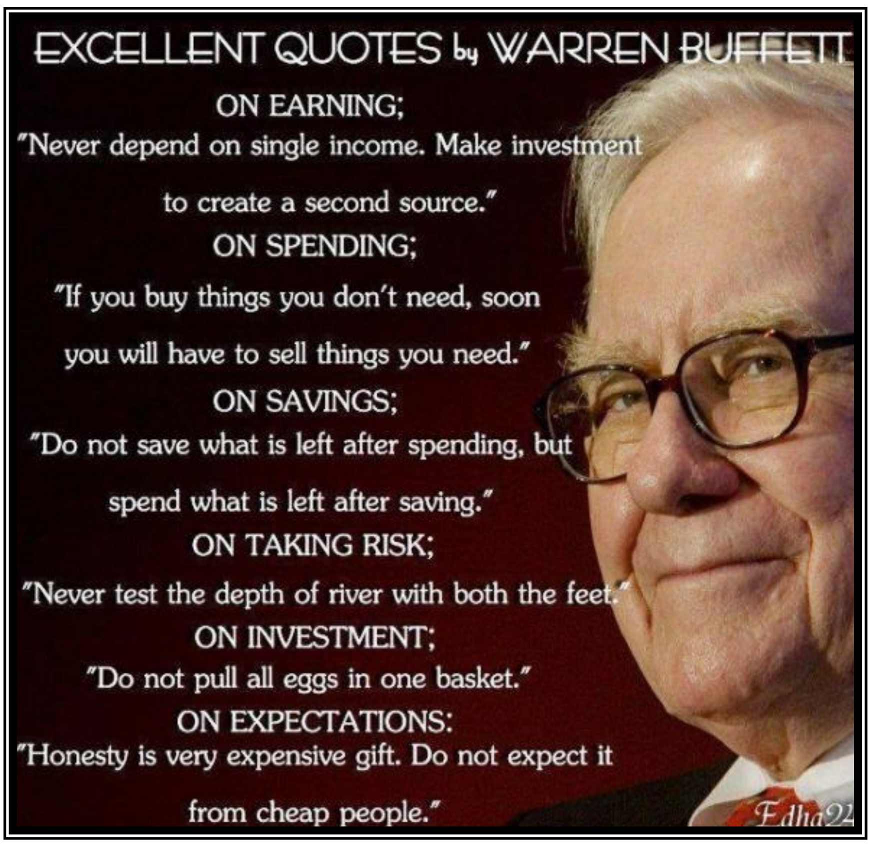
As explained above, AVC's are not contractual. If your financial situation changes and you could no longer afford the contributions, you may reduce it to a minimum of your contractual contributions, for example the 6% mentioned above.

It is relatively easy to make AVC's. All you need to do is to inform your HR department that they should deduct the additional percentage or rand amount from your salary and pay it to your retirement fund when they submit the monthly schedules and payments. These contributions will be invested in your name in the fund, earn interest together with the rest of the fund's assets, and be paid to you when you resign or retire from the fund.

The value of additional voluntary contributions cannot be underestimated. An additional contribution of R200 per month will put an extra R188 000 in your pocket over a period of 20 years, or R595 000 over 30 years. Increase this amount to R500 per month and you are looking at an additional R470 000 over 20 years and a whopping R1 489 000 over 30 years*

Few people appreciate how much it costs to secure a meaningful retirement. If you consider this carefully, you will realise that it is possible to take a portion of your salary increase every year, and invest it in your retirement fund as an additional voluntary contribution, and benefit from the tax deductibility of those contributions, without having to change your lifestyle, and all the while increasing your eventual retirement income.

**Calculations are based on an annual return of 10% and an escalation of 6% in the contribution.*



The compulsory nature of retirement funds

Have you ever wondered why you can't at any time decide to resign from the fund and take your money? Or why you were forced to become a member of the fund when you didn't want to?

There is no law in South Africa that requires of an employer to institute a retirement fund. However, once an employer decides to institute a Pension or Provident Fund, it is ruled by the Pension Fund's Act, the Income tax Act and the Divorce Amendment Act.

Retirement funds are instituted by Employers who realise the importance of long term savings, and who want to assist their employees in accruing a retirement benefit so that they have money available when they reach retirement age and does no longer earn a regular income. Once the fund is instituted, it becomes compulsory for all eligible employees to enter the fund. Employees do not have a decision to enter the fund or not.

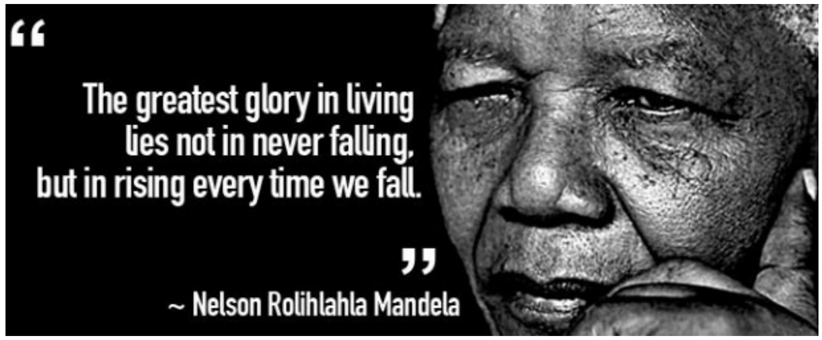
In terms of legislation, the employer needs to decide who will be eligible to join the fund. In most cases, all permanent employees will be eligible, but sometimes specific categories of staff are excluded, for example staff members who belong to a fund managed by their worker's union.

An employees' membership of the fund is directly linked to his contract of employment, and it is a condition of employment that eligible categories of staff enter the fund. The employer has no say in the matter after the eligible categories have been determined. In fact, there are serious penalties and implications for an employer who allows that an eligible employee does not become a member of the fund.

In the same way that an eligible employee cannot decide not to become a member, a member of the fund also cannot at will decide to withdraw from the fund. Withdrawal is only allowed when the contract of employment is terminated. This occurs mostly by way of resignation, dismissal, retrenchment or retirement, or death or disability.

When a member's contract of employment is terminated, for whatever reason, members are allowed by law to be paid their share of the fund. This share is the total of their contributions to the fund, plus the employer's contributions to the fund on their behalf, less administrative costs. Investment returns and bonuses in the entire period of membership are added to this.

The compulsory nature of the fund therefore is a tool to protect members, to ensure that savings for a retirement benefit happens according to rules to which all funds subscribe, and mainly to ensure that the objective of the fund, which is to secure a retirement benefit for members, is met.



Investment Performance Figures March 2016

Money Market	1 year	3 years	5 years
Quantum Elite Money Market Fund	6.9%	6.3%	6.0%
Guaranteed Funds	**1 year**	**3 years**	**5 years**
Old Mutual Absolute Stable Growth	11.1%	15.6%	14.6%
Sanlam Monthly Bonus Fund	10.04%	14.3%	12.7%
Momentum MM Smooth Growth Global	13.24%	17.78%	15.08%
Conservative Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Absolute Return	10.7%	9.6%	10.2%
Investment Solutions Conserver	7.08%	9.58%	10.98%
Moderate Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Moderate Portfolio	5.7%	10.9%	11.1%
Investment Solutions Performer	8.75%	14.23%	15.76%
Aggressive Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Growth Fund	4.8%	10.8%	10.7%
Headline Inflation (Feb 2016)	7.0%	5.6%	5.8%

Note: Past performance is never an indication of future performance

All performance figures are shown as at March 2016.

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 provided advice with regard to retirement funds. We provide consulting services to more than 120 Funds.

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