OLD MUTUAL CORPORATE

OLD MUTUAL SUPERFUND
MEMBER UPDATE

SEPTEMBER 2014

WHAT IS **GOVERNMENT RETIREMENT REFORM?**

A LIFELINE TO HELP **YOU** SECURE A **FINANCIAL FUTURE**

There has been lots of press coverage on Retirement Reform and this has caused unnecessary panic and confusion amongst members. Government's aim with Retirement Reform is to **encourage members to save** and to ultimately **help members improve their chances of retiring in comfort.**

So is there anything you should be worrying about? **THE SIMPLE ANSWER IS NO...**

None of the changes being implemented force you to save your money should you resign, be retrenched or be dismissed. This means that members who fear that their retirement savings will be nationalised and are resigning to get their money are being really foolish. The proposals coming from Government are focused on making the retirement industry work better so that all members have MORE to retire on.

Click here to read the recent statement issued by Government about retirement reform and the associated rumours.

T-DAY

... IS THE DAY WHEN THE NEW TAX REGIME FOR RETIREMENT FUNDS IS BEING INTRODUCED

i.e. **01 MARCH 2015**

So what changes are about to happen?

Currently, there are **THREE key changes** that have been legislated and are about to come into effect on **01 March 2015**:

- Taxation of contributions;
- Options at retirement; and
- Taxation and encashment of disability benefits.

Taxation of contributions

Currently, the taxation of contributions is different if you belong to a **pension, provident or retirement annuity fund. With effect from 01 March 2015, they will all be treated the same.**

HOW DOES THIS AFFECT YOU AS A MEMBER?

CURRENTLY	FROM 01 MARCH 2015
• **Employers** get a **monthly tax deduction of up to 20%** of your income. • If you belong to a **pension fund** you get a monthly **tax deduction of up to 7.5% of your pensionable salary.** • If you belong to a **provident fund** you **pay tax on your contributions.** • If you belong to a **retirement annuity fund** you get a monthly **tax deduction up to the greater of 15% of non-pensionable salary or; R3 500 less fund contributions per annum or; R1 750 per annum.**	• The **taxation** of retirement fund contributions will be treated the **same in a pension, provident and retirement annuity fund.** • Contributions made by you and your employer **will no longer be taxed differently.** • Employer contributions will be **added to your income as a taxable fringe benefit.** • **Contributions made on your behalf will be tax deductible by you - up to 27.5% of your total income,** subject to a maximum tax deductible limit of R350 000 per annum. • To reach the maximum tax deductible limit, you would need to earn R1 272 727.27 per annum.

What happens if you contribute more than the tax deductible limit?

The balance will be rolled over to the next year. Any contributions that are not deducted while you are an active member of the Fund can be deducted when you leave the Fund.

IN A NUTSHELL

The changes make it easier for you to be able to contribute more to a single retirement fund and to **ENJOY THE BENEFITS OF TAX DEDUCTIONS**.

Options at retirement

Currently, **the amount of money that you can take in cash when you retire, is different** between a provident fund and a pension or retirement annuity fund.

PROVIDENT FUND	PENSION OR RETIREMENT ANNUITY FUND
You can take your **full benefit in cash when you retire i.e your total accumulated retirement savings.**	You can take a **maximum of one third of your accumulated retirement savings in cash** - the balance must be used to purchase a compulsory pension, unless your total accumulated retirement savings is less than R75 000.

HOW WILL THE CHANGE AFFECT YOU?

Provident funds will become more like pension and retirement annuity funds – on retirement you will be restricted to taking a maximum of one third of your accumulated retirement savings in cash and the balance must be used to purchase a compulsory pension.

PENSION OR RETIREMENT ANNUITY FUND	PROVIDENT FUND	
	Older than 55 as at 01 March 2015	**Younger than 55 as at 01 March 2015**
• **There is very little change.** • You will **still be restricted to a maximum of one third of your accumulated retirement savings in cash** - the balance must be used to purchase a compulsory pension unless your total accumulated retirement savings is less than R150 000 - this amount has increased from R75 000 to R150 000.	• You can take your **full benefit in cash** when you retire. • This will only apply if you retire from the same fund of which you are a member on 01 March 2015.	• **Accumulated retirement savings before 01 March 2015 plus investment returns** – you can take your full benefit in cash when you retire. • **Accumulated retirement savings after 01 March 2015 plus investment returns** – you can take a maximum of one third of your benefit in cash when you retire. The balance must be used to purchase a compulsory pension. **Note:** If your accumulated retirement savings made after 01 March 2015 is less than R150 000 – you will not be required to purchase a compulsory pension.

Click here to see an example of how this tax change will work.

The purpose of this change is help members ensure that they receive an income for life from their provident fund as well as their pension fund, and to **AVOID THE RISK OF THEM RUNNING OUT OF MONEY** in retirement and becoming reliant on the government and their families for support.

Taxation of disability income benefits

CURRENTLY	FROM 01 MARCH 2015
• Disability income **premiums are tax deductible.** • Disability income **benefits are taxed.**	• Disability income **premiums will be taxed as a fringe benefit in the hands of the employee** – this will reduce your take home pay, unless you are below the tax threshold. • Disability **income benefits are tax free** – should you become disabled, the benefit will now be paid to you tax free. • Existing claimants will receive their disability income benefit tax free with effect from 01 March 2015.

Put simply, the aim of this change is to put more money in your pocket should you become disabled, so that you do not lose any of your already reduced income to tax.

Encashment rules for approved lump sum disability benefits, paid from a provident fund

CURRENTLY	FROM 01 MARCH 2015
• You may take the **full insured portion of an approved lump sum disability benefit,** paid from a provident fund, **in cash.**	• Your approved lump sum disability benefit is **subject to the same encashment rules as retirement benefits.** • You can take a maximum of one third of your approved lump sum disability benefit, paid from a provident fund in cash and the balance must be used to purchase a compulsory pension, unless the sum of your accumulated retirement savings with growth (made after 01 March 2015) and your insured benefit is less than R150 000.

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At this stage, nothing else has been passed into law and there is **NO NEED TO PANIC** about the current discussions on preservation.

P-DAY

... IS THE EFFECTIVE **DATE** FOR THE IMPLEMENTATION OF GOVERNMENT'S PRESERVATION PROPOSALS.

Preservation is planned for at some point in the future but the actual date has not yet been decided on.

What is preservation?

Preservation is when you leave the employment of a company and you **elect to keep your accumulated retirement savings** in the fund, until you retire or you move it into another similar retirement savings vehicle without incurring any taxes or penalties.

What is the government's preservation proposal and how will this affect me?

Government's preservation proposal aims to encourage members to preserve their money when they change jobs. This proposal will **only affect contributions that are made after the new legislation is implemented** – members will **still be able to access in full all the money that they would have saved up to the date the new law comes into effect.** The current proposal also allows for limited withdrawals on savings contributed after the effective date.

It is important for YOU to remember that there is no need to panic and **YOU do NOT need to resign before 01 March 2015 to protect YOUR access to YOUR money.** None of the changes being implemented force you to save your money should you resign, be retrenched or be dismissed.

While the aim of retirement reform is to encourage South Africans to save more, ultimately the responsibility lies with YOU... only YOU have the power to choose a comfortable retirement.

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