

TAX CHANGES

FROM 1 MARCH 2021 -

AFFECTING PROVIDENT FUND MEMBERS

From 1 March 2021, all retirement benefits payable from provident funds and provident preservation funds will be treated the same as retirement benefits payable from pension funds, pension preservation funds and retirement annuity funds. This means that the difference between provident funds and pension funds will disappear from 1 March 2021, in that contributions paid to these funds and benefits payable from these funds will be treated exactly the same.



MEMBERS OF PROVIDENT FUNDS AND PROVIDENT PRESERVATION FUNDS WILL BE REQUIRED TO:

BUY A PENSION WHEN THEY RETIRE:

- Retiring members of provident funds and provident preservation funds will be required to use 2/3rd of their retirement savings to buy compulsory pensions/annuities.
- The 1/3rd cash lump sum benefit commutation and 2/3rd benefit annuitization rule will apply to all retirement benefits, except where the total retirement benefit due is R247 500.00 or less.

VESTED BENEFITS ARE PROTECTED:

All or any accumulated provident fund savings on 1 March 2021 (so-called "T-Day") will be ring-fenced as a vested benefit in a vested benefit member account, protected and will not be impacted by the changes. The member will be entitled to withdraw the full vested benefit member account at retirement. The member will only be required to buy a pension/annuity with 2/3rd of the accumulated savings from all contributions and growth made to the fund from 1 March 2021 (the non-vested benefit member account).

Example:

A current member of a provident fund who retires (after reaching normal retirement age) on 31 March 2025, will have both a vested benefit member account and a non-vested benefit member account in the Fund. The vested benefit member account is made up of all accumulated savings and growth as at 1 March 2021. The non-vested benefit member account will be made up of all accumulated contributions paid to the Fund from 1 March 2021, plus growth, to date of retirement. This retiring member will be entitled to take in cash, the vested benefit member account and up to 1/3rd of the non-vested benefit member account, unless where the non-vested benefit member account is less than R247 500.00, in which event the entire amount can also be taken in cash.

IMPACT OF THE TAX CHANGES:

• On current members of provident funds who are younger than 55 years:

Members who are younger than 55 years on 1 March 2021 will be impacted by these changes as their Fund would need to create 2 separate accounts, the vested benefit member account and the non-vested benefit member account. But, these members are not affected at all, if they withdraw from their funds by way of resignation, dismissal, retrenchment, etc. They will remain entitled to claim their entire benefit as a cash lump sum.

• On current members of provident funds who are 55 years or older on 1 March 2021:

Members who are 55 years or older on 1 March 2021 will not be impacted by these changes at all. The Fund will continue to maintain only one account for them, the vested benefit member account. Their accumulated benefits will be treated in line with the rules as they currently apply, provided that they remain within the same fund or they preserve the accumulated benefit. If they transfer out of their original fund into another fund, they will retain the vested benefit member account, but their new fund must create a second account, the non-vested benefit member account, into which all new contributions from the date of transfer, will be allocated plus their growth. This account will be subject to the 1/3rd and 2/3rd commutation principle.

• New employees:

All new employees joining provident funds from 1 March 2021 will be bound by these changes and the Fund will maintain only one non-vested benefit member account for them; meaning that when they retire, they will be required to use 2/3rd of their accumulated retirement savings to buy a pension.

Should you have any specific questions in this regard, please do not hesitate to contact the Fund.