Master getting retirement right, now.

Build your future.

The Good

Big tax deductions for diligent contributors

From 1st March 2015, contributions by employer or employee to any form of retirement funding – namely Provident, Pension or Retirement Annuity give the taxpayer a deduction of up to 27.5% of salary or taxable income, whichever is the greater. This is capped at R350 000 per annum, but any excess can be carried forward. This is a fantastic incentive for taxpayers to save for retirement with huge assistance from the taxman.

However, most of our clients – who are great conscientious employers - have a standard combined company and employee contribution rate of around 15% of salary. This is a historical amount based on tax structures that are now very out of date and it may be time for employers to start negotiations with their staff to increase their compulsory contributions. If they don't, one has to rely on the employee being sufficiently informed and sensible enough to make up the difference on their own. This is highly unlikely. Good legislation though.

Annuitisation of 2/3 of the retirement benefit

The second part of the changes initiated in 2015 was that provident, pension and retirement annuity benefits would all be treated the same way. Provident fund members would no longer have access to 100% of their retirement benefit on retirement, but would only be able to access 1/3 in cash, the remaining 2/3 being invested in order to provide a monthly income. The 1/3, 2/3 rule already applies to pension funds and retirement annuities.

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It was the way that this amendment was communicated (as in not at all) that caused us to lose some 42 000 teachers and 30 000 police force members. They resigned en masse in the belief that they were not going to 'get all their money' if they stayed on until retirement.

The result of this criminal negligence is that those individuals have all taken their retirement money out long before they should have, resigned their jobs and by now probably have no retirement money left – and no jobs.

Of course, the unions were there encouraging them, as they also hadn't read the next part of the amendments which made it clear that the 1/3 2/3 apportionment would only apply to new contributions after the implementation date and that everything in the fund up to that date would still be 100% available. Moreover they also seemed to miss the fact that this did not apply to anyone over the age of 55 on the date of implementation.

The bad

What did government do?

Bowing to pressure, government did not implement the 1/3 2/3 rule in 2015, 2016, 2017, or even 2018, probably because the provident fund members will continue to object, since there has been not even a small attempt at educating them about the changes. To date, there still has been no real communication from government about this, so maybe this golden opportunity will just pass like a ship in the night. Maybe Mr Nene will do something about it. Maybe employers should take the initiative - that's always a good idea ...

The ugly

It's good legislation. It's been terribly badly handled. Sadly, Malusi Gigaba simply had no choice but to kick the can down the road again, so we have to wait until 2019 to see whether it will finally be implemented. Meanwhile retirees are taking all their money out on retirement and it mysteriously disappears at an alarming rate. Very soon there is no money in the bank, no monthly income and long queues outside SASSA.

That's ugly!

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