Changes to Provident Funds from March 2021

Members younger than 55

Background

During the 2020 Budget Speech, the Minister of Finance indicated that the annuitisation of provident funds, which had been repeatedly postponed, would be implemented effective 1 March 2021.

Currently, in a provident fund, you can take your full benefit in cash when you retire, although it is taxed.

What exactly does the change mean?

- When this comes into effect, it will mean that members of provident funds younger than 55 will be restricted to taking a maximum of one third of their retirement benefit in cash, using the balance to purchase a pension.
- Member's vested benefits in the Fund will be protected and exempted from the annuitisation requirements at retirement.
- Importantly, you are exempted from the annuitisation requirement if you are 55 years or older on 1 March 2021. You will still be able to take your full retirement benefit as a cash lump sum, if you stay in the same fund until you retire.

In other words, with effect from 1 March 2021, you will have two separate 'savings accounts' in the Fund:

OLD ACCOUNT

YOUR VESTED BENEFITS (PROTECTED SAVINGS) **UP TO 1 MARCH 2021**

- This is your full **Fund credit** as at 1 March 2021 and any investment returns that you may earn on that money up until you retire.
- You will still be allowed to take this money as a **cash lump sum** at retirement.

NEW ACCOUNT

NEW SAVINGS AFTER 1 MARCH 2021

- Any new monies paid into a provident fund on or after **1 March 2021** will be subject to the new annuitisation rules at retirement, unless the value is below **R247 500**.
- This means that you will only be able to take a maximum of one third of your new savings pot as a cash lump sum, and you will need to buy a pension, **i.e. an annuity,** at retirement with the balance.*

Why is this change being made?

- According to the Reserve Bank, household debt as a proportion of income is dangerously high – over **70%**. With such high debt levels, many South Africans simply do not save.
- As a result, many provident fund members make poor decisions when they retire. By cashing out their benefit, they are sabotaging their future financial security.
- By making it compulsory to use two thirds of your savings to buy an annuity, which provides a pension income, government seeks to ensure that you will not be destitute in your old age.
- Finally, this change allows for the harmonisation of how your savings are taxed. From **1 March 2021**, you will not be taxed when you transfer your savings to another fund, except if you are in a retirement annuity fund.

****Your Fund offers annuity strategies at affordable rates. Speak to your Fund Retirement Benefit Counsellor about your options at retirement.***

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FREQUENTLY ASKED QUESTIONS

If I am over 55, what do I need to know?

If you are 55 years or older on 1 March 2021, you will not be affected by any of these new rules – as long as you stay in the same provident fund. If you transfer into a new fund, the new rules will apply to your savings in the new fund.

I am younger than 55. Does this affect anything other than my retirement options?

Nothing changes when you withdraw before retirement – you can still take all your savings in cash but this is not recommended.

Should I resign to access my money now?

No. Your retirement savings are just that: money for your retirement. You are encouraged to preserve your savings to provide an income for your old age. It is never recommended to take your benefit in cash at any stage or to use it for anything other than a pension income.

Is this change unfair? Am I being cheated in any way?

No. Pension Funds already work this way. All funds will now have the same rules for retirement benefits. Your benefits up to 1 March 2021 and any growth on this amount will NOT be affected by the new rules. You can still take this protected amount in cash, no matter what. Government is NOT trying to nationalise your retirement savings or steal your money!

Why is this happening now all of a sudden?

Initially, this change was planned for 1 March 2015, but was postponed as a result of ongoing consultations with stakeholders.

Who can I contact if I have further questions?

Speak to your fund retirement benefits counsellor for more information and assistance.

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