glacier
by Sanlam

PROVIDENT FUND AND PROVIDENT PRESERVATION FUND ANNUITISATION

The impact of T-Day, 1 March 2021

THINK WORLD CLASS

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Over the last few years, government has been reviewing and changing the laws that regulate the retirement fund industry. These retirement reforms aim to ensure that South Africans save enough for retirement and that their savings are protected.

As part of the reforms, in March 2015, the Taxation Laws Amendment Act introduced changes to the Income Tax Act which were required to align the benefits and tax treatment of all types of retirement funds. As is the case with pension funds and retirement annuities, compulsory annuitisation now also extends to provident funds from 1 March 2021.

WHAT IS ANNUITISATION?

The Income Tax Act defines the types of retirement funds available in South Africa. In these definitions there are rules that have to be accommodated in the rules of a retirement fund.

One of these relates to the treatment of retirement benefits (the member's 'retirement interest') at retirement: **a member is only allowed to take a maximum of one-third of the retirement interest as a lump sum and the remainder must be used to purchase a compulsory annuity to provide them with an income during retirement.**

WHAT DO THESE CHANGES MEAN FOR MEMBERS OF PROVIDENT FUNDS?

Before 1 March 2021, at retirement, members of Provident Funds or Provident Preservation Funds could elect to take their entire retirement benefit as a lump sum. Alternatively, members had the option, but not obligation, to take part of their benefit as a lump sum and annuitise the remainder by purchasing a compulsory annuity to provide them with an income during retirement.

At retirement

As of 1 March 2021, however, the treatment of benefits at retirement will be determined by whether the benefits have **vested** rights attached to them:

- **Treatment of benefits that have vested rights attached to them:**
  The member will still be able to take the full retirement benefit amount as a lump sum at retirement, subject to taxation. They will also still have the option, but not obligation, to take part of the benefit amount as a lump sum and annuitise the remainder.

- **Treatment of benefits that do not have vested rights attached to them:**
  The member will be obliged to annuitise at least two thirds of the retirement benefit amount by purchasing a compulsory annuity that will provide them with an income during retirement.

Simply put, the member will be able to do as he pleases with the vested portion at retirement – he may choose to annuitise it or not. The member will, however, be required to annuitise at least two thirds of the non-vested portion at retirement. This means he will have to purchase a compulsory annuity with at least two thirds of the benefit amount, unless the value of this portion is R247 500 or less, in which case the full benefit can be taken in cash.

WHICH BENEFITS HAVE VESTED RIGHTS ATTACHED TO THEM AND WHICH DO NOT?

Members younger than 55 on 1 March 2021 plus new members who join from 1 March 2021 onwards:

- **Contributions** made to a Provident Fund or a Provident Preservation Fund **before 1 March 2021 plus growth** thereon will have **vested** rights attached to them.

- **Contributions** made to a Provident Fund or a Provident Preservation Fund **from 1 March 2021 plus growth** thereon will ***not* have vested rights** attached to them.
  The member will be required to annuitise at least two thirds of the benefit amount at retirement (unless the value of this benefit amount is R247 500 or less, in which case the full benefit can be taken in cash).

Members aged 55 and older on 1 March 2021:

All contributions accumulated **before 1 March 2021** and growth thereon will have **vested** rights attached to them, and if the member remains a member of the same retirement fund until retirement, all contributions from 1 March 2021 onwards will also have vested rights attached to them.

THE MEANING OF VESTED AND NON-VESTED

When a right to something vests in a person, this means that the right thereto becomes a secured personal right.

What vests in this case, is the previous right of a Provident Fund / Provident Preservation Fund member *not* to annuitise any part of his/her retirement benefit at retirement.

For ease of understanding, we refer to the vested and non-vested portions of a member's retirement benefit in a fund.

Simply put, the member will be able to do as he pleases with the vested portion at retirement – he may choose to annuitise it or not. The member will, however, be required to annuitise the non-vested portion at retirement, which means he will have to purchase a compulsory annuity with at least two thirds of the benefit amount, unless the value of the non-vested portion is R247 500 or less, in which case the full benefit can be taken in cash.

ADMINISTRATION

These administrative principles apply to all the retirement funds available at Glacier:

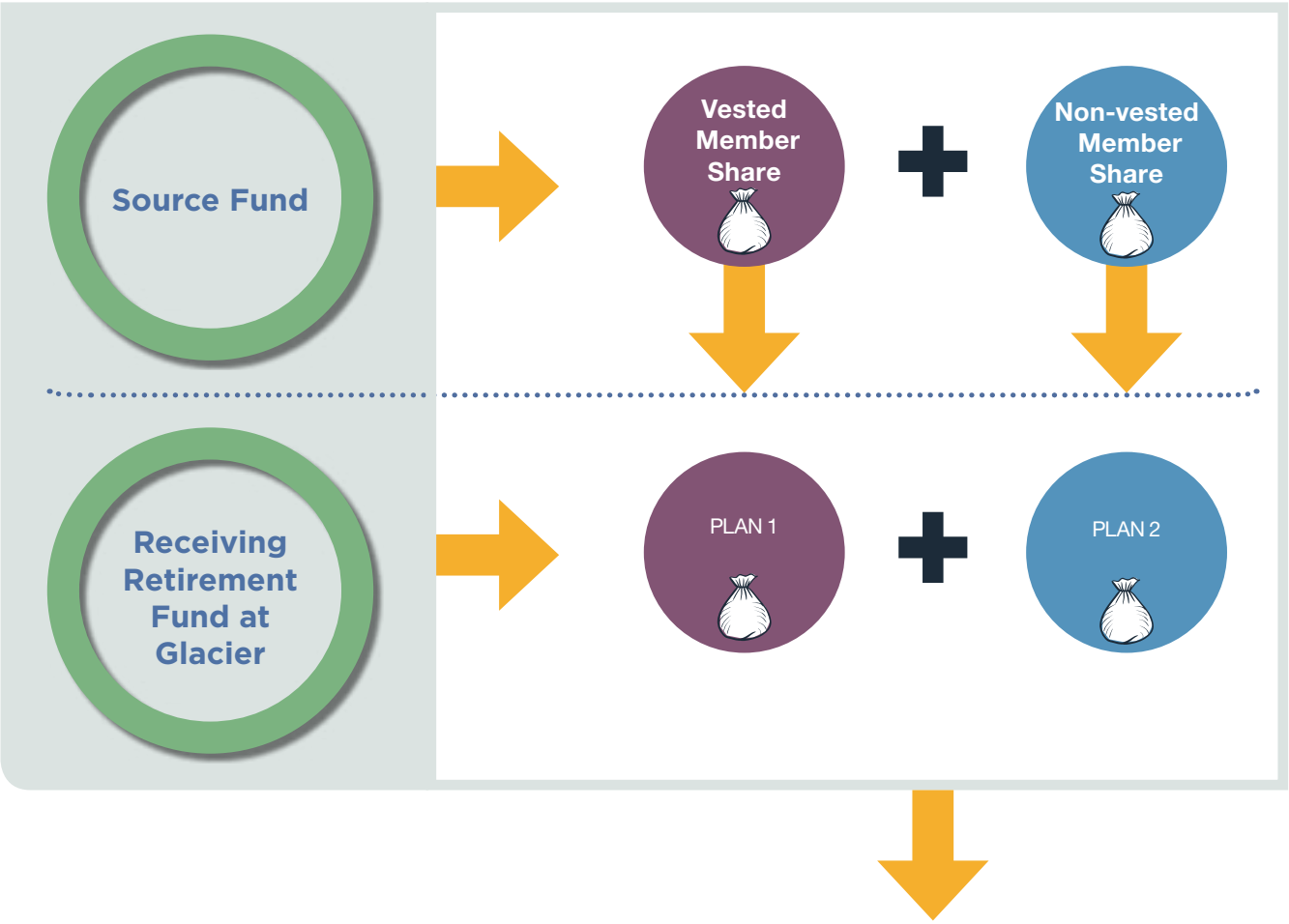
- The Personal Portfolios Preservation Pension Fund
- The Personal Portfolios Preservation Provident Fund
- The Personal Portfolios Retirement Annuity
- The Sanlam Cumulus Echo Preservers

New investments

If the money funding a new Preservation Fund or Retirement Annuity originates from a Provident fund and consists of **both a vested and a non-vested portion**, it will be administered in **multiple investment plans*** (one for the vested and one for the non-vested portion). These plans will have the same underlying investment options, in the same proportion.

Treatment of transfers

A fund member may request to transfer their accumulated benefit in a retirement fund to another retirement fund, subject to the specific fund rules. If money transferred to any retirement fund at Glacier consists of both a vested and a non-vested portion, we will follow the instructions on the Recognition of Transfer (ROT), but in general we will host the vested and non-vested portions in separate plans*.



- Both plans will be invested in the same underlying investment options, in the same proportion upon receipt.
- A member can transact on the plans separately (switches and rebalances) after inception.
- These plans are considered to be one investment when it comes to the application of Regulation 28, withdrawals, the calculation of fees and when requesting statements.

**This does not apply to the Sanlam Cumulus Echo Preservers.*

Transfers in respect of members younger than 55 on 1 March 2021

- **Contributions** made to a transferring provident or provident preservation fund **before 1 March 2021** (and growth thereon) will form part of the **vested** portion in the receiving fund.
- **Contributions** made to a transferring pension or pension preservation fund or retirement annuity fund **before 1 March 2021** (and growth thereon) will form part of the **non-vested** portion in the receiving fund.
- Contributions made to any transferring fund **after** 1 March 2021 (and growth thereon) will form part of the **non-vested** portion in the receiving fund.

Transfers in respect of members 55 and older on 1 March 2021

- The **accumulated benefit** in a transferring provident or provident preservation fund (and growth thereon) will be regarded as the **vested** portion in the receiving fund.
- The **accumulated benefit** in a transferring pension or pension preservation fund or retirement annuity fund (and growth thereon) could consist of both a **vested and non-vested** portion if a provident or provident preservation fund was previously transferred to it, and will be treated accordingly in the receiving fund at Glacier.
- Any **additional contributions** to the receiving fund (and growth thereon) will be regarded as the **non-vested** portion.

Source of Funds

A combination of funds from different sources cannot be invested into a single investment. Money from separate sources will be invested as separate investments. This is done to ensure that the fund benefit and restrictions are applied in line with each transferring fund's rules. Thus, a member will have a single membership and potentially multiple investments in a retirement fund, depending on the originating source.

Regulation 28

Regulation 28 will be applied on member level, and not plan level, so the asset exposure of a member's full retirement savings portfolio will be taken into account.

Investment options

While the money will be invested in the same underlying investments, in the same proportion in both plans on the Glacier platform, members will have the option to transact on those plans separately after inception. They will therefore be able to switch funds in any one of the plans, and the plans will be treated independently in that regard.

Withdrawals

Members of Provident Preservation Funds and Pension Preservation Funds are legally allowed to make one withdrawal from the fund before retirement. This remains unchanged. If a member's fund benefit consists of a vested and non-vested portion, Glacier will deduct the withdrawal amount proportionally from both portions.

Retirement

What happens at retirement depends on whether the retirement benefit has vested or non-vested rights attached to it.

Statements

Where the vested and non-vested portions are from the same source, the two plans are linked automatically as one investment. A single statement will therefore be provided on which both plans are reflected separately.

SUMMARY

Not subject to compulsory annuitisation	Subject to compulsory annuitisation
What constitutes the vested portion? All contributions **before 1 March 2021**	**What constitutes the non-vested portion?** All contributions **from 1 March 2021 onwards** by either new or existing members younger than 55 on 1 March 2021.
All contributions (before and from 1 March 2021) for existing **members who are 55** and older on 01 March 2021, on the condition that he/she remains a member of that same fund until retirement.	If a member who is **55 and older** on **1 March 2021 transfers out** of the provident or provident preservation fund of which they were a member on 1 March 2021, all contributions after the transfer will be non-vested.
At retirement The full benefit, or part of it can be taken in cash. The remaining benefit may be used to purchase a compulsory annuity.	**At retirement** The full benefit will be subject to compulsory annuitisation. Therefore a maximum of one third can be taken in cash while at least two thirds must be used to purchase a compulsory annuity. **Exception:** If the benefit at retirement is equal to or less than R247 500, the full value can be taken in cash.
Regulation 28 Will be applied at member level, therefore the total asset allocation (in the vested and non-vested portions) will be taken into account.	
Fees and costs Charged on total investment value (of the vested and non-vested portions).	
Withdrawals and deductions Any withdrawal amount will be taken proportionally from the vested and non-vested portions. The same applies for Section 37D deductions (divorce, tax, employer loans or maintenance orders).	

We believe that these reforms will go a long way in helping our clients save more for retirement and live their best life possible into the golden years.

Please contact your Glacier representative if you have any queries.

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