Legislative changes to Provident and Provident Preservation Funds

On 1 March 2021 legislative changes will come into effect which will remove the differences between provident funds and other retirement funds.

Download the intermediary document about these changes

Background

Over the last few years, government has been reviewing and changing the laws that control the retirement fund industry. These retirement reform initiatives aim to ensure that investors save enough for retirement and that their savings are protected.

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. The annuitisation of provident funds has been postponed over the years but for the first time, from 1 March 2021, will be aligned with those of pension and retirement annuity funds. View the detailed infographic | View the Afrikaans infographic

What do these changes entail and how are members affected?

In general, as from 1 March 2021, members of provident funds will only be allowed to take one-third of their benefit at retirement as a cash lump sum. The balance of the benefit must be used to purchase a post-retirement income product to provide an income to the member.

Members 55 and older on 1 March 2021

If they remain in the fund up to retirement, they will not be affected by the changes*.

Members younger than 55 on 1 March 2021

The rule to annuitise only applies to provident fund contributions made from 1 March 2021 plus growth thereon (referred to as the “non-vested” portion).

Contributions made before 1 March 2021 plus growth thereon (referred to as the “vested” portion) will not be affected by the changes*.

*The portion that is not affected by the legislative changes (vested portion), may be taken in full in cash at retirement. If the non-vested portion is less than R247 500, the full amount may also be taken. Lump sums taken at retirement is subject to tax.

Administration of these changes at Glacier

Members younger than 55 on 1 March 2021

Two investment plans, fees and Regulation 28 based on total value

- The fund administrator will be expected to keep record of each member’s balance before 1 March 2021 plus growth thereon (the *vested* portion), and the contributions from 1 March 2021 plus growth thereon (the *non-vested* portion).
- Accordingly, as of 1 March 2021, Glacier will administer the vested and non-vested portions (plus growth thereon) in separate plans. New contributions will be invested in the same funds, in the same proportion as per the member’s original instructions for the vested portion.
- Administration fees will be based on the total value of all plans (vested and non-vested portions).
- Regulation 28** of the Pension Funds Act, which limits over-exposure to higher risk assets, will be applied on the total asset exposure from all plans in the Fund.
- Should a member’s monthly contribution be invested in shares, Glacier will instruct the stockbroker to set up a share portfolio for a new, non-vested plan.

Members 55 and older on 1 March 2021

Stays the same: one vested investment plan

Contributions will be administered in the same way as today and it will continue to be invested in the member’s existing plan as vested proceeds. They will still be permitted to take the full benefit as a cash lump sum at retirement.

**Regulation 28 of the Pension Funds Act states that the maximum asset class exposure for investments in retirement funds should be 75% to equities, 25% to property, and 30% to foreign assets (of which not more than 25% may be invested in foreign assets outside Africa).

Withdrawals

Withdrawals from a fund prior to retirement, whether in terms of the Pension Funds Act or the

Income Tax Act, will be applied proportionally from the vested and non-vested portions or plans, in cases where a fund member has both linked to his/her membership.

Other options for members

Should a member want to switch between funds or make use of any other investment option, completed switch forms can be emailed to client.services@glacier.co.za or faxed to (021) 947 9210.

See next week's issue of *Glacier Weekly* for more information on this topic.

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