

Accessing retirement savings prior to retirement – a good idea?

5 August 2021

By Annalise De Meillon Muller, Manager: Distribution & Sales Support

The draft Taxation Laws Amendment Bill 2021 was published for public comment on 28 July 2021 and at the same time Minister Tito Mboweni held a briefing and published a media statement. The purpose was to provide more detail around President Ramaphosa's measures announced on 25 July to support the recovery of the economy and provide relief to poverty stricken South Africans after the recent violent unrests and the ongoing pandemic. Minister Mboweni highlighted the serious impact these events are having on the South African economy and the wellbeing of South Africans, but the good news is that despite this, the resilience of the country is being acknowledged and the projected recovery this year of the GDP is still on the cards due to a more supportive global environment and our monetary policy.

Retirement Reform

One of the pertinent issues discussed in the media statement is around retirement reform. The retirement savings culture of South Africans first started attracting the attention of the authorities in the 90s, although there are references of discussions on the topic being had as early as the 80s. This led to a focus in legislation during the 2000s where the intention was to protect retirement fund members from themselves in order to better secure their own retirement years. This strategy is known as the Retirement Reforms in South Africa. Despite the reforms the recent Sanlam Benchmark Survey 2021 shows that currently about 75% of South African retirees are reliant on state old age grants as their main income source during their golden years.

The situation remains dire and Minister Mboweni confirms in his media statement referred to, that National Treasury is now in discussions with the National Economic Development and Labour Council (NEDLAC) in respect of a proposal to allow limited access to retirement fund savings prior to retirement, especially for those whose income has been negatively affected by the COVID-19 pandemic. However, granting this access is not an easy thing to put in place considering the intention of the retirement reforms and the importance of ensuring preservation of retirement provisions. He promises that government will continue to plan along with trade unions, regulators

and other stakeholders how to best allow limited withdrawals from retirement funds prior to retirement, whilst at the same time closing the loopholes in legislation that undermine preservation. Discussions are also underway on compulsory contribution to a form of retirement savings of a small portion of the income of all employed and income-earning South Africans. The Minister gave an undertaking that government and National Treasury will persist in keeping the South African ship on course through the stormy seas as they are very aware of the difficulties that South Africans currently face.

The current proposal

After Minister Mboweni's message the director-general of National Treasury, Ismail Momoniat, mentioned to the media that the limited access to retirement savings could take the form of access sooner to the one-third that is normally available as a lump sum at retirement (subject to tax). This will, however, mean that the retirement fund member will not be allowed access again at retirement as the intention will remain for a two-thirds portion to be converted to a compulsory income stream during retirement. He also mentioned compulsory saving and preservation of retirement savings. It is quite clear that earlier access will not translate in legislation that allows less preservation for the retirement years. All the savings in your retirement fund will most definitely not now suddenly become available to a member prior to reaching retirement.

TimesLIVE conducted a survey amongst readers between 28 and 31 July 2021, asking whether people should be allowed access to their retirement savings in order to pay off debts. They reported on 31 July 2021 that the outcome of this was that 74% of the participants indicated that they need access now as they fear not even reaching retirement without it. A further 14% indicated that they would not risk poverty during retirement and 12% indicated that they should be able to pay off debt without dipping into their retirement savings.

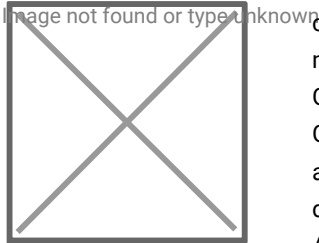
Understand the implications

If 75% of retirees currently, without these changes, have state age old grants as their main source of income during retirement and 74% of income earners are going to dip into their savings even before reaching retirement, this paints a very bleak picture indeed. It is important to remember that withdrawing from your retirement savings prior to retirement has a detrimental impact as the future retiree will have less capital with which to purchase an income and will lose out on a lot of compounding interest growth on the capital withdrawn. If there is any other way to survive and pay off debt without dipping into your retirement capital, then that is preferable. Your savings in a retirement fund is protected from creditors, it has tax benefits and is not estate dutiable should you pass away before retirement. These benefits, along with the power that compounded interest growth gives to your future income, go a long way to ensuring your financial security in retirement. There is very little chance of recovering from such a withdrawal in monetary terms and it is of the utmost importance to not make this decision lightly and certainly not without the professional

advice of a financial adviser.

Glacier Financial Solutions (Pty) Ltd and Sanlam Life Insurance Ltd are licensed financial services providers

Annalise De Meillon-Muller



Annalise is responsible for support of the Business Development team with respect to product entrenchment, legal expertise, regulatory compliance, financial planning principles, digital communication, and strategic project collaboration. Her role is key to ensuring the fulfilment and maintenance of the competency and expertise of the team and selected partners. Annalise joined Glacier in 2015 as a Sales Training Manager looking after the competency and expertise of the Glacier Distribution and Sales team. Before Glacier, Annalise's career spanned almost two decades as a technical professional in the fields of law, financial planning, development, business development and marketing at the Road Accident Fund, Bowline Fulfilment, Bowman Gilfillan Attorneys and Milpark Education. Annalise obtained a B. Proc degree and Postgraduate LLB degree from the University of Johannesburg (1993 to 1999), Postgraduate Diploma in Financial Planning (CFP®) from the University of the Free State (2008) and an Advanced Postgraduate Diploma in Financial Planning (Advanced CFP®) in Estate Planning and Personal Risk Management from the University of the Free State (2010)

This document is intended for use by clients, alongside their financial intermediaries. The information in this document is provided for information purposes only and should not be construed as the rendering of advice to clients. Although we have taken reasonable steps to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries accept any liability whatsoever for any direct, indirect or consequential loss arising from the use of, or reliance in any manner on the information provided in this document. For professional advice, please speak to your financial intermediary.

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 |
Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com | *Reg No 2002/030939/07
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
Reg No 1998/021121/06 | Licensed Financial Services Provider