Accessing retirement savings prior to retirement – a good idea?

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.

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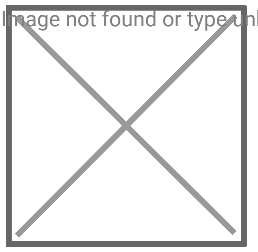

Annalise is responsible for supporting the attainment and maintenance of the Glacier sales and distribution team and selected partners' competence and expertise. Annalise's career started in 1999 at the Road Accident Fund where, among others, she fulfilled the role of the RAF arbitration representative for a period of time. In 2005, she joined a national supply chain management company and held the position of national marketing manager and in-house legal adviser, amongst others, after which she joined Bowman Gilfillan Attorneys as a business development consultant in 2009. Between 2011 and 2015, Annalise lectured in financial planning, law and taxation at Milpark Education, before taking on the role of sales training manager at Glacier. Annalise holds a BProc and LLB degree from the University of Johannesburg, a Postgraduate Diploma in Financial Planning from the University of the Free State and an Advanced Postgraduate Diploma in Financial Planning from the University of Stellenbosch. She is a CFP® and an external academic for the postgraduate diploma programme in Financial Planning at the University of Stellenbosch Business School.