

Budget shift forces a retirement rethink



Pieter Cronje ... care needed.

The changes could alter the way people may save, but consumers must consider any new decisions carefully, writes ALF JAMES

CHANGES relating to retirement funds announced in

the 2011/2012 budget herald a significant adjustment for the retirement savings industry and members will have to rethink their retirement planning carefully, says Pieter Cronje, director at the Financial Intermediaries Association of Southern Africa (FIA) and chairman of its employee benefits executive committee.

He says the announcement by Finance Minister Pravin Gordhan that from March 2012

any contribution made by an employer to a retirement fund on behalf of its employees would be treated as a taxable fringe benefit could alter labour negotiations regarding retirement fund contributions.

Cronje says although there are a number of changes announced in the budget that could alter the way people may save, it is important that consumers do not rush to make significant changes *without first*

consulting a financial adviser.

"The budget highlighted an opportunity for some taxpayers to increase their level of retirement saving by utilising the proposed tax deductible percentage of 22,5% for retirement savings; however, any such change to your financial plan warrants careful planning.

"Often people have a finite amount of money to contribute towards retirement saving, so changing how you allocate the money may mean having to reduce savings committed to other forms of retirement planning. It is likely that this would change the mix of readily available capital versus income at retirement," he says.

Cronje says that for those who are fortunate enough to be affected by the R200 000 cap on deductible contributions there may be a need to re-examine how they invest their money. However, consideration could be given to maintaining a higher level of contribution on the basis that the excess will add to the tax-free lump sum amount at retirement and, in the meantime, accumulate in the fund on a tax-free basis.

He says the current tax system on withdrawal benefits

does not serve as a strong enough discouragement since people are still willing to pay the tax to withdraw their savings.

"As premature withdrawal of retirement savings affects the growth of pensions adversely and results in poor savings, the government plans to consult extensively with stakeholders in order to implement mandatory preservation on withdrawal, with the allowance of a highly restricted form of withdrawal under certain circumstances.

"The proposed change

announced in the budget in the approach to the lump sum benefits allowed under provident funds will also require some rethinking on the part of those members of provident funds whose savings plans are based on the full sum being available as a cash payment," says Cronje.

He says it is, however, not only employees who are to be affected by the budget proposals.

"For employers, the change to having contributions to funds being paid by employees rather

than the employer will require considerable changes, with the impact on defined benefit schemes in particular probably requiring some expert input.

"The long-term future of provident funds may also have to be reassessed."

Cronje says that the proposal to extend the range of providers of living annuities will also mean that intermediaries will be required to play an even greater role in assisting annuitants to make the correct decision to suit their particular needs.



Consider keeping a higher level of contribution, as the excess adds to a final tax-free lump sum.