

Members to rethink their retirement planning following Budget's proposals

The retirement fund-related changes announced in the 2011/2012 Budget herald a significant change for the retirement savings industry and members will have to rethink their retirement planning carefully.

This is according to Pieter Cronje, director at the Financial Intermediaries Association of Southern Africa (FIA) and chair of its Employee Benefits Exco, who 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.

He 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 current financial plan should warrant 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 currently committed to other forms of retirement planning. As a result this would also likely change the mix of readily available capital versus income at retirement."

Cronje says that for those who are "fortunate enough" to be affected by the R200 000 cap on deductible contributions there may also be a need to relook at 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 disincentive since people are still willing to pay the tax to withdraw their retirement savings. "As premature withdrawal of retirement savings adversely affect the growth of pensions and result in poor savings, government plans to extensively consult 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 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. "In the long term, the gradual progress that is being made towards



Pieter Cronje: Close attention needed from all parties

reform in the broader context of retirement savings will require close attention from

both members of retirement funds and financial advisers," concludes Cronje.