m CUBED GROUP

RETIREMENT REFORM- 2014/2015

The **March 2014** budget announced the following changes that effect the retirement fund industry:-

1. The tax free amount on pre retirement withdrawals from pension and provident funds has increased to **R 25 000.00** (previously R 22 500.00) with effect from **1 March 2014**. This tax free amount is a once in a lifetime tax free amount.

2. The tax free amount on involuntary retrenchment, ill health retirement, death and retirement has increased to **R 500 000.00** (previously R 315 000.00) with effect from **1 March 2014**. This tax free amount is a once in a lifetime tax free amount –including any cash amount elected from a retirement annuity.

3. With effect from **1 March 2015**- employer contributions made on behalf of an employee will now be taxed as a fringe benefit in the hands of the employee. However, the employee may claim a tax deduction of 27.50% (inclusive of the employee's own contributions and the employer contributions made on his/her behalf to a pension, provident fund or retirement annuity) of taxable income per annum. The maximum amount that maybe deducted is R 350 000.00 per annum. Any amount in excess of the R 350 000.00 may be carried through to the next tax year. Any amount that was not allowed as a tax deduction at ill health retirement, death or retirement will be tax free in addition to the tax free lump sum of R 500 000.00.

4. With effect from **1 March 2015**, a member will only be able to elect to commute 100% of his/her share of the fund as cash from a provident fund that has accrued up to 1 March 2015 at retirement age. From 1 March 2015 the share of fund that accrues thereafter must be taken as one- third cash and the two-thirds must be used to purchase a compulsory annuity. If a member is 55 years or older as at 1 March 2015 and **stays a member of that fund** to retirement age he/she may still elect to commute his/her share of the fund 100% in cash as is currently the option.

5. With effect from **1 March 2015**, the employer premium paid on behalf of an employee in respect of Income Continuation Benefits (monthly disability benefits) will no longer be tax deductible/tax neutral in the hands of the employee. The premium will be a taxed as a fringe benefit but benefit payments will no longer be taxed as income and will be tax free.

6. With effect from **1 March 2015**, the commutation threshold upon retirement will be increased from R 75 000.00 to R 150 000.00 – across all retirement funds.

7. The Financial Services Board has passed the Treating Customers Fairly (TCF) Policy in January 2014. TCF is an outcome based regulatory approach that seeks to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by financial institutions. It will from a key component of the new Market Conduct Regulators mandate in the Twins Peaks model. The ultimate desired outcomes of TCF are:-

- Improved customer confidence
- The supply of appropriate products and services.
- Enhanced transparency and discipline in the industry

There is no official implementation date for TCF as communicated by the Financial Services Board. However the expectation is that all companies are already implementing the processes and plans to fully incorporate the TCF outcomes.