# T-Day – Retirement reform and tax changes

In this newsletter, we provide you with an update regarding the legislative changes affecting the administration of retirement funds as from **1 March 2021 ('T-day')**, and address some of the questions we've received to date.

We also attach a communication aimed at informing members about T-day. You are welcome to use this communication as you see fit.

## Administration System

We are pleased to report that the development of our administration system is progressing according to plan. We have effectively completed the last of our developments and are in the process of testing the final system functionality. Save for the few days mentioned below; we do not foresee any business disruption in services or service levels.

Regarding provident fund members, the administration system will maintain two accounts for each member **from 1 March 2021**. The vested (cash) portion will contain the member share as at the end of February 2021 plus the investment return thereon going forward. The non-vested (annuitised) portion will only contain the contributions and returns made from 1 March 2021 onwards. Annuitisation" in this case means that a member can take 1/3rd of his/her member share in cash at retirement. The remainder must be used to purchase an annuity.

From 1 March 2021, all contributions and/or transfer credits for provident fund members who are 55 years or older on 1 March 2021 will be kept in the vested (cash) portion provided that they remain in the same provident fund that they were members of on 1 March 2021. If these members join a different provident fund after 1 March 2021, their contributions will be allocated to the non-vested (annuitised) portion.

Although pension fund members are not affected by the annuitisation legislative changes, they will be affected by the changes to our administration system. Pension funds will, therefore, be administered on the same basis as provident funds. This means that the member share as at the end of February 2021; plus contributions and investment return from 1 March 2021, will be placed in the non-vested (annuitised) portion within such funds, as pension funds are subject to annuitisation. Any vested amounts transferred from provident funds or provident preservation funds on or after 1 March 2021, will be kept in the vested portion because vested amounts will not be subject to annuitisation. This is done to keep track of the nature of fund credits during transfers between retirement funds.

The difference between the vested and non-vested portion will be explained and reflected on all benefit statements, web statements and transfer certificates. Please refer to Annexure A for the explanation.

Please note that changes to the format of benefit statements to reflect pre and post 1 March 2021 contributions will still be discussed with clients in the normal cycle of issuing benefit statements.

Client reporting will follow the same format. Clients are welcome to provide us with feedback on the amended formats.

## Project Implementation

Because of the fundamental impact on our administration system, we will implement the new functionality in a phased approach. The reclassification of member shares into vested and non-vested portions will occur during the weekend of 12-14 February 2021.

On the evening of 28 February 2021, we will switch on the functionality whereby contributions for members of provident funds as from 1 March 2021 will be allocated to the non-vested portion if they are younger than 55 on 1 March 2021. Any vested amounts transferred to provident and provident preservation funds on or after 1 March 2021 will be allocated to the vested portion

## Payroll Changes

If Employers foresee making changes to their payroll, such as changes to contributions, kindly be reminded to change the special rules first before changing the payroll. From an administration perspective, these changes follow the current standard process.

## Switches

For funds offering investment choices, members currently have the option to switch their member share and/or future contributions. Our administration system will maintain this functionality. Members will not be able to switch the vested and non-vested portions separately, into different portfolios. The investment instruction will be applied to the member share as a whole, as is currently the case. As far as life stage switches are concerned, the development will not interrupt the running of these programs.

Please note that we have made specific arrangements with external providers with regards to the exchange of operational data in tracking direct member investments.

## Lump sum payments that may be subject to annuitisation

It is important to note that the new annuitisation requirements only apply to retirement benefits under provident funds. Withdrawal benefits are not affected.

Also, only the member's non-vested portion of the retirement benefit is subject to annuitisation, not the vested portion. Because of the commutation threshold of R247 500, which applies to the member's non-vested portion, it is expected that most provident fund members will only be affected by the annuitisation requirements in a couple of years from now. However, clients should take note that a lump sum credited to a provident fund member's non-vested portion may push the member over the threshold, in which case, the non-vested portion will be subject to commutation. An example could be a lump sum disability benefit payable under a provident fund. Clients may wish to discuss this issue with their consultants.

## Contributions and Deductions

In respect of additional voluntary contributions (AVCs), we confirm that the standard process applies. Clients are reminded that AVCs can only be made via the payroll of the employer. AVCs cannot be paid by the member or a third party directly into the fund's bank account.

All deductions from a member share, including Section 37D, divorce orders, maintenance orders and fees, will be made pro-rata between the vested and non-vested portions.

## Close

T-day has a significant impact on retirement fund administration. We urge you to engage with your Client Relationship Manager if you are unsure about anything or if you have any questions.

Please be advised that this is information of a general nature and does not constitute financial advice.

# Annexure A – Provident funds

## According to legislation, from 1 March 2021 your member share is being divided as follows:

| | |
|---|---|
| **Vested portion**: | R1111111 |
| **Non-Vested portion**: | R2222222 |
| TOTAL | R3333333 |

### 1. Explanations to members who are/were younger than 55 years on 1 March 2021:

**Vested portion includes:**

- all transfer credits and contributions to the Provident and Provident Preservation Fund received in the insurer or fund's bank account as on 28 February 2021 and investment return thereon, and
- vested credits transferred to the provident fund or provident preservation fund on or after 1 March 2021.

**Non-Vested portion includes:**

- all transfer credits and contributions to the Provident and Provident Preservation fund, received in the insurer or the fund's bank account on or after 1 March 2021 and investment return thereon.

### 2. Explanations to members who are/were 55 years or older on 1 March 2021:

**Vested portion includes:**

- all transfer credits and contributions to the Provident and Provident Preservation fund received in the insurer or fund's bank account as on 28 February 2021 and investment return thereon, and
- all transfer credits and contributions to the Provident and Provident Preservation fund received in the insurer or fund's bank account on or after 1 March 2021 (as long as you remain in the same Provident fund or provident preservation fund of which you were a member on 1 March 2021) and investment return thereon.

**Non-Vested portion includes:**

- In the event that you transfer to another fund after 1 March 2021, all transfer credits and contributions to the new fund and investment return thereon will form part of the non-vested portion. (The transferred amount plus investment return thereon will form part of the vested portion)

Please note that the above is only a summary of how Vested and Non-Vested must be calculated and does not deal with all possible aspects.

### 3. Your withdrawal benefit (Total taxable benefit payable prior to retirement)

In the case of a provident fund, your Vested and Non-Vested portions will become payable when your membership of the fund is terminated before you retire as a result of resignation, dismissal, retrenchment or the termination of the fund.
Your entire withdrawal benefit can be taken in a cash lump sum and may be subject to deductions according to the law. See notes for more details.

The total of your member share, Vested and Non-Vested portions, is:
R 13,083.10

## 4. Your retirement benefit

Your total retirement benefit will equal the sum of your Vested and Non-Vested portions at the time of your retirement. You can take the entire Vested portion as a cash lump sum. You can take a maximum of one-third of your Non-Vested portion as a cash lump sum and must use the balance to buy a pension of your choice. You will be able to take your Non-Vested portion in a cash lump sum if it is not more than R247 500.

Should you become disabled, the lump sum disability benefit (if this benefit is applicable to you) will form part of your retirement benefit and will be paid together with your retirement benefit. The lump sum disability benefit will form part of your Non-Vested Portion.