PERSONAL FINANCE

Provident funds to be phased out slowly

July 7 2013 at 12:30pm
By Bruce Cameron
http://www.iol.co.za/business/personal-finance

Provident funds, which allow you to cash in all your retirement savings at retirement, are to be phased out over an extended period – it may possibly be up to 45 years before the last vestiges of these funds disappear.

National Treasury has given notice that, from March 1, 2015, provident fund members will be obliged – with some major exemptions to protect vested rights – to use at least two-thirds of their retirement savings to buy a pension.

Until March 2015, provident fund members will continue to be allowed to withdraw all their savings as a cash lump sum at retirement.

Treasury says the lack of onus on provident fund members to buy a pension at retirement “means that many retirees spend their retirement assets too quickly and face the risk of outliving their retirement savings”.

To overcome this, provident funds and provident preservation funds must be aligned with other retirement and preservation funds, which require that two-thirds of a member’s retirement savings be used to buy a pension for life.

The change will also mean that provident fund members will be given the same tax deduction incentives as pension fund members.

Treasury said in a media statement this week that in an effort to protect historical vested rights, measures will be introduced to segregate historical rights from new rights. These measures are:

* If a provident fund member is older than 55 years of age as at March 1, 2015, the mandatory purchase of a pension will not apply if the member remains in the same provident fund until retirement.

* Accrued savings in provident funds as at March 1, 2015, and any subsequent investment growth, will not be subject to the pension purchase requirement.

Provident fund administrators will be obliged to keep proper records to give effect to the new regime.

The protection of vested rights will apply irrespective of whether the retirement interest remains in the provident fund or whether it is transferred to another retirement or preservation fund.

As a further measure to ensure a “comfortable” transition to the new tax regime for provident fund members, the current threshold for the “de minimis” exception that currently applies to pension funds will be doubled and extended to provident funds. Currently if the total value of your retirement savings in any one retirement are R75 000 or less, you are allowed to take the amount as a cash lump sum. This amount will be doubled to R150 000 for all retirement funds.

By making it compulsory for all retirement fund members to buy a pension with two-thirds of their retirement savings, a more flexible system allowing free portability between funds will come into effect.

The transfer of retirement savings to provident and provident preservation funds from other funds will, from March 1, 2015, be free from tax in all instances. This means you will be able to transfer your savings in pension funds to provident funds without tax consequences.