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PROVIDENT FUND CHANGES EFFECTIVE 1 MARCH 2021

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On 1 March 2021 certain changes to the laws governing provident and provident preservations funds will come into effect. This is the culmination of an effort by National Treasury to eliminate the differences between pension, pension preservation & retirement annuity funds, and provident & provident preservation funds, or to 'harmonise' the rules applicable to retirement funds.

The previous amendment was made in 2016 when the tax-deductibility of contributions was aligned, and it makes sense to further align retirement funds.

REMAINING DIFFERENCE

Currently the most notable remaining difference between provident & provident preservation funds and pension, pension preservation & retirement annuity funds is the ability for provident fund members to elect to take 100% of their provident fund benefit as a cash lump sum, upon retirement. Members of pension and retirement annuity funds may, upon retirement, only receive a maximum of one third in cash and must buy an income-providing (also referred to as a compulsory) annuity with the remaining two thirds of the fund value – unless the total value of the retirement fund benefit is less than R247,500.

And this rule is the one now to be harmonised across all retirement funds, meaning that the current rule applicable to pension & pension preservation funds and retirement annuity funds will be applicable to provident & provident preservation funds as well.

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A French ballet term describing a dance step requiring dancers to move **forward** and **onwards.**

VESTED RIGHTS

There are certain exceptions though, which is referred to as “vested rights”.

- For provident & provident preservation fund members, existing benefits as at 28 February 2021, as well as any future growth on these benefits, will not be subject to the new rules. Members will still have the same access to these benefits before retirement as they do now, and they will also be able to still receive 100% of these existing benefits plus investment growth in cash upon retirement. In other words, this would be the amount that members will not have to annuitise on a compulsory basis.

  Benefits from contributions made to provident funds from 1 March 2021 going forward will be treated the same as pension fund benefits, i.e. these benefits will be subject to annuitisation upon retirement.

- Members of provident funds & provident preservation funds who are 55 or older on 1 March 2021 will not be forced to annuitise a portion of their existing provident fund/provident preservation fund benefit or future contributions, provided they remain members of the same fund until the time they retire.

New members who only start contributing to a provident fund after 1 March 2021, will be fully impacted by these changes. From contributing through to claiming these benefits, all will be subject to the same rules as pension and retirement annuity funds.

TRANSFERRING OF BENEFITS BETWEEN FUNDS

For members younger than 55: Members will have vested rights in benefits accumulated up to 28 February 2021 and its future growth, even if they transfer these benefits to retirement annuities, pension & pension preservation funds and provident & provident preservation funds. New provident fund contributions after this date will be fully subject to the new rules.

> For members older than 55: Members will also have vested rights in benefits accumulated up to 28 February 2021 and its future growth but should these members decide to transfer to a different retirement fund prior to retirement, only their contributions up to the transfer date (even if it is after 1 March 2021) plus growth/ fund return thereon, will remain protected (as the vested benefits portion). Contributions to the new fund will be subject to annuitisation.

Thus, a detailed record will be kept of provident and provident preservation fund membership pre- and post 1 March 2021 by the administrator, to determine how these two ‘pots’ of benefits (vested and unvested) should be handled upon retirement.

REDUCTION IN THE VALUE OF VESTED BENEFITS AT RETIREMENT

It is possible for vested benefits to be reduced if members access any benefits before retirement, or if benefits are deducted from their retirement funds before retirement.

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SUMMARY

The amendments set out above can be summarised as follows:

	BEFORE 1 MARCH 2021		AFTER 1 MARCH 2021	
	Pension and RA	Provident	Pension and RA	Provident
Access to benefits after normal retirement	Maximum one third in cash (taxable above R500,000). At least two thirds must buy income-producing annuity. May take 100 in cash if value is below R247,500.	May receive 100% of benefit in cash, subject to lump sum tax tables, or buy income-producing annuity with any portion of the value.	Maximum one third in cash (taxable above R500,000). At least two thirds must buy income-producing annuity. May take 100% in cash if value is below R247,500.	Maximum one third in cash (taxable above R500,000). At least two thirds must buy income-producing annuity. May take 100% in cash if value is below R247,500.
Vested rights – younger than 55	N/A	N/A	N/A	Members will have vested rights in benefits accumulated up to 28 February 2021 and its future growth, even if they transfer these benefits to retirement annuities or pension & pension preservation funds.
Vested rights – 55 or older on 1 March 2021	N/A	N/A	N/A	If member stays a member of that same fund, rules as before 1 March 2021 will apply throughout. Contributions to the same fund up to the transfer date, even after 1 March 2021, will stay vested benefits. All contributions to the new fund and growth thereupon, will be subject to annuitisation.

CONCLUSION

Also bear in mind that, if your total fund credit at retirement is below the de-minimis of R247,500, you will be able to take the full amount in cash, and that all cash benefits will still be subject to the lump sum tax tables.

From 1 March 2021 there will effectively be no difference in the way benefits from provident & provident preservation funds and pension, pension preservation & retirement annuity funds will be handled, except of course for all members to whom vested rights apply, as explained above.

If you have questions or concerns regarding your provident & provident preservation fund membership, please contact your GraySwan advisor for a discussion about these amendments' impact on your fund benefits.

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