Impact of legislative changes on retirement planning

By Alex Cook

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The legislative changes and the retirement reforms proposed by National Treasury for 2015 are going to have a massive impact on anyone who has already begun planning for their retirement.

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The first major change is referred to as T-Day, which will take place on 1 March 2015. From this date forward, two significant changes are to take place. The first of these is that company contributions to retirement funds will be taxable. However, individuals will be able to obtain a tax deduction on contributions made - both by the employer and employee - to a pension fund, provident fund or retirement annuity. The deduction will be limited to a maximum of 27.5% of taxable income per annum, capped at an annual monetary ceiling of R350,000.

Whilst it has been possible to obtain limited tax deductions with regard to contributions made to a company pension fund, and contributions made to a retirement annuity fund, it never previously applied to the aggregate of contributions made to an individual's various retirement funding schemes.

Access to savings

The second change of note is that from T-Day, wherein the current rules at retirement will now apply to provident funds, pension funds and retirement annuity funds. However, in order to avoid hysteria and panic, current members of provident funds will still be able to access all accumulated retirement savings in their existing provident fund and accumulated growth on these savings, accrued before 1 March 2015, at retirement date. The new rules will only be applicable to accumulated retirement savings in provident funds after 1 March 2015.

Another major area of concern is referred to as P-Day and, although the date has not yet been finalised, its impact will also be significant. The change here will be that the maximum amount you are able to withdraw from a provident or pension fund, pre-retirement, is likely to be significantly reduced from the current maximum of 100%. Government is clearly serious about encouraging individuals to save for their retirements. By introducing reforms that ensure individuals are required to channel a larger portion of their savings into a compulsory products, National Treasury is making certain that people are less likely to 'waste' their retirement money in the here and now.

Ideal retirement plan

The ideal retirement plan, naturally, involves adopting a portfolio of investments that balances compulsory contributions with those that are discretionary. Developing a holistic wealth structure plan - one that encompasses offshore investments, discretionary, and compulsory assets is the ideal, but doing so effectively is also something that is beyond the average person's capabilities.

Planning such a holistic wealth structure requires the hand of an expert in the field, one who can help in striking the right balance between these various types of investments. Financial planning is not something you should ever do alone; speaking to a skilled professional who is knowledgeable about this sometimes confusing arena will allow you to arrange your current and future financial planning to best suit your needs.

There is no doubt that this new legislation will benefit the economy and the people in the long run, as it will strongly encourage higher retirement savings rates amongst the majority of the population, while at the same time helping to lock those savings in until retirement age.

ABOUT THE AUTHOR

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