ASISA

RETIREMENT SAVINGS & TAX

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RETIREMENT SAVINGS & TAX

- The Association for Savings and Investment South Africa (ASISA) represents the majority of the country's Asset Managers, Collective Investment Scheme Management Companies, Linked Investment Service Providers, Multi-Managers and Life Insurance Companies

- ASISA's members are the custodian of the bulk of the nation's savings and investments currently some 8.6 trillion rands

- ASISA enables this industry to speak with one voice and represents the unified goal of ensuring that the South African savings and investment industry remains relevant and sustainable into the future

AGENDA

- What does a good tax system for retirement savings look like?
- Retirement Reform & Tax Harmonization in SA
- What current retirement savings taxes and concessions apply in SA?
- How can the current tax system be improved?
- Risks to achieving a secure retirement
- Conclusion

WHAT SHOULD A GOOD TAX REGIME FOR RETIREMENT SAVINGS LOOK LIKE?

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- Easy to administer
- Easy to understand
- Certain/stable. No retroactive tax changes.
- Fair & equitable
- Transparent
- Neutrality
- Encourage the right behaviour (tax incentives/penalties)
- Consistent treatment of private & public sector funds

HOW MUCH CAPITAL YOU END UP WITH AT RETIREMENT DEPENDS ON:

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- How much you save (compulsory, auto –enrolment, tax incentives)
- How long you save for (Preservation)
- Return on your investment

- After:
- **Tax**
- Inflation
- Costs (Default retirement options)

TAX RETIREMENT REFORMS

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- 2011 – Government announces intention to look at retirement reform especially the tax system to promote further savings

- These reforms were not aimed at how funds are invested but rather on contributions & how benefits are received

- 2015 – Tax Reform to be introduced 1 March 2016 but certain provisions delayed until 1 March 2018

WHAT DO OUR TAX REFORMS ENTAIL BROADLY?

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- Simplified contribution requirements for all approved retirement funds
- Employer contributions to a retirement fund are a taxable Fringe Benefit for the employee
- Same annuitisation rules for all approved retirement funds
- Same tax treatment for all approved retirement funds
- Separate Tax tables for retirement /retrenchment lump sums and withdrawal lump sums

TAX RETIREMENT REFORMS (CONTINUED)

- Delayed until 1March 2018:
    - Provident Fund Annuitisation
    - Tax Free transfers from pension funds to provident funds

- Tax changes implemented from 1 March 2016:
    - New tax deductible contribution regime to approved retirement funds
    - Increase in minimum threshold requiring annuitization to R247 500

PROVIDENT FUND ANNUITISATION

- Political issue
- Concessions that Treasury were prepared to make included:
    - Vested rights protected
    - Can still access lump sum on changing jobs
    - New de minimus limits would also cover new contributions
- Labour Unions want to see the full picture i.e. the promised Social Security paper before agreeing to anything
- Provident fund members cannot have all of the tax benefits without any of the conditions

WHAT TAX SYSTEM DO WE CURRENTLY HAVE?

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- **Retirement Funds**
- **Exempt, Exempt, Taxable (E E T)**
- Endowment Policies
- Taxable, Taxable, Exempt (T T E)
- Collective Investment Schemes (CIS)
- Taxable, Exempt, Taxable (T E T)

WHAT TAX SYSTEM DO WE CURRENTLY HAVE? (CONTINUED)

- Tax Free Savings Accounts (TFSA)

- Taxable, Exempt, Exempt (T E E) (Contributions up to R30 000 pa with life time concession of R500 000)

- Interest exemption

- Under 65 – R23 800
- 65 &Older-R34 500

SOME CONDITIONS

- With Retirement Funds & TFSA two or more tax concessions apply
- Only reasonable therefore for Treasury to want some conditions to apply in return for providing those concessions
- Currently for Pension Funds and Retirement Annuities there are annuitisation and product rules but for provident funds only product rules
- TFSA – Capped contributions and product rules

APPROVED RETIREMENT FUNDS AND TAX

Retirement Annuities, Pension, Provident Funds & 2 Preservation Funds

- Contributions & disallowed contributions can be carried over to next year of assessment

  (27.5% of the greater of taxable income or remuneration capped at R350 000 pa)
- Employer contributions are a taxable fringe benefit for the employee
- Income tax on any lump sums on withdrawal, retirement/retrenchment subject to the exempt amounts in the applicable tables which are aggregated

APPROVED RETIREMENT FUNDS AND TAX (CONTINUED)

- Transfers to other approved funds are tax free
- Full income tax on the annuities/pension at marginal rates
- The approved retirement fund itself is tax exempt
- RF death benefits exempt from estate duty except for excess contributions that were not deductible for income tax purposes

SOME SUGGESTIONS FOR IMPROVEMENT

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- Regular inflation increases on fixed amounts for tax
- 0 draw down on living annuities
- CGT exemption for disposal of discretionary assets of proceeds put into a recognized retirement income vehicle
- Access to advice & tax benefits
- Tax quote system from SARS before getting a directive on the lump sum from retirement funds
- Staggered tax incentives or subsidies related to age
- Abolition of "Means Test" to qualify for old age state pension

SOME SUGGESTIONS FOR IMPROVEMENT (Continued)

- Resist re-introducing prescribed assets investments for retirement funds or any taxes on the fund build- up
- Better tax balance between what one earns and saves(direct taxes) vs. consumption and transactions (indirect taxes)
- Keep retirement funds out for OECD and US FATCA tax reporting purposes
- Allow industry enough time to implement systems changes to administer any tax changes
- Learn from other countries

RISKS OF NOT HAVING ENOUGH CAPITAL TO RETIRE OR STAYING RETIRED

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- Longevity
- Inflation
- Low return environment
- Medical expenses increases way above inflation
- Sandwich generation
- Low economic growth and unemployment
- Political interference with key Government institutions e.g. National Treasury and the Reserve Bank

CONCLUSION

- SA tax system for retirement savings meets most international criteria for a good system
- Industry is positive about the future and looks forward to engaging further with the policy makers on this important journey

Q&A

THANK YOU.

COMPULSORY ANNUITIES ARE FULLY TAXABLE AT MARGINAL RATES

- **TWO TYPES**:

1. Living Annuity

- o Draw down (2.5 to 17.5%)
- o Asset selection (No Reg 28)
- o Frequency
- o Rebalance
- o Costs
- o Capital left in account can be paid to beneficiaries
- o Can switch to a conventional annuity

COMPUTLSORY ANNUITIES (CONTINUED)

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- 2. <u>Conventional annuity paid for the life of the annuitant</u>

- o Fixed
- o Increasing at certain %
- o Joint & survivorship?
- o With profit
- o Capital lost on death
- o Cannot switch to living annuity

RETIREMENT TARGET

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- Retiring age between 60-65
- Need about 12 to 15 x annual salary as a capital amount
- Should give you a pension of about 75% of pre-retirement salary
- 4% draw down on capital to give required monthly income

HOW TO GET THERE

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- Need to save about 15%-20% of annual salary
- Over 30-40 years
- Assuming average rate of at least 5% per annum above inflation