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# The Evolving Landscape of Retirement Funds and Group Risk Schemes in SA



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# Discussion Points

- 1. Tax Treatment of Group Risk Contributions**
- 2. Tax Treatment of Retirement Fund Contributions**
- 3. What will Retirement Funds and Group Risk Schemes look like in the near future?**



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# Tax Treatment of Group Risk Contributions

- **Group Risk Cover can be either Approved or Unapproved**
- **Approved Group Life Assurance Policies**
  - **Owned by the Retirement Fund**
  - **Premiums paid by Fund – funded from employer contribution**
  - **Employer tax deduction i.t.o. Section 11(1)**
  - **Employee no fringe benefit tax on the contributions**
  - **Income tax payable on benefits by the member/member's dependants**



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# Tax Treatment of Group Risk Contributions

- **Group Risk Cover can be either Approved or Unapproved**
- **Unapproved Group Life Assurance Policies**
  - **Owned by the Employer**
  - **Premiums paid by the Employer**
  - **Employer tax deduction i.t.o. Section 11(a)**
  - **Employees Fringe Benefit Tax i.t.o. P 2 (h) of the 7<sup>th</sup> Schedule**
  - **No Income Tax payable on benefits by member/member's dependants**



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# Tax Treatment of Group Risk Contributions

- Clean and simple tax position
- No double taxation
- Disability Income Policies treated in the same way
- Exception to this rule was Stated Benefit Policies providing disability/ill health benefits – tax free nature of payment to employees not yet tested – be careful
- Not always done this way by employers – danger!



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# Tax Treatment of Group Risk Contributions

- Taxation Laws Amendment Act 7 of 2010 effective 1 January 2011
- Changes to section 11 (w), section 23 and paragraph (m) of the Act
- Intention of the changes was to address loopholes around deferred compensation schemes
- An unintended consequence is tax position of employer owned income disability schemes
- Industry is confused and uncertain
- Waiting for clarification from SARS – expected end of July 2011



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# Tax Treatment of Group Risk Contributions

- Fringe Benefit Tax to be levied on disability premiums payable by employers on behalf of employees
- Payout of benefit is still taxable in the hands of the employee
- Unintended double taxation
- Two ways to deal with this:
  - Wait and See – change nothing
  - Make changes and hope for a bulk deduction later in the year



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# Tax Treatment of Group Risk Contributions

- What should employers do now?
- Given the uncertainty and probable further announcements and legislation changes by SARS it would be bad advice to make any changes now to Income Protection Policies
- Split the premium paid for employer waiver and the risk component as employer waiver still qualifies for deduction
- Change Employer paid arrangements to Employee paid arrangements with benefits now paid directly to Employee instead of Employer





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# Tax Treatment of Retirement Fund Contributions

- Announced by the Minister of Finance in his 2011 Budget Speech
- New legislation to be effective 1 March 2012
- Currently only proposals, not yet legislation
- No more tax deduction on Employer Contributions for Employee
- Employee will have to pay fringe benefits tax on contributions
- Increased tax deduction on Employee Contributions – 22.5%



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# Tax Treatment of Retirement Fund Contributions

- Easier for employees to maximise their tax deductible contributions to all retirement funds
- However, a cap of R200 000 per year has been placed on deductible retirement fund contributions
- Effectively means if you earn more than R890 000 per year you will have to save less for retirement
- Preservation at Retirement/Resignation/Retrenchment
- Probable demise of Provident Funds



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# Tax Treatment of Retirement Fund Contributions

- Further Announcement by Mr Gordhan not so certain
- While it is certain that government intends to enforce Preservation of Retirement Fund benefits at Retirement/ Resignation/ Retrenchment it is not 100% certain that they will be able to implement such changes because of political considerations and pressure
- Still expect the probable demise of Provident Funds in 2012



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# Tax Treatment of Retirement Fund Contributions

- What should employers do now?
- Do not make changes to your retirement fund too quickly
- Wait for further announcements and clarification
- Communicate with your employees about expected changes and the impact thereof next year



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# Tax Treatment of Retirement Fund Contributions

- When the proposed changes do take place
  - Move from a Provident Fund to a Pension Fund
  - Convert Employer Contributions to Retirement Fund to Employee Contributions
  - Allow employees to review remuneration package structure to maximise tax benefit on retirement fund contributions
  - Keep in mind possible further changes due to NSSS



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## NSSS

- **More than 5 million working South Africans are not saving anything for their retirement**
- **Many of those who are saving will have insufficient income at retirement**
- **A large proportion of the SA population are poorly equipped to cope with the risks of death and disability**
- **NSSS is aimed at addressing these issues**



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## NSSS

- **NSSS has been widely debated and discussed since the publication of the first reform document in 2004**
- **And it seems as if very little progress to actual implementation has been made since then**
- **NHI is now a bigger priority for the government**
- **However, National Treasury is adamant that roll-out will start within the next 3 to 4 years**



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## NSSS

- **Compulsory Contributions of between 15% and 18% of remuneration paid to a state controlled but privately administered fund**
- **Exemption will be allowed for employees belonging to accredited private sector funds**
- **Contributions will probably include Retirement, Risk, UIF and Compensation Commissioner**
- **Collected through the current tax system**





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## NSSS

### ■ Current Reform Proposal based on a 4 tier system

- **Non-Contributory Social Assistance** towards poverty alleviation
- **Mandatory Contributory State Tier** up to an income of **R75 000** per annum
- **Mandatory Contributory Private Tier** up to an income of **R600 000** per annum
- **Voluntary Contributory Private Tier** on all income above **R600 000** per annum



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# Retirement Funds / Group Risk Schemes in the Future

- Huge Government Scheme with a small number of large accredited umbrella schemes and only a few free standing funds remaining
- One type of Retirement Fund – Pension Fund with provision for Retirement Annuities in some form in legislation
- Employee Contributions only with significant tax benefits to promote saving for retirement
- Enforced Preservation



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# Retirement Funds / Group Risk Schemes in the Future

- Separation of Risk and Retirement Benefits in Unapproved type structures
- Risk benefits equal to minimum benefits offered by government scheme
- Lower administration fees on both risk and retirement benefits in large umbrella schemes
- Removal of minimum participating employer fees to remove barriers for entry



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# Retirement Funds / Group Risk Schemes in the Future

- Increase in Normal Retirement Age
- Provision for Employees to work far beyond NRA
- More awareness from employees in terms of their rights and choices
- More awareness and involvement from employees in terms of their investments for retirement
- Tougher control and protection measures over Retirement Investments



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# Thank you