



Proposal on Postponing the Annuitisation Requirement for Provident Funds for Two Years

Minister outlined that he wanted a way forward, and stated that Government was willing to be flexible on the implementation of annuitisation. The Minister proposed the following points as the way forward:

1) Comprehensive social security reform paper

On comprehensive social security reform paper, the Minister noted that SA does have a social safety net, but it has some gaps in it. As we grow the economy, and get more resources, we will fill the gaps. Minister agreed that we need a social security reform papers to say what is possible when. He noted that this paper was ready to be published at the end of his last term. He will contact Min Dlamini (who co-chairs the inter-Ministerial with him) on its status.

The broad thrust of retirement reform remains in place and will continue. Everything cannot be frozen and we will implement as resources become available.

2) Annuitisation: Government is flexible on the implementation of annuitisation for provident funds, and proposes to postpone implementation for two years, from 1 March 2016 to 1 March 2018.

3) Tax deduction: We will look at a formula that will allow a technically appropriate way to allow the tax deduction to provident fund members for two years. All tax related measures, including the harmonised 27.5% tax deductions (up to R350 000) on contributions to any retirement fund, will be implemented for all retirement funds from 1 March 2016.

4) We will all be party to determining the design of annuitisation after two years. If beyond two years there is no agreement, the tax deduction will fall away to get the right balance.

5) There must be certainty for the industry and employers/employees for what will happen on and after 1 March 2016, as systems need to be changed which is very costly.

6) Govt will review the means test, and ask the Department of Social Development and National Treasury to consider this proposal and take it forward.

7) We will need to go to Cabinet and Parliament on how to proceed in the most efficient way. We will then make an announcement in the Budget and look for a quick process in Parliament.

8) Technical provisions have to be in place to prevent tax abuse. For example, with the postponement on annuitisation for provident funds, no transfers from pension funds to provident funds can be allowed for the next two years to avoid weakening the current pension system.

Date: 16 February 2016