



Quantifying Risk, Enabling Opportunity.

Two Pot System Discussion

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Retirement Reforms – an overview of the last decade

National Budget 2012

Minister announced Government's intentions to encourage savings in SA through series of **Retirement Reforms**

Areas of concern identified:

- Inadequate lifetime savings and coverage
- Low levels of preservation and portability
- High fees and charges
- Low levels of annuitisation

Key success factor:

Strengthen governance and regulations to create a stable financial system that works in the interest of customers and supports sustainable economic growth

Retirement Reforms – an overview of the last decade

Process initiated

National Treasury released 5 technical discussion papers for comments (2012 -2013)

Since then started to implement retirement reforms & enhance oversight

Consultative process ensued & a number of reforms and implemented through a series of legislative changes and revised frameworks:

- Financial Services Laws General Amendment Act, 2013
- Taxation Laws Amendment Acts, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020
- Financial Sector Regulation Act, 2017 (Twin Peaks regulatory framework, FSCA live on 1 Apr 2018)
- Default Regulations
- Protection of Personal Information Act (& Regulations) and Promotion of Access to Information Act
- Directives / Conduct Standards
- Information Circulars and FSCA Communications

Supported by Guidance frameworks / industry standards:

- TCF
- King IV Code on corporate governance
- ASISA Standard, guidelines and codes

Retirement Reforms implemented

1 Mar 2014

- Tax free lump sum @ retirement to ↑ R500k over lifetime

1 Mar 2015

- **Tax free savings accounts** (TLAA, 2014)
- **Retirement fund accrual date** changed to election date – i.e. deferred retiree category established (TLAA, 2014)
- Aligned tax treatment on individual disability & life policies (TLAA, 2014)

1 Mar 2016

- **Aligned tax treatment of contributions to Pension, Provident and RA funds:**
 - Contributions tax deductible up to 27.5% of taxable income / remuneration (TLAA, 2013)
 - Capped at a R350k pa (TLAA, 2015)
 - Passive income included effective 1 March 2017 (TLAA, 2016)
- De minimus ↑ R247,500

1 Mar 2017

- Tax directives introduced on transfers between funds (TLAA, 2016)
- Transfer of surplus between employer funds – not taxable fringe benefit for members (TLAA, 2018)

Retirement Reforms implemented

1 Sep 2017

- **Default Regulations** (Government Gazette No 41064)
 - Regulation 37: Default investment portfolio(s)
 - Regulation 38: Default preservation and portability
 - Regulation 39: Annuity StrategyFunds were given **18 months to comply, i.e. by 1 March 2019**

23 Feb 2018

- Regulation 28 limits increased to allow up to 30% foreign exposure and up to 10% for investment in Africa (IC 3 of 2018)

1 Mar 2018

- **Allow transfers to RA after retirement** from service (TLAA, 2017)
- Tax exempt status of pre 1998 benefits originated in public sector funds remain for 1 additional transfer to private sector fund (TLAA, 2017, clarified TLAA, 2018)
- **Remove 12 month limitation** for Ee to join employer's fund (TLAA, 2017)
- Allow tax free transfers from provident preservation funds into approved pension funds (TLAA, 2018)

1 Mar 2019

- **Allow transfers to preservation funds after retirement** from service (TLAA, 2018)

Retirement Reforms implemented

1 Mar 2020

- Disallowed contributions not tax deductible can be offset against taxable lump sum taken at retirement or income earned from qualifying annuities (TLAA, 2019)

26 Feb 2021

- SARS issued **General Binding Ruling 58** to allow multiple annuities – specifically a combination of in-fund and out of fund annuities
- (TLAB 2021 sets out a floor of R165k per annuity)

1 Mar 2021

- **Compulsory annuitisation on retirement from Provident funds** – aligned to Pension funds & RA's (TLAA, 2020)
 - Vested rights protected for existing Provident Fund members (younger and over 55)
- **Tax free transfers between approved funds** – specifically from Pension Funds to Provident Funds (TLAA, 2020)

Retirement Reforms – going forward

Pending legislation and reforms

A number of documents that have already been through a public commentary process and are expected to be published soon:

- Conduct of Financial Institutions Bill,
- Taxation Laws Amendment Bill, 2021
- Draft Conduct Standard: Conditions for Living Annuities
- Draft Conduct Standard: Communication of benefit projections
- Changes to Regulation 28

Documents recently published for comment:

- **Encouraging South African Households to save more for retirement (Two pot system proposal and auto enrolment)**
- Governance of Umbrella Funds

Core Proposal – Two Pot System

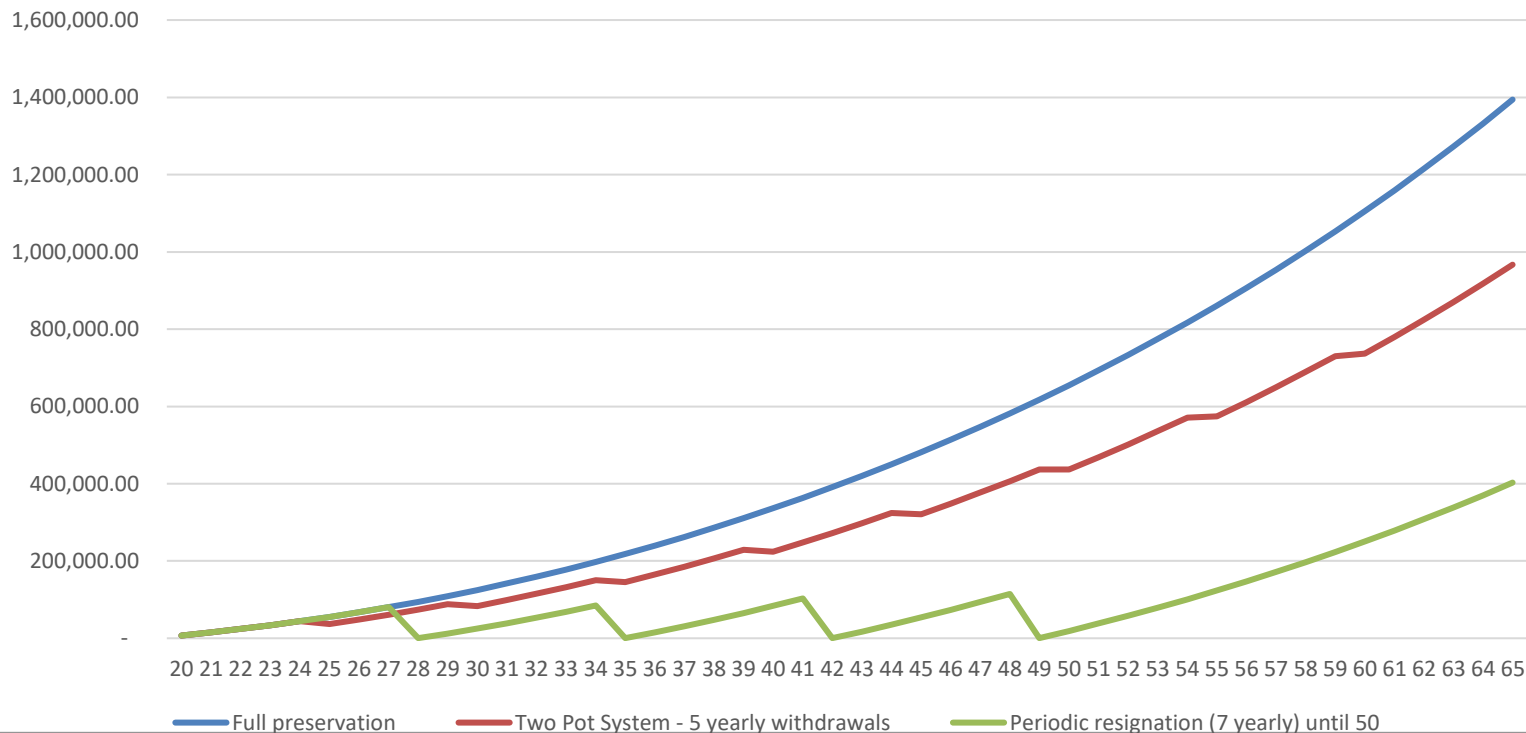
New structure from 1 March 202x (2023?) – All fund types

- (Up to) 1/3rd of contributions to Access Pot (available at any time in cash*)
- (At least) 2/3rd of contributions to Retirement Pot (subject to compulsory preservation pre-retirement and annuitisation post-retirement (*de minimis applies*))

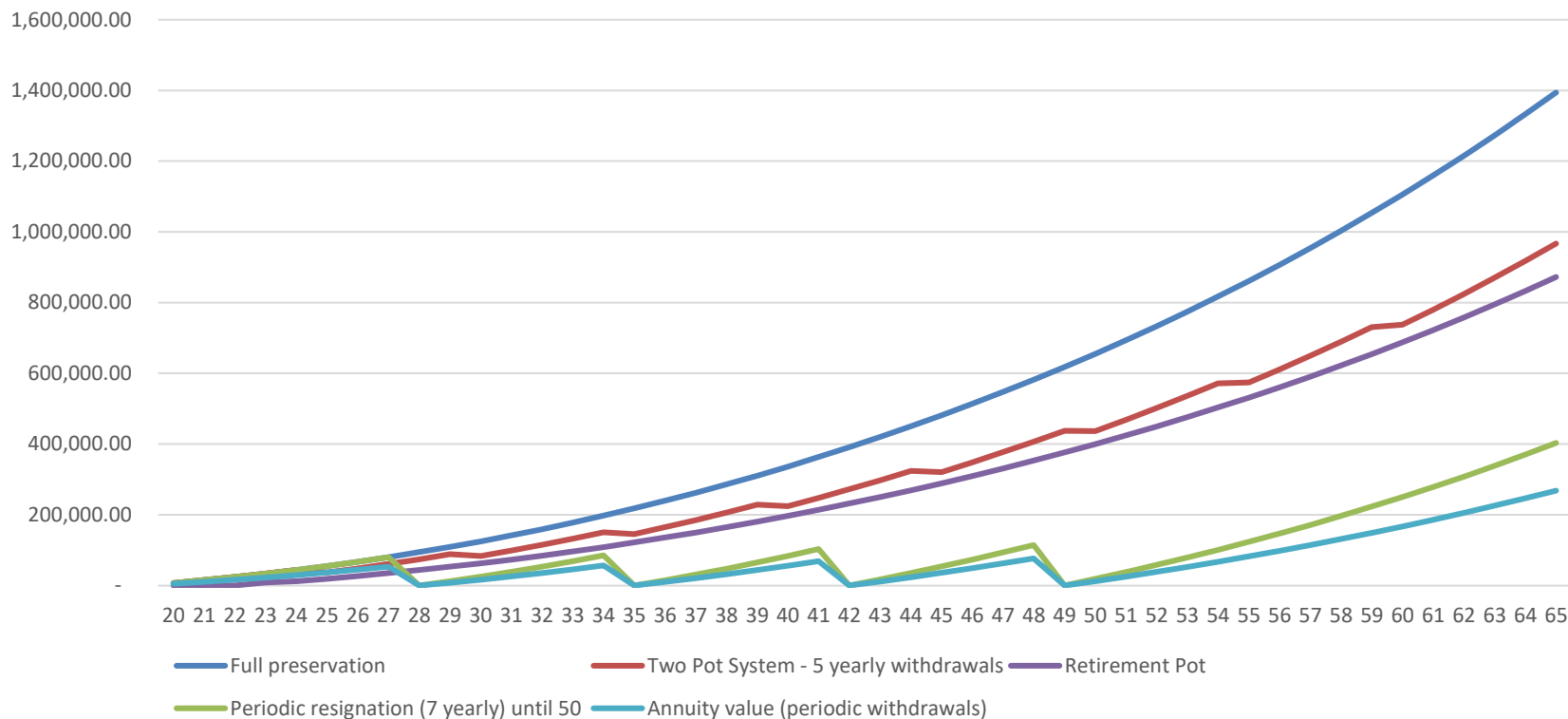
*Subject to some restrictions

- Minimum amount per withdrawal (R2,000 proposed – higher?)
- Maximum one withdrawal per annum (no maximum amount?)
- Deduction for costs (and tax?)
- Second withdrawal (???)
- Possible retirement benefit counselling/financial awareness prior (???)
- Increased contributions after withdrawal (???)

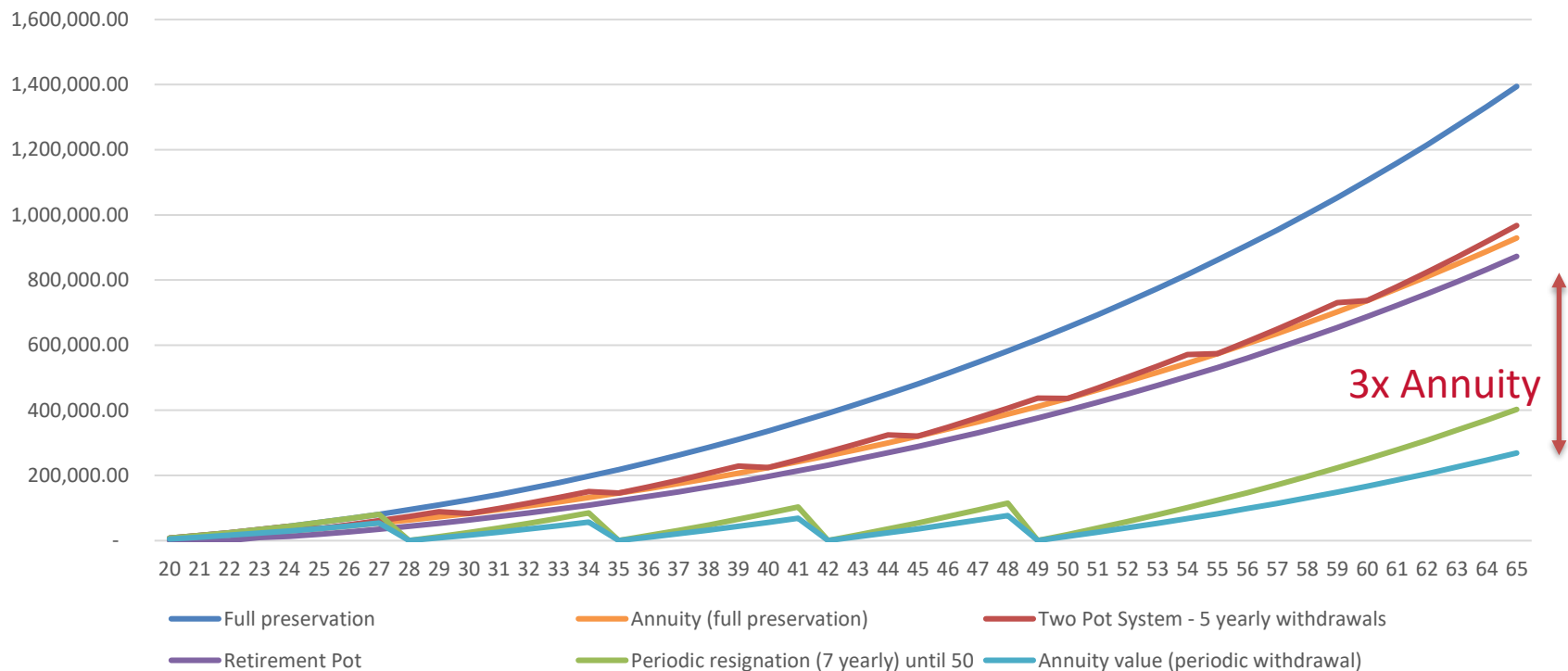
Two Pot System – Projection over life-time (Full SOF)



Two Pot System – Projection over life-time (Retirement)



Two Pot System – Projection over life-time (Retirement)



Complications

DB Funds*

Preservation funds – in relation to phasing in (if permitted)*

Retirement annuity (RA) funds – in relation to phasing in*

Taxation of the cash payment*

Administration systems and costs

Members who want more retirement benefits (less cash)

Investment strategies

“The run on the bank” – in relation to phasing in* (annual December rush?)

Complications – Administration systems and costs

- DC Funds not much more complicated than split investment strategies (allowing for modifications already made)
- Minimise complications by simplifying phasing in/vested rights
- Reduce costs of payment by removing
 - Taxation at payment stage
 - Needs audits to qualify for benefits
 - Requirements for counselling/audits to access benefits
- Costs of payment – legislated rates/amounts/percentages (?)
- Phased in initial process to limit upfront chaos
- DB funds relatively simple, but will require actuarial involvement (GEPF?)

Complications – More retirement benefits

- Members who want more retirement benefits (less cash)
 - Complicated by the taxation (TEE system)
 - Solved by allowing $\leq 1/3^{\text{rd}}$ Access Pot and $\geq 2/3^{\text{rd}}$ Retirement Pot*
 - Vested rights will also provide flexibility (while still in place)
 - Individual RA policies could also be used to adjust benefits (provided overall enabling legislation is in place)
 - Any pensions purchased with Access pot treated as voluntary annuity**
 - Second phase implementation?

**more difficult for DB Funds (depends on tax)– use other options*

***more difficult for in-fund pensions and living annuities – use other options*

Complications – Investment Strategies

- Members should still be saving long term – don't want 1/3rd of investments tied up in cash (portion of the funds' Access Pots in cash and portion longer term assets – notionally re-allocate for those who withdraw?)
- Retirement Pot might need to be 100% real assets to allow overall strategy at member level to be in-line with current Regulation 28 limits (notional re-allocation strategy at fund level? – complication of IMC?)
- Will require some upfront cash management planning for any phased in withdrawals
- More in-depth discussion required...

Vested Rights and Phasing In of accrued benefits

- Principle of vested rights usually applies to any changes (and is proposed) – BUT...
 - Members' need more immediate access to funds (will take long for new Access Pot to build-up to meaningful levels)
 - Complication around definition of “vested benefits” for Provident Fund members vs Pension Fund members, and non-vested benefits for Provident Fund members
 - Desire to achieve harmonization of benefits more quickly
 - Desire to reduce the “run on the bank”
- Furthermore, if any phasing in is done, funds need time to communicate to members and administrators will not be able to process all funds at once

Vested Rights – complications for Provident Funds

- Q: Do Provident members > 55 fall into the new system for future contributions?
- Vested benefits
 - a “**Provident Vested Benefit**” benefit the value held at 1 March 2021 plus growth thereon (or the full value for members older than 55 on that date) – as currently, which amount can be accessed if you leave employment after implementation date and can be fully taken in cash at retirement;
 - a “**Pension Vested Benefit**” being the value at 1 March 202x which can be accessed if you leave employment after implementation date but is always subject to a maximum of 1/3rd cash, 2/3rd pension at retirement. ***For a Provident Fund member this value is equal to their total fund credit at 1 March 202x less their “Provident Vested Benefit” – currently known as “Non-vested benefit”.***

Pension Funds – Proposed Vested Rights

Pension Fund Vested Benefits on 1 March 202x

Values as at 1 March 202x plus growth

Able to access only 1/3rd in cash at retirement (balance in annuity)

Able to withdraw full amount if resign

Two Pot System

Contributions after 1 March 202x (members > 55?) plus growth

Able to access only 1/3rd in cash at retirement (balance in annuity)

Able to withdraw 1/3rd (Access Pot) at any time. Not able to withdraw anything in 2/3rd (Retirement Pot) if resign

Provident Funds – Proposed Non-vested/Vested Rights?

Provident Fund Vested Benefits on 1 March 2021

Values as at 1 March 2021 plus growth
Full values for members > 55 on 1 March 2021

Able to access full amount in cash at retirement

Able to withdraw full amount if resign

Pension Fund Vested Benefits* on 1 March 202x

Contributions after 1 March 2021 to 28 February 202x (members > 55) plus growth

Able to access only 1/3rd in cash at retirement (balance in annuity)

Able to withdraw full amount if resign

Two Pot System

Contributions after 1 March 202x (members > 55?) plus growth

Able to access only 1/3rd in cash at retirement (balance in annuity)

Able to withdraw 1/3rd (Access Pot) at any time. Not able to withdraw anything in 2/3rd (Retirement Pot) if resign

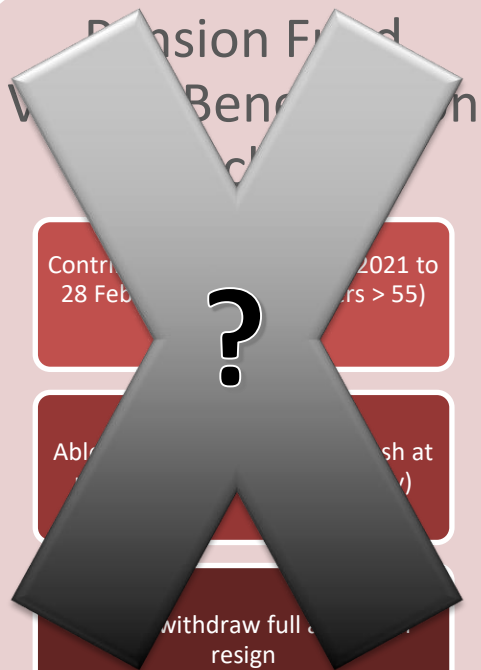
Provident Funds – Proposed Non-vested/Vested Rights?

Provident Fund Vested Benefits on 1 March 2021

Values as at 1 March 2021 plus growth
Full values for members > 55 on 1 March 2021

Able to access full amount in cash at retirement

Able to withdraw full amount if resign



Two Pot System

Contributions after 1 March 2021x
(members > 55?) plus growth

Able to access only 1/3rd in cash at retirement (balance in annuity)

Able to withdraw 1/3rd (Access Pot) at any time. Not able to withdraw anything in 2/3rd (Retirement Pot) if resign

Vested Rights and Phasing In of accrued benefits

- **Proposal 1** – transfers from vested benefits to the two pot system is permitted BUT any phasing into the Access Pot is matched by double that amount into the Retirement Pot (ie maintain the 1/3rd | 2/3rd ratio)

Vested Rights and Phasing In of accrued benefits

- **Proposal 2** – consideration that Provident Fund non-vested benefits are defaulted automatically as seed capital into the two pot system - 1/3rd Access Pot | 2/3rd Retirement Pot
 - Will require a voluntary opt-out within 6-12 (3-6?) months after implementation to avoid panic withdrawals
 - Will not capture all, but general inertia means that majority of provident fund members will then only require 3 records (not 4)
 - No rand limits to apply (ie full amounts to default)
 - Will require more favourable taxation if TEE (see below)

Vested Rights and Phasing In of accrued benefits

- **Voluntary phasing in:** NT Proposes 10% of fund values up to max R25,000 immediate access with a *de minimus* of R15,000 to avoid small values and not just a once-off option
 - Is this annual? Limited to some phase in period eg next 3/5/10 years?
 - Not really meaningful?
 - If default current non-vested benefits into the system these could be higher (unequal)
 - If switch to a TEE system for Access Pot - upfront tax payable (self regulatory)
 - 1/3rd Access | 2/3rd Retirement proposal is also self regulatory
 - Do we allow full immediate access? Admin constraints and “run on the bank”....
 - Can we limit the payout period instead?
 - Maximum payout not mentioned – may be a better way

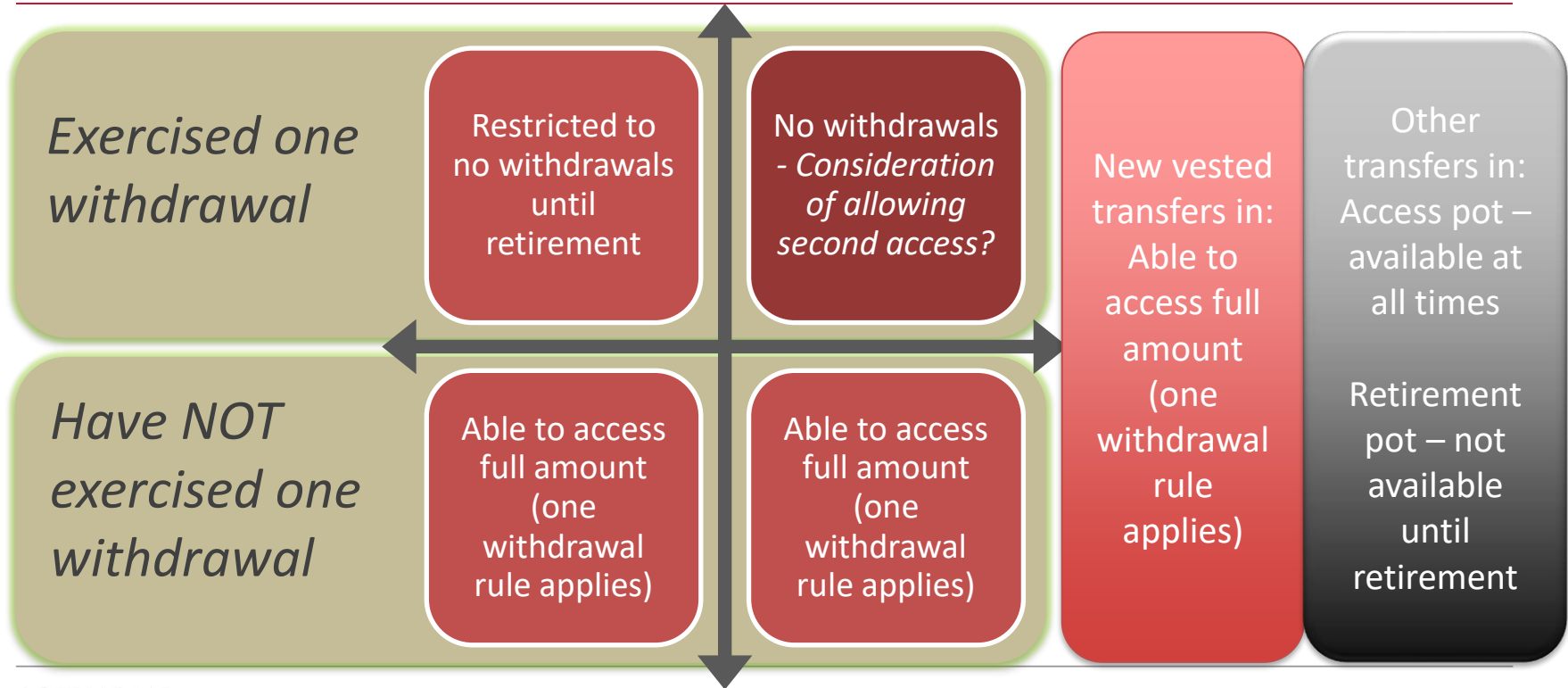
Vested Rights and Phasing In of accrued benefits

- **Proposal 3** – consideration for voluntary phasing in of vested benefits
 - Upfront option in 202x (fund anniversary on or after)
 - No limits or needs based audit (allow possible tax and Retirement Pot matching to self-regulate)
 - No new phasing in for 3 years – thereafter “as and when”
- **Proposal 4** – consideration for some pay-out period
 - 1/3rd of Access Pot balance in year 202x+1 (fund anniversary on or after)
 - 1/2 of Access Pot balance in year 202x+2 (“”)
 - Full Access Pot balance in year 202x+3 (“”)
 - De minimus on first withdrawal of annual minimum (R2,000?) x3 – all upfront
 - Maximum annual (R247,500?)

Vested Rights and Phasing In – RA Funds and Other

- New generation RA funds can relatively easily accommodate a voluntary transfer into the two pot system
- Older generation products however....
 - Possible exemption? – Longer phase in period?
- Loans based system? – definitely not!!!

Vested Rights and Phasing In – Preservation Funds



Taxation

Solution	Admin burden	Tax arbitrage	Other comments
1) Add withdrawals to income in year of withdrawal	×	✓	- Discourages high withdrawals ✓ - Unexpected tax bill – submit return × - Communication problems (tax) ×
2) Access Pot contributions on TEE system	✓	✓	- Reduction in take-home pay × (=) - No effect over lifetime! ✓ - Loss of R500K tax free × (=) - Upfront tax of seed amounts × (=) Mitigate with say R12,500 annual tax free access pot contribution (R500,000 life time)

Taxation

Solution	Admin burden	Tax arbitrage	Other comments
3a) Flat deduction of 30% (tax credits) a) with 30% taxation of benefits	✓	✓	• Progressive tax for deductions ✓ • Reduction in take-home pay ✗ • No effect over lifetime! ✓ • Loss of R500K tax free ✗ • Complex understanding ✗ • Worse for middle income ✗
3b) Flat deduction of 30% (tax credits) b) add withdrawals to income in year of withdrawal	✗	✓	• Progressive tax for deductions ✓ • Reduction in take-home pay ✗ • No effect over lifetime! ✓ • Loss of R500K tax free ✗ • Complex understanding ✗ • Worse for middle income ✗ • Discourages high withdrawals ✓ • Unexpected tax bill return ✗ • Communication problems (tax) ✗

Taxation

Solution	Admin burden	Tax arbitrage	Other comments
4) Keep status quo	×	×	- Discourages high withdrawals ✓ - Communication problems (tax) × - Mitigation if automate tax?
4b) Keep status quo – but with a (new?) flat scale (not cumulative - no directives)	✓	×	- Discourages high withdrawals ✓ - Communication problems (tax) × - Loss of revenue for SARS?

Taxation – TEE System

- Advantages of TEE system for the Access Pot
 - Reduces costs and turnaround time at payment stage
 - Removes tax arbitrage
 - Removes admin burden at SARS
 - Applies equally well for DB and DC funds
 - Relatively simple to administer (payroll administration not fund administration)
 - No impact over lifetime
- Disadvantages
 - Reduction in take home pay (off-set by small annual tax free amount to Access Pot)
 - Lose R500K tax free lumpsum (off-set by small annual tax free amount to Access Pot)
 - Complication is moving from the EET to the TEE (seed funding)

Taxation – TEE System – Reduction in take-home

Income	Contribution Rate (Total - 1/3rd is TEE)									
	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	30.00	45.00	60.00	75.00	90.00	105.00	120.00	135.00	150.00	165.00
150,000	37.50	56.25	75.00	93.75	112.50	131.25	150.00	168.75	187.50	206.25
200,000	50.00	75.00	100.00	125.00	150.00	175.00	200.00	225.00	250.00	275.00
250,000	90.28	135.42	180.56	225.69	270.83	315.97	361.11	406.25	451.39	496.53
300,000	108.33	162.50	216.67	270.83	325.00	379.17	433.33	487.50	541.67	595.83
350,000	150.69	226.04	301.39	376.74	452.08	527.43	602.78	678.13	753.47	828.82
400,000	172.22	258.33	344.44	430.56	516.67	602.78	688.89	775.00	861.11	947.22
450,000	193.75	290.63	387.50	484.38	581.25	678.13	775.00	871.88	968.75	1,065.63
525,000	262.50	393.75	525.00	656.25	787.50	918.75	1,050.00	1,181.25	1,312.50	1,443.75
575,000	287.50	431.25	575.00	718.75	862.50	1,006.25	1,150.00	1,293.75	1,437.50	1,581.25
600,000	300.00	450.00	600.00	750.00	900.00	1,050.00	1,200.00	1,350.00	1,500.00	1,650.00
675,000	365.63	548.44	731.25	914.06	1,096.88	1,279.69	1,462.50	1,645.31	1,828.13	2,010.94
775,000	419.79	629.69	839.58	1,049.48	1,259.38	1,469.27	1,679.17	1,889.06	2,098.96	2,308.85
1,000,000	569.44	854.17	1,138.89	1,423.61	1,708.33	1,993.06	2,277.78	2,562.50	2,847.22	3,131.94
1,250,000	711.81	1,067.71	1,423.61	1,779.51	2,135.42	2,491.32	2,847.22	3,203.13	3,559.03	3,914.93
1,500,000	854.17	1,281.25	1,708.33	2,135.42	2,562.50	2,989.58	3,416.67	3,843.75	4,270.83	4,697.92
1,750,000	1,093.75	1,640.63	2,187.50	2,734.38	3,281.25	3,828.13	4,375.00	4,921.88	5,468.75	6,015.63
2,000,000	1,250.00	1,875.00	2,500.00	3,125.00	3,750.00	4,375.00	5,000.00	5,625.00	6,250.00	6,875.00
2,500,000	1,562.50	2,343.75	3,125.00	3,906.25	4,687.50	5,468.75	6,250.00	7,031.25	7,812.50	8,593.75
3,000,000	1,875.00	2,812.50	3,750.00	4,687.50	5,625.00	6,562.50	7,500.00	8,437.50	9,375.00	10,312.50
4,000,000	2,500.00	3,750.00	5,000.00	6,250.00	7,500.00	8,750.00	10,000.00	11,250.00	12,500.00	13,750.00

Taxation – TEE System – Reduction in take-home (existing)

Income	Contribution Rate (Total - 1/3rd is TEE) - above R350K is not deductible currently									
	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	30.00	45.00	60.00	75.00	90.00	105.00	120.00	135.00	150.00	165.00
150,000	37.50	56.25	75.00	93.75	112.50	131.25	150.00	168.75	187.50	206.25
200,000	50.00	75.00	100.00	125.00	150.00	175.00	200.00	225.00	250.00	275.00
250,000	90.28	135.42	180.56	225.69	270.83	315.97	361.11	406.25	451.39	496.53
300,000	108.33	162.50	216.67	270.83	325.00	379.17	433.33	487.50	541.67	595.83
350,000	150.69	226.04	301.39	376.74	452.08	527.43	602.78	678.13	753.47	828.82
400,000	172.22	258.33	344.44	430.56	516.67	602.78	688.89	775.00	861.11	947.22
450,000	193.75	290.63	387.50	484.38	581.25	678.13	775.00	871.88	968.75	1,065.63
525,000	262.50	393.75	525.00	656.25	787.50	918.75	1,050.00	1,181.25	1,312.50	1,443.75
575,000	287.50	431.25	575.00	718.75	862.50	1,006.25	1,150.00	1,293.75	1,437.50	1,581.25
600,000	300.00	450.00	600.00	750.00	900.00	1,050.00	1,200.00	1,350.00	1,500.00	1,650.00
675,000	365.63	548.44	731.25	914.06	1,096.88	1,279.69	1,462.50	1,645.31	1,828.13	2,010.94
775,000	419.79	629.69	839.58	1,049.48	1,259.38	1,469.27	1,679.17	1,889.06	2,098.96	2,308.85
1,000,000	569.44	854.17	1,138.89	1,423.61	1,708.33	1,993.06	2,277.78	2,562.50	2,847.22	3,131.94
1,250,000	711.81	1,067.71	1,423.61	1,779.51	2,135.42	2,491.32	2,847.22	3,203.13	3,559.03	3,914.93
1,500,000	854.17	1,281.25	1,708.33	2,135.42	2,562.50	2,989.58	3,416.67	3,843.75	3,416.67	2,562.50
1,750,000	1,093.75	1,640.63	2,187.50	2,734.38	3,281.25	3,828.13	4,375.00	3,281.25	2,187.50	1,093.75
2,000,000	1,250.00	1,875.00	2,500.00	3,125.00	3,750.00	4,375.00	3,125.00	1,875.00	625.00	-
2,500,000	1,562.50	2,343.75	3,125.00	3,906.25	3,750.00	2,187.50	625.00	-	-	-
3,000,000	1,875.00	2,812.50	3,750.00	3,750.00	1,875.00	-	-	-	-	-
4,000,000	2,500.00	3,750.00	3,125.00	625.00	-	-	-	-	-	-

Taxation – TEE System – R12,500 tax free to Access Pot

	Contribution Rate (Total - 1/3rd is TEE) - R12,500 annual tax free (above R350K is not deductible currently)									
Income	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	-	-	-	-	-	-	-	-	-	-
150,000	-	-	-	-	-	-	-	-	-	18.75
200,000	-	-	-	-	-	-	12.50	37.50	62.50	87.50
250,000	-	-	-	-	-	45.14	90.28	135.42	180.56	225.69
300,000	-	-	-	-	54.17	108.33	162.50	216.67	270.83	325.00
350,000	-	-	-	53.82	129.17	204.51	279.86	355.21	430.56	505.90
400,000	-	-	21.53	107.64	193.75	279.86	365.97	452.08	538.19	624.31
450,000	-	-	64.58	161.46	258.33	355.21	452.08	548.96	645.83	742.71
525,000	-	18.75	150.00	281.25	412.50	543.75	675.00	806.25	937.50	1,068.75
575,000	-	56.25	200.00	343.75	487.50	631.25	775.00	918.75	1,062.50	1,206.25
600,000	-	75.00	225.00	375.00	525.00	675.00	825.00	975.00	1,125.00	1,275.00
675,000	-	142.19	325.00	507.81	690.63	873.44	1,056.25	1,239.06	1,421.88	1,604.69
775,000	13.54	223.44	433.33	643.23	853.13	1,063.02	1,272.92	1,482.81	1,692.71	1,902.60
1,000,000	142.36	427.08	711.81	996.53	1,281.25	1,565.97	1,850.69	2,135.42	2,420.14	2,704.86
1,250,000	284.72	640.63	996.53	1,352.43	1,708.33	2,064.24	2,420.14	2,776.04	3,131.94	3,487.85
1,500,000	427.08	854.17	1,281.25	1,708.33	2,135.42	2,562.50	2,989.58	3,416.67	2,989.58	2,135.42
1,750,000	625.00	1,171.88	1,718.75	2,265.63	2,812.50	3,359.38	3,906.25	2,812.50	1,718.75	625.00
2,000,000	781.25	1,406.25	2,031.25	2,656.25	3,281.25	3,906.25	2,656.25	1,406.25	156.25	-
2,500,000	1,093.75	1,875.00	2,656.25	3,437.50	3,281.25	1,718.75	156.25	-	-	-
3,000,000	1,406.25	2,343.75	3,281.25	3,281.25	1,406.25	-	-	-	-	-
4,000,000	2,031.25	3,281.25	2,656.25	156.25	-	-	-	-	-	-

Taxation – TEE System – R12,500 tax free to Access Pot

Income	Contribution Rate (Total - 1/3rd is TEE) - R12,500 annual tax free (above R350K is not deductible currently)									
	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	-	-	-	-	-	-	-	-	-	-
150,000	-	-	-	-	-	-	-	-	-	18.75
200,000	-	-	-	-	-	-	-	37.50	-	87.50
250,000	-	-	-	-	-	45.14	-	112.50	56.25	225.69
300,000	-	-	-	-	54.17	108.33	-	-	108.33	325.00
350,000	-	-	-	53.82	129.17	204.51	-	-	130.56	505.90
400,000	-	-	21.53	107.64	193.75	279.86	-	-	158.19	624.31
450,000	-	-	64.58	161.46	258.33	355.21	45.14	-	164.58	742.71
525,000	-	18.75	150.00	281.25	412.50	543.75	67.50	-	193.75	1,068.75
575,000	-	56.25	200.00	343.75	487.50	631.25	77.50	-	1,062.50	1,206.25
600,000	-	75.00	225.00	375.00	525.00	675.00	87.50	-	1,125.00	1,275.00
675,000	-	142.19	325.00	507.81	690.63	873.44	112.50	-	1,421.88	1,604.69
775,000	13.54	223.44	433.33	643.23	853.13	1,063.02	-	-	1,092.71	1,902.60
1,000,000	142.36	427.08	711.81	996.53	1,281.25	1,565.97	212.50	-	1,210.14	2,704.86
1,250,000	284.72	640.63	996.53	1,352.43	1,708.33	2,064.29	425.00	2,712.50	1,406.25	3,487.85
1,500,000	427.08	854.17	1,281.25	1,708.33	2,125.42	2,562.50	637.50	3,416.67	1,708.33	2,135.42
1,750,000	625.00	1,093.75	1,718.75	2,265.62	2,881.25	3,359.38	875.00	2,812.50	1,718.75	625.00
2,000,000	781.25	1,406.25	2,125.00	2,812.50	3,541.67	3,906.25	1,125.00	1,406.25	1,406.25	-
2,500,000	1,093.75	1,875.00	2,812.50	3,656.25	4,581.25	5,118.75	1,562.50	-	-	-
3,000,000	1,406.25	2,500.00	3,656.25	4,843.75	6,041.67	6,770.83	2,125.00	-	-	-
4,000,000	2,031.25	3,541.67	5,118.75	6,770.83	8,541.67	9,687.50	3,125.00	-	-	-

Taxation – 30% deduction – Reduction in take home pay

	Contribution Rate (Total - 1/3rd is TEE) - 30% tax credit (above R350K is not deductible currently)									
Income	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	- 60.00	- 90.00	- 120.00	- 150.00	- 180.00	- 210.00	- 240.00	- 270.00	- 300.00	- 330.00
150,000	- 75.00	- 112.50	- 150.00	- 187.50	- 225.00	- 262.50	- 300.00	- 337.50	- 375.00	- 412.50
200,000	- 100.00	- 150.00	- 200.00	- 250.00	- 300.00	- 350.00	- 400.00	- 450.00	- 500.00	- 550.00
250,000	- 41.67	- 62.50	- 83.33	- 104.17	- 125.00	- 145.83	- 166.67	- 187.50	- 208.33	- 229.17
300,000	- 50.00	- 75.00	- 100.00	- 125.00	- 150.00	- 175.00	- 200.00	- 225.00	- 250.00	- 275.00
350,000	14.58	21.88	29.17	36.46	43.75	51.04	58.33	65.63	72.92	80.21
400,000	16.67	25.00	33.33	41.67	50.00	58.33	66.67	75.00	83.33	91.67
450,000	18.75	28.13	37.50	46.88	56.25	65.63	75.00	84.38	93.75	103.13
525,000	131.25	196.88	262.50	328.13	393.75	459.38	525.00	590.63	656.25	721.87
575,000	143.75	215.63	287.50	359.38	431.25	503.13	575.00	646.88	718.75	790.62
600,000	150.00	225.00	300.00	375.00	450.00	525.00	600.00	675.00	750.00	825.00
675,000	253.13	379.69	506.25	632.81	759.38	885.94	1,012.50	1,139.06	1,265.63	1,392.19
775,000	290.63	435.94	581.25	726.56	871.88	1,017.19	1,162.50	1,307.81	1,453.13	1,598.44
1,000,000	458.33	687.50	916.67	1,145.83	1,375.00	1,604.17	1,833.33	2,062.50	2,291.67	2,520.83
1,250,000	572.92	859.38	1,145.83	1,432.29	1,718.75	2,005.21	2,291.67	2,578.13	2,864.58	3,151.04
1,500,000	687.50	1,031.25	1,375.00	1,718.75	2,062.50	2,406.25	2,750.00	3,093.75	2,583.33	1,645.83
1,750,000	1,093.75	1,640.63	2,187.50	2,734.38	3,281.25	3,828.13	4,375.00	3,281.25	2,187.50	1,093.75
2,000,000	1,250.00	1,875.00	2,500.00	3,125.00	3,750.00	4,375.00	3,125.00	1,875.00	625.00	-
2,500,000	1,562.50	2,343.75	3,125.00	3,906.25	3,750.00	2,187.50	625.00	-	-	-
3,000,000	1,875.00	2,812.50	3,750.00	3,750.00	1,875.00	-	-	-	-	-
4,000,000	2,500.00	3,750.00	3,125.00	625.00	-	-	-	-	-	-

Taxation – 30% deduction vs TEE R12,500 tax free

Income	Comparison TEE R12,500 tax free vs 30% tax credit									
	5.0%	7.5%	10.0%	12.5%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%
87,300	-	-	-	-	-	-	-	-	-	-
120,000	- 60.00	- 90.00	- 120.00	- 150.00	- 180.00	- 210.00	- 240.00	- 270.00	- 300.00	- 330.00
150,000	- 75.00	- 112.50	- 150.00	- 187.50	- 225.00	- 262.50	- 300.00	- 337.50	- 375.00	- 431.25
200,000	- 100.00	- 150.00	- 200.00	- 250.00	- 300.00	- 350.00	- 412.50	- 487.50	- 562.50	- 637.50
250,000	- 41.67	- 62.50	- 83.33	- 104.17	- 125.00	- 190.97	- 256.94	- 322.92	- 388.89	- 454.86
300,000	- 50.00	- 75.00	- 100.00	- 125.00	- 204.17	- 283.33	- 362.50	- 441.67	- 520.83	- 600.00
350,000	14.58	21.88	29.17	17.36	85.42	153.47	221.53	289.58	357.64	425.69
400,000	16.67	25.00	11.81	65.97	143.75	221.53	299.31	377.08	454.86	532.64
450,000	18.75	28.13	27.08	114.58	202.08	289.58	377.08	464.58	552.08	639.58
525,000	131.25	178.13	112.50	46.88	18.75	84.37	150.00	215.63	281.25	346.88
575,000	143.75	159.38	87.50	15.63	56.25	128.13	200.00	271.88	343.75	415.63
600,000	150.00	150.00	75.00	-	75.00	150.00	225.00	300.00	375.00	450.00
675,000	253.13	237.50	181.25	125.00	68.75	12.50	43.75	100.00	156.25	212.50
775,000	277.08	212.50	147.92	83.33	18.75	45.83	110.42	175.00	239.58	304.17
1,000,000	315.97	260.42	204.86	149.31	93.75	38.19	17.36	72.92	128.47	184.03
1,250,000	288.19	218.75	149.31	79.86	10.42	59.03	128.47	197.92	267.36	336.81
1,500,000	260.42	177.08	93.75	10.42	72.92	156.25	239.58	322.92	406.25	489.58
1,750,000	468.75	468.75	468.75	468.75	468.75	468.75	468.75	468.75	468.75	468.75
2,000,000	468.75	468.75	468.75	468.75	468.75	468.75	468.75	468.75	468.75	-
2,500,000	468.75	468.75	468.75	468.75	468.75	468.75	468.75	-	-	-
3,000,000	468.75	468.75	468.75	468.75	468.75	-	-	-	-	-
4,000,000	468.75	468.75	468.75	468.75	-	-	-	-	-	-

TEE - Taxation of phased in amounts into Access Pot

- Impossible for SARS to process individual tax directives (up to R7m?)
- Reliance on administrators and auditors (DC Funds)
 - Administrator processes batch run per tax table, pays and sends schedule to SARS
 - GNx Tax Credit
 - SARS records GNx Tax Credit against ID (or passport) number
 - Administrator records GNx Tax Credit on system – follows the member
 - No IRP5 implications in year of implementation/taxation
 - Auditors sign off and verify the payments and the schedule
 - Access Pot payments tax free – do not reference the GNx Tax Credit
 - When member accesses vested benefits (eg retires, dies or withdraws from service), individual tax directive is processed and GNx credit reconciled, on IRP5

TEE Taxation – New table for upfront transfers?

- Which tax table to use for Access Pot transfers?
 - Winners (previously withdrawn) and losers (never withdrawn)
 - (Mostly) optional transfer into Access Pot so can manage tax/benefits
 - “Compulsory” default transfer of “non-vested” Provident Fund benefits – requires more tax friendly scale
 - Needs to be a hybrid between current withdrawal and retirement table
 - Dual scale for compulsory vs optional transfers?
 - *Suggest larger administrators give indication of non-vested benefits to derive the scale*

TEE Taxation – HNWI considerations

- 1/3rd of contributions to Access Pot non-deductible – no need to limit this for HNWI's – SARS benefits from the upfront tax
- Propose 2/3rd into Retirement Pot still subject to the R350,000 annual limit
- Top earners contribute R175,000 into Access Pot (non-deductible) and R350,000 into Retirement Pot (deductible) – total R525,000 pa
- Non-deductible contributions above R350,000 currently offset from vested benefits (lump sums) – falls away in time
 - HNWI's will inevitably restructure packages
 - Need to adjust the limits with inflation (bracket creep!)

Taxation – Transfers

- Transfer between funds is not a “benefit accrual” – change of administrator
- GNx tax credits must transfer with members, but propose will not be subject to tax directives until benefit accrues
- Requirement for tax directives on inter-fund transfers to fall away – major inhibitor to fund consolidation
- Exception – settlement of housing loans

DB Funds

- Contribution structure of DB funds
 - Members pay fixed contribution – employer pays “balance of cost”
 - Contributions fluctuate with change of basis, change of membership profile etc
 - Employer (and members) could take contribution holiday
 - Contributions are taxed based on prescribed formula not actual contributions
- How do you define 1/3rd of contributions to go into Access Pot?
- Proposal – Access Pot payments are based on “months of service”, not contributions
 - *Special wording in the Act (1/3rd of “benefit” not contributions)*

DB Funds - Structure

- Administrators need to record three key data points
 - Original service date (track total service)
 - How many months the member elects to transfer into Access Pot (Elected Months)
 - How many months have been paid out (cumulative)
- Actuaries do annual reserve value calculations for benefit statements – calculate the value of one month's pension payout and number of months available in the Access Pot
 - Based on the minimum individual reserve at fund anniversary
 - Slightly out-dated but cheaper than individual calculations
 - Administrators apply formula (No months x value of one month) when a member elects to access benefits

DB Funds - Structure

- Vested Cash Benefit (*Taxable*) (Available in cash on withdrawal and retirement) = **Actuarial value of $[1/3^{\text{rd}} \times (\text{Total service from original date to 1 March 202x}) - (\text{Elected Months})]$**
- Access Pot (*Tax Free??*) (Available at any time) = **Actuarial value of $[1/3^{\text{rd}} \times (\text{Total service from original date}) - (\text{months paid out}) - (\text{Vested Cash Benefit})]$**
- Vested Retirement Benefit (*Taxable*) (Available in cash on withdrawal and as annuity on retirement) = **Actuarial value of $[2 \times (\text{Vested Cash Benefit})]$**
- Retirement Pot (*Taxable*) (Available only as annuity on retirement) = **Actuarial value of $[(\text{Total service from original date}) - (\text{months paid out}) - (\text{Vested Cash Benefit}) - (\text{Access Pot}) - (\text{Vested Retirement Benefit})]$**

DB Funds – Example (no pre retirement withdrawal)

- Member has 12 years of service on 1 March 202x
- Member elects to access 2 years (24 elected months) as once off voluntary amount (taxed and net benefit paid out in line with payout period) – 4 years is transferred into the Retirement Pot
- 3 years later, member wants to use funds in Access Pot - amount available is 12 months ($1/3^{\text{rd}}$ of 36 months) which is paid out
- 1 year later – another access of 4 months
- 5 years later member retires

DB Funds – Example (no pre retirement withdrawal)

Months of benefit	Cash Pot	Access Pot	Vested Benefit	Retirement Pot	Total
Opening service	48		96		144
Elected benefit	-24	+24/-24	-48	48	-24
Service accrual		12		24	36
Access benefit		-12			-12
Service accrual		4		8	12
Access benefit		-4			-4
Service accrual		20		40	60
Retirement benefit	24	20	48	120	212
<i>Total years</i>	<i>2</i>	<i>1.67</i>	<i>4</i>	<i>10</i>	<i>17.67</i>

DB Funds – Example (with pre retirement withdrawal)

- Member has 12 years of service on 1 March 202x
- Member elects to access 2 years (24 elected months) as once off voluntary amount (taxed and net benefit paid out in line with payout period)) – 4 years is transferred into the Retirement Pot
- 3 years later, member wants to use funds in Access Pot - amount available is 12 months (1/3rd of 36 months) which is paid out
- 1 year later member resigns and takes all available benefits in cash
- Member gets new job and 5 years later retires

DB Funds – Example (with pre retirement withdrawal)

Months of benefit	Cash Pot	Access Pot	Vested Benefit	Retirement Pot	Total
Opening service	48		96		144
Elected benefit	-24	+24/-24	-48	48	-24
Service accrual		12		24	36
Access benefit		-12			-12
Service accrual		4		8	12
Withdrawal benefit	-24	-4	-48	-	-76
Service accrual		20		40	60
Retirement benefit	0	20	0	120	212
<i>Total years</i>	<i>0</i>	<i>1.67</i>	<i>0</i>	<i>10</i>	<i>11.67</i>

DB Funds – Example ('current regime')

- Member has 12 years of service on 1 March 202x
- The member needs some money for an emergency so resigns and takes all available benefits in cash (this is more than needed but since he is not forced to preserve anything he squanders the rest!)
- He gets a new job and 3 years later he needs money again. He manages to get by getting a loan but a year later is forced again to resign and takes all in cash again
- Member gets new job and 5 years later retires

DB Funds – Example ('current regime')

Months of benefit	Cash Pot	Access Pot	Vested Benefit	Retirement Pot	Total
Opening service	48		96		144
Withdrawal benefit	-48		-48		-144
Service accrual	12		24		36
Service accrual	4		8		12
Withdrawal benefit	-16		-32		-48
Service accrual	20		40		60
Retirement benefit	20		40		60
<i>Total years</i>	<i>1.67</i>		<i>3.33</i>		<i>5.00</i>

DB Funds – Example comparison

	Two Pot No resignation	Two Pot With resignation	Current regime
Lifetime cash*	3.33 years (1.33)	9.33 years (1.33)	16.00 years
Cash at retirement*	3.67 years (1.67)	1.67 years (1.67)	1.67 years
Pension at retirement	14.00 years	10.00 years	3.33 years

* Figure in brackets – possibly tax free on TEE system

DB Funds – TEE Phasing in and Taxation

- Slightly different upfront phasing in and taxation of phased in amount
- Nominate the amount as “seed funding” – elected amount (months).
- Similar payout period to access elected benefit, but member can defer payment to defer tax
- Deferred payment could be at higher “value” of 1 month?
- Taxed at payment not upfront (tax directive at withdrawal scale/new scale?
– individual directives)

DB Funds – TEE Phasing in and Taxation - Example

- Payout period is 3 years starting from 1 March 202x+1
 - DB member can elect to access benefit in year 1 – tax is paid and 1/3rd of net benefit is paid in each of year 1, 2 and 3 (**eg R15,000 available benefit – R3,000 tax due and paid - R12,000 net benefit paid out at R4,000 per annum**)
 - DB member can elect to access benefit in year 2 – tax is paid and 1/2 of net benefit is paid in each of year 2 and 3 (**eg R18,000 available benefit – R4,000 tax due and paid - R14,000 net benefit paid out at R7,000 per annum**)
 - DB member can elect to access benefit in year 3 – tax is paid and full net benefit is paid in year 3 (**eg R21,000 available benefit – R5,000 tax due and paid - R16,000 net benefit paid out at once**)
-

Coverage

- Separate document for discussion

Governance issues – Fund consolidation

- Support consolidation of retirement funds: will not necessarily be expected to improve results for members (but will for the regulator)
- De-registering terminating retirement funds is still a major challenge!!!
- There are issues which currently prevent or discourage consolidation of retirement funds that could be removed:
 - Section 14 transfer issue for provident fund members over 55 on 1 March 2021
 - Tax directives required for Section 14 transfers
 - General Section 14 transfer challenges (leap frog transfers)
 - Tax benefits enjoyed by members of funds who transferred out of GEPIF will be lost if they transfer a second time
- Commercial umbrella funds are painted as being a major problem, is that the case?
- How to strengthen the voice of members in umbrella funds?



Quantifying Risk, Enabling Opportunity.

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