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Life changes, how to manage a late life retirement savings plan

Life happens: Nandi's story:

When Nandi* and her husband found themselves in the unexpected, but happy situation of having two children in their late 20's, she decided to give up her teaching job to be a full-time mom. Now at 50, with the kids having flown the nest, she has returned to teaching but wants to save for a meaningful pension so she and her husband can travel the world when they both decide to retire.

Changing priorities: John's story:

At the age of 28, John*, had a successful office renovation business. He never bothered to save for retirement because he enjoyed his job and had all his spare cash invested in a house. He expected to work in the business until his sixties and then sell it. But by the age of 50 he realized he did not want to continue working at the pace he had done earlier in his life. In fact, he wanted to explore other paths in life that bought him more personal satisfaction. He also realised his business was under pressure from newer competitors and that he would not be able to sell it for what he planned. So, he needed to rethink his retirement plans.

Finding a way starts with getting the right advice. These are both typical cases of ordinary working people trying to figure out a retirement plan later in life. You can be certain that life changes for all of us along the way. Research by Liberty shows that only 31% of people aged between 30 and 35 have established a proper savings plan. By the ages of 45-49 this figure jumps to 63%. This shows that South Africans become financially wiser as they get older, but it also indicates that many South Africans are setting up their savings plan late in life. The good news is that you can start saving for retirement at any time and for many out there, who find themselves in similar situations to these two people. There are many ways to approach this, but speaking to a financial adviser would be a good start.

"In both these cases the reality is that the timeframe for saving is dramatically shortened, so there's a need to save as much as 30%, or more, of your earnings every month if you can," says Liberty financial adviser, Sheila-ann Robey, Certified Financial Planner. "At later stages in life many people find they are in established jobs, the kids have grown up and home payments maybe somewhat less. So, the ability to find extra cash is really possible if you look hard enough at your spending. "There is also the important component of motivation: "To save diligently like this you should keep reminding yourself of the retirement you want. Maybe you just want to relax, maybe you want to travel, or even pursue a passion project. Work towards these dreams by putting money away. Make it your reality in the present."

The advantages of retirement saving

It's important to realize that saving using retirement products has real advantages compared to other types of savings' vehicles. Nosipho Nhleko, Liberty Lead Specialist for Retail Investment Proposition, says saving in an approved retirement fund such as a Retirement Annuity (RA) gives you significant tax breaks - your contributions are tax deductible within certain generous limits. Additionally, your money will grow tax-free in the RA and when you retire, up to R550,000 of the lump sum you take may be tax free with the balance of the lump sum taxed in terms of preferential tax tables. Your annuities or retirement income will be taxable at your marginal tax rate in the same way that your current salary is taxed. RAs allow you to boost your savings above the amount you contribute towards the pension or provident fund you have with your employer. There are no limits to what you can contribute.

Where to start

Getting financial advice will help immensely, because everybody's situation is unique. As the two stories at the beginning of this article show, despite our vastly different life situations and ambitions, we all need a retirement plan. Of course, retirement is also different for everyone, despite the financial instruments being similar. You can still achieve your dreams even if it feels like it is too late in life.

FA News | 9 September 2024

Two-pot withdrawals to expose dodgy employers

Huge rush from workers to withdraw from their pensions

The pension fund adjudicator has sounded the alarm on companies that do not pay over employee funds to administrators as two-pot claims mount in the first week of the retirement system. Pension Fund Adjudicator Muvhango Lukhaimane said their caseload for the current financial year was 82% for complaints by workers whose employers were not paying their pension deductions over to administrators. She said they anticipated more complaints with the two-pot system coming into effect from last week. Pension fund administrators have reported the surge of requests for withdrawals from workers with some fund managers reporting unprecedented numbers that have affected their systems. The two-pot system allows workers to withdraw once a year from their provident and pension funds.

However, over the years companies have come under fire for short-changing their employees by deducting pensions from their salaries and not handing those deducted amounts over to administrators. Security firms, retailers, municipalities, a church and a renowned fashion designer were among the more than 3,000 employers exposed by the Financial Sector Conduct Authority for not paying pension funds last year. Some have failed to do so for 21 years. Lukhaimane said they expected more complaints from workers this time around. “Normally, workers would find out their pension fund balances during either retirement, resignation and retrenchment stage, however, with the advent of the two-pot system they can access their pension once yearly at any time. "And this will expose employers who have not been paying the pension to the administrators. That process will now be brought forward and we encourage workers to check their pension balances and come to us if they find any discrepancies," said Lukhaimane. She said they were anticipating people coming forward in the next three months after they had found out the true status of their pension balances.

The adjudicator said they invested in two contractors to manage and direct claimants.
Alexander Forbes received 150,000 withdrawal claims in 25 minutes on Thursday. They said they expected between R50bn and R100bn withdrawals this year. "Although we don't capture explicit reasons for withdrawals, we intuitively know that individuals are financially stretched. Some of the biggest reasons are to manage their debt and or monthly expenses. "We are receiving and processing claims, however, we are experiencing unprecedented traffic volumes on AF Connect due to the two-pot system. This is causing delays for online submissions. Our IT specialists are continuously working to improve the client experience," said Vickie Lange, head of Best Practice at Alexforbes. The Government Employees Pension Fund (GEPF), which has over 1,2-million members, said 40,000 of them had indicated plans to withdraw by Friday last week. The fund said there had been 17,050 savings pot withdrawals, and this number increased every day. "We are constantly managing and tuning our systems to manage the increased load for two-pot, as well as the existing load on the self-service application.

We are aware of members who have problems accessing the system, and the GPAA (Government Pensions Administrations Agency) teams and Client Relationship Management (CRM) are attending to the queries and complaints. "Part of attending to this query in particular is the process that is underway of developing a mailbox solely focused on queries relating only to the two-pot system," said Rakgwatha Mokou from the GPAA. Private Security Sector Provident Fund, which has more than 600,000 members who work as security guards and truck drivers, said 80% of its membership had shown interest in applying for withdrawal. Many were from Gauteng and KZN. The fund was implicated as one of the worst where employers were not paying pension deductions to the fund last year. Bianca Moyo from the fund said they had started the process of making companies account. One of their intervention was to deploy their agents to check on the company payment status. Non-compliant companies are also listed on the fund's website to warn workers. Sanlam had received 70,000 calls about the two-pot system and 20,000 members applied for it.

"This volume far exceeds the monthly average of 7,000 to 8,000 retirement, withdrawal or retrenchment claims usually processed by Sanlam Corporate. The average claim amount remained steady at R20,000. "Over the past two days, tax directives requests have been submitted and received back from Sars without delays. Roughly 1% of the tax directive requests have been rejected by Sars, and for 13% of the requests, Sars issued an IT88," said the company. Lonwabo Nxumalo, a security guard from Ekurhuleni, said he applied for withdrawal to pay off his bank loans. "I've been trying to pay the loans for over five years now but my salary is not enough to do so. I find this system to be an easier way to pay off the R20,000 debt," said Nxumalo.

Sowetan Live | 9 September 2024

Tax-smart with retirement annuities: Deduction calculation

A look at how this deduction can be seen as a sponsorship from government, and how crucial it is to your accumulation phase before retirement.

Taxpayers who take responsibility for funding their own pension and will not be a burden to the government after their working years qualify for generous tax relief. In this, the first of two articles on tax-smart with retirement annuities (RA), we will look at the tax deductibility of your RA contributions, how this deduction can be seen as a kind of sponsorship from the government, and how crucial it is to your accumulation phase before retirement. In the second article, we will take a closer look at RAs and the effect of excess contributions before, at and beyond retirement. These two articles aim to inform investors about the benefits of including RAs as the main vehicle for retirement savings and as a building block for wealth creation by illustrating the calculation criteria and the desired result it will create.

RA tax deductibility 101

Below is an income tax template in one of its simplest forms:

	GROSS INCOME		Rxxx
less	Exempt income	(Rxxx)	
equals	INCOME		Rxxx
less	Deductions allowed (Including RA contributions)	(Rxxx)	
equals	TAXABLE INCOME		Rxxx
less	Tax as per tables	(Rxxx)	
	(Rebates)	Rxxx	
	(Medical expense credits)	Rxxx	
equals	TAX PAYABLE		Rxxx

Source: Author supplied

Using this template as a basic framework, let us look at the effects that contributions to a pension/provident fund or RA will have on someone's tax payable and accumulation towards their retirement. We will get into the rules and limitations later in the article; for now, we will grasp the concept by using the basic 27.5% limit of allowable deductions found in Section 11F (2) of the Income Tax Act. In the table below, we look at a taxpayer with an income of R1 million per year, comparing the tax payable when contributing R100 000 to a RA against the tax payable when no retirement fund contributions are made:

		Assumptions	No RA contribution		R100 000 RA contribution	
	GROSS INCOME	*Salary R1 000 000*	R	1 000 000	R	1 000 000
less	Exempt income	*None*	R	-	R	-
equals	INCOME		R	1 000 000	R	1 000 000
less	Deductions allowed	*None*	R	-	R	-
	(Including RA contributions)	*R100 000 contribution*	R	-	-R	100 000
equals	TAXABLE INCOME		R	1 000 000	R	900 000
less	Tax as per tables		R	309 519	R	268 519
	(Rebates)	*Person under 65*	-R	17 235	-R	17 235
	(Medical expense credits)	*Assume R16 000*	-R	16 000	-R	16 000
equals	TAX PAYABLE		R	276 284	R	235 284

Source: Author supplied

You will notice that the taxpayer who did not contribute to a RA increases their income after tax and their tax payable. However, they still need to save for retirement from their income after tax. To end up with the same disposable income, they can only contribute R59 000 to a voluntary (discretionary) investment for that purpose, as shown below:

Income after tax	R	723 716	R	664 716
Contribution to voluntary investment	R	59 000	R	-
Disposable income	R	664 716	R	664 716

Source: Author supplied

In this scenario, the voluntary investment's inception value is R59 000 compared with R100 000 for the RA. On top of this, the future growth of the RA attracts no tax on interest, dividends or capital gains, while the growth of the voluntary investment will be taxed. Even though a RA has restrictions that ensure it will be used for retirement income and is limited under Regulation 28 of the Pension Funds Act (maximums for certain asset classes and offshore exposure apply), for the purpose of retirement provision, it is clear that the RA option offers value that is almost impossible to beat owing to a higher inception value and tax benefits on growth that will result in a higher maturity value.

More detailed example

For the benefit of investors who would like to understand a little more about RA and pension/provident fund contribution deductibility as well as the contribution limitations, we look at the following example that shows where and how other factors, like interest, capital gains tax (CGT), or rental income, fit in:

Example:		
Salary	R	900 000
Annual bonus	R	50 000
Employer pension fund contribution	R	70 000
Employee pension fund contribution	R	70 000
RA contribution	R	120 000
Employer medical aid contribution	R	24 000
Bank interest earned	R	60 000
Rental income - garden flat	R	80 000
Deductable expenses in production of income	R	60 000
Taxable capital gain after selling Kruger Rands	R	600 000
Dividends (local shares)	R	30 000

Source: Author supplied

We apply the information to a personal tax template to show the calculation of the maximum Section 11F deduction:

Taxable income before rebates and medical credits					Notes: Please see Section 11F deduction rules in table below
Salary	R	900 000			
Bonus	R	50 000			
Fringe benefits (employer pension fund contributions)	R	70 000			
Fringe benefits (employer medical scheme contributions)	R	24 000			
Remuneration			R	1 044 000	R 287 100 (27.5% of R1 044 000)
Other income: Rental	R	80 000			
Other income: Annuities	R	-			
Interest	R	60 000			
Dividends	R	30 000			
GROSS INCOME			R	1 214 000	
Less exemptions					
(Interest)	-R	23 800			
(Dividends)	-R	30 000			
INCOME			R	1 160 200	
Less deductions (Section 11A)	-R	60 000			
Taxable income before 11F, 18A deductions BEFORE inclusion of CGT			R	1 100 200	R 1 100 200
Plus taxable CGT	R	600 000			
Taxable income before 11F, 18A deductions AFTER inclusion of CGT			R	1 700 200	R 467 555 (27.5% of R1 700 200)
Less 11F retirement fund contributions	-R	260 000			
TAXABLE INCOME			R	1 440 200	

Source: Author supplied

Below, you can see how the 11F deduction was calculated and whether additional contributions can be made to maximise the tax benefit for the applicable year of assessment:

Section 11F deduction rules
The lesser of a, b, or c but limited to d

a) R350 000		R	350 000

b) 27.5% of the HIGHER of			
(i) Remuneration	R 1 044 000	R	287 100
(ii) Taxable income	R 1 700 200	R	467 555
Including taxable capital gain			
Excluding retirement lump sum and severence benefit			
Before deducting retirement fund contributions - Section 11F, Section 18A donation deduction			

c) Taxable income before deducting	R	1 100 200
Section 11F retiremnent fund contributions		
Section 18A donation deduction		
AND before including taxable capital gain		

d) Limited to the actual contributions	R	260 000

The RA contribution can be increased with an additional R90 000 to reach the maximum annual 11F deductability (R350 000 - R260 000).

Source: Author supplied

We now have a better understanding of the tax benefit we receive when using RAs and how to maximise the tax benefit for an applicable year of assessment.

Moneyweb | 11 September 2024

Two-pot retirement system demystified

It is still difficult for the man on the street to decipher exactly how this will affect them.

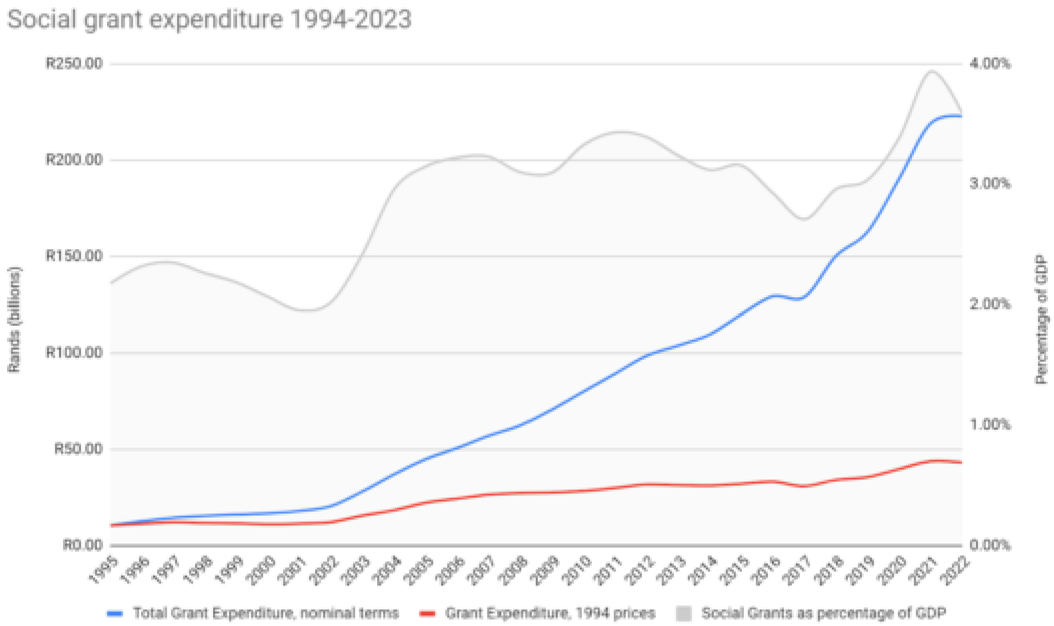
On the first of September (called T-day), the long-awaited two-pot retirement system came into effect (it was announced and promulgated on 1/3/2021), and it is still difficult for the man on the street to decipher exactly how this will affect them. There are some good visuals, videos, and calculators available to walk you through the process step by step, so instead of reinventing the wheel, I will give you links to them. However, I have tried to simplify the process so you can make informed decisions. Before going any further (and those of you that might get bored halfway through), i*f you were over the age of 55 on 1 March 2021, you would have opted out of joining the two-pot system but can opt in at any time until 1 September 2025. Your pension provider should already have had that conversation with you.* (Should you opt in? Short answer – yes but speak to your financial advisor/planner *tout-suite* to get individualised advice).

Why the pension system was changed

There is no easy way to say this, but **the main reason** this new law was put in place is to protect workers 'from themselves' and stop them from cashing out their pensions when leaving one employer to join another

– which is happening much more frequently than ever before (the average tenure in a job for workers in their 20s is less than two years – rising steadily to around seven years for those in their 50s). It's just a fact of life today that if you want to significantly boost your earnings above the normal inflationary rise, you're probably going to have to move jobs. Companies are still behind the curve in identifying and promoting valuable workers, and they often wake up and try to counter-offer when someone valuable hands in their resignation. (My tip – never accept it; you'll just end up in the same position a year or two down the line.)

The second reason this change has been activated is due to the fact that 60% of workers who reach retirement age are significantly underfunded for their retirement – this puts a load on the state with old age grants in an era where grants, in one way, shape or form, are already a massive portion of RSA's annual budget. There has been an excellent article written on this here, and here is a graph from that article:



This chart shows state expenditure on social grants since 1994. Source: GroundUp with data sourced from National Treasury, StatsSA, and UCT's Centre for Social Science Research.

There has been an almost 400% increase (as a percentage of GDP) in grants since 1994.

A third reason this was put in place was to give workers access to the funds without resigning. (This had become a significant issue in the government sector, and labour resistance is part of the reason this system was delayed and watered-down – apart from the logistical nightmare it has caused pension fund companies.)

Opting out: Over age 55 Hopefully, your pension provider will have communicated the option of opting in or out of the new two-pot system, and you'll have been able to make an informed choice. **In a nutshell:** If you were over 55 on 1 April 2021, were a member of a pension or provident fund and are still a member of that fund, you were automatically opted out of the two-pot scheme. In other words, you can opt to keep the status quo and be able to take the full amount as a cash lump sum as per the 'old' rules if you resign from the company (pre-retirement lump sum rules, as shown below, would apply). You could also retire from the fund you have been contributing to upon leaving your current employer or retiring (this is an event, not a date) –

and all the old rules will apply. Future contributions will still go into the old fund just like they used to. You will not have a savings pot that you can withdraw from though. You will have the opportunity to opt in, but ONLY for one year, until 1 September 2025. If you haven't had this discussion with your financial advisor, please do so as soon as possible. Everyone who was employed in the same company and a member of the same retirement fund before and after 1 September 2024 will have an 'old' vested portion – with old rules – and a new two-pot system with the embedded savings pot. Before you decide to keep the ability to cash in your "vested" pension on your resignation and take the Sars punch on the jaw, please have your financial advisor do the math for you. There is no investment out there (yes, even offshore) that is going to make up that 37% hole you put in your investment in your lifetime.

Vesting rights

If you have been automatically opted into the two-pot system – under the age of 55 on 1 April 2021, or you are over age 55 and have chosen to opt in, you are now a proud member of the two-pot system, and while this is called the two-pot system, for anyone who was employed at the same company before and after 1 September 2024 there are going to be three pots:

Vested, savings and compulsory.

Ten percent of that vested portion, to a maximum of R30 000, will go into your savings portion of the "after two-pot" savings section as 'seeding money'. This is what it is going to look like on 1 September 2024 – let's use R1 million just as an example:

- Vested: R1 million minus R30 000 seed money = R970 000.
- Savings pot: R30 000 (seed money).
- Compulsory: R0 (waiting for the end of September's contribution).

From here on out, the vested portion will grow in line with your investment choice (this would be whatever you chose prior to implementation or if you have elected another option), and the savings and compulsory portions will grow by the monthly contribution plus the fund's growth (again invested in your elected (or prescribed if you have no choice) investment choice).

The vested pot (R970 000 portion)

Your vested portion, i.e. before 1 September 2024, will be treated in the 'old' way when you resign from a company:

1. It can be cashed in, and lump-sum tax rules will apply. This is the table from the 2025 Sars handbook (you can contact me if you don't have a copy of it). Note that this allowance and scale is a lifetime amount and accumulated by Sars. If you take a retrenchment/severance benefit and these rules have been applied, then you may be in a higher bracket than you realise.

Retirement Fund Lump Sum Withdrawal Benefits

Taxable income (R)	Rate of tax
1 – 27 500	0% of taxable income
27 501 – 726 000	18% of taxable income above 27 500
726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

Source: Sars

2. There will still be a R27 500 lifetime pre-retirement tax-free portion on the vested capital. Please also note that if you take these lump sums in pre-retirement, despite paying tax on them, they will be deducted from your R550 000 retirement tax-free sum, which usually should only be taken upon retirement.

3. On retirement from age 55, the normal lump sum rules at retirement apply; in other words, you can still take up to one third of the fund as a cash lump sum (but the rate at which you are taxed on it is going to depend on how much you cashed out pre-retirement. At retirement, the tax is different from pre-retirement – as shown below:

Retirement Fund Lump Sum Benefits or Severance Benefits

Taxable income (R)	Rate of tax
1 – 550 000	0% of taxable income
550 001 – 770 000	18% of taxable income above 550 000
770 001 – 1 155 000	39 600 + 27% of taxable income above 770 000
1 155 001 and above	143 550 + 36% of taxable income above 1 155 000

Source: Sars

After 1 September 2024: The two-pot system

Managing this transition to the two-pot system is going to be messy. Pension providers are already scrambling to cope with the change, and now there is going to be an avalanche of requests to dip into the savings portion. Hint: Don't expect a quick response. In addition to the tax, you're likely to be charged fees, too (averaging around R500 per withdrawal – so please ask first). Here are a couple of calculators to help you from Discovery and Momentum.

The savings pot (R30 000 portion and one third of future contributions)

Let me just clear up one frequently asked question – how are these funds going to be invested, and can we choose for the three pots to be invested differently? The split of the invested funds into the three pots is essentially a book-keeping exercise that the providers will undertake (one of the reasons they will be demanding a relatively stiff fee per withdrawal), but practically, these are all going to be invested the same way – as dictated by your pension fund rules (or your choice of funds if that is available). When you make a request to access a portion of the savings, which you can do once a year (minimum R2 000), then the fund managers are going to sell assets (unit trusts for example) in order to make that 'liquidity' available to you and your administrator is going to make the relevant book-keeping changes. One small ray of sunshine – capital gains tax is not levied on funds invested in formal retirement funds, and you are not taxed on the interest portion either. One of the major changes that you're going to have to get used to is how these withdrawals are going to be taxed. Unlike the "before two-pot" regime (and your vested portion), where the lump sum withdrawal rules are applied, any income withdrawn is going to be taxed at your marginal rate. In other words, it will be added to your income and taxed at that rate. (You can get that table from the Sars pocket summary issued at the time of the budget – you're welcome to ask me for it.) Put simply, if you're earning more than R56 000 per month gross, you'll be taxed at 39% or more. That's a huge hole to put in your savings!

For every new contribution you or your employer make to your pension:

- One third will be 'allocated' to the savings portion; and
- The other two thirds will go into the compulsory portion.

The compulsory portion (two thirds of future contributions)

This, in essence, becomes your long-term pension savings. If your savings component is not taken before retirement, it, too, will be added to your overall pension, matching what it would have been if the two-pot system had never been implemented. When you resign from a company, you will have the option of cleaning out your savings portion and taking the marginal income tax hit or 'preserving' the entire pension (without paying tax) until you are ready to retire from it (with much less onerous tax consequences). The compulsory portion will have to be preserved in one shape or form – in your individual capacity or by transferring it to the new employer.

Remember that from age 55, you can 'retire from' the fund, one third of the savings portion can be cashed out, and the first R550 000 (lifetime allowance) is tax-free. The rest must be used to purchase a compulsory annuity – from this, you will draw an income, and the marginal income tax tables would apply as normal (unless it is below R165 000). Many of my clients, on reaching retirement, choose to take the up to R550 000 tax-free portion (or what is left of it) and use the rest as an annuity (aka 'pension'). You don't really want to take that pension or annuity if you're still earning – because it's going to be added to your active income and taxed at that marginal rate (up to 45%).

Cautionary note

While it might be tempting to access the savings portion of your pension pot to the max, I would caution against it, especially before talking to your financial advisor. Your pension contributions are deducted from your income before tax, effectively lowering your tax bill. Inevitably, when Sars gives with one hand, it always gets it back with the other somewhere down the line. So, remember that when you access your savings pot pre-retirement, Sars is the only winner, even more so now that it uses the higher 'marginal tax rates'. Consider this carefully. Your pension provider is going to get a tax directive, and the tax will be withheld from the savings payout and the income added to your taxable income – which could push you into a higher bracket or out of the threshold of no tax into the 18% bracket. Over or under-recovery by Sars will be done at the end of the tax year in your final assessment. **Full Report:** ***https://www.moneyweb.co.za/financial-advisor-views/two-pot-retirement-system-demystified/***

Moneyweb | **11 September 2024**

Keen interest in two-pot system

Insurance companies say they have received significant interest in the two-pot system, with the South African Revenue Service (Sars) reporting that close to 2 500 tax withdrawal directives were processed on the first day that the system opened for applications on September 1. The two-pot system will allow workers to withdraw up to R30 000 from their retirement funds. Withdrawals from the fund will be taxed at the marginal tax rate with economists warning members of the public to be wary of the tax implication when making withdrawals from their retirement funds. Sars commissioner Edward Kieswetter said that by Monday night, Sars had received 2 759 tax directives and the revenue service had already processed 2 424 tax directives by Tuesday morning.

“This represents R103 million worth of withdrawals from retirement funds and will add around R6.7 million of tax to the fiscus.” Michelle Moller, Sanlam’s business head for shared services, said that they are experiencing significant interest in the two-pot retirement system since its launch. “While the number of client applications are still being consolidated, we confirm substantial enquiries and applications from clients who have been engaging Sanlam through various secure web platform channels and our call centres. Despite the high volumes, all Sanlam systems remain functional. In anticipation of client interest, we proactively prepared and additional resources are deployed to support clients.” Moller said that Sanlam is committed to processing requests as soon as all members' information is in order. “While the two-pot application process is multi-faceted and inherently longer compared to a traditional transactional withdrawal, due to the legislative and tax steps involved, Sanlam is committed to processing requests as swiftly as possible once all required client information is submitted and a client’s tax directive is received from the Receiver of Revenue. “We encourage clients to consult their intermediaries to fully understand the implications of their withdrawal decisions, including the impact on long-term retirement savings and the tax implications.”

Old Mutual said their two-pot implementation process will take place in two phases.
“This will ensure the system can handle the large volumes of withdrawal applications that we anticipate as well as ensure that the applications process is safe and seamless with as few glitches as possible. In the first phase, from 2 to 22 September, Old Mutual customers will be able to view their Savings, Retirement and Vested Pot balances via the Old Mutual channel on WhatsApp. This means customers will be able to see exactly how much they have in each pot and what is available for withdrawal from the Savings Pot.” Old Mutual said that the next phase starts on 23 September, when their channel on WhatsApp will start accepting withdrawal applications. “Once an application has been received, it will undergo a vetting process to ensure that the personal details supplied match the information in our system. We also want to remind customers that the process from application to receiving money in their bank account may take some time because of the large volumes we expect and to accommodate the Sars process to issue tax directives.

” Waldo Krugell, an economics professor at North-West University, said that withdrawals will be taxed at an individual’s marginal tax rate. “It is steep but fair that a withdrawal is taxed as income and not as pension. It also discourages withdrawals, which I think is a good thing. Every one of us needs that money to stay out and grow for retirement and a fund cannot make a payout to someone who is in arrears with Sars, that has to be sorted out first." Economist Dawie Roodt said that people need to apply for a tax directive from Sars when doing a withdrawal from the two pot system. "This will have to be settled with Sars before you are able to withdraw from your retirement fund. So it is theoretically possible that you can withdraw from the two-pot system and get nothing due to tax. I also don't think high-income earners will withdraw from the funds as their marginal tax rate will mean they might get half of the amount they wanted to withdraw."

Congress of South African Trade Unions (Cosatu) said that there has been huge interest from members since the two-pot system opened for applications. Matthew Parks, acting national spokesperson said the union is pleased with the two-pot pension reforms, which were championed for many years, are finally a reality. "This is a massive shift in pension funds. Thousands of workers have made contact with their pension funds and for the first time workers can access part of their pensions without having to resign. This gives workers a far better option when seeking to settle debt than to leave their jobs." Parks said some funds have been overwhelmed but in most cases, it is going well. "We are meeting daily with government and pension funds to resolve issues as they arise, and we are intervening in cases where unnecessary delays arise."

The Mercury | 6 September 2024

UK state pension could rise by about £460 a year from April, wage growth figures suggest

Average earnings including bonuses in three months to July – used to calculate the triple lock – grew by 4%
The full UK state pension could rise by about £460 a year from April 2025, the latest wage growth figures suggest. Average earnings including bonuses in the three months to July, which are used to calculate the pensions triple lock, grew by 4%, according to the Office for National Statistics, down from 4.6% year on year over the three months to June. A commitment by the government to maintain the triple lock on the state pension, which guarantees annual increases in line with whichever is the higher of inflation, 2.5% or annual earnings, has boosted pension payments since it was introduced in 2012. The annual inflation rate in September – published by the ONS next month – is the inflation figure used to calculate the triple lock, but wage growth in the three months to July is expected to be higher. UK inflation stands at 2.2%.

Labour said it would retain the triple lock for the rest of the parliament after it scrapped the winter fuel allowance for all pensioners in England and Wales except those on lower incomes who claim pension credit. If confirmed, the changes would take the full state pension for men born after 1951 and women born after 1953 to nearly £12,000 in 2025, after a £900-a-year increase from April 2024. The full state pension for people born after those dates stands at £221.20 a week. The full basic state pension for people born before those dates – almost three-quarters of the nearly 12.7m state pensioners – is £169.50. Under the older basic state pension system, people can receive extra money from the state based on their national insurance (NI) contributions. A 4% increase would lift the full basic state pension to £176.30 a week, or £9,167 a year, a rise of £353.60. It would lift the full new state pension to £230.05 a week, or £11,962.60 a year.

The earnings figures also indicated that the jobs market had slowed, with employers shedding staff and a fall in the number of vacancies. There were 857,000 job vacancies in June to August 2024, down 42,000 from the previous quarter and 143,000 lower than the same time last year, though still 61,000 above pre-Covid-19 levels. A revised estimate of how many workers were on company payrolls in July fell by 6,000 from June. The ONS said a provisional estimate for August 2024 showed payroll numbers dropped even more, down a further 59,000. The unemployment rate dipped to 4.1%, from 4.2%. Wages excluding bonuses grew by 5.1% in July, well above the rate of inflation but down from 5.4% in the previous three months. Bank of England policymakers are likely to be concerned that average wage growth excluding bonuses remains above 5% when they meet later this month to decide the level of interest rates. However, the National Institute of Economic and Social Research (NIESR) said the central bank would be cheered by a faster than expected fall in pay growth across the services sector.

“Services sector pay growth has fallen faster than expected, recording 3.8%, compared to an average of 5.9% in the first five months of this year,” said Monica George Michail, a NIESR associate economist. “This is positive news for inflation and might provide the Bank of England with increased confidence regarding interest rate cuts.” The next cut by the Bank is expected in November, according to financial markets. Ashley Webb, an economist at the consultancy Capital Economics, said the fall in average wages would not be enough to convince the Bank that the labour market was weakening significantly. Several members of the Bank’s interest rate setting committee have argued that high wage rises are feeding into prices, pushing up inflation. They say wages need to fall further before they are prepared to vote for further cuts in the cost of borrowing.

Webb said: “The further easing in wage growth will be welcomed as a sign that labour market conditions are continuing to cool. But we doubt this will be enough to prompt a back-to-back 0.25 percentage point interest rate cut, from 5% to 4.75%, in September.” Rachel Reeves said the government would stick with the state pension triple lock, despite needing to make savings, including restrictions on the winter fuel allowance “to repair the £22bn black hole in the public finances that we inherited from the previous government”. The chancellor said the triple lock would put “more money in pensioners’ pockets each and every year, and it will mean the full new state pension will be worth around £1,700 more in 2029”.

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Tax incentives under fire again

The proliferation of tax incentives in South Africa has again come under fire because of their destructive impact on the tax base and their economic consequences. Prominent players in the tax industry, including South African Revenue Service Commissioner Edward Kieswetter, have highlighted the distortive effect on resource allocation and the potential for abuse that incentives create. Michael Katz, chair of ENSafrica, told delegates at the annual Tax Indaba in Cape Town that his one plea is for a massive re-evaluation and elimination of tax incentives that have reduced the tax base significantly. The matter was also interrogated during the 2020 Tax Indaba, where figures from National Treasury were quoted – including that 4.5% of the R1.3 trillion tax revenue back then was foregone in the form of incentives.

Blunt instrument

Kieswetter says tax is a blunt instrument to use when trying to make an investment more attractive. But one cannot defy gravity, he said during the opening session of this year's Tax Indaba. "If the business case does not stack up, no amount of tax adjustments and early write-offs or any other form of incentive will make a bad business case a good one." He referred to the Section 12J allowance, which was not extended past its sunset date. That incentive was introduced to stimulate investments in small and medium-sized enterprises (SMEs) through venture capital companies (VCCs) – but was tweaked when government saw abusive schemes surfacing. Taxpayers initially received a full tax deduction on investments in VCCs. Shortly before the incentive died, the deduction was capped at R2.5 million for individuals and trusts, and R5 million for companies per tax year. Apparently, some investors used the VCCs to fund low-risk projects instead of investing in sectors that could drive economic growth and create jobs.

Abuse

Kieswetter also referred to the employment tax incentive that has been a target for abuse. The incentive was introduced to promote youth employment by reducing the cost of hiring young workers. Many companies sent their employees on training with little concern about the outcome. They outsourced the training to a third-party service provider and were happy to have bums on seats and to qualify for the incentive. The provision was made available to promote employment and not employability. "I am personally not a great proponent of incentives," said Kieswetter. "Apart from being hard to implement, you invariably advantage people who do not need the advantage and there is a significant amount of abuse." Trevor Manuel, former minister of finance, remarked that in the absence of proper coordination the "myriad of incentives" – including the research and development, renewable energy, and special economic zones incentives – become a major problem.

“I am not sure how you begin to take them apart.” He said in 1994 the “transitional levy” that was introduced created a big advantage. It funded the country’s budget deficit and economic reforms. Although incentives do have a role in changing behaviours and attracting foreign investments, they can cause distortion.

Missing the mark

Katz is outspoken about incentivising foreign investments. “If a foreign investor puts up a factory in SA and gets an incentive, they will enhance their profits. The foreign fiscus gets the benefit and not us.” Manuel believes it is necessary to “put the entire system on a sound footing again”. Companies, notwithstanding the extent of deindustrialisation, probably still have their entire pricing based on incentives. Manuel referred to the decision to zero-rate paraffin for value-added tax (Vat). The thinking was that people who use paraffin are “really poor” and needed the tax relief. However, people purchase paraffin from spaza shops, which are not regulated for tax. The 14% (now 15%) that should have been an advantage for the end user never materialised.

“People had no choice as the spaza shops sold paraffin and didn’t ask whether you wanted to pay Vat or not. You always tend to advantage people who are not meant to be advantaged,” Manuel added. Kieswetter also mentioned the initial consideration to zero-rate brown bread for Vat purposes. “It turns out that the people who eat brown bread are health-conscious people and not poor. “Poor people eat white bread,” said Kieswetter. Keith Engel, CEO of the South African Institute of Taxation, said National Treasury did manage to eliminate many of the incentives up to about 2009. However, they started creeping back into the tax system. Some incentives may work, while others are not always well thought through. They’re not practical, or the wording allows for different interpretations of the legislation.

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