CAPE JOINT
PENSION FUND

THE **IMPACT** OF **T-DAY**

1. **WHAT** AND **WHEN IS T-DAY**?

THE TAXATION LAWS AMENDMENT ACT, 2015 WHICH WAS SIGNED INTO LAW ON 8TH JANUARY 2016, SETS T-DAY AT **1 MARCH 2016**. THIS ACT WILL INTRODUCE THE FOLLOWING **TWO KEY CHANGES** WITH REGARD TO RETIREMENT FUNDS:

- The simplification of the tax treatment of contributions to all types of retirement funds; and
- The way benefits are paid **at retirement**.

NB Member resignation benefits will not be affected, i.e. fund benefits payable to members who resign, are retrenched or are dismissed from their employer and exit the fund after 1 March 2016. Members who are retrenched and decide to opt for a retirement benefit from the Fund may be impacted – please read Q&A 5 and 6 below.

Please note that if you are 55 or older on 1 March 2016 and you retire from the Cape Joint Pension Fund, you will not be impacted in any way. If chosen, your full retirement benefit is still available as a cash lump sum benefit on retirement.

2. **WHY** IS THE GOVERNMENT IMPLEMENTING **THIS CHANGE**?

They are following international pension practice. South African retirement funds are tax favoured. The tax breaks cost the Government a lot of money and in return they want retirement benefits to be paid in regular instalments. Government is concerned that lump sums can be spent unwisely and may leave members destitute and reliant on the state should it run out. Government is effectively saying that they only have so much money to encourage and help people to retire.

3. WILL I BE PAYING MORE INCOME TAX FROM **1 MARCH 2016?**

No, the future deductibility of contributions are either equal to or better than the present levels so unless you are affected by the maximum deductible Rand cap of R350 000, you should not have a reduced cash flow as a result of the tax changes.

Members who also contribute to retirement annuities are encouraged to consult their financial advisers since the harmonisation of contributions to retirement funding vehicles directly links the Fund contributions and the contributions made to retirement annuity funds.

4. SO **WHAT WILL CHANGE** WITH REGARDS TO THE MONTHLY CONTRIBUTIONS?

On **1 March 2016**, the new law will remove the tax differences in respect of contributions to all types of retirement funds, resulting in the following:

- Employer contributions to pension, provident and retirement annuity funds will be taxed as fringe benefits in the hands of employees. The format of your payslip may change to reflect the employer’s contribution.
- However, employees will be able to deduct all contributions up to 27.5% of the greater of their “remuneration" or "taxable income” subject to a maximum of R350 000 per tax year.
- This deduction will apply to the total contributions made to all retirement funds to which an employee belongs.
- If the contributions exceed R350 000 in a tax year, employees may be able to deduct the balance that they could not claim in the current year, in the following year, when their contribution in that year is below the maximum limit.

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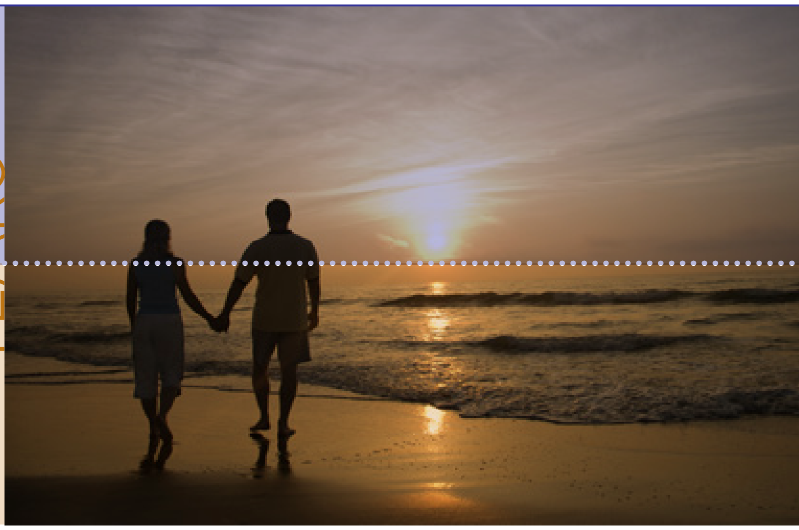
IMPACT

OLDER
55 YEARS
YOUNGER



5. WHAT IS THE IMPACT ON THE PAYMENT OF MY RETIREMENT BENEFIT IF I AM YOUNGER THAN 55 ON T-DAY?

MEMBER SHARE ACCUMULATED AFTER T-DAY:

The retirement benefits payable by the Fund only in respect of contributions and growth thereon made after T-Day will be subject to the annuitisation rules i.e. at least two thirds must be used to buy a pension and only a maximum of one-third may be taken in cash.

Note: if the value of your retirement benefit or Member Share accumulated through contributions made after 1 March 2016 is less than R247 500, you will be allowed to take the whole benefit as a cash lump sum and you will not be required to buy a monthly pension.

MEMBER SHARE ACCUMULATED BEFORE T-DAY:

Your Member Share as at 1 March 2016 plus future investment growth (or interest) on it will **not** be subject to the annuitisation rules.

This means that:

- you will still be allowed to receive your Member Share accumulated before T-Day (plus investment growth or interest) in the form of a cash lump sum at retirement, and
- you will not be forced to buy a monthly pension with this portion of your retirement benefit.

This protection of a vested right to cash benefits will remain in force should you leave the Fund and transfer to another retirement fund (e.g. a preservation fund).

6. WHAT IS THE IMPACT ON THE PAYMENT OF MY RETIREMENT BENEFIT IF I AM 55 OR OLDER ON T-DAY?

If you remain a member of the Fund until your retirement, you will not be affected by these changes. You will still be allowed to take your full Member Share or retirement benefit (i.e. contributions made before and after T-Day along with investment returns) as a cash lump sum, at retirement.

7. WHAT DOES ANNUITISED OR ANNUITISATION MEAN?

This is when a lump sum retirement benefit or part thereof is used to buy a pension that is paid in monthly amounts. Various types of pensions are available and it is important that you understand the pension options when having to annuitise part of your retirement benefit.

8. SO HOW DOES THIS NEW LAW BENEFIT ME?

This law brings with it a huge benefit for members of all retirement funds. The simplification of the contribution taxation structure means that all funds will now be treated the same and transfers of retirement savings between pension and provident funds and preservation and retirement annuity funds will be tax-free. Vested rights to lump sum benefits at retirement are protected and the annuitisation rules only apply to members who are younger than 55 on 1 March 2016 in respect of their contributions made after 1 March 2016 where they exceed R 247 500 at retirement.

CLICK HERE to read some interesting questions and answers provided by National Treasury regarding T-Day.

OMBDS 01.2016 18847

T-DAY IN A NUTSHELL – HOW WILL THIS IMPACT ME AS A MEMBER OF THE CAPE JOINT PENSION FUND?

T-DAY = 1 MARCH 2016

(Taxation Laws Amendment Act, 2015)

NB: Nothing changes if you resign, are retrenched or are dismissed by your employer and exit the Fund after 1 March 2016

TWO CHANGES

1. TAX DEDUCTIBILITY OF CONTRIBUTIONS

CJPF

RETIREMENT ANNUITY

Same tax Rules apply to the contributors to these 2 Funds

TAX **FREE 27.5%** (Max R350 000)

TAXABLE PORTION OF **REMUNERATION**

From **1 MARCH 2016** you will be able to get a total tax deduction on contributions to these 2 funds of up to **27.5%** of your remuneration (or taxable income). **This means that up to 27.5% of your remuneration can be Tax-Free!** (Max R350 000).

- If your contributions are greater than 27.5% of your salary and/or R350 000 in a tax year, you may deduct the balance you can't claim now in the next tax year.
- Your payslip may look different from 1 March 2016 but don't panic – it may improve your take home salary.

BEFORE 1 MARCH 2016

YOUR SALARY

Deduction

EMPLOYER CONTRIBUTION → TAX **NEUTRAL**

YOUR CONTRIBUTION → TAX **DEDUCTABLE** UP TO 7.5%

CJPF

AFTER 1 MARCH 2016

EMPLOYER CONTRIBUTION

YOUR SALARY

Deduction

EMPLOYER & YOUR CONTRIBUTION → BOTH TAX DEDUCTABLE

CJPF

2. BENEFIT ON RETIREMENT FROM THE CAPE JOINT PENSION FUND (CJPF)

CJPF
Members who are younger than 55 on 1/3/2016

T-DAY = 1 MARCH 2016

MEMBER SHARE 1

All contributions and growth in your fund on 29/02/ 2016	The future growth it will earn

NOTHING CHANGES

When you retire from the Cape Joint Pension Fund, you will still be allowed to take member **SHARE 1** as a cash lumpsum

MEMBER SHARE 2

All contributions and growth made from 01/03/2016	The future growth it will earn

UP TO 1/3rd CASH

USE MINIMUM OF 2/3rds TO BUY A PENSION

When you retire, you are allowed to take up to a maximum of 1/3rd as a cash lumpsum and you must buy a pension with at least 2/3rds of the benefit. However, if your member **SHARE 2** is less than R247 500 then you may take the full amount as a cash lumpsum

Cape Joint Pension Fund members who are 55 and older on **1 MARCH 2016** may continue to take their full member share (i.e. your and your employer's contribution plus growth before and after T-Day) as a cash lumpsum on their retirement from the Fund.