momentum investments

Retirement fund reform – annuitisation of provident fund benefits

What is Retirement fund reform?

According to legislation, members of pension funds and retirement annuity funds must use at least two-thirds of their retirement savings to buy an annuity when they retire. Before 1 March 2021, provident fund members could take their total retirement savings as a once-off, lump-sum cash benefit. Research shows that many provident fund members use this lump sum too quickly and risk outliving their retirement savings.

The South African government is trying to help members retire with a better financial plan so that they receive a more sustainable income during retirement. One of the ways they hope to achieve this is to treat provident funds the same way as pension funds and retirement annuity funds with regards to the annuitisation of members' retirement benefits, ie getting a regular income stream from retirement savings rather than a once-off amount.

What are the changes?

1

Members younger than 55 on 1 March 2021 in a provident fund

The total balance in the provident fund on 28 February 2021 plus growth thereafter can still be taken as a lump sum when the member retires from the fund. This is called a **vested benefit.**

All contributions to a provident fund from 1 March 2021 onwards, plus growth thereon, will be subject to the same rules as pension funds and retirement annuity funds. This is called a **non-vested benefit.** A maximum of one-third of the non-vested benefit can be taken as a lump sum when the member retires from the fund. The balance must be used to purchase an annuity to provide an income during retirement. However, this is subject to the de minimis rule. This means that if the non-vested benefit is less than R247 500 at retirement, the full amount can be taken as a lump sum.

2

Members 55 or older on 1 March 2021 in a provident fund

Members who are at least 55 years old on 1 March 2021 and stay in the same provident fund until retirement, can take their full benefit as a lump sum when they retire. This includes contributions made to this provident fund after 1 March 2021.

3

Members in pension funds and retirement annuity funds

The existing benefits of members in pension funds and retirement annuity funds will not be affected.

4

Members transferring to other funds

All future transfers between funds will be tax-free, except for a transfer from a retirement annuity fund. A retirement annuity fund will be allowed to accept a transfer from any fund but may only transfer to another retirement annuity fund. Tax-free transfers can be summarised as follows:

From	To
Any: • Pension fund • Pension preservation fund • Provident fund • Provident preservation fund	**Any:** • Pension fund • Pension preservation fund • Provident fund • Provident preservation fund • Retirement annuity fund
Retirement annuity fund	Retirement annuity fund

What does this mean for members investing with Momentum?

Existing members

Existing benefits in Retirement Annuity Option (RAO) and Retirement Preservation Option (RPO) products will not be affected. The current value of RAO and RPO (Pension) investments, plus future growth, will all be considered **non-vested benefits.** Future contributions into an existing RAO will also become part of the member's **non-vested benefits.**

The current value of RPO (Provident) products, plus future growth, will be considered **vested benefits.**

Members' benefit statements will indicate whether the benefit is a **vested benefit** or a **non-vested benefit.**

Terminology

Vested benefit:
The retirement savings of a provident fund member as at 28 February 2021 plus growth thereon. Up to 100% of the vested benefit may be taken as a lump sum when a member retires from the fund. The balance (if any) must be used to purchase an annuity.

Non-vested benefit:
The retirement savings of a provident fund member built up with contributions from 1 March 2021, plus growth thereon; and the value of RAO and RPO (Pension) investments as at 28 February 2021, plus growth thereon. Up to one-third of the non-vested benefit may be taken as a lump sum when a member retires from the fund. The balance must be used to purchase an annuity. If the total non-vested benefit is less than the minimum prescribed amount at the time (de minimis rule), the full benefit may be taken as a lump sum at retirement.

New members or new transfers from existing members

When a member transfers to one of our retirement products:

- The financial adviser or member will choose and complete an application form for a retirement product, which can be the RAO or the RPO (pension or provident).
- Based on where the money is coming from and information on the Recognition of Transfer form, we will identify it as a vesting benefit or a non-vesting benefit.
- For the RPO (pension or provident), we will issue separate investments by:
  - Source of funds.
  - Vested and non-vested benefits.
- For the RAO, we will only allow non-vested benefits.

We issue separate investments to ensure:

- appropriate segmentation and build-up of the vested and non-vested benefits;
- that financial advisers and members have the flexibility to manage the different pockets of money to suit the member's needs; and
- that we preserve the member's right to one withdrawal per source of funds.

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