

Budget speech marks the beginning of significant changes in the retirement fund and healthcare industries

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Finance Minister Pravin Gordhan's budget speech for 2011 marks the beginning of significant, but not unexpected, changes in the retirement fund and healthcare industries.

This is according to Craig Aitchison, Managing Director of OMAC Actuaries & Consultants, who believes that the finance Minister's budget for 2011 represents a well-thought out and holistic approach to social security reform over the next few years.

"We are starting to see finality on the major reforms we have been waiting for and discussing for many years. It is definitely the beginning of significant changes, particularly in the retirement funding industry."

These include:

- Changes to taxation of the pension funds, confirmation of the intention to introduce a compulsory savings scheme and a proposal to encourage preservation. It is good to see traction in these areas and we look forward to the release of more detail.
- The appropriate monetary limits received inflation related increases, such as income grants and tax free lump sums.
- The moves to broaden the scope and authority of the FSB and other financial services regulator authorities is positive.
- The final Regulation 28, which outlines prudential investment guidelines for retirement funds has now been released.

According to Aitchison, the budget has done well to bring together the entire social security framework. "It seems there is a very clear framework that involves reforms to medical services, education, UIF, the Road Accident Fund and retirement benefits."

However, Aitchison warns that these changes are not going to happen immediately. Rather, he expects an incremental roll-out of social security over the next few years.

Having said that, he says the current budget includes some significant announcements that will have an immediate impact on retirement fund members. For example, from March 2012, an employer's contribution will be treated as a taxable fringe benefit, and employees will be allowed to deduct up to 22.5 per cent of taxable income for

contributions to approved retirement funds. However, the amount of the deduction will now be subject to a rand limit.

“This means that lower income earner should not lose out on their tax deduction while the high income earner does not benefit from the full deduction. This will serve to generate tax income that can be used for further reforms and benefits,” he explains.

“The proposal to limit withdrawals from provident funds to one third lump sum will also have a big impact on the level of preservation in the industry.” A higher level of preservation of retirement savings will be very positive for improving benefits at retirement and lifting the savings rate in South Africa.

Aitchison says another key announcement is that government are exploring various options for raising revenue to fund the NHI initiatives which include the possibility of higher VAT, a payroll tax or a surcharge on personal income tax.

Source: Epic Communications (Pty) Ltd