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SA's 2023 Budget: key takeouts for the retirement-fund industry

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Budget Speech 2023

The Minister of Finance, Enoch Godongwana, tabled a pleasing national budget yesterday afternoon (22 February 2023). There were key highlights for the retirement-fund industry.

1. Two-pot system

The date of implementation was confirmed as 1 March 2024. We look forward to receiving the forthcoming draft regulations and providing input. As you can imagine, work remains to be completed at the back end in preparation for the implementation. Change and readiness of systems and processes coupled with communication to members to ensure ease and efficiency of bulk benefit payments are some of the critical components.

We welcome further details on the long-standing issues relating to seed capital, legacy retirement annuity funds and the treatment of defined benefit funds being more fully outlined in the next draft regulations. It is important to note that the retrenchment benefit will not be considered at this stage. Given that values in the saving and retirement pots will take time to build up to meaningful levels, a deferral of this decision is not unexpected, as the roll-out of other aspects of the two-pot system are given priority. We look forward to receiving more clarity on these issues as it is difficult to assess at this stage without the detail.

Although the practicalities require detailed planning, we expect that most industry players will be ready to put the legislation into practice on 1 March next year. Our stance on the two-pot system hasn't changed – it is absolutely the right thing to do, and we support the long-term impact the new system will have on preservation rates and improved member outcomes.

2. Lump-sum withdrawal benefits

The tax rates that apply to withdrawal benefits from retirement funds have been adjusted and the new rates are as follows:

2022/23		2023/24	
Taxable income (R)	**Tax rate**	**Taxable income (R)**	**Tax rate**
R0 – R25 000	0% of taxable income	R0 – R27 500	0% of taxable income
R25 001 – R660 000	18% of taxable income above R25 000	R27 501 – R726 000	18% of taxable income above R27 500
R660 001 – R990 000	R114 300 + 27% of taxable income above R660 000	R726 001 – R1 089 000	R125 730 + 27% of taxable income above R726 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000	R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

Source: National Treasury

3. Tax-free retirement lump sum

We are excited to note the adjustment of the tax-free retirement amount to R550 000. This is the first adjustment in many years and will make a huge difference to members at retirement.

4. Auto-enrolment

One of the key motivations for the proposed retirement reforms is the need to expand participation and coverage for *all* formal and informal workers in a retirement fund without excessively burdening their disposable income. It was therefore good to hear that National Treasury will release policy proposals this year and that consideration will be given to a voluntary flexible savings scheme for informal workers. This is an important contribution to the retirement reform and ensuring that coverage of retirement savings is widened.

5. Governance

National Treasury committed to publishing legislative amendments to improve retirement-fund governance – particularly of commercial umbrella funds – this year, whereafter they will be tabled in Parliament.

6. Unclaimed assets

Unclaimed benefits are a long-standing problem in the South African retirement industry. The total unclaimed amount currently stands at approximately R90 billion. The Financial Sector Conduct Authority (FSCA) published a discussion paper on unclaimed assets in the financial sector in September 2022. This paper was based on work done with the National Treasury. One of the suggestions was to establish a fund into which all unclaimed assets can be transferred and managed. Otherwise, it was suggested that unclaimed assets could be transferred to the National Revenue Fund for the same purpose.

We look forward to the industry engagements on these recommendations scheduled to take place later this year. The final paper will then be published in 2024.

For general commentary on the budget, visit https://www.oldmutual.co.za/personal/budget-speech/

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