GrayIssue

Clarity on the new retirement fund regulations

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When we published GrayIssue 117 in April there was uncertainty around the implementation of Regulation 28 and the impact this would have on our clients' investment accounts. National Treasury has since clarified some of these points, and we are now able to share with you how the regulation will affect retirement fund investors.

Existing clients are only affected when they transact

Clients who set up their retirement annuity, pension preservation or provident preservation fund investments before 1 April 2011 do not need to comply with the new regulation - provided that they did not transact on their accounts after 1 April 2011 and do not transact in the future. Their investments can remain as is even if their selection of unit trusts does not comply with the regulation. The information box alongside details what constitutes a transaction in terms of the new regulation.

For existing debit order investments into the Allan Gray Retirement Annuity Fund (Allan Gray RA), or contributions through the Allan Gray Group Retirement Annuity system, clients can continue with their debit orders and do not need to change their unit trust selection. Any transaction other than an existing annual escalation, including changes to debit orders, will require clients to change their unit trust selection to comply with the regulation.

What if clients transacted after 1 April?

If clients transacted after 1 April and their accounts do not comply with Regulation 28, they will need to switch into a combination of unit trusts that is compliant. If they transacted and have an existing debit order into the Allan Gray RA, they will need to change their debit order unit trust selection to comply with the regulation. This must be done by 1 July 2011.

Based on our previous interpretation of the regulation, all new business applications received before 1 April but finalised after this date were required to invest into a combination of unit trusts that complied with Regulation 28. For some clients, this meant that they were not able to invest in their initial choice of unit trusts. In these circumstances, clients have up until 1 July 2011 to ask us to switch their investment into their initial choice of unit trusts. This will be done at the current market value.

What if clients transact on their accounts in the future?

Many retirement annuity (RA) clients make additional contributions to their accounts in February at the end of the tax year to maximise the benefits of their RAs and to reduce tax payable. Other common client activity includes changes to debit orders into RAs, and switches in RAs and preservation funds. Under the new regulations these are regarded as transactions, and clients who transact will need to choose from one of the following options:

1. Open a new account

Clients can keep their existing account as is but will need to direct all future contributions into a new account. The new account will need to comply with Regulation 28, therefore all future contributions into this new account will need to be invested into a combination of unit trusts that is Regulation 28 compliant.

2. Switch their existing account into a combination of unit trusts that is Regulation 28 compliant

If clients decide not to open a new account and their existing account does not comply with Regulation 28, they will need to switch their existing account and monthly contributions into a combination of unit trusts that is Regulation 28 compliant.

Our understanding of what constitutes a transaction has changed and is reflected in the list below:

- Setting up a debit order
- Increasing or decreasing an existing debit order (this is not the same as an annual escalation)
- Additional contributions
- Switches
- Transfers in of units

What does not constitute a transaction?

- Annual escalations of debit orders
- Distributions which are re-invested
- Contributions made through the Allan Gray Group Retirement Annuity system
- Cancellations of debit orders
- Existing phase-in arrangements
- Withdrawals from preservation funds
- Divorce order payments

New investors

All new RA and preservation fund accounts will need to comply with the new regulations.

How to create a compliant account

To help clients create compliant accounts we have built a calculator, available via the Regulation 28 button under Quick links, on www.allangray.co.za. The calculator is easy to use:

- Simply input the selection of unit trusts and percentage allocation to each
- The calculator will validate the account by looking at the investment mandate of the individual unit trusts
- If the asset allocation meets the Regulation 28 limits, the calculator will indicate this with a 'yes'; if it does not, the calculator will indicate 'no', and display the areas where the investment does not comply and by how much

For more information on what Regulation 28 is and the maximum exposure clients can have to various asset classes, please consult GrayIssue 117.

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