Retirement Fund Practice Notes

ADDENDUM B TO RF1/96

CALCULATION OF FLEXIBLE ANNUITY BENEFITS

The purpose of this Addendum is to adjust the minimum and maximum rates at which flexible annuity payments can be made. This Addendum must be read together with Retirement Fund Practice Note RF1/96 as well as Addendum A to RF1/96.

New flexible annuity contracts

The income level provided in terms of a flexible annuity contract concluded on or after the effective date of this Addendum (excluding a flexible annuity contract that was concluded in consequence of a so-called "Directive 135A"-transfer) may not be less than a two-and-half per cent (2,5%) simple interest rate of return calculation and may not exceed a seventeen-and-half per cent (17,5%) simple interest rate of return calculation.

Directive 135A flexible annuity contracts

A flexible annuity contract concluded on or after the effective date of this Addendum in consequence of a so-called "Directive 135A – transfer" must be on terms to ensure that the revised rates apply with effect from no later than the next anniversary date.

Existing flexible annuity contracts

Flexible annuity contracts concluded before the effective date of this Addendum are not affected by the rate adjustments. However, with effect from the effective date of this Addendum, the income levels of any flexible annuity contract concluded before the effective date of this Addendum may be adjusted to the new maximum rate of 17,5% in cases where the current rate exceeds the new maximum rate, or to between 2,5% and 5% in cases where the current rate is 5%, provided the annuitant agrees to be bound by the income levels set out in this Addendum and by any subsequent adjustments of the rates. These adjustments may be effected before the next anniversary date of the contract. The annuitant may again adjust the levels on the next anniversary date of the contract.

Related matters

- Any flexible annuity contract concluded on or after the effective date of this Addendum must contain a clause that will enforce any future adjustments of the rates.
- Annuitants and administrators are reminded of the duty of the administrator to monitor the underlying annuity capital and to reduce the rate at which an annuity is paid whenever the underlying capital becomes insufficient to provide an annuity for life. The failure by an administrator to do so for whatever reason will jeopardise the approved status of retirement funds that permit the purchase of annuities from such an administrator.

This addendum shall be effective on 1 March 2007. Given the systems and documentation changes that may be required, full compliance with the provisions of this Addendum by no later than 31 August 2007, with retrospective effect from 1 March 2007, is required.

Issued by

Legal and Policy Division
SOUTH AFRICAN REVENUE SERVICE
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