



INTEREST RATE DECREASE IMPACT ON RETIREMENT FUND OPERATIONS

BACKGROUND

The “repo rate” is the interest rate paid by banks when they borrow money from the South African Reserve Bank and is the foundation of the structure of interest rates in South Africa. The Reserve Bank reviews and changes this rate from time to time.

On 14 April 2020 the Bank’s Monetary Policy Committee (MPC) announced an emergency cut to the repo rate of 1.00%, taking it from 5.25% to 4.25%.

The reason given by the Reserve Bank Governor for this second cut in a month, was to the need to address the impact of the COVID-19 pandemic on the country's economy. The cut means interest rates are at their lowest in South African history with the previous low being 5% in 2013.

The cut brings the prime lending rate for consumers to 7.75%.

This note deals only with the effect on the administrative operations of retirement funds

The interest rate payable by members who have taken a home loan from a bank using their fund benefit as security, will reduce as and when determined by the bank.

The minimum interest rate payable by members who have taken home loans directly from their fund, reduces with immediate effect from 7.25% to 6.25% per annum.

Penalty interest payable by an employer on the late payment of contributions to a fund reduces with effect from 21 April 2020 to 16.67% per annum on amounts not exceeding R10,000 and 13.67% per annum on amounts in excess of R10,000.

The rate of interest earned on funds’ bank balances will reduce by 1.00% per annum. Interest added to member benefit payments while the money is held in the bank account will reduce by the same amount.

HOUSING LOAN INTEREST RATES

In terms of Section 19 of the Pension Funds Act, funds can allow members to make use of their fund assets for housing purposes in two ways:

- By using the money as surety for a loan that the member takes from a bank; or
- Borrowing the money directly from the fund.

Every fund will make its own decision about whether or not to make housing loan facilities available to members and very few use the option of allowing a loan to be taken directly from the fund.

The interest rate payable by members who have taken a home loan from a bank using their fund benefit as surety will change as and when determined by the bank. This will have no

effect on funds, although employers may need to adjust members' loan repayments deducted from the payroll – the applicable bank will liaise with the employer in this regard.

When money is borrowed directly from a fund, the regulated minimum interest is the repo rate plus 2.0% per annum. With the repo rate decreasing to 4.25%, the minimum interest rate for such loans will thus be 6.25% per annum with immediate effect.

INTEREST CHARGED FOR LATE PAYMENT OF CONTRIBUTIONS

In terms of Section 13A of the Pension Funds Act, interest is levied against an employer who is late in paying contributions to a retirement fund. This would be the case if contributions are paid after the 7th of the following month. With effect from 21 April 2020 (i.e. one week after the repo rate decrease) the formula and result for prescribed late payment interest is:

- The minimum of $\{4.25\% + (4.25\% \div 3) + 11\%$ and 23%, in other words 16.67% per annum, on amounts not exceeding R10,000; and
- The minimum of $\{4.25\% + (4.25\% \div 3) + 8\%$ and 20%, in other words 13.67% per annum, on amounts in excess of R10,000.

BANK ACCOUNT INTEREST AND INTEREST PAYABLE ON MEMBER BENEFITS

The rate of interest earned on credit balances in funds' bank accounts will decrease by 1.00% per annum.

Many funds have a practice of adding bank account interest when a benefit is paid to a member, for the period that the money is in or deemed to be in the bank account waiting to be paid out. Such interest allocations will also therefore decrease by 1.00% per annum.

WHAT DOES THIS MEAN FOR YOU?

There's not a lot that a board of a fund must do:

If your fund has directly loaned money to members, then you need to check that the legislated minimum interest rate is being adhered to. Your Robson Savage administrator or consultant will advise you in this regard.

In the event of the late payment of contributions to your fund, your administrator will handle the levying of the correct rate of late payment interest from the employer as set out above.

Your administrator will automatically add the correct interest to member benefit payments.

Your Robson Savage consultant will be glad to provide any further input you might require.

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