



# INFORMANT

NEWSLETTER FOR PENSIONERS  
MARCH 2019

*Your Retirement - Our Passion*

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# BUDGET 2019 HIGHLIGHTS

The Minister of Finance delivered the National Budget Speech to Parliament on 20 February 2019. This article summarises the possible impact that the tax proposals may have on your personal household budget.

## Personal Income Tax

Personal income tax rates have not been changed, resulting in no “bracket-creep” adjustments (to counter the effect of inflation) being incorporated into the tax tables. Minor tax relief has been granted through small adjustments to the age rebates.

Tax thresholds determine the **taxable income** levels where individuals, in different age groups, start paying tax. The age-based rebates have been increased resulting in a slight increase in the thresholds.

Age category	2019 Total Rebate Value	2019 Annual Tax Threshold
Below 65	R14,220	R79,000
65 to 74	R22,014	R122,300
75 and older	R24,615	R136,750

## Pensioner reminder:

- Pensioners are reminded that the threshold applies to your **total annual taxable income**, not only your Sentinel income. Should your pension be below the threshold and you also receive taxable income from other sources, and this raises your taxable income over the threshold limit, you will be required to pay tax. Sentinel may not deduct additional PAYE from your pension unless you specifically request us to do so.
- Some pensioners may not be familiar with a PAYE deduction from their pension in a specific year, but after a pension increase or annual bonus payment, find that PAYE has been deducted. This occurs in the event that either the pension increase or annual bonus, or both, raises your income over the threshold limit.

## Other Tax Matters

### Medical Tax Credits

A medical tax credit can be claimed by the individual who paid the medical aid contributions. This rebate remains unchanged at:

- **R310** for the first two persons covered by the medical scheme, and
- **R209** for each additional medical scheme dependant.

## Other Taxes, Duties & Levies

- **VAT**  
Three items (white bread flour, cake flour and sanitary pads) have been added to the list of zero-rated VAT items.
- **Duties & Levies**  
Increases in duties and levies that may impact household budgets include:
  - **Fuel prices** will increase by 20c/litre (15c/litre on the general fuel levy plus 5c/litre for the Road Accident Fund) from 3 April 2019. A carbon tax levy of 9 c/litre on petrol and 10c/litre on diesel will be introduced from 5 June 2019.
  - **Duties on alcoholic beverages and tobacco products** will increase between 7.4% and 9% with immediate effect, as has become the norm with these “Sin Taxes” since 2002. Tobacco- and e-

cigarettes will attract the same tax later this year.

- **Tax on sugar-sweetened beverages** was introduced on 1 April 2018 and will be increased from 2.1c to 2.21c per gram of sugar per 100ml.

**Social Grant** increases have been announced:

Old age, disability, war veterans and care dependency grants will increase by R80 per month in April 2019. The foster care grant will increase by R40 and the child support grant will increase by R20 in April and a further R10 in October.

## **RETIREMENT REFORM UPDATE: THE IMPACT OF THE NEW RETIREMENT FUNDS DEFAULT REGULATIONS ON PENSIONERS**

We have updated pensioners regularly on retirement reform progress. New default regulations will take effect on 1 March 2019 and are meant to improve the outcomes for members by ensuring they get good value for their savings to enable them to retire comfortably.

Although these regulations mainly impact members, two matters also impact pensioners.

### **Cost Recovery Methodology**

Until 28 February 2019, Sentinel reported "Total Direct Costs" that included all direct investment costs (for which invoices are issued by asset managers), fund entity costs and administration costs. Indirect investment costs were implicitly included in the gross returns published as these costs were recovered by the relevant investment managers before the return (net of these costs) was declared to the Fund.

In future, cost disclosure will comprise of four components (none of these items are additional costs to Fund members or pensioners):

- Investment management fees, including all charges of underlying investment funds and transaction costs.
- Investment advice fees, including consulting charges not included in management charges.
- Administration costs, which in Sentinel's self-administered model will include personnel, information technology and operational costs. These costs include member and pensioner communication, counselling and advice.
- Other costs and fees, including legal & consulting fees, audit fees, Board fees, FSCA levies, insurance costs, valuation charges and annual report costs.

The new industry standard enforced enhanced reporting standards for asset managers and will enhance Sentinel's ability to publish fully transparent costs. Fortunately, it will also enable pensioners to accurately compare costs in the industry as all retirement funds will be obliged to comply with this new standard. Please note that some costs are reported with a quarter lag. In these instances reliable estimates may be used to allow for monthly reporting.

The following illustration explains the enhanced methodology that will be implemented by Sentinel on 1 March 2019 and highlights the changes:

**NB: Portfolio applied in this example: Pensioner Portfolio returns and costs for the year ended on 30 June 2018**

Current Disclosure Method			New Disclosure Method		
Detail	%	Notes	Detail	%	Notes
<b>Gross Return</b>	7.87%	Net of indirect investment cost	<b>Gross Return</b>	<b>8.93%</b>	Before all costs
			<b>Less: Total Charges</b>	<b>(1.52%)</b>	
<b>Less: Direct costs</b>	(0.46%)	All direct charges	Investment charges	(1.33%)	All direct & indirect charges
			Advice charges	(0.01%)	
			Admin charges	(0.16%)	
			Other charges	(0.02%)	
<b>Net Return</b>	7.41%	Earned by the portfolio	<b>Net Return</b>	<b>7.41%</b>	<b>Earned by the portfolio. (reflects zero impact compared to the old methodology)</b>

Pensioners are reminded that the enhanced methodology will improve transparency and that it will have **no impact** on the **Net Returns** earned by, and as previously communicated to, members and pensioners.

## Annuity Strategy

Sentinel essentially complies with the new regulation in that it already meets the following criteria:

- It is appropriate for members who retire and beneficiaries of deceased members.
- All pensioners, including flexible annuitants, are adequately informed of the composition of assets and performance of investment portfolios through published:
  - o Quarterly portfolio fact sheets,
  - o Monthly investment returns,
  - o Annual Integrated Annual Reports and
  - o Annual pensioner information sessions.
- Sentinel's self-administered business model ensures that costs are reasonable and competitive.
- Pensioners are informed of all fees and charges through the publication of budgeted annual costs and monthly gross and net returns. The new industry standard that has been set, enhanced the reporting standards of asset managers and will be applied by Sentinel to further improve transparency of its total cost recovery methodology. (Please refer to the explanation above).
- Members and pensioners have access to counselling and advice on any Fund related matter, throughout their relationship with the Fund.
- The appropriateness of this benefit offering is evaluated on an ongoing basis.

## Sentinel's Contact Details

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