



KEY THEMES IN A REVIEW OF THE PENSION FUNDS ACT, 1956



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OBJECTIVES



- Plan for a regime that will be effective in the long term
- Improve efficiency, equity and fairness of system
- Enable and encourage South Africans to adequately provide for their retirement
- Ensure that all employees have affordable access to appropriate retirement funding vehicles
- Protect pension resources against corrosion (costs)
- Improve standards of fund governance
- Promote the adequacy of retirement fund provision



BACK-DROP



- Continued piecemeal amendments no longer desirable
 - Worldwide paradigm shift from DB to DC has changed dynamics:
 - risk shifted to employee
 - education of trustees important
 - South African retirement funding system broadly sound
 - Growing consciousness for higher national savings
 - Need to Take cognizance of recommendations of various commissions (eg. Taylor, Smith, Mouton, Katz)
 - Reconsideration of taxation on pension funds
- We have opted for a systematic and holistic approach



LANDSCAPE

- Pillar 1: SOAP of R740 per month (means tested)
 - Pillar 2: Large public sector DB funds, and mostly DC in private sector; hybrid funds; and umbrella funds
 - Pillar 3: Private provision over and above Pillar 2 (eg. Retirement annuities)
- Is this an optimal structure for South Africa's conditions?



MACRO BACKGROUND

	1994	2000	2004
Unemployment rate (broad)	31.5%	35.5%	41.2%
Gross saving as % of GDP	16.9%	15.8%	14.8%
HH saving as % of disp inc	2.8%	1.2%	1.1%
Informal Sector (mln)			
with agriculture		3.33	2.17
without agriculture		1.82	1.83
Employment (mln)			
Formal	6.80	7.43	8.76
Total	7.97	11.88	11.98
Social grants as % of GDP		2.00% (2.9mln)	2.50% (7.9mln)



COVERAGE



- In total, approx 9 million individual members across 15 000 funds
 - GEPF : 1.1 million
 - Gauteng Building Industry Fund : 407,000
 - Mineworkers provident Fund : 175 000
- Coverage in formal sector estimated between 66% and 84%. Even the lower estimate is internationally comparable
- Problem of high unemployment translates to poor provision in the aggregate, hence greater burden on the State



LEAKAGE

- Sanlam surveys suggest 10-12% (net) of earnings contribution for DC funds in 2004 for retirement, against a gross of 16.5%
- Costs seem to be increasing (problematic)
- World Bank recommends contribution rate of 10-13%
- Anecdotal evidence suggests leakage is a major problem
 - Increases future liability on State to provide SOAP for greater proportion of population



REPLACEMENT RATIO

- Leakage implies replacement ratio at retirement will be substantially reduced
- To give some idea: assuming a net 10% contribution, over 40 years with a real return of 3%, one would only achieve a replacement rate of approx 55%
- In other words, one cannot escape the numbers:
 - Staying invested (for a long period of time) is important
 - A culture of saving for retirement needs to be cultivated
 - Investment performance is crucial, particularly for DC funds
- Need to minimise leakage



ILLUSTRATION



Years of contribution	3% real return	4% real return
10	8,6%	9,0%
15	13,9%	15,0%
20	20,0%	22,1%
25	26,9%	30,6%
30	34,9%	40,8%
35	44,1%	53,0%
40	54,5%	67,7%
45	66,6%	85,3%

Assumptions: net of costs 10% of contribution goes to retirement

: R13,80 of capital buys R1 of pension at age 65



KEY THEMES AND PROPOSALS



ACCESS

- Basic question: What can be done to increase access?
- Compulsion on employer to provide a retirement vehicle or payroll facility
- Compulsory preservation on change of jobs
- Consider erratic employment (informal/seasonal)
 - National Savings Fund
- Costs in general are a concern and may inhibit access to retirement fund provision
 - Increase disclosure
 - Increase competition
 - Explicit regulation of costs



KEY BENEFITS

Preference for limited lump-sums, with the purchase of an annuity on retirement

- Challenge for provident funds
- Should pension fund offer ancillary benefits (eg. medical, disability)?
 - Consistent with SA conditions?
 - Benefits from scale economies for the individual?
 - Ring fencing?
- Housing: Only guarantees and not loans from funds
- Distribution of benefit upon death in accordance with nomination of beneficiary form, else his/her will, else intestate succession
 - Currently the nomination form only a guide
- Unclaimed benefits
 - Set up a central fund to trace beneficiaries/dependants
 - Unclaimed monies eventually revert to the State (SOAP) 12



CAUTIONARY

- Success of proposals dependant on good regulation
- Landscape will have to change notably
- Re-engineering of regulatory framework
- Give more powers to regulator
- Significantly increase capacity of regulator



GOVERNANCE AND REGULATION



- Recover monies removed from funds inappropriately
- Power to remove trustees
- Educate trustees
- Formulate codes of good practice and codes of conduct
- Better use of office of Adjudicator
- Retain minimum 50% rule for member elected trustees
- Deal with conflict of interest issues
- Deal with intersection of labour and pension laws
- Deal with umbrella funds
- Shareholder activism: Exercise voting rights
- Sanction investment managers, administrators etc.
- Disclosure requirements to members
- Permit trustees to be paid - at fund's discretion



CONCLUSION



- Many features of current legislation will remain
- Approach may conflict with profit maximisation motive
 - Balance and objectivity necessary
- Judge outputs on the basis of the objectives set out
- Engagements will have to emphasise sustainability of pension environment