

Pension Lawyers Association Conference 2005

RETIREMENT FUND REFORM A DISCUSSION PAPER

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BUSA



PRINCIPLES OF RETIREMENT REFORM

- The S A Retirement Landscape
- Access, Compulsion, Preservation
- Benefits, Contribution Rates, Member Protection
- Governance & Regulation



OBJECTIVES

- Encourage individuals to provide adequately for their own retirement and the needs of their dependants.
- Encourage employers and employees to provide for retirement funding as part of the remuneration contract.
- Ensure that retirement funding arrangements are cost-efficient, prudently managed, transparent and fair.



OBJECTIVES cont.

- Promote the retention of purchasing power of pensions through protection against the effect of inflation, within the resource constraints of the fund.
- Improve standard of fund governance, including trustee knowledge and conduct, protection of members' interest, accountability, and disclosure of material information to members and contributors.
- Provide, through social assistance, an assured basic income entitlement to elderly persons without means



KEY NEED

- Lack of cost efficient vehicles, for lower & middle income people and those who have informal or irregular income.



ABSENT - TAX

- Any consideration of tax treatment of retirement funds – separate discussion paper
- Treasury takes holistic view
 - “Cost, Commissions, Tax”



“THREE PILLAR” MODEL

- Public benefit programme – prevent poverty in old age – SOAP
 - Means tested R740 per month
- Privately managed / mandatory participation pension, provident funds.
- Voluntary savings, RAs, etc.



“THREE PILLAR” MODEL cont.

Conclusion::

- a) Coverage is high in formal sector.
Problem = those not in full time
employment.**
- b) Cost of admin & insurance a
major concern**



SA PROFILE

NOTE: “South Africa does not have a population which is ageing to the extent found in most developed economies / Latin America & Asia”

[78/1000 65+]

“There is not need to compel every employee to belong to a retirement fund, or to pay particular rates of contribution – by legislation”



HOWEVER

If retirement funding not a condition of employment, then employers must provide:

- * Education on Saving

- * Payroll facilities
 - NSF
 - RAF



NATIONAL SAVINGS FUND

- Informal Sector of population have no access to retirement funding.
- Periods of unemployment need irregular contributions
- NSF to be created in consultation with banks, (Mzansi)
- Benefits exempt from means test.
- Affordable admin scale
- Competitive Investment Returns (Govt. bonds less expenses)



NATIONAL SAVINGS FUND cont.

- Bonus payable on retirement
- Irregular contributions allowed
- Exempt from RF tax
- Limit abuse by affluent
- No employee who is below the tax threshold should be compelled to join an occupational fund or IRA & should be entitled to join NSF.
- Withdrawals permitted for any purpose but retention incentivized



INDIVIDUAL RAs

- Accept regular or irregular contributions
- Regulator to publish comparative fees
- Annual Statement on info prescribed by Regulator
- No commission or service fee to Intermediary for introductions.



PRESERVATION / PORTABILITY

- Leakage discouraged by forcing preservation
- Expenses on transfer must be minimized
- Benefits on previous fund must not be available in cash



PRESERVATION / PORTABILITY cont.

- New employers fund
- Individual RA
- NSF
- No party may reward any person for inducing the member to transfer his savings



UNCLAIMED BENEFITS

- Treasury argues that such benefits do not belong to the Fund.
- Concerted effort required to trace former members
- No results after 24 months – Central Fund
- Central Fund attempts to trace
- Then to State - SOAP



ANCILLARY BENEFITS

- Trustees should be allowed to package any benefits they feel are appropriate – so long as min. % must be applied to Retirement Funding
- Retirement contribution level may not be reduced by admin. expenses or insurance – insured benefits must be reduced.
- Pre-funding of medical aid inside Retirement Fund allowed



DEATH BENEFITS

“Benefits must be distributed in accordance with Beneficiary Form unless compelling reasons exist



RETIREMENT BENEFITS

Benefits should be taken in the form of an income – Lump Sum = modest proportion
– Specific limits, Tax proposals to come.



DEDUCTIONS

- Only deductions on Exit should be tax and housing loan guarantees.
- Voluntary contributions can be refunded.



DIVORCE

- Clean break principle supported
- Members individual reserve should be deemed to form part of Assets on divorce
- The member's former spouse should then be a member with a paid up reserve:
 - Or transfer to RA
 - Or own fund
- Thereafter, no claim.



GOVERNANCE

- Support cost-effective risk based approach
- Greater powers to Registrar.



MEMBER PROTECTION

- Elimination of preferential treatment granted to employers as Creditors
- Specialist Tribunal to deal with disputes
- Right to Appeal to High Court or FSB Appeal Board



TRUSTEES

- Many trustees do not realize that duty is to fund as a whole and not to constituency.
- Some Trustees deficient in skills
 - Dependence on consultants and service providers
- Service Providers costs sometimes too high – commissions / rebates
- Service Providers prohibited from accepting any remuneration from any person other than fund.
- Regulator has right to formulate codes of good practice for Trustees.



TRUSTEES, Cont ...

- Trustees to be given reasonable paid time off work.
- Hold AGM's of Fund members unless exempted.
- Trustees MAY be paid for services
- Umbrella funds must have separate annual financial statements
- Fund rules may not include specific service provider



NEXT STEPS

- BUSA mandate process
- Parliamentary hearings
- Nedlac
- Legislation drafting
- Final 2006 ??

