The Future direction of the pension funds industry

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Cape Town

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Where we come from (trigger for reforms)

- Low savings rate a challenge!
  - Unpreparedness to deal with unexpected income shocks
  - Excessive reliance on debt, including unsecured debt
  - Low net replacement ratios
  - Quick spending of retirement benefit
  - No retirement savings at all
- Market conduct factors need to be addressed!
  - Costs, penalties, good value and simple products
- Proper governance of funds is important!
  - Manage conflict of interests
  - Discharge duty towards members and funds
  - Trustee training

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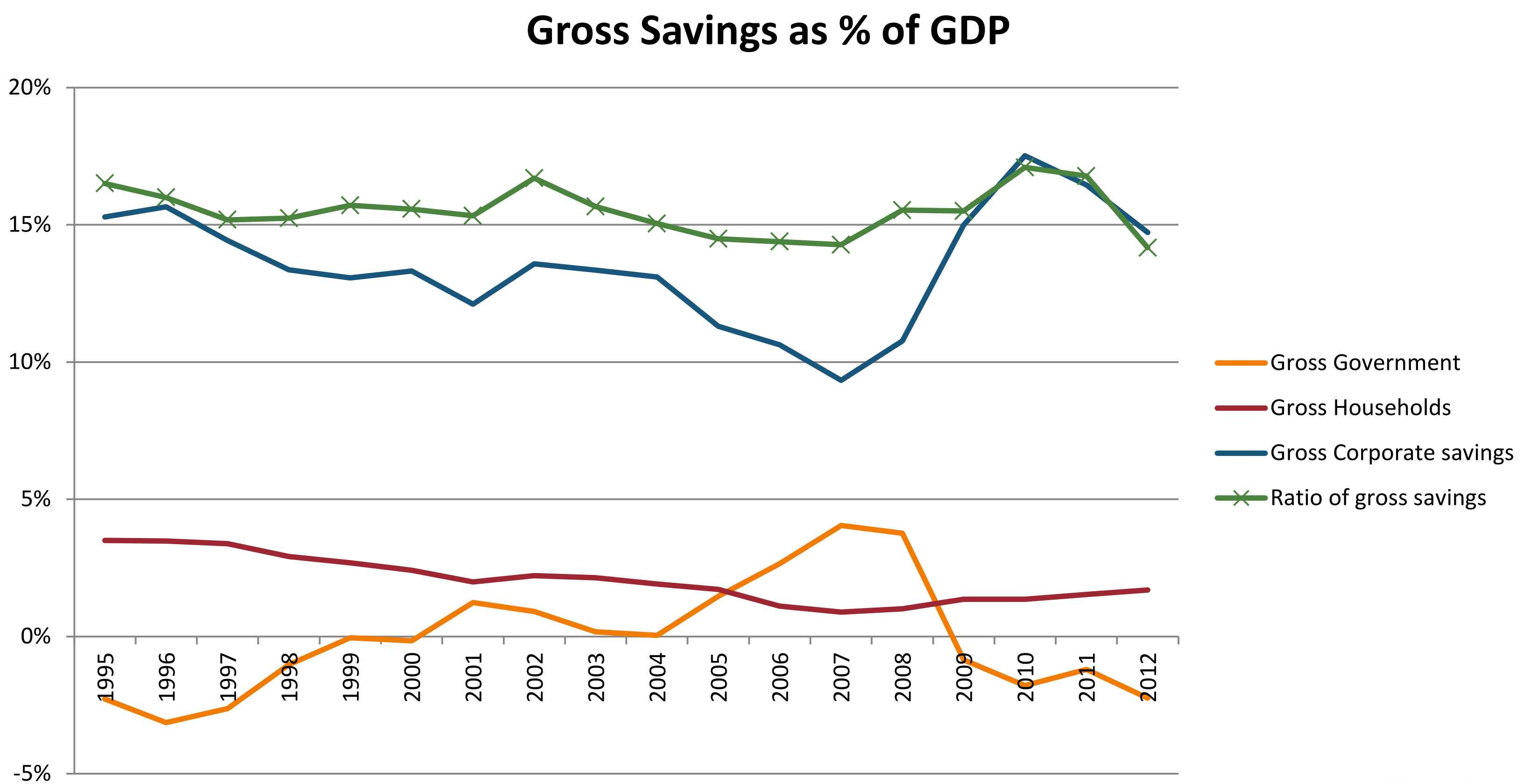
WHEN I'M 64

Where we come from



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Where we come from

- The papers on retirement proposals released in 2012 & 2013 deal with
  - Options to **encourage preservation**, especially during job changes
  - Options to **encourage annuitising** at retirement
  - **Simplifying the taxation** of retirement contributions
  - Introducing **individual tax incentivised saving plans** to encourage short to medium term saving
  - Review of **costs and charges** in the retirement industry
- The above retirement reform proposals were initiated by the policy document in 2011: ***"A Safer Financial Sector to Serve South Africa Better"***
- These are urgent proposals to address major challenges in the <u>current</u> retirement system, especially member protection

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Where we are

- Major progress achieved in finalising some of the key retirement reforms in 2013, with the assistance of the unions and industry;
  - **Tax and benefit alignment of pension and provident funds** to come into effect in 2015, with commensurate tax deductible benefits to provident fund members for the first time, and vested rights fully protected. This reform will protect our workers in retirement
  - **The Financial Services Laws General Amendment Act, 2013**
    - makes it compulsory for trustees to attain (continuous) training after being elected
    - enhances governance by requiring trustees to act in the interest of members and the fund, AND to govern the fund properly
    - criminalises the conduct by employers of deducting pension contributions and not passing them into a pension fund
    - pension fund can only operate only after full or conditional approval from Registrar

Where we are going

- Further work to be undertaken on the following;
  - **Default draft regulations** to be released dealing with default investment strategies, annuities and preservation
  - **Bringing down Costs**, by considering various policy measures; e.g. fund consolidation, auto-enrolment, transparency, default funds
  - Engaging with Nedlac on finalising **pre-retirement preservation** proposals, to ensure that workers save enough while working
  - Elevating the PF Circular 130, as a binding guiding instrument for practising **good governance** for retirement funds
  - Making FSB **trustee toolkit** compulsory as a basic training

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Where we are going

- **Structural Issue 1:** Post and pre-retirement of Preservation of funds, with limited access
- **Structural Issue 2:** Increase participation in the system through mandation, how best to reach out to 6 million low-income employees
- **Structural Issue 3:** Reduce the number of funds to a manageable size; large standalone and multi-employer funds the way to go
- **Market Conduct Issue one:** simple, standardised, and suitable products
- **Market Conduct Issue Two:** Defaults are the way to go
- **Market Conduct Issue Three:** Deal with perverse outcomes associated with certain type of remuneration, eg commissions and penalties
- **Market Conduct Issue Four:** Agree on a standard measure for charges to enable comparison and monitoring
- **Market Conduct Issue Five:** Disclose everything, in a simple way

Thank you

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