

MEDIA RELEASE ON TECHNICAL DISCUSSION PAPERS ON PROMOTING HOUSEHOLD SAVINGS AND RETIREMENT REFORM

The National Treasury today releases two technical discussion papers on promoting household savings and reforming the retirement industry. These papers expand on issues raised in the overview document on retirement reform, *Strengthening Retirement Savings: Overview of the 2012 Budget Proposals*, which was released on 14 May 2012. The overview paper put into context the technical discussion papers, of which the first two are being released today for public comment and consultation.

At its meeting of 19 September 2012, Cabinet noted that the promotion of household savings and the reform of the retirement industry were aimed at assisting and incentivising South African households to save more, particularly for their retirement, and to better preserve and grow their pensions.

“Final proposals will only be made after the consultation processes are completed, and will also consider how best to protect vested or accrued rights of current retirement fund members. These urgent interim retirement reform measures will complement the more fundamental and comprehensive social security reforms,” Cabinet said.

The two papers released today are, *Enabling a better income in retirement*, and, *Preservation, portability and governance for retirement funds*, (Papers B and C, respectively).

Enabling a better income in retirement

The paper examines the options facing a member of a retirement fund on retirement. It examines the products on offer that will provide an income after retirement, and provides an overview of the current annuities market. It examines the various products in detail and presents several options for reform.

- **A Living Annuity:** This is a complex product requiring financial advice and regular reviews, and exposes pensioners to investment risk (i.e. up and down movement in market prices) and longevity risk (i.e. pensioners outliving their retirement income). The proposal in this regard is to open up the market for Living Annuities to more competition, but simultaneously regulate them more tightly. Further, retirement funds will be required to identify a default product, which has some longevity protection, into which members are to be automatically enrolled when they retire.

- **A Life Annuity:** This is an insurance product whose value-for-money is therefore difficult for consumers to establish, and may be expensive. The reform may also allow for a default combination product, which will incorporate some longevity protection but have more flexibility than a standard Life Annuity. This paper does not deal with costs of retirement products before retirement, which will be dealt with in a separate paper to be released by the end of October (Paper A, “Retirement fund costs”).

Preservation, portability and governance for retirement funds

The paper deals with one of the major concerns of Government, that even those South Africans who save through pension or provident funds, do not save enough for their retirement. This is because many members of retirement funds tend to cash in their retirement savings before they retire (e.g. when they change jobs), and also spend their savings too rapidly after they have retired (i.e. lack of annuitisation).

The paper proposes various options to encourage preservation of retirement savings before and after retirement, with consideration for protecting vested rights. Besides requiring retirement funds to establish and enable a default preservation policy, the proposed options include:

- doing nothing now, but reconsidering the issue after the default policy has bedded down;
- preservation of two-thirds of new contributions and growth after the legislation date;
- accessing benefits only in the form of a monthly income;
- increasing the tax consequence upon withdrawal; or
- insist on full preservation of new contributions and growth after the legislation date.

Draft proposals to increase the portability of funds and strengthen pension fund governance are also proposed. The paper also presents options for requiring provident fund members to annuitise their balances when they retire, and for improving the governance over retirement funds. This paper will also be tabled at NEDLAC to seek broad consensus around a set of final proposals which will be presented early next year.

Two other papers, D and E, will be released by the end of September, *Incentivising non-retirement household savings* (dealing with tax harmonisation and a tax-incentivised savings products), and, *Simplifying the tax treatment of retirement funds*.

The two papers being released today are available on the National Treasury website (www.treasury.gov.za). Comments on these papers can be submitted by 16 November 2012, to the Chief Director of Financial Investments and Savings, Mr Olano Makhubela, Private Bag X115, Pretoria, 0001; or per facsimile to (012) 315 5206; or per email to retirement.reform@treasury.gov.za

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