national treasury

Department: National Treasury
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

Statement on the Impact of the Proposed Retirement Reforms

Government's proposed retirement reforms, including those relating to preservation of savings, are aimed at ensuring that pension fund members are better protected and can retire comfortably.

We have noted public concerns that are fuelled by rumours that Government will take away people's hard-earned pensions and prevent them from accessing their funds. These rumours are based on a misunderstanding of Government's proposals. We would like to assure citizens that Government has **no** intention to nationalise people's pension/provident funds or prevent them from accessing their money.

Instead, Government is proposing important measures to lower charges on the pension funds of workers, to ensure that they maximise their pensions. Government wants to encourage workers to keep their savings until they retire and to convert some of their retirement savings into income at retirement. Currently, only an estimated 6 per cent of South Africans are able to maintain their lifestyle and replace their income fully at retirement

These proposals have not been put into law. National Treasury is currently consulting widely on these proposals through several fora, including with labour unions, industry and engagements with the general public. It will take government at least two years before the proposals are made into law.

Low Household Savings a Major Concern

South Africa's national savings rate is low, and savings by households are the lowest. Saving helps households to retire comfortably and reduce excessive reliance on debt. It also enables workers to afford large expected and unexpected expenses like paying for education for children, medical care, and for putting down a deposit for a house. Lack of savings can also encourage excessive indebtedness.

Retirement savings are a very popular form of saving in South Africa. However, there are some major challenges that have necessitated the Minister of Finance to propose several key reforms announced in the 2012, 2013 and 2014 Budgets. National Treasury has consulted, and will continue to consult on the reforms using various channels such as Nedlac, workshops and retirement conferences.

Encouraging Preservation during Employment to Enable a Comfortable Retirement[1]

One of the challenges of the current system is that it makes it too easy for workers to cash out their retirement savings when they leave their employer or change jobs. For example, Old Mutual states that 93.5 per cent of members who were paid withdrawal benefits in 2013 opted to take cash rather than preserve their benefits.

This means that individuals end up not having enough money for their retirement because the money is not given sufficient time to grow. Government's proposals seek to encourage pension fund members to preserve their money in their own funds (with old or new employer), or with a financial institution when they change jobs, and to also allow some access to the funds.

Government is **not** proposing that people's current and new retirement savings be kept, saved or preserved with Government (construed as "nationalisation") or be used to fund Government projects (referred to as "prescribed assets").

Importantly, the public is assured that, should these preservation proposals become law, the legislation would not be implemented retrospectively. This means that workers would be able to access fully all the money they would have saved up to the date when new law comes into effect or the new rules taking effect (i.e. "protection of vested rights"). The public is further assured that once the new rules come into effect pension fund members will still be able to access a portion of their savings contributed after the implementation date of the new rules.

Encouraging Annuitisation to Enable a Better Income in Retirement[2]:

Currently, members of **provident funds** get their entire accumulated retirement money as cash at retirement and unless this cash is saved such that it provides income for the duration of a member's life this arrangement can leave retirees vulnerable to poverty in later years. Government seeks to encourage members of provident funds to take a major portion of their retirement money as monthly pension payments instead of a once-off lump sum.

This Government proposal, which was extensively consulted on, is now a law contained in the Taxation Laws Amendment Act No. 31 of 2013. However, this alignment between provident and pension funds will take a long time to have its effect and will not negatively affect provident fund members who are currently close to retirement.

All provident fund members will, therefore, still be able to take **all** their retirement money they would have accumulated up to 1 March 2015 as a cash lump sum when they go into retirement.

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[1] Also called pre-retirement preservation.
[2] Also called post-retirement preservation.