MINISTRY OF FINANCE

REPUBLIC OF SOUTH AFRICA

KEYNOTE ADDRESS OF THE MINISTER OF FINANCE

AT THE NEDLAC PENSION FUNDS TRUSTEES CONFERENCE

SANDTON CONFERENCE CENTRE

29 OCTOBER 2004

Good morning distinguished guests, ladies, gentlemen, and fellow trustees.

I would like to dedicate this conference to the spirit of Philemon Mashegoane – a self-employed ice cream vendor who voiced the objections of ordinary shareholders to the resolutions proposed by the board of directors of Johnnic at Wednesday's annual general meeting.

Mr Mashegoane embodies a spirit of shareholder activism that is sadly lacking in South Africa. He has demonstrated the spirit of ordinary citizens who are prepared to stand up for their rights in the face of those with far greater power.

He has demonstrated the spirit of those who are willing to ask simple questions in response to a barrage of complex information and sophisticated finance-speak.

This is the spirit which I would like to see guide this conference over the next two days. Because, in spite of how the issues of retirement funding are often blurred by the jargon of actuaries and money managers, the underlying principles are in fact very simple.

If we go back to first principles, wealth accumulation for people in their retirement and successive generations can only occur through savings. There may be the occasional windfall – my colleague, the Registrar of Pension Funds, may perchance win the Lotto tomorrow – but this is clearly the exception. Generally, wealth has to be slowly and conscientiously accumulated.

Thus, achieving the goal of financial security for all our people requires appropriate savings vehicles. This simple fact underscores the critical nature of retirement funding - and the heavy responsibility that trustees must bear.

Traditionally, provision for retirement has been a shared responsibility of the employer and the employee. This has changed in recent years, in that employers have stepped back from the role of providing a defined benefit on retirement based on earnings and have left the provision of adequate retirement savings to the devices of others. The shift from defined benefit funds to defined contribution funds has been a worldwide trend. In the former, the employer carries most of the risk, while in the latter the risk is largely shifted to the worker.

It is in this context that trustee accountability to the interests of beneficiaries becomes paramount. This is a doubly difficult task because, just like Philemon Mashegoane, elected trustees are asked to be the figurative David pitted against the Goliath of wealth, power and knowledge that fund managers represent. They talk in a language that is hard to interpret; they dazzle the mind with impressive spreadsheets and presentations; the unscrupulous among them can lure workers from the path of steadfast saving with promises of get-rich-quick schemes and opportunities of luxury.

At the same time, these professionals are among the most highly paid in the country. Yet, they put none of their own capital at risk. Rather, other people's money is put at risk, often with a seeming disregard for the relationship between performance and the bonuses that should be paid.

It is a failure of the system if money managers are paid huge sums to move money around while nobody but the workers themselves suffer the costs of underperformance. It is a failure of the system if high fees can be hidden behind the excuse of market vagaries.

This is the challenge that is put before trustees. It is up to you to equip yourselves with the skills and knowledge that you need to challenge this system and maximise the wealth of the members you serve.

The role of Government and the Financial Services Board is to assist you in this challenge, by creating an enabling environment to tackle deficiencies in governance, transparency and access.

The current Pension Funds Act has been around a long time, since 1956 in fact … a true dinosaur of the apartheid era! Over the years, there have been a host of amendments, attempting to keep pace with the evolution of the retirement fund industry.

The time for continual partial amendments has passed. We have begun a holistic review of the retirement funding industry and legislation. Government is in the process of finalising a Principles Document to deal with key policy challenges facing the industry.

The difficulties you encounter in the day-to-day management of retirement savings; and the powers and abilities you identify as being necessary to equip you in the future; will provide an important input into our policy deliberations. This conference forms part of the extensive consultation that will go into this document. We plan to hold a round table discussion with stakeholders before the end of November. The Principles Document will be open to review and discussion, and will form the basis on which stakeholders can make representations, prior to Government commencing with the drafting of new legislation.

In the short space of time I have generously been allotted to address you, I cannot give you a comprehensive list of issues to consider. I can, however, provide you with broad areas of focus that should be debated amongst yourselves – noting that these are in addition to the fundamental issue of the education of Trustees.

Kindly permit me to identify these areas, and indulge me as I sketch some of the landscape for you:

The first issue is **access**. The basic challenge posed here is: do people have adequate access to a retirement funding vehicle, and connectedly, how can this be improved? Here we must not restrict ourselves to consider only those in formal employment, but also possibly consider those individuals in South Africa's growing informal sector, and those who only work on a part-time basis.

We could ask a related question: Should there be a special retirement funding vehicle for those in the informal sector who wish to contribute to a fund, but can only make irregular contributions?

Linked to access is the matter of compulsion. In your deliberations, you should decide whether any form of compulsion should be allowed. For instance, should an employer be compelled to offer access to a retirement fund for all employees?

Access issues are in a sense fundamental to the entire retirement system. We must consider them carefully, not in the least, for the reason that we believe no person should be denied the opportunity to provide for his or her retirement.

The second crucial matter to consider is **regulation**. Under this header, a myriad of issues may be classed. These importantly include fund governance, trustee conduct, member protection, the powers of the regulator, and investment regulation.

The last item mentioned, investment regulation, on its own requires careful attention, especially in the context of defined contribution retirement funds, where member benefits on retirement are a function of the investment performance of the fund.

Currently Regulation 28 of the Act governs how funds should invest their monies. The out-datedness of Regulation 28, and the degree to which it can be cleverly by-passed require study and review. The ultimate objectives in this regard would be to protect the contributions toward retirement, and ensure that those contributions grow at an acceptable rate of return.

Thirdly, let me briefly discuss the area of **benefits**. Basic questions need to be answered here: What benefits should a fund offer, and when should there be access by a member to his or her benefit?

There are a host of other issues under benefits which must be considered in constructing a suitable retirement funding framework. These include, amongst others, unclaimed benefits, a member's benefit on death, disability and early withdrawal, the distribution of surplus, and even divorce.

These are weighty issues and therefore I shall not keep you much longer from your deliberations, but allow me the luxury of a summary. Any serious discussion of retirement funding must explore in some detail, matters of access, benefits, and regulation. South Africa's current retirement funding system is sound and does not require radical reform.

Deficiencies however do exist, and these we must address to ensure not only that we have a modernised Act which can lead us into the future, but also one that facilitates access to retirement vehicles for all sectors of our population.

The growth and maintenance of savings lies in your hands. In short, trustee negligence means that the objective of creating wealth for old age and future generations simply cannot be obtained. Should we fail to execute these duties with the seriousness that they deserve, we shall be judged harshly by future South African generations.

May the spirit of Philemon Mashegoane guide you in your deliberations.

Thank you.