MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

Minister of Finance

Honourable Nhlanhla Nene, MP

Parliamentary Statement on Retirement Reforms and Rumours

4 September 2014

Madame Speaker, recent anecdotal evidence suggests that some employees are resigning from their jobs in order to cash their pension and provident funds. We are not sure at this stage how widespread this phenomenon is, but Cabinet discussed this problem at its meeting of 20 August 2014 and issued a statement to assure all members of retirement funds that their pension and provident funds are safe, and there is no need to resign from their jobs and cash in their pension and provident funds.

Government respects the fact that these retirement funds belong to their members. Government has never had, and does not have, any intention to nationalise these funds. Rumours to this effect are a blatant lie.

So are the rumours that Government has changed the laws on preservation before retirement. While Government would like to see members preserve their retirement funds until they retire, Government has not changed the law to force members to preserve until retirement. Employees still have the right to cash their pension and provident funds when theiy resign their jobs. Were Government to change such laws, such changes would always recognise vested rights. We will NOT change any such laws or rules retrospectively. Rumours that Government has changed the law to force members of pension and provident funds to preserve are false.

There can be nothing as risky as people resigning from their jobs to cash in their retirement funds and end up being unemployed and losing their security of an income. Such risks are not worth taking, under any circumstances. Let alone to resign from their jobs when the reasons informing such a decision are false.

Government is equally concerned that members of the GEPF are reportedly resigning from their jobs even though there is no change at all to the GEPF and its laws. Teachers, health workers, members of our police service have no need to resign their jobs to cash in their pension funds. Their pensions are safe and their access to their pension funds has not been changed by any law. Members of the GEPF will always be entitled to a gratuity (lump sum) and annuity, as per the GEPF rules.

Madame Speaker, we do not know the underlying reasons why workers and employees are resigning from their jobs on the basis of false rumours and information, but we believe that the underlying reasons could be rooted in deeper reasons, like the fact that many workers may be over-indebted.

Individuals not saving enough and are highly indebted

Madame Speaker, the challenge is that South African households seem to be struggling to save, with our households' savings rate standing at a worryingly low level of 1.7 percent of GDP in 2013.

Our low household savings rate is also reflected by the high indebtedness incidence amongst many of our workers, including many Government employees. Household debt as a percentage of disposable income rose from about 50 percent in the early 2000s to above 80 percent during the Global Financial Crisis. This ratio remains high at around 75 percent. Many of our people are overly-indebted and susceptible to income and price shocks.

Madame Speaker, is all retail credit bad to the economy and households? No, Madame Speaker, we are not saying all retail credit is bad, only some of it is bad, especially that credit which is meant to fund short-term or excessive consumption and which does not meet the affordability test. What we, and Cabinet, are saying is that we do need to ensure that there is responsible lending and borrowing, and that there are robust regulatory checks and balances to protect workers, pensioners and the most vulnerable members of our society against reckless credit and unfair garnishee orders, as examples.

Challenges in our retirement system

Madame Speaker, is our current retirement system working perfectly? It is working and it is not broken, but does have cracks which need urgent fixing. The challenge is that even if South Africans save, mainly through their retirement funds, they are very quick to withdraw and spend their retirement savings when they change jobs. This leaves most of us vulnerable in our retirement as we would not have accumulated enough savings to retire comfortably. It is estimated that less than 10 percent of workers in South Africa will be able to retire comfortably.

Certain funds, like provident funds, do have weaknesses, as the default is for retirees to take all their benefits as a cash lump sum in retirement, and spend it quickly.

Certain retirement products carry high charges, which are borne by members, and are difficult for members to understand, often deliberately so. Madame Speaker, we realise that it does not help much asking workers to save when their savings are going to be significantly reduced by service charges or costs, which are borne by the members. Our research shows that charges can reduce up to 40 percent of the return in retirement funds. We have, therefore, embarked on a process to engage with the retirement industry in terms of resolving some of the complex cost issues to ensure that saving is a worthwhile effort, especially if saving for retirement, which is a long term goal.

The governance of certain funds also leaves much to be desired, because of the lack of sufficient training and skilling on some of the individuals who are tasked with managing retirement funds, namely trustees. The proper management and supervision of our retirement funds is critical, as South Africa has the fifth largest retirement industry in the world in terms of assets.

What Government has done so far?

Madame Speaker, has Government looked aside and ignored the above challenges? No, it would be irresponsible of Government to do so. In fact, it is within the above context of low household savings, high indebtedness and challenges in the current retirement system, that Government has embarked on a programme, which started in 2011, to reform the retirement industry with the sole aim, and I repeat Madame Speaker, sole aim, of benefitting the workers by ensuring that they save for their retirement, that the retirement system is simpler and meets workers' needs at lower cost, that workers get higher pensions by leaving money in the retirement system for longer, and that workers are encouraged to receive both a lump sum and a monthly income after retirement.

Madame Speaker, Government has not sat and cannot sit down and ignore the above challenges. Some of the above issues have been addressed and enacted into law. The Financial Services Laws General Amendment Act of 2013, after broad consultations with the public and passed by Parliament, now criminalises the non-transfer by employers of workers' contributions into retirement funds. The Act further requires trustees of pension funds to obtain sufficient skilling and training upon appointment. The law now protects whistle-blowers, and explicitly requires trustees to exercise duty towards the fund and its members.

The Taxation Laws Amendment Act of 2013, which was also thoroughly consulted on and passed by Parliament, simplifies the tax treatment and harmonises benefits of retirement savings, and provides enhanced tax incentives for workers irrespective of what type of retirement product they use. The Act also aligns provident funds and pension funds by requiring that provident fund members annuitise (that is convert into a monthly income) a portion, at least two-thirds, of their benefits when they go into retirement. The Act protects vested rights, so that the new dispensation does not apply to contributions made before 1 March 2014. The annuitisation will also take many years to take effect, as it also excludes amounts below R150 000 from being annuitised or converted into an annuity. Neither will it apply to members over 55 years. These annuitisation changes do not affect employees of Government, as these are already the practice for all pension funds. Madame Speaker, whenever we engage with the public on the need for saving, we are always confronted by the question of why we even tax savings, especially discretionary savings. We have taken heed and announced that we will enable Tax Free Individuals Savings Accounts to be offered in South Africa for the first time next year. We hope South Africans will take advantage of these initiatives and save beyond just for their retirement, but also for their children's education, deposit on houses, or emergencies.

Madame Speaker, many of the above proposals mentioned above are summarised in more detail in documents available on the Treasury website www. treasury.gov.za. In particular, the document published on 14 March 2014 entitled "2014 Budget update on retirement reforms" offers a comprehensive summary of reforms that we have put in place, and that we will consult on in the future.

The issue of preservation before retirement and current misguided resignations

Madame Speaker, I met with the Leaders of Labour Unions, Business and Community last week, and we all agreed that we should speak up against and discourage the recent spate of premature resignations taking place based on false information and rumours. Some of these wild rumours are that the new legislation intended to come into effect next year on 1 March, which I have talked about above, will prevent workers from accessing their money when they change jobs. There is also false information and rumours that Government is about to nationalise pension or provident fund savings.

Madame Speaker, the laws intended to come into effect next year do <u>not</u> in any way prohibit members of pension or provident funds from taking their retirement benefits as cash lump sums when they change jobs or resign. In fact, there is currently no law, whether in Government or private sector, which forces the preservation of retirement savings before retirement or upon resignation. This issue is still to be discussed in Nedlac, and we will only proceed after such consultations have taken place Nedlac. What Government has done, so far, is to propose measures which could assist workers in keeping their retirement savings longer in the system so that they can continue enjoying the tax benefits and realise growth on their retirement savings. It is important to caution workers who prematurely resign because of false information and rumours because their withdrawals from retirement funds will be taxed as per the current tax rules. Secondly, that they might find it very difficult to be re-employed.

Conclusion

Madame Speaker, to conclude, are workers' retirement savings under threat? The answer is No. As Cabinet stated about two weeks ago, workers' retirement savings are safe, and remain under the management of their trustees. There is no reason for workers to panic and prematurely resign to access their retirement savings. This money will always belong to them. Government related retirement schemes like the Government Employees Pension Fund are not even affected by the annuitisation law seeking to come into effect next year.

Madame Speaker, we appeal to everyone to be calm and not make misguided decisions based on wrong and misleading information. We appeal also to financial services providers to give unbiased and accurate advice to their prospective clients, and not to take advantage of their fears. We appeal to trustees to inform and educate members of their funds of the facts surrounding retirement reforms. We appeal also to Government's Human Resource departments at national, provincial and local level to provide employees with all the accurate information they need regarding these retirement reforms, and to also counsel employees on the dangers of excessive debt and cashing their retirement funds prematurely. Pamphlets and Circulars will soon be widely circulated to assist employers in communicating the correct message.

We also acknowledge, Madame Speaker, that at the end of the day, it is hard to ask individuals to save when they might not have jobs, or are under daily pressures of having to provide for themselves and their families, but it is still worthwhile to make an effort irrespective of our financial circumstances.

Are we reneging from our commitment to provide social security in old age? No, Madame Speaker, but we are saying that even though the current social security system is working very well, it still has to be funded. However, we do want to encourage South Africans, especially those who have been fortunate to work, to not solely rely on the old age grant system for their retirement. Madame, Speaker, we hear of real life harrowing stories about relatives, acquaintances, colleagues, who once had the opportunity to work and save for their retirement, but because of lack of the right defaults in law, lack of objective financial guidance and advice, lack of preservation and annuitising their retirement benefits, and reliance on rumours, they have found themselves trapped in old-age poverty and having to <u>solely</u> rely on social grants.

The reality, Madame Speaker, is that globally people are living longer, especially in retirement, because of medical technology and enhanced living standards. It is, therefore, imperative to assist people in making the right decisions while they are working and when they are about to retire. International research and behavioural economics provide overwhelming evidence of how the right defaults can assist people in making the right decisions. These are complex decisions to make since were are never certain how long we will live and how much we will need in our retirement.

As Government, Unions, Community and Business, we have committed ourselves to continue our communication campaign to spread the correct message to the public, and to inform workers not to be scared about these reforms, as they only seek to assist them in their goal to save for retirement and to enjoy a decent life in retirement.

Thank you