Comments from the De Beers Pension Fund on the Retirement Fund Reform Discussion Paper

PRINCIPLES OF RETIREMENT REFORM

Objectives of retirement funding policy, Modernisation and reform

The De Beers Pension Fund (DBPF) has noted, and agrees specifically with, two of the fundamental objectives of Government's retirement policy, namely:

“ (1) Encourage individuals to provide adequately for their own retirement and the needs of their dependants.
(2) Encourage employers and employees to provide for retirement funding as part of the remuneration contract.”

We have further noted and support the comment by the NTTT that “too many people reach retirement age without adequate retirement savings”. This would suggest that the existing mechanisms in place are not effective.

The DBPF therefore believes that substantial reform is required and suggests that any measures taken are specifically designed to meet these objectives.

Access, compulsion and preservation

The DBPF supports the National Treasury Task Team's (NTTT's) recommendation for a National Savings Fund that would allow irregular savings, particularly for the large informal sector. Furthermore, it is suggest that –

- some form of government subsidy for the poor be considered (a percentage of contribution), and
- the National Savings Fund be privately administered.

We note that over the past two decades a number of countries have opted for mandatory privately managed funds. The DBPF supports such a system, with compulsory preservation. It is our suggestion, however, that the existing international models be investigated thoroughly with the objective of implementing a similar RSA solution.

The challenge will be to adequately incentivise the population to participate in the process and thus reduce the reliance on government for post-retirement income.

Benefits, contribution rates and member protection

The DBPF supports the NTTT's observation that initiatives to improve education and governance in this regard is important and believes that Government should consider introducing appropriate education on retirement provision in the secondary school curriculum.

The challenge will be the education of those individuals who have a limited formal education.

The DBPF agrees that the new Act should provide for the identification, tracing and payment of unclaimed benefits to former members and/or their dependants. **Members and funds** should have an obligation to provide/obtain updated information (cell phone numbers etc.).

It is submitted that there needs to be a balance between regulatory requirements of funds and the related administrative costs - particularly in the case of DC funds.

Fund Governance and Regulation

The DBPF supports the recommended regulatory powers but believes that formal independent appeal structures should be set up.

While we agree that there should be limitations in terms of where funds may invest, it is our view that there should be wide consultation with all role players in the industry to obtain a broad consensus on best practice. When limitations have been decided on, the reasons for each limitation should also be widely publicised.

Conclusion

The DBPF notes with concern the absence from the discussion paper of any consideration of the tax proposals. We believe that these would be fundamentally important for a holistic view to be taken to achieve the broad objectives referred to in this document.

Annexure 1

THE SOUTH AFRICAN RETIREMENT FUNDS LANDSCAPE

The DBPF notes that the NTTT appears (in calculations, notes etc.) to make reference to a normal retirement age of 65. In the mining sector the average normal retirement age is 60 and, with the diminishing mineral resources in the country, more employees are taking retirement between 50-59 years of age. It is suggested that the statistics be investigated further and the figures be updated accordingly, if necessary.

2.4 Replacement Rates

It is submitted that a contribution rate of 10% of payroll going towards retirement appears to be significantly inadequate (in other words, we believe a 10% contribution rate is too low). We would suggest that, with 35 years' membership of a fund, one should have 70-75% of the pre-retirement income as a retirement benefit (consistent with the NTTT's view on p30). In viewing the table on page 15, even the projections using the 12% rate appear to generate an inadequate replacement rate.

2.1 Leakage

One of the major observations that the NTTT has made with regard to leakage is that employees do not reinvest retirement savings on withdrawal. The DBPF strongly supports the concept of compulsory preservation of at least 75% of retirement benefits.
This is consistent with the Botswana model and it is suggested that the Botswana model be considered in this regard.

The DBPF further believes that access to the 25% should be discouraged through some form of penalisation.

Annexure 2

ACCESS, COMPULSION, AND PRESERVATION

1. Compulsion

The DBPF does not support the statement in annexure 2 that “without compulsion, a private retirement fund system has flourished”, and for the following reasons:

(a) The DBPF does not believe that coverage of 66% - 84% of the formal sector is acceptable. Notwithstanding the unacceptable leakage referred to above, it would appear that the contribution rates currently allocated to retirement are inadequate. We would suggest that a minimum contribution rate be agreed upon and legislated.

(b) In view of most people’s attitude towards optional saving for retirement, we do not believe that the recommendations with regard to education and the provision of payroll facilities (outlined under point 1.6.1.2) will give the desired outcome of this sector contributing to a retirement fund.

2. National Savings Fund

The DBPF strongly supports the NTTT’s recommendation for the formation of a National Savings Fund. However, we believe that a form of government subsidy should be applied to contributions made by individuals from the informal sector, to incentivise participation. We are further of the view that any subsidies paid should be taken into consideration when calculating the amount of any social old age pension payable on the retirement of the individual concerned.

The comment regarding Retirement Funds Tax not being applicable to the NSF creates an anomaly and further supports our assertion that a holistic review of RFT is essential.

3. Differentiation

We support the National Treasury Task Team’s recommendation that conditions for favourable tax treatment should be harmonised.

We do not support the recommendation in 3.5.3.2.

4. Individual Retirement Funds

We support all the National Task Team’s recommendations in this section.

6. Ancillary benefits: insurance on death and disability; funeral benefits and post-retirement medical aid subsidy

We support all the National Task Team's recommendations in this section.

Annexure 3

BENEFITS, CONTRIBUTION RATES AND MEMBER PROTECTION

1. Adequacy of Retirement Benefits

In view of Government's objective for retirees to achieve a retirement benefit of 75% of pre-retirement earnings, the DBPF wishes to reiterate its views that -

- membership should be mandatory in the formal sector;
- a minimum contribution rate to retirement savings to ensure a target of 75% of pre-retirement earnings being achieved be prescribed, and
- compulsory preservation be introduced via legislation.

While the DBPF agrees with the recommendation regarding tax deductibility, it does not agree with the inference in 1.2 that contributions to retirement savings commencing at age 40 will generate an adequate income in retirement. In addition, we are concerned that this may send out the wrong message, namely that saving for retirement can be put off until much later in life.

The DBPF agrees with the objective in point 1.1.2.1 regarding the retention of the purchasing power in the face of inflation, however, it must be subject to affordability.

2. Pension Increases

We support all the National Task Team's recommendations in this section.

3. Benefits Available from a Retirement Fund

3.5 Minimum rates of contribution

As previously stated, the DBPF does not agree with this approach, but believes that minimum rates should in fact be prescribed.

3.7 Form of Benefit Payment

The DBPF supports the recommendation of the NTTT. However, clarity should be provided regarding the term "modest", referred to in point 3.7.2.

3.12 Preservation and Portability

The DBPF agrees with the recommendations made in point 3.12, but with reference to point 3.12.3.6 believes that leakage could occur through "deliberate default". We therefore believe that a guaranteed amount should be limited, or a mechanism should be introduced to ensure that the "guarantee" paid as a result of the member defaulting on his/her loan, be repaid to the fund over an agreed time period.

3.13 Interest on Late Payment of Benefits

The DBPF believes that interest on benefits should be capitalised and treated as part of the preservation benefit. As such, this portion should also be preserved tax free.

3.14 Unclaimed Benefits

The DBPF would support a recommendation to establish an unclaimed benefits fund. However, this would be subject to the fund being privately administered and there being appropriate governance structures to ensure accountability of the funds.

3.15 Access to Retirement Savings During Employment

The DBPF supports the recommendation of the task team that retirement fund resources be used as collateral, but then for **low income earners only**.

3.15.2 Other life crisis needs

The DBPF does not support withdrawal from the National Savings Fund prior to retirement, as it contradicts our belief in the need for compulsory preservation (except for a limited amount on withdrawal and default on housing loan guarantees).

3.16 Deductions

Should the recommendation for compulsory preservation not be accepted, then the DBPF believes that, on withdrawal, current 37D deductions should continue to apply.

3.17 Divorce

The DBPF agrees with the Task Team's recommendations in this section.

3.18 Payment of benefits on Death

The DBPF supports the recommendations of the National NTTT with regard to the payment of benefits on death.

3.19 Payment of Benefits on Disability

The DBPF supports the recommendations of the NTTT with regard to the payment of benefits on disability.

Annexure 4

GOVERNANCE AND REGULATION

1. Powers of the Regulator

The DBPF supports the recommendations.

2. Statistical Reporting by Funds

The DBPF would support this initiative. However, we believe that consideration should be given to the costs involved, particularly with reference to defined benefit funds where expensive actuarial services may be required to extract the required information.

4. Dispute Resolution

The DBPF is in agreement with the recommendations.

5. Governance and Trustee Conduct

The DBPF supports all the recommendations in point 5.6. In addition, we believe that point 5.6.14, dealing with disclosures relating to any payments to providers of services or products, should be expanded to include 'related parties' .

With regard to codes of good practice (point 5.6.16), an industry body for Fund Trustees should be established and this body should be required to draft a code of conduct.

It would appear that point 5.6.19 applies only to DC funds.

6. Intersection of Labour Law and Pensions Law

The DBPF believes that, with reference to Section 6.5, further consultation with the industry is required. Individual contracts of employment could be impacted on by statements made here.

7. Investment Regulation

The DBPF agrees with the recommendations in 7.6.1 and 7.6.2, provided that these would be suggested benchmarks and not enforceable, as Trustees may make informed decisions by using other benchmarks.

The DBPF agrees with the recommendations in 7.6.5 that the number of portfolios should be limited. However, 3 to 5 may be too few. Especially within a structured lifestage investment model, more portfolios should not result in member confusion.

8. Funding and Calculation Techniques

The DBPF believes that the proposed requirement to value the pensioner liabilities every year (8.4.2) is too frequent and would result in an unnecessary increase in costs ,with no corresponding benefit. The DBPF believes that performing a valuation every three years would be sufficient.

The DBPF supports the requirement on the regulator to establish an actuarial review committee (8.4.3), and furthermore believes that it is important for such a committee to be in regular consultation with the Actuarial Society of South Africa.

9. Winding Up

The DBPF does not agree with the establishment of a pension guarantee scheme and believes that the provisions of points 9.3.3.1 and 9.3.3.2 should apply.