As corporate and individual benefit advisers, we compliment Treasury on the excellent work done. However, these are the following aspects which we are concerned about and believe should be approached with great care so as to avoid disruption of labour and the retirement funding system:

3.12.3.1 : Compulsory preservation on withdrawal (resignation, retrenchment, dismissal etc)

No doubt Treasury will well recall the national strikes in the early 1980's when the previous regime attempted to introduce compulsory preservation - desirable as it may be to prevent leakage, it is unrealistic to attempt to introduce this "all at once". Many former employees have been forced to use this money while they try to find other work, or even to start their own businesses (including supposed "fat cats" such as me) - and to take this away completely will most disadvantage the lower earners.

Instead, we recommend

(a) Compulsory preservation of employer portion
(b) NO compulsory preservation of employee portion

provided that difference between the current cash withdrawal benefit at the date of implementation of the change, and the employer portion, should be included in the employee portion with no provision for growth thereon thereafter. This is to smooth in the implementation and ensure that there are no retrospective disadvantages to retirement fund members.

3.7.3.1 : Retirement Benefits to largely paid as a pension (NOTE impact on provident funds)

Again, highly laudable but a little thin on details. To avoid retrospectively disadvantaging current retirement fund members, we recommend:

(a) An annual TAX FREE cash limit equivalent to the capital value of the State pension, to be set by Treasury (eg R120,000)
(b) subject to a minimum of the cash lump sum benefit applicable at the date of the change in legislation. This is to smooth in the implementation and ensure that there are no retrospective disadvantages to retirement fund members.

Other Points of concern to us upon which we comment include:

- 6.5.2 Post-retirement medical aid pre-funding - your proposals only make provision for an "employer" reserve, implying that employers will do this. In our opinion, this is extremely unlikely and far more likely that individuals will want and need to make provision for this themselves, either via group retirement vehicles or personal retirement annuity funds. **We therefore recommend that the concept be extended to provide for member contributions.**

- 3.5.2.2 / etc : Disallowing grade differentiation, top hat arrangements - in our opinion this is driven by socialist ideology and has nothing to do with the reality of trying to attract and tax efficiently remunerate top managers and executives of all races. If there must be forced equality (between whom? at whose cost?), then it should only apply to the "core" benefits of schemes and NOT to the flex benefits which either employees can buy up for themselves, or their employer can buy up for them.

- RFT - this is a regressive tax and effectively pushes the cost back into social pensions. It should be removed in March 2006 completely.

- **Simplification of Tax-Free portion of cash benefits:** The current amounts (eg R1800 on withdrawal) are ridiculously outdated and should be amended to a far simpler structure applicable to all cash benefit events - perhaps equal to the annual state
pension capital equivalent (R120,000) on all circumstances referred to in 3.7.3.1 above

- **Deductibility of contributions** - all group risk and retirement benefits should be tax deductible, including Disability Income, Dreaded Disease benefits etc - up to at least the level of 22.5% proposed in the Katz reports. For simplicity sake, and to cater for the self employed, we would submit that this limit should be applied to the aggregate of employer and employee contributions to ALL retirement funding vehicles - group, personal or otherwise. Some allowance should be made for individuals who start funding benefits later in life - in other words, not forcing these people to rely on the State's social pensions by allowing to fund at a higher rate to make up for earlier lost time on a pre-tax basis.

- **Pigs (Investment Guidelines)** - a review is necessary to ensure that these are in line with the objective of adequate security and different investment and investor risk profiles.

We are not convinced that a National Savings Fund will necessarily be particularly cost effective nor efficient at relieving the State of any of its social pension obligations - although we do support the concept that any tax incentive to increase Savings in South Africa will benefit the economy. However, we believe this should not necessarily imply only cash or banking accounts - mutual funds often have lower charges where they are direct and not managed by multiple parties.

Every success with this overdue reform!

Regards

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