

1. I refer to the discussion paper on Retirement Fund Reform dated December 2004. I am responding, in my personal capacity, to your invitation to comment thereon.
2. The discussion paper is well researched and articulates a wide range of debates coherently. In my opinion, however, there is a significant omission from the issues debated. The role of retirement funding policy to date in shaping the landscape does not seem to have been acknowledged. The landscape is presented in Annexure 1 without substantive analysis of the reasons for the "dramatic transfer" from defined benefit to defined contribution schemes. In my opinion, this transfer is primarily attributable to the last policy shift in respect of retirement funding.
3. The policy bias (now so evident in the Pension Fund Second Amendment Act) against employers who sponsor defined benefit schemes must have driven the dramatic transfer. Employers have been pushed to the front of the queue for the downside, and yet to the back of the queue for any upside. The policy is so overtly biased that it must have been deliberately formulated, and yet it is not clear whether the demise of defined benefit schemes was an intended consequence, or an unintended one. Paradoxically, the discussion paper proposes that a salary replacement ratio is the best way for the policymakers to now set a targetted measure for retirement benefit adequacy. A targetted salary replacement ratio is very much more likely to be achieved in a defined benefit fund than in a defined contribution one. The patently unfair treatment meted out on sponsors of defined benefit plans in the 2001 legislation has thus killed the very vehicle that would be best suited to the new policy objective. Sponsors might well be happy (as they once were) to carry some of the downside risk inherent in guaranteeing adequate pensions (as measured by means of salary replacement) if there was some semblance of a fair balance between the downside and the upside.
4. The demise of defined benefit schemes should be easy to substantiate. Have any new defined benefit schemes been formed since 2001? How many defined benefit schemes have been closed or restructured since 2001?
5. For those defined benefit schemes that have survived against the odds, the policy bias has the effect of discouraging any conservatism in the funding level. Employers do not, and will not, seek to achieve a conservative funding level because any surplus is lost to them, and yet they remain liable for any shortfalls. The policymakers should be discomforted about ultra-long-term funds being run without any margin for error.
6. Please forgive me for the use of polemic. I do appreciate your invitation to comment, and I found that this was the best way to spare you from a long-winded submission.

Yours sincerely
Rick Tudhope

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