

MEDIA RELEASE

STRENGTHENING RETIREMENT SAVINGS: Overview of the 2012 Budget proposals

The Minister of Finance announced in the 2012 Budget that a series of technical discussion papers on the promotion of retirement savings will be released this year. These papers will deal with how best to ensure that South Africans have access to appropriate savings vehicles and that they make adequate provision for retirement. Today's release is an overview of the discussion papers to be released later this year.

The draft proposals in this overview focus on more urgent reforms to the retirement industry that will complement the longer-term social security reform that government will publish later this year. This overview also builds on the shift to a twin peaks system of regulation that government announced in the 2011 Budget, which will also lead to the establishment separate market conduct and prudential regulators.

Adequate retirement savings require an active public, an engaged government and an industry that is fit for purpose. There are currently a number of challenges within the existing South African retirement structure that negatively impact ordinary South Africans.

Despite the high membership rates for retirement funds and significant accumulated savings, only about 10 per cent of South Africans are able to maintain the same level of consumption they had before they stopped working. This is explained by the low levels of preservation of retirement savings.

Government is therefore proposing a number of measures to address this, for further public consultation. An overview of these draft proposals is presented in the document, *Strengthening Retirement Savings: Overview of the 2012 Budget Proposals*, which is being published today.

The National Treasury will over the next couple of months publish a series of more detailed technical discussion papers on these matters:

- *Retirement fund costs:* Small annual charges accumulate over many years and significantly erode retirement benefits. National Treasury is in this regard working on proposals which include increasing competition on the basis of price rather than design and encouraging the use of low-cost passive investment management.
- *Providing a retirement income:* Living annuities, which do not provide any longevity protection, are purchased by too many South Africans. These products also expose retirees to investment risk and potentially reduce income by up to 20 per cent. The paper reviews retirement income markets and measures to ensure that cost-effective, standardised and easily accessible products are available.
- *Preservation, portability and uniform access to retirement savings:* National Treasury is proposing to phase in preservation of accumulated retirement savings and consideration will be given to protecting vested rights. This will address the prevalent high pre-retirement leakage and ensure that workers have sufficient provision for retirement.
- *Savings and fiscal incentives:* This paper discusses how short- to medium-term savings can be enhanced and the dependency on excessive borrowing be reduced, through tax-preferred individual savings and investment accounts. It also discusses the design of incentives to encourage savings among lower-income groups.
- *Uniform retirement contribution model:* Proposes the harmonisation of tax treatment of contributions to and benefits from retirement funds (pension, provident and retirement annuity funds) to simplify taxation and contribution systems. The proposal will reduce the complexity of the current retirement system and achieve greater equity in the tax system.

“These are structural changes and a paradigm shift. At the end of day government has one interest and that is to ensure that the beneficiaries of the retirement process benefit substantially from their own savings,” said Finance Minister Pravin Gordhan.

Copies of the discussion document, *Strengthening Retirement Savings: Overview of the 2012 Budget Proposals*, are available from the National Treasury website (www.treasury.gov.za). Comments can be submitted by **31 July 2012** to:

The Chief Director of Financial Investments and Savings, Olano Makhubela, Private Bag X115, Pretoria, 0001; or per facsimile to (012) 315 5206; or per email to retirement.reform@treasury.gov.za

Further comments on the technical discussion papers will be taken at later submission dates in 2012.

Consultations will also be convened with trade unions, employers, retirement funds and the broader public to refine the draft proposals. National Treasury will arrange workshops with stakeholders, and take appropriate steps to inform and engage with the public.

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