



MEDIA STATEMENT

RELEASE OF TWO RETIREMENT REFORM DISCUSSION PAPERS FOR PUBLIC COMMENT

National Treasury today publishes two papers on proposed further retirement reforms for public comment. The first of these papers, entitled '**Encouraging South African households to save more for retirement**', follows from the recent announcement by the Minister of Finance in his November 2021 MTBPS speech (and following on previous announcements in the 2021 Budget), with regards to boosting household savings by increasing preservation before retirement and increasing flexibility through partial access to retirement funds through a "*two-pot*" system.

Government is sympathetic towards the difficulty many South Africans are currently facing due to the Covid-19 pandemic and has engaged with the regulators and other key stakeholders to work out relief measures for consumers. As a result, measures on contribution suspension and holiday, as well as expansion of access to living annuities were enabled to ease the plight of some members.

Even though retirement savings should preferably only be used for their intended reason, namely retirement provision, Government recognises that there might be a need to allow some access to accumulated retirement savings before retirement. It is for this reason that the National Treasury noted, in the Budget 2021 financial sector updates, the consideration to allow limited pre-retirement withdrawals from retirement funds under certain conditions, if this is accompanied by mandatory preservation.

The proposal currently being considered through the paper released for public consultation (i.e. '**Encouraging South African households to save more for retirement**'), is the introduction of a *two-pot* system, which will enable the restructuring of retirement contributions into two pots. One pot is to be preserved until retirement (two-thirds), while the other would enable pre-retirement access (one-third). Government is of the view that preservation of contributions must accompany such restructuring to ensure sufficient retirement provision and avoid old-age poverty as well as reliance on the state. Such restructuring will entail the protection of vested rights on accumulated retirement savings prior to the new *two-pot*

structure taking effect. The proposed restructuring of retirement savings into an accessible pot and a retirement pot will address the situation most members of funds find themselves in because of not having any alternative form of short-term savings. This has been exacerbated by the Covid-19 pandemic, resulting in some workers experiencing loss or reduced incomes.

Consideration is also being given to introducing automatic-enrolment (leading to mandatory enrolment) into the retirement system. Not all employers provide a retirement benefit for their employees. Unless these employees self-enrol in a retirement annuity fund, they are left with no provision for retirement. The Annexure to the paper introduces a brief overview on what can be done to ultimately have every working person in South Africa covered in some scheme for retirement or similar benefits.

The second paper, entitled '**Governance of umbrella funds**' seeks to improve governance in retirement funds in general, but particularly for commercial umbrella funds. Key amongst these is the deviation from the norm of having 50% employee representation in a commercial umbrella fund.

Comments to these papers are requested by 31st January 2022 and may be sent to retirement.reform@treasury.gov.za

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