

Real Issues in
Employee
Benefits:

*Retirement
Reform*

Presented by
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Introduction

- South African retirement system has many problems
- Reform has been on the cards since 1994
- Reform includes:
 - New NSSF
 - More regulation of private funds
- Principles: solidarity, mandatory participation, centralisation



In the Ring
with
Policymakers



Who is designing the new system?

- Interdepartmental task team – IDTT:
 - National Treasury (and SARS)
 - Department of Social Development
 - Department of Labour
 - Department of Health
 - Many more



Why is the Government redesigning Retirement?

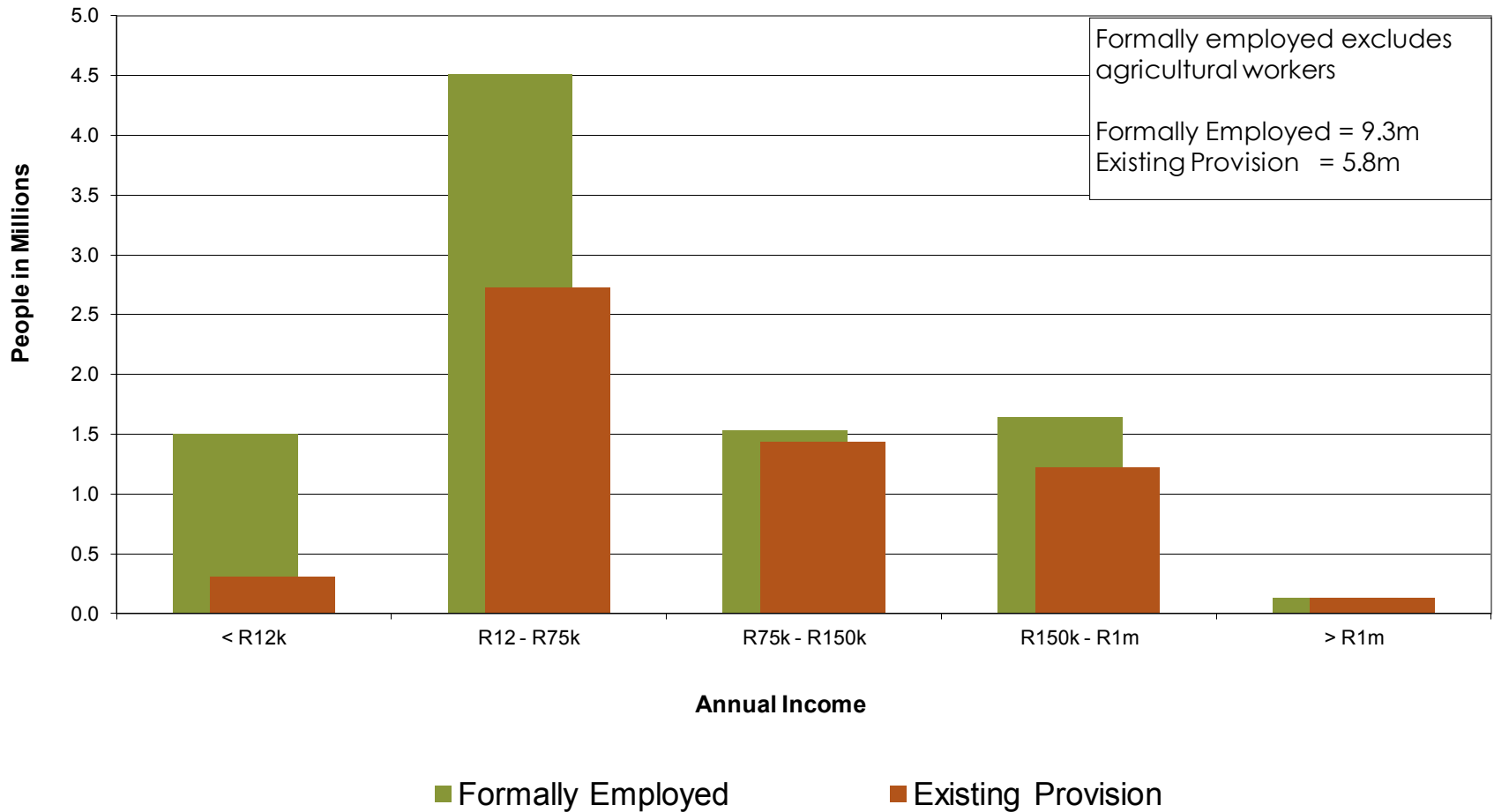


Problems with the current system

- Poor coverage
 - Voluntary membership
 - No compulsion to provide funds, no compulsion to join
 - Little provision for informal workers, self-employed, seasonal workers, farm labourers, etc



Coverage of current system



Problems with the current system

- High costs – erosion of value
- Lack of Transparency
- Governance and Compliance issues
- High-profile problems: bulking, fraud
- Lack of preservation



Lack of preservation

- 20% of members exit funds every year
- Average fund at retirement reduced by 67% due to non preservation
- Only 60% of funds >R1m are preserved
- 75% of young members earning more than R300k p.a. do NOT preserve

> What do employees in your company do?

NSSF Debate:
Blow by Blow



Reform Timeline

- 2002 – “Report of Committee of Inquiry into a Comprehensive System of Social Security for South Africa”
- 2004 – “National Treasury first Discussion Paper on Retirement Reform”
- **2007, February – “National Treasury Second Discussion Paper on Retirement Reform”.**



Reform Timeline

- No further official communication
 - Research commissioned and undertaken
 - Regular meetings of development team
 - Fundamental concepts reconsidered
- Next steps:
 - ministerial committee
 - NEDLAC (National Economic Development and Labour Council)

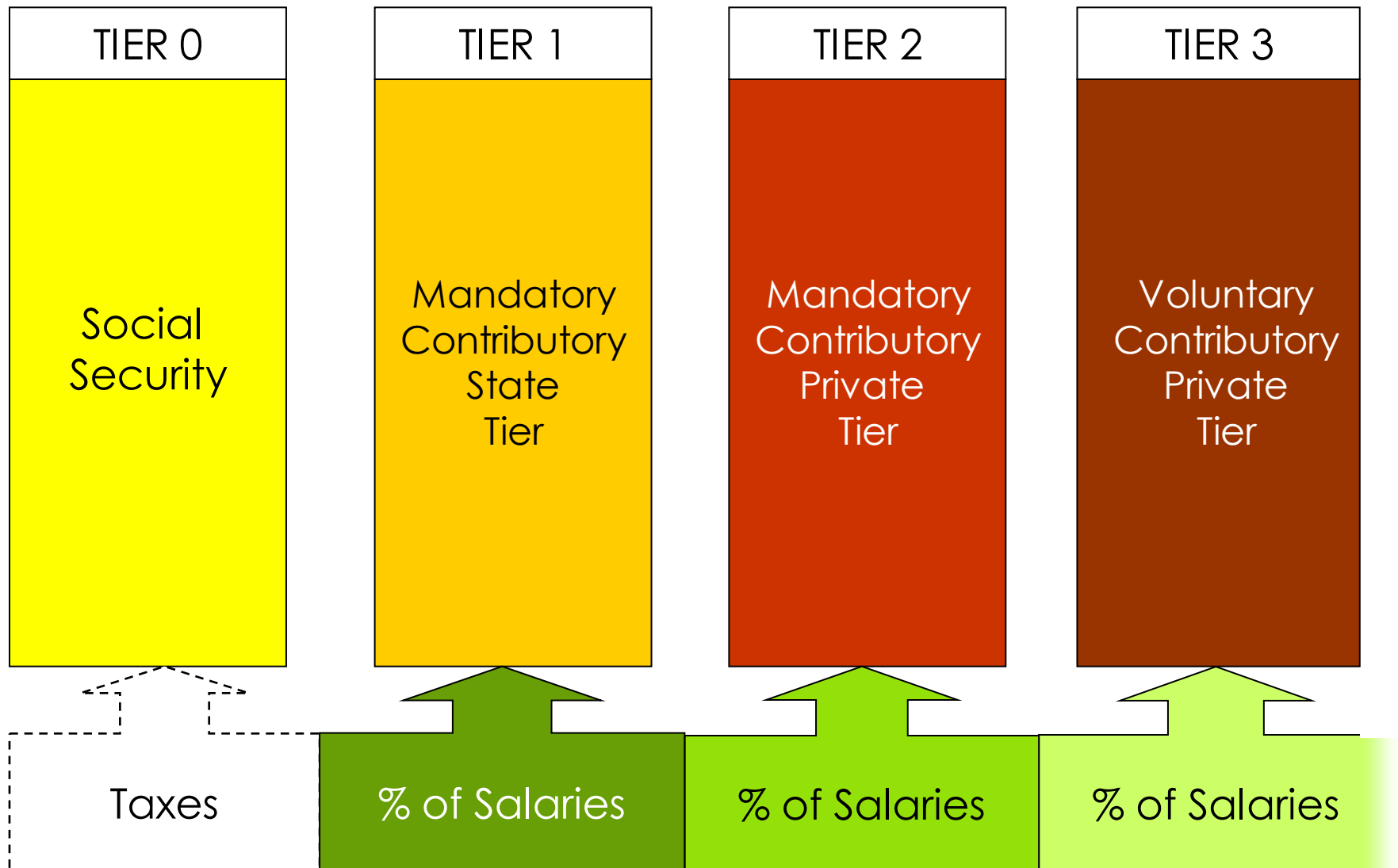


So what are the current proposals?

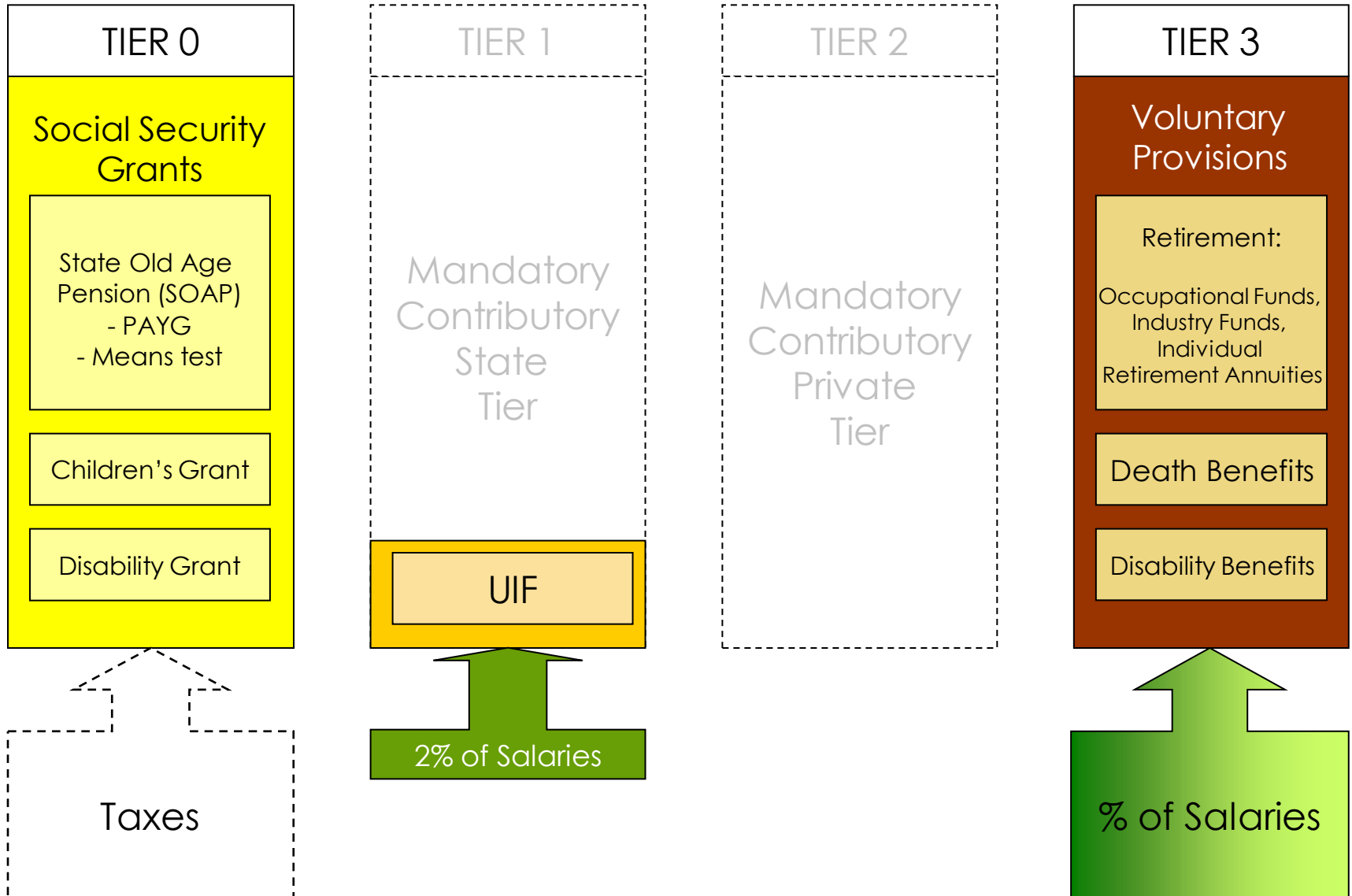


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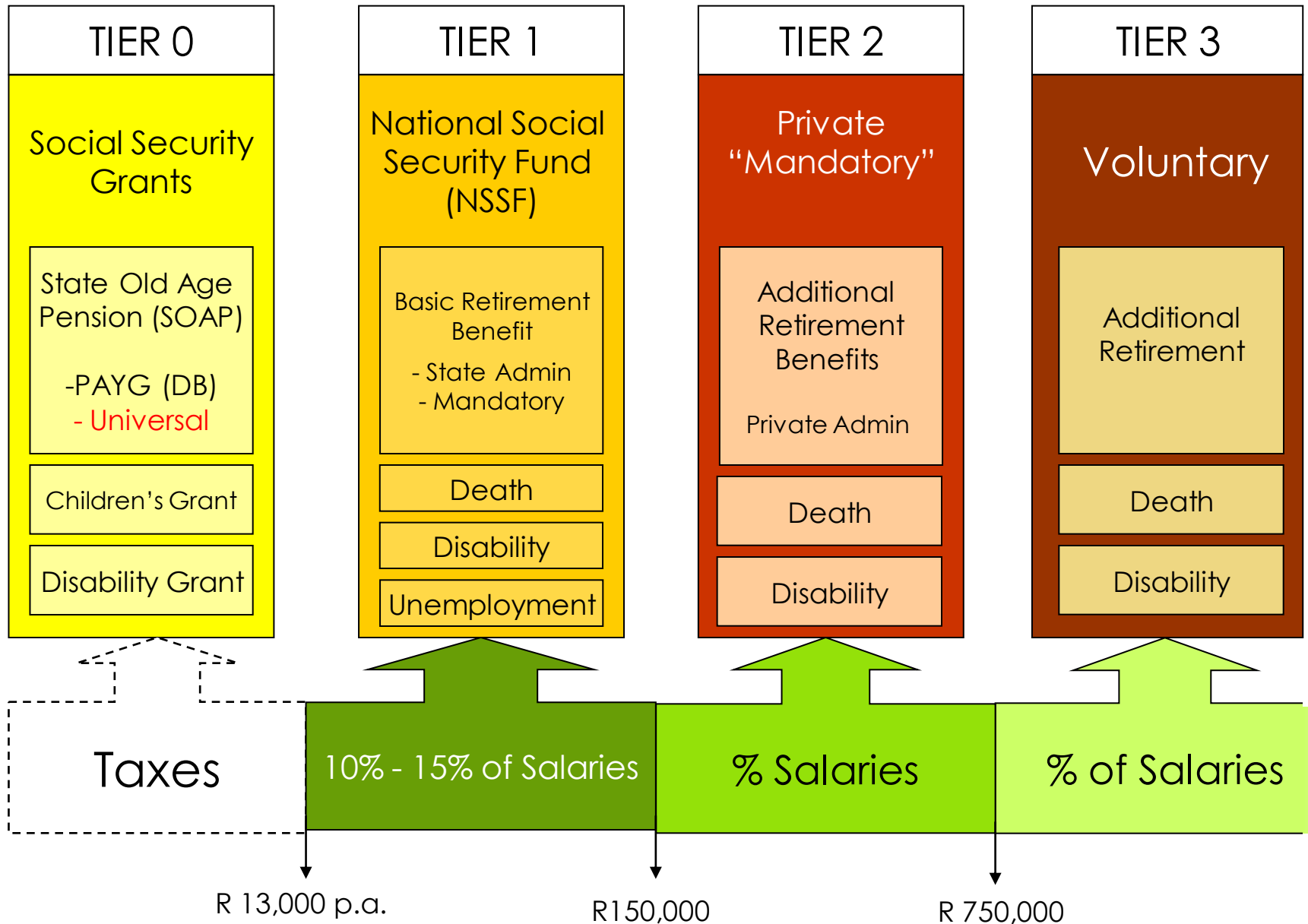
The World Bank Model



Current SA Retirement system



Proposed structure



What's actually happening?

- Radical reforms (NSSF, Accreditation, new state structures) delayed
- SOAG NRA equalised to 60
- Improving governance:
 - PF130 – more training, more reporting
 - FAIS Exams for advisors
 - Regulation 28 updated



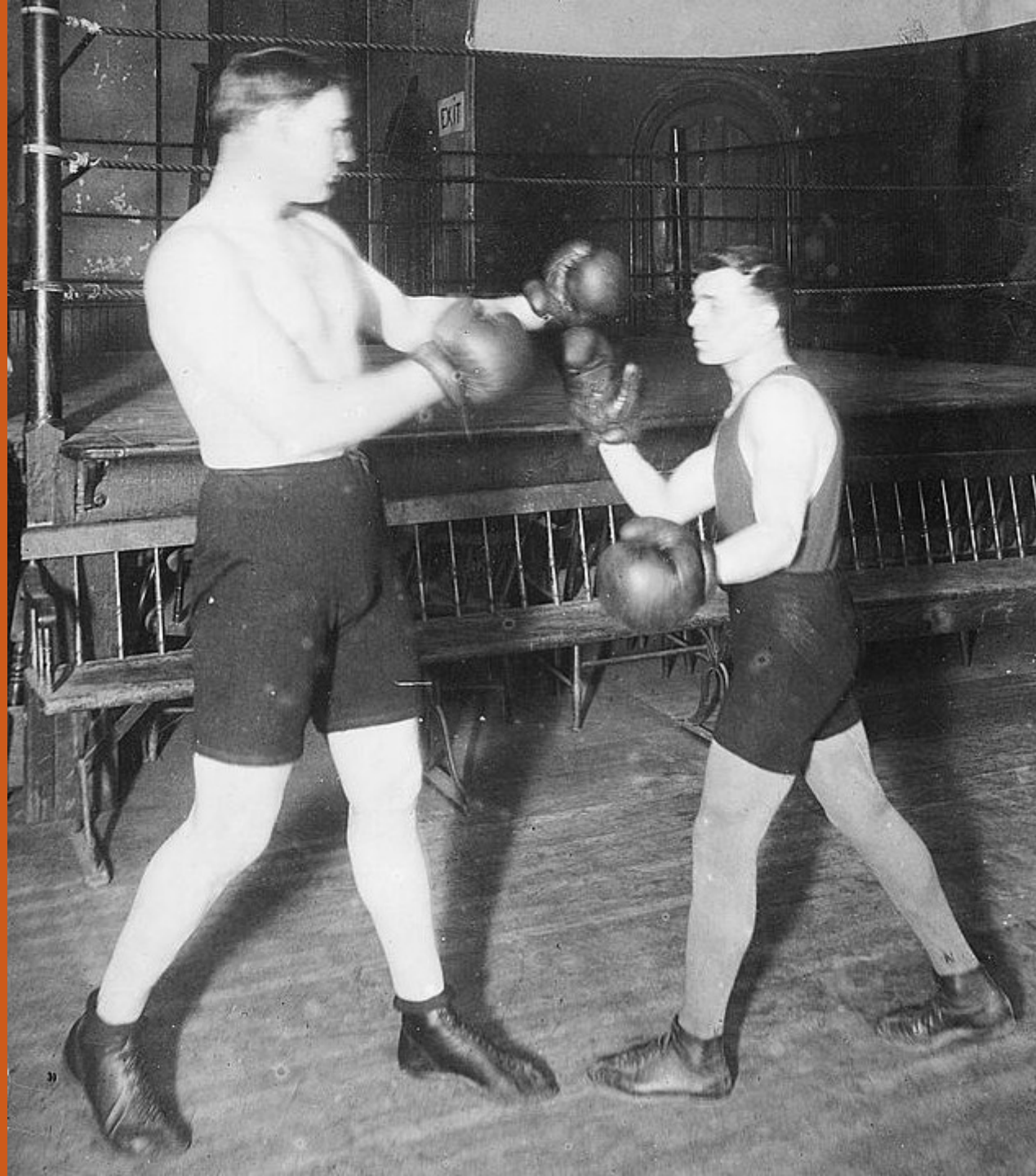
What's actually happening?

- Improving preservation
 - Taxation of lump sums change last year
 - Provident funds to be abolished from 2012
- Taxation changes
 - Capping tax-deductible contributions at around 22.5% of R900k from 2012
- Number of funds reduced from 13000 to around 3000 – cleaning up discontinued funds + movement into umbrellas



Planning the
Showdown:

*Is there room
for Match
Fixing?*



Realising the implications

- NSSF to take over majority of members / contributions
- Private funds reduce in size – costs go up
- Different impact on low income and high income workers
- Consider value add from employer



What value does your fund add?

- Competitive advantage
- Looking after employees in retirement
- Low cost insured benefits
- Access to tax effective savings



And in the new environment?

- Compare NSSF benefits to current fund benefits
- Is top up fund cost effective?
- Consider umbrella funds
- What are member needs?
- What are competitors doing?
- Note no tax subsidies above R200,000 contributions p.a.



The Final
Countdown –

winning the
Game



What should employers be doing?

- Reassure employees
- Wait for green paper
- Engage through industry bodies at NEDLAC
- Consider cost saving alternatives
- Be proactive about preservation
- Evaluate value proposition for employees



Thank You.

Questions?



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