

# State to move the pension goalposts



SAVING GRACE: David Price says few have enough money at retirement

## Proposed legislation is likely to prevent people from blowing their lump sums on retirement

**T**HE retirement and pensions industry landscape in SA is set to change dramatically as the government prepares the ground for sweeping national reform of the country's savings systems and retirement vehicles.

The long-term aim is to encourage a culture of saving in SA and ensure people have enough money to live on when they retire. Current statistics suggest that more than 90% of all South Africans have not even the basis of a regular income to finance their retirement.

Major private-sector retirement funds and pension fund industry players have been involved in an extensive consultation process with government representatives to find a suitable framework through which to tackle the reform agenda. One of these is Liberty, which last night was presented with the first-ever FIA award in the new category of employee benefits at the FIA awards banquet in Johannesburg.

Liberty has appointed a head of pension reform in anticipation of the changes ahead. David Price, MD of Liberty Corporate, says a great deal of consultation is taking place with the government on the reform issue, but with the appointment of the new cabinet and a number of new role players an update on progress towards pensions and savings reform is only expected toward the end of this year.

Steven Braudo, who is responsible for Liberty's overall Corporate and Individual Life insurance businesses, says: "People in employee benefits often talk about a 75% replacement ratio, which

means that a person should be able to receive about 75% of their income on retirement. But you need to contribute to the pension fund for a long period of time before you are able to achieve that."

One of the proposals in the mooted pensions reform is mandatory preservation; people moving jobs will be required to move their pensions to their new employers and will not be able to withdraw lump-sum cash.

Price says that compulsory preservation is not the sole issue.

"The first thing you need to ensure is that you can get to retirement with enough money and that you don't run out of money."

So new legislation, he says, is likely to make provision for a degree of compulsory annuitisation, effectively preventing people from blowing their lump sums on retirement and obliging them to arrange for a regular income or annuity to be put in place.

At the same time, the government is paving the way for the introduction of a national health-insurance scheme in SA, with universal health cover proposed for all. This is not to mention the plethora of related legislative and regulatory changes already placed on the statute book in the past 10 to 15 years.

Braudo says: "Certainly, the intentions of the proposed reforms are very good in wanting to provide cover for a broader portion of the population and to encourage savings, especially for those in employment, as well as ensuring that people have a regular income when they retire.

"It is a step in the right direction, and it is the implementation

issues that now need to be bedded down.

"We at Liberty support the principles. It's the mechanics as to how we are going to achieve pensions and savings reform that are still up for debate."

Price says: "Winning the FIA award, especially in the first year that it has been presented, is a great honour. The FIA represents probably one of the broadest groupings of advisers across the industry, as well as geographically.

"We've been doing a lot of work in our corporate business to update our systems and processes and have taken on board some talented people, so I see this as a reflection of the work we have done over the past couple of years."

The primary vehicle Liberty sells is the retirement fund, and nearly all of its distribution is undertaken by intermediaries. These are primarily small and medium pension funds, with a savings, risk and administration component.

"The intermediaries are extremely important. We treat them as very important partners in our business. It is beneficial to have a single partner to whom we can talk and who can represent the voice of our clients. The relationship is also good from the point of view of industry development.

"It provides the intermediaries with a stronger voice on issues such as pension reform, interaction with the regulator and any commission changes, among other industry issues, as well as having a credible industry body in place to negotiate with the Financial Services Board (FSB) on any proposed legislative changes."