

Pension Reform

The public may wonder why little has been forthcoming from Government after the announcement in 2007 already of the introduction of a reformed social security and retirement system by 2010. Since then there has been much speculation concerning the design of the new system and how it will affect members of retirement funds. Some employers are delaying the decision whether to make retirement funding arrangements for their employees, until they have greater clarity on the new system.

The problem with such an approach is that if provision for an employee is delayed by 5 years, their ultimate pension entitlement could be 20% less than had provision been made immediately. Government has also in public forums given assurances that vested rights will be protected. The implication is that there is no need to delay making retirement provision. Entitlements will be preserved in a new system. There may be technical questions around entitlements up to the date at which the new system is implemented. For instance: what rules will apply to money accumulated up to the date of implementation? Will it be some general rule or the rules currently applicable to that pot of money? These questions will need answers from Government and be codified in legislation.

Much of 2008 was spent by Government on further research and debate between the participants of the inter-departmental task team. Media speculation aside, we are yet to see a combined and updated Government discussion document with more detailed proposals. With the elections having come and gone, we will have to wait a while longer. That implies members, employers and advisors should continue acting responsibly and not make any silly decisions based on rumour.

Some key areas of decision and discussion are:

- What form will a national social security scheme take? (ie. DB, DC or some combination?). It is likely that under a compulsory scheme, Government will build in some base-level guarantee. This is a feature found in many social security or pension systems throughout the world.
- Will people already in a proper retirement fund be able to opt-out of the national fund, and if so, on what terms? That decision does not negate the need for due consideration of transition between the current and future state. Any government institution needed under a new system will take time to set up. Members, employers and the private sector will also need time to adjust to requirements under a new dispensation.
- Who will manage the assets of a national fund? It seems most believe the private sector should. This should be done on a competitive basis, ensuring system efficiency, reducing the systemic risk of concentrating investment management, and delivering value to participating members.



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Empowerment of Black asset managers and the meaning of SRI in the South African context are also bound to be interesting areas of debate.

- What level of tax incentives and / or co-contributions for those below the tax threshold will the new system have? Some hold the view that a compulsory system doesn't need tax incentives (you don't need to incentivise if you merely legislate!) This approach in the South African context I believe is flawed on at least three fronts: (i) Both employers and individuals are used to tax concessions for retirement funding in some form; (ii) One incentivises long-term savings not only because one wants people to save for when they cannot work but also because long term savings has positive capital market and economic growth effects; (iii) Compulsion alone is often a bitter pill to swallow. The government policy argument is that people act short-sightedly, so compelling them is best. But compelling and removing an incentive to defer earnings for later use is tough to sell especially in the midst of a financial crisis.

These are but a few of some very prickly questions. Whatever the outcome, it should be acknowledged that there is no one model that can solve every problem. The public can take assurance in the fact that when a collective government position comes it will be widely consulted. Whatever the case and ultimate design, no reformed system even given the most optimistic timeframes is likely to be rolled-out before 2012.

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