Retirement reforms, slow and steady does it

By Kedibone Sono, issued by SAICA

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Following the outcry on accessing retirement savings in order to minimise the financial impact Covid-19 has had on households and as an overall fragment of the retirement reforms, the National Treasury has issued a proposal introducing a two-pot system which restructures retirement savings by allowing limited pre-retirement withdrawals, with conditions, and a mandatory preservation at resignation.

The main objective of this system is to encourage savings for economically active persons, preserve retirement funds as far as possible ensuring benefits are borne in retirement, and finally to allow partial access that alleviates financial distress and improves the flexibility of retirement savings. Government believes that addressing this objective would encourage more participation from the public, improving coverage, preservation and potentially saving on costs.

The two-pot system will have two pots of retirement savings, the first pot being a third of any future retirement savings to be accessible at any time and the remaining two-thirds of the pot being preserved until retirement.

So, what happens to the savings one already has? For those members who have vested rights, the treatment is still being considered to ensure preservation. Members have access to vested savings and would still be able to withdraw these funds on resignation or retrenchment (barring the type of retirement savings one is participating in).

Currently, members of a retirement annuity fund can only access their funds strictly upon retirement or at age 55. This fund is primarily used for secondary savings, topping up any employer-provided retirement savings and common for entrepreneurs and those in the gig economy as they are not eligible for other fund types. The proposed two-pot system would potentially result in these members accessing a third of their savings. Although this may be in contradiction with preservation, the proposal argues it will assist in attracting more participation from entrepreneurs and those in gig economies and provide them with a 'safety net' in the form of access when financially distressed. This then introduces the opportunity of consolidating retirement savings due to similar treatment, resulting in potential cost savings.

The proposal flags an interesting need to consolidate many funds into fewer large funds, to reduce associated costs for all members. Granted the umbrella funds paper released on governance controls, there would be a great need for intervention for this to be effective. Large funds tend to have in-house administrators and thus wouldn't consider cost savings on the function as it would be readily accessible internally this could hinder the intended cost savings objective.

Another alternative proposal of immediately accessing 10% of savings up to R25,000 was considered. It was noted that this alternative would have administrative burdens for funds, a potential risk that could lead to a run on retirement assets creating liquidity issues, and pressure on systems at the South African Revenue Services due to a high volume in directives amongst other notable risks. With the preservation of retirement savings and reliance on the state being a main concern, there were eligibility concerns when addressing the volumes.

A loan guarantee alternative was considered and determined as not viable. as pension fund members that would need that access would probably have potential credit issues and would not qualify either way due to the credit requirements of financial institutions.

The government is working on mandating and automating retirement savings through legislation for gig economy participants, temporary employees, or those not formally employed nor members of a union, to improve retirement coverage. Employers will, through legislation, be compelled to deduct contributions to an occupational fund or another approved fund for all employees.

The two-pot system is anticipated to be implemented in 2023. Due to the inequalities that exist in our country, policymakers face a huge issue in balancing regulation. Ideally, not accessing any retirement savings even upon resignation for pension and provident fund members would help reduce the preservation concern the government faces. However, in reality, a large number of our population cannot afford retirement savings nor are they even concerned about it as they are tackling meeting their basic needs.

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