IOPS/AIOS/SUPEN International Seminar on Pensions

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Agenda

- Retirement reform
- Environment
- Accumulation phase
- Decumulation phase
- Unclaimed benefits
- Complaints procedure

Retirement Reform

Summary of Broad Goals – Retirement reform

- Implementing mandation or auto-enrolment.
- Improving preservation
- Improving fund disclosure
- Getting defaults right
- Consolidation of funds
- Simplifying retirement savings products and making them portable
- Ensuring effective intermediation
- Providing tougher market conduct regulation and more effective supervision

Environment

Environment

- Major move from DB to DC late 80s/90s

Type	Number	%	Assets	%
DC	1850	83%	R1 607 bn	76%
DB	330	15%	R384 bn	18%
Hybrid	43	2%	R116 bn	6%
Total	2223	100%	R2 107 bn	100%

Accumulation phase

Accumulation phase

- Members treated unfairly through vesting
  - Minimum benefits introduced in Act (2001)
  - MIA = MC + EC – X + IC +/- OC
  - MIR = MIA + IR + CR

Accumulation phase

- Sufficiency of retirement provision
  - No prescribed minimum contribution rates
  - Contributions determined in rules of a Fund
  - Maximum limits in Income Tax Act
  - No prescribed projections
  - Projections available through consultants / web calculators
  - No compulsory preservation (1/3/2016)

Accumulation phase

- Non/late payment of contributions
  - No later than 7th of next month
  - Arrear / late contributions – paid at prescribed rate of interest
  - Directors of companies personally liable

Accumulation phase

- Prudential investment guidelines
  - Regulation 28
  - Max 75% equity
  - Max 25% property
- Full investment return, but may smooth
- No guaranteed return
- Individual investment choice
- Administration problems and valuations

Accumulation phase

- Perceived high expenses
  - Attempts by National Treasury to address
  - Consolidation of funds
  - Umbrella funds
  - Formalised governance requirements

Accumulation phase

- Too little savings / too low coverage
  - Tax free savings accounts (1/3/2015)
    - R30 000 pa, R500 000 lifetime limit
    - No risk benefits, adequate diversification, reasonable exit benefit penalty, no p3erformance fees, simple
  - Low coverage
    - "We are currently consulting with NEDLAC on measures to cover the 6 million employed South Africans who do not enjoy access to an employer-sponsored retirement plan. We intend to move progressively towards a mandatory system of retirement for all employer workers." NT March 2014

Accumulation phase

- Complex system
  - Different tax treatment for pension and provident funds
  - Harmonize tax treatment and benefits
  - Tax deductibility up to 27,5% of taxable income with limit of R350 000
  - Simple for DC, but DB??
  - Compulsory defaults (e.g. investment portfolios)

Decumulation phase

Decumulation phase

- No annuitisation for provident funds
- At least 2/3 annuitised in pension fund
- Busy harmonizing
- Buy annuities outside of fund (DC)
- Mostly Investment Linked Living Annuities (drawdown annuities)
  - Drawdowns limited to between 2,5% and 17%
  - No investment restrictions
  - High cost

Unclaimed benefits

Unclaimed benefit industry

- Number of 'active' registered funds – 50
- Total Assets – R4,6 billion
- Total Members – 791,741

- 'Housed' in retirements funds
- Total Assets – R25,2 billion
- Total Members – 3,5 million

*As at 31 December 2013. Financial statements and survey responses for unclaimed benefit funds.

Reasons for unclaimed benefits

- Employer (inaccurate info, deduction disputes)
- Administrator (capture errors, churn)
- Member (updating, changes after leaving, incomplete documentation when leaving, tax registration, no bank account, migrant workers)

Establishment of unclaimed benefit funds

- Prior to 2007 reverted to funds
- Since 2009 a number of funds submitted applications in terms of section 4 of PFA to register as an unclaimed benefit fund
- Financial Services Laws General Amendment Act No. 45 of 2013 inserted a definition of an unclaimed benefit fund in section 1 of the PFA to mean:

Establishment of unclaimed benefit funds

- "a fund that is established for the receipt of unclaimed benefits contemplated in the definitions of a pension preservation fund and a provident preservation fund in section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962)";

Issues identified

- Governance
- Conflicts of interests due to appointment by sponsor/founder
- Lack of monitoring of service providers by board in particular tracing agents and administrators (ad-hoc payments etc.)
- No regulation of tracing agents - Licensing conditions, prescribed practices

Issues identified

- Administration
- Impact of fees charged on members' benefits. Should be prescribed
- Data integrity – names, surnames, dates of birth, identity numbers
- Duplicate records and impact of 'double' charging

Resolutions / proposals

- Standardised rules – template provided by registrar to funds;
- Centralised database;
- Additional reporting requirements– list of tracing agents, breakdown of tracing costs etc.

Resolutions / proposals

- Regulation of tracing agents include licensing conditions
- Preventative measures – additional minimum member data (cellphone numbers)

Thank you