Latest Retirement Reform regulations is part of an ongoing process

The main aim of the Retirement Reform process is to encourage workers to save (more) through retirement funds, and be able to provide for their own retirement and curb old-age poverty and excessive dependency on relatives and the Government.

Some critical aspects of the retirement reform process took effect in 2013 (e.g. enhancing governance through the Financial Services Laws General Amendment Act, No 45 of 2013), March 2014 (the increase in the tax free lump sum on retirement, as announced in the Minister's Budget Speech) and in March 2015, the equalisation of the tax treatment of contributions into retirement funds (i.e. pension, retirement annuities and provident funds)

Liesl Peyper from News 24 recently wrote in an article that National Treasury gazetted new retirement fund regulations that will ensure members of retirement funds get good value for their savings and be able to retire comfortably. These regulations came into effect on 1 September 2017.

In brief, the regulations compel trustee boards of retirement funds to:

- Offer a default in-fund preservation arrangement to members who leave the services of their employers before retirement.
- Make provision for a default investment portfolio to contributing members who do not exercise any choice regarding how their savings should be invested.
- For retiring members, a fund should have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only "default" retiring members into a particular annuity product after a member has made a choice.
- Member defaults should be relatively simple, cost-effective and transparent. Trustee boards should assist members during the accumulation of savings and retirement phases.
- With regard to a default investment portfolio, all retirement funds with a defined contribution category need to have such a portfolio.
- The investment portfolio(s) should be appropriate, reasonably priced, well communicated to members, and offer good value for money. Trustees are required to monitor investment portfolios regularly to ensure continued compliance with these principles and rules.
- Performance fees will be allowed but subject to a standard to be issued by the Financial Services Board and a regulatory or policy review. Loyalty bonuses may not be paid.
- Default preservation funds – where membership of these funds is compulsory due to conditions of employment (such as pension and provident funds) – will need to change their rules to allow for default preservation, as some of these funds currently do not allow resigning workers to leave their accumulated retirement savings in the specific fund.
- The employee, however, will have the right and option to withdraw, upon request, the accumulated savings or be able to transfer the funds to any other fund.
- Employees will also be required to first seek retirement benefit counselling before they make a decision on whether to withdraw the funds, transfer them or leave them in the previous employer's fund.

- Retirement funds should also follow a so-called annuity strategy. There are currently two types of annuities – a living annuity and a life annuity.
- A life annuity, once chosen or defaulted into, becomes irreversible. To improve management of this irreversibility, it was decided that funds should ask members to indicate beforehand what type of annuity (e.g. life or living annuity) should be paid.
- This required pre-selection by the members makes the purchase of an annuity a “soft default” by having the member “opt-in” instead of “opting-out”. Therefore a member must first indicate which annuity product he or she would prefer.
- The “default” annuity should also be appropriate for members, well communicated and offer good value for money. Members should be given access to retirement benefits counselling to assist them in understanding and giving effect to the annuity strategy.
- National Treasury points out that provident and provident preservation funds must only establish an annuity strategy if the fund enables the member to elect an annuity.
- This however does not mean that members of provident funds are compelled by these regulations to purchase an annuity upon retirement.

It is clear that all the changes that has been implemented since 2013 has one thing in mind, and that is to encourage workers to plan and save for retirement while trying to build in mechanisms to dissuade workers from withdrawing their retirement savings before actually retiring.

Our role is to create an awareness among our members about the rationale behind all these changes and their duty is to ensure that trustees of all retirement funds comply with these regulations.