

PRESS RELEASE

Joint Press Statement of the Minister of Finance and Dr. Johan Van Zyl, chairman of the Association for Savings & Investment SA

The Minister of Finance met the CEOs of service providers in the retirement fund industry on Thursday, 20 June 2013 to discuss the 2012 and 2013 Budget Retirement Reform proposals.

The meeting forms part of a consultative process that included meetings at NEDLAC with labour, business and community constituencies, and between National Treasury and trade unions, retirement funds and other stakeholders.

The primary objective for both the industry and Government is to ensure that the savings and investment industry serves the interest of customers, in line with the principles of the Treat Customers Fairly (TCF) initiative. The meeting focused on costs and charges, recognising the primary role that the industry and Government, working together, can play in bringing down costs and charges.

The National Treasury is due to release the discussion paper, *Charges in South African Retirement Schemes*, shortly. This is the final in a series of five technical discussion papers released by National Treasury on promoting household savings and reforming the retirement industry.

At the meeting, the retirement fund industry representatives were informed that the paper *Charges in South African Retirement Schemes*, contains some findings on poor market practices, despite significant progress and improvements made by the retirement fund industry over the last couple of years.

The meeting noted that the level of costs were not only related to market and disclosure practices, but also to current incentive systems, poor preservation practices and the lack of compulsion to join a retirement fund, compared to many other countries.

The Treasury accepts that the industry must be afforded the opportunity to comment on, and, where necessary, contest these findings. The major service providers agreed to consider the paper in a constructive manner over the next three months, and to engage with the Treasury on the findings.

Since publishing the overview document on retirement reform, *Strengthening Retirement Savings: Overview of the 2012 Budget Proposals*, on 14 May 2012,

National Treasury has released four technical discussion papers: *Enabling a better income in retirement*; *Preservation, portability and governance for retirement funds* (both released on 21 September 2012); *Incentivising non-retirement household savings* and *Simplifying the tax treatment of retirement funds* (both released on 4 October 2012). The consultation process that followed laid the foundation for the policy proposals announced as part of the 2013 Budget.

In reference to these published discussion papers, major service providers in the retirement fund industry committed to work with Government:

- a) To improve the structure of the retirement fund industry to ensure that greater numbers of workers participate in the system, at lower individual cost;
- b) To ensure that products offered by the retirement fund industry are transparent and comparable, and that they serve the interests of members;
- c) To develop a comprehensive, uniform and comparable measure of charges to allow charges of different products to be compared with each other to ensure that the market is sufficiently competitive on a cost basis;
- d) To identify, and resolve, incentive problems in the value chain, which work against the interests of customers, while retaining the benefits that intermediaries can provide when fairly remunerated;
- e) To improve the governance of retirement funds, particularly where trustees may be vulnerable to undue influence in matters of procurement;
- f) To identify aspects of the current retirement system where reforms can lead to improved efficiency and access to the system to the benefit of consumers;
- g) To ensure that the retirement system remains viable and sustainable for the benefit of all South Africans; and
- h) To identify retirement solutions for those South Africans who are currently excluded from the retirement system.

The industry noted the recent reform efforts by Government to increase the degree to which workers who change jobs preserve their retirement funds, to alter the structure of the market for retirement income products in order to improve the functioning of our retirement system at the point when workers retire, and to simplify the tax treatment of retirement fund contributions in order to reduce the complexity and cost of the retirement system.

Government and the major service providers agree that the retirement fund industry is crucial to the South African economy. Not only is it the destination of more than half of the savings that South Africans make, but it is also the major

source of investment capital to lay the foundation for future economic growth, infrastructure funding and job creation.

The retirement fund industry also committed to improving the savings culture by facilitating and educating South Africans to save in order to empower them and make them less vulnerable to income shocks.

The service providers and the Minister have agreed to meet again within 6 months to review progress.

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