MEDIA RELEASE:

TIPS FOR TITO

By Rowan Burger – Momentum Investments Head of Client Strategy

18 February 2020: We have a new Finance Minister and hopefully new energy in government. It is time for the Legislators to reassess the state of retirement savings in South Africa and chart their own course. The focus on cost saving needs to shift to financial inclusion and quality of outcome.

Ours is a voluntary tax incentivised savings system. Employers have a choice to enrol their employees in the system and with greater member choice, employees decide their level of savings. A measure of the success of the system would also be the extent to which the working population is covered and whether the benefits delivered are adequate.

From the 2018 National Treasury tax statistics we can observe that there are only 4.7 million in the system of some estimated 16.5 million workers. We also see that contribution levels average 11% of taxable remuneration dropping down to only 2% for the top earnings category. This clearly indicates the current system misses its mark in terms of coverage and delivery of outcomes. (It is broadly accepted a 15% of salary retirement savings level appropriately invested for 40 years will deliver an adequate retirement income).

Instead of further focus on incremental cost efficiencies that could be achieved by funds, it is time to take a broader view of how to solve our problems:

- The old age grant is generous by international standards and as it is means tested, it forms a disincentive for low income workers to participate and preserve savings.
- Much of our workforce is informal or part time which means the pre-determined regular contributions required by the Pension Funds Act excludes them from meaningful participation (we only have 9 million permanent full time employees).
- While there is a tax incentive for higher paid workers, those below the threshold have no incentive to tie their savings up until they are 55.
- Threats of prescribed assets and other investment restrictions have higher paid workers preferring to save outside the system where they can control their savings.
- The ability to encash benefits in full when changing jobs leads to over 90% of these members doing so, resulting in savings terms being nowhere near the 40 years and results in insufficient benefits.
- With the current poor savings levels, lack of skills in the economy and improvements in old age life expectancy, increases in retirement age to at least 65 is essential, following international examples.
- Contribution reconciliations and death benefit distributions remain administratively intensive activities and these benefit to members should be better interrogated and debated.
- Disclosures of costs have been important but need to be balanced by an assessment of value created.

The benefit of a significant pool of assets to support the economy and transform the lives of ordinary South Africans has become clear over recent years and the support of the savings pool is essential.

Much has been achieved over the last decade to achieve better retirement outcomes, however the reality is that without a broader focus and the need for a few more bold reforms our system will remain sub optimal.

-ENDS-