

The Department of Labour proposes the creation of sectoral funds, where there will be different retirement benefit funds, according to type of employment, such as separate funds for metalworkers, electricity workers and allied workers. Legislation dealing with these issues is still in its infancy, though. Alternatively, we may see funds that mimic the 401(k) funds in the US, named after a section in the US tax code that refers to them. With 401(k) funds, although employers may match employees' contributions to the retirement funds, there is no direct link between members and employers.

“IF GOVERNMENT IMPLEMENTS THE PROPOSED NSSF, MANY FUNDS WILL CEASE TO EXIST”

“In our current retirement benefit funds, there is a direct link between the employer who belongs to the fund and the employee,” says Cronjé. “By changing this model, the number of funds and service providers will be reduced. Some say it will bring down the cost of providing retirement benefits, although I am not so sure about that.”

The model that government has tabled is based on the World Bank's four pillar social security model (see sidebar). The NSSF is aimed at propping up the second of these pillars and encouraging larger retirement contributions. However, it is not yet clear whether there will be a number of funds, with prescribed contributions and benefits, or one large fund run and operated by government.

ONLY 50% OF WORKERS IN FORMAL EMPLOYMENT HAVE RETIREMENT BENEFITS

As is the case with any proposed government bill, different role players advocate differing views. The DSD is suggesting one government-run fund where membership is compulsory, with contributions from employers and employees. Others are propagating a public-private partnership, either with one fund or several funds.

Whatever the outcome, the main aim of government, as well as its main challenge, is to get as many people as possible into the savings net. Currently, retirement contributions are voluntary for employers and employees. If employers wish

to provide retirement benefits for employees, they can register a fund, belong to an umbrella fund, or pay employees additional salaries dependent on them belonging to a fund.

In formal employment, the country has a low coverage rate of around 50% but in informal employment, retirement savings are almost non-existent.

“The very low coverage is a result of the design of retirement products, which do not suit the informal employment market at this stage,” says Cronjé. “You need to have regular contributions to a current type of fund and you need to have long periods of employment to benefit from the fund at all. Informal employment is one of the things that need to be looked at in the amendments to the act. There has been some discussion around provision for irregular contributions from temporary workers.

However, recent changes to the Income Tax Act have been positive, making it more beneficial for persons to belong to retirement funds, because they can get deductions on their contributions. They also receive tax-free sums and lower-taxed sums at the time of retirement. We have also seen amendments to legislation that encourages people not to take the money when they change jobs, but rather to preserve the money until retirement. That is the second part of the retirement benefits challenge, keeping people in the net.”

Further details about the future of employee benefits will become clearer as government releases additional discussion papers. The imperatives of job creation and poverty alleviation will be influential in the formulation of these policies. ●

THE FOUR PILLARS

The four pillars, conceptualised by the Geneva association, came from the finding that in most countries, pensions are funded from three sources:

- Pillar 1: Compulsory state pension subtracted from salaries or wages.
- Pillar 2: Supplementary occupational pension that is often funding-based.
- Pillar 3: Individual contributions.

The Geneva Association then advocated a fourth pillar, the need for flexible extensions of people's work lives, as the average health and longevity of a population increases. The recommendations include gradual retirement at the end of people's careers, instead of abrupt ends. •