

'SA facing retirement crisis'

Expert says government needs to intervene by holding funds of early retirement to curb reliance on pension grant

Bernard Sathekge

THE Financial Intermediaries Association of Southern Africa (FIA) has praised government's plan to remodel the country's retirement funding and general savings culture but warned that the planned changes must strike a right balance.

Pieter Cronje, director at FIA, said, "South Africa is facing a serious retirement savings crisis and it is vital that we do something now to avoid what will become an even bigger problem in the years ahead. The government must quickly close the gap when a member leaves employment early by holding the funds."

Worried about the diminishing retirement savings, government has embarked on a process of revamping the retirement savings space.

The main problem which government seeks to address is early withdrawal of retirement savings. Many people spend these withdrawals and turn back to government social grants for financial survival at retirement. This places strain on public resources.

One of the main proposed changes is to force people to preserve retirement savings up until they retire. This is to be achieved by bringing provident funds in line with pension funds where members are required to use two-thirds of their accumulated retirement savings to purchase a pension that will pay out for life.

A number of numerous discussion documents proposing the introduction of a compulsory savings scheme were put on the table, especially for those in informal employment where the majority of people are not saving at all, and final documents are expected to be issued this year.



COMFORTABLE: The government wants to overhaul the retirement savings space.

"It is only through a proper, collaborative approach, with the views of all parties being considered, that we can ensure such a scheme will be successful," he said.

Cronje added that government's proposed overhaul of SA's retirement funding model was a positive step given the alarming lack of retirement savings among the majority of South Africans, but it was critical that the correct balance was struck in order for the initia-

tive to succeed. Cronjé said the main reason to strike the correct balance would be to avoid overburdening South Africans. He said the cost of National Health Insurance (NHI) combined with the proposed contributions to the compulsory National Savings Fund (NSF) might prove too expensive for lower income earners to afford.

"If this is the case, what we could end up seeing is a resistance from employees to belong to the schemes, which

would defeat the purpose of government's initiatives."

According to Cronjé, the government had a tough task implementing changes to the current system, as there had to be a balance between the provision of social security and retirement benefits, as well as macroeconomic job creation including the infrastructure development goals of government.

He said the FIA was grossly concerned about the lack of South African

citizens not saving enough for retirement.

"Out of 50% belonging to the formal retirement service vehicle, only 60% have sufficient services when they retire.

"The most worrying factor is in informal employment where much more people are not saving at all and the compulsory saving scheme could be a solution in this sector," FIA said.

But Cronje warned that any proposals on social security and retirement reform must be negotiated at the Nedlac forum before any implementation.

"Implementing a national scheme on this scale is a huge undertaking and in order for it to be successful it is crucial that government obtains buy-in from all parties. Negotiating such a proposal at the Nedlac level would make this process much easier," he said.

"It is also important that from a governance perspective, government is not involved in the regulation or operation of any national savings scheme. If a national savings scheme is to be adopted, then the FIA supports a management board consisting of representatives from business, labour, community and government."

Old Mutual product manager, Jaco Gouws, said the group's research showed that one in three South Africans believe that the government will take care of them in old age – a belief that contributes to the already enormous pressure on government to supply grants to pensioners who have neglected to save for retirement.

He said the Old Mutual Savings and Investments Monitor found that around 45% of formally employed South Africans have no form of retirement savings.

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