

making sure you grow old happily

The retirement fund industry could be revamped depending on the outcome of a conference held at the end of October. Born out of the Growth and Development Summit, the conference comes in the wake of work done by the Ministry of Finance and Financial Service Board (FSB) which found that the current Pension Fund Act is outdated. **Fedusa** explains the importance of the conference.

Many workers spend a lifetime paying into a pension fund for their old age without ever taking an active interest in what is being done with their money to ensure they get the maximum out at the end of their working career. Fedusa supports the review of the existing fragmented dispensation and believes all funds should be registered and regulated under the new legislation. Key areas of change that will be addressed at the conference include the incapacity of trustees to properly manage members' money, aligning all retirement funds under a single piece of legislation, the concept of fund preservation and making it compulsory for all employees to belong to a retirement fund. The retirement industry presently has a membership of approximately 8 349 318 people, of which 7 025 129 are active members, with the balance being made up of pensioners and dependants. About R694-billion of assets are presently managed by retirement funds of which R250-billion is controlled by the GEPP (Government Employees Pension Fund), R380-billion by the private sector and R40-billion by local government.

At a preliminary seminar on the proposed changes to the retirement fund industry it was decided that the amendments to the legislation should focus on addressing the incapacity of trustees to properly manage members' money, an issue that was first raised by Finance Minister Trevor Manuel at the Fedusa Congress in 2002. A number of practical proposals were made which included the undertaking of training for trustees in a labour friendly environment by making use of service providers that were accredited by the Financial Sector Setas. Costs involved in training should be covered by the Setas, the administration fees of retirement funds and the National Lottery. The trustees should be

trained within six months of their appointment on the basics of pension fund management and follow a three-year cycle from the basics through to the advanced level. Once elected, trustees should be subjected to the basic training within the first six months with ongoing refresher courses whenever the legislation is amended. The training should be compulsory and all trustees must show a willingness and commitment to engage in training. The onus should be on the individual to vacate the position in the event of not successfully completing the basic training. The new legislation should ensure that employers release the trustees, on full pay, to attend pension fund training. The duration of training courses should be determined by the SA Qualifications Authority (SAQA), while SAQA standards must also be taken into account when the training programme is compiled.

The money accumulated in a pension fund should be solely for the benefit of the member, when proceeding on retirement and should not cater for other purposes. Despite this, terminally ill people should have access to their invested funds. Loans from the fund may also be accessed for housing, should the necessary safeguards be in place.

An investment strategy cannot be defined for all pension funds across the board, save to state that:

- it must aim to maximise returns,
- consider the risk profile and tolerance of the fund,
- consider benchmarking to include socially responsible investment,
- give specific mandates to investment and asset managers,
- take the economic and investment environment into account,
- the investment managers must be held accountable and provide regular reports

to the trustees in a simplified manner.

Section 28 of the current Act allows funds to invest up to 75% of their investments in equities, and funds should be required to increase their investment on infrastructure development or bonds. Given that the investment in developmental portfolios is less than 5%, funds must therefore strive to increase investments in these asset classes. 5% of the disposable assets of the retirement fund industry should be invested in infrastructure development and productive sectors in the economy.

In addition, the voluntary retirement age should be lowered from 55 to 50 years. The legislation should also make provision for employees who move to new jobs by enabling them to transfer their accumulated benefits to a new fund or by allowing them to continue contributing to the old fund.

Fedusa is in favour of there being no tax applicable to interest and rental income earned by retirement funds. The current tax rate of 18% is extremely onerous and can reduce a person's end benefit by up to 25%. This tax furthermore contributes negatively to a saving and investment culture. The R120 000 tax free lump sum that is available on retirement has also not been reviewed for 15 years and should be adjusted upward by taking inflation for this period of time into account. The necessity to be subject to a Regional Services Levy should also be abolished.

Funds are urged to adopt a proxy voting policy. Proxy voting can be implemented and effected through the asset managers. Unions should determine what is best for their members and in this regard the new legislation should not prescribe whether members should belong to a Defined Benefit or Defined Contribution fund. However, there will be the compulsory provision of retirement provisions for workers, which will be negotiated by workers and employers, and minimum benefits which should be subject to annual increase based on CPI(X). Surplus issues may be reviewed in the new legislation provided both old and new contributors benefit from the changes.

A Code of Good Practice should be drawn up with the aim of eliminating corruption and any conflict of interest that may arise. This Code should also focus on minimum service level requirements for service providers. Transgressors of this Code would appear before an independent tribunal. The duties of the regulator would also have to conform with the FSB Act and minimum requirements would be established for funds. In reforming the regulations, provincial offices will have to speed up dispute resolutions on funds and could also assist in the adjudication process. Regulations on the adjudicator should also be reviewed and improved and the decision of the adjudicator should be open to legal challenge.

In addition, a call centre should be set up at the FSB registrar's offices for

members to lodge their complaints regarding their pension funds. The call centre would be funded by the FSB and terms of reference will be established to ensure that the centre is regulated. Callers will be able to discuss their concerns confidentially. This will empower individual members and contribute to ensuring that the necessary checks and balances are in place. Annual reports, benefit statements, quarterly reports, AGMs and the establishment of a National Trustee Forum will also ensure that corruption is curbed and encourage the disclosure of information.

We cannot afford to be complacent about the future of our money, and workers need to deal with their future income with the same level of interest as they do their current one.

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RESOLUTIONS ON REVAMPING RETIREMENT FUNDS

- Fedusa supports the concept of each person contributing to one retirement fund with a maximum of a one-third cash withdrawal.
- The trustees must have the authority to decide whether pensions are purchased from within the fund or from an outside institution.
- Fedusa accepts that one piece of legislation should cover all retirement funds.
- Fedusa supports the principle of preservation. The question of a partial withdrawal of benefits by retrenched persons should be investigated as a form of assistance to the unemployed.
- Fedusa supports the position that it is compulsory for all workers to belong to a retirement fund. Fedusa is of the opinion that South Africa should follow the Australian model, which gives the employer and employee the right to decide into which fund they wish to contribute and which administrator they wish to use.
- It was acknowledged that there are two types of funds, namely defined benefit and defined contribution funds and that the difference between these funds had to be acknowledged when calculating a fund surplus.
- Accredited training must be provided for trustees by an accredited Seta.
- The tax rate of 18% applicable to interest and rental income earned by retirement funds should be reduced to zero. The R120 000 tax free lump sum should be reviewed upwards taking the effect of inflation into account. The necessity to be subject to a Regional Services Levy should be abolished.
- Any social responsibility investments must not be in conflict with trustees' fiduciary duty towards the fund.
- Unclaimed benefits should be retained in the fund.
- Provision should be made in the Act for trustees to take time off from work, on full pay, to attend to their responsibilities towards the fund.