
Leakage from retirement plans plagues South Africa

By Editor Test *Wed, Sep 7, 2011*

To promote retirement savings and drive down the cost of retail annuities, South Africa's National Treasury is considering the creation of a public, low-cost "Retail Bond-backed Retirement Annuity."

South Africa's National Treasury has proposed the urgent introduction of mandatory preservation when it comes to retirement savings in "an alarming and near-catastrophic context," said Deputy Minister of Finance Nhlanhla Nene, according to the Independent Online Business Report.

At the Retirement Funds Annual Conference this week, Nene said that the government was trying to help people who currently could work and earn an income to save and preserve their retirement savings, and in turn, not be a future burden on the state.

The National Treasury is doing a feasibility study on developing a Retail Bond-backed Retirement Annuity, he said. "We envisage that such an annuity will provide some competition to the industry, and thereby provide individuals with a simple, transparent, and cost effective post-retirement annuity product.

"We, as the Ministry of Finance, continue to receive many complaint letters from pensioners and about-to-be pensioners complaining about the costs of retirement annuities. We are actively engaging with the industry to find a mutual solution to these high costs."

"I appeal to the industry to start simplifying their products, and making them transparent and cost-effective, since the survival of the industry depends largely on its customers, and also potential customers."

"It is estimated that only 6% of South Africans can afford to retire; i.e., that they can achieve a 100% replacement ratio," he said. "Why such a disturbingly low number? The answer is simple—because most individuals cash-in on their retirement savings when they change jobs and upon divorce settlement orders."

The latest Sanlam Benchmark Survey showed that when workers cashed in their retirement savings prematurely, 36% used the money to pay short-term debt.

"The keywords are 'short-term debt.' This is probably debt we could do without if we exercised some prudence in our spending and desires," Nene noted. Another 24% of the cashed-in retirement savings was spent on living expenses. "This adds up to 60% of retirement money intended to provide a comfortable retirement being used to satisfy short term spending."

Increased retirement savings would ultimately enable financial intermediaries to undertake long-term investments in the South African economy and spur economic growth.

"However, given the difficult structural challenges in our economy, we do acknowledge that individuals need some of their retirement savings to keep them floating until they can be re-employed. But this

restricted access should be for a limited amount and only triggered by certain life or death events like [unemployment],” Nene said.

“The Sanlam Survey tells us that 76% of the individuals who prematurely cashed their retirement savings knew very well the tax consequences of their actions, and that 85% understood that their action could mean that they might not easily reach their retirement goals.”