Legal MATTERS

glacier by Sanlam

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Retirement reform

The *Social Security and Retirement Reform* discussion paper, published by the National Treasury, sets out the proposed reforms to the retirement funding landscape.

The proposed reforms will see the introduction of two tiers of contributions. The first tier will comprise mandatory, earnings-related contributions to a national social security scheme to provide improved unemployment insurance, disability and death benefits and a standard retirement savings arrangement. The second tier will consist of mandatory supplementary contributions to private occupational or individual retirement funds, for individuals earning above a threshold amount. This is to ensure that all individuals make appropriate provision for sufficient income during retirement.

The proposed key elements of the framework are as follows:

Social assistance (non-contributory benefits)
Social assistance is aimed at alleviating poverty or providing temporary income support. It includes:

- Social old age grant
- Disability grant
- Child support grant
- Foster care grant

Social security (statutory contributory arrangements)
The social security fund (funded from contributions), is aimed at providing a basic level of income protection in the event of retirement, unemployment, injury, disability or death and includes:

- Unemployment insurance
- Disability and survivor benefits
- Compensation for occupational injury and disease
- Basic funded retirement benefit

The proposed contribution rate for the basic retirement benefit is 10 – 12% of pre-tax earnings and the proposed earnings ceiling for contributions is R75 000 p.a. Above R75 000, an individual may choose to place retirement funding contributions with an approved private retirement funding institution, while contributions to the funding of pooled risk-benefits in the social security fund continue up to the ceiling of R150 000.

Mandatory supplementary retirement savings
Mandatory supplementary savings to approved private retirement-funding schemes - similar to normal pension fund contributions – are aimed at providing sufficient income replacement at retirement. These contributions are over and above the earnings ceiling for contributions to the basic funded retirement benefit. Absolute benefit assurance is less important – rather, individual choice should be offered to individuals wishing to pursue the potential of higher market returns in an individual defined contribution account.

The contribution rate is 10 – 12% of earnings that fall between the earnings floor and the earnings ceiling.

The earnings floor for contributions is defined as the earnings above the basic retirement benefit ceiling (i.e. 10 – 12% of the amount by which earnings exceed R75 000 p.a.).

The earnings ceiling for contributions is still to be finalised.

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Benefits
The lump sum benefit is limited to about one-third of the accumulated benefit on retirement. An annuity may be purchased from an accredited private provider.

Other proposed changes include a restructuring of the retirement tax system, with Government indicating that they are not interested in funding so-called luxury retirements through the tax system. The main target will be the current tax-incentivised system which allows investors to deduct contributions to a retirement fund at a rate of up to 15% of pensionable income.

Another proposed change will re-look the cashing-in of retirement savings on resignation. Currently, investors are able to take their pension savings as a lump sum before retirement and this is seen as the single biggest reason why most South Africans retire without sufficient funds.

In addition to the above, consideration will also be given to the following issues:

- The possibility of tying the contribution floor to the introduction of a minimum wage.
- The possibility of introducing medical scheme contribution protection.
- The possibility of introducing a lower retirement age in the national social security fund.

Voluntary savings and insurance arrangements
This option is for contributions over-and-above the mandatory retirement savings and comprises additional voluntary contributions to an individual choice of private retirement-funding or insurance arrangements, aimed at providing top-up income replacement and income protection.