Original Article

South African Social Security and Retirement Reform: A long journey towards the redrafting of the new Pension Funds Act

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ABSTRACT This article discusses the South African Social Security and Retirement Reform that will be the guidelines towards the promulgation of the new Pension Funds Act. The proposals were supposed to be implemented in 2010 and this is no longer possible as the third discussion paper has not yet been issued. There are seven proposals that have been suggested, which among others include a wage subsidy, state old-age grant for all, mandatory contributions to the National Social Security Provident Fund, mandatory participation in private occupational or individual retirement funds, voluntary additional contributions to occupational or individual retirement funds, reform of the governance and regulation of the retirement funding industry and reform of the taxation system. This article will further analyse the lessons that can be learned from Chile, Sweden, Nigeria reforms and other reforms around the world.

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HISTORICAL BACKGROUND

The South African Pension Funds Act has been promulgated into law in 1956. It is almost 54 years since this Act was passed. This Act came into operation during the apartheid system of government and it offers little relief to the majority of the retirees.

Building better lives, alleviating poverty and implementing a comprehensive social security system for the benefit of all South Africans are commendable and critical steps in nation building. Few would question these objectives. But as reform requires more than advocates, a great deal of work has yet to be done to create this holistic framework. Although international examples abound, the challenge is not to imitate them. Rather, it is to learn from them and adapt their best features in the construction of a

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solution for the very unique South African social, political and business landscape.¹

The provision of income security is among the most practical expressions of a nation's cohesion and values. It relies on confidence in the long-term continuity of institutions. It rests on trust in the law and sound financial and economic management. It embodies the core principles of solidarity and risk-sharing. The process of social security reform announced by then President Thabo Mbeki in his State of the Nation Address on 9 February 2007 is a confirmation of the democratic government's commitment to its vision of a caring and poverty-free society. The President indicated that the Minister of Finance (by then it was Trevor Manuel) would provide further details on a contributory earnings-related social security arrangement, informed by the principle of social solidarity.

Although certain features of the South African social security and retirement funding system compare well with both developed and developing countries, other features are unsatisfactory. The 2002 Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa² – *Transforming the Present, Protecting the Future* – provided a thorough review of strengths and shortcomings in the present social protection arrangements, and outlined recommendations for broadening social insurance and implementing a 'comprehensive and integrated medium- to long-term framework for income support'. The Committee Report also discussed options for extending access to health insurance, and improved alignment between the public and private health care delivery systems. Although beyond the scope of the present discussion paper, reform of income security arrangements provides a platform on which future social health insurance reforms might also be constructed.

Chapter 6 of the 2007 *Budget Review*³ provides an outline of the proposed social security reforms, and an overview of the present social assistance grant programmes and social security funds. These reforms are aimed at directly attacking poverty by reducing income vulnerability while also supporting employment creation. This article

elaborates on these high-level proposals, with particular reference to retirement reform. The proposed social security and retirement reforms have their roots in the following processes:

- the 2002 Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa;
- the 2004 National Treasury *Discussion Paper on Retirement Reform*;⁴ and
- research undertaken on behalf of the Forum of South African Directors Generals Social Sector Cluster task team on comprehensive social security.

On 23 March 2007 National Treasury released its long-awaited Second Discussion Paper on retirement reform. Significantly, this one was entitled *Social Security and Retirement Reform*,⁵ marking the shift from the relatively minor reform measures contemplated in the December 2004 Discussion Paper on Retirement Reform to the fundamental policy reform proposed now. This is the biggest reform of economic policy since 1994.

Whereas the 2004 paper focussed its attention on the reform of the regulation of retirement funds, the 2007 paper represents a fundamental re-think on the role of government, the private sector and individuals in ensuring financial security in old age and in the context of other lifetime crises such as unemployment, disablement and the death of a breadwinner.

Bearing this in mind, Government's proposals are based on two principal objectives:

- to ensure a basic standard of living and to prevent destitution in old age or in circumstances of unemployment or incapacity partly or wholly through redistributive measures, and
- to encourage savings to provide for the replacement of income on retirement, disablement or death through long-term insurance arrangements.

The plan is to close the gap between poverty relief measures and tax-incentivised long-term

insurance and savings measures that do not provide adequately for low-income or irregular income workers.

On a first read the proposals seem a tad vague. Certainly they raise numerous questions that will probably be answered after considerable debate, both within Government and in public arenas, on a range of possible approaches to be adopted. Nonetheless, Government has given people enough to gnaw on and, indeed, it is nourishing and invigorating stuff.

SOCIAL SECURITY AND RETIREMENT REFORM

Most people in formal sector jobs contribute to pension, provident or retirement annuity funds and some people save enough in this way to be able to live adequately in retirement. However, many South Africans do not save, or leave it too late in their careers to save enough for retirement. This is partly because many working people cash in their pension savings when they change jobs, or have informal or irregular employment, which makes it difficult to save.

Although South Africa has a well-established retirement industry, it does not adequately meet everyone's needs. The problem of retirement saving is closely related to other aspects of social insurance. Some people cash in their savings when they lose their jobs because their unemployment benefits are insufficient. Some people find it necessary to draw on their savings to meet medical costs in the event of an injury or ill-health. If the benefits available for dependent children are inadequate when someone dies or becomes disabled, then other family members carry an increased burden.

The global economic meltdowns have contributed to the number of workers who have been retrenched. Nine hundred thousand workers have been retrenched in South Africa. These workers are forced to exit their respective pension funds and withdraw their benefits. Majority of these people will use the money to overcome their financial difficulties or to settle their debts or to provide for their families. The problem with this withdrawal is that when these people happen to get another employment, as

they are still far from reaching retirement, they would have used their previous savings and this will decrease the lump sums they will cash when they retire.

The 2007 proposal has not yet been implemented so far, and the National Treasury and the Department of Social Development who spearheaded this proposal have already indicated that the projected deadline of 2010 to implement this proposal is no longer possible. The third discussion paper has not yet been issued even though the stakeholders were promised to receive this proposal in October 2009, which simply suggests that there is still a need to wait for more years to implement this proposal and pass legislations that will replace the Pension Funds Act. This Act will regulate all pension funds registered under the Registrar of Pension Funds, the Government Employees Pension Law of 1996.⁶ It regulates the Government Employees Pension Fund, the Transnet Pension Fund Act, 62 of 1990,⁷ the South Post Office Retirement Fund Act and the Special Pensions Act, 69 of 1996.

There are various retirement legislations in South Africa. These legislations are different and this creates a lot of confusion for the members of the pension funds. For example the Pension Funds Act, 24 of 1956⁸ introduces the clean break principle in divorce cases through the promulgations of the Pension Funds Amendment Act, 11 of 2007⁹ and Financial Services Laws General Amendment Act, 22 of 2008.¹⁰ This principle allows the non-member spouses to withdraw their pension interest on the date of the divorce order as opposed to the date when the member exited the fund either as a result of resignation/retrenchment/dismissal, disability, death and retirement. The Government Employees Pension Law, 1996, Transnet Pension Fund Act and the South Post Office Retirement Fund Act have not yet amended their legislations to introduce the clean break principle. They are still using the old system that was referred above. This principle was introduced to address the injustices of the past and also to promote the principle of the South African Constitution Act, 108 of 1996¹¹ that promotes non-sexism and

equality for all. Non-member spouses have to wait for more years until the circumstances mentioned above occur for them to be entitled to their 50 per cent portion of pension interest.

The reform is 'one of the most difficult reforms in any economy'. Chile – a country often used as a model for the South African social security system – is already in its fourth cycle of reform. The Chilean Pension Reform was introduced at the beginning of the 1980s as the successor to the old state run system, which went bankrupt. Like Chile, many countries, including the United States, are facing the insolvency of their social security system. 'That is because their populations are aging; and their systems must pay a high level of benefits compared with a low level of revenues'. Chile's experience is relevant for every country that is trying to make its system solvent again (these comments were made by Olivia Mitchell on Chile's Pension Reform: An inspiration to others, visit also www.wharton.universia.net).¹²

The Chilean reform includes the concept of individual capital accounts. This feature appeals to many people who believe that governments are often unable to maintain sufficient assets to finance a retirement system. Individual accounts can be better protected against political risks. Its retirement reform incorporates a 'security network' in the form of minimum pensions and old-age benefits guaranteed by the government.¹³

And the model of European efficiency, Sweden, is busy with its sixth iteration. In Sweden, the generous Defined Benefit state scheme has been replaced by National Defined Contribution scheme and there is a mandatory funded individual account and also the choice of 700 investment funds. The real challenge for South Africa is to learn from these countries and consolidate decades' worth of international experience in a 3–4-year implementation locally. This will require buy-in from all stakeholders in the long-term savings environment. The reform is like a journey and a long one, but it needs the government and the private sector to assist each other to have a reform that will rectify the injustices of the past and create an environment wherein they will be consistent in the industry or

the standard uniform. Currently, there are more than 15 000 registered pension funds in the country and each fund has its set of rules.

The global recession and economic meltdown will also delay the implementation of the reform as the pension funds industry has already been hit by recession. The impact of a recession in the economy is that it compromises your ability to save and it compromises the performance of your pension funds. This is particularly worrying in a country like South Africa, where the small percentage of the population covered by retirement funding structures quickly dwindles. Between 2005 and 2008 South Africa has experienced a worrying decline in pension fund participation in the formal sector, from 61.73 per cent to 56.63 per cent. There were reports by the World Bank that suggest that countries that are affected by the recession must take 7 years to recover. This will also hinder the progress in the South African Social Security and Retirement Reform.

South Africa Social Security and Retirement reform will shift from the Defined contribution ('DC') schemes, which were usually preferred by the private sector to the Defined Benefit ('DB') schemes, which are commonly used in the public sector. The members of the pension funds will all belong to the National fund. The DB component is being introduced to provide 'a basic retirement benefit that is designed to ensure a minimum level of income protection in old age over and above the social old age grant. A high degree of benefit assurance is important, given the income protection objective'. The system design, they say, should diversify the risk rather than expose either the members or government to excessive risk at a reasonable cost.¹⁴ There is a lot of debate in South Africa that the government will not be able to sustain this generous DB fund since the revenue collections have also declined. Many lessons can be learnt from the Nigerian Pension Reform Act of 2004 where they have replaced DB schemes with DC scheme. But South Africa is a country where there is no balance when it comes to the salaries of the workers. There is too much gap. This might be as a result of racial policies. Majority of workers

are in the informal sector and they contribute less to their retirement. Having a DC fund will favour the minority who are earning a lot of money as opposed to the majority. More than 12 million people are depending on social grants as they are unemployed, and this shows that poverty is still a problem in South Africa.¹⁴

PROPOSALS IN THE SOCIAL SECURITY AND RETIREMENT REFORM

State Old Age Pensions (SOAP) for all

It is proposed that social assistance grants continue to be provided to the elderly, the disabled, children and care-givers. However, it is proposed that either the threshold for the deduction of independent income from the grant be increased or the means test be eliminated altogether. The means test does not work effectively and it encourages dishonesty.

It appears that South Africans will all get SOAP when they retire, but it is not clear if they will also all get disability benefits or childcare grants if they have the means to survive without them.

A wage subsidy

Government proposes to introduce an explicit wage subsidy that could take the form of a reimbursement to the employer in the form of a rebate or credit in the PAYE system. It would only be paid in respect of employees earning below a specified level of wages, such as R43 000 and will be greater in value, the less that the employee earns. The details of the proposal are scant and Government recognises that there are numerous design issues that will have to be carefully considered and addressed. For example, it considers that it may be that it would be more cost-effective to subsidise workers in particular sectors, or only first-time entrants to the labour department.

Either way, it is thought that the wage subsidy is more likely to protect the living standards of working people than is regulation of labour relations. It is also more likely to promote, rather than inhibit, economic activity.

It is possible that this wage subsidy will encourage employers and employees to place their relationships on a more 'formal' footing so that they can take advantage of the subsidy. Certainly it is hoped that it will contribute towards job creation because it will lower the cost of jobs.

Mandatory participation in a national social security system for all

This is the most controversial policy proposal and one that threatens the business of many providers of retirement funding products and services to the low-income, formally employed market.

The proposal is that all employed in the formal sector will all be obliged to contribute to a national social security fund. Compulsory contributions by domestic workers and the self-employed would be phased in over time. It remains to be seen whether voluntary contributions by people employed in the informal sector will be feasible.

Investigations will also have to be done to determine whether it would be feasible to implement the proposals in the 2004 *Discussion Paper* that contributors be allowed to withdraw amounts from the scheme to deal with life crises with due consideration for the need to encourage preservation. It is proposed in the 2007 *Second Discussion Paper* that compulsory preservation would apply to compulsory contributions.

The rate of contribution would be between 13 per cent and 18 per cent of after-tax wages (or between 11.5 per cent and 15 per cent of before-tax wages) up to a threshold of, say, R60 000 a year. If the percentage is 15 then, if you earn R70 000, you will be obliged to contribute 15 per cent of R60 000, that is R9 000 a year or R750 a month. The cost of the contribution payable by a low-income worker should be covered by his or her wage subsidy.

For their contributions contributors will receive 'basic retirement funding' determined on a 'defined contribution' basis, unemployment insurance and life and disability cover. If social health insurance is thrown into the mix, the contribution rate would have to increase to between 20 per cent and 25 per cent of wages.

Contributors could be allowed to make additional voluntary contributions to the scheme.

The fact that the rate of compulsory contribution will depend on each contributor's rate of earnings means that the system will recognise the economic link between earned income and the affordability of benefits and will add both real and perceived value to the employment and remuneration contract.

If one earns less than the minimum taxable income (now R45 000 a year), his/her contributions to the social security fund would be paid by the state through the wage subsidy. This should mean that these new obligations do not increase the cost of the employment of low-income workers. This is one of the 'redistributive' elements of the overall proposal but entails an explicit subsidy rather than the cross-subsidy by some contributors of the cost of providing benefits to others.

South African Revenue Service (SARS) will need to undergo administrative reforms to enable it to maintain individual contributor records and ensure efficient and reliable benefits administration although the latter could be conducted by the Social Security Agency. The cost of this reform may, however, be offset by the savings and efficiencies that will result from the consolidation of the social security arrangements that are now in place to finance unemployment insurance, maternity benefits, compensation for illnesses contracted at work and injuries sustained at the workplace or on the road.

And the reason for this proposal? The fact is that none of the South Africans save enough. South Africans underestimate the financial risks that they face and we put off making savings and investment decisions. Most of South Africans prefer default arrangements over those that require them to make a decision. The people who are most vulnerable will tend to be excluded if participation is subject to choice or selection. They are also the most vulnerable to the relatively high costs of private sector retirement funding arrangements, and therefore will benefit from the economies of scale that will be achieved.

For some reason, perhaps related to South Africans' national inferiority complex, South Africans seem to feel a little better if what is being proposed has been successfully tried out in other countries, especially western countries. In the light of this, many South Africans will take comfort from the fact that almost all members of the OECD, which comprises developed and middle-income countries, have some form of mandatory, earning-related provision, although there is variation in the measures used.

Many people have expressed doubt about whether Government is capable of running such a large scheme. They forget that SARS manages to collect tax 'contributions' from approximately eight million tax-paying individuals and the Social Security Agency pays out nearly 12 million social security grants each month. It is common cause that there are instances of fraud in relation to social grants, but corruption is not an element of the product or delivery design as it has arguably been in the case of some private sector retirement funding products. Nonetheless, Government intends to research and consult over the possibility of 'outsourcing' some of the management of the scheme, even considering the 'contracting out' options adopted by some overseas jurisdictions.¹⁵

Mandatory participation in private occupational or individual retirement funds

There is a well-established case for the collective provision of basic insurance against catastrophic events, such as death, disability and unemployment, through a mandatory social security arrangement. Mandatory universal participation in a pooled social insurance arrangement recognises that those who are most vulnerable will tend to be excluded if participation is subject to choice or selection. If everyone is to enjoy equal, basic protection against life crises, participation has to be obligatory.

There are also compelling reasons for mandatory contributions towards retirement savings. Although there is widespread acknowledgement of the importance of savings and long-term insurance, in practice the tendency is for individuals to discount risks and future

needs, and to defer savings and investment decisions. Evidence suggests that although workers recognise the importance of retirement provision and state an intention to join a retirement plan or to increase their savings, only a small fraction do so in practice.

The proposed introduction of mandatory retirement savings in South Africa is therefore in line with international practice in the development of broad-based pension systems. However, several alternative forms of mandatory provision exist. Most developed countries have mandatory social security schemes established in law and collectively administered. More recently, several governments have sought to supplement or substitute such public provision with mandatory contributions to individual accounts in privately managed pension schemes. Some countries have adopted a system of auto-enrolment, whereby individuals are automatically enrolled in a retirement plan, but can still practice individual choice to 'opt out' if they have more pressing financial needs or wish to transfer to an alternate plan. A variation on this is to allow people to opt out of a public scheme, provided that the individual or employer participates in a private pension plan that meets approved standards.

It is proposed that people employed in the formal sector be obliged to make additional contributions to occupational retirement funds or individual retirement funds out of their earnings above the earnings ceiling, up to a monetary cap. This should allow individuals to save to provide for an adequate income replacement after retirement. It may come as a relief to providers in the private sector that Government recognises the benefits of the capacity, innovation and competition evident in the private sector.

It is also proposed that funds be allowed to make transfers to the new national social security fund for the credit of individual members and then continue to collect contributions as 'top up' occupational or individual retirement funds. Unless this is made compulsory or at the election of individual members, it would be difficult to see funds wanting to make these transfers because it will reduce their economies of scale.

Voluntary additional contributions to occupational or individual retirement funds

It is proposed that additional voluntary contributions to private occupational or individual retirement funds be encouraged by means of tax incentives. Those tax incentives will not apply to contributions over a specified monetary cap.¹⁵

Reform of the governance and regulation of the retirement funding industry

The Second Discussion Paper gives South Africans a taste of the proposed regulatory reforms and provides as follows:

'A frank assessment of the current South African retirement savings landscape suggests that while many people in formal sector jobs contribute to retirement funds, the vast majority start too late in their careers to save enough for retirement, or cash in their retirement savings when they change jobs. Rates of contribution appear reasonable on average, but are increasingly being eroded by rising administration costs and risk premiums. The high proportion of DC retirement funds in the private sector means that the risk of governance failures, expense inflation and inadequate benefit protection fall on the individual member, who is often the least equipped to manage or withstand the loss'.

To address these problems, Government will propose a number of reforms such as:

- facilitating effective competition through increased transparency and disclosure, properly aligned incentive structures for intermediaries, removing regulatory barriers to the entry of a wider range of product providers and allowing transfers between funds and products without excessive penalty;
- achieving economies of scale by introducing accreditation standards that should encourage, if not compel, the consolidation of smaller occupational retirement funds into 'umbrella' or multi-employer funds;
- allowing a range of social security benefits to be provided by private retirement funds including

- short-term disability benefits, funeral benefits and post-retirement medical aid funding;
- protecting retirement savings from erosion by risk premium costs by setting minimum allocations of contributions to retirement savings, compulsory preservation and portability, regulated minimum early withdrawal benefits and restricted deductions;
- requiring the preservation of retirement savings on changes of employment through transfers to the employee's new fund, an individual retirement fund or the national social security fund while possibly allowing withdrawals on loss of employment, possibly after the exhaustion of the unemployment insurance benefit;
- to the extent possible, ensuring continuing income during disablement and/or retirement and for the dependants of members after the death of those members, by requiring that a portion of the benefits be paid in the form of an annuity (although transitional provisions will be required to protect provident funds while they adapt) or that only so much as is not required to fund a multiple of the state old age pension be allowed to be withdrawn;
- improving the cost-effectiveness of annuity products by facilitating the wider provision of pensions by funds themselves, rather than by insurers, or by using an annuity provided by the national social security fund;
- protecting pensions from the ravages of inflation;
- achieving a better balance between the social service function provided by trustees in distributing death benefits and the need to ensure simplicity and speed in that distribution exercise;
- improving the security of dependants served by dependants' umbrella trusts through better oversight and possibly the establishment of dedicated 'caretaker funds' regulated by the Financial Services Board;
- protecting unclaimed benefits through the establishment of a national Unclaimed Benefits Fund;
- regulating all retirement funds, including bargaining council funds and funds established in terms of specific statutes, in terms of a single Retirement Funds Act, extending the

jurisdiction of the pension funds adjudicator to funds over which she does not now have jurisdiction and reforming the institution of the adjudicator's office. Currently, the Adjudicator has jurisdiction only in funds that are registered with the Registrar of Pension Funds in terms of the Pension Funds Act. The Adjudicator lacks jurisdiction on the Government Employees Pension Fund that has more than one million members, the Transnet Pension Fund and South Africa Post Office Retirement Fund. This creates a concern as members of the above fund do not have a recourse as they have to contact the fund directly if they are not satisfied with the benefits they have received.

Reform of the tax system

A number of inequities and complexities that need to be addressed in our tax system have been identified. At the same time the tax system needs to maintain sufficient incentives in place to encourage voluntary additional provision for retirement, particularly as

- the requirements and the costs of regulatory compliance by retirement funds is higher than the requirements and costs of such compliance by other savings vehicles;
- there are synergies between a robust pension environment and the development of financial markets that in themselves have further economic development benefits; and
- retirement savings institutions provide a stable long-term flow of funds, directed primarily to domestic investment, because funds seek to match their long-term liabilities with appropriate assets.

International evidence indicates that front-loaded tax benefits – that is, the favourable tax treatment of contributions to retirement funding vehicles – is the most effective way of stimulating savings. This treatment is available to members of pension funds, is not available to members of provident funds, and is available on a restricted basis to members of retirement annuity funds. Therefore, it is likely that the reform of retirement funding

taxing arrangements will see more equitable tax treatment of contributions towards pension, provident and retirement annuity funds and the national social security fund with such contributions being wholly or partially tax-deductible and, in the case of low-income workers, paid by means of the wage subsidy. Higher-income earners have benefited disproportionately from tax incentives in the past without this serving any particular public purpose, so it is likely that there will be some form of monetary cap on tax relief on contributions to retirement funding vehicles.

There are a number of options in regard to the tax treatment of contributions that could be considered. These include granting full or partial tax deductibility at marginal rates, or a tax credit system. The tax credit system is roughly equivalent to allowing a tax deduction at a standard rate.

Special consideration will have to be given to the tax treatment of contributions of those with volatile incomes or periods of unemployment and those who have started contributing to a retirement fund late in life.

The tax on certain forms of retirement fund investment income has been scrapped to enhance the adequacy of funds available in retirement, to simplify the tax treatment of retirement savings and to minimise tax-driven investment decisions.

Finally, it is proposed that some tax relief on lump sums paid on retirement be retained but the basis for determining it this will have to be simplified. Withholding tax on benefits paid to persons with taxable income of less than R43 000 a year will be abolished.

CONCLUSION AND RECOMMENDATIONS

The delegates who attended the Institute for Retirement Funds Conference that was held in Durban, 2009 were told to expect the third discussion paper on social Security and Retirement Reform to be published in October 2009 by the Department of Social Development and National Treasury, who spearheaded the reform. To date, the third discussion paper has not yet been issued. This raises many questions, as the delay of issuing the third discussion paper will also delay the formulation

of a Bill. The Labour Relations Act was redrafted in 1995 and to date there is a lot of jurisprudence that has been created. The Social Security and Retirement Reform can also be developed to be on the level of South African Labour Law, which is one of the best in the world. Others have suggested that workers are given too many rights, which is a threat to the foreign investors who will want to do business in South Africa.

These proposals are broad and represent a starting point for the definition of the detail underlying the model for the future. The issues facing reformers are not all uniquely South African and much can be learned from international cases, although the combination of issues makes for a challenging task. Some major considerations include:

- the South African labour market that is characterised by high levels of unemployment, protracted periods between employment and irregular incomes;
- the high number of deaths before retirement, largely as a result of HIV-AIDS, is contrasted against a rising longevity among retirees;
- the high number of deaths before retirement means that income for young dependants is a critical concern;
- the existence of an effective skill set as well as retirement and risk benefit administration and delivery infrastructure in the private sector, which is not matched in the public sector;
- affordability for individuals, employers and government currently and on a sustainable basis;
- the challenge in introducing a savings culture into an environment where current personal savings levels are negative;
- the task of balancing tax incentives on savings with the costs of administering a compulsory system;
- determining an optimum balance between 'Pay as you go'-type savings and a fully funded benefit model. In considering the current voluntary retirement savings framework, two key observations can be made:
 - there is a relatively high level of coverage among the employed and self-employed;
 - other than those who exit funds early and do not preserve their benefits, members generally enjoy a real return on investment.

Government's perception of this model is that it is expensive by world standards and that it offers inadequate protection for individuals as demonstrated in instances of poor governance and conflicts of interest. Retirement saving is prone to 'leakage' when members fail to preserve their benefits and take them in cash. Tax incentives are viewed as inconsistent with social policy. In addition, the existing social security framework is seen as fragmented and not aligned with retirement provision.

The private sector holds the view that retirement fund administration is not profitable on its own and costs are exacerbated by low asset build-ups as a result of low income levels and high staff turnover. The latter factor also creates high administration activity rates. There is also a complex, inefficient and expensive compliance demand placed on providers. Group risk benefits offer cyclical profitability and the number of deaths pre-retirement must not be underestimated when designing a framework for the entire population.

The Second Discussion Paper concludes with the following stirring statement:

'These are reforms that will take several phases to be fully implemented. Their contribution to poverty reduction and income security will take time, their impact reinforced and magnified from one generation to the next. These are investments in social cohesion that will be felt long into the future, and South Africans owe it therefore to their children to be vigorous and critical in their debate'.

There are many uncertainties in the retirement industry, some still believe that the Regulator, Financial Services Board is not strong when it comes to regulation of the retirement industry. Reference can be made to the popular scandal the so-called 'fidencia scandal' wherein the trust fund misuse the beneficiaries monies that were placed in trust. Some beneficiaries have not yet been paid to date.

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