

NEW RETIREMENT REFORMS MUST BE SUSTAINABLE

Government's planned retirement reforms are set to provide South Africans better protection and an enhanced deal from the financial services industry, yet if this new model is to prove successful, it is critical that reform is structured in a sustainable manner in the long term.

This is according to Willem Loots, head of umbrella fund solutions at Liberty Corporate. "Sustainability has different meanings; in order for a retirement system to be sustainable, it should ensure broad access to many South Africans. With this in mind government has already made a number of positive retirement reform proposals that should benefit most South Africans. These include making the preservation of savings compulsory and a state contribution subsidy that enables low income earners to save."

He says it is important that government looks to other nations for guidance when structuring any new retirement funding model as there are lessons that can be learned, particularly from countries such as the US and Greece. "In these countries, social security works on pay-as-you-go defined benefits basis, which simply means the contribution of a worker today is used to pay the pension of a retiree today."

"This makes the system heavily dependent on a country's demographic balance, so the more people retiring relative to those working, the less the system is able to adequately pay those who reach retirement age," says Loots.

"Such systems are also easily prone to political influence. For example, a government can promise citizens an earlier retirement with more benefits, without actually having to fund this benefit. If this promise cannot be afforded, it sows the seeds for a government funding problem such as we are now seeing in Greece."

He says in 2010, Greece suggested raising the average retirement age which caused a number of violent riots among its citizens. "If you relate this back to South Africa, we are at the cusp of

reforming our retirement system and the issue of sustainability needs to be kept in mind at every step.”

Loots says how best to structure the National Social Security Fund will be core to the success of the proposed reformed retirement system. “The system needs to be flexible enough to cater for a number of unanticipated shocks (economic, demographic) and be able to respond to these without the need for political intervention. Therefore, consideration must be given to a funded defined contribution system as a more sustainable solution. This is a simple savings account that is very easy for citizens to understand.”

He says a defined contribution system may be workable for South Africans, as it not only promotes a culture of saving but also provides a platform through which individuals can be educated on the benefits of personal saving. “This kind of system can also provide a savings vehicle for those who aren’t formally employed, as well as providing a better solution to others who are either unable to work or not able to work continuously.”

“Ideally, the benefits an individual accrues from a retirement system should be proportional to that individual’s contribution towards it; but in a country like South Africa it is also essential to have some kind of social protection floor in place for those who are not able to participate.”

We strongly support the initiative to improve the lives of all South Africans. There are some difficult demographic problems that South Africa is facing that need to be resolved - so expect the solution to be difficult to come by.” concludes Loots.