national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

MINISTER ISSUES FINAL RETIREMENT FUNDS DEFAULT REGULATIONS TO IMPROVE MEMBER OUTCOMES

The Minister of Finance today issues for implementation the final retirement funds default regulations ("regulations"), made in terms of section 36 of the Pension Funds Act (No. 24 of 1956). These regulations, published in Notice 863 of Government Gazette No. 41064 and available on the National Treasury website, will take effect on 1 September 2017.

The final default regulations are the outcome of an extensive consultative process between National Treasury, industry, the Financial Services Board (FSB) and other interested stakeholders. The first draft of the default regulations was published for public comment on 22 July 2015, and revised after taking into account public comments. The second draft of the regulations was published for public comment on 9 December 2016.

These final regulations are meant to improve the outcomes for members of retirement funds by ensuring that they get good value for their savings and retire comfortably. The regulations require retirement funds' trustee boards to offer a default in-fund preservation arrangement to members who leave the services of the participating employer before retirement, and also a default investment portfolio to contributing members who do not exercise any choice regarding how their savings should be invested. For retiring members, a fund should have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only "default" retiring members into a particular annuity product after a member has made a choice.

Member defaults should be relatively simple, cost-effective and transparent. The default regulations will require that fund trustee boards assist members during the accumulation and retirement phases.

Brief summary of the provisions in the regulations

<u>Default investment portfolio:</u> All retirement funds with a defined contribution category are required to have a default investment portfolio(s). The investment portfolio(s) that members are defaulted into should be appropriate, reasonably priced, well communicated to members, and offer good value for money. Trustees are required to monitor investment portfolios regularly to ensure continued compliance with these principles and rules. Performance fees will be allowed but subject to a standard to be issued by the FSB and a regulatory or policy review. Loyalty bonuses

are not permitted. The default investment portfolio regulation, for now, does not apply to retirement annuity and preservation funds.

Default preservation: Funds that have members enrolled into them as a condition of employment (i.e. pension and provident funds), will have to change their rules to allow for default preservation as some of them currently do not allow resigning workers to leave their accumulated retirement savings in the fund. The employee, however, will have the right and option to withdraw, upon request, the accumulated savings or to transfer them to any other fund, thereby achieving portability. Employees will also be required to first seek retirement benefits counselling before they make a decision. The default preservation regulation does not apply to retirement annuity and preservation funds.

Annuity strategy: Two types of annuities exist, a living and life annuity. A life annuity, once chosen or defaulted into, becomes irreversible. To better manage this irreversibility, it was decided that funds should first require the active participation of members, who should indicate beforehand, which type of annuity (e.g. life or living annuity) should be paid. This required pre-selection by the members makes the purchase of an annuity a "soft default" by having the member "opt-in" instead of "opting-out"; i.e. a member must first indicate which annuity product he/she would prefer being enrolled into.

The "default" annuity should also be appropriate for members, well communicated and offer good value for money. Members should be given access to retirement benefits counselling to assist them in understanding and giving effect to the annuity strategy.

Pension fund, pension preservation fund and retirement annuity funds are required to establish an annuity strategy. Provident and provident preservation funds must only establish an annuity strategy if the fund enables the member to elect an annuity. This does not mean that members of provident funds are compelled by these regulations to purchase an annuity upon retirement; the annuitisation of provident funds remains under discussion at Nedlac.

Implementation timelines

All new default arrangements that come into operation on or after the 1 September 2017 effective date of the regulations must comply with the requirements set out in the regulations.

Existing default arrangements will be expected to be fully aligned to the regulations 18 (eighteen) months after the effective date (1 September 2017) of the regulations, i.e. by 1 March 2019.

As with any new policy or regulation, these final regulations will be continuously monitored, assessed and reviewed to enable necessary updates that ensure that members of retirement funds are protected against excessive fees, excessively complex and opaque products and certain bad practices.

The National Treasury thanks all stakeholders for their contribution to this complex process.

Issued by the National Treasury

25 August 2017