

Media Release
Association for Savings and Investment South Africa (ASISA)
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The potential impact of the draft Regulation 28 on retirement annuities

The recent release of the draft amendments to Regulation 28 of the Pension Funds Act has led to much speculation about the potential impact on certain savings and investment products. The assumption has been made, for example, that the proposed amendments to Regulation 28 of the Pension Funds Act would make retirement annuity (RA) funds less attractive as investment vehicles and that unit trust investment could therefore be a better option once the changes to Regulation 28 had been implemented.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says before conclusive assumptions are made, it is important to note that the proposed amendments to Regulation 28 are still in draft format.

“The draft was released to the industry for discussion just over one month ago and ASISA and its members are still considering the various proposed changes and the impact they are likely to have. The deadline for comment is April 16, 2010.”

Dempsey highlights the fact that ASISA represents the majority of companies active in the local savings and investment industry, all sharing the common goal of providing consumers with appropriate savings and investment options.

“We must therefore caution against public statements advising consumers to choose one product over another based on draft amendments to regulations. Consumers are advised to always seek financial advice from a trusted financial adviser before selecting a product. This will help ensure that the investment is appropriate and in line with a solid financial plan.”

Commenting on the process of amending Regulation 28, Dempsey says: “We would like to point out that National Treasury and the Financial Services Board have followed a very open and inclusive approach on this. We are actively engaged with both on the amendment to Regulation 28 and are confident that the final outcome will be to the benefit of consumers.”

Dempsey says consumers who are concerned about the potential impact of the proposed Regulation 28 amendments need to bear in mind that the sole purpose of this regulation is to protect their retirement savings. “To ensure that this protection is extended to all RA fund members it is proposed that the investment restrictions of Regulation 28 should apply to all RA funds, including RA funds underwritten by a life insurer, which are currently excluded.”

He adds that by proposing that Regulation 28 is applied to all RA funds, the Ministry of Finance aims to protect RA fund members from the effects of poorly diversified investment portfolios and portfolios that do not match the risk profile of the investor.

This means that the amended Regulation 28 will not take away from the tax benefits or any of the other advantages currently offered by RAs, but rather limits the extent to which they may invest in particular assets and asset categories, which are considered higher risk. For example, once implemented, RA fund members may no longer expose their entire portfolio to equities.

Dempsey says the new regulations are also likely to ensure that investors do not end up investing large portions of their money in complex instruments they do not understand.

Before abandoning RAs as a vehicle for retirement savings as a result of the proposed changes to Regulation 28, consumers should also consider the following:

- Proper diversification is key when saving for the long-term. Your performance in a diversified fund may lag that of pure equity portfolios during times of strong market performance, but a well diversified portfolio will outperform during times of volatility. The events of the past 18 months have proven this powerfully.
- Regulation 28 quite specifically sets boundaries to mitigate against the risk of the investors having all their eggs in one basket - important, unless you believe that everything always goes according to plan.
- RA funds underwritten by life companies offer premium waivers in terms of which the life company will continue paying your premiums should you become disabled and unable to work.
- You have access to guaranteed or smoothed bonus portfolios, which protect you from investment risks as well as the inflation risk.
- RA funds have proven beneficial savings instruments for millions of people, because they encourage disciplined savings with tax incentives. For many their disciplined savings efforts paid off when they retired with an intact nest egg. (When investing in a RA fund, it is important that you understand that you cannot make withdrawals prior to retirement.)
- RA funds are protected against most creditors, with the exception of the Receiver of Revenue and a spouse or child entitled to maintenance in terms of a court order. This is especially important if you are self employed.

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To set up interviews please contact:

Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@mweb.co.za

Issued on behalf of:

Peter Dempsey
Deputy Chief Executive Officer
Association for Savings and Investment South Africa (ASISA)
(021) 673 1620

ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).