



Insurance and Pensions Symposium

Two Decades of Reform in South Africa's Pensions Market: Lessons for Building Trust, Resilience and Value in Zimbabwe

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Introduction



RSA has a large, sophisticated private pension system:

- 848 active pension funds; 3 385 terminating funds (4 233 in total)
- 88% of active funds are DC, with large commercial umbrella funds
- Total assets in 2023 estimated at R5.84 trillion, of which GEPF account for R2.3 trillion (about 83% of GDP)

“Three-pillar” framework:

- State social assistance (means tested old-age grant)
- Occupational and employment-based savings
- Voluntary individual savings



Initial reform agenda



In early 2000s, South Africa faced several structural problems in its retirement system:

- **Low coverage**, especially for informal and low-income workers
- **Severe pre-retirement leakage**, with many members cashing out on job change
- **High and opaque costs**
- **Weak governance** in some funds

These challenges triggered a long-running, phased reform process led by **National Treasury**, supported by regulators (FSB → FSCA).

The **Retirement Fund Reform Discussion Paper (December 2004)** laid the conceptual foundation for the next two decades of reform. It identified:

- **Inequitable tax treatment** across retirement vehicles
- **Governance** and member-protection weaknesses
- Inadequate **preservation**



Tax treatment



Harmonisation of Tax Treatment (Effective 2015–2016)

One of the most significant reforms was the **equalisation of tax treatment** for:

- Pension funds
- Provident funds
- Retirement annuity funds

Key outcomes:

- Uniform deduction limit (up to **27.5% of remuneration or taxable income**, capped annually)
- Greater simplicity and fairness across fund types

Increased Tax-Free Lump Sums (2023)

The tax-free portion of retirement lump sums was increased to improve retirement adequacy and equity.



Governance



Enhanced Trustee Governance (2013 onwards)

Amendments to the **Pension Funds Act (PFA)** increased:

- Trustee fiduciary responsibilities
- Personal liability for employers who failed to pay contributions
- Disclosure and reporting standards

Mandatory Trustee Toolkit completion (Effective 2024 onwards)

- Conduct Standard 4 of 2020 prescribes minimum skills and training requirements for board members of retirement funds
- Introduces mandatory completion of Trustee Toolkit – dates for completion set by notice
- First 11 modules (March 2024); second 11 modules (October 2024)
- Completion by close to 5 000 trustees – currently 300 non-compliant trustees who will be removed from the boards



Preservation and Annuitisation



Default Regulations (Effective 2019)

A major consumer-protection reform introduced **mandatory default options**:

- **Default investment strategies**
- **Default preservation options** when members exit employment
- **Default annuity strategies** at retirement

Purpose:

- Protect less-financially-literate members
- Reduce costs and poor decision-making



Preservation and Annuitisation



Mandatory Annuitisation (Expanded 2021)

- Pension and retirement annuity funds require **at least two-thirds** of benefits to be annuitised at retirement.
- Provident funds were gradually brought into alignment (with transitional protections).

Purpose:

- Reduce the risk of retirees exhausting lump sums too quickly
- Improve longevity protection



Preservation and Annuitisation



The Two-Pot Retirement System (2024–Present)

The **Two-Pot System** is the most significant reform in decades. Structure:

- **Savings component** ($\frac{1}{3}$ of contributions): limited annual access before retirement
- **Retirement component** ($\frac{2}{3}$ of contributions): strictly preserved until retirement
- **Vested component**: pre-September 2024 balances under old rules

Key objectives:

- Reduce pre-retirement leakage
- Provide emergency access without resignation
- Strengthen long-term retirement adequacy



Regulatory model



South Africa implemented the **Twin Peaks** model (from **2018**)

- **Prudential Authority (SARB)** – financial soundness
- **Financial Sector Conduct Authority (FSCA)** – market conduct and consumer protection

For pensions, this meant:

- Stronger scrutiny of fund governance and member outcomes
- Outcome-based supervision rather than rule-checking

Regulatory split not yet implemented – set to be implemented by April 2028



Future reform agenda



Value for Money

More recently, South Africa's reform agenda has increasingly focused on value for money in the retirement system. This reflects a growing recognition that:

- High fees can significantly erode retirement outcomes
- Poor investment decisions can undermine long-term savings
- Lack of transparency prevents informed decision-making

The FSCA is currently exploring the development of its own Value for Money framework, drawing on key elements of the Australian and UK models to create an approach suited to South Africa's retirement fund landscape.

This approach aims to promote consistency in evaluating member outcomes, support stronger governance, and drive meaningful improvements in cost efficiency and investment performance across retirement funds.



Future reform agenda



Unclaimed Benefits

One of the most pressing challenges in South Africa's retirement system has been the issue of unclaimed benefits. (over R88 billion in unclaimed assets, including retirement benefits, bank accounts, investments and insurance payouts). Many of these unclaimed benefits trace back to poor historical data, incomplete employer records, and the legacy of migrant labour systems in mining, manufacturing and engineering. This issue raises fundamental questions about:

- System design
- Administrative efficiency
- Data integrity
- Consumer engagement

For Zimbabwe, addressing similar risks early (through robust record-keeping, portability and member communication) can prevent the accumulation of such challenges.



Future reform agenda



Unclaimed Benefits

The South African Government has confirmed that it is implementing a major initiative to centralise the management and investment of more than R88 billion in unclaimed financial assets. This is a decisive step to ensure that the value of these assets accrues to the rightful owners, and not to financial institutions, government or any other parties.

The proposed framework will introduce a central manager to oversee the administrative processes; including record-keeping and the critically important work of tracing beneficiaries.

Consideration of investment of unclaimed assets in a central place such as the Corporation for Public Deposits



Future reform agenda



Conduct of Financial Institutions (COFI) Bill

Aims to provide for the establishment of a consolidated, comprehensive and consistent regulatory framework for the conduct of financial institutions;

Will enhance both the oversight and powers of over retirement funds – will include big public sector funds such as the GEPF to regulatory scrutiny; expand powers of the FSCA over employers (currently no such powers exist)



Future reform agenda



Auto-enrolment/Micro-Pensions/NSSF

Roughly 30% of formal sector workers do not contribute to a retirement fund due to the voluntary nature of retirement fund participation in South Africa. Informal sector workers are largely excluded, as traditional pension schemes assume a formal employer-employee relationship. Retirement annuity funds, while accessible, generally do not accommodate irregular contributions, making them unsuitable for informal or gig economy workers.

To address the coverage issue, the FSCA and National Treasury are exploring a combination of interventions which include auto-enrolment and micro-pensions, with possibility of establishing a National Social Security Fund. The National treasury proposed auto enrolment in December 2021, to improve retirement savings for formal employees. The purpose of auto enrolment was to increase retirement coverage and provide risk cover for workers, thereby addressing a critical gap as many employees lack employer sponsored retirement benefits and do not have alternative retirement saving plans.



Future reform agenda



Auto-enrolment/Micro-Pensions/NSSF

Lack of access to employer-based pension benefits has led to the development of a recent phenomenon: micro pension schemes to reduce old age income security risks.

Micro pension schemes suggests that the most common features of micro pensions that reach a large share of informal workers include contributions of small amounts, flexibility in payment amounts and the timing of payments, and flexible withdrawal opportunities that allow pension savings to be withdrawn at the request of a member much earlier than statutory age for retirement.

Efficient processing of small savings at low costs to both participants and providers is critical to the success of micro pension schemes. It is also important put strategies in place to stimulate participation and regular contributions to the schemes.

The National Social Security Fund has been proposed, which would establish a comprehensive, earnings-related public pension covering all workers, including the informal sector. The NSSF was introduced in the 2012 Discussion Document on Comprehensive Social Security. The NSSF would act as a public defined benefit (DB) pension system, pooling mandatory contributions to ensure minimum retirement outcomes.



Lessons for Zimbabwe



Some current issues in Zimbabwe:

- 1) Performance of pension assets (loss of value)
- 2) Unclaimed benefits
- 3) Extension of remit of IPEC over NSSA

Possible applications from South Africa

- 1) Increase in our off-shore allowance to 45% has allowed for enhanced risk management, avoidance of concentration risk and portfolio diversification
- 2) Common definition of unclaimed benefits and clear rules about how funds should be dealt with to avoid conflicts of interest by administrators – erosion of benefits through ineffective and costly tracing
- 3) Expansion of regulatory remit likely to bring new challenges especially on the prudential side

Thank You

