national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

PROCESS AND APPROACH TO PRESERVATION AND ACCESS TO RETIREMENT SAVINGS

In response to the many media queries, National Treasury wishes to provide more details on the approach and planned timelines concerning the proposal to allow for greater preservation with limited pre-retirement withdrawals from retirement funds.

Even before the advent of COVID-19, the government recognised that many members may need to access part of their savings in particular unexpected circumstances. It is for this reason that the Minister of Finance noted in the 2020 Medium Term Budget Policy Statement (MTBPS) and 2021 Budget that consideration is being given to allow limited pre-retirement withdrawals from retirement funds under certain conditions, provided that this is accompanied by mandatory preservation upon resignation from a job. The government has been engaging with trade unions, retirement funds, regulators and other stakeholders to discuss how to increase savings and improve preservation and allow limited withdrawals, without creating liquidity and investment risks.

Any consideration for early access will require legislative and fund-rule amendments because the current law and policy prohibits any pre-retirement access to retirement savings unless an employee resigns or is retrenched. It is expected that the earliest that any changes would become effective for a new withdrawal mechanism is 2022. However, the withdrawal process will not cover the Government Employees Pension Fund (GEPF), as it is not regulated under the Pension Fund Act, and hence no COVID-related withdrawals will be allowed.

Retirement funds are primarily designed to encourage individuals to save while working to finance consumption later during retirement. The government provides generous tax deductions and benefits to encourage all working people to save and preserve more for their retirement. Redesigning the retirement system to allow for limited withdrawals with mandatory preservation is complex and requires thorough consultations. Government has been working on a more structured two-bucket system that will enable the restructuring of future contributions. One bucket is to be preserved until retirement, and the second bucket will allow for pre-retirement access during emergencies or extra-ordinary circumstances. Whilst these measures cover pension and provident funds, a harmonised approach on withdrawals is also being considered for retirement annuities.

Implementing any new system allowing limited withdrawals with preservation will take time because in addition to prior consultation, legislative and fund rule amendments have to be done and fund administrators will also have to change their systems. Design work and consultation are ongoing, further announcements and the public release of the proposed measures for public comment and consideration will be made shortly, before or at the 2021 MTBPS. It is envisaged that the necessary legislative amendments will be introduced in Parliament thereafter.

Members of retirement funds are advised NOT to contact their retirement funds to withdraw funds (unless retiring, resigning or retrenched), as these retirement funds are legally not empowered to allow pre-retirement withdrawals until the law is enacted. It is expected that any changes to the law would only become effective next year at the earliest, and some of the medium-term provisions may take even longer to take effect. The government remains committed to encouraging South Africans to save more, both for their retirement and for shorter periods before retirement.

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