Update!

PRESCRIBED ASSETS AND THE RETIREMENT FUND INDUSTRY

On 22 August 2019, President Cyril Ramaphosa called for a national dialogue about the introduction of prescribed investments for retirement funds. This means that the state could compel institutions such as pension funds and insurance companies to invest a part of their money in state institutions or bonds.

The news was met with great concern by industry role-players and investors alike. The prescription of assets for retirement funds was legislated in South Africa between **1956** and **1989**. The practice was deemed unsustainable and discontinued after it became apparent that taxpayers were bearing the burden of the system's inadequacies.

That's why all eyes were on Finance Minister Tito Mboweni's delivery of the medium-term budget speech on **24 October 2019**. When asked about the Treasury's position on the prescription of assets, the minister remarked that there will be no **active pursuit** of introducing prescribed assets legislation.

Mboweni went on to warn the industry against comments that could scare members into cashing out their funds early. This is neither beneficial to individual fund members, who would interrupt their savings plans, nor the fund as a collective.

The initial announcement by President Ramaphosa had caused uncertainty and instability in the markets. Retirement fund role-players rightfully raised their concerns in the hopes of protecting members. However, many commentators took a different approach to reporting on the matter, causing undue panic and anxiety for many hard-working South Africans.

Did You Know?

Retirement funds do already invest in state-owned enterprises, as long as the investments are in line with their portfolios' return expectations and their members' risk profiles. In other words, they can choose to invest in these state institutions only if they are sustainable, suitable, and in the members' best interests.

It's important to remember that not all motions and propositions by the government make it past the public and parliamentary discussion phase. Introducing legislation requires industry deliberation, opportunity for public comment, and extensive parliamentary dialogue. To date, there has been no substantial evidence of the process being treated with interest or urgency by legislators.

South Africa has 22 million smartphone subscribers and any of them can use the internet to spread misinformation and hysteria. We encourage all members to rely on the Fund and reliable sources in the finance world for all their concerns about the retirement fund industry.

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