PROPOSED RETIREMENT REFORMS: ARE TAX CONCESSIONS SUFFICIENT TO ENTICE SOUTH AFRICANS TO SAVE FOR RETIREMENT?

by

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ABSTRACT

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The government is concerned about the fact that South Africans are currently not saving enough towards retirement. Inadequate provision for retirement has a negative impact on the financial independence of retired citizens and leaves them reliant on the government or family for support. This prevents family members from saving for their own retirement and increases the burden on taxpayers to fund government grants for the elderly.

In order to motivate South Africans to save more for their retirement, the Minister of Finance, in his 2013 budget speech, proposed improved retirement savings tax incentives. The aim of this study was to determine whether South Africans are aware of the proposed increases in retirement tax incentives and whether these incentives would be sufficient to encourage them to either start saving or save more for retirement. The literature review conducted for the purpose of this study revealed that all the relevant existing research is of an international nature and was undertaken after changes to tax incentives had been implemented. This study was conducted from a South African perspective and focused on the likely effect of proposed changes to tax incentives still to be implemented.

The inquiry strategy that was followed was survey research by way of structured face-to-face interviews with 20 participants, based on their responses to eight questions asked in a questionnaire. The purpose of this research was to develop an understanding of the relationship between changes in tax incentives and savings behaviour, and not to solve the problem caused by South Africans' failure to save sufficiently for retirement. The study is therefore basic in nature. This is an empirical study since primary data was collected specifically for this research project. The data represents the participants' responses at a specific point in time and therefore the study is cross-sectional. The study is non-experimental as no predictions were made with regard to the outcome of the research questions asked.

Based on the answers collected during the interviews, it can be concluded that although people are generally not aware of the proposed changes, these changes in the tax incentives relating to retirement funds would indeed encourage them to start saving more.

Keywords:
Tax incentives
Retirement savings
Retirement reform
Pension fund
Provident fund
Retirement annuity
Non-pensionable salary
Pensionable salary

OPSOMMING

VOORGESTELEDE AFTREDEHERVORMING: IS BELASTINGTOEGEWINGS VOLDOENDE OM SUID-AFRIKANERS AAN TE SPOOR OM VIR HUL AFTREDE TE SPAAR?

deur

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Die regering is besorg oor die feit dat Suid-Afrikaners huidiglik nie genoeg vir hul aftrede spaar nie. Onvoldoende voorsiening vir aftrede het ’n negatiewe impak op die finansiële onafhanklikheid van afgetrede burgers, wat daartoe lei dat hulle van regerings- of familie-ondersteuning afhanklik raak. Dit veroorsaak dat familielede nie vir hul eie aftrede voorsiening kan maak nie en verhoog ook die las op belastingbetalers wat regeringstoelae vir bejaardes moet befonds.

Ten einde Suid-Afrikaners aan te spoor om meer vir hul aftrede te spaar, het die Minister van Finansies in sy 2013 begrotingsrede verbeterde belastingtoegewings vir aftredevoorsiening voorgestel. Die doel van hierdie studie was om te bepaal of Suid-Afrikaners bewus is van die voorgestelde verhogings in die belastingtoegewings vir aftredevoorsiening en of dié toegewings voldoende sal wees om hulle aan te spoor om meer vir hul aftrede te spaar. Uit die literatuuroorsig blyk dit dat al die bestaande navorsing in dié verband internasionaal van aard is en onderneem is nadat veranderinge aan belastingtoegewings reeds geimplimenteer was. Hierdie studie is uitgevoer vanuit ’n Suid-Afrikaanse perspektief en het op beplande toekomstige belastingtoegewings gefokus.

Die ondersoekstrategie wat gevolg is was opnamenavorsing deur op grond van ’n vraelys met agt vrae gestruktureerde persoonlike onderhoude met 20 deelnemers te voer. Die doel van die navorsing was om die verband tussen belastingtoegewings en spaargedrag te ondersoek, en nie om ’n oplossing te vind vir die probleem wat veroorsaak word deurdat Suid-Afrikaners nie genoeg vir hul aftrede spaar nie. Die studie is dus basies van aard. Dit is ’n empiriese studie, aangesien primêre data spesifiek vir die doel van hierdie navorsingsprojek ingesamel is. Die data gee die deelnemers se reaksies op ’n bepaalde tydstip weer; dus is dit ’n deursnitstudie. Die studie is nie-eksperimenteel van aard, aangesien geen voorspellings gemaak is met betrekking tot die uitslag van die vrae wat gevra is nie.

Op grond van die antwoorde wat gedurende die onderhoude gegee is, kan daar tot die gevolgtrekking gekom word dat alhoewel mense oor die algemeen nie van die voorgestelde verhogings in belastingtoegewings vir aftredevoorsiening bewus is nie, hierdie toegewings hulle wel sal aanspoor om beter finansiële voorsiening vir hul aftrede te maak.

Sleutelwoorde:
Belastingtoegewings
Aftredevoorsiening
Aftredehervorming
Pensioenfonds
Uittree-annuiteïtsfonds
Voorsorgfonds
Niepensioengewende inkomste
Pensioengewendeinkomste

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

In his 2012 budget speech, the Minister of Finance emphasised the need for South Africans to save for retirement. Although retirement investments comprise almost 60% of South African household savings, the level of saving has declined progressively over time (National Treasury, 2012:4). It is estimated that only about half of the South African labour force contributes to retirement funds (National Treasury, 2013c:12). This situation is also causing concern among retirement industry players. Momentum Employee Benefits found that currently only 6% of all South Africans would be in a position to retire with sufficient financial security (Jooste, 2012).

To promote savings, increased tax incentives for retirement savings were proposed in the 2013 budget speech (National Treasury, 2013b:18-19). These include tax deductions for employee contributions to provident funds and a uniform percentage of 27.5% on either remuneration, or taxable income for pension, provident fund and retirement annuity contributions. The deduction would apply to the higher of these two amounts (National Treasury, 2013c:1). Currently deductions of employee contributions to pension funds are limited to the higher of R1 750 or 7.5% of pensionable income (section 11(k)(i) of the Income Tax Act No. 58 of 1962, hereafter referred to as the Act). Deductions of employee contributions to retirement annuities are limited to the highest of 15% of non-pensionable income, R3 500 less contributions to a pension fund or R1 750 (section 11(n) of the Act). No deduction is available for employee contributions to provident funds.

Some research undertaken on the relationship between changes in retirement tax incentives and the saving behaviour of individuals revealed that income and education played a key part in responses to a modified tax environment (Hecht & Hanewald, 2012:24) and that changes in respect of retirement tax led to considerable increases in contributions by low-income households (Heim & Lurie, 2013). However, other research suggests that these results are ambiguous as, for example, taxes are not the pivotal factor in people's decision to join a retirement plan (Jordan & Treisch, 2010:157) and a significant increase in the deductibility of pension fund holdings in Italy did not succeed in increasing contributions (Marino, Pericoli & Ventura, 2011:260). This research is, however, of an international nature and a thorough search of databases such as EBSCOHost, Emerald, Proquest and Sabinet, as well as Google Scholar, academic journals and previous dissertations and theses revealed that no academic research has yet been conducted in South Africa to determine whether the tax incentives offered by the proposed retirement reforms would persuade South Africans to save more.

Incentivising retirement savings is critical, since insufficient savings makes it impossible for individuals to maintain their standard of living after retirement and places greater strain on the government to care for them. Over the past 30 years government pension schemes have increasingly failed to provide adequate retirement insurance (Marino *et al.*, 2011:247). The result is that the government passes this burden on to the taxpayers (National Treasury, 2012:4), which compromises said taxpayers' ability to provide adequately for their own retirement.

1.2 PROBLEM STATEMENT

Insufficient retirement savings increase the burden on the government and intensify the financial exposure of the elderly, leaving many reliant on family for support. This inhibits the ability of many young families to make provision for their own futures (National Treasury, 2012:8). Comments on the envisioned retirement reforms focus mainly on the mechanics and administration of the proposed tax incentives (National Treasury, 2013c:3) and fail to evaluate the probability of these incentives being successful in promoting savings. The existing international research suggests that there is no clear answer regarding the actual ability of retirement tax concessions to induce changes in saving behaviour (Hecht & Hanewald, 2012:5-26; Heim & Lurie, 2012:283-312; Heim & Lurie, 2013; Jordan & Treisch, 2010:157: Marino *et al.*, 2011:247-263). This study aimed to determine whether the proposed retirement reforms would be sufficient to encourage South Africans to either start saving or save more for retirement.

1.3 PURPOSE STATEMENT

The main purpose of this study was to investigate South Africans' attitudes regarding the proposed retirement tax incentives. The main research questions were:

- Are these individuals aware of the proposed tax incentives relating to retirement funds?
- Will these incentives be sufficient to encourage individuals to start saving or save more towards their retirement?

Academically, this study should contribute to an understanding of the relationship between changes in retirement tax incentives and saving behaviour in South Africa. In practice the outcome of the study should aid the government in assessing how effective the proposed changes are likely to be with regard to incentivising people to save for their retirement. Also, through identifying factors other than tax incentives that may encourage a culture of saving, this study could assist the government and the retirement industry in devising retirement savings alternatives other than the current standard options available. This may increase the number of individuals saving for retirement and the retirement contributions of individuals, thereby ultimately relieving the burden placed on taxpayers who have to take care of insufficiently covered citizens.

1.4 RESEARCH OBJECTIVES

- To determine the factors inhibiting South African individuals from either participating in or saving more in a retirement fund
- To determine the level of awareness of the proposed retirement tax incentives among these individuals

- To determine the willingness of the participants in this study to start saving or to save more for retirement in view of the proposed tax incentives
- To identify factors other than tax incentives that could encourage a culture of saving

1.5 DELIMITATIONS AND ASSUMPTIONS

1.5.1 DELIMITATIONS

The study had several delimitations with regard to its context, constructs and theoretical perspectives. First, since the focus was on the proposed retirement funding reforms in South Africa, the study was limited to South African citizens residing or working in Gauteng. Gauteng was chosen as the research location for various reasons, for example because it has the largest workforce and diverse populations, which makes it more representative of the South African population as a whole,(see assumptions in section 1.5.2) and also due to geographical practicalities for the researcher.

Second, the study focused only on individuals under retirement age who are currently employed as they belong to the population group that the government wishes to target through the proposed retirement funding reforms.

1.5.2 ASSUMPTIONS

Various assumptions were made with regard to the research design and methods applied to this study. These assumptions are as follows:

- Interview research as a strategy is the most appropriate method for gaining insight into South Africans' attitudes regarding the proposed changes in retirement tax incentives.
- The participants in the survey answered all the questions truthfully and disclosed the information required, for example why they were not yet saving more to provide for their retirement.
- The sampling method was the most appropriate and the sample size adequate.

- The identification of potential participants through existing contacts was an effective means of finding participants.
- Gauteng is the South African province with the largest workforce and diverse populations, which makes it more representative of the South African population.

1.6 DEFINITION OF KEY TERMS

The key concepts used in this study include conventional life annuity, defined benefit plans, defined contribution plans, living annuity, pension funds, provident funds, retirement annuity fund, retirement savings, Saver's Credit, supplemental pension insurance and tax incentives. For the purpose of this study these key terms are defined as follows:

Conventional life annuity: 'This annuity pays an income to individuals until they die, pooling longevity risk across individuals. Insurer uses its own capital to guarantee the income in the case of mismatches between its assets and liabilities and unanticipated fluctuations in mortality' (National Treasury, 2012:12). See section 2.3.2.

Defined benefit plans: In terms of this plan 'the monthly benefit (pension) is usually a certain percentage of final salary times the number of years of membership. In a defined benefit fund, the employer is responsible for ensuring full funding' (Van der Berg, 1997:490). See section 2.2.

Defined contribution plans: The risk of worse than expected investment returns or higher than expected expenses is borne by the individual fund member and not by the employer, as is the case with defined benefit plans (National Treasury, 2004:6-7). See section 2.2.

Living annuity: 'A phased withdrawal savings account with no longevity risk protection. Individuals must withdraw between 2.5% and 17.5% of the account each year. A wide range of investments is possible. Individual exposure to investment risks may be substantial' (National Treasury, 2012:12). See section 2.3.2.

Pension funds: 'These are funds established for the purpose of providing annuities (normally in the form of monthly pensions) for employees on their retirement from employment. In terms of Income Tax legislation, not more than one-third of the annuity payable may be commuted in a lump sum – accordingly, at least two-thirds of the benefit must be paid as a pension for the rest of the pensioner's life.' (Van den Heever, 2007:2). See section 2.4.

Provident funds: 'These are funds established solely for the purpose of providing benefits for employees on retirement, or solely for the purpose of providing benefits to a deceased member's dependants or for a combination of both. The benefits may be paid by way of a lump sum. No employee contribution is tax deductible.' (Van den Heever, 2007:2). See section 2.4.

Retirement annuity fund: This is a personal pension arrangement offered to individuals by life assurance companies. Both lump sum and monthly contributions can be made. The monies placed in the fund only become accessible once a member has reached the age of 55 years. Typically the performance of a fund of this kind is market-related. Retirement annuity funds are registered with the Financial Services Board and the South African Revenue Service and include 'linked funds' where annuities are tied to specified market instruments such as unit trusts. Except in the case of members who have become disabled, no withdrawals are permitted before members reach the age of 55 years (Van den Heever, 2007:3). See section 2.4.

Retirement savings: Money set aside to be spent after retirement (own definition). See Chapter 2.

Saver's Credit: Ramnath (2013:78) defined Saver's Credit as a tax incentive intended to promote retirement savings among middle- to low-income earners in the United States of America. See section 2.7.2.

Supplemental pension insurance: 'Retirement funds owned by individuals in addition to those for which participation is made compulsory by law' (Marino *et al*., 2011:249). See section 2.7.1.

Tax incentives: Jens and Roach (2012:21) describe tax incentives as special deductions or tax credits offered by the government to encourage certain types of investment or behaviour. 'Most tax incentives are designed to encourage taxpayers to undertake certain activities that they might not necessarily be normally inclined to do.' See section 2.1.

1.7 RESEARCH METHODOLOGY

The inquiry strategy applied for the purpose of this study is survey research by way of structured face-to-face interviews with 20 participants. A questionnaire consisting of eight questions was used as the data-collection instrument. The process is described in detail in Chapter 3.

1.8 SUMMARY OF CHAPTERS

This study comprises of five chapters that deal with the following respectively:

- An introduction to the study
- Literature review
- Research design and methodology
- Analysis of data collection
- Summary and conclusion

In Chapter 2, the existing literature on the relationship between changes in retirement tax incentives and the saving behaviour of individuals is considered and the extent to which changes in tax incentives actually influence saving behaviour is investigated. Arguments reflecting opposing points of view are analysed and the relevance of the findings to this study is evaluated.

Chapter 3 explains how this study was conducted. The inquiry strategy that was followed and the sampling methods that were applied are discussed. The data-collection instrument and the method used for data analysis are explained. The quality and rigour of the study are evaluated and the research ethics applied in this study are considered.

In Chapter 4 the results of the study are analysed by examining the data obtained through the interviews on a question-by-question basis.

In Chapter 5 a summary is provided of the research methodology that was followed. The extent to which the research objectives were met and the contribution this study has made to research in this field are considered. Recommendations are also made regarding possible future related research. Finally, a conclusion is drawn on whether the study succeeded in answering the following main research questions:

- Are South Africans aware of the proposed tax incentives relating to retirement funds?
- Will these incentives be sufficient to encourage South Africans to start saving, or to save more towards retirement?

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The literature undertaken for the purpose of this study focused on the following areas:

- A brief history of retirement funding in South Africa
- The background to the proposed changes in the current retirement tax incentives
- The current and proposed retirement tax incentive regimes
- Other proposed retirement reforms
- Prior research performed to determine the extent to which changes in retirement tax incentives drive change in the saving behaviour of individuals.

The worldwide phenomenon of an ageing population and the associated burden on social welfare systems require that individuals take greater responsibility for providing for their retirement. To improve individual retirement savings, governments introduce tax incentives to encourage people to join private retirement plans (Hecht & Hanewald, 2012:5).

Tax incentives are generally intended to encourage a change in taxpayer behaviour. By allowing a tax deduction for this preferred behaviour, the government can promote certain types of investment and behaviour. The granting of tax incentives is not a revenue-raising activity, but these concessions redistribute normal government resources into other areas that the government does not intend to fund directly (Jens & Roach, 2012:21).

Although there is general consensus in the economic literature that there is an urgent need for an increase in retirement savings, opinions regarding the effectiveness of fiscal incentives in achieving this objective vary (Marino *et al*., 2011:248).

The government will benefit from knowing whether the introduction of incentives actually result in increased participation in retirement savings plans, and also whether this leads to increased contributions. This information would enable them to quantify the effect of tax incentives on tax collections, since an increase in tax-preferred contributions will result in a decrease in income tax revenue. It will also assist them in determining whether changes in tax policy are in fact effective as a means to influence the level of retirement savings (Heim & Lurie, 2012:284). However, it should be noted that the provision of tax benefits for private retirement schemes can only be successful if individuals do actually take into account the effect of tax incentives in their retirement savings decisions (Jordan & Treisch, 2010:157-158).

It is clear from this literature review that there are two schools of thought. On the one hand there is research that suggests that changes in retirement tax incentives do indeed contribute to a change in saving behaviour in that they encourage individuals to either save more or to start saving for retirement (Hecht and Hanewald, 2012:5; Heim & Lurie, 2012:308; Heim & Lurie, 2013:32). On the other hand there is research that implies that changes in retirement tax incentives do not induce an increase in retirement savings (Jordan & Treisch, 2010:158; Marino *et al*., 2011:260) and could even have unwanted effects, such as income manipulation or tax evasion (Ramnath, 2013:77).

This literature review evaluates both the above-mentioned points of view to determine the relevance of those findings for this study, but will commence by comparing the retirement tax incentives that are currently in place and the changes that have been proposed.

2.2 A BRIEF HISTORY OF RETIREMENT FUNDING IN SOUTH AFRICA

The development of the South African retirement funding system is relatively unique when compared to countries with similar levels of advancement in its retirement funding systems. Whereas the majority of those countries have specific social security system policies in place, South Africa has implemented both occupational and private arrangements. Occupational retirement arrangements focus on retirement benefits for the formally employed labour force (Van den Berg, 1997:484). Private arrangements include voluntary contributions to retirement funds by both employed and unemployed individuals (own definition). In addition to these arrangements, South Africa has an old-age pension for individuals who have not saved enough for their retirement, which is funded by the government from tax revenue.

The first pension fund in South Africa was established in 1882; however, it was not required by law. At that time it was also not a common practice to save for retirement and it was only during the 1920s that retirement benefits for the formally employed labour force (occupational retirement insurance) were introduced (Van den Berg, 1997:485). This was in the form of non-contributory old-age pensions paid by the government to former employees after their retirement. This scheme was, however, marred by the way it differentiated between people of different races. It was only from 1990 onward that meaningful steps were taken to fully align the grants, with full equality achieved by beginning 1994 (Van den Heever, 2007:1).

The Pensions Funds Act, promulgated in 1956, contributed hugely to the regulation of pension funds (Van den Berg, 1997:485). To date several alterations have been made to this Act, many of which were introduced on an ad hoc basis as was considered appropriate at the time. However, this resulted in the implementation of haphazard additions of a variety of measures. A thorough review of the current legislation has been called for in order to guarantee consistency. A review of the Act should aim at harmonising retirement funding arrangements, while also contributing to a more uniform and rational structure and regulation of the South African social security system (National Treasury, 2004:5).

In the 1960s and early 1970s, rapid industrial development took place and occupational retirement insurance expanded to accommodate less skilled workers. During the years 1958 to 1993, membership of retirement funds increased at a rate of approximately 7% per year, but declined to 3.7% in the 1980s, partially due to market saturation (Van den Berg, 1997:485).

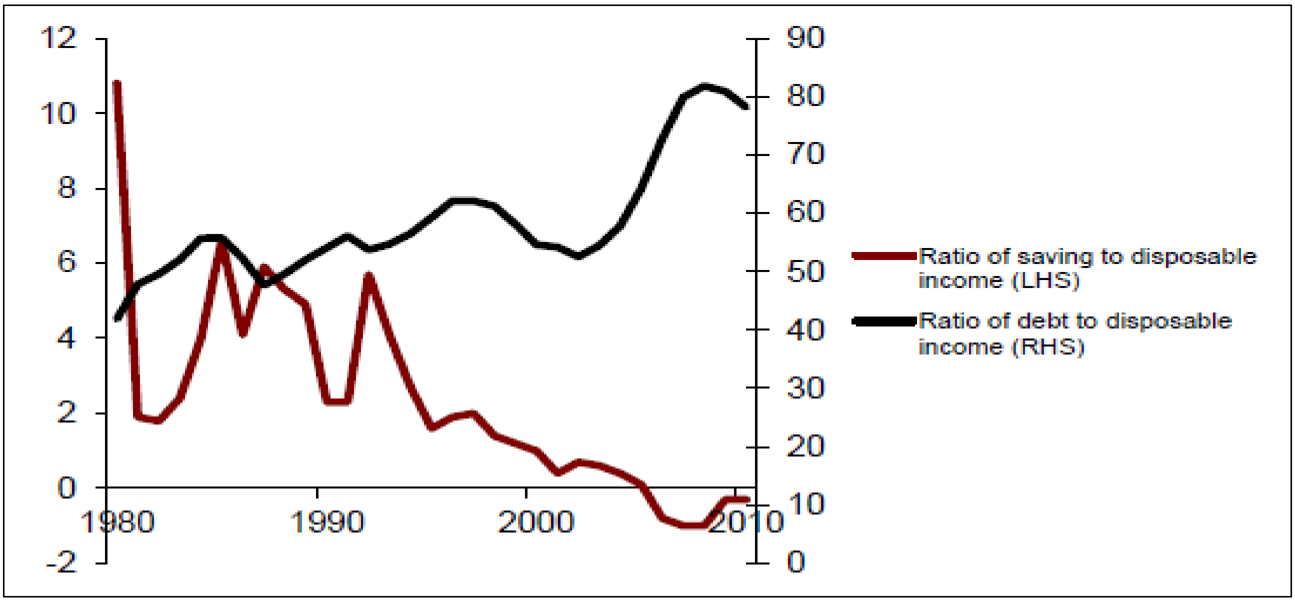
In the 1970s, the majority of retirement funds in South Africa were defined benefit funds managed by employer-appointed boards of management (National Treasury, 2004:10). This changed radically during the 1980s and 1990s, when employees transferred to defined contribution schemes. Today, the majority of private-sector employees belong to defined contribution schemes, while public-sector funds are still mainly defined benefit arrangements (National Treasury 2004:10).

2.3 BACKGROUND TO THE PROPOSED CHANGES IN RETIREMENT TAX INCENTIVES

2.3.1 Introduction

In his 2012 budget speech, the Minister of Finance emphasised the urgent need to restructure the retirement fund regime in order to encourage retirement savings (National Treasury, 2012:3). The motivation underlying this is clear: savings rates have declined since the late 1990s and most South Africans do not save sufficiently for retirement. One of the main reasons for the decline in savings rates is the increased access to credit since the late 1990s, as shown in Figure 1 (National Treasury, 2012:4).

Figure 1: Household debt and savings to disposable income, % (1980-2010)



Source: National Treasury, 2012:5

In order to achieve increased retirement savings, extensive proposals for the transformation of retirement fund arrangements were considered during the years 2012 and 2013. The aim of these proposed reforms is to achieve an unbiased and maintainable social security system (National Treasury, 2012:3). In the 2013 budget speech it was announced that the focus will be on the governance, preservation, annuitisation and harmonisation of retirement funds (National Treasury, 2013c:1).

2.3.2 The South African retirement environment

South Africa's retirement system is effective for employed individuals whose earnings are above the income tax threshold. These individuals' contribution rates to retirement funds are high and total assets under management results in South Africa's retirement fund industry being one of the largest in the world when compared to the gross domestic product (National Treasury, 2012:6).

However, more than half of South Africa's official workforce fall below the income tax threshold and do not belong to a retirement fund (National Treasury, 2012:6). Furthermore, only around 10% of the South Africans who did contribute to a retirement fund are able to maintain their standard of living after leaving employment. This is due to the following reasons:

- Low preservation rates after leaving employment, in other words, the retirement funds are withdrawn before retirement and utilised for purposes other than funding retirement. This is especially true for younger and lower-paid employees.
- The comparatively high cost structure of the retirement fund industry in South Africa. Over time, annual administration charges can considerably wear away benefits, resulting in a much lower return than initially expected.
- The system ceases to protect most individuals after retirement. Members of provident funds have the option to extract all of their accrued benefits in cash. Many members of pension funds and holders of retirement annuities use their retirement funds to buy living annuities, rather than conventional annuities. This practice often results in the retirement assets being utilised too quickly, being spent on poor investment decisions, or members outliving their assets (National Treasury, 2012:8-9).

The overall approach of the proposed retirement reforms is therefore to address the intrinsic shortcomings of the current retirement fund design mentioned above, and also to guide and persuade, rather than force, individuals to save for their retirement (National Treasury, 2013c:1).

2.4 THE CURRENT AND PROPOSED RETIREMENT TAX INCENTIVE REGIMES

The objectives of the proposed changes to the retirement tax incentive scheme are two-fold:

- To harmonise and simplify the tax treatment of contributions to and benefits from pension, provident and retirement annuity funds
- To encourage retirement savings by increasing the percentage deduction from taxable income

The current deductions of employee contributions to provident, pension and retirement annuity funds and tax consequences upon retirement out of these funds (section 11(k)(i), 11(n), 10C and 10 C(2) of the Act) are illustrated in Table 1 below:

Table 1 Current retirement tax incentive regime

Type of retirement fund	Cap on deduction	Exit from fund
Provident fund	0% deduction on contributions	• Entire amount may be withdrawn as a lump sum. • Contributions previously not allowed as deduction are taken into account in the calculation of the non-taxable portion of the lump sum. • No obligation to annuitse any amount.
Pension fund	Limited to the higher of: • R1 750 or • 7.5% of pensionable income.	• One-third of the amount may be withdrawn as a lump sum. • Two-thirds of the amount must be annuitised. • Contributions previously not allowed as deduction are taken into account in either the calculation of the taxable portion of the lump sum (section 10C) or the taxable portion of the annuity (section 10C(2)).

Retirement annuity fund	Limited to the higher of: • 15% of non-pensionable income, • R3 500 less the amount of any deduction relating to pension fund contributions or • R1 750 with a roll-over of non-deductible contributions	• One-third of the amount may be withdrawn as a lump sum. • Two-thirds of the amount must be annuitised. • Contributions previously not allowed as deduction are taken into account in either the calculation of the taxable portion of the lump sum or the taxable portion of the annuity.

In order to encourage retirement savings, retirement reforms were proposed in the 2013 budget speech (National Treasury, 2013b:18-19). The proposed deductions of employee contributions to provident, pension and retirement annuity funds (National Treasury, 2013c:1) as well as the tax implications upon exit from these funds (National Treasury, 2013a:52) are illustrated in Table 2 below:

Table 2 Proposed retirement tax incentive regime

Type of retirement fund	Cap on deduction	Exit from fund
Provident, pension and retirement annuity funds	27.5% of the greater of remuneration or taxable income capped at a maximum of R350 000 per annum, with a rollover of non-deductible contributions	• One-third of the amount may be withdrawn as a lump sum. • Two-thirds of the amount must be annuitised. • Contributions previously not allowed as deduction are taken into account in either the calculation of the taxable portion of the lump sum or the taxable portion of the annuity

With regard to annuitisation under the proposed retirement tax incentive regime, the following was proposed:

- The new annuitisation rules will apply only to new contributions made to provident funds after the implementation date, as well as to growth on these contributions. Existing balances in provident funds, and growth on these as at the implementation date, will not be subject to annuitisation.
- Members of provident funds who are older than 55 at the date of implementation will not be obliged to annuitise any of their balance at retirement, provided they remain in the same provident fund until they retire (National Treasury, 2013c:2).

2.5 OTHER PROPOSED RETIREMENT REFORMS

Some of the other improvements that have been proposed are the following:

2.5.1 Governance of retirement funds

The governance of retirement funds, which includes the responsibility of trustees to act independently and free from conflicts of interest, will be included in a Directive. The Financial Services Board will be tasked to monitor trustee appointments (National Treasury, 2013c:1).

2.5.2 Preservation

Vested rights regarding withdrawals from retirement funds at the implementation date will be protected by means of a preservation fund, and subject to the current taxation regime. After the implementation date, all retirement funds will be obliged to identify a preservation fund to which members' balances will be transferred should they withdraw from the fund before retirement (National Treasury, 2013c:2)

2.5.3 Non-retirement savings

The government has gone ahead with the introduction of tax-preferred savings and investment accounts. All accumulated returns in these accounts and any withdrawals are exempt from tax. The account has a contribution limit of R30 000 per annum and a lifetime limit of R500 000. These limits will be increased in line with inflation (National Treasury, 2013c:2).

2.5.4 Broader reforms

The government is investigating ways to increase retirement fund coverage to include all workers. This will be a challenge, since there is a significant proportion of uncovered workers whose earnings are below the tax threshold, who work for small employers, or who have an unstable association to the formal workforce. It is also suggested that public pension funds currently not governed by the Pension Funds Act be brought into the scope of this Act. Another proposal relates to the identification and removal of any predispositions in retirement funds which may result in discouraging individuals from remaining employed beyond the retirement age stipulated by their funds (National Treasury, 2013c:3).

2.6 RESEARCH SUGGESTING THAT SAVINGS BEHAVIOUR IS INFLUENCED BY CHANGES IN RETIREMENT TAX INCENTIVES

2.6.1 <u>Research in the United States</u>

Heim and Lurie (2012:283) analysed tax returns to examine the tax changes enacted in the United States of America during the years 1999 to 2005, which changed the benefits offered to individuals who contribute to tax-preferred accounts. The focus of their research was to determine whether the changes resulted in increased participation in retirement savings plans, and also whether they resulted in increased contributions to those plans.

Their research determined that although changes in tax policy did in fact convince taxpayers to start saving, the contributions remained at a fixed amount once the decision to save had been made (Heim & Lurie, 2012:308). Considering the relatively insignificant impact of the changes on savings revealed by their research, governments should reassess the effectiveness of employing tax incentives to impact taxpayers' behaviour with regard to saving (Bolt-Lee & Plummer, 2013:60).

In other research undertaken by Heim and Lurie (2013:4), data from tax returns from the period 1987 to 2006 in the United States of America was used to analyse, amongst other issues, the impact of policy changes on retirement savings. More specifically, they focused on whether those changes, which had been designed to encourage retirement savings among low-income individuals, were effective in increasing contributions to tax-preferred accounts (Heim & Lurie, 2013:29).

Their findings indicate that although contributions to tax-preferred accounts increased, the effect was more significant among higher-income earners (Heim & Lurie, 2013:32). Their research highlighted the need to distinguish between households with permanently high or low incomes and those whose incomes are only temporarily low or high, especially where the policy is aimed at encouraging lower-income earners to save more for their retirement (Heim & Lurie, 2013:33-34).

The findings based on Heim and Lurie's research are relevant to this study as they also investigated the propensity among individuals to change their retirement savings behaviour as a result of changes in the tax incentives offered to them.

There are, however, several differences between Heim and Lurie's research and the research conducted for the purpose of this study:

- Their research was done retrospectively and was based on data that was between seven and 26 years old whereas this study focused on the potential effect of tax incentives still to be implemented.
- They used data gathered from tax returns, whilst this study used information obtained through conducting interviews, which means that the information obtained is not based only on static data, but also reflects the psychology behind taxpayer behaviour.
- Their research was conducted in the United States of America, whilst this study focused on South African individuals residing or working in Gauteng.
- Although their research indicated that governments should not take the effectiveness of implementing tax incentives as a change agent for taxpayer behaviour for granted, they did not identify any factors other than tax incentives that could encourage a culture of saving. This study endeavoured to identify such alternatives.

2.6.2 Research in Germany

Like Heim and Lurie, the German researchers Hecht and Hanewald (2012:5) also found that tax incentives have a significant impact on individuals' investment choices. They used the 2005 income tax reform in Germany to investigate the effects of tax incentives on consumer behaviour in life insurance markets. Data was obtained from the German SAVE study, which provides detailed information on the financial, socio-demographic and psychological characteristics of households (Hecht & Hanewald, 2012:6).

Their research also revealed that education plays an important role in how individuals respond to policy changes. They suggest that governments have to realise the importance of education in ensuring the desired response to changes in tax policy and emphasises the need for more effective and inclusive communication with regard to tax changes. This can be achieved by ensuring that the information is available to and understandable by all segments of the population. Individuals need to ensure that they obtain the information needed in order to be able to make appropriate decisions in order to take responsibility for their own financial security (Hecht & Hanewald, 2012:24).

The relevance of their research for this study is as follows:

- They also investigated the impact of tax incentives on the investment behaviour of individuals, albeit in the life insurance market.
- Since they used data that is focused not only on numbers, but also incorporates the human factor, namely the psychological characteristics of households, their research shares common ground with this study, which endeavoured to determine the factors that inhibit individuals from saving.
- Their research highlighted the importance of quality education and ensuring that information on changes in tax policy is made available to taxpayers and is used by them. The aim of this study was to determine the extent to which individuals are aware of the proposed changes to the retirement tax incentives.

Differences between Hecht and Hanewald’s research and research undertaken for this study include that their research was conducted in Germany and was retrospective as the data used was already seven years old. This study focused on South African individuals residing or working in Gauteng and on the potential effect of tax incentives still to be implemented.

2.7 RESEARCH SUGGESTING THAT SAVINGS BEHAVIOUR IS NOT INFLUENCED BY CHANGES IN RETIREMENT TAX INCENTIVES

2.7.1 Research in Italy

Marino *et al*. (2011:252) used data from the Bank of Italy Survey on Household Income and Wealth for the years 1995 to 2006 to investigate the impact of a tax incentive introduced in 2000, which had been designed to increase individuals' investment in supplemental pension insurance. This survey contains information on households' and individuals' income, wealth, savings, expenditures and socio-demographic features. Supplemental pension insurance is defined as 'retirement funds owned by individuals in addition to those for which participation is made compulsory by law' (Marino *et al*., 2011:249).

Their research revealed that a substantial increase in the tax deductibility of retirement fund contributions to supplemental pension insurance funds did not result in an equally significant increase in such investments and did not even successfully attract new contributions (Marino *et al*., 2011:260).

The significance of their work for this study is that their research was not based only on data consisting of numbers, but also incorporated non-quantitative data, for example socio-demographic information. This is of relevance for this study in that this study aimed to determine the reasons for individuals' saving for retirement, which could include non-financial considerations.

Differences between their research and this study include that even though their research was conducted in 2011, it was based on data that was between five and16 years old and related to the Italian tax environment. This study focused on tax incentives yet to be implemented in a South African context.

2.7.2 Research in the United States

Ramnath (2013:78) used individual tax returns for the period 2002 to 2006 to determine the effect of the United States of America's Saver's Credit on American taxpayers' comprehension of and response to tax incentives. The Saver's Credit is a tax incentive intended to promote retirement savings among middle- to low-income earners.

The research found that when tax incentives are employed to encourage certain behaviour, they could also entice unwanted conduct. The Saver's Credit is a good example of such an incentive in that its design not only encourages increased retirement savings, but also tempts people to manipulate their income in order to qualify for this tax credit. Specifically, this incentive can cause certain taxpayers to forego up to US$600 in credit by disclosing just one extra dollar of income (Ramnath, 2013:77). The research revealed that even though the Saver's Credit encourages a change in savings behaviour, it is not necessarily the change that was intended. Although individuals who use the credit seem to grasp and apply the incentive, it has been unsuccessful in significantly increasing their retirement contributions (Ramnath, 2013:89).

The objectives and findings of this research relate to this study as Ramnath also aimed at determining taxpayers' understanding of the tax incentives and the impact of changes in tax incentives on individuals' decisions to save.

The differences between Ramnath's research and this study are that the research was conducted retrospectively in the United States of America and was based on data that was between seven and 11 years old, and that it was based only on financial data, namely tax returns. This study was undertaken in a South African context and focused on tax incentives that are still to be implemented. The data for this study was gathered through interviews and incorporated factors other than financial data, for example the reasons behind individuals' decisions about whether or not to save more for their retirement.

2.7.3 Research in Austria

Jordan and Treisch (2010:160) interviewed individuals in Austria about their decision to join a private retirement plan and the process and considerations that led to this decision. They argue that individuals disregard taxes when taking investment decisions. The common reasons for this are that individuals normally do not have the necessary tax knowledge and are also uncertain regarding the permanence of the tax incentives offered (Jordan & Treisch, 2010:158).

It is interesting to note that the research suggests that the rationale behind individuals' decision to invest for their retirement is not always based on a desire to achieve future financial security, but is also influenced by other factors (Jordan & Treisch, 2010:160), such as the media, social circumstances (the example set by peers, family), socio-economic factors (household size, age), financial aspects (return on investment) and attitudes about saving (Jordan & Treisch, 2010:165-167).

There is thus a significant possibility that the government, in designing tax incentives, overestimates the role played by professional consultants in explaining the benefits to lay taxpayers. The availability of information about taxation and financial products on consumer and government websites and in financial literacy education programmes is also not a guarantee that it will be effective in convincing individuals to take tax incentives into consideration when deciding to invest in retirement plans (Jordan & Treisch, 2010:176).

This is in contrast with the findings of Hecht and Hanewald discussed in section 2.2 above, which place importance on education and governments' responsibility to ensure effective and inclusive communication with regard to tax changes by ensuring that the information is available to and understandable by all segments of the population (Hecht & Hanewald, 2012:24).

Jordan and Treisch's research is of relevance to this study in that the two studies show several similarities.

- The above-mentioned researchers also gathered data through interviews and thereby identified a number of considerations other than financial considerations that taxpayers take into account when deciding to save for retirement. This supports this study's objective to determine why individuals are not saving more for retirement and whether factors other than tax incentives could perhaps encourage a culture of saving.

- Although conducted retrospectively, the study is only five years old.

The differences between this study and Jordan and Treisch's research are that they conducted their research in Austria and that it was based on tax incentives that had already been implemented. This study focused on South African individuals and tax incentives to be implemented in the near future.

2.7.4 Political considerations

On a different note, Jens and Roach (2012:23) suggest that the promise of significant tax reform is merely an election campaign ploy surfacing during election season and has no real chance of ever being implemented.

During the election campaigns prior to the recent elections in South Africa on the 7th of May 2014, several political parties promised to implement tax reforms should they be elected into power. In the budget speeches of the past two years the ruling party also promised tax reform, especially in the retirement industry. Although the proposed changes to retirement tax incentives are due to be implemented soon, a definite date has not yet been set. It remains to be seen whether the ruling party will in fact implement these reforms during their new term at the helm of the South African economy.

2.8 SUMMARY

To summarise the similarities between the research evaluated in the literature review and this study, it can be concluded that all of these studies focused on the effect of changes in tax policy on the saving behaviour of individuals. This corresponds with the objective of this study, which was to investigate the effect that the proposed tax incentives might have on the willingness of individuals to save more for retirement. Some of the research also touched on the role of education and government awareness programmes in promoting changes in tax policy (Hecht & Hanewald, 2012:24; Jordan & Treisch, 2010:176). This relates to the objective of this study, which is to establish to what extent individuals are aware of the proposed retirement tax incentives.

Although there are similarities between the objectives of the research reviewed and some the objectives of this study, this study contributes to the existing research in that it was done from a South African perspective (all the literature reviewed reported on research undertaken in other countries) and was also proactive in nature as it focused on retirement tax incentives yet to be implemented while the other studies focused on incentives that had already been in place for a period of time.

Two objectives of this study have not yet been investigated or were not addressed in the literature reviewed. The first is the identification of factors that inhibit individuals from saving more in retirement funds. The second is the identification of factors other than tax incentives that could encourage a culture of saving. Although Bolt-Lee & Plummer (2013:60) suggest that governments should reassess the effectiveness of employing tax incentives to impact taxpayers' behaviour, none of the research studies reviewed above identified any factors other than tax incentives that could encourage a culture of saving. This study adds to the body of knowledge in that it determined some of the factors that inhibit individuals from participating in or saving more in retirement funds and also identified factors other than tax incentives that might promote retirement savings.

The next chapter describes the methodology implemented in collecting the data required to address the research objectives of this study.

CHAPTER 3

RESEARCH DESIGN AND METHODS

In Chapter 2, the current literature on the connection between changes in retirement tax incentives and the saving behaviour of individuals is deliberated. Chapter 3 describes the inquiry strategy and sampling methods applied and the data-collection instrument and data analysis method used in this study to determine the attitudes of South Africans with regard to the proposed retirement tax incentives.

3.1 RESEARCH PARADIGM

This study incorporates constructivism (interpretivism) as a research paradigm. The main purpose of this research was to gain an understanding of the attitudes of South Africans regarding the proposed changes to retirement tax incentives by interacting with the participants in the study. This approach is characteristic of constructivist or interpretivist research (University of Pretoria, 2014:2).

3.2 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN

The inquiry strategy applied in this study is survey research by means of structured face-to-face interviews. Leedy and Ormrod (2010:187) define survey research as '… acquiring information about one or more groups of people – perhaps about their characteristics, opinions, attitudes, or previous experiences – by asking them questions and tabulating their answers. The ultimate goal is to learn about a large population by surveying a sample of that population'.

Survey research through structured face-to-face interviews was chosen as the strategy for this study since it assists the researcher in gaining insight into a specific group of people's previous experiences relating to saving for retirement and their attitudes regarding changes in retirement tax incentives. This addresses the following research objectives:

- To determine which factors inhibit South African individuals from either participating in or saving more in a retirement fund
- To investigate the willingness amongst these individuals to start saving, or to save more for their retirement based on the proposed tax incentives

Furthermore, the nature of survey research assists the researcher in gaining an understanding of a specific group of people's characteristics and opinions, which addresses the following the research objectives:

- To establish the extent to which the participants are aware of the proposed retirement tax incentives
- To identify factors other than tax incentives that could promote a culture of saving

Since survey research also lends itself to sample testing, it is the ideal research method to use in order to gain an understanding of the attitude of a large population towards changes in retirement tax incentives.

This study can be classified as an empirical study since primary data was collected and analysed. Primary data is data that is collected specifically for a research project being undertaken (Saunders, M., Lewis, P. & Thornhill, A., 2012:678). In this instance the data was collected specifically to find an answer to the question relating to the ability of changes in tax incentives to influence savings behaviour.

This is a cross-sectional study as each participant was interviewed only once and the data collected represented a snapshot taken at a specific point in time. The data-collection technique used for this study was survey research by way of structured interviews that generated non-numerical, in other words, qualitative data.

It is a basic study in that it was not aimed at directly solving an actual organisational problem or directly informing managerial decision-making. This study was undertaken purely to gain an understanding of the relationship between changes in tax incentives and savings behaviour.

Since the main purpose of this study was to investigate the attitude of South Africans with regard to the proposed retirement tax incentives, this study can be categorised as a descriptive study.

The aim was:

- To describe the characteristics of this group of individuals based on qualitative observations, for example, whether they were aware of the proposed changes and what their response to that would be
- To create categorisations of this group of individuals based on their responses, for instance by grouping them according to whether they would or would not adjust their savings behaviour in response to the changes in the tax incentives
- To describe the nature of the relationship between two concepts, namely changes in retirement tax incentives and corresponding savings behaviour

This study can finally be classified as non-experimental since it is based on research questions, unlike experimental research, which is based on predictions. This study did not intend to predict how changes in retirement tax incentives would influence savings behaviour, but endeavoured to determine whether individuals were aware of the proposed changes and whether they might be influenced by those changes to start saving, or to save more to provide for their retirement

3.3 SAMPLING

Sampling is a technique used to '… reduce the amount of data you need to collect by considering only data from a subgroup rather than all possible cases …' (Saunders *et al*., 2012:258).

3.3.1 Target population and entities from whom data was collected

The study involved employed South African citizens under retirement age who resided or worked in Gauteng during the second quarter of 2015.

3.3.2 Units of analysis

The units of analysis were employed individuals.

3.3.3 Methods used to select participants

Participants were selected by using both the homogenous and the criterion sampling methods.

Homogenous sampling, which entails the process of selecting a small identical group of units for examination and analysis, is used when the goal of the research is to understand and provide an in-depth description of a particular group (Cohen & Crabtree, 2006). This sampling method was considered to be appropriate since the aim of this study was to understand the savings behaviour of a particular group, namely employed South Africans, and their attitudes with regard to saving for retirement.

Criterion sampling involves selecting cases that meet some important predetermined criterion (Cohen & Crabtree, 2006). As this study focused specifically on employed South Africans under retirement age working or residing in Gauteng, the specific criteria for the sample had been pre-set.

Criterion sampling can be used to identify and understand cases that could yield meaningful information (Cohen & Crabtree, 2006). One of the objectives of this study was to determine why individuals are not saving, or are not saving more for retirement. Another objective was to identify factors that could change this behaviour. An understanding of this behaviour could form the basis for further research into the reasons behind non-saving behaviour and the options available to attempt to change this behaviour. This links with the fact that criterion sampling can also be used to identify cases from a standardised survey method that might be useful for follow-up (Cohen & Crabtree, 2006).

Both homogenous and criterion sampling are classified as purposive sampling. Purposive sampling is a procedure during which the researcher uses his/her own judgement to select the cases that make up the sample (Saunders *et al*., 2012:678). The limitation of this sampling technique is that it is too small to be considered statistically representative of the total population (Saunders *et al*., 2012, 287).

3.3.4 Sample size

A sample size of 20 participants was used. The reason for this small sample size was that it provided an opportunity to obtain in-depth knowledge of the participants' attitudes regarding the proposed changes in retirement tax incentives. The analysis of responses from a large sample would have been too time-consuming. Owing to the homogenous nature of the sample, for which pre-determined criteria had been set, the population was limited, which supported the use of a smaller sample. It was not possible to determine the exact size of the entire population of employed individuals under retirement age in Gauteng.

3.4 DATA COLLECTION

3.4.1 Survey method

As explained earlier, the data collected is of a primary, basic and qualitative nature and was obtained by means of structured face-to-face interviews. This sped up the research process as the participants' responses were collected directly during the interview. This eliminated the risk of the data collected being interfered with and any misinterpretation of the responses, which would have compromised the integrity of the study.

The interviews were conducted with 20 participants and the involvement of a limited number of individuals further enhanced the integrity and timeous collection of the survey results. The participants consisted of ten employees from the accounting firm Dyn-Acc Consulting, an accounting consulting firm in Monument Park, Pretoria, six of the researcher's colleagues and four of her acquaintances.

Contact with Dyn-Acc Consulting was established through one of the researcher's colleagues, who had previously been the owner of that firm. He contacted the current owners of the firm, Ms Anel Frankim and Ms Elizna Bouwer, telephonically to introduce the researcher and explain the purpose of the request for participants who could be interviewed. The researcher then contacted Ms Frankim and Ms Bouwer to further explain the request. This was followed up by an explanatory email addressed to them on the 2nd of April 2015. An introductory meeting with Ms Frankim and Ms Bouwer was held at Dyn-Acc's offices on the 13th of April 2015 to discuss the interview questions and consent required, and on the 15th of April 2015 the owners provided the researcher with the necessary written authorisation to conduct interviews with ten of their employees at their premises. A time for the interviews was also agreed on. The letter of authorisation, signed by Ms Bouwer, is included as Appendix C. The interviews with the ten employees from Dyn-Acc accounting were conducted at the firm's offices from 09:00 on Monday, the 20th of April 2015.

The other ten participants included six individuals from the employee base at the researcher's workplace and four of her acquaintances. On the 16th of April 2015 the researcher sent an introductory email to 11 colleagues and seven acquaintances to explain the purpose of the study and request their voluntary participation in the interviews. Favourable responses were received from six colleagues and two acquaintances. The researcher then approached the owner of the nursery school that her son attends and explained the purpose of the study and her need for additional participants. The owner and one of the teachers agreed to participate. The sample of colleagues included one person from the Trading Desk, one from the Transport and Execution Desk, two from the Finance Desk, one from Human Resources and one from the Office Services Department. The sample of acquaintances consisted of one psychologist, one homeopath, one nursery school teacher and the owner of the nursery school.

The interviews with the sample of colleagues were conducted as follows: one on the 23rd of April 2015, two on the 28th of April 2015, one on the 30th of April 2015 and two on the 30th of June 2015. The interviews with the sample of acquaintances were held as follows: two on the 22nd of April 2015 and two on the 27th of May 2015.

Before each of the 20 interviews the researcher again explained the purpose of the interview and how the responses of each participant could assist with the study. The participants were put at ease by explaining to them that they did not need knowledge of taxation in order to answer the questions and that there were no right or wrong answers. The researcher simply needed to know what their personal attitudes were with regard to saving for retirement, and how they felt about the proposed changes to the tax incentives to encourage people to save for their retirement. The researcher also assured them that their answers would be treated confidentially and that they would not be required to disclose any numerical data, such as salary information. During the interview the researcher explained the current state of affairs regarding tax incentives applicable to retirement savings and the proposed changes by using a table detailing the differences and an example to further illustrate the differences (included in Question 2 of Appendix A). By doing this the researcher ensured that the participants understood what the changes entailed and how they would be applied in practice.

3.4.2 <u>Design of the questionnaire</u>

The interview questions are included in Appendix A.

The interview questionnaire consisted of eight questions that were designed to provide qualitative data. As this was a structured interview, all the participants were asked the same questions, of which only two were closed questions. Closed questions offer the same options (Hofstee, 2006:132) and make provision for either one of two mutually exclusive answers, for example ‘Yes’ or ‘No’ (dichotomous questions) (Cooper & Emory, 1995:312), or for multiple-choice answers. The closed questions were Questions 1 and 2. Question 1 was a dichotomous question that required either a ‘Yes’ or a ‘No’ answer, and Question 2 was a multiple-choice question with three possible answers. The rest of the questions were open-ended and allowed for more detailed answers as the participants had to answer in their own words (Hofstee, 2006:133).

All the questions, as well as the rationale for their inclusion, are discussed below:

Question 1 was asked as an introduction to the interview and consisted of five parts, namely the main question, which was intended to determine whether or not the participant was currently saving for retirement, and four sub-questions designed to gain more information based on the answer given in Question 1. If the answer was ‘Yes’, Questions 1.1 to 1.3 were asked. If the answer was ‘No’, Question 1.4 was asked.

Question 1.1 was asked to determine which saving tools the participants were using to save for their retirement. This question was asked to determine whether or not the savings tools used by the participants would qualify for the proposed change in legislation, which would affect only pension, provident and retirement annuity fund contributions.

Question 1.2, which required the participants to explain why they used the specified saving tools, was asked to determine to what extent the participants were involved in or in control of the selection of savings tools, and to what extent they were aware of the differences between the different savings options in terms of tax incentives.

Questions 1.3 and 1.4 were asked to address the research objective of determining the factors that inhibit South African individuals from saving more for retirement.

Question 1.4, which was asked if the response to Question 1 had been ‘No’, addressed the research objective to determine the factors that inhibit South African individuals from saving at all for retirement.

Question 2 first provided a comparison between the current regime of tax incentives on retirement savings and the proposed regime. This comparison was included to provide the participants with an understanding of the differences between the current tax incentives and those proposed for future implementation, after which they were asked to indicate their level of awareness these changes. The purpose of this question was to address the research objective of establishing the level of awareness among South African individuals regarding the proposed retirement tax incentives.

Question 3 built on the comparison provided in Question 2 by giving an example to illustrate the differences between the current and the proposed tax incentives. The example was explained and the differences were highlighted, after which the participants were asked whether and why the proposed changes would encourage them to start saving, or to save more towards retirement. This question dealt with the research objective of investigating the willingness amongst South Africans to either start saving or to save more for retirement if the proposed tax incentives are introduced.

Question 4 addressed the research objective to identify any factors, other than tax incentives, that could promote a culture of saving.

The interview questions were deliberately not sent to the participants in advance in order to preserve the authenticity of their answers by eliminating the risk of the participants modifying their responses to what they believed the researcher wanted to hear, or believed to be ‘correct’.

3.4.3 Factors that could hamper access to the required sources of data

There was some concern that the researcher might find it difficult to identify and approach potential participants where no prior contact had been established (Saunders *et al*., 2012:213). This problem was overcome by using ten participants from an accounting consulting firm, Dyn-Acc Consulting, whose owners are known to a colleague of the researcher (Saunders *et al.*, 2012:219). It had to be borne in mind that since the participants from Dyn-Acc Consulting would not have had any prior contact with the researcher, it was very important to establish the researcher’s credibility with them in order to obtain their cooperation. This issue was addressed by sharing with them the purpose of the study, explaining to them how they could assist the researcher, and assuring them of the anonymity and confidentiality of the information provided by them (Saunders *et al.,* 2012:225). This was achieved by obtaining the cooperation of the owners of Dyn-Acc Consulting, who explained the purpose of the interviews and the research study to the participants before the researcher followed up by sending each of them an introductory and explanatory email.

Another issue was that it could take time to establish contact with the participants as the existing contacts (the colleague and afterwards also the owners of Dyn-Acc Consulting) needed to be approached first before contact could be made with the participants. Even then the participants could have chosen not to participate in the survey, which would have meant that replacements had to be found. In order to address this problem, sufficient time was allowed for the requests to be sent to the potential participants and for the participants to respond to the request (Saunders *et al.,* 2012:218).

3.4.4 Pretesting

The interview questions were pretested by the researcher's supervisor and several other individuals, including some of her colleagues and acquaintances. Comments and recommendations were evaluated and incorporated where applicable.

3.5 DATA ANALYSIS

As explained earlier, data collection was conducted by means of face-to-face interviews with 20 participants.

The researcher noted the participants' responses manually and confirmed that her understanding of the responses was correct by afterwards requesting the interviewees to read through the notes she had made during the interview.

Since both the number of participants and the number of questions were limited, the completeness and accuracy could be verified easily by conducting a review of each set of interview notes. The review and interpretation of each set of interview notes did not exceed one hour.

The limited number of participants made it possible to summarise the results of the interviews and present them in a narrative format.

3.6 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE RESEARCH DESIGN

3.6.1 Sources of bias that could influence research findings

Owing to the fact that the sample selection and the survey questions used for this study were based on criteria set by the researcher and on her own judgement, concerns could be raised regarding the reliability of the study. As the data for this study was collected by using a structured survey and conducting structured face-to-face interviews, the study may lack standardisation, which could give rise to doubts regarding the credibility of the findings.

There are three types of reliability bias to consider:

- Interviewer bias. This occurs when the interviewer's conduct gives rise to partiality in the manner the participants in the study respond to the questions. Interviewer bias can arise when the interviewer enforces his or her own paradigm, albeit unintentionally, through the questions asked or in the way responses are interpreted. It can also occur where the interviewer fails to establish credibility with the participants.
- Interviewee or response bias. This bias occurs when the participants are unwilling to divulge the information that the interviewer wishes to obtain. The reason for this is that the participants may feel that providing this information would potentially expose them to intrusive questions that would reveal confidential information that they do not want to disclose. The result may be that the participants provide incomplete information or respond in a manner that they believe would meet the approval of the interviewer or society.
- Participation bias. Participants are free to withdraw their participation in the study at any time. This may cause bias in the sample from which data is collected (Saunders *et al*., 2012, 381-382).

Since this study was qualitative in nature and was based on a small sample, a further concern is the generalisability of the results obtained, in other words, the degree to which the findings of the research can be applied to other situations (Saunders *et al.*, 2012, 382).

Validity is another consideration relating to data quality issues. It indicates the extent to which the researcher has obtained the desired information from the participant and is able to understand the participants' intended meaning from the language used by that person (Saunders *et al.,* 2012, 382).

3.6.2 Criteria and techniques used to provide evidence of quality, credibility and rigour of this study

As discussed in 3.6.1 above, the lack of standardisation in this study may give rise to concerns about its reliability. Standardisation or repeatability is, however, not an intended outcome of this type of study. The results obtained by using a structured survey, such as the one used for this research, reflect reality at the time the information was collected; therefore the theory behind this type of research is that it is by its very nature dynamic. The value of a structured survey purposefully lies in the fact that it provides for flexibility to investigate the intricacy of the topic (Saunders *et al*., 2012:382).

With regard to the issues of interviewer and interviewee bias and validity, the interview questions were reviewed by the researcher's supervisor and a number of her colleagues and acquaintances to ensure that the questions were clear, specific and unambiguous and that no leading questions were asked.

Current research suggests that there are two schools of thought regarding the impact of changes in tax incentives on taxpayer behaviour, and while according to one theory such changes have no effect on taxpayer behaviour, the other maintains that this is not true (refer to Chapter 2). The aim of this study was to test these theories in a South African context. By relating this study to these existing theories, it became evident that the findings of this study have a broader theoretical importance than the sample on which it was based (Saunders *et al.*, 2012:383). This addresses the issue of generalisability.

3.7 RESEARCH ETHICS

3.7.1 Copyright and plagiarism

These issues are addressed through the completion of the Declaration on Plagiarism form.

3.7.2 Ethical clearance

This was obtained from the Faculty of Economic and Management Sciences of the University of Pretoria prior to conducting the interviews.

3.7.3 Informed consent form

Appendix B contains the informed consent form used for this study. It addresses the following issues:

- Anonymity and confidentiality. This study involved an anonymous survey. The participants' names do not appear on the interview notes and the answers provided are treated as strictly confidential. The participants cannot be identified based on the answers given.
- Voluntary participation. Participation was voluntary and participants were free to withdraw at any time without any negative consequences.
- The results of the study are to be used for academic purposes only. Participants would be provided with a summary of findings on request.

Participants were requested to sign the informed consent form to indicate that they had read and understood the information and agreed voluntarily to participate in the study. No incentives were offered to entice participation.

In the following chapter the answers to the questions asked in the interviews are analysed.

CHAPTER 4

ANALYSING THE RESULTS

4.1 INTRODUCTION

The previous chapter explained the methodology followed to investigate the attitudes of South Africans with regard to the proposed retirement tax incentives. This chapter contains an examination of the data collected from the answers provided to eight questions by the 20 participants who were interviewed.

The results obtained from each question are analysed and explained on a per question basis. Graphs are also included to illustrate the results in an easily understandable manner.

4.2 ANALYSIS OF RESULTS PER QUESTION

4.2.1 Question 1: Are you currently saving for retirement?

In responding to this question, 19 of the 20 participants replied that they were already saving for their retirement. Only one participant replied 'No' to this question.

Although it was very encouraging to discover that 95% of the participants realised the importance of saving for retirement, it still had to be determined whether an increase in the tax incentives offered on retirement savings would encourage them to save even more. They would already benefit from the tax savings made possible by the proposed incentives, regardless of whether they increased their savings or not.

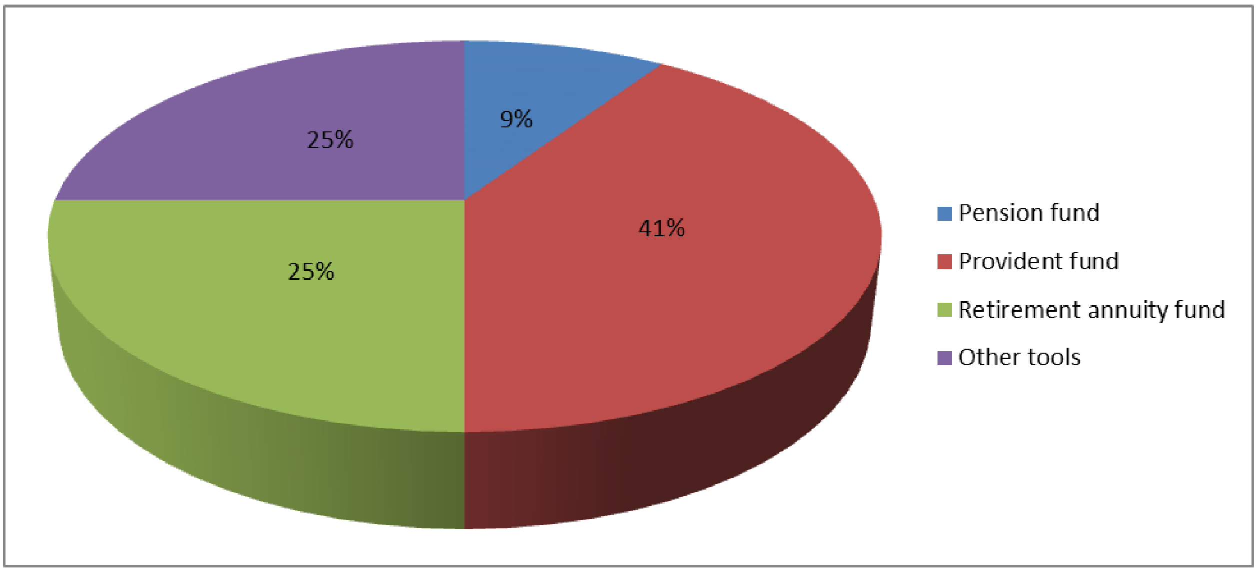
The 19 participants who had answered 'Yes' to Question 1, i.e. those who indicated that they were already saving for their retirement, were asked to answer Questions 1.1 to 1.3, and the participant who had answered 'No' was asked to answer Question 1.4.

4.2.2 <u>Question 1.1</u>: If you are currently saving for retirement, what savings tools are you using to save?

The majority (68%) of the participants who were already saving for retirement were using a combination of retirement savings tools while the remaining 32% were using only one retirement savings tool. Seventeen of the 19 participants who were saving for retirement made use of the retirement funds that are the subject of the proposed changes in tax incentives, namely pension, provident and retirement annuity funds, which meant that the proposed changes would have an impact for the majority of the participants.

As illustrated in Graph 1 below, the most popular retirement savings tool (used by 13 of the participants in this study) was a provident fund. Eight participants used retirement annuity funds, and eight used other tools. Pension funds were the least popular and were used by only three of the participants.

Graph 1 Which retirement saving tools are you using?



The category for other tools can be analysed as follows:

- One participant uses investment in unit trusts as a retirement savings tool.
- One participant invests in property to save for retirement.
- Two of the participants who were saving in their personal capacity considered their spouses' saving for retirement as indirect provision for their own retirement.

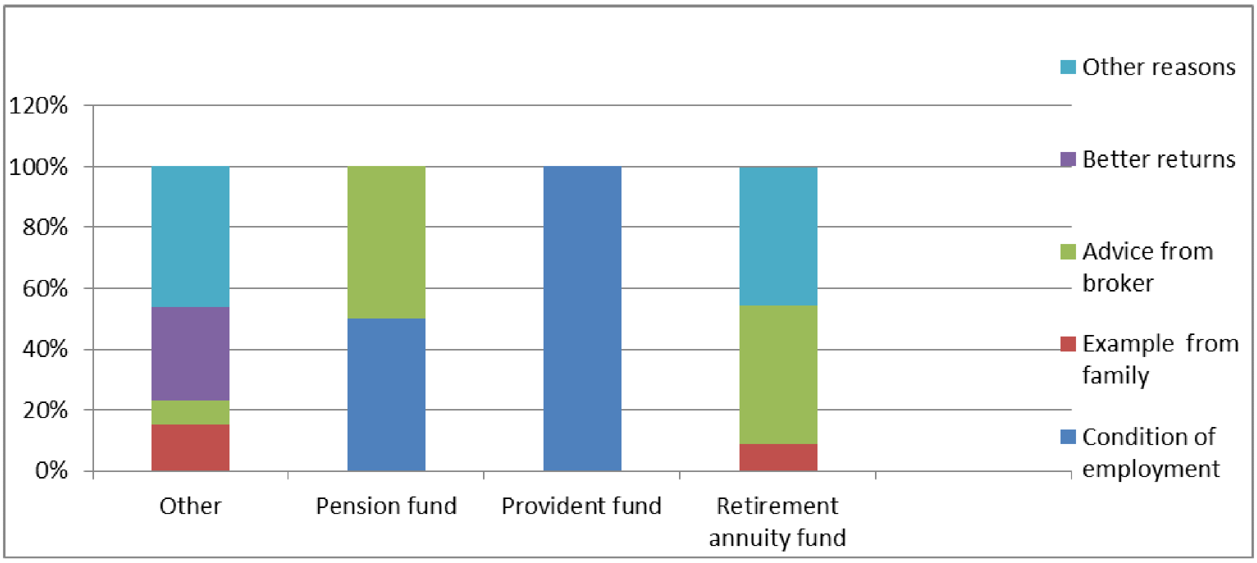
- Two participants were saving for retirement by way of fixed deposits.
- One participant invested on the stock market to save for retirement.
- One participant saved for retirement in money market and savings account products.
- One participant was saving for retirement, but could not identify the product in which the savings are.
- Interestingly, one of the participants regarded the paying off of debt as a tool to save for retirement.

The reasons for participants using the specific tools mentioned above are discussed in 4.2.3 below.

4.2.3 <u>Question 1.2</u>: Why do you use these specific tools for saving for retirement?

Graph 2 illustrates the different reasons for using a specific savings tool, per tool.

Graph 2 Why do you use these specific savings tools?



The participants who saved in a pension fund either acted on advice from a broker to transfer the funds to a pension preservation fund when they resigned from employment, or were obliged to participate in a pension fund as a condition of employment. The only reason given by participants for saving in a provident fund was that it was a condition of their employment. Participants saving in a retirement annuity fund were advised to do so by a broker, were influenced by or followed the example set by parents or family members, or did so for other reasons.

The participants who invested in other savings tools did so for all the above-mentioned reasons (except condition of employment), but also because they believed that these tools offered better returns than a pension, provident or retirement annuity fund. The participant who regarded paying off debt as a tool to save for retirement (see 4.2.2 above) argued that the amount of interest saved through paying off debt exceeded the returns that could be earned through saving in other tools.

The category 'Other reasons' contains reasons such as that one participant was self-employed and another was only temporarily employed, which excluded them from joining provident or pension funds, which are normally only available to the permanent staff of a company as a condition of employment. Another reason given for using the 'Other reasons' category was that funds could be added to unit trusts as they became available.

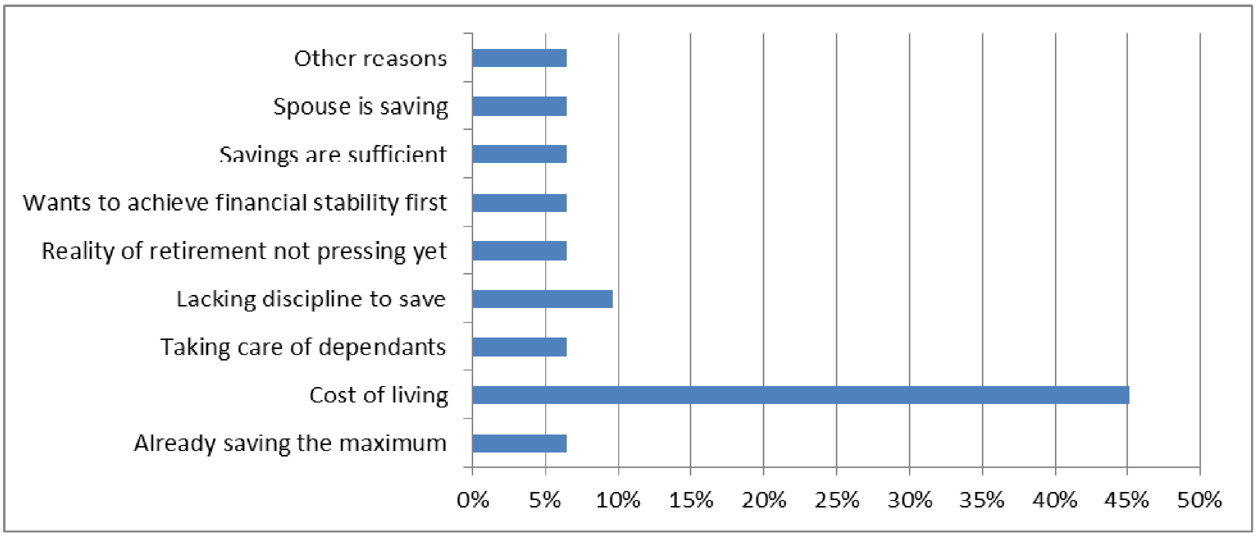
From the answers it was clear that the majority of the participants did not have real control over the selection of retirement savings tools. This conclusion was arrived at due to the fact that the most popular savings tool, namely the provident fund, in which 68% of the saving participants invested, had to be used as it was a condition of their employment.

Furthermore it was found that none of the participants who were saving in a combination of retirement savings tools considered the different tax incentives that apply to those savings options when they made their investment decisions. This caused further doubt about the likelihood that changes in the tax incentives offered on retirement savings would influence taxpayers' saving behaviour.

4.2.4 <u>Question 1.3</u>: Which factors are preventing you from saving more for retirement?

Graph 3 clearly illustrates that the main factor that prevented the participants from saving more for retirement was the cost of living. Fourteen participants indicated that this was the main reason why they could not save more towards retirement. Under this category participants mentioned that salary increases did not keep up with the increase in the rate of inflation. Also, having children to take care of placed strain on the available funds.

Graph 3 Factors preventing increased savings



The second most important factor preventing participants from saving more was a lack of the discipline required to save, as indicated by three participants. One of the reasons given here was that they did not save for the future as they preferred to rather maintain a high standard of living in the present. To quote one of those participants: 'I would rather choose to buy a R150 bottle of wine than a R80 bottle of wine.' Another reason was that they lacked the motivation to investigate the different savings options available. This factor can be linked to the fact that some participants felt that retirement was still so far away that they could not yet think of it as a critcal reality for which they had to be financially prepared.

All of the other reasons given were at the same level. Two participants argued that since their spouses were already saving for retirement there was no need for them to save more. Two participants contended that their savings were sufficient and another two stated that they were already saving as much as was possible. Two participants regarded the need to first achieve financial stability as more important than saving for the future and argued that buying a car and their own house, or paying off debt was more important than saving for the future. Two participants indicated that they were unable to save as they had to provide for family members other than minor children, for example elderly parents, or for older children who were still studying and were therefore not yet financially independent. They indicated that they would like to save more, but that their obligations to those dependants made it impossible.

The 'Other reasons' category included reasons such as the need to have funds available for unforeseen emergencies or to fund current studies.

4.2.5 Question 1.4: If you are not currently saving for retirement, what are the reasons?

As discussed in 4.2.1 above, only one participant replied 'No' to Question 1. The reason provided by this participant for not saving for retirement was that he/she had only just been appointed in his/her first job and was still on probation. However, the participant stated that once he/she was offered a permanent position, he/she would start saving for retirement.

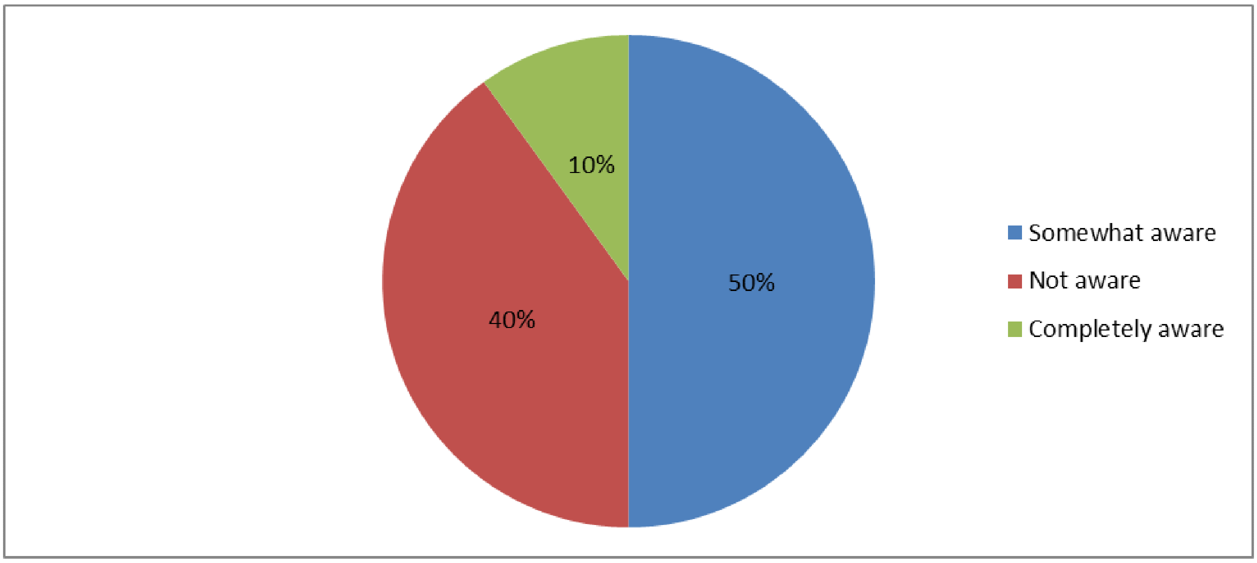
4.2.6 Question 2: Please indicate your level of awareness of the proposed changes to the retirement tax incentives.

To explain this question a comparison was drawn between the current retirement tax incentive regime and the proposed regime by way of a table (refer to Question 2 of the questionnaire in Appendix A). The researcher highlighted the differences between the two scenarios and explained them to the participants.

They were then asked to indicate their level of awareness of the proposed changes. As seen in Graph 4, half of the participants were somewhat aware, only 10% were fully informed and 40% were totally unaware of the proposed changes.

The fact that only 10% of the participants were fully informed of the proposed changes is a cause for concern. If the government hopes to improve the level of retirement savings by enchancing the tax incentives on these savings, it is essential to ensure that people are made aware of these benefits.

Graph 4 Level of awareness of proposed changes



4.2.7 <u>Question 3</u>: Would you be willing to start saving, or to save more towards retirement and why?

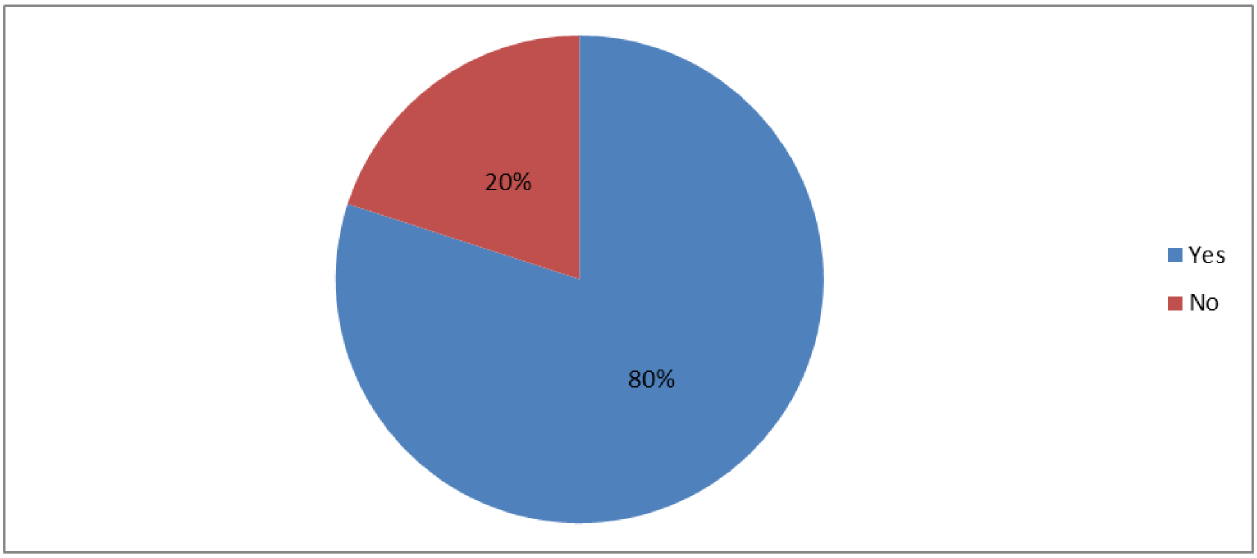
This question was introduced by providing an example that expanded on the comparison given in Question 2, as explained in 4.2.6 above. The researcher explained in detail how the current and proposed incentives would be applied and demonstrated the outcome of each scenario by applying the current and proposed tax incentives to the same set of illustrative numbers. The example can be found in Question 3 of the questionnaire in Appendix A.

After the explanation the participants were asked whether the example would encourage them to start saving, or to save more towards retirement. They were also asked to explain why they would, or would not, be willing to do so.

Graph 5 below clearly indicates that the majority of participants was in fact willing to start saving more based on the example given. This outcome is quite surprising for the following reasons:

- The majority of participants was already saving and would automatically have benefited from the tax saving, regardless of whether if they saved more or not.
- None of the participants took tax incentives into account when they made their decisions regarding which retirement savings tool to use.
- The majority of participants claimed that the cost of living prevented them from saving more. In other words, they had no additional funds available to save.

Graph 5 Would you be willing to start saving more?



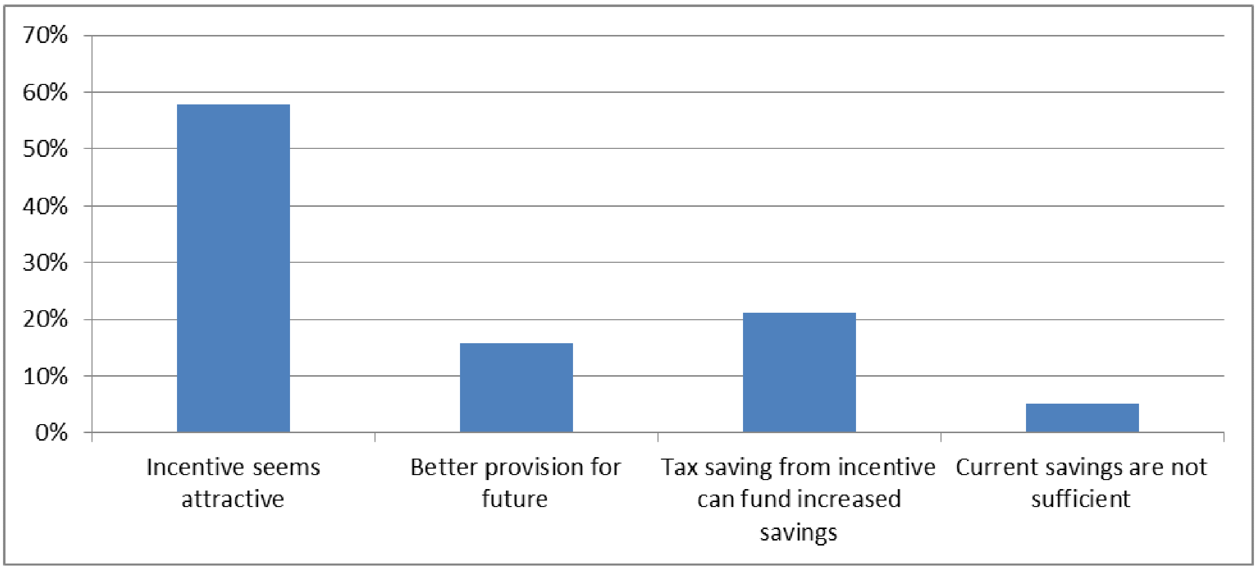
The second part of Question 3 required the participants to explain why they would, or would not, be willing to start saving more. The main reason given by the participants who were willing to start saving more was that the incentive in itself appeared attractive. Eleven participants acknowledged that the increase in the percentage of the incentive (from 0%

for providend fund, 7.5% for pension fund and 15% for retirement annuity fund contributions to 27.5% of contributions to all these funds) was very appealing.

Four of the participants realised that even if they did not increase their savings, the proposed change in the tax incentive would result in a tax saving, which they could use to increase their contributions without having to lay out more funds to increase savings. Three of the participants understood the long-term benefits of increased savings and realised that the more they saved now, the quicker their investments would grow and the better their returns would be, which would all contribute to ensuring better provision for the future. One of the participants stated that his/her current savings were not enough and that the proposed increase in the incentive would provide the final motivation to rectify the problem.

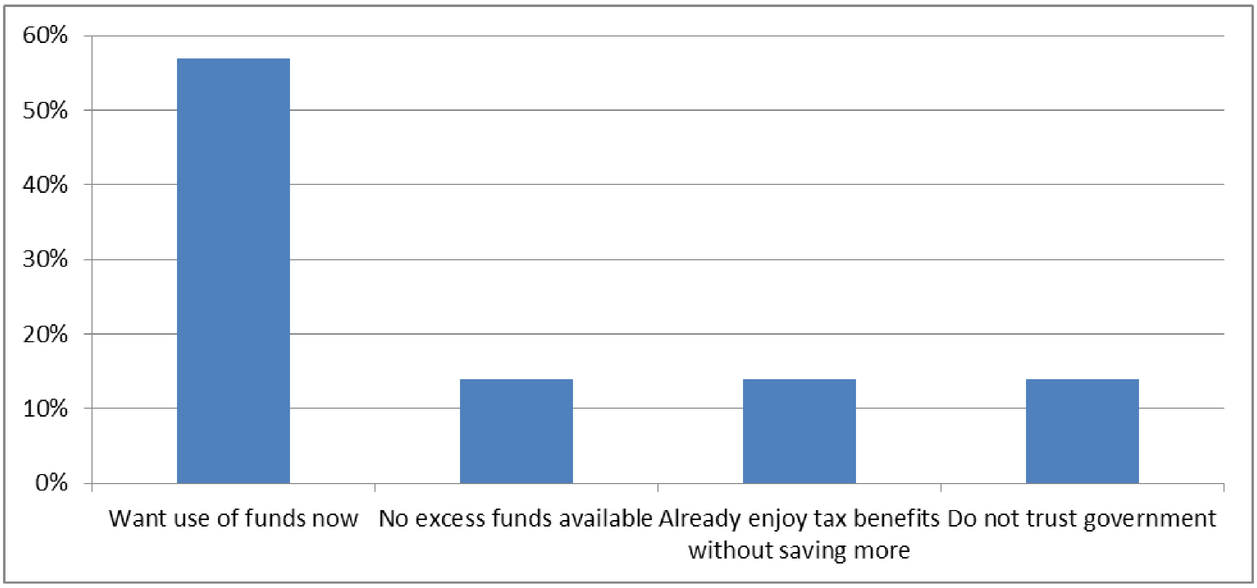
Graph 6 illustrates the reasons provided by the participants who were willing to start saving more.

Graph 6 Reasons for potentially increasing savings



Graph 7 illustrates the reasons given by participants who indicated that the change in the tax incentives on retirement savings would not motivate them to save more.

Graph 7 Reasons for not increasing savings



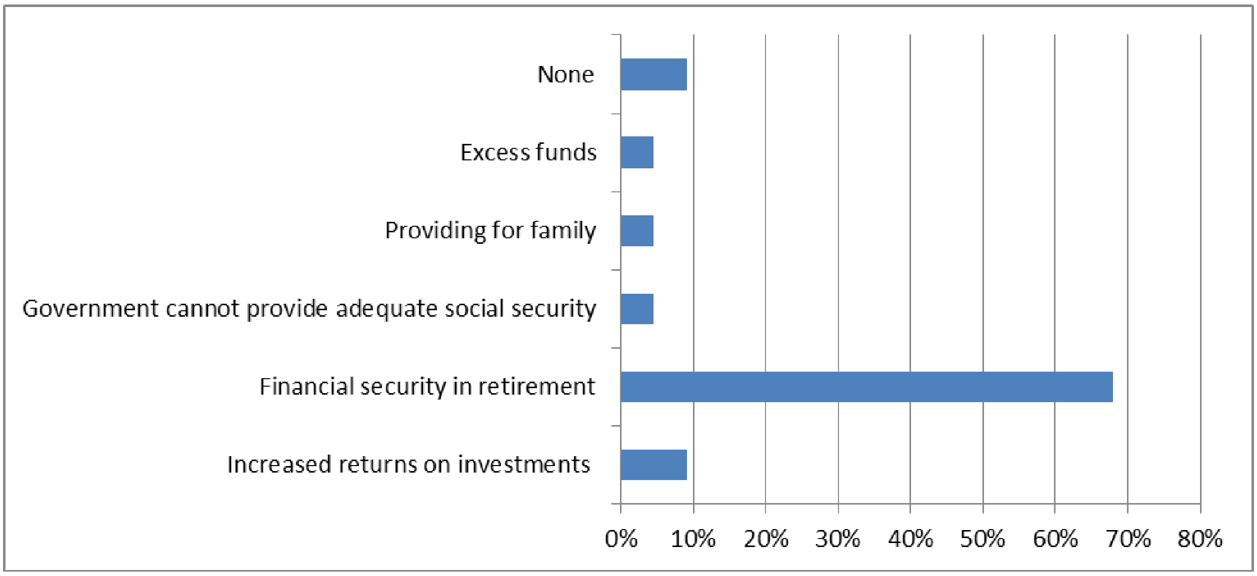
The majority of these participants indicated that they preferred having money to spend now, rather than save it for the future. The reasons given for this included that they first wanted to become more financially independent, wanted to pay off debt and preferred to maintain the high standard of living they were used to.

One participant indicated that he/she had no excess funds available and that his/her current essential living expenses were of such a nature that he/she could not afford to increase his/her savings. Another participant believed that he/she would benefit enough from the tax saving that would result from the proposed increased and would therefore not be motiviated to save more. One participant was apprehensive about the government's undertaking to offer taxpayers this incentive and was concerned about the possibility that the incentive could be cancelled at any time. He/she would adopt a 'wait-and-see' attitude and first make sure that the government was indeed serious about motivating people to start saving more.

4.2.8 <u>Question 4</u>: Which factors, other than tax considerations, would encourage you to start saving or to save more for your retirement?

As indicated in Graph 8, the single most important factor that influenced the participants' decision to save for retirement was their desire for financial security and independence in retirement. They wanted to ensure that they would not struggle financially and would be able maintain their standard of living. They indicated that these reasons motivated them to save for retirement regardless of whether or not they could benefit from tax incentives coupled with retirement savings.

Graph 8 Which other factors would encourage you to save more?



The growth of their investments as a result of increased savings was the second most important factor that motivated participants to save more for retirement. The larger the investment, the larger the returns, which in turn increases the investment value and the potential to earn even greater returns.

Other factors included the governments inability to provide adequate social security in the form of pensions, which motivated the participants to save excess funds to provide for retirement. Another factor was the perceived need to provide for their families, not only for themselves, even after retirement.

An alarming finding, however, was that two participants indicated that nothing would encourage them to save more. They regarded saving as a burden and felt that the money could be better spent to improve their current standard of living and financial independence. Since those two participants represented 10% of the sample, it was a noteworthy portion. Their only reason for saving for retirement was that their conditions of employment made it compulsory to contribute to a provident fund. The government should realise that tax incentives alone will not be sufficient to convince people like those participants to start saving more for their retirement. Possible solutions are suggested in 5.4.1.

4.3 CONCLUSION

This chapter focussed on the analysis of the responses obtained by way of structured, face-to-face interviews. In the following chapter a conclusion will be drawn based on the results discussed in 4.2 above.

CHAPTER 5

SUMMARY AND CONCLUSION

5.1 INTRODUCTION

The main purpose of this study was to investigate the attitudes of South Africans with regard to the proposed retirement tax incentives. The main research questions were:

- Are these individuals aware of the proposed tax incentives relating to retirement funds?
- Will these incentives be sufficient to encourage these individuals to start saving, or to save more towards retirement?

This chapter provides an overview of the study, followed by a conclusion. A summary of the research methodology that was applied to answer the above research questions and to address the relevant research objectives is discussed, after which the research objectives are evaluated to determine whether the study succeeded in addressing them.

Based on the findings of this study, the contribution of the study is considered. Recommendations are made regarding steps that could be considered by the government to address the issue of South Africans not saving sufficiently for their retirement. Suggestions are made for future research that could flow from this study.

Finally, an overall conclusion to this study is presented.

5.2 METHODOLOGY

The aim of this research was to gain an understanding of the relationship between changes in tax incentives and savings behaviour, and not to directly solve the problem of insufficient retirement savings (see 1.2 for problem statement).

The research was conducted by means of face-to-face interviews. The target population was South African citizens under retirement age working or residing in Gauteng. A sample of 20 participants was drawn. The participants included ten employees of the accounting consulting firm Dyn-Acc Consulting, in Monument Park, Pretoria, six of the researcher's colleagues and four of her acquaintances.

The questionnaire designed for use as a data-collection instrument contained eight questions intended to provide qualitative data. As this was a structured interview, all the participants were asked the same questions. Only two of the questions were closed questions and the rest were open-ended since the participants had to answer them in their own words and more detailed answers were required.

Before each of the interviews, the researcher explained the purpose of the interview. During the interview she explained the current situation regarding tax incentives applicable to retirement savings and the proposed changes by using a table illustrating the differences, as well as an example for further illustration. By doing this the researcher ensured that the participants understood what the changes would entail and how they would be applied in practice. The interviews were conducted during April, May and June 2015.

To protect the candour of the participants' answers, the interview questions were not sent to them in advance.

5.3 ADRESSING THE RESEARCH OBJECTIVES

To evaluate whether this study succeeded in addressing the research objectives, each objective is considered in terms of the data collected during the interviews.

5.3.1 <u>Research objective 1</u>: To determine the factors that inhibit South African individuals from either participating in or saving more in a retirement fund

Questions 1.3 and 1.4 of the questionnaire focused on this research objective. The data obtained from the answers to these questions indicated that the main factor preventing the participants from saving more for retirement is the cost of living. Fourteen of the participants stated that once thay had taken care of their day-to-day living expenses, for example housing, food and transport, no funds were left to invest in their retirement.

The second most important factor that prevented participants from saving more was the lack of discipline to save as retirement was not yet perceived as a reality. Other reasons included reliance on spouses to make provision for retirement by saving; savings being sufficient or already at the optimum amount; current financial indepence being more important; and taking care of relatives (See 4.2.4).

5.3.2 <u>Research objective 2</u>: To establish the extent to which these individuals are aware of the proposed retirement tax incentives

This research objective was addressed by Question 2 of the questionnaire. Half of the participants were somewhat aware, only 10% were fully informed and 40% were totally unaware of the proposed changes (see 4.2.6).

5.3.3 <u>Research objective 3</u>: To investigate the willingness of the individuals involved to start saving, or to save more for retirement based on the proposed tax incentives

The data collected from the participants' answers to Question 3 of the questionnaire indicated that 80% were indeed willing to start saving more for retirement should the proposed tax incentives be implemented. The main reason provided by these participants was that the incentive was attractive as the increase in the percentage of the incentive was very appealing. These participants understood the monetary value of the proposed incentives.

The main reason provided by the participants who were not willing to start saving more was that they preferred to use the money now to become more financially independent. Others wanted to pay off debt, or felt that maintaining their current high standard of living was more important to them than saving for retirement (see 4.2.7).

5.3.4 Research objective 4: To identify factors other than tax incentives that could encourage a culture of saving

Question 4 of the questionnaire dealt with this research objective. The most important factor influencing the participants' decision to save for retirement is that they want to be financially secure and independent in retirement and maintain their standard of living. These reasons motivate them to save regardless of whether there are tax incentives associated with retirement savings or not.

Other factors included the growth of their investments that would result from increased savings, the fact that more disposable income could lead to larger investments in retirement, and the realisation that the government cannot be relied upon to provide for one's retirement. Another consideration was the obligation to provide not only for themselves, but also for family members, even after retirement.

Two participants indicated that nothing would motivate them to save more. They considered retirement savings as an unwelcome reduction in disposable income and a strain on their ability to maintain a high standard of living and becoming financially independent.

5.4 CONTRIBUTION OF THE STUDY

Academically, the findings of this study enhance our understanding of the relationship between changes in retirement tax incentives and saving behaviour in South Africa. The information obtained through the interviews demonstrates that should the proposed tax incentives be implemented, taxpayers would be willing to save more towards retirement.

In practice, the outcome of the study could assist the government in assessing the effectiveness of incentives to encourage individuals to save for their retirement. Even though the evidence gathered during the interviews indicates that increased tax incentives would indeed motivate people to start saving more, it is clear that the government will need to make a concerted effort to publicise the proposed changes as only 10% of the participants were fully aware of them.

Through identifying factors other than tax incentives that could foster a savings culture, this study may assist the government and the retirement industry to formulate retirement savings alternatives other than the standard options currently available. This may increase the number of individuals saving for retirement and the retirement contributions of individuals, thereby ultimately relieving the burden on taxpayers to care for insufficiently covered citizens. These factors identified during the interview are discussed in 5.4.1 below.

5.4.1 <u>Recommendations</u>

The main factor that motivates people who save for retirement is their desire to be financially independent when they leave the workforce. These people would save towards retirement even if no tax incentives were available to them. To encourage increased savings, the government will have to change its approach by offering people more than just tax incentives. One recommendation is to reward people who introduce new savers to retirement funding institutions. The reward could be in the form of reduced premiums on life cover, or one month's contribution could be made to the retirement fund of a current saver for each new saver that he/she successfully introduces. These rewards could be funded by the government in the same way that it funds tax incentives on retirement savings by channelling a portion of tax revenue towards this cause.

To reach the people who are not saving towards retirement, a mandatory retirement savings deduction similar to the unemployment insurance fund deductions could be implemented for all permanent staff by employers. However, in the researcher's opinion, education is the crucial factor in fostering a culture of saving. It is therefore recommended that financial literacy be introduced as a mandatory subject at all schools and universities in order to make young people aware of the importance of saving and educate them on the different tools that can be used to save.

Although tax incentives do not appear to play a role in people's decisions regarding saving, the researcher does recommend a few enhancements to the current and proposed incentives which could promote increased savings. For example, a reward system could be implemented to acknowledge people who save towards their own retirement and do not withdraw their savings prematurely. The reward could be in the form of a reduced tax rate on retirement savings annuities flowing from the retirement investments they made. Retirement savings that are withdrawn prematurely could be taxed at a higher rate to discourage early withdrawals. To further motivate people to increase their contributions to retirement saving investments, the tax incentive could be based on the contribution made, instead of on salary or taxable income.

The information gathered during the interviews indicated that as many as 40% of the participants were using saving tools other than the traditional pension, provident and retirement annuity funds, for example unit trusts, share investments and property. To encourage these people to save more, the tax incentives could be expanded to include all investments earmarked specifically as retirement savings. Special proof will have to be provided by the taxpayer as evidence that such investments are intended to provide solely for retirement, and special rules need to apply. A significant portion of the population could be reached by implementing tax incentives for other kinds of retirement savings.

5.4.2 Suggestions for future research

This study investigated the attitude of taxpayers with regard to the proposed changes in tax incentives for retirement savings. The goal was to determine the extent to which taxpayers are aware of and informed on these proposed changes, and how awareness of the incentives is likely to impact on their willingness to save more.

Once the proposed incentives aimed at promoting saving for retirement have been implemented, a study could be undertaken to determine whether people have become more aware of the changes and the benefits they offer to those who save towards their retirement and whether people are in fact responding by saving more.

It would also be interesting to follow a longitudinal study approach with the candidates who participated in this study to see whether they actually did increase their retirement savings after the implementation of the improved tax incentives.

One of the objectives of this study was to determine why individuals are not saving, or are not saving more for retirement. Another objective was to identify factors that could change this behaviour. An understanding of this behaviour could form the basis for further research into the reasons behind non-saving behaviour and the options available to attempt to change this behaviour.

5.5 CONCLUSION

The study succeeded in answering the main research questions.

The evidence obtained from the interviews proved that South Africans are generally not aware of the proposed tax incentives relating to retirement funds. Only 10% of the participants indicated that they were fully aware of the proposed changes, while 50% were somewhat aware and 40% were not at all aware of them. As the government hopes to increase retirement savings through these proposed changes to the tax incentives, a concerted effort will be required to start informing and educating people in this regard.

It can be concluded that although people are generally not aware of the proposed changes to the tax incentives available to people who invest in retirement funds, improved incentives would indeed encourage them to start saving more. This conclusion is based on the fact that 80% of the participants interviewed for the purpose of this study indicated that if the proposed increase in tax incentives were implemented, they would be willing to increase their savings. This is encouraging news for the government and may go a long way towards addressing the problem caused by the failure of South Africans to make adequate provision for their retirement.

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APPENDIX A

- Data-collection instrument -

South Africans' attitudes regarding the proposed changes to retirement tax incentives

Thank you for your willingness to participate in this interview. The purpose of the survey is to determine your attitude towards the proposed changes to retirement tax incentives. The interview should not take more than one hour to complete. This is an anonymous and confidential survey. You cannot be identified and the answers you provide will be used for research purposes only. There are no right or wrong answers.

Q1. Are you currently saving for retirement?

____

Q1.1 If you are currently saving for retirement, which tools are you using to save?

____

____

____

Q1.2 .Why do you use these specific tools for saving for retirement?

____

____

____

Q1.3 Which factors are preventing you from saving more for retirement?

____

____

____

Q1.4 If you are not currently saving for retirement, what are the reasons?

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Q2. Below is a comparison between the current retirement tax incentive regime and the proposed regime.

Type of retirement fund	Current regime	Proposed regime
Provident fund	0% deduction on contributions	27.5% of the greater of remuneration or taxable income capped at a maximum of R350 000 per annum, with a rollover of non-deductible contributions. Employer contributions to retirement funds will become a fringe benefit in the hands of employees for tax purposes.
Pension fund	7.5% deduction on based on pensionable income, with a roll-over of non-deductible contributions	
Retirement annuity fund	15% deduction based on non-pensionable income, with a roll-over of non-deductible contributions	

Please indicate your level awareness of the proposed changes to the retirement tax incentives as indicated in the above table:

1. I am completely aware of the proposed changes.
2. I am somewhat aware of the proposed changes.
3. I am not aware of the proposed changes at all.

Q3. Consider the following example:

Your income is as follows for a specific year of assessment:

- Salary/Remuneration (Pensionable income) R400,000
- Rental income (Non-pensionable income) R100,000
- Taxable income R450,000

You have also contributed the amounts indicated below to the following retirement funds during the same year of assessment:

- Provident fund R80,000
- Pension fund R40,000
- Retirement annuity fund R30,000

The following deductions will be applicable:

<table>
<tr><th>Type of retirement fund</th><th>Tax saving under the current tax regime (deduction against taxable income at end of tax year)</th><th>Tax saving under the proposed tax regime (deduction against taxable income at end of tax year)</th></tr>
<tr><td>Provident fund</td><td>0% deduction on contributions</td><td rowspan="3">27.5% x R450,000 (the greater of remuneration or taxable income) = R123,750</td></tr>
<tr><td>Pension fund</td><td>7.5% x R400,000 (pensionable income) = R30,000</td></tr>
<tr><td>Retirement annuity fund</td><td>15% x R100,000 = R15,000 (non-pensionable income)</td></tr>
<tr><td>Total saving</td><td>R45,000</td><td>R123,750</td></tr>
</table>

Based on the above example, would you be willing to start saving or save more towards retirement? Why?

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Q4. Which factors, other than tax considerations, would encourage you to start saving or to save more for your retirement? Please explain.

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APPENDIX B

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA
Faculty of Economic and
Management Sciences

Informed consent for participation in an academic research study

Department of Taxation

PROPOSED RETIREMENT REFORMS: ARE TAX CONCESSIONS SUFFICIENT TO ENTICE SOUTH AFRICANS INTO SAVING FOR RETIREMENT?

Research conducted by:
Mrs M.E. Moolman (11351854)
Cell: 082 041 2868

Dear Participant

You are invited to participate in an academic research study conducted by Marilize Moolman, a master's student in the Department of Taxation at the University of Pretoria.

The purpose of the study is to investigate South Africans' attitude regarding the proposed retirement tax incentives.

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the interview notes and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the interview questions as completely and honestly as possible. This should not take more than one hour of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Mrs T. Hill at Tanya.Hill@up.ac.za if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give agree to participate in the study on a voluntary basis.

__________________________ ____________________
Participant's signature **Date**

APPENDIX C

Dyn-Acc consulting

dynamic accounting and consulting services

15 April 2015

To whom it may concern

CONFIRMATION OF INTERVIEW

Herewith confirmation that Marilize Moolman may do an interview with our staff in regards to the effect of the changes in tax on retirement funds.

Regards

Elizna Bouwer

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