FRIDAY, 25 AUGUST 2023

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

“Retrospective pension fund rule amendments not registered by FSCA do not bind members” says ConCourt

The Constitutional Court has provided much needed certainty to the retirement fund industry following the surprising April 2022 judgment of the Supreme Court of Appeal in *Municipal Employees Pension Fund & Another v Pandelani Midas Mudau and Another*.

On 02 August 2023, the Constitutional Court overturned the SCA judgment. The facts of the matter are as follows:

1. The member was employed by the Municipality from 03 May 2003. By virtue of his employment he became eligible to participate in the Municipal Employees Pension Fund.
2. He resigned from his position with effect from 31 May 2013 and his membership of the Fund also terminated on that date.
3. At the time, Rule 37(1)(b)(ii) of the Fund’s rules provided that a member who joined the Fund after June 1998 would upon resignation be entitled to withdrawal benefits of three times the member’s contributions with interest (the original rule). Having been warned by its actuaries that the rule provided for unsustainably high benefits, which could operate to the financial detriment of the Fund, the board of the Fund resolved on 21 June 2013 to amend the original rule, with effect from 1 April 2013, by providing for the withdrawal benefits to be one and half times a member’s contributions with interest (unregistered rule amendment).
4. On 22 July 2013 the Fund made an application to the Financial Sector Conduct Authority (FSCA) for the registration of the unregistered rule amendment.
5. On 16 October 2013, whilst the unregistered rule amendment was pending registration by the FSCA, the Fund made payment of the member’s withdrawal benefit, applying the unregistered rule.
6. Pursuant to the above the member utilised the statutory forums available to him, alleging that he was short-paid and claiming that he was entitled to the withdrawal benefit calculated according to the original rule.
7. The unregistered rule amendment was registered on 01 April 2014 with a retrospective effect to 01 April 2013.

The issues which were before the Constitutional Court was whether a pension fund may process a member’s claim for withdrawal benefit in terms of a rule amendment that has not

been registered and whether a rule amendment that impacts on vested benefits can be amended retrospectively.

The court held that:

1. While the registration of the unregistered rule amendment was to take effect from 01 April; 2013, it is the registered rules that are binding on the Fund. There was no other registered rule in place at the time of withdrawal of the member even though the registration of a rule amendment was anticipated by the Fund.
2. In purporting to rely on a rule that was still to be registered, the board of the Fund acted outside the provisions of the PFA and the Rules as well as in breach of the fiduciary duties owed to the member,
3. The Fund was required finalise the claim on the basis of the original rule. Following that and only upon the rule amendment becoming valid in April 2014, could the Fund then apply the rule as well as attempt to enforce its retroactive effect but not in respect of the vested rights.

An interesting observation from the constitutional court judgment is that, whilst it is unequivocal that an unregistered rule amendment had no binding effect, it did not deal with whether a rule amendment which takes away vested rights can be registered, except to mention that the issue may be considered in future. The court relied on the judgment in *National Tertiary Retirement Fund v Registrar of Pension F*und's (NTRF)as authority for the proposition that a rule amendment that reduces a member's pension fund benefits may have retrospective effect, provided that it is done in accordance with the rules and the PFA. What the NTRF judgment was concerned with whether the FSCA may refuse to register a rule amendment reducing benefits payable to members upon cessation of membership prior to retirement.

This case does not assist with the question of whether rules can be amended retrospectively even where they impact vested rights. The Constitutional Court noted that the issue of whether a rule amendment which affects vested rights can be approved by the FSCA is a matter that is separate from the issue of the validity of the retrospective operation of an amendment to the rules. It is clear from the judgment to the extent that there was any grey area, that a pension fund can only seek to enforce a rule amendment after it is registered. It is going to be interesting for funds in such instances to seek to comply with retrospective amendments where their conduct in the retrospective period is in compliance with the 'old rules', will funds then need to claw back for instance where they have paid benefits different to that which are provided by the retrospective rule amendment?

FA News | 24 August 2023

Women struggle to retire as early or as securely as men

Longevity literacy is critical to help women live confidently and securely when it comes to their wind-down years. South Africa's gender pension gap sits at 26%, reflecting the average difference in retirement income between men and women. Farzana Botha, segment manager at Sanlam Risk and Savings, said that often, women cannot afford to retire as early or as comfortably as men. She believes that turning this around should be a national imperative. Botha said: "A multitude of factors contribute to the gender pension gap, including the facts that women typically live about five years longer than men, but earn 82% of what their male peers make, for equivalent work. Closing this pay gap will take close to 300 years.

Women must be empowered to control what they can. This includes stretching their retirement incomes for longer and preparing for higher health-care costs. Longevity literacy is key to this."
A recent Sanlam study shows that, like men, women hope to retire comfortably from age 65 on. "We need to reframe retirement to be more personal and less rigid and conventional. The wind-down years offer incredible opportunities to pursue new careers, travel and passion projects, spend time with loved ones, and impact one's community in a lasting way. In fact, 33% of women view retirement as an opportunity to start a second, gentler career. That's what we need to empower women to focus on. Then it's about building real road maps to achieve the requisite financial freedom to reach these goals.

Contributing factors to the global gender pension gap:
Here, Botha shared nine factors behind the gap, as described in the 2022 Women's Report and other sources:

- Men are more likely to be employed than women: in 2022, close to half of all working age women in South Africa were out of work, versus 26% of men.
- Women are more likely to work part-time (59% of part-time employees are women), thus earning less than full-time employees.
- Women are still responsible for more care activities (13.3%) in their non-working time, compared to men (6.6%). Care work is chronically undervalued and usually unpaid.
- South Africa's pay parity score is dismal, ranking 111th out of 146 countries.
- Globally, women who take a year off for caregiving earn 39% less than those who do not. Fathers' rate of workforce participation is 21.1% higher than that of mothers. Lack of affordable childcare is hugely restrictive for women the world over; it inevitably impacts what women can afford to contribute toward retirement.
- Women often have lower levels of financial literacy, impacting their decision-making.

- 51% of men have their employers contributing to their pension funds, versus 46% of women.
- Education does not always help. In fact, the pay gap between men and women increases with more education. Globally, women with a bachelor's degree earn 74 cents for every dollar their male counterparts (in education) receive.
- 42% of houses in South Africa are female-headed, and about 60% of homes have absent fathers.

Given all these factors, globally women tend to contribute 30% less to their retirement accounts. Botha added that, according to the recent Sanlam survey, 48% of women say that they are probably not saving enough towards their retirement to make their goals a reality. In fact, 26% say they cannot afford to stop working and will have to work for as long as they can. "Closing the gender pension gap is a multifaceted, immensely complicated task that requires sustained, creative engagement from myriad stakeholders. It also requires targeted financial literacy interventions for women, from a young age."

Helping women make positive choices early on

Botha said: "The gender pension gap has devastating consequences for everyone, it's not just a burden for women. It impedes economic growth and inevitably impacts state resources. The World Economic Forum (WEF) phrases it succinctly: so long as the gender wage gap exists, there'll be a gender pension gap. So long as women are doing the lion's share of care work that's chronically un- or under-paid, there'll be a pension gap. "Longevity literacy plays a crucial role. We need to enable women to make positive choices early on, to put the building blocks in place for a long, fulfilling life.

Part of this means making regular retirement contributions, however small these may be. It's also critical women have health-care protection in place. Financial advisers can play a pivotal role in helping women choose appropriate retirement plans, for example, and outlining the benefits of a life annuity. The earlier we can help women to invest in their financial future, the better for them, and for our nation."

Personal Finance | 22 August 2023

Know your retirement fund benefits - Approved group life death benefits are not as simple as you think

Keeping your employer, insurer and retirement fund informed of changes to your personal circumstances, and making sure your beneficiary nomination form is always up to date, are essential to ensure that your lawful beneficiaries receive pay-outs should you pass away. Many South Africans are unaware of how their group life policies work if they were to pass away. They are ill informed of both the administrative and legal challenges that retirement funds and insurers face following an insured's death; including the hurdles that retirement fund trustees must clear before they can distribute any death benefits due on a group life policy. A good starting point is to understand the difference between an employer-owned versus a retirement fund-owned group life policy.

In the former case, also called an **unapproved** group life policy, the insured belongs to a group life policy that is taken out and paid for by his or her employer, In the latter case, also referred to as an **approved** group life policy, a retirement fund member is covered by a group life policy that is taken out and premiums are paid for by his or her retirement fund. Those who are fortunate to have a formal sector job should be familiar with the stack of paperwork that their employer's HR department expects them to fill out when they join an organisation. This paperwork, and the personal information that you share with your employer and retirement fund (if one is a member), is more important than you imagine. How you complete these forms, and whether or not you keep them up to date, can have a huge impact on your dependents should you pass away.

Approved death benefits, delving deeper

Should you join a retirement fund that offers an approved group life policy, you will be required to complete a set of onboarding documents for that retirement fund which you are joining. One of the most important documents in the onboarding 'pack' is a **beneficiary nomination form**. This form serves as the starting point for the complex process that the retirement fund trustees have to follow to honour any claim that your beneficiaries might have against the retirement fund following your death. It is common practice for an insured to include the names of their life partner, spouse, children and even their parents on this form.

You may also include other individuals who are financially dependent on you; just be aware that there is a differentiation between legal dependents, who are usually your spouse and children, and financial dependents. It is important that you are diligent when completing the beneficiary nomination form, and understand the implications for the beneficiaries you choose to nominate. It is equally important to keep the form up to date each time your personal circumstances

change, for example: if you get married; have children; choose a life partner; get divorced; or take on another financial dependent. The more up to date the information on this form is, the easier it will be for the retirement fund trustees to trace your deserving beneficiaries following your death.

Why is it important to keep the form up to date?

The need to keep your beneficiary nomination form up to date becomes clear when you consider what happens in the event of your death. Just imagine for a moment. Peter is the insured on an approved group life policy. He dies in a car accident, and upon his death his wife goes to his employer to claim the death benefit she believes is due to her, as Peter's wife. She gets the shock of her life when the retirement fund trustees tell her that she will not be paid immediately. The trustees explain that the benefit cannot be immediately paid out as they are required by law, specifically the Pension Funds Act, to investigate if there could be other prospective beneficiaries to the benefit.

This story may not bode well for Peter's wife, but the law places a duty of care squarely on the shoulders of the trustees of the retirement fund. They must investigate in order to identify any additional potential beneficiaries so that the death benefit payment is fair and equitable to all identified beneficiaries. This process is guided by the law and can take as long as 12 months to complete. In the case of Peter, the trustees may discover that his mother was financially dependent on him, or that he was financially providing for his niece on a monthly basis.

It is then the duty of the trustees to make sure that Peter's mother and his niece are not financially disadvantaged as a result of his death. Put another way, the names you put on your beneficiary nomination form are not guaranteed to receive a portion of your death benefit in the case of an approved death benefit. The beneficiary nomination form is however still very important as it serves as a guide or starting point for the trustees to trace your dependents in accordance with the law.

FA News | 18 August 2023

Investing for retirement - know your replacement level at every stage

Knowing your replacement level at every stage of investing for retirement is crucial for effective retirement planning. As you progress through different stages of life and investing, your financial needs and goals will evolve, and understanding your replacement level at each stage will help you make informed decisions and stay on track for a comfortable retirement. But first, what is a replacement level? Also called your funding level, or replacement ratio, it's simply a projection of the percentage of your last monthly salary that you'll be able to take as a sustainable, post-retirement income.

For example, if you are earning R10,000 a month just before retirement, and your replacement ratio is 75%, you'll have an income of R7,500 a month once you retire. However, recent research suggests that many retirees won't be able to enjoy such a high replacement ratio and that the average projected replacement level is closer to 40.5% (according to an Alexander Forbes study). If you're nearing the end of your career, it can be very difficult to make up for this shortfall. However, if you're younger there's still time to take corrective action. Let's look at different stages of investing for retirement:

- **Early Career Stage:** During the early career stage, you may have just started saving for retirement and have a long investment horizon ahead. Knowing your replacement level at this stage helps you establish a baseline of how much you'll need to save. Calculate how much of your current income you need to replace in retirement, considering your desired standard of living, expected expenses, and inflation. This knowledge will guide you in determining the appropriate savings rate and investment strategy to reach your retirement goals.

- **Mid-Career Stage:** In the mid-career stage, you may have already accumulated a significant amount in your retirement savings. Revisiting your replacement level becomes essential to assess whether you are on track to meet your income goals in retirement. Your income and lifestyle expectations may have changed since the early career stage, and it's crucial to reevaluate your retirement needs. Consider factors such as changing family dynamics, housing costs, healthcare expenses, and any major financial obligations. Adjust your replacement level accordingly and reassess your savings contributions and investment allocation to ensure you're on track.

- **Late Career Stage:** As retirement draws closer, knowing your replacement level becomes even more critical. At this stage, you need to have a clear understanding of the income you'll need to maintain your desired lifestyle throughout your retirement. Evaluate how well your savings align with your replacement level and make any necessary adjustments. This might

involve increasing your savings rate, making catch-up contributions, or exploring additional income sources to bridge any gaps.

- Pre-Retirement Stage: As you approach retirement, it's essential to refine your replacement level calculations further. Carefully consider any other sources of capital you might have, such as any discretionary investments (i.e., not in a retirement fund) and property you may own. Could you downsize to a smaller dwelling when you retire, or sell your holiday home, and add the capital you've gained to your retirement capital? Determine the percentage of your pre-retirement income that will be covered by these sources and identify any remaining gaps. This knowledge will help you fine-tune your savings plan further and ensure you have a solid financial foundation for retirement.

- Post-Retirement Stage: Even in retirement, it's important to periodically reassess your replacement level. Monitor your spending patterns, lifestyle changes, and potential healthcare costs. Stay informed about inflation and interest rates and adjust your retirement income accordingly – living annuity products allow you to change your withdrawals every year as necessary. Review your investment strategies, considering conservative options to ensure the sustainability of your retirement savings, while including more aggressive options to generate growth. In summary, knowing your replacement level at each stage of investing allows you to set realistic savings targets, assess your progress, and make informed decisions about your investments. By staying proactive and adjusting your strategies accordingly, you can secure a comfortable and financially sound retirement.

FA News | 17 August 2023

INTERNATIONAL NEWS

UK economy proving more resilient than expected

Growth of 0.2% in the second quarter was higher than predicted, driven by a rebound in manufacturing and higher household spending. The UK economy grew by 0.2% in the second quarter, beating consensus expectations of zero growth. Although this is a low growth rate by historic standards, the upside surprise and the make-up of the growth achieved is significant and shows that the economy has been more resilient than expected. Services, construction, and industrial production (including manufacturing) all generated positive growth, with the largest contribution coming from production industries. The manufacturing sectors delivered a particularly stronger performance, growing by 1.6% - their fastest quarterly growth rate since December 2020.

Domestic demand increasing

The expenditure breakdown of GDP reveals an even stronger trend. Real household spending grew by 0.7%, while general government expenditure grew by 3.1%. Although total investment was flat, business investment grew by 3.4% over the quarter. The offsets to otherwise strong data came from changes in inventories and net trade, which reduced total GDP growth by 0.3 and 1.1 percentage points, respectively. This means that domestic demand grew by 1.5% - three times faster than the pre-pandemic long-run average.

The new data release also included monthly data showing a rebound in the month of June, as the economy grew by 0.5% following -0.1% in May. Regular readers will remember last month's upside surprise when the economy did not contract by as much as had been expected. Most economists thought that the extra bank holiday in May, to celebrate the coronation of King Charles III, would cause a larger fall in activity, as similar additional public holidays had done in the past. There were questions over whether the economy had simply outperformed expectations, or whether the coronation celebrations were less impactful. The acceleration of economic activity in June suggests it was the former, and that the economy has been more resilient than expected.

More rate rises needed

Earlier this month, the Bank of England (BoE) opted to slow the pace of hikes back to 0.25% but suggested further rate rises are likely. The latest GDP figures suggest more monetary tightening is required to slow domestic demand, and to in turn ease domestic inflation pressures. Indeed, financial markets have responded to the latest figures this morning. Gilts

yields across the curve are higher, and the pound has strengthened against both the euro and US dollar. We previously called for a peak of 6.5% in the BoE policy interest rate, following a surprise acceleration in the pace of hiking. It seems that the BoE now wants to move more slowly and may therefore peak at a lower level of around 6%. This would probably come at the cost of inflation falling back more slowly. However, we would not be surprised if the BoE has to raise interest rates again later this year.

FA News | 23 August 2023

UK PM Sunak commits to triple-lock pension policy despite inflation

LONDON, Aug 16 (Reuters) - British Prime Minister Rishi Sunak said he was committed to the government's mechanism for increasing state pensions even though it is likely to cost billions of pounds more than usual given high inflation. The pension triple lock is a government promise to raise publicly funded pensions by the level of earnings, inflation or 2.5%, whichever is highest. "Of course the government is committed to its policy on the triple lock," Sunak told ITV News on Wednesday when asked whether he would stick to the pledge despite the rate of inflation.

"Now there is a statutory, a legal, process for determining the increase in pensions and benefits that happens in the autumn and that's where those final decisions are made." Data published earlier on Wednesday showed Britain's headline rate of inflation dropped sharply to 6.8% in July but remained more than three times the Bank of England's target. Earnings have also increased sharply, with official data published on Tuesday showing them up by about 8%.

At the start of 2023 Sunak set himself a target of halving inflation this year, something which remains in the balance as price growth has proven more persistent than forecast. "When I set out that target people said 'oh that's very easy he’s not ambitious enough'," he told ITV. "I thought it was an ambitious target, but it's right to be ambitious for our country." Last November, with inflation in double-digits, finance minister Jeremy Hunt decided to raise state retirement and welfare benefits payments in line with price growth at a cost of about 11 billion pounds ($14.02 billion).

Reuters | 16 August 2023

OUT OF INTEREST NEWS

Studies underline harsh reality of inadequate savings

While almost half (47%) of South Africans list a comfortable retirement as their primary savings goal, according to the 2023 Old Mutual Savings and Investment Survey (OMSIM), South African families who participated in a financial lifestyle social experiment cannot save adequately for retirement. Lizl Budhram, Head of Advice at Old Mutual Personal Finance, says this difficulty to save enough for retirement is contextualised by the OMSIM findings indicating that almost half of South Africans remain financially stressed and that 7 out of 10 have not seen their income increase since 2020.

Therefore, it is unsurprising that saving for retirement appears outside the top financial priorities for the South Africans surveyed. In 2023 income security (63%), cutting expenses (58%) and paying debt (52%) are the most prioritised, while only 33% of respondents ranked securing their investments and 34% creating an emergency savings fund as a priority. While OMSIM data reveals that 64% of respondents had a pension or provident fund in place and 51% had a retirement annuity, the Old Mutual social experiment, featuring eight South African families and a grocery store, provides a harsh reality check. In a grocery store recreated by Old Mutual, each family's breadwinner was asked to fill up a trolley with their usual supply of monthly goods, scanning each item as they went along.

They didn't know that the prices were adjusted for inflation based on their predicted year of retirement, and the provided budget was based on how much they would receive as a pensioner once they retired. Findings revealed a significant retirement savings shortfall, with some families discovering that they were over budget by amounts ranging from 100% to 800%. "Our follow-up with four families highlights their persistent challenges and financial constraints. People need to pay much closer attention to their retirement savings: what will they need in retirement? Will the savings be enough to cover these needs? Most people will likely find that they need to increase their savings, which is not easy in the current economic environment.

Postponing retirement is an alternative option which can also be considered," says Budhram. One family deeply affected by the experiment is the Tifflins. Their biggest realisation was that they needed to be more open about their finances and recognise how close they were to retirement. "While we have made sacrifices to reduce our debt every month since the experiment, we are still unable to initiate a proper savings plan due to our lack of available funds. We are determined, however, to start saving towards retirement," they said.

Budhram says the Tifflin's ongoing struggle to save highlights many South African families' financial obstacles. Similarly, the Greek family had a rude awakening when they realised their tendency to overspend on luxury items would have dire consequences for their retirement years. While they have made efforts to cut down on specific areas of spending and pay off their bond, they still need help allocating sufficient funds toward retirement savings. "We have not consulted a financial adviser, and our focus remains on immediate financial priorities. Although we are more aware of our need to save for retirement, it is difficult to save regularly today," said Mrs Greek.

The Matewane family's biggest realisation from the experiment extended beyond the struggles of financial management and making ends meet. Mrs Matewane, a single mother, says that while she cannot increase her retirement savings contributions, she has decided to enrol her children in a more affordable school, allowing her to allocate additional savings toward their tertiary education. "It was not an easy decision, but I now recognise the importance of financial planning. I intend to consult with a financial adviser early next year to develop a comprehensive education plan so my children can attend university," she said. In contrast, the Khumalo family seized the opportunity presented by the experiment and promptly took action.

"We started a retirement annuity and have been actively contributing to it, and it's been such a relief, giving us certainty about our financial future. To optimise our savings, we have engaged with our financial adviser, whom we underutilised in the past. We have since had two meetings to assess and update our current policies," says Mrs Khumalo. Budhram says financial constraints, changing life circumstances, and struggling to juggle competing priorities are real challenges, but solutions exist. "The experiences of these families underscore the larger issue of a retirement savings shortfall affecting South African society. Despite the wake-up call provided by the experiment, the reality remains that many families are still unable to save sufficiently for retirement.

This ongoing challenge necessitates a deeper examination of the issues that impede families from securing their financial future." Budhram says families and individuals must seek professional guidance to address pressing issues, such as options and alternatives when creating a workable retirement plan, limited access to affordable financial products and services, or a debt burden that has become unmanageable. "The stories of these families should serve as a call to action for policymakers, financial institutions, and society at large to prioritise retirement planning support and financial education," says Budhram. "By addressing the underlying barriers to saving, South African families can be empowered to take meaningful steps toward building a more secure retirement."

Personal Finance | 7 August 2023

Be brutal with expenses if you want to get into the savings habit

Take care of the cents and the rands will take care of themselves.

Nearly 70% of South Africans are concerned about their savings, half are delaying large purchases, and just 35% feel they have any money left at the end of the month. That was the outcome of a Deloitte study on the State of the Consumer released earlier this year. The squalid state of SA's savings industry seems to be repeated with each new study. Most people are surviving month to month, victimised by rising prices and a sense of hopelessness. It's been said before, but it's worth repeating: a savings culture has to start now. It becomes habitual once you start, says Thami Cele, head of savings and investments at Absa Everyday Banking.

"Many people who do not save will tell you that they have nothing left at the end of the month, but if you get them to look harder at how they could start cutting back on expenses, they will inevitably find areas where they are overspending. Even if you start with R100 or R500 a month, make a start. "The trick is, you have to be brutal with expenses if you want to get into the savings culture – and everyone should," says Cele. "In a funny way, you have to make your expenses deserve to appear in your bank statement – anything not worthy, chuck it out." Despite countless educational programmes and awareness initiatives, not to mention the attractive interest rates currently on offer, regular income-earning South Africans continue to spend beyond their means.

Where do I start?

The obvious place to start is to go through your bank statement and confront where the money goes every month. This will immediately present opportunities for saving, yet many people omit this from their monthly routines. Confronting a bad situation is the first step in correcting it.

Savings trends after Covid

Cele says Covid was a watershed moment for the country and several longer-term trends have emerged since then:

- The dislocations caused by Covid continue to be felt, particularly among the most vulnerable. Many households continue to live beyond their means and lack the discipline to set money aside.
- The Deloitte study mentioned earlier shows the SA consumer, in global terms, to be among the most vulnerable in the world.
- One encouraging sign is the increased prominence of group savings, such as stokvels, where group members hold others accountable for their savings.

“Many people are overwhelmed by several considerations when deciding [how] to use their disposable income,” says Cele. “They have to consider family, including distant relatives – often forgetting about their personal needs and insulating themselves and their immediate families financially for the future. “The other reality is that very few people have any savings buffer or access to credit, nor are they adequately insured. “More than 50% of credit-active people have impaired credit records, so they would struggle right now to get any credit due to this behaviour, which you find is mostly because of missed or inconsistent payments.”

Setting goals (the ambition)

Setting goals is an important part of the savings process – be it for a holiday, Christmas spending, a down payment on a home, or children’s education. A good goal to start with is to build a three-month expenses buffer, and gradually build that out to six and even 12 months. That is, if your income stopped or you lost your job, you should be able to survive three months or longer. Cele opines that there is a nexus between the size of a savings buffer and personal happiness.

A fixed deposit is a good vehicle to start off with

A fixed deposit account is a good savings and investing vehicle to consider for cultivating and sustaining personal savings habits while earning income off the investment. “Fixed deposit accounts are often underrated but we have noted a variety of reasons that customers choose to take up a fixed deposit over other investment or savings types,” says Cele. “Chief among these is security of the deposits, the elevated interest rate, and protection of the interest rate for predictability of income, especially in a declining interest rate cycle.”

Some of the benefits of a fixed deposit are:

- Earning interest on a daily basis;
- Capitalising the interest earned so that capital grows over time;
- Because of savings lock-up periods, customers are prevented from drawing funds in a hurry without incurring penalties; and
- It encourages realistic goal targeting – the enthusiasm for saving is elevated if there is a purpose for saving, such as a holiday or a deposit on a home.

Absa has noticed exponential growth in its Dynamic Fixed Deposit product over the past year. “This is a positive sign that more people are getting serious about saving,” says Cele. The Dynamic Fixed Deposit has some unique features, such as the ability to access up to 50% of the investment capital during the investment term without having to pay penalty fees, and being able to choose an interest rate that is fixed or variably linked to the prime interest rate. The 12-month Absa Dynamic Fixed Deposit offers an effective interest rate of up to 11% a year when customers choose the option of having 0% access to their funds, with the interest paid at the end of the term.

Customers have the convenience of accessing between 10% and 50% of their investment capital at a lower rate than the effective rate. The rate applied will still be higher than they would ordinarily get outside the campaign period – and bonuses can be earned if no funds are withdrawn during the 12-month period when choosing the access portion. Even better, if you open a transactional account and register for *free* Absa Rewards, you could get an additional 0.5% interest per annum by the time your investments mature. More information about the Absa Dynamic Fixed Deposit Account can be found here. "Lastly, it is always encouraged that consumers perform a needs analysis with a financial expert that can be found at any Absa branch, free of charge," says Cele. This is particularly important for those who may feel overwhelmed and unsure how to navigate their way to an understanding of where and how to save and invest, she adds.

Moneyweb | 10 August 2023

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