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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Limiting early access to pensions will spur people to save more, Treasury says

‘The point is we will increase the sweat factor so people apply their minds before withdrawing their funds,’ Ismail Momoniat says

A planned overhaul of SA’s retirement-fund rules is primarily aimed at encouraging people to save more and will provide very limited scope for them to access their pensions early, deputy director-general for tax and financial sector policy at the Treasury Ismail Momoniat says.

The reforms have been on the agenda for almost a decade, but gained momentum after the Covid-19 pandemic upended the economy and pushed the unemployment rate to a record high.

That has led to mounting calls on the government to make retirement provisions more readily accessible — a step that could have dire socioeconomic consequences if mishandled and pensions are frittered away. “The focus of our retirement reforms is not on withdrawals, the focus is on getting South Africans to save more” and preserve their contributions, Momoniat said in an interview.

“We haven’t finalised the details yet, but the point is we’ll increase the sweat factor so people apply their minds before withdrawing their funds.”

Chileans have demonstrated why adjusting pension-fund rules needs to be approached with extreme caution. They have withdrawn about $50bn in savings following the adoption of enabling legislation, draining funds from capital markets and raising concerns about the adequacy of their retirement provisions.

South Africans are currently only able to withdraw or transfer their pension funds if they resign, retire or become unemployed. The government may tweak tax rules to discourage people from drawing down their savings, or cashing out when they change jobs, and will only allow them early access to a portion of what they’ve set aside.

“We could say one-third of your savings goes towards that pot and that’s the maximum you’ll ever be able to withdraw before retirement,” Momoniat said. “Those members who expect to withdraw large lump amounts are going to be disappointed, frankly.”

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“We could say one-third of your savings goes towards that pot and that’s the maximum you’ll ever be able to withdraw before retirement,” Momoniat said. “Those members who expect to withdraw large lump amounts are going to be disappointed, frankly.”
A consolidation of retirement funds is also on the cards — a change that will increase their efficiency and reduce costs, as are measures to bring a bigger proportion of low-income earners into the savings net. The country has about 1,500 active funds and 3,500 dormant ones.

"For me, the dream is to get fewer funds so there's more economy of scale," said Momoniat. "Twenty or 50 or 100 is certainly better than 5,000." While the Treasury supports the establishment of a comprehensive social-security system, it considers that to be a long-term objective. So far, it has shied away from endorsing proposals by the department of social development that companies and workers be compelled to contribute as much as 12% of their earnings to a fund that could provide unemployment, retirement and disability benefits, saying they need further debate. ***Full Report**: **https://www.businesslive.co.za/bd/national/2021-08-31-lindiwe-zulu-withdraws-green-paper-on-social-security-reform/***

Business Day | 31 August 2021 | Linda Ensor

Lindiwe Zulu withdraws green paper on social security reform

Minister does not provide reasons for withdrawing policy paper that attracted widespread criticism

Social development minister Lindiwe Zulu has withdrawn the green paper on comprehensive social security and retirement reform less than two weeks after it was first gazetted to much controversy in August.

The withdrawal was effected by a notice in the government gazette on Tuesday. It gave no reasons for the withdrawal. Zulu caught the market by surprise in August when she suddenly published the paper, without going through the cabinet or the National Treasury to test it against existing tax and fiscal policy.

It also emerged that it had ignored a report by the National Economic Development and Labour Council (Nedlac) setting out risks and problems raised by business. Business also stated that the green paper largely reproduced a 2016 version, while Treasury deputy director-general Ismail Momoniat said it reflected some of the aspirations of the various constituencies in Nedlac, with consensus still to be reached.

Trade unions were also strongly opposed to the proposal that all employees would be mandated to contribute 8% to 10% of their qualifying earnings up to R276,000 to a state-run national social security fund which would pool resources to provide retirement, survivor, disability and unemployment benefits. The high limit also raised concern that it would trash the business model of the private savings industry, a major funder of a government that saw its finances come under severe pressure because of the Covid-19 induced economic slump.

Private sector players have expressed unease at the creation of a huge bureaucratic structure that could have damaged what is regarded as a well-functioning private system, an argument reminiscent of discussions around the government's attempt to set up the National Health Insurance Fund. It also came at a time when confidence in state-owned entities is at a record low after years of corruption and mismanagement, with critics branding the Zulu proposal a "tax grab".

Stephen Smith, a senior policy adviser at the Association for Savings and Investment SA, whose members have R6-trillion of assets, said SA needs to protect the savings pools accumulated by the life industry, which has financed much of the country's investment requirements and funds the government via the capital market.

The International Labour Organization (ILO) warned that there would be a "significant escalation in contributions for the future". This would erode individual earnings. Research by the ILO concluded that the proposed contribution ceiling of R276,000 was too high. ***Full Report:*** ***https://www.businesslive.co.za/bd/national/2021-08-31-lindiwe-zulu-withdraws-green-paper-on-social-security-reform/***

Business Day | 31 August 2021 | Linda Ensor

Preparing to take control of your retirement

LEAVING the safety of your employer marks the end of one chapter of your life and the beginning of another. Consider your options carefully and get help from a financial planner to move as smoothly as possible from one chapter to the next.

If you are worried about having enough money in retirement, you need to follow several steps to take control of your situation:

Understand your situation

It's important to know where you spend your money and what resources you have. Make a list of your expenses and debt repayments, and another list of your household income and any savings you have.

Ask what you can change

Review your expenses in detail to find out which expenses you can reduce, delay or stop.

Think about your future needs

Work out how much money you will need to live on. Also spend some time thinking about how your expenses may change in the future and which expenses, such as healthcare costs, may increase.

Be proactive

Once you understand your financial position, you can start planning for when and how you will reduce, delay or stop any non-essential expenses. Also, consider what else you can do to stretch your money as far as possible and for as long as possible. Making some changes, such as moving to a cheaper home or looking for ways to earn extra income, could give you a better chance of having enough money to live on. A financial adviser can assist you with this step.

Start new habits

Regardless of your financial situation, you should use this time of change to start new habits. Now that you have a budget and a plan, stay on top of your finances by:

- Recording your expenses;
- Comparing your expenses to your budget every time you spend money;
- Checking your plan every month; and
- Adjusting your plan if necessary.

By forming good habits, you'll be using this opportunity to put yourself in a better position to achieve what matters most to you.

If you don't need an income straight away, you can delay or defer getting your pension. If you do need income immediately, your options are a guaranteed pension for life, a flexible pension (living annuity), or a combination of both. You can use your retirement savings to buy a pension from a pension provider. Retirement savings come from pension funds, provident funds, preservation funds or retirement annuity funds. The pension provider you choose pays you a pension every month, every three months, or once or twice a year, depending on the agreement with your pension provider.

Make sure you have enough money to live on in retirement

When you decide to withdraw any of your retirement savings in cash, the most important consideration is making sure you have enough to live on. An adviser can help you to decide how much cash is right for you according to your circumstances. ***Full Report: https://www.iol.co.za/personal-finance/retirement/preparing-to-take-control-of-your-retirement-ecbbc79e-0574-40c3-b761-7e7d557cf1ef***

Personal Finance | 1 September 2021 | Salie Petersen

How umbrella funds have reshaped the retirement industry

And are continuing to do so despite pressures introduced by the Covid-19 pandemic.

An umbrella fund is a retirement fund that accommodates several employers under a single 'umbrella' with a variety of savings, insurance and related benefit options. These were originally created in the 1980s, mainly to service smaller companies by pooling them into a single fund that attempted to reduce costs and offer a semblance of the benefits available only to larger standalone funds.

The trend has now swung decisively in favour of umbrella funds and away from standalones – a trend supported by National Treasury, which would like to see far greater consolidation among the 4 000-odd standalone funds still remaining in SA. Treasury welcomes this as part of a trend towards reducing costs and improving governance in the retirement sector.

The same trends are evident in other parts of the world, such as Australia (where they are known as superannuation funds) and the UK.

"One reason for the trend towards umbrella funds and greater flexibility is that it allows employers to focus on what they are good at and outsource their retirement fund management," says Malusi Ndlovu, director: large enterprise at Old Mutual Corporate.

Ndlovu says roughly 60% of SA's working population is covered by some kind of retirement fund. "That's very high by emerging market and OECD [Organisation for Economic Co-operation and Development] standards, and this has been achieved by private sector providers, not by compulsory savings schemes as is the case in many other countries. This high voluntary retirement savings coverage rate suggests people have a high level of trust in the retirement industry."

Higher earners tend to place greater emphasis on the types of underlying investment, while lower income earners have a greater demand for benefits such as insurance risk benefits. "This is understandable, as this segment of the population is more vulnerable to financial shocks arising from incidents such as a death in the family, or an accident, or disability," says Ndlovu.

"Therefore, it's important to offer the right balance of options. These people exist in the same workforce, even the same company, so they need cost-effective flexibility of choice within a fund."

How Covid has impacted the retirement industry

Ndlovu says a clear trend since the onset of Covid-19 is a spike in the number of talented people looking for new or different work opportunities. People who previously survived on multiple incomes have had to make do with a drop in one or more sources of income, and that's forced them to adjust their lifestyles.

"One of the things that is top of mind for employees in the Covid environment is the employee benefits that come with the remuneration package. The new additional benefits most in demand include the ability to work remotely, flexible working hours, wellness benefits and, increasingly, the ability to advance one's career through online courses," he says. ***Full Report:*** https://www.moneyweb.co.za/mymoney/moneyweb-personal-finance/how-umbrella-funds-have-reshaped-the-retirement-industry/

Moneyweb | 31 August 2021 | Ciaran Ryan

You, the pandemic, and your retirement fund

Words on Wealth:

Alongside employers, particularly in the hard-hit hospitality industry, retirement funds have been pummelled by the pandemic. Many funds had to offer contribution holidays while others had to shut down permanently when the employers they served went out of business.

In a media briefing this week on the state of the retirement fund industry, the Financial Sector Conduct Authority (FSCA) produced sobering statistics on the extent to which the pandemic had negatively impacted funds and their members.

Anton van Graan, a retirement fund analyst at the FSCA, reported on a survey of almost 800 retirement funds. Of these, almost half (47.5%) had been asked by employers and members to grant relief by allowing the temporary suspension of contributions.

"We noted that larger employers managed to weather the effects of Covid-19 and continued with the payment of salaries and honouring commitments to preserve fund benefits," Van Graan said. "However, the effect on small businesses appeared to be where the most hardship was evident and was particularly observed in umbrella funds (large commercial funds housing a number of employers) indicating requests for contribution relief by employers. The greatest number of requests for relief were noted in the manufacturing and services industries."

On a positive note, Van Graan said it was encouraging that the payment of premiums for group life and disability cover had largely continued uninterrupted, either from adjusted pensionable salaries, risk reserves or by the employers.

Wilma Mokupo, the FSCA's head of prudential supervision of retirement funds, reported on liquidations. She said 526 funds, with 42 103 members among them, had been liquidated in 2020. This was up 21%, from 433 funds (with 27 454 members) in 2019. Funds serving the hospitality industry had been worst affected. The FSCA also provided interesting insights and statistics on unclaimed benefits, which I will cover next week.

EMERGENCY ACCESS TO SAVINGS

Although retirement funds were able to provide relief by allowing the temporary suspension of contributions temporarily, they were not able to grant access to savings. On a positive note, Van Graan said it was encouraging that the payment of premiums for group life and disability cover had largely continued uninterrupted, either from adjusted pensionable salaries, risk reserves or by the employers.

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EMERGENCY ACCESS TO SAVINGS

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The government has always encouraged saving for retirement by, among other things, generous tax deductions on contributions. But National Treasury has come to the realisation that, in dire situations, people need money sooner rather than later.

Treasury recently announced that it was exploring a "two-bucket" savings system, with a large bucket untouchable until retirement age (unlike currently, where you can access all your savings, minus tax, when you change jobs) and a smaller one accessible in an emergency. However, if a solution is agreed on, it will take some time to implement, not least because all sorts of laws, including tax laws, will need to be amended. So there's zero hope of this form of relief during the current crisis.

The industry is cautiously supportive of the proposals. The Association for Savings and Investment South Africa (Asisa) says the association and its members "support meaningful

changes to the current retirement system that are aimed at strengthening preservation of savings, while at the same time providing a manageable solution to emergency access to savings".

Rosemary Lightbody, senior policy adviser at Asisa, says it is important to point out that this will not be an overnight process. "We are sympathetic to the hardships endured by South Africans because of the Covid-19 pandemic and the lockdowns, but regrettably there is no possible 'quick fix' within the current legislative framework." ***Full Report: https://www.iol.co.za/personal-finance/retirement/you-the-pandemic-and-your-retirement-fund-6cec19fe-d655-4a14-a2a9-b8c7e699c89a***

Personal Finance | 31 August 2021 | Martin Hesse

Accessing retirement savings before retiring like stepping into quicksand

The recent announcement that the government is looking at ways to allow people to access their retirement savings in an emergency as from next year may have given many people hope that their financial woes are about to end.

Andrew Davison, chair of the Investments Committee of the Actuarial Society of South Africa (ASSA), cautions however that the decision to access a portion of your retirement savings should not be taken lightly.

"Before you breathe a sigh of relief, and possibly even take on additional debt to bridge your current financial woes until the emergency access becomes a reality, it is critically important that you understand that whatever you take from your retirement savings now is likely to cause a shortfall in your retirement years at a time when you may have few alternative options of finding additional income."

Davison compares accessing your retirement savings before retirement to stepping into quicksand. "It seems like no big deal but it's almost impossible to regain solid financial footing once your retirement savings have been reduced. So while this decision might rescue you from a difficult financial position now, if you don't refill the 'hole' in your finances at some point between now and retirement, then it will most likely sink you later in life when your age, and possibly your health, might leave you with few options."

Lack of preservation a concern

Davison says the lack of preservation of retirement benefits by South Africans has long been of grave concern. He adds that ASSA therefore welcomes the announcement by the National Treasury that government is working on a “two-bucket system” aimed at ensuring future mandatory preservation upon resignation from a job while at the same time allowing limited pre-retirement withdrawals from retirement funds.

He points out that the current crisis necessitated that government explore various options to alleviate financial hardship in the short term and one of these options is allowing people to access their retirement savings. He adds that at the same time this also provided government with the opportunity to make some much needed changes to the system to enhance people’s chances of accumulating enough capital by the time they reach retirement.

Current laws prohibit members of pension and provident funds from accessing their retirement savings unless they leave their jobs or retire from their funds. Employees who had their salaries reduced during the Covid-19 pandemic or suddenly became sole breadwinners after spouses or partners lost their jobs, therefore found that they were prohibited by law from touching their retirement savings.

This means that only people who lost their jobs during the Covid-19 pandemic had the option of taking their retirement savings in cash, minus a hefty tax portion. Employees who opted for early retirement were allowed to take one third of their pension benefit as a lump sum, unless the value was less than R247 500, or their provident fund benefit as a cash lump sum (less tax). Members of a retirement annuity (RA) fund are not allowed to access their savings before the age of 55.

Davison says saving for retirement is challenging and although it is possible to save enough to be able to maintain one’s standard of living, it takes dedication, discipline and patience. “Sadly, only a few South Africans get it right. For the rest, it means hard decisions about lowering standards of living, relying on family for financial support or queuing in the SASSA line for the meagre older person’s grant.”

The importance of planning for emergencies

Davison points out that the National Treasury has clearly stated that access will be once off and limited and will be tied, in future, to mandatory preservation. “In other words, the current ability to cash in all retirement savings when changing jobs is likely to be more limited in future.”

He says it should be noted that this will only apply to future savings and not to the existing accumulated savings that people have – as always, vested rights will be protected. The recent

provident fund annuitization provisions, for example, only apply to contributions made after 1 March 2021.

Davison says once finalised and implemented, probably only sometime next year, the "two-bucket system" will require South Africans to learn to also save for emergencies, not just retirement.

"Retirement is not the only reason to save. Savings are essential to enable people to put down a deposit on a property, pay for children's school fees, take a well-earned holiday and, very importantly, to provide for unforeseen shocks or so-called rainy days. Savings build resilience to enable people to withstand life's knocks. In terms of knocks it doesn't get much more brutal than the Covid-19 pandemic, which has left many people's finances exposed."

Davison says the challenge is that many people have little or no savings outside of the savings they set aside every month in their employer's pension or provident fund. "In many cases, they actually have negative savings in that they have substantial debt. No savings and a pile of debt means people are extremely vulnerable to a loss of their monthly income."

If you are currently only saving for your retirement, Davison recommends that you consider shock-proofing your finances by also building up an emergency fund big enough to tide you over for at least three, but preferably six, months should you or another breadwinner in your household fall on tough times.

Davison points out that there are significant benefits to having savings in a retirement fund, including the advantages of tax-free growth as well as significantly lower fees than in a similar personal investment vehicle. The ideal situation, according to Davison, involves having savings in a retirement fund that are designated for retirement and then also having savings in personal savings vehicles that provide for shorter term needs and emergencies. All savings benefit immensely from the impact of compound interest - the longer the period, the bigger the benefits because compound interest needs time to work its magic.

Full Report: ***https://www.fanews.co.za/article/retirement/1357/general/1358/accessing-retirement-savings-before-retiring-like-stepping-into-quicksand/32789***

FA News | 1 September 2021

The important role of independent trustees in a family business trust

It is critical for trustees to remain impartial.

The advantages of a family business trust far outweigh the disadvantages, says Penelope du Plessis, vice-chair of the Fiduciary Institute of Southern Africa (Fisa). However, it is critical that there is a clear separation of control and benefits.

The Supreme Court of Appeal, more than 15 years ago, highlighted the need for an independent outsider as a trustee when all the parties to the trust are connected. In the case of the Land and Agricultural Development Bank of South Africa v Parker and others the appeal court stated that "the essential notion of trust law, from which the further development of the trust form must proceed, is that enjoyment and control should be functionally separate".
Du Plessis says from 2017 all family business trusts had to appoint an independent trustee. If no appointment is made, the Master of the High Court can refuse to register the trust.

Generally, the founder of the trust or the other trustees have the right to nominate an independent trustee. Failure to do so will result in the master appointing someone.
The Trust Property Control Act, which governs all trusts, also has a section that sets out when an independent trustee should be removed. This includes when they are declared insolvent, or have a criminal record or mental illness. This is in fact applicable to all trustees, notes Du Plessis.

Acting together

The essence of any trust is that no one trustee may have more power than any of the others. "They have to act together at all times. The powers and rules about the manner in which decisions are made should be clear and simple." The powers of the trustees and the rules around decision-making should be set out in the trust deed. It must set out the course of action when there is a difference in opinions or when a deadlock is reached.

"Some trust deeds are silent on these matters, but any good trust deed should obtain clauses setting out the decision-making rules," advises Du Plessis.

Knowing what to do

The duties of the trustees are set out in the trust deed. The fiduciary duties of the independent trustee include checking the conduct of the other trustees, ensuring that the trust functions properly and ensuring that the provisions of the trust deed are adhered to.

The independent trustee must ensure that decisions are made together, that nobody acts unilaterally and that the decisions are beneficial to all the trustees. “If the independent trustee is found to be in breach of their fiduciary duties they can be held personally liable,” warns Du Plessis.

She refers to the Slip Knot Investment v Du Toit case where a trustee was held jointly responsible with the other trustees for the payment of almost R8 million, despite claiming that he was only a trustee “in name” in the trust of his brother and nephew.
The Supreme Court of Appeal had little regard for the excuse that the respondent in the case was a farmer and not a businessman and that “he had nothing to do with the trust” and the loan advanced to the trust.

Understand the responsibilities

“The respondent was a trustee of the trust. He may have been a farmer, but this is of no consequence. The respondent had his own trusts and managed them. He must have known what a trust was and what the duties and responsibilities of a trustee were,” the court found.
In that case Slip Knot advanced a loan to his brother’s trust, and part of the loan agreement was a suretyship. Du Toit signed the documents, which contained the suretyship, without reading any of them. When the trust did not honour the agreement, the trustees were held liable in their personal capacity.

Du Plessis stresses the importance of making sure that every decision is discussed and voted on. There must be evidence that the trustees applied their minds in terms of all the decisions and that they acted in the interest of all the beneficiaries.

True independence

It is critical for the independent trustee to remain impartial, even if the relationship becomes closer over the years. The independent trustee has to complete a sworn affidavit and hand it in at the Master of the High Court.

In the affidavit they declare and undertake that they have no family relation or connection, blood or other, to any of the existing or proposed trustees, beneficiaries or the founder of the trust.

They also have to declare and undertake that they are competent to scrutinise the conduct of the other trustees and that they are knowledgeable in the law of trusts. Du Plessis says the level of knowledge required sets the bar quite high for independent trustees. “It is not only

about trust law, it is also about understanding business contracts, succession planning, investments, tax planning and legislative changes that affect trusts."

She says a good indicator of the level of expertise is when an independent trustee has the status of Fiduciary Practitioner of SA® (FPSA®), for which designation a Fisa member can apply to Fisa upon successful completion of the Advanced Diploma in Estate and Trust Administration at the School of Financial Planning Law at the University of the Free State.
Du Plessis stresses the importance of a well-drafted trust deed. "Avoid any complications down the line by checking the trust deed and letter of authority to ensure an independent trustee has been appointed."

Importantly, make sure the trust deed makes provision for the replacement of independent trustees.

Moneyweb | 1 September 2021 | Amanda Visser

INTERNATIONAL NEWS

UK's Nest pension fund plots £1.5bn push into private equity

Plans mark one of the biggest moves by a British retirement scheme into unlisted assets

Nest, one of the UK's largest workplace pension schemes, has announced a £1.5bn private equity spending spree in the biggest move by a British retirement scheme into the asset class. The £20bn state-backed pension fund with 10m members on Friday launched a search for managers to build its private equity holding, with a target of 5 per cent of the portfolio invested in the asset class by the end of 2024. Nest already holds private, unlisted assets, such as a £250m stake in private infrastructure equity, as well as private credit, but the scheme is now making its first foray into traditional private equity, where capital will be used to finance innovative and growing businesses.

"We want private equity to play an important role in our portfolio, offering strong returns and diversification," said Stephen O'Neill, Nest's head of private markets. "We're excited about the positive impact we can have on growing companies." He said Nest plans to invest at least

£80bn across its entire portfolio over the next 20 years, and wants private equity to play an important role in this*. The fund was looking for bidders to present global solutions that would be “evergreen and scale” with Nest over time, Nest added. Nest’s move into traditional private equity is the first big expansion by a UK defined contribution (DC) pension fund into the asset class and comes alongside a broader government drive to unleash hundreds of billions of pounds of pension cash to fuel economic recovery.

Prime minister Boris Johnson and Rishi Sunak, chancellor, this month issued a call to action to pension funds to direct more of their cash to long-term investments, such as infrastructure and private equity. DC pensions have until now largely steered clear of private equity because of concerns that performance fees, typically levied by private markets managers, would put them at risk of breaching a 0.75 per cent charge cap on retirement savers’ fees. The government this year loosened the annual charge cap to better accommodate performance fees.

“Nest’s drive into private markets is pioneering,” said Esther Hawley, a senior investment consultant with Barnett Waddingham, a professional services firm. “Defined contribution funds (in the UK) have not historically invested in private equity but Nest has the scale to do so.” Hawley said she did not believe Nest’s foray into private markets would lead to a rush of investment from other DC schemes. “Most schemes do not have the resources or budget like Nest, so I don’t expect a stampede,” she said.

Nest’s plans were unveiled as the UK’s largest private-sector pension scheme this week warned that heavy-handed regulatory interventions could hamper the government’s efforts to fuel economic recovery with pension cash. The £80bn Universities Superannuation Scheme (USS) warned that a “lack of alignment” between regulators and government policy could act as a deterrent to schemes investing in the “build back better” drive.

The cautious sentiment comes two weeks after the UK competition regulator backed a move by Ofgem, the government’s energy governing body, to slash returns for investors in monopoly energy networks in Britain. The decision will help cut energy bills but could make these kinds of investments less lucrative for savers who invest in their projects.

“We share the government’s view that there is an opportunity to drive growth and prosperity by investing in the UK, and of course for USS this needs to be consistent with our duty to pay the pension promises made to our 476,00 members,” Mike Powell, head of USS’s private markets group, told the Financial Times. “To maximise the success of this initiative, it will be important for the government to ensure predictable, transparent and stable regulation of infrastructure assets.” The Financial Times reported this month that some UK pension fund trustees were

balking at the government's effort to widen their investment horizons, warning about potential conflicts of interests for their savers.

Financial Times | **27 August 2021** | **Josephine Cumbo**

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