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THE RETIREMENT INDUSTRY NEWSLETTER



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LOCAL NEWS

The four steps you need to take towards saving for the future

When planning for the future, having an end goal in mind is essential on your journey to success. When it comes to our finances, saving is the reason we plan, but South Africans are finding saving to be an unattainable goal.

The **South African Reserve Bank's Quarterly Bulletin** revealed that only 13,3% of South Africa's GDP is saved. Some of the world's top national savings rates are between **64% – 44%**, **which indicates that** South African's severely lack a savings culture. Janine Horn, a certified financial adviser from Momentum Financial Planning encourages South Africans to take that leap and set up a savings plan. "As South Africans, we are proud people but also keep our heads in the sand. Our financial literacy is so dismal, and if we don't do anything about it, our people will continue to face financial hardship. Having a savings plan is a blueprint for achieving your financial goals."

According to Janine, a savings plan is a way to grow your money in order to reach the financial goals you set for yourself. "It pens down, in detail, the goal in question and what is required to achieve the goal." Setting up a personalised savings plan does not have to be complicated. Janine recommends the steps below when setting up a savings plan.

Step 1: Look at your budget

Your budget demonstrates your current financial picture. Carefully analyse your budget and comb through all your expenses, then decide how much money you are willing to put aside every month. If you do not have a budget, your bank statements can provide insight into your critical expenses. "If it seems like you do not have enough to save, try cutting down on your necessary expenses," Janine says. Once you've reviewed your budget, you can direct your attention to determining your financial goals.

Step 2: Establish your goals

Decide whether you are saving for a short-term goal, such as buying a car or a long-term savings goal, like your retirement. "Usually, long-term goals do not require immediate cash, and you have a longer time frame to save for these," Janine says. She says using the age-old SMART approach when setting up goals is essential. SMART stands for Specific, Measurable, Achievable, Realistic and Time-bound. "Now that you know how to establish your goals, the next step will help you to decide how to reach these goals."

Step 3: Decide how much to allocate to each goal

If you are saving for numerous goals simultaneously, Janine says it is vital to pen down how much you are saving towards each goal. For example, if you are saving for a car, your child's education, vacations, and emergencies simultaneously, you need to determine what is a reasonable and realistic amount to meet the demands of each goal.

Step 4: Determine where you will keep your savings

Once you have decided how much money you will allocate to each goal, you can now weigh your options regarding where you will grow your money. "When saving, there are numerous options, such as a savings account, money market, tax-advantage account or taxable investment account, among others," says Janine. She says these options provide different benefits, and it is crucial to analyse each option carefully and decide which option will allow you to maximise your savings. Speaking on how you can grow your savings, Janine says, "Speak to your financial adviser at the beginning of the process. They will guide you every step of the way, consistently evaluate your savings plans and ensure you are on track to achieve the savings goals you set, guiding you on your journey to success."

FA News | 15 November 2022

Five trends that will shape Umbrella Funds in 2023

Umbrella fund members have more than doubled in the last decade and assets have more than quadrupled to just under half a trillion in assets, according to a **report by National Treasury**. Over the past few years, layer upon layer of legislation has been added to the industry and the one theme that has remained constant from National Treasury is the need for consolidation and its intent to improve governance within the industry, thus ultimately protecting the interests of members. Nzwa Shoniwa, Managing Executive at Sanlam Umbrella Solutions says: "Recent times have been challenging on many fronts for all South Africans and research from our Sanlam Benchmark report from earlier this year showed how economic challenges placed additional pressure on the lives and finances of our members and participating employers.

The industry should take educating and supporting the growing number of members of umbrella funds extremely seriously as we navigate this tough time." During the 2022 **Sanlam Umbrella Fund Symposium**, held in late October, a group of panellists touched on the challenges the industry is facing, including enhancing competition, transformation scorecards; and National Treasury's (NT's) proposed 'two pot' retirement funding solution and allowed the audience a behind the scenes look at how the Sanlam Umbrella Fund board plans to tackle

these challenges. Against the backdrop of this, Shoniwa highlights five trends that will impact the Umbrella Fund industry in 2023.

1. Digitalization

The key digital themes for 2023 will be centred around improving digital adoption across members, measuring the clients' experience, member engagement and alignment across varying solutions. However, expanding digital footprints will ultimately contribute to an increase in cyberattacks. At the end of 2021, **Gartner** conducted a survey to identify the top risks that will impact the financial sector in 2022. Cyber vulnerability was identified as the top challenge.

2. Cyber vulnerability The Financial services industry is among the top three industries most affected by cyberattacks. They are 300 times more likely to experience a cyberattack than companies in other industries. The primary reasons include rapid adoption of new technologies, access management challenges, lapses in security control and increased employee vulnerability to social engineering. Over the years, financial organisations have witnessed an increase in the number and cost of cyber-attacks. Global ransomware attacks rose 93% in the first half of 2021 compared to the same period in 2020. The need for information security has dramatically increased in the digital age. With updated legislation, regulatory interventions and demand from our stakeholders, financial services companies need to acknowledge the need to ensure that they remain compliant and secure all the information we manage in line with worldwide best practice principles.

3. Two-pot system Early access to retirement savings is a burning issue highlighted by the pandemic. The financial struggles many South Africans face due to the COVID-19 pandemic have resulted in Government engaging with the regulators and other key stakeholders to work out relief measures for consumers. The move to a two-pot system, with the dual purpose of facilitating early access to one third of future contributions and preservation of the remainder for annuitisation at retirement, is a welcome development signalling a new era for the South African retirement industry and ending old age poverty.

The "two-pot" system will have a positive impact on people's lives by providing a practicable and responsible solution to the real needs of members. The proposed reforms are necessary to balance members' long-term retirement savings goals and to meet short-term financial needs (as has been highlighted following the Covid-19 pandemic). In the long run it should improve retirement outcomes. Set for launch in 2024, 2023 will be characterised by a great deal of preparatory work which will include administrators undertaking massive system enhancements, changes to forms, processes and procedures.

4. Member Focus In light of the economic difficulties that participating employers and members continue to face, the importance of partnering with a trusted partner has never been more important. Shoniwa says, “For Sanlam Umbrella Solutions, our members remain the most important partners that we have, with our sole purpose to empower them to be financially confident about their future thus improving their retirement outcomes. It is for this reason that our focus has been shifting towards engaging members directly through different platforms.”

5. Healthcare Integration Sanlam’s 2022 benchmark research indicated that 51% (2021: 36%) of employers surveyed, believed a holistic integrated health and financial wellness programme delivered higher productivity and staff happiness, yet only 12% used integrated programmes reflecting a clear gap in the current services offered. Employers are considering the ideal suite of benefits and services that should be included for their employees and these benefits to be integrated into a single value proposition. However, the research indicates that employees need additional healthcare benefits as the pandemic highlighted how members were not adequately covered.

One of the strengths of the Sanlam Umbrella Fund is to continuously seek ways to improve the value proposition and ensure that the right tools are provided to enable members to achieve a dignified retirement. Sanlam Umbrella Solutions and Sanlam Health have developed a set of health solutions that will be available exclusively to members and employers of the Sanlam Umbrella Fund in early 2023. These offerings will allow the Sanlam Umbrella Fund to offer holistic retirement and health solutions. “Health, both physical and mental, is taking centre stage, particularly within the context of a tough economic environment. Adopting a holistic integrated health and financial wellness programme is beneficial to members and participating employers. It is no secret that healthy employees are happier employees” concludes Shoniwa.

FA News | 16 November 2022

Five things to consider before getting a divorce

Johannesburg - Although couples vow to be together until death do them part when they marry, it's never a guarantee. The 2019 Statistics SA report on marriages and divorces found that out of 129 597 civil marriages, 2 789 customary marriages, and 1 771 civil unions that were recorded that year, 23 710 ended in divorce. The Social Readjustment Rating Scale (SRRS) ranks getting a divorce as the second most stressful event in one’s life, and below are some of the reasons:

1. Your spouse can claim from your retirement funds:

According to the Divorce Act, divorcing couples can share in each other's retirement benefits on the date of divorce to ensure a clean division of assets. This means that even though one spouse may choose to stay home and raise children, they can claim a share of the other spouse's pension fund depending on how they are married. The marital regime does, however, determine to what extent the non-member spouse can share in the member spouse's retirement benefits. The amount is determined based on the benefit the member spouse would have received from their fund at the date of divorce.

2. Worries about financial survival:

It is possible to obtain an interim maintenance order. If you're concerned about how you will survive financially in the period between separation and the finalisation of your divorce, speak to the divorce attorney handling your case about bringing an application for interim relief. The application can be in relation to interim childcare, maintenance for the spouse or children involved, enforced payment of costs such as school fees and bond repayments, or financial assistance with legal fees.

3. Not updating your will after your divorce can have disastrous consequences:

Section 2B of the Wills Act specifically deals with circumstances where a person dies after having been divorced, providing three months' leeway for divorcing spouses to amend their wills in line with their new circumstances. Not updating your will after your divorce can have disastrous consequences and may result in your spouse unintentionally inheriting from you. This means that if a person dies within three months of her divorce, her estate will be distributed as if her ex-spouse had died before her. In other words, her ex-spouse will not stand to benefit from her estate. However, after the expiration of three months and in the absence of an amended will, it will be assumed that the testatrix intended for her ex-spouse to inherit in terms of her will.

4. Spousal maintenance is not a given right:

When a couple is legally married, a reciprocal duty of support is created, which means that each spouse is obliged to provide for the other to the extent that they are able to. Upon divorce, this duty of support comes to an end when a marriage is dissolved through death or divorce. While the Divorce Act makes provision for the court to make orders relating to spousal maintenance, it is important to keep in mind that neither spouse has a statutory right to maintenance. The court has full discretion relating to such orders, including the discretion to award no maintenance to the spouse applying for spousal support.

5. You may be liable for some of your spouse's debt:

The financial implications of a COP (community of property) marriage can be quite onerous, especially when it comes to debt. If you marry in community of property, you and your spouse have a single, joint estate, which you own together in equal, indivisible shares, including all debt that was incurred both before and after the date of marriage. This means that on divorce, you may find yourselves responsible for having incurred 50% of all your spouse's debt, and vice versa.

The Star | 16 November 2022

INTERNATIONAL NEWS

Northern Trust told by UK regulators to improve following pension turmoil

US custody bank's operating systems described as a bottleneck

UK regulators have ordered Northern Trust to improve its operating systems after the US custody bank was overwhelmed by the demands of processing margin calls during recent pension fund turmoil, people familiar with the situation told the Financial Times. Bankers called out Northern Trust's manual processing systems as a key blockage in the system that made it harder for pension funds to adjust their investment strategies swiftly during the market chaos that followed former UK chancellor Kwasi Kwarteng's disastrous "mini" Budget on September 23. UK government bond prices plummeted at record speed following Kwarteng's announcement of unfunded tax cuts, which forced pension funds to raise cash quickly to meet margin calls on derivatives they held that were linked to government bonds.

Northern Trust was the depository for two of the biggest so-called liability driven investment managers — Insight Investment and Legal & General Investment Management — which set up the derivatives for pension funds. The US custody giant, which looks after \$10.7tn of assets globally, was forced to draft in extra staff from the US to help with the workload as it struggled to cope with the volume of orders, the FT previously reported. "It's fair to say Northern Trust were at full capacity and were definitely a bottleneck," said a banker involved in the LDI margin calls. Although often overlooked, custody banks provide a vital administrative function for investment funds, safekeeping their assets, settling trades, keeping records and exchanging currencies. Acting as depositories for funds, the banks are responsible for protecting investors'

interests, providing security for assets and liquidity. People familiar with the situation told the FT that Northern Trust's UK regulators were now engaging with the custody bank to force it to improve its processes so that it would be better able to support customers in times of stress. The Prudential Regulation Authority, the Bank of England arm that regulates lenders, declined to comment. The Financial Conduct Authority also declined to comment, but a person familiar with its position said that custody and fund services play a "crucial role" in "the safeguarding, servicing, and oversight of assets" and that the FCA was focused on "ensuring these firms... fulfil this core purpose". "Central to fulfilling these firms need to be operationally resilient, which forms one of our key supervision priorities," the person added.

The FCA wrote to firms in March reminding them of their obligations to ensure their operations were "resilient". Northern Trust, which is headquartered in Chicago, declined to comment. Andrew Bailey, then chief executive of the FCA, said in 2019 to a parliamentary committee that the regulator was looking into what role the bank played in the implosion of former star fund manager Neil Woodford's investment business. Northern Trust was depository for the £3.7bn Woodford Equity Income fund, which closed in 2019 after Woodford got caught in a liquidity crisis of his own making, sparking the biggest UK investment scandal for a decade. Bailey said the FCA was assessing whether Northern Trust did enough to keep in check the fund's authorised corporate director, Link, which itself faces a fine of up to £306mn for its role in the fund's collapse.

Financial Times | 14 November 2022

Lagos government promises to prioritise payment of retirees' benefits

Lagos State government has said that it is working assiduously to ensure that its pensioners get consistent and timely income at retirement. The state's Commissioner for Establishments, Training and Pensions, Mrs. Ajibola Ponnle, stated this at the 23rd retirement benefit documentation seminar organised for employees due for retirement from the state's public service between January and June 2023. She told the retirees that the state government would prioritise the welfare of its workforce and pensioners. "It is our expectation that the outcome of the seminar will provide you with a clear understanding of the relevant documents required for the processing of your retirement benefits under the contributory pension scheme," she said.

She added: "It is also expected that the sessions will answer most of your questions and ease your worries about life after retirement. "The current administration is dedicated to the prompt payment of salaries and pensions. We are also committed to maintaining a leading role in the

pension industry by improving the timely payment of pensions upon retirement from the state public service. “The current administration since its inception in 2019 has paid over N44.5 billion to 11,854 retirees. I think the governor deserves some accolades. We are constantly monitoring our Pension Fund Administrators (PFAs) and Annuity Service Providers (ASPs) for full compliance with the directives of the Contributory Pension Scheme (CPS). “We are not unmindful of the challenges faced by our senior citizens, such as the outstanding pension payments and the impact of the global economic crisis on the cost of living. We are working on various reforms to ensure our pensioners receive consistent and timely income at retirement,” she said.

The commissioner added: “As you plan to retire, please ensure your information on the retirement process is from competent and reliable sources. Do not hesitate to contact the Lagos Pension Commission or the Ministry of Establishments, Training and Pensions for advice or clarifications on pension issues.” Also speaking on the occasion, the Director-General, of Lagos State Pension Commission (LASPEC), Mr. Babalola Obilana, said the event was in collaboration with the PFAs and ASPs. “Our purpose is to provide relevant information on the documentation required to process Accrued Pension Rights, which will be remitted into your Retirement Savings Accounts (RSAs). We believe that your retirement should be seamless and stress-free after spending significant productive years in service with the state,” he stated.

The Guardian | 17 November 2022

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