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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Finance committee to consider DA-proposed pension fund bill

But the Treasury is adamant that a pension fund reform bill will be released for public comment later in 2021

The Treasury's undertaking that a pension fund reform bill would be released for public comment later in 2021 did little on Tuesday to stop parliament's finance committee from proceeding with a DA-proposed bill. The bill would allow for loans to be taken out against a guarantee provided by a pension fund. Chair Joe Maswanganyi stressed at a committee meeting that the committee had to strictly stick to the legislative procedure in processing a bill proposed by DA MP Dion George, to avoid a possible legal challenge. The parliamentary process could not be stifled, he said. The committee has already held public hearings on the Pension Fund Amendment Bill, which it will go through clause by clause and then vote on. Any Treasury bill on pension fund reform would be dealt with in the same way, Maswanganyi said.

George agreed to amend his bill to reduce the permissible maximum amount of a loan guaranteed by the member's pension fund assets from 75% to 30% of the assets as proposed by Cosatu. Another amendment proposed by George was that only one loan per member would be allowed. He dismissed objections to his bill, saying not everyone would take out a loan and not everyone who took out a loan would default on repayment causing a collapse of the retirement industry. Cosatu supported the principle of pension-fund members being able to borrow against their pension funds to assist them in a situation of financial crisis precipitated by the Covid-19 pandemic, but believed a 75% limit would result in the depletion of funds.

Treasury deputy director-general Ismail Momoniat expressed strong opposition to George's "seriously flawed" bill, which he said failed to consider the tax implications, lacked technical detail and failed to take into account that the fundamental objective of retirement funds was to get people to save for their retirement. "The bill has not been thought through in terms of its implications and will pose a great risk to the retirement system," he said, and pleaded with George to withhold his bill to allow the Treasury process on pension fund reform to proceed. But George said he was not prepared to wait. Momoniat said the Treasury was "pretty confident" that its bill on pension fund reform could be released for comment at the same time as the medium-term budget policy statement later in 2021.

In terms of the Treasury's pension fund reform proposal — arrived at after prolonged consultations — pension fund contributions would be made into two "pots", only one of which would allow extremely limited withdrawals after possibly three to five years, while the other would receive, for example, 75%-80% of retirement fund contributions to ensure mandatory preservation until retirement. No withdrawals would be allowed on resignation. A system of auto-enrolment would also be introduced to ensure that all workers, including those working on contract or in the informal sector, contributed towards a retirement fund. That might require establishing a separate fund.

Momoniat said agreement on the Treasury's proposal, which would require a fundamental restructuring of the tax system, was close. Only a few more consultations were required on the proposal, which was fully supported by new finance minister Enoch Godongwana. "We are almost there," Momoniat said. While there was general sympathy during the public hearings towards the objective of George's bill to provide relief to members of pension funds who were temporarily without an income or were in serious financial difficulties because of the Covid-19 pandemic, the retirement industry expressed concern that loan defaults would result in a substantial erosion of retirement savings, which would affect their long-term financial security. The industry noted that retirement savings in SA were extremely low.

Business Day | 24 August 2021

More than 4.5m retirement fund members have R45bn in unclaimed benefits – FSCA

Some 40% of this will likely never be claimed.

Some 4.5 million retirement fund members were owed R45 billion in unclaimed benefits in 2019, according to the Financial Sector Conduct Authority (FSCA). This amounts to 1.7% of all retirement fund industry assets in SA. However, it is likely that 40% of this will never be claimed, says Olano Makhubela, divisional executive in charge of retirement fund supervision at the FSCA. It is reckoned that 17% of the unclaimed benefits are valued at less than R100, making it uneconomic to trace the beneficiaries. SA's retirement industry has come under public criticism and court scrutiny over the issue of unpaid benefits. As Moneyweb previously reported, pension fund whistleblower Rosemary Hunter, a former deputy registrar of pension funds at the Financial Services Board (now called the FSCA), waged a multi-year campaign within the FSB to force an open and transparent investigation into the cancellation of thousands of pension funds, some of which still had assets in them.

Hunter took her case all the way to the Constitutional Court, but lost in 2017 on the grounds that the FSCA had already launched investigations into the cancelled pension funds.

ConCourt minority ruling concerns addressed

Makhubela addressed the ConCourt ruling in a presentation to journalists on Tuesday, saying the FSCA had acted on the minority ruling of the judges (who said they would have found in Hunter's favour) by addressing some of their concerns. Among these concerns is the conflict of interest in allowing staff of fund administrators to be appointed as trustees of dormant funds without boards, in which role they are supposed to act in the interests of members, but often don't. "The FSCA appears to be demanding greater proof that funds have no assets before cancelling their registrations, but from what I can see [it has] not done any more investigations into specific past cancellations," says Hunter.

"It is at least satisfying to see them doing now what I had tried to get the FSB to do long before I launched my litigation. It is also gratifying to see the FSCA taking action to reduce the extent of the kind of conflicts of interest that riddle the retirement fund industry in SA, by requiring the appointment of independent trustees and auditors, though I think more could be done in this regard – by, for example, prohibiting the use of the same audit firm to audit both the fund and the administrator. That's a clear case of the fox guarding the hen house."

Much of these unclaimed benefits tracked by the FSCA goes back to the apartheid years, when workers departed or retired from their places of employment and lost contact with the retirement fund administrators. Some of the funds belong to migrant workers from neighbouring countries, while beneficiaries (though not their dependents) are assumed to have died. Some of the beneficiaries cannot be traced due to poor admin by fund administrators or inaccurate or missing data on members.

Where the benefits are now

At a media roundtable on Tuesday, Takalani Lukhaimane, the FSCA's manager for retirement fund conduct supervision, said these unclaimed benefits are housed in occupational funds set up by employers for the benefit of employees, or in special purpose preservation funds set up to segregate unclaimed benefits from the rest. By 2019, some 78.5% of unclaimed funds were housed in occupational funds belonging to 3.6 million members. The balance were in special purpose preservation funds. The FSCA has set up a search engine to help beneficiaries track down unclaimed benefits. Between 2010 and 2019 a total of R34.3 billion in unclaimed benefits was paid to 1.2 million members. About 60% of unclaimed benefits in occupational funds belong to those previously working in the mining, motor, metal and engineering industries.

The impact of Covid

Anton van Graan, specialist analyst for retirement fund conduct supervision at the FSCA, said a survey conducted among employers and employees found 47.5% of funds responding to the survey had sought contribution holidays as a result of pandemic-related disruptions such as loss of income or working hours. Some 12 684 employers sought relief, according to the FSCA, for which their funds were required to amend fund rules (or register new rules) to allow for this.

"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," said Van Graan. "The effect on small businesses appeared to be where the most hardship was evident and was particularly observed in most of the umbrella fund arrangements, indicated by requests for contribution relief by employers." The greatest number of requests for relief were noted in the manufacturing and services industries, particularly smaller businesses that were participating in bargaining council funds and umbrella fund arrangements.

Moneyweb | 25 August 2021

Retirement funds: To withdraw or not to withdraw? That is the question

To be, or not to be – that is the question. In one of Shakespeare's most famous scenes, Hamlet bemoans the pain and unfairness of life while acknowledging that the alternative might be worse. Next year South Africans may be faced with a less morbid, but equally important question: To withdraw or not to withdraw? On 11 August National Treasury issued a media statement in which they confirmed that, by earliest next year, members of retirement funds may be able to withdraw money from their retirement funds in order to ease some of the burdens brought about by the pandemic. While on the surface this may seem like a much-needed lifeline, it could end up having dire, unintended consequences. When given the opportunity consumers should carefully weigh their options.

Current Position

Currently the only way you can access your retirement benefits is by ending your employment (through resignation, retirement or death). Since the start of the pandemic we have seen an increase in people leaving their jobs so they can access their retirement funds. This is, at best, a short-term solution. People who've taken this drastic step often end up losing their retirement benefits and struggling to find employment again. This has led National Treasury to consider allowing people early access to their retirement benefits while still employed.

Timelines

This is still in the discussion stage, and members of retirement funds cannot yet access their benefits. There is a lot that still needs to be discussed and if the proposals do go through, legislation and fund rules will need to be updated. In all likelihood we will only see a full proposal in October this year, with legislative amendments coming sometime in 2022.

What should you consider before making this decision?

Before deciding to access to your retirement funds there are a few things to consider:

- What resulted in me thinking about accessing my fund? If you have large amounts of debt which you can no longer afford due to a loss of salary, have you considered alternatives? Debt counselling is a great way of finding a way to renegotiate this debt.
- Have I looked at my budget? There may be items that you are able to cut to help you manage your way back to a better position without having to access your retirement benefits.
- What is the impact on my financial plan? Have you considered the implications on your long-term financial plan? What plans can you put in place to ensure that you are able to get back on track?
- Have you considered your behavior? Research has shown that consumers who enter into debt reconciliation, or access funds to settle debt, often end up in a similar situation relatively quickly. It is not enough to simply settle debt – you need to examine what got you in the position in the first place and plan on how to avoid a similar situation in the future.
- What is the tax position? You will more than likely have to pay tax on the withdrawal, so it is imperative that you understand the tax implications clearly.

The bottom line

Choosing to access your retirement funds is a decision that should not be taken lightly. If the law does change and you are considering making a withdrawal, I would strongly recommend contacting a professional to help you navigate the decision.

Personal Finance | 25 August 2021

Proposed national social security fund not the solution

‘Whereas current schemes are backed by assets, the new state scheme is backed by a future promise essentially by future generations or government’: John Anderson – executive for investments, products and enablement at Alexander Forbes.

FIFI PETERS: I suppose tying into the unemployment numbers is the issue of retirement savings. Why it’s quite important for us to get more people into jobs is that it will boost our ability to ensure that a lot of people are able to retire comfortably when they reach that stage. Last week government issued a green paper for public comment, talking about making some changes to the retirement industry. Currently many people don’t contribute to funds that can provide them with income when they are no longer of a working age, and government wants to make it compulsory for people to contribute a portion of their salary into a state-run security fund.

The idea is to provide income security in the case of unemployment and disability – and even retirement – to a lot more people. We have South Africa’s largest pension fund administrator, Alexander Forbes, on the show just to share its view on the proposal. We are speaking to John Anderson, executive for investments and enablement at Alexander Forbes. John, thanks so much for your time. Just speak to us about what this proposal, if implemented in its current form, would mean for your members.

JOHN ANDERSON: Thanks, Fifi; appreciate it. We’ve run some numbers just to have a look at it. Obviously in the industry you’ve got people who are covered by private occupational schemes, where an employer would put a scheme in place. And then you get people who contribute on their own, and you get people who are uncovered. You also get the public sector, the Government Employee Pension Fund, and municipal schemes, where people contribute. Of the 50 million people who are employed in South Africa, roughly half are covered by some form of retirement provision – through an employer, the government, or one of those schemes.

If the current proposal in terms of the green paper goes ahead – which we don’t think is likely for various reasons – it means that 7.5 million people who are covered, roughly a current 60% of them will be fully covered by the national social security fund. What it effectively means is that for that 60%, for their salaries up to R276 000 and contributions of 12%, their benefits will be covered by the state scheme, rather than their current schemes. Whereas current schemes are backed by assets, the new state scheme is backed by a future promise essentially – whether by future generations or future government. And then for salaries above R276 000, individuals can then top up the national social security fund with certain accredited

arrangements. So basically your existing schemes become top-up schemes and everybody gets covered by the national fund. Of people who are currently not covered, including [those in] the informal sector, domestic workers, agriculture sector and so on, everybody must then contribute where they're currently not contributing, or be subsidised by the taxpayer, essentially. That's in a nutshell what would happen.

FIFI PETERS: As you outlined, [it's] backed by a promise – and a promise that is not guaranteed if we look at what is presently happening in this economy and the fact that our government doesn't really have that much money. But the issue also here, John, is the fact that the retirement industry, as it functions right now, inasmuch as it has come very far, has left quite a number of people behind in that journey. So the current system in itself is not an effective one for all. So therefore, as Alexander Forbes, how do we make better changes to our retirement industry?

JOHN ANDERSON: I think that's a great point. There are definitely issues that need to still be resolved in the industry. …I think over the last 10 years there have been a lot of good changes made just to make sure things are more transparent, more competitive. There's been industry consolidation insuring all of those things, but there are still a number of challenges – a big reason why people who do currently contribute to schemes through the employer fall short at retirement. It isn't because they didn't contribute; they did contribute. But when they left the employer – because people on average change jobs about seven times before they retire – every time they change jobs the vast majority cash out the pension, and then start again at the new employer.

So the first thing to change is to keep a portion, not everything, preserved for retirement, because compound interest adds up. The National Treasury is in fact aiming to address that next year through what they are calling the two-bucket system, where people can access some of the money for short-term needs but in exchange they need to then make sure that they preserve the majority for the long term. If that does go through – it still needs to go through a whole process – that will address that specific shortcoming. So that's the first one. The second one is that that currently all employers can choose whether to put an arrangement in place for employees. It's a choice, it's voluntary.

There are a lot of employers out there – be they SMEs, startups [or others] – that don't have schemes in place. We know that if you don't provide it through an employer, the majority won't save themselves. So what Treasury is trying to do is to try and introduce what they're calling 'auto enrolment' – to use existing private-sector arrangements that have administration capabilities, and then have employers auto-enrol individuals; but they can then opt out if it's not affordable and so on. That's the second thing. And the third thing that we think needs

addressing is, when people get to retirement, there's a state old-age pension that is available, but it has a means test. So, before you qualify for that state old-age pension, which is supposed to provide a minimum (grant) to address people at the poverty threshold, there's a means test. That actually acts as a disincentive for people to save. So before they get to retirement, in order to qualify for the state old-age pension they spend all the retirement money typically saved through provident funds and the like – and then they are worse off.

So remove that disincentive and remove the means test. If you do all of those things, the existing system can have better outcomes. What it doesn't address though, is the informal sector. That requires something very different. The current system has not been successful at catering for that market, and it needs a different solution. It's one where a lot more work is needed. The current proposal is impractical, unfortunately, for that specific segment. But there are examples where it has worked.

FIFI PETERS: John, that's perhaps a conversation for another day, but your point is well made. Thanks so much for your time – even referencing the fact that a lot of people cash out their pensions and then get another job, assuming that they even get another job. I know a lot of people who do cash out their pensions and spend quite a number of years unemployed, which just adds to the crisis.

That was John Anderson, executive for investments and enablement at Alexander Forbes.

Moneyweb | 24 August 2021

You have to make the right financial trade-offs to retire better later

People often need support to make the most of their money to live better and retire better. The right support at the right time means that better choices are possible because they're based on a good understanding of options. Choices that relate to big financial decisions often are best made with expert help from a qualified financial adviser. But there are things that each of us can do for ourselves to make the most of our money.

Making the most of your money involves investing some of your valuable time

For example, drawing up a budget for your household means spending time listing your expenses and income instead of doing work around your home, relaxing or spending time with people you care about. However, spending less than you earn each month is one of the most important ways to make the most of your money. You can't make sure you're doing it if you don't know how much you're spending or earning as a household.

Spending less than you earn can be tough

Sometimes it means not buying something you want or only buying it later when you've saved up for it. Sometimes it means saying no to things or people you'd like to say yes to. Spending time in your household setting goals and planning for the future is a good investment but it can be hard to make sacrifices now for things that will take a long time to enjoy.

Keeping your retirement savings invested when changing jobs

Some choices people need to make in their work lives are simpler. For example, when you change jobs, you need to choose what to do with your retirement savings. People often still struggle to make good choices because making a good decision can be tough – especially if it means giving up the opportunity to experience relief from financial stress by having access to extra cash. Having extra cash can seem like a good option, especially in tough times. Many people find it difficult to imagine their future self and what their needs will be, especially when they're under financial stress now.

Having the right information and support when choosing what to do with their retirement savings helps people to understand the importance of also considering the needs of their future self. Keeping your retirement savings invested is one of the most important things you can do to make sure that you have enough to live on in the future. Making a choice about money is a type of trade-off. As with many life decisions, selecting one option usually means giving up others. Making the most of your money so you can get what matters to you comes from making more good choices and fewer poor ones.

This can mean waiting for things you want, spending time doing things when you'd prefer to do others and being uncomfortable now so you can be more comfortable in future. These choices don't come naturally to us. Focusing on what we want and need in the future as well as considering our immediate needs, setting goals and having a plan to reach them are useful tools to help us do what makes the most of our money. Practising a bit of what's right for us, rather than what's easy, will help us to learn important money skills. In this way, we gain experience and confidence that will lead to even more good choices.

Personal Finance | 24 August 2021

INTERNATIONAL NEWS

10m pensioners risk running out of money — poll

Retirees unsure about managing their funds but resist advice

Josephine Cumbo AUGUST 26 2021 109 Print this page Pensions updates Sign up to myFT Daily Digest to be the first to know about Pensions news. Nearly 10m British pension savers risk running out of money in retirement because they do not know how to make their savings last, according to new analysis which sheds fresh light on the complex choices facing retirees. In 2015, big changes to tax rules handed millions aged 55 and over full control over how they access their retirement cash, including spending the fund in one go. But a new study has found that faced with this increased choice, large numbers of investors are struggling to make good decisions about how and when to take pension cash. A poll of 4,000 UK adults — published this week — found that just under a third planned to manage their own finances in retirement, known as the DIY approach.

Applied to the whole population, that would be some 8m people out of an estimated 29m pension holders. But 35 per cent of those surveyed went on to admit that they knew nothing about product options at retirement and the pros and cons of each. That would amount to 10m people in the UK. Just over a third, 34 per cent, of those who took part in the survey, commissioned by LV=, a pension provider, said they did not know how to ensure their money lasted through their retirement. "I am not at all surprised that a considerable number of savers do not know how to ensure that their retirement savings will last," said Christine Ross, client director and head of private office — north with Handelsbanken Wealth & Asset Management.

"The answer used to be an annuity that offered a guaranteed lifetime income. Most people do not want to trade the flexibility of drawdown for the lower potential return and the irrevocable decision that is annuity purchase." Since the pension freedom reforms in 2015, savers with defined contribution-style pension plans have expanded options on how to access their savings, including putting their fund into flexi access drawdown, where the fund is typically left invested in the stock market. In drawdown, cash can be accessed as and when they wish, but tax is payable on withdrawals after the first 25 per cent tax-free amount. They could also opt to take tax-free cash and leave the remainder of the fund invested.

They could also use the fund to buy an annuity, which delivers a secure retirement income stream for life. In spite of the more complex product choices at retirement, which put savers at risk of running out of money in retirement, 31 per cent of UK adults who took part in the survey said they were not planning to get advice from a professional financial adviser on their options. The reasons for avoiding professional advisers included a reluctance to pay for this service, a belief that they could make the decisions themselves and a view that advisers don't offer good value for money. In spite of this, the survey found that 35 per cent of people — equivalent to 10m pension holders in the population as a whole — knew nothing about how stock market falls can affect retirement savings.

"A DIY approach to managing large pension funds at retirement is fraught with risk," said Clive Bolton, managing director of Savings and Retirement at LV=. "People can easily buy the wrong products, incur unnecessary tax bills or simply exhaust their retirement funds too quickly but an adviser will provide an impartial, cool-headed approach to their client's finances and offer solutions that the client will not even have considered." From the age of 50, savers with defined contribution pension pots can access free and impartial guidance on their options from Pension Wise, a government-backed service. However, savers wanting personalised plans are encouraged to seek independent financial advice. "Pre-retirement planning is probably one of the most important times to seek professional advice," added Ross. "Ideally, ongoing advice would be sought by those drawing flexibly from their pensions and other savings to ensure that drawings are within a safe level and that there is a degree of surplus to see the saver through those more challenging investment periods.

Financial Times | 26 August 2021

OUT OF INTEREST NEWS

Retiring soon? Here is what you should know about annuities

Retirement is an important milestone that many of us look forward to with anticipation. Having built up a working lifetime's worth of retirement savings, selecting the right annuity option to meet your income needs in retirement is important. You need to take the time to consider your income options carefully, which can be a daunting prospect. In this article, we explore the features of annuities to provide you with some guidance.

What is an annuity?

An annuity is a product that provides you with a regular income during your retirement. When you retire, at least two-thirds of your retirement fund savings must be used to purchase an annuity. One of your main considerations will be whether to purchase a life annuity or a living annuity.

What are the key differences between a life (guaranteed) annuity and a living annuity?

The type of annuity suitable for you will depend on your unique circumstances. In general, the following types of annuities are available in the market:

Living annuities	A living annuity allows you to choose a level of income to suit your needs within certain limits. Income payments are not guaranteed, but rather depend on the performance of the underlying investments and the selected drawdown rate (income taken as a percentage of the capital invested). There is a risk that the capital may not last for the rest of your life. However, any capital left in the investment on death can be left to your dependants or other beneficiaries.
Guaranteed life annuities	This type of annuity pays a guaranteed income for the rest of your life. If a constant annuity payment is selected, the income will not keep pace with inflation, even if initial payments are higher. However, some product providers offer escalating and inflation-linked guaranteed annuities. The income levels selected at the outset cannot be adjusted, and no capital is available to leave to your dependants or other beneficiaries.
With-profit or hybrid annuities	This type of annuity pays a guaranteed income for the rest of your life and the income escalates based on market

	performance. The escalation rate is not guaranteed, but your income will never decrease, and the aim is to keep pace with inflation in the longer term. There are many different hybrid-type annuities available in the market, whereby product providers offer a guaranteed income component and an investment-linked income component within a single annuity product.

For all types of annuities, the income will be taxed according to your marginal tax rate.

The key factors to consider at retirement

There are many factors that will influence your decision of providing an income in retirement. The key factors that you need to consider include the following

• **Understand your living costs in retirement –** create a three- to five-year budget of your living costs at retirement. Start with your minimum living expenses. These may include food, housing and medical expenses. This will represent the minimum income you need. Keep in mind that living expenses will generally increase with inflation. A financial adviser can help you draw up a budget by doing a financial needs analysis for you.

• **Consider your lifestyle –** for example, take account of your hobbies or holiday preferences. Note that by drawing a lower income in the early years of retirement, you will have more later on to cover increasing inflationary expenses and possibly increasing medical expenses.

• **Consider your accumulated savings from all sources and funds, and other sources of income** outside of the annuity (e.g. rental income from a property you may own).

• **Consider those who depend on your income –** if you have a spouse or other people who are dependent on your income, take into account that they will require an income if you pass away before they do.

• **Consider the state of your health –** the healthier you are, the longer you are expected to live and the longer the annuity must last.

The main financial risks in retirement

Inflation	Ideally, your income in retirement needs to grow with inflation to sustain your buying power. Inflation may turn out to be higher than expected.

Longevity	Life expectancy has increased due to medical advances and people living healthier lifestyles. People tend to live longer than in the past.
Investment returns	The applicability of investment returns in retirement depends on the annuity that you select.

Additional considerations when choosing an annuity

• Enhanced/impaired life annuities

Some life companies allow you to secure a higher monthly income as a result of certain medical conditions, since these may influence your life expectancy.

• Guaranteed periods

In the case of life annuities, you may want to consider your need for a guaranteed payment period. This can be useful in the event of early death if the payments are required for a specific period (for example, if you have a few years of home loan payments remaining).

• Marital status

Most life annuities can be purchased on a 'single-life or 'joint-life' basis. Purchasing an annuity on a joint-life basis means that the annuity income will continue until the death of both you and your spouse. You may also be given the option to reduce annuity payments at the time of death of the first spouse. Living annuities allow you to nominate your spouse as a beneficiary to inherit the remaining funds upon your death. The funds can then be used to fund his/her needs as required.

• Financial needs of loved ones

A life annuity does not provide payment on your death and therefore is not suited to pass wealth on to dependants. However, living annuities provide the opportunity to pass on wealth to your beneficiaries if there are funds left over at the time of your death. These factors should be balanced against the need for a guaranteed income for life.

Top tips to make your retirement savings last

The first step to ensuring that your retirement savings last is to start off with as much in your savings as you can. This means that:

• you should not withdraw your retirement savings when changing jobs

• what you take as the cash component at retirement should be limited to what is necessary and, ideally, be much less than the regulated one-third

• If your circumstances allow, extend the time you are able to work to increase your retirement savings.

If you choose a living annuity, make sure you select a prudent annual drawdown percentage to maximise the number of annuity payments you will receive. The drawdown percentage you select will depend on your age, your gender and whether you have dependents. Selecting an annuity at retirement is not a simple task. It is important that you engage with a financial adviser to support you through this process.

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