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irfa dispatch
THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Listen: South Africa's pension system improves in world rankings, but has a long way to go

This week the 14th annual Mercer CFA Institute Global Pension Index - MCGPI - for short was released, which is a comprehensive study of 44 global pension systems, accounting for 65 percent of the world's population.

The benchmark rates retirement income systems around the world, highlighting some shortcomings in each system, and suggests possible areas of reform that would help provide more adequate and sustainable retirement benefits. South Africa's pension system ranked 34th out of 44 retirement systems reviewed. The SA retirement income system was benchmarked against global peers across three key areas of focus: adequacy, sustainability, and integrity. My guest today is Belinda Sullivan, head of corporate consulting strategy at Alexforbes, and Mercer's strategic partner in Africa.

Personal Finance | 24 November 2022

The advantages and disadvantages of a preservation fund

Preservation funds have some distinctive features which investors should be aware of.

Upon leaving your employment as a result of resignation, retrenchment or dismissal, one of the options you have for your retirement funds is to transfer them to a preservation fund for capital growth in a tax-efficient manner. As a repository for the proceeds of company-sponsored retirement funds, preservation funds have some distinctive features which investors should be aware of. In this article, we unpack the advantages and disadvantages of preservation funds to ensure that you can make informed decisions when leaving your employment.

Advantages

Some of the most notable advantages of a preservation fund include the following:

- **Tax-neutral transfer:** If you elect to transfer your funds to a preservation fund, note that the transaction will be tax neutral as you are effectively moving your capital from one retirement fund to another.
- **One full or partial withdrawal before retirement**: One of the most significant advantages of a preservation fund is that you are permitted to make one full or partial withdrawal from the fund

before age 55. If there is a likelihood that you may need access to your capital before age 55, then a preservation fund may provide a workable solution. That said, keep in mind that you will be taxed on your withdrawal with only the first R25 000 being tax-free on an individual's withdrawal tax tables.

- **Tax-efficiency:** Being an approved retirement fund, preservation funds are highly tax-efficient in that no local dividend tax or tax on interest is payable, and switches between unit trusts within your fund will not trigger a capital gains event.
- **Transferring to another service provider:** Being a flexible investment, you can transfer your preservation fund from one provider to another for whatever reason, with this process being governed by Section 14 of the Pension Funds Act.
- **Tailormade portfolio:** If your preservation is invested on a LISP platform, you can tailor-make an investment strategy that is suited to your needs, with the only limitations to your portfolio construction being those imposed by Regulation 28 of the Pension Funds Act.
- **Protected from creditors:** The funds held in a preservation fund are protected from creditors in terms of Section 37B of the Pension Funds Act, although this section does not provide outright protection. Certain monies can be deducted from your retirement funds, such as money owed to Sars and amounts due and payable under the Divorce Act and Maintenance Act.
- **Falls outside of estate:** Funds held in a preservation fund, as in the case of money held in all approved retirement funds, fall outside of your deceased estate and, as such, are not estate dutiable – nor do these funds attract executor's fees.
- **Guaranteeing an annuity income:** When retiring from your preservation fund, you are obliged to use at least two-thirds of the investment to purchase an annuity income to provide for you during your retirement years.
- **One-third withdrawal option at retirement:** The option to make up to a one-third withdrawal from the fund at retirement is useful in creating additional liquidity in retirement, especially if you have debt that you want to settle or large capital expenses such as a vehicle purchase or overseas vacation. Unlike making a withdrawal pre-retirement, this one-third cash commutation at retirement is subject to the retirement tax tables with the first R500 000 being tax-free.
- **Competitive fees:** When selecting a preservation fund, it is important to ensure that the investment fees are market-related. Preservation funds housed on LISP platforms provide transparent fee structures and, if you're not happy with the fees or service, there are no costs for transferring your investment.
- **Invested for growth:** As you do not pay tax on the growth in your preservation fund and (other than the once-off allowable withdrawal) you can't access your funds before age 55, your money will remain invested for growth and can help fund a comfortable retirement.
- **No forced retirement:** You do not need to retire from your preservation upon formal retirement from work. You can keep your money invested in your preservation fund for as long as is suitable for your circumstances.

Disadvantages

There are a few disadvantages when it comes to preserving your retirement fund benefits, which include the following:

- **The limitations of Regulation 28:** As preservation funds fall within the ambit of the Pension Funds Act, your investment diversification will be somewhat limited by Regulation 28 which is designed to protect retirement fund investors against poorly diversified investment portfolios. In terms of these regulations, your offshore exposure is limited to 45% of the portfolio value and an equity asset class limit of 75%, which some investors may find restrictive. That said, if you choose to transfer your retirement benefits into a retirement annuity structure, leave it in your current employer's default investment strategy, or transfer it to your new employer's retirement fund, you would still be restricted by Regulation 28.
- **No additional contributions:** Generally speaking, you may not make additional contributions to your preservation fund except if the money originates from another retirement fund. This means that, if you want to keep contributing towards a retirement fund, you may need to set up a retirement annuity which would allow you to make ongoing contributions.
- **Tax on withdrawal:** While the ability to make one full or partial withdrawal before age 55 may appear advantageous, keep in mind that you will be taxed on the withdrawal with the first R25 000 being tax-free. Before making a withdrawal, ask your service provider to prepare a tax simulation for you so that you fully understand the tax implications of making a withdrawal.
- **Distribution of benefits via Section 37C of the Pension Funds Act:** Although you can keep your funds invested in a preservation fund for as long as you like, there are estate planning implications for doing so which should be kept in mind. If you die while your funds are housed in a preservation fund, the distribution of your death benefits will take place in terms of Section 37 of the Pension Funds Act. In terms of this legislation, the fund trustees are responsible for identifying your financial dependants and for allocating the funds proportionately. This means that the beneficiary nomination on your preservation fund will be used by the trustees as a guideline when making their determination.

Remember, when leaving your employer as a result of resignation, retrenchment or dismissal, there are several critical financial decisions that need to be made and it is always best to discuss these with an experienced, independent advisor.

Moneyweb | 24 November 2022

Why now is the perfect time for a financial check-in

With Christmas decorations about to pop-up all over malls and shopping centres across the country, we're all realising the year is quickly coming to an end. You might not have made progress on your 2022 New Year's Resolutions, but fear not, you can still have an excellent financial start to your 2023. Because the year is coming to an end, now is the perfect time to evaluate how you're tracking on your financial goals. Bertie Nel Head of Financial Planning and Advice at Momentum, says an annual talk with your financial adviser is of paramount importance and sets the tone for the year ahead, which should be on top of your holiday season to-do list.

Further on, Bertie explains that an annual financial review with your financial adviser is essential to help bring the following aspects into perspective:

- Savings goals
- Healthy credit accumulation.
- Expenditure readjustments.

The above sounds good and well once you have a well-established relationship with your adviser. But, for the individual or couple who recently got in touch with a financial adviser, some blind spots need to be checked, and blurred lines need to be clearly defined before continuing to trust their advice. Bertie shares the four most important questions when reviewing your finances with the help of your financial adviser.

1. Am I adequately covered?

In the same way, we insure everything from cars to phones. We also need to cover and safeguard our income as well as our life to ensure that those we leave behind will be taken care off in the instance of our passing. Your financial adviser can help you set up a personal insurance policy to protect you against loss of income or life. The yields can be used to replace your income or take care of your loved ones when you are no longer here or are unable to provide for them. "Your financial advisor will also be able to advise you if you are over-insured and on different premiums," he says.

2. Which fees am I paying?

From your monthly account fee or issuing statement fees, numerous fees are attached to your financial decisions, especially when it comes to investments. Selling and buying shares and reinvesting dividends all come at a cost. "When you go for your financial check-in, it is vital to ask your financial adviser about these fees and evaluate whether they are above the average effective annual cost. The effective annual cost shows the total cost of managing your investment," Bertie advises.

3. Am I on track with my investment and/or savings goals?

Asking yourself whether you are adequately meeting your investment and savings helps you gauge how you're doing in terms of the goals you set at the start of the year. While you can lie to an adviser, you cannot really lie to yourself, so honesty will keep your finances in check. With that reality check in mind, this is also an excellent time to evaluate whether your goals are realistic and aligned with your life goals. “A financial adviser will help you come to terms with the realities and put you the proper path to reaching your goals,” says Bertie.

4. Can I trust them?

Trust is one of the pillars of any healthy and solid relationship; therefore, Bertie says ensuring a relationship with your advisor is essential. This might seem like a simple question, but it is not only polite but also a way to make you feel more comfortable with your adviser and build a trusting relationship. Your financial adviser cannot make you a millionaire overnight or make your debt disappear overnight. However, they can help you make better financial decisions and assist you on your journey to success.

FA News | 1 December 2022

Hedge fund: What is it all about, and should you hold it in your portfolio?

Hedge funds perform a very particular function within a diversified portfolio and should most definitely not be thrown out the window. Hedge funds are supposed to factor in exactly what the name suggests – hedge a portfolio against a certain unknown and/or undesired future outcome. Hedge funds are normal unit trust funds, with a specific mandate in how the fund is being managed, and the type of securities they hold. The general investor tends to have a negative bias towards hedge funds, in the sense that they might be over-complicated, not regulated, and the list goes on. This however is not the case. Hedge funds perform a very particular function within a diversified portfolio and should most definitely not be thrown out the window.

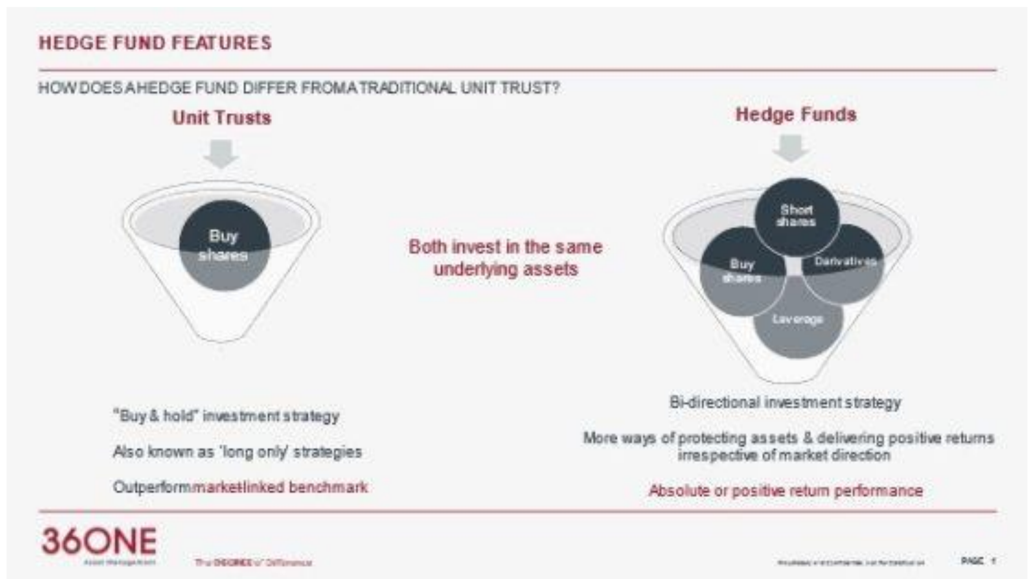
What exactly is a hedge fund?

A hedge fund can take on the simple form of a unit trust, in which various securities are traded. A hedge fund, however, has a very wide mandate relative to a normal unit trust fund that simply buys stocks based on technical- and fundamental analysis and sits on these holdings for a certain period to outperform the general market and beat inflation. Hedge funds implement a wide range of securities being traded, risk management techniques etc. For example, a hedge fund can implement strategies such as short selling (which is the opposite of being long on a stock), pair trades, and derivatives to name a few. These strategies enable hedge funds to

generate superior returns in bear markets and declining economic environments and may generate great real returns irrespective of the general market direction.

A long call is a call option that is betting that the underlying stock is going to increase in value before its expiration date. A short call is an options position taken as a trading strategy when a trader believes that the price of the asset underlying the option will drop.

Hedge fund managers have a 'bigger toolbox' at their disposal and have more ways to manage risk and returns than simply trying to hold the right assets/shares to generate superior returns. By nature, hedge funds are more active-managed funds than standard equity funds, and hedge fund managers will trade and change their positions in the fund on a more frequent basis. An important factor to remember is that hedge funds are not benchmarked cognisant and these funds typically seek absolute returns.



How safe are hedge funds?

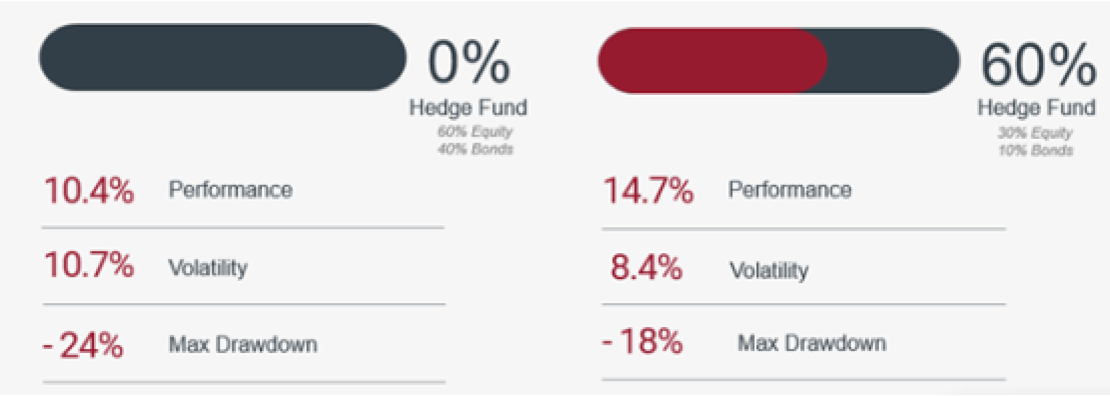
As mentioned above, hedge funds take on the same structure as unit trust funds – which are considered safe investment options. South Africa became the first country globally to put in place **comprehensive regulations** for hedge fund products in April 2015. Initially, these funds got a bad stigma to them as they were not regulated, but the landscape changed drastically over the last 10+ years.

Because of these changes and regulations, it is now an option that should be considered as part of a diversified portfolio, especially in bear market cycles. Investors need to remember, there is a difference between 'safe' and 'volatile' – do not confuse these two with each other. By nature, most hedge funds will experience a higher degree of volatility, but this does not imply that a hedge fund is not a safe investment case. In fact, in bear markets (current 2022 market as an example), hedge funds tend to strongly outperform the general market and most asset classes on average ***(and yes – including cryptos!)*** It is a growing investment option, at the end of 2020, the SA Hedge Fund industry closed with assets under management of R73.27 billion. Statistics released by the Association for Savings and Investment South Africa (Asisa) showed that it increased by R4.35 billion in 2020 from R68.92 billion under management at the end of 2019.

Special considerations to hedge funds

As discussed above, hedge funds operate with a higher mandate than unit trust funds and therefore use more tools and options within the fund. Due to this, the return profiles of hedge funds can differ significantly from normal unit trusts and investors need to be clear on the objective of the hedge funds. Remember, not all hedge funds have the same mandates – each fund manager will manage the fund based on their research and views. The wider the mandates and 'toolbox' used by the fund manager; the more risk exposures are being built into the fund. It is exactly these risks the fund is exposed to that drive the opportunity for superior returns in volatile and negative markets.

Hedge funds can correlate with more traditional investments in the short term and require the investor to be able to sit tight through various market cycles. Below is a great example of what hedge funds try to achieve in especially negative market cycles. Hedge funds tend to have a negative correlation compared to the general equity market, which is the exact reason why hedge funds should be strongly considered as a part of a diversified portfolio. Hedge funds provide a different depth of diversification outside merely asset class or geographic diversification. This provides diversification in terms of how the underlying holdings are bought and held. Therefore, hedge funds (when used as a part of your portfolio) actually bring down the level of volatility and risk in the underlying portfolio by building in uncorrelated returns in different market cycles.



Fund capacity in hedge funds also tends to be smaller due to the active management style. This also raises slightly higher fund manager fees due to the amount of time and effort fund managers spend managing these funds.

How do you select the best possible hedge fund?

Selecting the best possible hedge fund to build into a portfolio is no easy task, therefore there is a couple of things to delve into. Choosing a manager based on their past track record is important, but there are other factors to consider:

Investment objective:

- What is the manager trying to achieve?
- Lower volatility or enhanced return?
- Decreased correlation?

Team:

- What are the management team's makeup, experience, and culture?

Risk management:

- Historical gross, net exposure, and drawdowns?
- Ability to adjust exposure? (Flexibility of the fund)

Operations:

- Does the fund have sound operational infrastructure backed by a dedicated support team? As with all investment decisions, it is advisable to consult with an accredited, qualified financial advisor to select investment options best suited to your needs.

Moneyweb | 30 November 2022

Optimising your tax benefits before the end of the tax year

There are only three-and-a-half months left to the end of the tax year, and therefore it's imperative to start revising your portfolio again. Congratulations! I just feel that's appropriate to everyone who survived 2022 – we all definitely experienced some blood, sweat and tears. Yet here we are, Christmas decorations are up. An early Christmas present I would say. But while

the end of the year is in sight, there are only three-and-a-half months left to the end of the tax year, and therefore it's imperative to start revising your portfolio again and ensuring that you are optimising your tax benefits. With a few additional changes in the South African Reserve Bank exchange control limits this year, revisions are more important than ever.

1. Firstly, ensure you are optimising your annual tax benefit on your retirement funds.
This can be a combination of a pension/provident fund at work, as well as a retirement annuity in your personal capacity.

- In 2022, the offshore exposure allowed within a retirement product was increased from 30% to 45%. This is really a game changer for all South Africans, allowing you to have the best of both worlds − benefiting from a tax-efficient product while also allowing you to diversify offshore optimally.
- Contributions up to 27.5% of your annual taxable income or remuneration (up to a maximum of R350 000 p.a.) can be deducted, reducing your taxable income and your tax liability. Anything in excess of the allowed 27.5% p.a. also has a great benefit at retirement. At retirement, you are generally allowed to withdraw up to one-third of your retirement fund as a lump sum. Bear in mind that your retirement portfolio may consist of a retirement annuity, as well as a pension/provident fund and preservation funds, and that Sars views these in aggregate for tax purposes. The first R500 000 you withdraw will be tax-free (if you have not made any previous withdrawals). Any excess previously disallowed contributions can be "added" to the tax-free portion of your lump sum. This allows you to build up a larger tax-free lump sum accessible at that point. So don't hold back on the savings here.

2. Secondly – optimising your tax-free investment
A tax-free investment is one of the most incredible opportunities to build wealth in a tax-efficient manner if used optimally. There are great benefits to starting this investment for yourself as well as your children, but as you only have a lifetime contribution limit, be sure to not take the opportunity away from your children. You are allowed to invest R36 000 p.a. and R500 000 in your lifetime. This applies to the contributions invested. This fund value can therefore grow indefinitely. If you invest your full R36 000 annually, it will take you 14 years to reach the maximum limit allowed.

Because of the nature of the investment, where interest, dividend and capital gains tax is not a problem – the recommendation would be to invest 100% in equity exposure. You can enjoy the upside of growth assets (equity exposure) in this product and no downside with tax implications that normally become a problem with discretionary funds. If you leave these funds for another 10, 20 or even 30 years you can accumulate quite a significant portfolio. And the proceeds will be tax-free. Allowing this investment enough time to reap the benefits of compound interest, you can essentially build your retirement around it.

You will be able to earn an income – tax-free. For this reason, my advice would most definitely be to have a much longer-term mindset around this investment and not merely use it 20 years down the line. If we assume an annual growth rate of 10%, R36 000 invested annually over 14 years will grow to R1 052 463.91. Now let's look at a few different scenarios over time if this amount remained invested:

Investment term	Initial amount	Future value (not inflation-adjusted)
10	1 052 463.91	2 729 820.33
20	1 052 463.91	7 080 450.90
30	1 052 463.91	18 364 866.12
40	1 052 463.91	47 633 733.04

Source: PSG Wealth

If we had to view this as a retirement option, we normally recommend a 5% p.a. withdrawal from the fund value. If the investment could have accumulated an average of 10% return for another 40-year period, your own retirement (depending on your current age) or your children's future can expect a monthly (tax-free!) income of R198 473.88 (not inflation-adjusted). Not bad for just spending some time in the market.

Moneyweb | 24 November 2022

INTERNATIONAL NEWS

Revisit law on mortgage-backed by pension

The High Court ruling last week that stopped workers from accessing up to Sh7 million or a maximum of 40 per cent of their retirement savings to buy their first residential houses shouldn't distract from the objective of the policy. Justice Anthony Ndung'u found changes to the law that allowed early access to pension savings for home ownership were not subjected to public participation in breach of the Constitution. We urge the National Assembly to review the process and ensure all stakeholders are involved in making a new law which will help Kenyans access part of their pension for buying homes.

The clause allowing contributors to access 40 per cent of their savings ahead of retirement was expected to free tens of billions of shillings for home ownership given that Kenya's pension schemes control over Sh1 trillion spread across property, cash, shares and government bonds. The suspension, therefore, is a setback to workers that were already planning to purchase their first homes through the programme.

The proposed changes to the pension laws, therefore, were meant to make it easier for individuals to buy their first homes given that most workers are unable to raise the minimum house purchase deposit or afford the typical monthly mortgage repayments. Owning a home while still working is the first step to alleviating old-age poverty for a majority of families that spent most of their active years in employment. Killing the policy entirely will lock out many workers who were already seeing it as a route to owning a home.

Business Day | 29 November 2022

Kenyan court quashes law allowing home buying with pension savings

The Kenyan government's plan to accelerate its affordable housing agenda has suffered a setback in court after a judge quashed a law that allows members of retirement schemes to use a portion of their savings to purchase residential houses. The court also stopped the implementation or enforcement of the amendments introduced to the Retirement Benefits Act No. 3 of 1997, which allowed the retirement benefits industry to help fill the housing gap. Justice Anthony Ndung'u found that the amendment to the law was achieved through an irregular and flawed parliamentary process because MPs failed to allow public participation in the enactment process. The amendment was introduced through the Tax Laws Amendment Act

2020, which came into effect on April 25, 2020, and the objective was to cure the large housing gap.

Boost home ownership

The Kenyan government's aim in amending the law was to boost home ownership and lift the sluggish property market by enabling members of retirement schemes to purchase and own homes using their savings. Changes to pension laws were also meant to make it easier for individuals to buy their first homes given that most Kenyan households are unable to raise the minimum house purchase deposit or afford the typical monthly mortgage payments. To bring the amended law into force, former Treasury Cabinet Secretary Ukur Yatani published the Retirement Benefits (Mortgage Loans) (Amendment) Regulations, 2020 showing the rules and limits for accessing pension savings for home purchase. The regulations were published on September 14, 2020.

Pensioners were allowed to use up to Sh7 million ($57,000) or a maximum of 40 percent of their retirement savings to buy a home from an institution or real estate investors. An institution was defined in the regulations to include banks, mortgage or financial institutions, building societies, microfinance institutions, the National Housing Corporation, institutions approved by the Retirement Benefits Authority or any other entity offering a residential house for sale.

The Citizen | 26 November 2022

Low pension savings by Kenyans signal old-age poverty crisis

About 89.4 percent of Kenyan adults lack a pension scheme, setting the stage for a rise in old-age poverty and forced work. A survey part-conducted by the Central Bank of Kenya (CBK) indicates that only 10.6 percent of Kenyans belong to a pension scheme amid the push from the State to grow retirement savings. This points to a possible deepening of old-age poverty, which in itself has significant social implications in a country where the traditional patterns of the young caring for the old are changing.

Analysts point out that the relative low number of Kenyans saving for pension and the value of payouts at retirement have compelled many retirees or those approaching the legal retirement age of 60 to continue working. The findings of the household survey by the CBK, FSD Kenya and the Kenya National Bureau of Statistics (KNBS) show that only Mombasa (22.8 percent) and Nairobi (21.4 percent) counties had a pension uptake rate of over 20 percent. Kenyans on average are living longer and the rank of the elderly poor is rising as the traditional social fabric yields to the forces of rapid urbanisation and changing social and filial trends. Kenya's official

life expectancy is 67 years whereas the expected retirement age is 60 years. The low pension uptake therefore increases pressure on the working class, which in turn reduces investments and savings. In the past, social security was not a bother to many Kenyans because there was a large extended family to fall back on in the rural areas. But as the social fabric weakens and more people opt to retire in urban centres, the trend is increasingly becoming a headache to policymakers. This is what prompted the State to start sending a monthly stipend of Sh2,000 to those above 70 to cushion them from old-age poverty.

The survey, however, shows that 58 percent of Kenyans are saving some cash for old age through other platforms, possibly missing out on the compounded returns offered by pension schemes. Garissa was bottom of the list of counties, with a pension uptake of 0.8 percent followed by Nandi and Tana River at 2.6 percent each. Official data show that over 80 percent of persons above the age of 60 were in active employment, with the majority forced to work for basic needs. The upside is a large number of matriarchs and patriarchs are unconsciously keeping diseases at bay largely blamed on sedentary lifestyles that come with idleness during retirement.

Business Day | 29 November 2022

Regulator warns pension schemes on deadline for dashboards

Plans for savers to view pension pots in one online location dogged by delays

Regulators have warned pension schemes it is “not acceptable” for them to be unprepared for the launch of new online tools designed to help savers see all their retirement pots in one place. The Pensions Regulator (TPR) issued the warning to retirement plans serving tens of millions of savers, less than six months before they will start to connect members’ data to new pension dashboards. The online tool — a work in progress since 2016 — is aimed at transforming retirement planning, enabling savers to see all their pension pots in a single hub, bringing together state, private and company pensions. The project has been repeatedly delayed after schemes said they had not had sufficient time to prepare member data to feed into the dashboard. This week the regulator said it would take a pragmatic approach to enforcing the new dashboard duties but act against those failing to prepare for the tool’s introduction.

“We have been talking to industry for several years about their obligations and schemes should already be looking at their data management, internal governance and how they will meet their obligations,” TPR said. “We will be pragmatic in our approach to regulating dashboards

compliance and will not be looking to simply issue fines. However, it is not acceptable for schemes and their administrators to do nothing, and we'll take a dim view of wilful or reckless non-compliance." Under the dashboard timetable, schemes and providers will begin to be compelled to connect to pensions dashboard platforms from April, with a high level of coverage required by 2024. While TPR already regulates trustees and workplace pensions, a key part of complying with dashboard obligations will rest with third parties, such as administrators, employers and integrated service providers.

New legislation enables TPR to issue third parties with compliance notices. If they do not comply, they face fines of up to £50,000 (and individuals up to £5,000) for each breach. In a consultation issued this week, the regulator said schemes would need to find savers and return data as expected. "In particular it is critical that schemes connect the right pensions to the right saver. We will be interested where a scheme is failing to find a pension for a saver when they should (failing to return a match made or a possible match), and when a scheme returns data to the wrong saver."

BC&E, one of the UK's largest workplace pension plans, said further discussions between the regulator and data providers would be necessary before the connection deadline next year. "TPR's outline approach is sensible and their emphasis on using their discretion and on proportionality in the proposed policy is welcome," said Phil Brown, director of policy at B&CE, provider of The People's Pension. "All parties, though, are in the early stages of understanding how dashboards will really work once schemes have connected." Nearly 3mn pension pots, worth a total of £26bn, are lost or not matched to their owners, according to recent figures from the Pensions Policy Institute.

Financial Times | 25 November 2022

OUT OF INTEREST NEWS

SA unemployment improves slightly to 32.9% in Q3

With the youth remaining the most vulnerable in the labour market.

The unemployment rate in South Africa decreased to 32.9% in the third quarter (Q3) of 2022, from 33.9% in Q2, as the manufacturing, trade, construction and transport industries recorded a boost in jobs. Statistics South Africa (Stats SA) released the country's latest jobs data on Tuesday. According to its Quarterly Labour Force Survey (QLFS), 204 000 jobs were gained

between Q2 and Q3, bringing the total number of employed people in the country to 15.8 million. The expanded definition of unemployment – which takes into consideration discouraged work seekers – also showed a percentage point improvement in Q3 to 43.1%, compared to 44.1% in Q2. “The number of unemployed persons decreased by 269 000 to 7.7 million and discouraged workseekers also decreased by 54 000 to 3.5 million in the third quarter of 2022 compared to the previous quarter,” Stats SA said. However: “The number of people who were not economically active for reasons other than discouragement increased by 264 000 between the two quarters, resulting in a net increase of 210 000 in the not economically active population.”

Sectoral gains

According to the QLFS, the biggest job gains in the quarter were reported in four industries: manufacturing (123 000), trade (82 000), construction (46 000) and transport (33 000). The sectors that saw the largest job slides in the period were finance (80 000), private households (36 000), mining (1 000) and agriculture (1 000).

Youth suffer

According to Stats SA the country’s youth remain vulnerable, with an unemployment rate of 45.5% in those aged between 15 and 34 – even higher than that reported for the expanded unemployment definition. Nonetheless, the stats have improved somewhat. “The total number of unemployed youth decreased by 182 000 to 4.6 million in Q3:2022. There was an increase of 25 000 in the number of employed youth during the same period.” “The increase in employment and the decrease in unemployment among the youth resulted in a decrease in the youth unemployment rate by one percentage point,” says Stats SA.

United Association of South Africa (UASA) spokesperson Abigail Moyo said in a statement that government has failed its youth. “The youth unemployment rate is crushing. Government has repeatedly failed our 4.6 million unemployed young workers,” she said. “Thousands of young people graduate from higher institutions of learning and TVET [technical and vocational education and training] colleges each year, but unemployment remains unaddressed with no actionable plans in sight. “Calling on government is clearly a waste of time. For the young, it’s now each to their own or nothing. “They either aggressively demand and secure jobs, start their own businesses or stay behind and slumber in poverty forever.”

Economic perspective

FNB senior economist Thanda Sithole says even though the level of employment in the country remains below pre-pandemic levels, it is encouraging to see the reduction in unemployment over the last year. "We expect the recovery in employment to continue, albeit protracted, especially given the prevailing domestic and global headwinds. The domestic economy will primarily be characterised by slowing global growth and persistent load shedding over the next 12-18 months." Sithole says GDP will have to grow above 3% if the country is to start seeing meaningful job creation, but that persistent blackouts, depressed business confidence locally, and significantly low levels of investment will make this difficult.

Wealth and asset manager Anchor Capital says although the latest data shows a drop in unemployment, it believes interpreting the QLFS numbers in recent quarters has been difficult because of technical factors related to data collection. "Surveys from the first two quarters of this year show cumulative job gains of just over a million in the first half of 2022, with about 650,000 of these in [Q2] alone. "However, a significant percentage of this apparent increase in jobs may reflect improved data collection for the QLFS after the resumption of face-to-face interviews this year.

"Until the underlying data collection rates stabilise, quarterly QLFS estimates may remain difficult to map into observed economic activity." PSG Wealth CIO Adriaan Pask says that to continue supporting job creation, reforms need to be accelerated. "To ensure an upward trend in employment, both the private and public sectors must accelerate the implementation of structural and pro-business reforms to unlock investment reduce costs and increase competitiveness and growth, all of which will go a long way in creating sustainable employment," he says.

Moneyweb | 29 November 2022

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Johannesburg 2008

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