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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Pensioners up in arms over revised pension fund tax deductions

Pensioners are up in arms following the Government Employees Pension Fund (GEPF) move to decrease the pensions of some of its members at the end of September due to a revised rate of tax implemented by the SA Revenue Service.

One pensioner, Likomo Mpooane, 62, told the Cape Argus she was livid because R11 900 was deducted from her monthly pension payout on September 30 without notice. Mpooane said: “I am not the only one with this problem. Pensioners across South Africa woke up on Friday, September 30, to a nightmare. Instead of receiving their meagre monthly pension payouts, they received 36% less.” Mpooane said she had been sent from pillar to post when she tried to find out what was going on with her pension and had not received a satisfactory answer.

She said it had been a hellish experience and did not think hell could be worse than “being impoverished as a pensioner, rendered destitute, when you can no longer afford to work, after toiling for years for your country”. GEPF spokesperson Rakgwatha Mokou said they were implementing a directive from Sars that provided for a revised rate of tax to be deducted from pensioners’ monthly pension payment. Mokou said the Government Pensions Administration Agency had written to all affected pensioners, to tell them they had the option to opt out of the revised tax rate provided by Sars and revert to the normal PAYE rate applicable to their pension.

“Some pensioners might have not received the correspondence or did not fully understand the choices/options they had.” The Public Servants Association (PSA), which represents a substantial number of pensioners, said it was disappointed with the manner in which the GEPF dealt with tax deductions for pensioners. The PSA said the deductions had resulted in large portions of tax being deducted, leaving pensioners with very little income to meet basic needs.

Cape Argus | 10 October 2022

GIB Investment Summit discusses the future of investing under Regulation 28

An investment summit hosted by GIB Financial Services was packed with insights from a panel of leading investment professionals to discuss the revised Regulation 28 and opportunities it presents to the retirement fund sector, as well as their funds and views. Exchange controls and Regulation 28 were recently amended to increase the retirement fund offshore investment limit to 45%. It was previously 30% with an additional 10% African allowance. Changes were also made to the caps on allocations for alternative investments such as private equity and hedge funds. "Global investing is front of mind for most South African investors and key to this is understanding the appropriate offshore allocation, given continued market volatility and persistent global inflation.

Regulation 28 represents a measured journey to the destination of greater investment freedom," said Glenn Gamsy, CEO of GIB Financial Services. The panel consisted of Wayne van Rensburg, Principal Officer of the Destiny Retirement Funds; Simon Fillmore, Chief Investment Officer of Independent Securities; Jean Pierre Verster, Chief Executive Officer of Protea Capital Management; and Bright Khumalo, analyst and Portfolio Manager at Vestact Asset Management. The Summit and panel discussion were moderated by television and radio presenter Bruce Whitfield. Key topics for discussion were whether the South African investment industry had the capability to invest on the global stage, what future portfolios might look like and what is the appropriate offshore allocation, given continued market volatility and persistent global inflation.

Few fund managers had yet taken up the increased capacity in the face of a weak rand and the JSE currently offering better value. Protea Capital Management's Verster described some of the other changes to Regulation 28 as: "A 15% cap on how much of a fund can be invested in a single company; an increase to 15% on the permitted allocation to private equity and a further 10% to hedge funds from a previous combined amount of 10%. There is also a complete prohibition on investment in crypto-assets both direct and indirect." Destiny Retirement Fund's Van Rensburg, noted the context in which the changes occurred: "Regulation 28 now mirrors a number of changes in the world, primarily diminished listings and a growing demand for more infrastructure investment (both a South African and global trend) as well as more capital allocated to private equity and alternative investments such as hedge funds."

Fillmore of Independent Securities felt the changes reflect the reality of investing: "Take our portfolio - we manage more money offshore now than we do locally. When we look at the top ten holdings of the big South African asset managers one sees a lot of commonality and

consequently, similar returns. An investment world where fund managers can invest up to 45% offshore and take currency views, will facilitate significantly greater differentiation in portfolios and returns." Khumalo described his philosophy as "sitting more at the extremes of offshore investing" in terms of capital percentages invested offshore and felt the optimum percentage would be 65%. "I don't agree with South Africa having any exchange controls at all as we're one of the few countries in the world to still have them. In terms of alternative investments, the West averages a 50% allocation and we have only now increased it to 25%."

The regulator would find it difficult to further increase the allocation of capital to alternative investments, especially hedge funds, when boards of trustees remained reluctant to use their full current allocation, claimed Verster. He felt this stemmed from misunderstandings about the risk nature of alternative asset classes. The regulator would first want to see a greater take up before extending the allocation closer to international norms. Were exchange controls to be fully lifted and Regulation 28 rules removed to give investors complete freedom of choice, this would inevitably have a significant impact on both the currency value and JSE valuations as money would flow offshore in the short term.

However, Khumalo noted the experience of the US where notwithstanding complete freedom of movement of capital, investors retained a strong home bias, and there would likely be a similar home bias in South Africa with investors sticking with the brands they know best. "Offshore investing proficiency exists in South Africa as most asset management houses have spent considerable resources in developing international research capability," said Khumalo, noting that the skill set was largely identical to domestic. Verster added that most of the larger JSE-listed stocks were themselves international companies albeit domiciled in South Africa. "More than 60% of JSE earnings on a look-through basis already originates offshore. ***Full Report:*** ***https://www.fanews.co.za/article/retirement/1357***

FA News | 6 October 2022

Can I withdraw my pension in full when moving overseas?

On resignation, you are allowed a full refund of your retirement fund contributions with or without interest, depending on the rules of the fund.

I've been working in SA since 2016 with a permanent resident permit. I am resigning from my job and got an offer to move to CN. Please advise if I can withdraw my pension fund in full? It's in excess of R500 000. What will be the tax I need to pay?

Congratulations on the exciting new opportunity and the new adventure that lies ahead! This is a question I believe many South Africans are dealing with these days, as more and more of us are moving abroad to work there either temporarily or permanently. In the case of retirement, the retirement date is mentioned in the fund rules at which point the compulsory annuitisation principles may apply and you will not be allowed to take the whole pension. Most possibly a maximum of only one-third of the fund value can be taken as a lump sum with the balance (two-thirds) used to purchase a compulsory annuity.

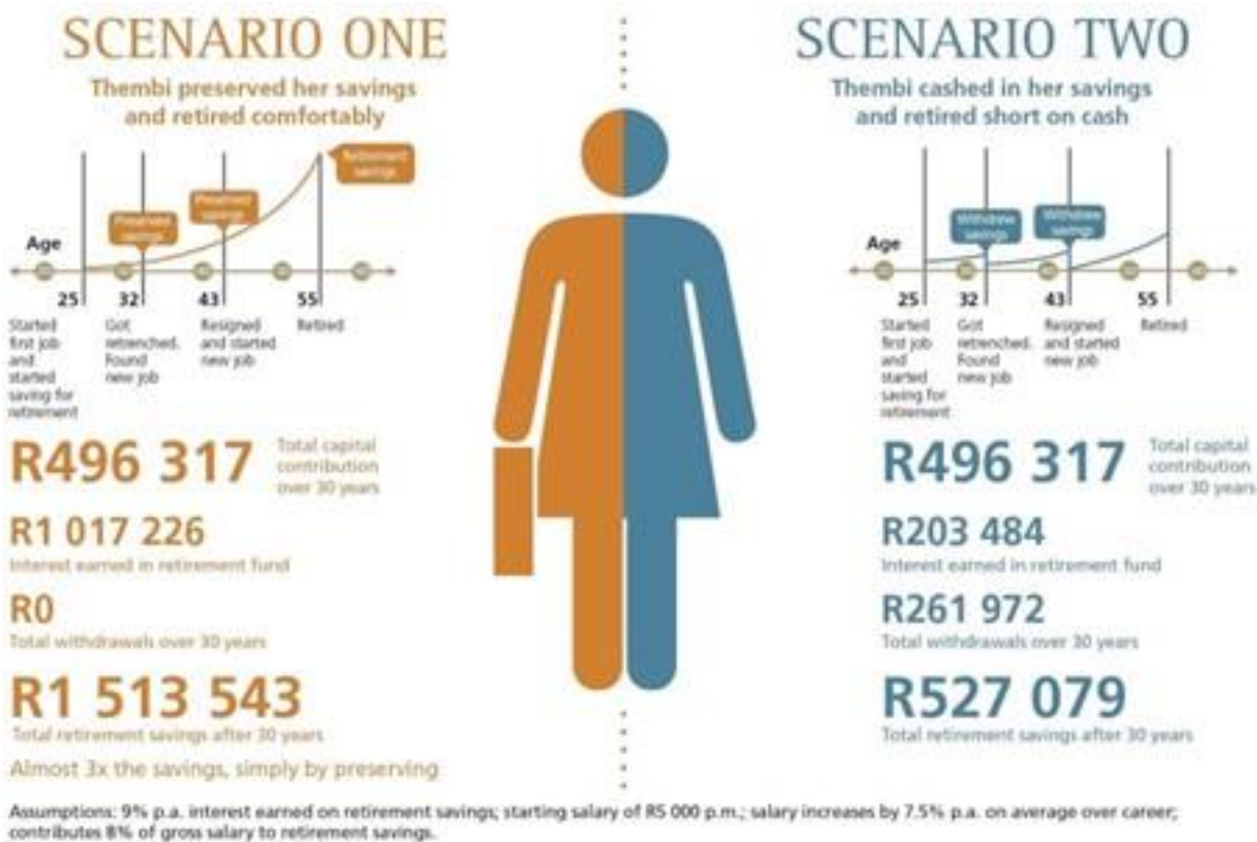
For this scenario, I am, however, assuming you are opting to withdraw from your company fund as you mentioned a resignation and therefore the withdrawal tax table will apply.On resignation, you are allowed a full refund of your retirement fund contributions with or without interest, depending on the particular rules of the fund. You are not compelled to withdraw the whole fund value, as a lesser amount can be taken as a lump sum instead and have the balance transferred to an approved retirement annuity fund or a preservation fund. If you have not taken any previous withdrawals from a retirement fund, you will be allowed to take the first R25 000 at 0%, whereafter the following sliding scale will apply:

Withdrawal Benefit

2023 tax year (1 March 2022 – 28 February 2023) – No changes from last year

Taxable income (R)	Rate of tax (R)
1 – 25 000	0%
25 001 – 660 000	18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

With recent legislation changes pertaining to retirement funds, I would strongly recommend reinvesting your local portfolio into a preservation fund. Regulation 28 has recently been revised, increasing the offshore allowed limit from 30% to 45%. I would recommend keeping these funds invested until you actually retire one day. The power of preservation and not touching your savings really has a life-changing effect and can lead to an entirely different retirement outcome in the longer term:



Moneyweb | 11 October 2022

INTERNATIONAL NEWS

UK pensions sell off assets worth billions as cash demand rises

The Bank of England will soon stop buying bonds, leaving pension schemes scrambling to meet a cash call of about £320bn

London — UK pension schemes are racing to raise hundreds of billions of pounds to shore up derivatives positions before the Bank of England (BOE) calls time on support aimed at keeping them afloat. BOE governor Andrew Bailey said on Tuesday that the bank planned to stop buying bonds on October 14, leaving pension schemes scrambling after a surge in yields to meet a collective cash call estimated to be at least £320bn ($355bn) without a buyer of last resort. However, amid calls from the schemes for a deadline extension, the Financial Times (FT) on Wednesday cited three sources as saying the BOE had signalled privately to lenders that it was prepared to continue the emergency programme beyond Friday if market conditions demanded it.

On Tuesday, the central bank made its fifth attempt in just over two weeks to try to restore order in markets, after the yield surge on September 28 threatened to overwhelm pension schemes that had loaded up on leveraged derivatives. Pension funds have spent the past two weeks trying to raise cash by selling off UK government bonds, or gilts, index-linked and corporate bonds, but the fundraising task is intensifying, sources say. Compounding the pain, providers of so-called liability-driven investment (LDI) strategies are demanding more cash to support new and older hedging positions. The cash buffers now required are about three times larger than previously requested, according to four consultants advising pension schemes, as market players seek bigger cushions against greater swings in bond prices.

“This week with the gilt market not fully calmed, lots [of schemes] are now looking at this and saying, we actually need to do a bit more, and, so, there is renewed action to get even more collateral across,” said Steve Hodder, a partner at pension consultants Lane Clark & Peacock. While estimates of how much pension funds need to sell vary, they are in the hundreds of billions of pounds, and it is not known how much funds have already raised in cash. Some schemes will also be cutting their overall LDI exposure if they cannot meet the collateral demands, consultants say. Tuesday’s BOE intervention was targeted at buying index-linked bonds, a far smaller market than gilts, dominated by pension funds and which suffered another significant sell-off this week.

The Pensions and Lifetime Savings Association (PLSA) on Tuesday called for the BOE to consider continuing the bond-buying programme to October 31 “and possibly beyond”. Bailey, speaking in Washington later on Tuesday, said: “And my message to the funds involved and all the firms involved managing those funds: you’ve got three days left now. You’ve got to get this done.” Sterling recovered after hitting a two-week low in early Asia trade on Wednesday. It was last at $1.1015, up 0.5% on the day. Markets were assessing the FT report’s credibility, said Francesco Pesole, foreign-exchange strategist at ING. ***Full Report: https://www.businesslive.co.za/bd/world/europe/2022-10-12-uk-pensions-sell-off-assets-worth-billions-as-cash-demand-rises/***

Business Day | 12 October 2022

OUT OF INTEREST NEWS

Allianz Global Wealth Report 2022: South African savings grew by 15.4% in 2021

• Three times lucky: For the third year in a row, global financial assets grew by double-digits in 2021, reaching EUR 233trn (+10.4%)
• Turning point: In 2022, a nominal decline by more than 2% is on the cards – in real terms, households will lose a tenth of their wealth
• The return of debt: Household debt increased by 7.6% in 2021, the fastest increase since before the Global Financial Crisis (GFC)
• Record growth: South African savings grew by 15.4% in 2021, clocking the fastest increase since the GFC.

Today, Allianz unveiled the 13th edition of its “Global Wealth Report”, which puts the asset and debt situation of households in almost 60 countries under the microscope.

The last hurrah

In retrospect, 2021 might have been the last year of the old “new normal”, with bullish stock markets powered by monetary policy. Households benefitted handsomely: For the third year in a row, global financial assets[1] grew by double-digits in 2021, reaching EUR 233trn (+10.4%). In these last three years, private wealth increased by a staggering EUR 60trn. This amounts to adding two eurozones to the global financial pile. Three regions stood out in asset growth: Asia ex Japan (+11.3), Eastern Europe (12.2%) – and North America (+12.5%): As in the two previous years, the richest region of the world – with gross financial assets per capita

amounting to EUR 294,240 against a global average of EUR 41,980 – clocked emerging market-like growth rates. On the other hand, Western Europe (EUR 109,340) behaved more like a mature, rich region, with growth at 6.7%. The main growth driver was the stock market boom, contributing around two-thirds to wealth growth in 2021 and propelling the asset class of securities (+15.2%). Fresh savings, however, remained elevated, too. Despite dropping by around 19% in 2021, with EUR 4.8trn they came in at still 40% above the level seen in 2019.

The composition of savings, too, changed, albeit only slightly: Bank deposits' share fell but with 63.2% they remained by far the preferred asset class of savers; on the other hand, securities as well as insurance & pensions found increasing favor with savers, but their shares in fresh savings were much smaller, with 15.1% and 17.4%, respectively. Reflecting these dynamics, global bank deposits grew by "only" 8.6% in 2021, still the second largest increase on record (after the 12.5% jump in 2020). Insurance & pension fund assets showed much weaker development, rising by 5.7%.

Turning point

2022 marks a turning point. The war in Ukraine choked the recovery post-Covid-19 and turned the world upside down: Inflation is rampant, energy and food are scarce, and monetary tightening squeezes economies and markets. Households' wealth will feel the pinch. Global financial assets are set to decline by more than 2% in 2022, the first significant destruction of financial wealth since the Global Financial Crisis (GFC) in 2008. In real terms, households will lose a tenth of their wealth. But in contrast to the GFC which was followed by a relatively swift turnaround, this time the mid-term outlook, too, is rather bleak: Average nominal growth of financial assets is expected to be at 4.6% until 2025, compared with 10.4% in the preceding three years.

"2021 brings an era to an end," said Ludovic Subran, chief economist of Allianz. "The last three years were nothing but extraordinary. It was a bonanza for most savers. Not only 2022 but the coming years will be different. The cost-of-living crisis puts the social contract to the test. Policymakers face the enormous challenge to master the energy crisis, secure the green transformation and spur growth while monetary policy hits the brakes hard. There is no more room for policy mistakes. Key for success are innovative and targeted measures at the national, and European unity at the supranational level."

The return of debt

At the end of 2021, global household debt stood at EUR 52trn. The annual increase of +7.6% vastly outpaced the long-term average of +4.6% and 2020's growth of +5.5%. The last time higher growth was clocked was in 2006, well before the GFC. However, due to the sharp increase in nominal output, the global debt ratio (liabilities as a percentage of GDP) even fell to

68.9% (2020: 70.5%). The geographic allocation of debt has changed since the last crisis. While the share of advanced markets is in decline – the US share, for example, dropped by ten percentage points to 31% since the GFC –, emerging economies account for an ever-rising portion of global debt, first and foremost Asia (excluding Japan): its share has more than doubled over the past decade to 27.6%. "The sharp increase in debt at the onset of a global recession is worrying," said Patricia Pelayo Romero, co-author of the report. "In emerging markets, households' debt has increased with double-digit growth rates over the past decade, more than five times the speed seen in advanced economies. Still, overall debt levels seem manageable, but given the strong structural headwinds these markets are facing, there is a real threat of a debt crisis."

Record growth

The gross financial assets of South African households rose by a strong 15.4% in 2021 to reach EUR 690bn, the fastest increase since the GFC and well above its 10-year average of 8.0%. Part of the explanation is inflation which averaged 4.5% in 2021; yet, the increase in real wealth remains remarkable. All asset classes contributed to the strong performance: bank deposits grow by 8.6% last year, securities by a whopping 20% and insurance and pensions assets by 14.7%; the latter asset class remains by far the most popular in South Africa, with a portfolio share of 56%. Bank deposits, on the other hand, which play a dominant role in most other emerging markets, have only a share of 13***%. Full Report: https://www.fanews.co.za/article/surveys-reports-and-ratings/34/general/1195/allianz-global-wealth-report-2022-south-african-savings-grew-by-15-4-in-2021/35666***

FA News | 12 October 2022

Demystifying Tax for South Africans Abroad

With a complex tax system and ever changing rules and laws, it can be overwhelming to stay in the know when dealing with your tax once leaving South Africa.

The idea that once you leave SA, all your tax obligations fall away is unfortunately dangerous and incorrect. The standard view of "how will SARS ever know?", or "I get nothing back for my tax money, so I will not pay", are unfortunately not good legal defences to the legal obligations a taxpayer has in South Africa. The question is no longer, "if" SARS will find out, but rather "when" they will find out. With more and more global legislation and rules such as the Common Reporting Standard (CRS), one cannot hide from the long arm of the law, or from SARS for that matter. Financial institutions and revenue authorities worldwide are sharing your information, to ensure that tax is declared and paid correctly.

As a South African living and working abroad, there are three typical options when dealing with your tax in South Africa to keep compliant and protect from being overtaxed:

R1.25mil foreign employment exemption and tax credits - This option is where one intends to return to SA on a permanent basis (and meet the requirements of either of South Africa's legislated tax residency tests ie. the ordinarily resident test or the physical presence test), thus you remain a tax resident of South Africa. As a tax resident, you are obligated to declare worldwide income and assets to SARS every year on your tax returns. Once declared, you need to prove to SARS that in terms section 10(1)(o)(ii) that all requirements have been met to exempt the first R1,25mil from tax. Everything above this will be taxable in SA. However, there is the option of applying tax credits, for tax paid in another jurisdiction on that income, if applicable.

The requirements of this exemption are:
a. Foreign income must be declared on the SA tax return;
b. The income must be for foreign services rendered, as an employee (independent contractors are not exempt);
c. One must be outside of SA for more than 183 days per 12 month period;
d. 60 of those days must be continuous days.

Double Tax Agreement/Treaty - This option is also generally used where one's intention is to return to SA, and thus one cannot cease their tax residency. The Double Tax Agreement relief requires that one declare to SARS every year on their tax return all foreign income. One needs to prove to SARS that in terms of Article 4 of the Double Tax Agreement, that all requirements of this Article have been met and that centre of vital interests does not sit in SA. Making use of the DTA, can be a way of temporarily ceasing tax residency. In layman's terms, the DTA will decide which jurisdiction (South Africa or the foreign jurisdiction) has the taxing right over the foreign income earned.

A major misconception is that if one is in a zero tax jurisdiction, this option cannot work, which is incorrect. Another is that because one is paying tax in the foreign jurisdiction, their obligations in South Africa fall away merely because there is a Double Tax Agreement in place – this is probably the most dangerous misconception with regard to the DTA.
Some requirements of making use of the DTA are:
a. Foreign income must be declared on the SA tax return annually;
b. Taxpayer must meet the specific requirements of the DTA each year;
c. Taxpayer must be able to prove requirements have been met which often requires documentary evidence being provided to SARS.

Tax Emigration (cessation of SA tax residency) – This option requires that a taxpayer does not meet the requirements of the ordinarily resident test or the physical presence test. To keep it simple, one must be living outside of SA with no intention to return to SA on a permanent basis. Intention can be very subjective, and that is why objective evidence must be reviewed for each individual to determine whether or not they will pass the audit SARS will raise. Where one meets these requirements, an application is done to SARS to cease tax residency. SARS will then raise an audit and supporting information and documentation needs to be provided to SARS to prove that one can formally change their tax residency status.

Being a non-resident for tax is beneficial, as there is no obligation on the taxpayer to declare foreign income and assets to SARS, nor is there any tax liability. Income and assets in SA will remain taxable and declarable in the general context. Some misconceptions taxpayers have with the tax emigration process are that one loses their citizenship of South Africa, or their passport – this is not true. There is no impact on citizenship when ceasing tax residency. Another is that one needs to sell all their assets, close bank accounts and withdraw all funds from South Africa – also not true. A non-resident for tax can own assets in SA; can earn income in SA; and does not need to withdraw any funds whatsoever.

Some requirements for tax emigration are:

a. Does not meet the requirements of the Physical Presence test;

b. Does not meet the requirements of the Ordinarily Resident test;

c. Is able to prove to SARS with objective evidence that they are non-resident;

d. Ceasing tax residency is an active step that must be taken with SARS, in order for SARS to note one's change in status

It is always important to obtain expert advice in this field of tax, no matter which option one takes.

FA News | 12 October 2022

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