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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

New report reveals SA's top priorities for impact investing, main barriers

Ashburton Investments, the asset management arm of the FirstRand Group, today released the findings of its new report on the priorities of South African institutional investors for impact investing.

It showed that Black Economic Empowerment (BEE) was the most widely recognised priority followed by investing to solve social and environmental problems. The report also identified key challenges to greater acceptance of impact investing. Heather Jackson, Head of Impact Investing at Ashburton Investments, said that 98.5% of respondents noted they expected sustainable investing to play a more important role in investing decisions in the next five years. "As impact investors we look for opportunities to marry financial return with a measurable positive social and economic impact. Increasingly, South Africa institutional investors are recognising the importance of ways of making a contribution to grow our economy in a sustainable and more inclusive manner."

The research was carried out by financial research firm Intellidex which surveyed 49 funds with combined assets under management (AUM) of R2,6-trillion, which is equivalent to 65% of the total R4.3-trillion AUM in the pension fund industry. It included most of the largest funds in the industry. When asked about the most important issues that should be addressed in impact investing, 94% of respondents recognised BEE as the key factor in investment policy. This was followed by 88% of respondents saying solving social and environmental problems was a key consideration with the same percentage saying investing in trends related to global sustainability was important. Environmental, social and corporate governance (ESG) factors were acknowledged by 86% of respondents as a consideration for investment decisions.

Encouragingly, institutional investors are not just paying lip services to these factors - they are putting money behind them too. When asked about changes in portfolios over the last five years, 81% said they had changed their portfolios' exposures to help solve social and environmental challenges while also taking into account ESG factors in the investment analysis process. And 69% said they had changed their portfolios to improve black economic empowerment. "While it is inspiring to see such high levels of understanding of these factors, the report also considered the main constraints to greater acceptance and implementation of impact investing," Jackson added.

According to the report, 72% of respondents said that lack of transparency and reported data was an impediment, while 69% cited difficulty in measurement, 52% had financial performance concerns while 33% said a lack of investment opportunities was a challenge. "There are clearly challenges ahead but impact investing is growing in importance and influence in South Africa," Jackson concluded.

FA News | 20 August 2020

Threat to expropriate pensions compels corporate SA to pick a side: the government or the people

Corporate South Africa has been ominously silent on the government's openly stated intention to expropriate pensions and savings through asset prescription – but the time has come for it stand with ordinary South Africans against a policy that is at once fundamentally unnecessary and dangerous. Having already compromised South Africa's fiscal position through irresponsible and unproductive spending, the SACP-ANC government is now desperately seeking a new source of funding for its risky and expensive attempt to lead a post-pandemic recovery by spending billions on policies with a proven track record of failure.

An alternative route to recovery – to rising growth, job-creation and, ultimately, prosperity for all South Africans – is spelled out in the IRR's latest policy document, **Growth & Recovery: A strategy to #GetSAWorking (https://irr.org.za/reports/occasional-reports/growth-recovery-a-strategy-to-getsaworking)**. It sets out how South Africa could achieve economic growth of 7% by the end of the decade, and that it could do so at low financial cost – even if the political costs may be considerable. The document makes a strong case against raiding the pensions and savings of hard-working South Africans through aggressive asset prescription, and highlights the choice now facing corporate South Africa between protecting the interests and rights of clients or selling them out to an irresponsible government.

By publicly stating their opposition to the government's intention to expropriate savings and pensions, and heeding the call of the International Monetary Fund for South Africa to adopt growth-enhancing structural reforms by endorsing the IRR's economic recovery plan, corporate South Africa can prove it is on the side of South Africans who deserve to own what they have worked hard to earn.

Said IRR Deputy Head of Policy Research Hermann Pretorius: "Corporate South Africa has a duty to clients, to South Africans being targeted by a parasitic government, and to common sense to oppose the government on the issue of prescribed assets and to support solutions that will see South Africa prosper. "The IRR will not shy away from exposing those who, when South Africans needed them most, chose to sell out hard-working people who played by the rules, who saved and managed their finances responsibly, and who trusted banks and other financial institutions with their money."

FA News | 20 August 2020

Retrenchment: What are my retirement fund options?

Factors to consider when making your decision.

If you've recently been retrenched or lost your job as a result of the Covid-19 pandemic and extended lockdown, it is likely that you have important decisions to make regarding your retirement fund benefits if you were contributing towards your employer's pension or provident fund. Although the first choice is always to preserve your capital, tough economic times and unprecedented unemployment rates mean that you may have no choice but to access some or all of your money. Let's have a closer look at the options available to you on retrenchment.

Accessing your retirement fund

In the same way as a resignation allows you to withdraw your retirement fund in cash, retrenchment will allow you to access your pension or provident fund savings subject to tax. However, unlike a resignation, any withdrawal taken from your fund upon retrenchment is taxed as per the retirement tax table. Should you choose to take all or a portion of your fund in cash, this withdrawal is added to any severance payment you receive and taxed as per the retirement tax table below:

Taxable Income	Rate of Tax
R1 – R500 000	0% of taxable income
R500 000 – R700 000	18% of taxable income above R500 000
R700 000 – R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 000 and above	R130 500 + 36% of taxable income above R1 050 000

Keep in mind that any and all previous withdrawals and/or severance benefits are also taken into account when calculating the total taxable withdrawal meaning that it is a cumulative total and not calculated on a pre-withdrawal basis. As such, be aware of any previous withdrawals in order to avoid incurring any unintended or unplanned tax deductions. Remember these withdrawals will also be accounted for in the future once you decide you retire from your retirement funds.

Investing in a preservation fund

A preservation fund is essentially a tax-efficient investment vehicle designed to house your retirement fund benefits when you leave the employ of a company or business. You have the option of either an in-fund preservation, where you remain a non-contributing member of your current fund or you may transfer to a private preservation fund. If you have been contributing towards a pension fund, you will need to transfer to a pension preservation fund, and this transfer will be tax-free. On the other hand, if you have been contributing towards a provident fund, you will need to transfer to a provident preservation fund, once again on a tax-free basis. Both of these funds are governed by the Pension Funds Act. If you choose to preserve your retirement benefits you may take a portion in cash and transfer the balance to the preservation fund or simply transfer the full amount to the preservation fund. One of the distinct advantages of a preservation fund is that it allows investors to make one full or partial withdrawal before retirement, which is generally set at age 55, with any withdrawal being subject to the withdrawal tax tables. In times of uncertainty such as we find ourselves in presently, this is a particularly attractive benefit. If you are uncertain about your financial future, unsure about your employment prospects, or believe there is a strong likelihood you will need to access your capital before age 55, then a preservation fund allows excellent flexibility.

However, tax plays a very important role in the decision-making process as any lump sum withdrawal you make from your preservation fund will impact you at a later stage should you wish to make a withdrawal from a different preservation fund. There is no limit on the number of preservation funds you can have, although when withdrawing from an active pension or provident fund you are not permitted to split your retirement benefit across multiple preservation funds. While you are permitted to make a once-off full or partial withdrawal from each preservation fund in your name, bear in mind that the tax-free amount of R500 000 is calculated on the cumulative amount withdrawn and not per preservation fund.

A key feature rule of a preservation fund is that you are not permitted to make further contributions towards it. However, the accumulated credit remains invested and may be allocated to, and switched between, the available underlying funds on the platform subject to Regulation 28 restrictions. Preservation funds are also transferable between platforms and service providers. If at a later stage you choose to transfer your preservation fund to a retirement annuity, you are able to do so with the knowledge that you can then start making additional contributions towards your investment. However, note that you cannot transfer a retirement annuity to a preservation fund.

No tax is paid on the investment returns generated within a preservation fund, and the proceeds of such a fund do not form part of your deceased estate. This has the effect of reducing your estate duty and protecting your assets from potential creditors. It is important to nominate beneficiaries to your preservation as a guide to the fund trustees when determining the allocation of funds amongst your financial dependents in the event of your death. The legislation permits you to retire from a preservation fund from the age 55, although there are currently different rules regarding pension preservation and provident preservation funds. If you retire from a pension preservation fund, you have the option of taking up to a maximum one-third lump sum withdrawal, which will be subject to tax. Thereafter, you are obliged to use the remaining two-thirds to purchase an annuity to provide you with an income during retirement. ***Full Report*: *https://www.moneyweb.co.za/financial-advisor-views/retrenchment-what-are-my-retirement-fund-options/***

Moneyweb | 20 August 2020

The long and short of longevity: a woman's perspective

Longevity is an accelerating macro trend. World Economic Forum (WEF) research shows that we now live a decade longer than our parents' generation and two decades longer than our grandparents. Internal statistics from retirement income specialist Just indicates a total life expectancy for a 65-year old to be 87 years for women as opposed to 82 years for men, with 25% of women at age 65 likely to reach 94 and a further 10% living to celebrate their hundredth birthday. Earlier this year, the WEF also co-launched an initiative that aims to mobilise 'thinking and action to strengthen financial wellness'[1] for the 100-Year Life. Just Product Actuary Twané Wessels says that women underestimate their longevity, with research highlighting a disparity of 5-7 years between actual versus expected life expectancy.

What's more, despite the probability of living longer and outliving their male counterparts, fewer females tend to do adequate financial planning to ensure a comfortable and sustainable retirement. According to Lynda Smith, CEO of online community platform 50Plus-Skills, many married women still seem to leave much of the retirement planning process to their husbands and do not have their own or a collective view of planning for the future. "Women on their own in this season of life are often fearful about not having enough savings," she says. "Frequently this is due to a divorce or to single parenthood, which puts women under significant pressure to meet monthly financial commitments and causes anxiety about running out of savings down the line."

"Alarm bells should ring," adds Wessels, "because in addition to needing more money for living longer, in pre-retirement women often have less time and income to accumulate sufficient savings." This may be due to temporary absence from the workplace for maternity leave or to care for children or elderly parents, and may also be as the result of sacrificed earning potential because certain jobs or roles with demanding time and travelling requirements are difficult to sustain alongside family responsibilities. Fortunately, the recent work-from-home requirements encourage remote working possibilities. This can allow for more flexibility and may help women in particular achieve more of a work-life balance.

Ensuring financial security in retirement tops the list of concerns for most people, gender aside, insists Jennifer Nedzamba, a financial planner at Netto Invest. However, Nedzamba agrees that the unique circumstances women face and society's view on traditional gender roles within families and family financial planning, adds to the anxiety some women feel when it comes to their finances. "Considering some women tend to leave the management of their family's finances to their male partners, and often outlive said partner, it is crucial that women get involved and a plan is in place to ensure sufficient retirement income that keeps up with inflation to maintain their standard of living, even after the passing of a partner," she cautions.

Wessels, Smith and Nedzamba agree that many women have not yet grasped the concept of longevity fully, and as a result have not planned adequately for retirement. In light of their shared experiences and expertise, and to help create awareness, they offer their top considerations for women approaching retirement.

Live and work for longer

“Women must reimagine their future with an open mind to remain connected, teachable, relevant and involved in work, as long as health allows, says Smith. “This does not mean remaining in full time employment, rather enabling a life in retirement consisting of pockets of work that keep you going financially and contribute to your pension pot.”

Take control of your own financial planning

The time for women to take a more active role in financial planning is long overdue. “It is important to educate yourself on money matters, be aware of all retirement options available and understand the impact or consequences of any decisions taken,” says Nedzamba. “If you don’t have a financial plan already, uncertain times like these might just be the catalyst needed to get something in place.” Wessels recommends partnering with a trusted professional who focuses on a holistic approach to financial planning. “An independent financial adviser should take time to understand your unique circumstances and needs in order to recommend an appropriate annuity strategy. Most importantly your retirement strategy must provide a sustainable income that covers your basic needs for life. The balance of your retirement savings can be invested to allow for discretionary spending and to leave a legacy. It is possible nowadays to blend life and living annuities to achieve this desired outcome.”

FA News | 20 Aug 2020

Retirement funds must first attempt to resolve disputes internally

Complaints to the Office of the Pensions Funds Adjudicator (OPFA) will only be investigated after the retirement fund concerned has been given the opportunity to resolve the complaint directly with the complainant. If the complaint has not first been lodged with the retirement fund concerned, the OPFA will submit the complaint to the retirement fund on behalf of the complainant. In the event that the complaint has not been resolved to the satisfaction of the complainant within a period of 30 days, only then may the complainant register a complaint with the OPFA.

This process which will be implemented from 1 September 2020 is something that various funds have long been calling for. Pension Funds Adjudicator Muvhango Lukhaimane said the OPFA often receives complaints which have not first been lodged with the retirement fund or administrator in order to allow the retirement fund or administrator concerned an opportunity to attempt to resolve the matter internally before requiring the OPFA to investigate the complaint and make a determination on any issues that may remain in dispute. “Having due regard to representations that have been made to the OPFA regarding the interpretation of section 30A(1) and (2) of the Act, as well as the principles that financial institutions must abide by in relation to their obligations to treat customers fairly, the OPFA has formed the view that it would be in the best interests of all stakeholders, especially members of retirement funds, that the retirement fund concerned be given the opportunity to resolve the complaint directly with the complainant.

“In the event that the complaint is not resolved to the satisfaction of the complainant within a period of 30 days, the complainant may register a complaint with the OPFA,” she said. However, if the OPFA is of the opinion that a complaint may become time-barred in terms of section 30I of the Act if the full period of 30 days is afforded to the retirement fund or administrator to resolve the complaint, the OPFA will shorten the period that the complaint may be resolved internally in terms of section 30A(4) of the Act.

FA News | 20 August 2020

INTERNATIONAL NEWS

US public pension plans face ‘vicious cycle’ as funding gap soars

Shortfalls spread across retirement funds as coronavirus pandemic batters state finances

Coronavirus, disappointing investment returns and declining interest rates, pose a triple threat to the health of the US public pension system, which is haemorrhaging cash and heading for a record funding shortfall. The total funding gap for the 143 largest US public pensions plans is on track to reach $1.62tn this year, significantly higher than the $1.16tn recorded in 2009 in the aftermath of the global financial crisis, according to Equable Institute, a New York-based non-profit think-tank. The weak financial condition of the US public pension systems poses severe risks for the living standards of millions of employees and retired workers. Equable estimates that returns of US public pension plans averaged -0.4 per cent over the 12 months ended June 30, well below the 7.2 per cent targeted by these schemes.

This dire performance has contributed to the aggregate funded ratio (assets as a share of liabilities) sinking to 67.9 per cent, sliding towards the historic nadir of 63 per cent registered in 2009. Just one in five statewide pension plans can now be classified as “resilient” with a funded ratio of 90 per cent or more for at least two consecutive years. A dozen more pension plans sank into the “distressed” category with a funding ratio of less than 60 per cent over the past year, taking the total number of distressed plans that need to take immediate steps to strengthen their position to 37. “The value of promised pension benefits is growing faster than assets can keep up. The resulting shortfalls in pension funding (unfunded liabilities) have grown to be more than 10 per cent of GDP in 9 states, and more than 6 per cent of GDP in a further 24 states,” said Anthony Randazzo, executive director at Equable.

The five states with the largest unfunded liabilities — California, Illinois, New Jersey, Texas and Pennsylvania — together have a shortfall of $693bn, which is larger than the rest of the country combined at $655bn. Mr Randazzo said the recession triggered by coronavirus and weak economic recovery would reduce tax revenue for state and local governments, forcing them to try to reduce pension costs to relieve pressure on their budgets at a time when public health costs are spiralling higher. In addition, job cuts by states will shrink the number of active members saving for public pensions from the current level of about 12.4m. The total number of retired beneficiaries already collecting their pension has reached 15.1m, which is driving up cash outflows as pension contributions from state employers and employees have failed to keep pace with the growth of benefit payments. Net cash outflows reached $113bn in 2019 and have totalled $882bn over the past decade. Mr Randazzo said public pension plans faced a "vicious cycle" because rising cash outflows led to more pressure on investment returns to meet future retirement payments.

State pension plans on average expect to generate average returns of 7.2 per cent a year, a target that is widely seen as unrealistic given the steady decline in interest rates over the past 30 years, which has reduced their yields from fixed-income assets. "Each year that investment returns underperform expectations, it perpetuates a vicious cycle. It will be very difficult, and in some cases impossible, for public plans to invest their way back to fiscal health," he said.

Financial Times | 22 August 2020

OUT OF INTEREST

Financial lessons for your 30s

In the spirit of #WomensMonth, Tamryn Lamb, head of retail distribution at Allan Gray, looks back at her 30s and shares the valuable financial lessons she learnt from reflecting over that period. Your 40s are known to be a challenging decade financially, typically balancing the demands of lifestyle costs, children and their education, ageing parents and making increased space for retirement savings. Establishing good financial habits in your 30s helps to deal with the crucial "financial 40s". So, what would I tell the 30-year-old me that may help you form successful, consistent, financial habits?

1. Take some risks

You likely have, at least, a 30-year accumulation period ahead of you, most of which will hopefully be in some form of gainful employment – self-directed or more formal. You can afford to take risks and make a few mistakes. This includes taking on an appropriate level of "good debt", for example to get onto the property ladder. You probably don't need to worry too much about market cycles: although they may hurt while you are experiencing them, most (not all) wash out over 30 years.

2. Work out early what your investing behavioural biases are

Most people start to save in earnest in their 30s. Yes, we know we should start in our 20s – but not everyone is in that position. Before you figure out how to invest, with who, and in what product and investment – it is a good idea to identify your behavioural weaknesses. Does your stomach drop when you see a decline on your statement? Do you overestimate your ability to pick that great idea? Do you worry when your friends tell you about an idea, and you think you might be missing out? Work out what will hold you back from making the right decisions, and then try to put mechanisms in place to “protect you from yourself”.

3. Don’t let your lifestyle increase at the same rate as your earnings

Combining my studies and a training contract at an accounting firm, I lived like a student for well over eight years. When I got my first real pay cheque, I felt like a glucose-intolerant kid in the proverbial candy store. While this is probably to be expected, it’s important to take control of your budget early on and try not to let your spending habits increase at the same rate as your earnings. Your retirement pot will thank you.

4. Don’t succumb to inertia or the excuse of “I don’t have time to sort out my admin”

Most people in their 30s are juggling a job, perhaps starting a family, managing their extended family and other broader responsibilities. There can be times when months go by and you realise you haven’t sorted out that tax-free investment for your child or upped your contribution rate. Don’t succumb to that excuse. Treat each important, non-urgent decision as if you were retiring in three months, not three decades.

5. Figure out where you want to go – seek advice

You may be a professional in your specific field, and be very smart – but seeking financial advice from a good, independent adviser helps you articulate your financial goals, introduces ideas that you may not have considered, puts a plan in place and then (hopefully) helps you get there.

6. Form professional and social networks, particularly with other women

We all struggle to put our hands up and admit we need help. Learning from other women can be a powerful tool, especially as you take off in your career or business and start earning more. This can inspire you to take ownership of your own financial plan. Instead of seeing female-led groups as just social occasions (e.g. book clubs), you could also join or start a women-only investment or savings club. Contributing to ideas in this type of forum creates a safe and fun space to gain confidence in investing through learning from other women’s investment mistakes or successes.

7. Think about what you would say to the next generation about money

I have had to think hard about what I want my daughters to understand about money, taking risks, the importance of savings and the beauty of compounding values over time. Admittedly the latter can be a somewhat dry subject and is harder to teach when you are competing with online games, and friends and sports. I have tried to put decisions in their hands, rewarding them when they defer immediate consumption by doubling any value they choose to save, for example. We have also given them their own accounts, so they can see how the values can increase (and decrease) over time. These conversations have also been important for me as I often reflect on the lessons I wish I had learnt earlier.

After a few failed attempts, I was finally rewarded when my 11-year old was given a birthday gift of R200. She looked at it solemnly for a while and then handed it to me and said: “Please can you take it to work tomorrow and make it grow!” So, if there is someone in your life, or your community, that you think can benefit from hearing about your financial journey, then consider paying it forward. My 40-something self would certainly like to pay some of these learnings forward to my younger self every morning as a reminder of what I should do regarding my own financial plan, and also as a reminder of the responsibility I carry as a steward of our clients' hard-earned savings.

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