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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

The Retirement Sector's role in shaping the future

According to Enos Ngutshane, the President of the Institute of Retirement Funds Africa (IRFA) the sector will play a major role in defining the future through change, resilience and in rethinking traditional boundaries. Opening the plenary session at IRFA's virtual conference held in November 2020, Ngutshane noted that leaders and expert speakers at the foremost industry conference would build the case for change and transformation in the financial sector as well as for the benefits of leveraging technology for the greater good. Ngutshane is adamant that the retirement sector has a vital role to play as the economy gears up for recovery in the wake of the Covid-19 pandemic and systemic lockdowns around the world.

He is emphatic that events such as IRFA's annual conference are crucial to the "harnessing of a multiplicity of ideas" crucial to change, growth and transformation. The conference, held for the first time on a virtual platform provided ample opportunity for this exchange of ideas in terms of the provision of platforms for networking and interaction in addition to the substantial line-up of speakers. Topics covered included the impact of Covid-19 on the investment market, the importance of resilience and innovation to the sector, a look at the alternative investment approach as well as its importance to socio-economic development, and key pointers for sustainability of the sector.

Also built in to the programme were a line-up of Master Classes featuring pointers from the Acting Commissioner of the Financial Services Conduct Authority as well as expert presenters covering subjects such as "Investment Fundamentals and Data Science" and "Innovative solutions for the retirement industry and the South African Economy." Ngutshane says that the November 2020 conference certainly delivered on its member and industry mandate. Based on its success the Institute is planning a high-level Thought Leadership Session for the 16th March 2021. The session will be a hybrid initiative with both face to face and a virtual session.

FA News | 7 December 2020

Retirement funds: Do the benefits outweigh the risks?

It is often argued that there is no real tax benefit to investing in a retirement fund, because while contributions are tax deductible, the resultant annuity is taxable. Does it then make sense to invest in a retirement fund, considering the restrictions imposed on these funds by Regulation 28?

Understanding the tax benefit

However, this argument ignores the fact that the tax rates of retirees are normally significantly lower than prior to retirement when they received the tax benefits from contributions. It also ignores the benefit of tax-free growth within the portfolio as well as benefits in estate duty. The table below compares an endowment, a voluntary investment plan, a tax-free investment plan and a retirement annuity.

Tax comparison between different investment options				
	Endowment	Voluntary investment plan	Tax-free investment plan	Retirement annuity
Tax deductibility of contributions	Non-deductible	Non-deductible	Non-deductible	Deductible up to prescribed limits
Taxation of fund growth	Interest taxed at 30% Dividends taxed at 20% CGT taxed at 12%	Interest taxed at 45%* Dividends taxed at 20% CGT taxed at 18%*	Tax free	Tax free
Taxation of maturity value	Tax free	Tax free	Tax free	Lump sum taxed according to tax table; annuity taxed as normal income
Estate duty	Subject to estate duty	Subject to estate duty	Subject to estate duty	Only the excess contributions made to the fund are subject to estate duty

**After exemptions have been exhausted.*

Tax impact on investment example				
	Endowment	Voluntary investment plan	Tax-free investment plan	Retirement annuity
Contribution	R1 000 p.m.	R1 000 p.m.	R1 000 p.m.	R1 818 p.m.
A tax-deductible contribution of R1 818 to a retirement annuity equates to a non-deductible contribution of R1 000, as R818 will be saved on taxes.				
Term of investment	15 years			
Pre-tax fund growth	10.8%			
Post-tax fund growth	8.93%	8.17%	10.8%	10.8%
See table below for assumptions used. CGT on endowment and VIP is deducted annually.				
Maturity value	R378 823	R353 690	R450 306	R818 656
Tax on maturity value	R0	R0	R0	R294 716
Taxed at 36% as this is the average rate for an individual earning R1 500 000, and top band of lump sum tax table.				
Net maturity value	**R378 823**	**R353 690**	**R450 306**	**R523 940**

Growth assumptions							
	% invested	Asset class return	Pre-tax return	Tax on VIP	Net return on VIP	Tax on endowment	Net return on endowment
Cash	40%	6%	2.4%	45%	1.32%	30%	1.68%
Equity growth	60%	11%	6.6%	18%	5.41%	12%	5.81%
Dividend growth	60%	3%	1.8%	20%	1.44%	20%	1.44%
			10.8%		**8.17%**		**8.93%**
Assuming a balanced portfolio of 40% cash and 60% equities. Returns are deemed to be net of costs.							

Understanding Regulation 28

Regulation 28 is aimed at preventing fund members or trustees from selecting highly concentrated portfolios and running the risk of losing everything. However, the most negative publicity retirement funds receive is probably because of Regulation 28 and the limitations it imposes – such as the 75% limitation on equity and 30% on offshore investments. It is argued that a retirement fund is a long-term investment and there should therefore be no limitation to investing in equities, which have historically provided the highest returns over the long term.

The same argument is made about the limitation on offshore assets. Research, however, shows that only a small percentage of investors invest close to the limitations that apply in terms of Regulation 28. In addition, it is possible to build a diversified aggressive portfolio within the confines of Regulation 28. Even where an investor believes a Regulation 28 portfolio is not the optimal choice for them, the potential return foregone by choosing a 'more conservative' portfolio is outweighed by the benefit of the tax savings realised (on contributions and returns).

Base decisions on facts, not fears

The issue of retirement funding is one that elicits many emotions from the public, but these are often not founded on facts, but rather on fears. While there are reasons for concern, these are often not as dire or cataclysmic as imagined. Retirement funds offer their investors a multitude of benefits, and these are best considered holistically when making an investment decision.

FA News | 7 December 2020

Pension savings 'safe from change'

DEPUTY Finance Minister David Masondo has reassured pension fund managers that the changing regulatory environment would not give the government power over their savings. Masondo told a round-table about the role of pension funds in economic recovery and growth that the government would leave such decisions to the funds' trustees. "The National treasury is in a process of reviewing Regulation 28 of Pension Fund Act to make it easier for pension funds to increase investment in infrastructure, should their board of trustees opt to do so," he said.

The National Treasury is in the process of reviewing Regulation 28 of the Pension Fund Act to make it easier for pension funds to increase investment in infrastructure. The regulation prescribes maxima for various types of investment that may be made by a retirement fund. There has been ongoing debate whether the amendment of the regulation would see government subjecting pension funds to prescribed asset regulations. The draft regulation,

which provides that the ministry may make regulations limiting the amount and the extent to which a pension fund may invest in particular assets or in particular kinds or categories of assets, prescribing the basis on which the limit shall be determined and defining the kinds or categories of assets to which the limit applies. Africa's largest pension fund manager, the Public Investment Corporation (PIC), has more than R2 trillion in its savings. Masondo urged pension fund managers to support the government's objectives and invest in domestic infrastructure projects.

"Economic growth depends on investments and without this, there will be no new products, new markets, new employment opportunities and no tax collection for the government," Masondo said. "Savings serve as a source of supply for investments. Households, businesses and the government borrow from this savings to undertake economic activities." Infrastructure development is at the centre of President Cyril Ramaphosa's Economic Recovery and Reconstruction Plan to boost the economy post Covid-19. Masondo said the Financial Sector Transformation Council was close to finalising the retirement fund BEE scorecard that will include concrete transformation targets for the retirement funds.

"South Africa needs economic growth that is transformative, inclusive, and sustainable. Growth which transforms the underlying racial and gender unequal and exclusionary structures of the economy." Momentum economist Johann van Tonder said the real value of both pension funds and other investments had decreased as a result of the Covid-19 pandemic. Van Tonder said that the Momentum-Unisa Household Wealth Index estimated that households' real net wealth declined slightly by R2.3 billion in the third quarter due to a decrease in the real value of households' pension funds and investments.

"However, the decrease was marginal and mainly impacted by a second wave of Corvid-19 infections, specifically in Europe," Van Tonder said. "A new round of lockdowns contributed to financial markets declining worldwide. This had a negative impact on the real value of households' pension fund and investment values."

IOL | 6 December 2020

Treasury to answer call for transformation in retirement-fund industry

'Black asset managers are struggling to crack into the private retirement space': Zukile Nchukane, Mianzo Asset Management.

NOMPU SIZIBA: Black fund managers are said to manage less than 10% of capital assets under management in South Africa, and black fund managers have been pushing for increased

transformation in the sector. Traditionally, large white-run asset managers have dominated this scene due to South Africa's economic legacy issues. And it now seems that National Treasury's is heeding the call of black fund managers. Last week, Deputy Finance Minister David Masondo indicated that the government was working with the Financial Sector Conduct Authority in ensuring that the country's 100 biggest retirement funds bolster their transformation efforts.

Well, to find out more about the issues and the implications of the deputy minister's assertion, I'm joined on the line by Zukile Nchukane, the head of business development at Mianzo Asset Management. Thank you so much, Zukile, for joining us. Now, you represent a black-owned fund manager and you're based in Cape Town. Practically speaking, what have been, or what are the challenges stacked up against black-owned and -run asset managers in being able to incrementally grow the share of assets that they manage in the bigger scheme of things?

ZUKILE NCHUKANE: Hi Nompu, and thank you for having me on the show. There are a number of issues. But the main one would be the intermediaries – that is, the asset consultants. These are the players that stand between the fund managers and helping retirement funds in terms of allocating assets to manage to black asset managers. Over the years, the black asset-management space has been generally supported by your state-owned enterprises, pension funds, provident funds and union funds, and so forth. And we've been struggling, really, getting into and getting some exposure to the private funds. And generally those heavily rely on the intermediaries, so to speak. So I think that's the main big one as you find that National Treasury is trying to legislate certain elements when it comes to the retirement space.

NOMPU SIZIBA: We understand that the Financial Sector Transformation Council, which is a non-profit company that was born out of the Broad-Based Black Economic Empowerment Act, is finalising a new BEE scorecard that will be specific to the retirement-fund sector. In simple practical terms, whatever the minimum guidelines that they end up prescribing, what would that mean for black-owned fund managers like yourselves?

ZUKILE NCHUKANE: I think we have to finalise the minimum amounts. But fortunately, if you think about, it right now assets, the universe, has round about R7 trillion in assets under management, and, as you pointed out, you've got just under 10% of that universe. So, I think in the short term we will be okay, maybe. When I say the short term in the three-plus year out, if we get to maybe something close to 30%, and we'll take it from there. But generally, which is why you find now there's a bit of a reliance on the likes of National Treasury to make sure we move … when … comes to the space.

NOMPU SIZIBA: Are there any of the big asset managers who perhaps understand this intermediary issue that you just mentioned at the top of our conversation, and who are sort of going ahead of the curve and trying to engage with black fund managers – because obviously they started the race earlier? **Full Report:** ***https://www.moneyweb.co.za/moneyweb-radio/safm-market-update/treasury-to-answer-call-for-transformation-in-retirement-fund-industry/***

Moneyweb | 7 December 2020

POPIA – why you don't need to panic (yet)

When we think of POPIA legislation, a range of thoughts and emotions follow, from fatigue (fair enough, as we've been waiting for movement for many years) to feeling completely overwhelmed and panicked. The good news, however, is that you don't need to worry… not just yet. This is according to Elizabeth de Stadler of Novation Consulting speaking at Compli-Serve SA's POPIA webinar in October. The 30 June 2021 deadline may be in the diary and inspires thoughts around the race being on to comply, but it's not necessarily plausible that the regulator will be ready by that time either.

Covid-19 got in the way of the previous effective date, proving that life does happen when making other plans. This doesn't exclude the regulator, but nor does it excuse you for putting your head in the sand. It's essential to know where to put your energy, and in some cases, compliance should happen sooner than later.

This calls for a deep breath

"No one is POPIA compliant yet," says Elizabeth.

Preparing for POPIA is going to take patience and persistence and the best way to manage it is to pick the most important area within your FSP to focus on. The trick is to avoid re-writing the entire playbook to be POPIA compliant. Work with the systems you have, says Elizabeth, and get them to POPIA alignment for a better outcome. Following this sort of process will make it easier for all stakeholders and staff to transition; at least much more successfully than those feeling overwhelmed or ill-equipped. Trying to take on too much, addressing too many changes to come (by assessing where your business is in terms of POPIA compliance overall) can lead you to the deer in headlights analogy, with too much on the list to rectify.

Don't get knocked down - it's about taking the baby steps to get there. But you need to actually take them and keep taking them, to keep up. It's just not the intense rush you imagine. With POPIA, it's principles-based legislation, where you cannot adopt a 'one size fits all' approach.

You need to adopt a risk-based approach instead, by first looking at the areas which pose the most POPIA risk in your organisation, and then adopting compliance management and risk mitigation strategies best suited to your organisation. The term 'satisfactory' appears 78 times in the current framework," says Elizabeth, a self-proclaimed POPIA expert ("geek"). POPIA compliance is about finding the most reasonable measures to implement within your organisation currently, given your risks and available resources. Proving your POPIA compliance is somewhat up for interpretation in some areas, but there are some steps that are ready for the taking, as you move closer towards complete compliance. Here are some top tips to try.

People are the problem and the solution

"POPIA is not an IT problem, it's a people problem. Change management and training are essential," she says. You'll need to start there; getting buy in from everyone involved in how your business is going to need to change to reach the sweet spot (not dumping the task of finding the solution on your IT department).

First five POPIA steps to take

Get an incident response team together to face risks, such as plan what will happen if there is a data breach. Implement a data protection impact assessment (called a 'personal information impact assessment' in POPIA) into your business to prevent new POPIA risks from getting through. Accept and ensure that not everyone in your organisation should have access to all company information. Review your forms to ensure that your wording indicates transparency as to what you will use supplied personal information for, and that there is a legal justification for this purpose under Section 11 of POPIA.

Get clear on consent

Consent comes with a catch when marketing to potential clients. Once 1 July 2020 is here, if you want to do any electronic direct marketing (email, SMS etc.) to new clients or customers (i.e. ones you do not have a pre-existing relationship with), you will have to get their consent to do so before you can send anything. Additionally, if you want to market new products or services to your existing client or customer base, or within your wider company group to your customer base, you may need additional consent to do so. The rule of thumb here is will the potential customer or customer be surprised to hear from you about a certain product or service? If so, then you are doing something wrong and will likely need to get additional consent in that circumstance.

Sort your security

A breach is more common in tough economic times and most businesses will suffer from at least one at some point. Often, to get to the bottom of why a breach happened, you'll need to go offline and can lose business (the regulator may stop you from operating until the breach is

fixed, and suppliers may force you too). That is the true cost – contacting everyone who is implicated and trying to figure out how the breach happened. The reputational damage from a data breach can be the most harmful. POPIA compliance is in your reach. Don't panic but do prioritise getting a plan and any needed action into place, as soon as possible. Working with a trusted compliance professional can help you to get this process going as smoothly as possible.

FA News | 4 December 2020

INTERNATIONAL NEWS

Tough UK pension call will define Boris Johnson's premiership

Ending the triple lock would alienate red wall voters, but Covid spending may require it

Sally Hewson, from the English seaside town of Boston, has received a state pension for more than a decade. The money that she gets has risen gradually and she enjoys a comfortable, if frugal, life. Every week, about £175 lands in her bank account, and this money provides the bulk of her income. "People like me really don't have anything else," she says.Ms Hewson is a fairly typical pensioner: rightwing in her world view, a Brexiter and also a longstanding Conservative voter. Yet she depends almost entirely on the state.

She is also a beneficiary of the UK's long war on pensioner poverty. While 41 per cent of single female pensioners were in poverty in 1996, today that figure has plummeted to 22 per cent. Much of that is due to the Labour governments of Tony Blair and Gordon Brown, which pumped vast sums into means-tested benefits. More recent Tory administrations then shored up these gains with the so-called pensions "triple lock". Introduced in 2010, it ensures that state pensions rise by whichever is higher: wages, inflation or 2.5 per cent. But today, the future of that policy is in doubt due to Covid-19.Chancellor Rishi Sunak must find around £40bn next year to cover the pandemic's extra spending.

Scrapping the expensive triple lock, often judged either a policy that protects the most vulnerable or an unfair bribe to Tory voters, is a prime candidate. That Boris Johnson's government is considering breaching a core manifesto commitment is a sign of the UK's dire fiscal situation. As one official says: "It's an itch the Treasury has wanted to scratch for some time, but the politics of it are so dangerous." Pausing or replacing the state pension triple lock is far from cost-free. Daniela Silcock, head of policy at the Pensions Policy Institute at King's

College London, argues "it would save the government money in the short term but push pensioners into poverty in the long term . . . cutting it would be levelling down, not levelling up the country."Faced with the binary choice of raising taxes or slashing spending to find the funds he needs, Mr Sunak also has to think beyond economics. Among traditional Tory voters, trimming public services would top the menu. Jacob Rees-Mogg, leader of the House of Commons, set out this argument on Monday. "At the point at which an economy is coming out of an extraordinarily deep slump, that is not the time when you want to slap the economy down with higher taxes."

But Mr Johnson's government is based on a fragile coalition of former Labour supporters, who flocked to his party over Brexit, and more traditional richer Conservative voters in the south of England. While they were united this time last year around his clarion call to "get Brexit done", they are not united on taxes, spending or the economy.Furthermore, Mr Johnson was elected with a thumping majority in part as a reaction against the austerity agenda of his predecessor David Cameron. Pursuing a similar strategy now is risky: ending the pension triple lock, for example, might not be felt acutely in prosperous Surrey, but the impact in post-industrial Scunthorpe would be drastic. It is hard to think of a policy that would alienate first-time Tory voters more.

A recent poll of northern voters in "red wall" areas — seats the Tory party won from opposition Labour for the first time — suggest 47 per cent are willing to pay more taxes to fund public services, whereas just 24 per cent prefer tax cuts. In other words, the opposite of what Mr Rees-Mogg and traditional Tories want.Ms Hewson is hopeful Mr Johnson and Mr Sunak will not make her poorer, saying, "Boris is an optimist, I am confident he can fix this and get us through."

The chancellor has pledged to repair public finances without a "horror show of tax rises with no end", she adds. Yet he could still deliver a time-limited horror show to some traditional Tories. Politically, the prime minister has shown he can win both the north and south. Continuing to do so, however, will take an economic strategy that appeals across England. Finding it, while paying for coronavirus, is a critical test of what exactly "Johnsonism" and this government are about.

Financial Times | 8 December 2020

U.K. corporate pension fund deficit drops sharply in November

The total deficit of U.K. defined benefit funds covered by the London-based Pension Protection Fund's 7800 index dropped sharply in November, by 37.5% to £78.8 billion ($104.9 billion). For

the year, the deficit grew 77.5%. The PPF said in an update Tuesday that the funding ratio of these pension funds increased to 95.8% as of Nov. 30, from 93.3% as of Oct. 31. The funding ratio fell from 97.5% as of Nov. 30, 2019. Total assets grew 1.9% over the month and 5.4% for the year to £1.8 trillion. The FTSE All-Share Total Return index gained 12.7% in November but fell 10.3% for the year ended Nov. 30. The FTSE All-World Ex-U.K. Total Return index, however, gained 8.7% in November and 13.1% for the year. Total liabilities fell 0.8% in November but grew 7.3% for the year, to £1.88 trillion, the update said. Five- to 15-year index-linked gilt yields were up 5 basis points in November but fell 40 basis points for the year.

As of Nov. 30, 60.5% of the 5,318 pension funds in the index were in deficit, with the remaining 39.5% in surplus. A month earlier, 63.9% of funds were in deficit. As of Nov. 30, 2019, 58.1% of the 5,422 funds in the index were in deficit. The improved funding ratio "has been caused by increased equity prices and bond yields which have led to better asset values and lower liability values," said Lisa McCrory, chief finance officer and chief actuary, in a comment accompanying the update. However, she warned that the improved position "is against the backdrop of a continuing challenging environment."

Pensions & Investments | 8 December 2020

OUT OF INTEREST

2020: An economy hit by speeding truck

Its condition? Critical, with catastrophic damage. Recovery will take an agonisingly long time. Imagine a pedestrian with a broken leg using crutches, waiting for the traffic light to turn green in order to cross the road safely. Out of nowhere comes a speeding truck that hits the person with such force it sends them flying up in the air to crash down 200 feet away. They suffer multiple fractures and catastrophic injuries, but they are alive. The road to recovery is going to be a long, slow and painful one, and even then there is no guarantee of being fully recovered. The possibilities of lifelong chronic pain and disability are high.

The South African economy, like the rest of the world, was hit by such a truck (Covid-19) at full speed, resulting in catastrophic damage and with no recovery in sight. While the bruising on other economies might be subsiding, the effects of the pandemic in South Africa are undoubtedly going to be long-lasting. This is mostly because of the self-inflicted political harm, the leadership void and the inability to tackle structural challenges. In time, we might progress – but it *will* take time because there is no shortcut or quick fix to this.

To understand this scenario and what it is telling us about the state of the country's economy, consider the following:

First, the latest numbers from Statistics SA show that business liquidations have increased by 20.8% compared with the same period last year.

Second, Statistics SA also shows us that the unemployment rate increased by 7.5% in Q3 when compared with Q2 to reach 30.8%**,** with unemployment among the youth and black people higher than the national rate.

Third, small businesses have all but been wiped out and they are the creators of jobs. Take restaurants for example: many will not be reopening. I am an enthusiastic supporter of small cafés and bistros, and some of my favourite Joburg eateries have closed for good. They could not ride out the pandemic, leaving chefs, cooks, owners, staff and even suppliers without an income.

Fourth, the Covid-19 Temporary Employee-Employer Relief Scheme is coming to an end. One can anticipate that business relief support initiatives will follow. However, the lost ground for businesses in sectors such tourism and hospitality will not be turned around, simply because international travel and economic activity has resumed (for now). People will not be quick to travel, go on holidays or even spend money, since many are uncertain about their job security or future income.

Fifth – and this is where it hurts the most because people tend to look to those in leadership for hope and a sense of security – thus far, those leading the country have shown they are incapable of managing the economy. The fact, as outlined here in the 'Santander: South Africa Economic Outline' (November 20, 2020), is that government debt is at 59.9% and is expected to rise to 67.9% in 2021, while debt servicing is at 14% of revenues. Part of this can be attributed to the continued financing of inefficient state-owned enterprises (SOEs), because to maintain the solvency of South African Airways, Eskom and other entities the government has increased its financial support to them. **Full Report: https://www.moneyweb.co.za/moneyweb-opinion/columnists/2020-an-economy-hit-by-speeding-truck-condition/**

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