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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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Who failed the bus driver who cashed in his pension?

He is one of many South Africans whose pension savings are their only plan B. Three months after the lockdown began, hundreds of thousands of employees have still not received the promised Temporary Employer/Employee Relief Scheme (Ters) benefits from the Unemployment Insurance Fund (UIF). This led a 38-year-old bus driver to resign his job in the hopes of accessing his pension savings to feed his children and pay his rent, the Sowetan reported recently.

He is one of many South Africans whose pension savings are their only plan B. And their only way to access these savings is to resign, risking their future earnings amid dire predictions about job losses over the next few months. Sadly, the driver's desperate action may take some time to bring him relief as it could take as little as five days or as much as six weeks for the fund to get a directive from the South African Revenue Service and pay out the money. If the driver's savings exceed R500,000 - or if he has withdrawn before now on retrenchment or resignation - he could also be taxed for accessing his savings early. The difference this early access will make to the pension he receives later in life will be staggering.

Glacier calculated that if a 45-year-old had saved R1.5m and withdrew it now, he would forfeit R387,000 in tax. If he and his employer save R2,000 a month for the next 15 years to age 60, he'll probably accumulate about R728,000 on which to live in retirement - none of it tax free. Had he instead withdrawn just R20,000, preserved the rest in a fund, contributing another R2,000 a month until age 60, he would have R6.7m on which to live off in retirement, with R480,000 being tax free at retirement. That is the price of an early withdrawal from your retirement savings. It is very possible the driver was neither aware of this, nor had any choice.

The cost of cashing in your pension

	Withdrawing all on resignation	Preserving most on resignation
Age at resignation	45 years	45 years
Employer pension fund value	R1.5m	R1.5m
Amount cashed out	R1.5m	R20,000
Tax paid on cash-out	R387,000	R0
Amount transferred to preservation fund	R0	R1.48m
Age when contribution to the new employer pension fund starts	46 years	46 years
Monthly contribution to a new employer pension fund	R2,000	R2,000
Growth rate	10% pa	10% pa
Age at retirement	60 years	60 years
Total retirement savings	**R728,000**	**R 6.7m**
Tax-free lump sum that can be cashed out at retirement	R0	R480,000

Graphic: Nolo Moima Source: Glacier

Full Report: ***https://www.businesslive.co.za/bt/money/2020-06-28-laura-du-preez-who-failed-the-bus-driver-who-cashed-in-his-pension/***

Sunday Times | 28 June 2020

Mboweni backs calls for pension funds to finance infrastructure projects

- Pension funds could be used to finance infrastructure projects, if Regulation 28 of the Pension Funds Act is amended, says Finance Minister Tito Mboweni.
- Government, however, has no intention on adjusting the percentage that should be invested in this asset class beyond 25%.
- The Financial Sector Conduct Authority is working on policy in this regard.

Finance Minister Tito Mboweni says pension funds or retirement savings should be used to finance infrastructure projects. The Minister was on Thursday speaking during a briefing to Parliament's finance and appropriations committees about the supplementary budget, where he weighed in on amending Regulation 28 of the Pension Funds Act in response to a question from DA MP Geordin Hill-Lewis about his position on asset prescription. The prescription of assets is a policy whereby the state obliges institutions such as pension funds and insurance companies to have a specific holding in certain assets. Mboweni said Regulation 28 provides guidance to pension funds and similar institutions on their investments. Currently it refers to the investment in immovable property.

"There has been a narrow definition from investment managers on how they deal with this regulation," Mboweni said. "Government wants the definition to include immovable property and infrastructure. That is all we wanted to do, try to unlock in the minds of investment managers that they can invest a percentage of their investable funds in infrastructure, in addition to immovable property." Mboweni said that the Financial Sector Conduct Authority intends to release a policy document in this regard. He is hopeful that it will be released in the next six months, he said.

The regulation provides guidance on the different percentages that should be invested in certain asset classes, he explained. The current percentage allocated to immovable property is 25%. Government has no intention of amending this allocation, Mboweni assured. This echoes a proposal in a draft document by the ANC's economic transformation committee on the country's economic recovery post Covid-19, which puts forward that pension fund investments be directed toward infrastructure and capital projects.

ANC head of economic transformation Enoch Godongwana previously told Fin24 that not all asset classes such as infrastructure were properly covered by Regulation 28, and the proposal was that it be tweaked. Deputy Finance Minister David Masondo also shared his perspective on the matter, saying that Regulation 28 ensures retirement funds are "safe" or should be deployed in a way that yields "good returns for savers". ***Full Report:*** [***https://www.news24.com/fin24/economy/south-africa/mboweni-backs-calls-for-pension-funds-to-finance-infrastructure-projects-20200627***](https://www.news24.com/fin24/economy/south-africa/mboweni-backs-calls-for-pension-funds-to-finance-infrastructure-projects-20200627)

News 24 | 27 June 2020

About to retire: Plan for the future

Many people in retirement simply neglect to continue planning. They see their retirement date as an end to planning for their future. It is a new journey, but a more difficult one as mistakes must be avoided. The Covid-19 pandemic and the Zuma years of government prove this.

Bruce Lee, a Hong Kong actor, martial artist and philosopher once said: “A goal is not always meant to be reached, it often serves as something to aim at.” This quote was used by retirement planning financial adviser, Estee Visser, in a Linkedin post, who then also added one of her own: “If you reach your goals, you’re not trying hard enough.”

The first question you need to ask is: Do I want to retire?

There are many reasons why you may want to or need to avoid retiring. Alexander Forbes research on what is called “normal retirement age” shows that reasons given by employees are often not logical. In research done in 2013 and again this year by Alexander Forbes principal consultant, Belinda Sullivan, it was found that the challenge to retirement age is not so much the Pension Funds Act, but employers, who incorrectly see the cost of extended retirement as a perceived issue.

At that time the average retirement age was 61.4 for 2019 (up on 60.3 in 2012) showing some improvement. But it still means that most people will still be retiring early, for whatever reason as the average normal retirement age for private retirement was 63. Sullivan says the reality is that individuals are retiring earlier, but the irony is individuals have more time to live, but less time to save — a shorter working life, lower expected future returns and lower incomes in retirement, which now means that pensions need to last much longer than previously anticipated.

Sullivan says individuals now need to work as long as possible to fund their lifestyles post-retirement. More than half of the 37 countries that make up the Organisation for Economic Co-operation and Development (OECD) have increased the retirement age from 65 to 67, with the longer-term intention to increase this age beyond 67 to target 75 by 2050.

Sullivan says arguments in South Africa for later retirement include:

- Evidence suggests that people who work later are least likely to die early. However, certain jobs do not lend themselves to later retirement.
- Increasing retirement age or retiring at 65 rather than 55 can almost double a member’s replacement ratio. Retiring four years earlier means a reduction of about 10% in post-retirement income. This is significant given that the average replacement ratio at retirement is 26.7%;
- members with longer service, say 30 years or more, can expect higher benefits at retirement. A total of 53% of members with 35 years’ service or more achieved a replacement ratio of 60% or more;
- There are often skills shortages, which makes the pool of skilled potential retirees quite valuable;

- Employees are more likely to remain loyal if they can see benefits;
- Depending on the industry, individuals can add value well beyond their current normal retirement ages. Extending the retirement age keeps the knowledge and experience in the business and can be used to mentor and up-skill the younger generations;
- Employee engagement is an integral part of having a successful business. Companies with higher levels of employee engagement tended to outperform those with lower levels of engagement;
- Younger workers may view this as a positive where they will be able to grow and mature within the business;
- To attract and recruit younger skilled employees to fulfil a higher-level position may not result in a saving to the employer as they may leave before retirement;
- There is mixed evidence as to how age influences productivity, if at all. Some studies show that productivity declines with age; others show that older workers tend to be better in terms of accuracy and output consistency. Then there are studies showing that there is almost no relationship between age and productivity; and,
- A comparison of retirement ages and youth unemployment rates shows no real relationship between the retirement age adopted by workers and youth unemployment. ***Full Report:*** ***https://www.dailymaverick.co.za/article/2020-06-28-about-to-retire-plan-for-the-future/#gsc.tab=0***

Daily Maverick | 28 June 2020

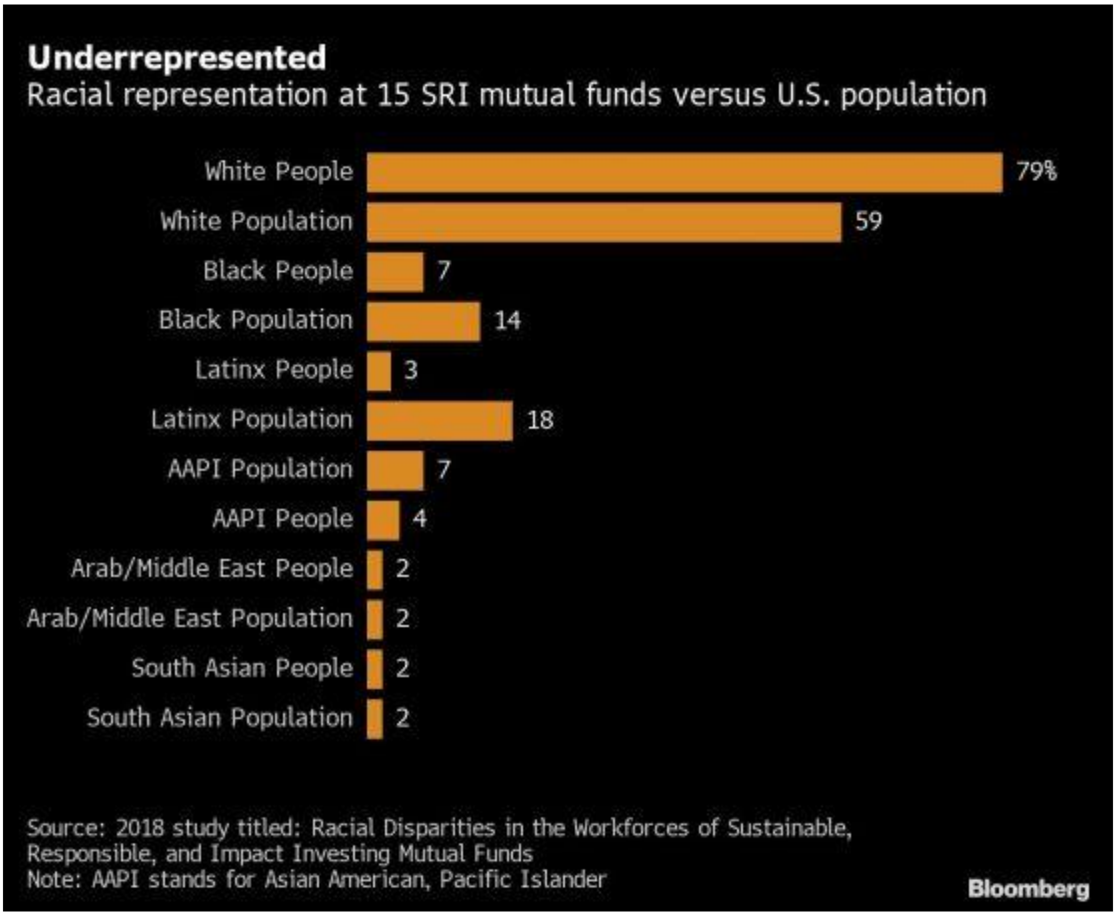
ESG investors are confronting a race problem of their own

White people make up about 80% of employees in socially responsible investment firms – study.

Matt Patsky confronts corporations on everything from their carbon footprints to the diversity of their workforces. But now, in the wake of racial unrest sweeping America, Patsky is having a reckoning of his own. “I get a ‘D’ on diversity,” says Patsky, whose $3 billion Trillium Asset Management pressed investors to divest from South Africa during its anti-apartheid struggles. Just 10% of his 44 employees come from minority backgrounds — a number that he said warrants a “C” relative to the broader financial industry. “We have to start walking the talk and make the same changes we’re asking companies to make.”

White people make up about 80% of employees in socially responsible investment firms, according to a January 2019 study published by industry consultants and financial advisers about racial disparities in the workforce. Black people account for just 7% of employees among the firms that were surveyed. Even the largest groups that represent socially responsible investors are behind the curve. A cursory look at the website of the United Nations-backed Principles for Responsible Investment, the world’s biggest industry body for social investing, shows few Black employees.

The website for the Forum for Sustainable and Responsible Investment shows a staff that's comprised mainly of White people. Its board has four people from minority backgrounds. The lack of Black people and other minorities may explain why the world of ESG has fallen short on pushing corporations on race. "I am the first to admit that we aren't where we want to be," says Fiona Reynolds, chief executive officer of the London-based PRI, which represents about 3 000 firms that together oversee more than $100 trillion for clients. About 22% of PRI's staff is comprised of minorities, including Black and Asian people. "We're urging the global financial-services community to join us at the PRI in recommitting to make these issues our top priority."



In PRI's network of ESG investors — those who consider environmental, social and governance issues alongside financial metrics — few have a track record of pushing companies to do better on race. Before George Floyd, an unarmed Black man, was killed on May 25 by a White Minneapolis police officer, racial equality was largely absent from the discussion. BlackRock Inc., the world's largest asset manager, committed Monday to increase its Black workforce by 30% by 2024. ***Full Report: https://www.moneyweb.co.za/news/international/esg-investors-are-confronting-a-race-problem-of-their-own/***

Moneyweb | 28 June 2020

Stop risk from ruining your retirement

The Glacier Invest team has developed a progressive new approach to living annuity portfolio construction. We will shortly be announcing the launch of the Glacier Invest Living Annuity Income Solutions*. Here is the background that led us to develop this new approach.

In uncertain times, you want to know that your retirement income is secure, but at the same time you may be needing your capital to keep growing – especially if you foresee a long and healthy retirement. While living annuities offer income flexibility and the potential for market growth, they do place the onus on investors and their financial advisers to ensure that the inherent risks are taken care of and mitigated.

Risk, what risk?

Aside from investment risk, the two main risks that retirees face are longevity risk and sequence risk.

Longevity Risk

This is the risk that an investor, who is drawing down an income from their savings, outlives their capital. There are a number of reasons why investors face longevity risk. These include insufficient savings, less-than-anticipated investment performance and underestimating life expectancy. This leaves investors with a large amount of uncertainty in planning for retirement, due to events and circumstances out of their control.

Of the three reasons mentioned above, saving enough – and preserving retirement savings when changing jobs – is the only factor that investors really have control over. The low-return environment we've experienced over the past few years, coupled with the ever-advancing medical field and generally healthier lifestyles, has meant that the financial future is very uncertain for a large number of investors. In short, the traditional way of thinking about investing to produce a retirement income does not apply today.

Sequence Risk

This is the risk that the timing of withdrawals from retirement savings will have a negative impact on the overall effective rate of return. Underperformance in the early stages of retirement can have catastrophic long-term effects on the portfolio value of an investor. Should this occur, there is very little chance that an investor's portfolio will ever recover, and all assumptions entered into prior to retirement will have to be readdressed. This again introduces a large amount of uncertainty.

The difference between being able to maintain your standard of living in retirement versus having to make significant sacrifices to your standard of living is therefore highly dependent on how the market performs over a short period of time. Again, this is something that is largely out of your control.

How are we addressing these risks?

Many of the underlying causes mentioned apply equally to both Longevity and Sequencing risk. These are some of the issues the Glacier Invest team identified and that needed to be addressed in finding a solution:

• Uncertainty and lack of control over market performance is one of the biggest causes behind both of these risks – what is needed is a solution that provides a high level of certainty of investment performance.

• Risk (volatility) is the primary cause of Sequence risk – what is needed is a solution that aims to decrease volatility while still maintaining the same level of income.

• In summary – retirees need a solution that provides more consistent returns that are still in line with the required level of income while at the same time reducing volatility and minimising overall drawdown.

The ever-evolving economic and market landscapes have also led to the advancement and expansion of available investment products. Historically, the more complex investment tools have only been available to select investors in very specific product sets. However, it is now possible to use unique asset classes and tools (such as hedge funds, smoothing funds and alternative investments) more broadly, in order to achieve the above three objectives.

FA News | 25 June 2020

Think twice before raiding your pension even if it's a last resort

Make wise, not easy choices to avoid robbing your future self
Resigning and cashing in your pension is a very drastic step you should not resort to unless all else fails.

Resigning and cashing in your pension is a very drastic step you should not resort to unless all else fails. Recently Sowetan reported that delays in the payment of the Unemployment Insurance Fund Temporary Employer/Employee Relief Scheme (Ters) benefit caused a bus driver with no income and a family to provide for, to resign his job to access his pension savings.

It may be that the driver had exhausted all his options and it was the last thing he could think of to do. But if you are struggling financially first explore all your other options. Do not regard your retirement savings as an easy source of funds to plunder because you have holes in your budget. Cut your expenses first, then negotiate with credit providers and consider all the ways in which you can realise money, like selling a car or downgrading where you live before you turn to your retirement savings.

There are good reasons why.

1. Resigning your job is a very risky thing to do at this time. The economy is shrinking and companies are cutting costs by shedding jobs. Millions of South Africans are expected to lose their jobs over the next few months with predictions ranging from 40% to 50% unemployment. Resigning your job could leave you without work for many a month.

2. Accessing your pension may not be a quick way to get cash. Your retirement fund will have to get a directive from the South African Revenue Service about how much tax to deduct and this could take some time. Vickie Lange, head of best practice at Alexander Forbes, says at best it will take five to 10 days after you leave your job for you to get paid as long as all the information has been provided, all the forms are complete, all your contributions have been paid over to the fund and there are no tax issues. Worst case scenario it can take up to six weeks, she says.

3. You may be taxed on the money you withdraw. When you resign, you are only able to withdraw R25,000 tax free. The rest of your money will be taxed at rates starting at 18ty% - close to one in every R5 - and increasing depending on how much you withdraw, up to 36%. You can only avoid this tax by withdrawing just the R25,000 and transferring the rest of your savings to a retirement annuity or preservation fund, but that will mean tying up the money until you retire. Preservation funds allow just one withdrawal before retirement while retirement annuities only allow access after age 55 or on ill-health.

4. The tax you pay when you withdraw from your fund is not the only tax implication. If you don't ever withdraw your retirement savings before retirement, when you retire you will be able to withdraw up to R500,000 free of tax. But if you withdraw your savings before retirement, the amount you withdraw will reduce the amount you can draw tax free at retirement. If, for example, you withdraw R300,000 from your retirement fund when you resign, when you reach retirement you will only be able to withdraw R200,000 tax free because you already took R300,000 out.

If you have not withdrawn any of your retirement savings before and you get retrenched, you would be entitled to take R500,000 tax free and thereafter tax would start at 18% and increase for amounts above R700,000 and again above R1 million. But if you have already taken R300,000, you will only be allowed R200,000 tax free on retrenchment or retirement and on any amount above that the 18% tax rate applies. Above R400,000, you will pay tax at 27%.

5. Not only will you potentially pay tax on your savings, but you will pay hugely in lost compounding on your savings. Consider this case: Assume you started at age 25 saving R300 a month in your retirement fund and your employer contributed another R300. Assuming you earned returns that were four percentage points higher than inflation – so 8% when inflation is 4% as it is now, at age 60, you would have saved R3.27m.

But assume that you did that and you are now 40. Your savings only amount to R316,000 and you think it is okay to draw it out because you are having some financial difficulties. If you start again saving R300 a month with your employer contributing another R300, by age 60, you will only have R605,000 saved – more than five times less than if you had not withdrawn the money at age 40. That is the power of compounding that you lose by not preserving. Some people are facing desperate times, but if you have other options - make wise, not easy choices.

Sowetan Live | 25 June 2020

INTERNATIONAL NEWS

Pension UK: Savings gap between men and women widens

PENSION savings are important to all people looking to secure a comfortable retirement, however new research has revealed a surprising gap between the savings of men and women.

Pension saving is often undertaken by many people years in advance of their actual retirement to allow their money to grow over time. While people are saving more in their pension each year, there is still a gap between that saved by men in comparison to women. This is likely to create a stark disparity between what the two genders can afford to do in their retirement. New research undertaken by Close Brothers, an asset management firm, has revealed the widening gap between genders in terms of saving.

However, there is also good news for pensions overall. The average pension pot of UK employees who work for larger firms now stands at £120,000. This is a 35 percent increase when compared to three years ago, showing people appear to be putting more aside for retirement. But while women also witnessed a jump in pension saving of 38 percent over the same time period, there is still disparity present. Women's retirement savings currently lag behind their male counterparts, at £73,000 compared to £162,000.

This shows there is a lot more work to be done in the sector in order to achieve savings parity. The survey was conducted among 2,000 employees across the UK who are working for companies with 200 or more employees. It also showed shocking gender differences between the choice to save for a pension. The research showed almost three times as many women as men have no pension savings to fall back on at all - 11 percent compared to four percent

This could complicate circumstances for retirement, leaving these Britons to rely upon the State Pension to help once they leave work. Jeanette Makings, Head of Financial Education at Close Brothers, commented on the research and the findings.

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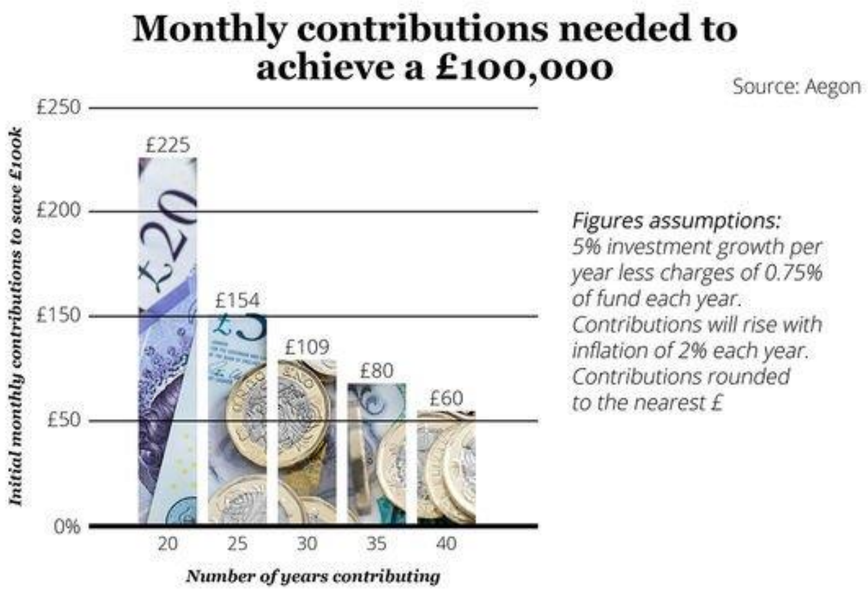


Monthly contributions for a £100k pot (Image: EXPRESS)

She said: "While it's really good news to see the improving pensions landscape, no doubt spurred on by the effects of auto-enrolment and financial education, there is still a significant amount of work to be done to educate employees to balance their savings plans to ensure they can support their lifestyle now, for the future and for retirement. "With the stark gender imbalance this is even more urgent for women.

"Understanding the financial health of employees and identifying the key employee groups and financial issues that need most attention is the first step in delivering a tailored financial wellbeing programme that will drive change." The discussion surrounding the difference between the pension pots of men and women has often proved important. It is thought a variety of factors including the gender pay gap, as well as taking time away from work due to childcare often sees the pension savings of women chipped away at.

In 2019, the Pensions Policy Institute found women in their 60s have an average of £51,100 in a private pension arrangement, when compared to the £156,500 of men. To increase their pension savings, women are encouraged to avoid opting out of a workplace pension, as well as researching more into their pension scheme and its benefits. Women are also encouraged to use a pension calculator to work out how much they should be saving, as well as planning for their retirement goals.

UK Express | 27 June 2020

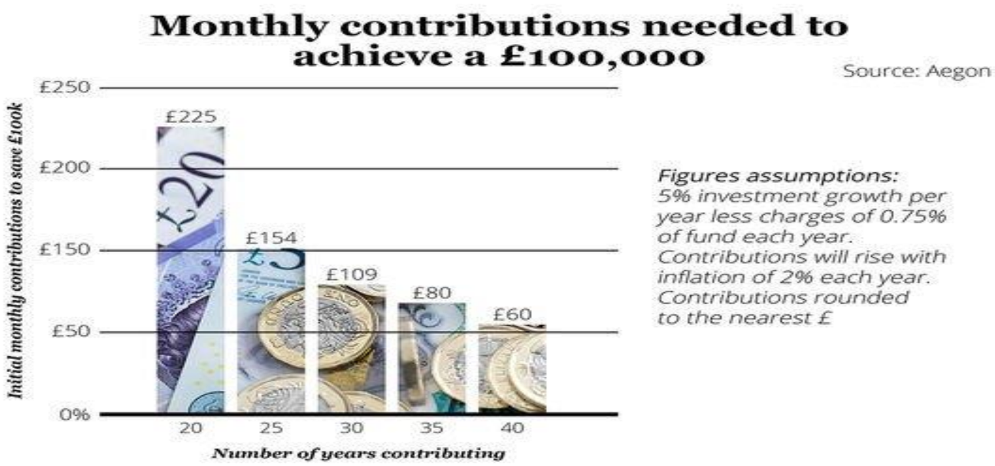
Pension UK: One important step to consider if you are planning early retirement

PENSION saving is important for all Britons to consider, as it is often the sum of money put away throughout life which has drastic implications for how enjoyable later life will be.

Pension savers must think about how the money they save will be used later down the line, however, for those looking to leave work early, this decision is even more imminent. Each year, millions of people choose to leave working life earlier than traditionally expected in order to enjoy a longer retirement. While this is often viewed as an achievement, it does have severe financial implications which need to be considered. Spending longer in retirement often means careful managing of money to ensure a person has a regular income stream to achieve their goals.

But a pension expert has warned there are important aspects of life to consider before making the leap into early retirement. Express.co.uk spoke to Peter Glancy, Head of Policy, Pensions and Investment at Scottish Widows who discussed the implications of early retirement, and what it could mean for those who choose to do so. He said: "Nowadays, a person retiring at the age of 60 is expected to live for another 27 or 28 years. These people will have to stretch their pot for a very long time. "If you were to work later, to retire at State Pension age, you will only need to stretch your pension for about 20 years. "But even if you shift this slightly to retire early at 55, you will obviously have to stretch this for over 30 years.

"This increases the chances you'll run out of money, and so also reduces the money you will have to live on each year." For those who are planning an early retirement, Mr Glancy says there is one vital step to bear in mind. Of the utmost importance, he said, is detailed forward planning on how to transition out of working life and into retirement. He added: "People really need to think about their life journey now that they are living longer. "It isn't necessarily just about getting to 55 and thinking how you are going to retire early. The question now is managing your life plan. "It's important to think about how to phase out of a full-time job, maybe into a part time role, or perhaps a second career which could be based around a hobby or interest that delivers a little bit of income to keep you going on the side.



Monthly contributions for a £100k pot (Image: EXPRESS)

“Most people do not have alternative savings to fall back on, except for the pension. “It is therefore really important for those who wish to leave work earlier to think about how to secure a retirement journey that really fits in with the modern world, where we are all living significantly longer.” Early retirement often involves a great deal of forward planning, however the Money Advice Service has offered guidance. The service states firstly it is important to calculate financial commitments and regular expenditure. This can be done through a budget planner or spreadsheet, which lays out expenses, some of which could change as a result of giving up work, such as travel expenditure.

However, the loss of other workplace benefits such as private healthcare or a company car should also be considered. As Mr Glancy laid out, goals for retirement should also be considered, alongside the money it will take to meet them. Finally, Britons are encouraged to take pension planning advice through an independent financial adviser before making any big decisions.

Express | 27 June 2020

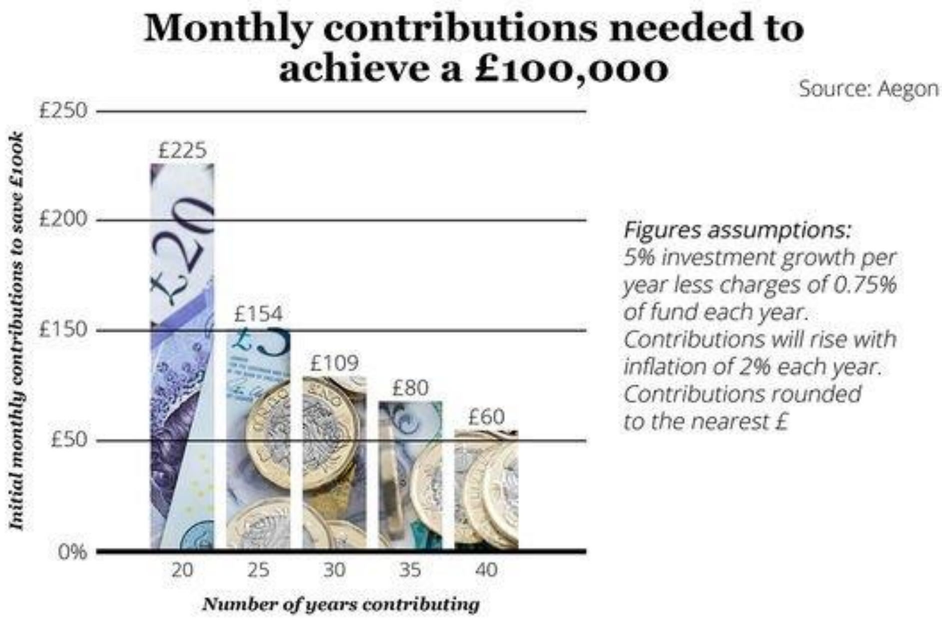
Pension UK: Lump sum savers need to consider these important steps

PENSION saving is often an endeavour which is undertaken by many savers in preparation for retirement. While many choose to gradually contribute, some opt to put in a lump sum into their savings.

Pension savings provide vital support for retirement later down the line, and lump sums are often encouraged. This is because the more a person pays into a pension, the less likely they are to struggle later in life, or struggle to meet their goals. Lump sum deposits into a pension pot, particularly as early as possible, are often encouraged as a chance to help pension savings to grow over time. A lump sum may come from various sources, including gifts or inheritance, but it is important this money is used wisely. One way is pension investment, but there are certain steps to bear in mind before doing so.

Express.co.uk spoke to Peter Glancy, Head of Policy, Pensions and Investment at Scottish Widows to discuss the options available to savers. Mr Glancy discussed why lump sum savings can be advantageous, but also the vital steps to take before making this move. He said: “Now is an appropriate time to put a lump sum into a pension pot if that can be afforded, but there are a couple of things to consider, particularly at the moment.

“Undoubtedly, some people are in a difficult position in terms of their finances currently - their money is diminishing, and they could be building up levels of debt. “Your priority should therefore be to get out of debt first before you do anything else. Many people are quite rightly looking into what is happening at the moment and are worried about their finances. “It is good advice to say to people - you should try to have about three months worth of liquid savings that you can access if something happens.



Monthly contributions needed for a £100k pot (Image: EXPRESS)

However, the lockdown measures have also benefited some financially, due to lack of spending, or perhaps receiving other economic stimuli. It is this group, Mr Glancy states, that should take advantage of this time in terms of lump sum pension saving. He added: “If you can afford to put a bit more away it is sensible to do so. You may have had a bonus, or simply not been able to spend as much money as usual.

“Putting money into a long-term vehicle like a pension means you are buying more units at the moment than you would have been prior to the crisis, as the stock markets are lower. “And you are receiving more units now than when the stock markets recover and start to operate fully again.” The Pensions Advisory Service describes a pension as a tax efficient savings scheme. This is because savers receive tax relief on their contributions as people pay into a pension.

Savings also have the possibility of growing with minimal tax, which is good for pension pots in the long run. Britons who are looking to save into a pension scheme are always advised to take independent financial advice, particularly before making significant decisions. This is because decisions made at one point in time are likely to have implications later down the line.

Express | 27 June 2020

OUT OF INTEREST

Supplementary budget tax revenue targets may be unrealistic

On 24th June, Finance Minister Tito Mboweni presented the supplementary budget in response to emergency measures taken to combat the COVID-19 pandemic. According to Ettiene Retief, Chairman of the National Tax and SARS Committee at the South African Institute of Professional Accountants (SAIPA), the presented figures may not fully consider the knock on effects of the disrupted economy.

“While I have every confidence in SARS’ ability to collect available revenues, I’m not sure the Minister’s downward adjustments account for the coming reality,” he says.

Projections

Mboweni said that, in 2020, a global economic contraction of 5.2 percent is expected while the South African economy is expected to shrink by 7.2 percent. Unemployment had already risen to 30.1 percent in the first three months of the year and inflation is projected at 3 percent. He also noted that the country is reliant on exports and this has been impacted by the collapse in global demand and restrictions on economic activity.

The projected total consolidated budget spending, including debt service costs, will exceed R2 trillion. Gross tax revenue for 2020/2021 is revised down from R1.43 trillion to R1.12 trillion, for a loss of R300 billion. Tax relief measures and adjustments result in a consolidated budget deficit of R761.7 billion (15.7 percent of GDP) up from the R370.5 billion (6.8 percent of GDP) stated in February. Gross national debt will be R4 trillion (81.8 percent of GDP) instead of R3.56 trillion (65.6 percent of GDP) projected in February.

Real impact

According to Retief, even the adjusted tax revenue of R1.12 trillion may not be achievable. “Although companies are reopening, for many this will be a gradual process over the next 12 months which will hamper them from recovering the losses they suffered during lockdown,” he says. He notes that other businesses will be forced to close, many employees will be retrenched from surviving ones, and remaining workers may be forced to take pay cuts of up to 30 or 40 percent.

“We will have to wait another three months for the latest unemployment figures, so we can assume that current unemployment is much higher,” he says. At the same time, consumer and business buying behaviours will change. Individuals may eat out less or holiday less, due to the risk of contracting the virus, resulting in lost revenue for local businesses. They may also defer purchases, like home improvements, because of lower pay. Likewise, companies will have less funds for business development.

Knock-on effect

"This has a snowball effect that affects vendors across the supply chain and further slows economic activity," says Retief. He believes it is almost impossible to model the full extent of the fallout because each sector and industry will have a different recovery rate, which will be staggered across sectors and industries. "All of these factors and the resulting slump will have a far-reaching and unforeseeable effect on tax collections," says Retief. The government therefore needs to amplify its efforts to restart the economy if it wishes to achieve its target.

FA News | 25 June 2020

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