TUESDAY, 14 SEPTEMBER 2021

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

FSCA proposes a central fund for unclaimed pension benefits

Financial benefits that remain unclaimed by their rightful recipients are part and parcel of the financial landscape in most countries, but South Africa has a particular problem in this regard, which stems back to the apartheid era and migrant labour in our industries, particularly on the mines. In a recent media presentation, the Financial Sector Conduct Authority (FSCA) updated journalists on, among other things, the position regarding unclaimed pension benefits, and outlined a proposal to have a centralised fund in which to house the money.

Takalani Lukhaimane, manager of conduct supervision of retirement funds at the FSCA, said that at the end of the 2019 financial year the retirement industry was sitting on R44.9 billion of unclaimed pension savings belonging to over four and a half million people. This money is scattered across hundreds of occupational retirement funds and a smaller number of special-purpose unclaimed benefit funds established by fund administrators. A benefit becomes "unclaimed" if it has not been claimed by the member or a beneficiary within two years of it becoming due.

Unclaimed benefits make up 1.7% (an increase from 1.67% in 2018) of total retirement fund assets in South Africa. The average benefit per member is roughly R10 000. However, Lukhaimane said it was estimated that just over a quarter (26.5%) of individual benefits had a value of less than R250. She said that over 10 years to 2019, R34.3 billion was paid out to 1.2 million claimants, with higher figures during the past six years, indicating that efforts by the industry to trace and pay beneficiaries have had some success.

The most successful method of reuniting members or beneficiaries with their rightful pension savings has been the FSCA's dedicated website search page (see “Where to find out about unclaimed benefits”). Lukhaimane said that while efforts to trace beneficiaries had been stepped up, the reality was that a large portion of the money would never be claimed. There are two main reasons for this:

1. As noted above, many claims would be for less than R250, and members may, even if aware of the benefit, not bother to undertake all the paperwork for such a small amount. In many cases, the member would have been paid out his or her pension benefit, and the small amount remaining in the fund may have been some extra interest that had accrued before the account had been closed.

2. Many benefits date back decades to the apartheid era and migrant labour, when poor records were kept and people even worked under false identities to side-step immigration and apartheid laws. Finding these members or their descendants, many of whom would be residents of neighbouring countries, would be virtually impossible.

Centralised fund

Lukhaimane said that last year her division researched a sample of funds with the highest unclaimed benefits. It found that, generally, there was inconsistency in how funds managed unclaimed benefits and in their approach to tracing claimants.

Zareena Camroodien, head of retirement fund governance and trustee conduct at the FSCA, then put forward the FSCA’s case for a centralised fund, which would house all unclaimed benefits and would actively try to find the rightful owners of those benefits. This approach is in line with the FSCA's attempts to consolidate and streamline the retirement fund industry by reducing the number of stand-alone occupational funds and encouraging the use of larger umbrella funds.

“From the FSCA’s perspective, it seems that funds are not making the necessary efforts to trace members and beneficiaries who have unclaimed benefits. Further, the perception exists that administrators lack the incentive to trace beneficiaries and pay out unclaimed benefits because it means the benefits remain in the fund for longer, incurring administration and investment fees. And having different funds housing unclaimed benefits makes it difficult for members or beneficiaries to locate these benefits,” Camroodien said.

The proposed Central Unclaimed Benefits Fund would be run on a not-for-profit basis. By centralising benefits and tracing operations, people would have a central access point through which to make enquiries and lodge claims. (The problem currently is that, although a central database is already in operation, many descendants of members don’t know to which fund their late parent or grandparent belonged.) While members and beneficiaries would have a claim in perpetuity, where the board was unable to find or trace members or beneficiaries, unclaimed benefits might be utilised for social good, such as building libraries or schools.
Full Report: ***https://www.iol.co.za/personal-finance/retirement/fsca-proposes-a-central-fund-for-unclaimed-pension-benefits-6d01e6e2-3bdd-41bc-b1e8-222587b2fbad***

Personal Finance | 7 September 2021 | Martin Hesse

Solving South Africa’s retirement savings crisis

For retirement systems in many countries, the pressures from Covid-19 exacerbated those that were already present before the virus hit. One might say that the retirement savings crisis is a pandemic all on its own and South Africa has had multiple waves of it.

According to the survey results in the 10X South African Retirement Reality Report 2020, about 50% of South Africans do not have retirement plans. Of the respondents who do, 75% are uncertain about whether they will have enough to live on once they retire. Only 6% of the respondents confirmed that their retirement planning was well thought out.

To transform this status quo, we need to increase education on the importance of retirement saving and this must be done from the ground up. The work needed to be done to transform this crisis into an opportunity, is in our collective hands – those of individuals, employers, trustees, government, advisors, and broader industry professionals alike.

There are several challenges at play

The results from the 2020 Sanlam Benchmark survey showed that 61% of retirees are unable to make ends meet. In 2020, Alexander Forbes saw a 30 000-retirement fund member decline resulting from retrenchment, processing a shocking 4 000 cases per month at the height of lockdown.

A devastating financial trade-off that many South Africans face is short-term survival versus long-term preservation. Many South Africans with retirement plans are sadly failing or have failed to save sufficiently. Some may view retirement saving as a luxury item that is mostly accessible to high-income earners. This is of course mostly not true but continues to be a challenge as to how to bring all employed people into the retirement safety net. Even small contributions can add up meaningfully over time, but the awful reality is that so many cannot afford to save at all.

The financial literacy gap among income earners often leads to many employees not knowing how much to save to retire comfortably, and their contributions being too low to meet that goal. Most retirement fund members are not well informed about their funds. There is often an unnecessary complexity attached to these matters and many retirement schemes do not provide adequate information to their members and prospective members.

The conundrum continues

For numerous employees, reducing their retirement contributions is essential to surviving financially. While the government's efforts to feed strained income earners by allowing early retirement fund withdrawals do not go unnoticed, for this to work, preservation rules will need to tighten, such as making it compulsory for all income earners to save at least a small portion of their salaries for when they do retire. Crucially, more education is needed for members to understand the consequences of withdrawing early from their retirement funds. Here lies our long-term versus short-term conundrum and is something that requires careful management.

Cashing in retirement funds will help a lot of households meet their current survival needs, but it could be at the cost of their ability to meet future needs. Trustees must ensure that members are well-informed about their retirement funds, the different options available to them, how much they need to save to achieve specific goals, the risks involved and the consequences of the financial decisions they make today.

If there is anything positive to be gained from the effects of the pandemic, it is the increased awareness of what the future could look like if the retirement savings crisis is ignored. The financial services industry can collectively contribute to solving the retirement savings deficit. This responsibility extends to, together, transform the investment and savings industry and to help build a sustainable socio-economic environment worth saving for.

But how?

To create this transformed industry, principles of inclusion and investing with care need to be applied. Employers, through their human resource departments, need to actively encourage employees to save by having a financial literacy programme for each to enroll in and to provide alternative saving options like unit trusts, particularly in the informal sector where pension schemes are not offered to employees.

Trustees together with investment professionals should formulate solid long-term investment strategies that will not only yield good returns with ongoing reasonable fees, but will also cause no additional harm to society or the environment. To invest with care is not only about money and numbers, but also the lives and futures of all the people who are impacted by the journey of saving along the way. This is where impact investing comes in, whereby investing in a sustainable world means that the pool of wealth created continues to grow, and feeds into other areas of the nation, reshaping the reality and enriching the environment many of us wish to retire into.

FA News | 9 September 2021

How to achieve South Africa's economic growth and employment imperatives

The success of an economy can be measured against a simple mantra: Everyone who wants a job, has a job. This is the view of Kevin Lings, chief economist at STANLIB, who today spoke at the 2021 Allan Gray Investment Summit. The virtual event brought together local and international investment managers and other finance experts to share their perspectives on how to make sense of the current environment and invest for the future.

Lings, who took a candid look at South Africa's economic prospects in a post-pandemic world, singled out job creation and fixed investment as critical levers for South Africa's long-term success. "You cannot talk about economic success until you add a significant number of jobs to the economy," said Lings, against the backdrop of an all-time high unemployment rate. The extent of the jobs crisis was illustrated by the 1.5 million job losses suffered during the COVID-19 pandemic, combined with the more than half of working-age under-35s being jobless.
"For South Africa to make meaningful headway in the battle against unemployment, it must create at least 600 000 new jobs each year."

Investment creates jobs

According to Lings, the recipe for job creation is simple: "Investment creates jobs." But ingredients include 5% or higher annual GDP growth; investor friendly economic policies and collaboration between the private and public sector insofar as investment concerned. "You need the government to do some critical infrastructure investment; but the private sector must shoulder the bulk of the investment and job creation responsibilities," Lings said.

Yet, government fixed investment has fallen to below 5% of GDP, magnifying the risk of Eskom's ongoing maintenance issues affecting other critical infrastructure such as transport and water and sanitation. Meanwhile, the combined private and public fixed investment has slipped to below 15% of GDP, the lowest level on record. "It is impossible for us to be economically successful with this level of investment," Lings warned, adding that the target rate of economic growth and job creation requires that South Africa's fixed investment spending is around 30% of GDP. In other words, investment spending needs to increase by at least R750 billion per annum.

Business confidence promotes investment

One way to tackle the declining investment trend would be to address business confidence. "There is a very strong relationship between private sector investment and business confidence; this is the most critical relationship for our economic success," said Lings. He strongly advocated for developing economic policy based on its impact on business confidence. "If a proposed policy hurts business confidence, then can it." Economic policy, in turn, should create an enabling environment for the private sector to invest in technology and spend more cash on research and development, among other functions.

Five game changers for South Africa Inc

Lings listed five positives that will make it easier for the public and private sector to collaborate on much-needed investments and address South Africa's economic growth and employment imperatives. The favourable conversion of GDP growth into new jobs. South Africa is among the best countries at creating new jobs from each percentage point of GDP growth. "If we can lift GDP growth on a sustainable basis, then we will respond in terms of employment," Lings said.

International trade is at record levels, helping economies with high dependencies on import and export revenue. "Our imports and exports make up more than 50% of our GDP," Lings explained. "If we free up the port system it will help us in terms of growth." Impressive trade surpluses on the back of booming commodity prices, with the windfall occurring at an opportune time for South Africa. Surging corporate tax revenues combined with a restatement of country GDP. According to Lings, these factors put South Africa on a better fiscal policy footing.

Inflation is under control, paving the way for a stable domestic interest rate environment, even if the US Fed begins hiking rates earlier than expected. Lings singled out the private sector's participation in new energy projects and proposed improvements to port infrastructure as having game changing potential for South Africa Inc. "Government has recognised the need to partner with the private sector to drive infrastructure investment, now it is just a matter of acting on this, and implementing accordingly," concluded Lings.

FA News | 9 September 2021

Alexander Forbes welcomes withdrawal of Green Paper on Comprehensive Social Security and Retirement Reform

On 31 August the Minister of Social Development issued a notice to withdraw the Green Paper on Comprehensive Social Security and Retirement Reform (2021). This decision taken by government is welcomed. We believe that the proposed National Social Security Fund is not the solution to address the range of social security challenges facing South Africa. The proposal had many flaws and largely ignored material reforms that were implemented in the retirement funding industry over the last decade. These reforms were aimed at:

- improving governance and financial inclusion
- reducing costs
- delivering better outcomes for members
- Leveraging existing retirement arrangements

Existing arrangements in the formal sector protected many citizens during the Covid-19 pandemic. The industry (which includes various stakeholders who worked together during this time) responded quickly to provide relief and ensured that much-needed group risk benefits such as life and disability cover remain in place. This period has highlighted a shortcoming of the current system in that people need access to savings for relief in unforeseen emergency circumstances. Our view is that iterative reforms to the retirement funding industry hold greater promise to provide financial security to retirees by leveraging the existing framework.

Such reforms include the recent proposal by National Treasury to introduce a “two-bucket system” as a sustainable, practicable and efficient way of addressing both long-term and short-term savings needs. In addition, auto-enrolment of employees where arrangements are not yet in place can also act to stabilise incomes in retirement if it is affordable. By scrapping the means-test to access the state old-age pension an important minimum safety net is provided to everyone at retirement and the disincentive to save is finally removed. We believe that these changes could help achieve a minimum income replacement of about 40% at retirement for formally employed individuals which is the stated objective in the paper.

Amplifying our impact to reach more South Africans

Much consideration still needs to be applied to the informal sector where traditional retirement funding models and their administration are not appropriate. New models may emerge as technological adoption and further regulatory enablement mature. Unemployed people, in particular, require support in a fiscally sustainable manner. We support the stance that economic growth must be inclusive and accelerated to create employment that benefits the spectrum of South Africans. Alexander Forbes is therefore an active participant in the drive towards impact investing and infrastructure development. In this way, we can help create employment and set South Africa on an improved growth trajectory into the future. The release of the Green Paper stimulated debate and reflection across society relating to the role and impact of retirement funding as well as the deep social challenges facing our country. While the proposal did not adequately solve this complex challenge, it does highlight the need for our industry as well as broader social partners to continue to pull together to amplify our impact to reach more South Africans.

Personal Finance | 2 September 2021 | Supplied

To get the economy moving, rely on retirement funds – not on government

Forget the concept of partnership with an incoherent administration.

As a potential investment partner, government collapses at first base so long as Ramaphosa refuses to eschew cadre deployment, says the author. Front and centre for retirement funds in their role to help tip back the Armageddon that engulfed SA in July, is infrastructure investment. Yet in the five years of dismal economic performance and listless job growth that preceded the Covid-19 smackdown, it has fallen far below the 30% of GDP target set by the National Development Plan. The worst laggard was the public sector, both quantitatively (overall spend) and qualitatively (value for money). That tells its own story.

In a pre-crisis era, less than two years ago, infrastructure investment was heralded by President Cyril Ramaphosa as the “flywheel” for stimulation of economic growth. Ambitious projects were drafted for public-private pension partnerships (PPPPs). No longer, even as an aspiration. Subscribe for full access to all our share and unit trust data tools, our award-winning articles, and support quality journalism in the process. Forget the concept of partnership with an incoherent government. The field is open for retirement funds to do better on their own. Recall that changes to Regulation 28 of the Pension Funds Act were welcomed to facilitate new projects. By cruel twists of fate, however, these days investors have more than sufficient in their sights to begin rebuilding the old.

Preconditions for progress

But will they? Only in the event of sweeping reforms, of which the ANC government is incapable, just as it has now proven to be incapable of consistently delivering even the most basic and essential public services. Hidebound by ideological fantasies and corrupt pursuits left unaddressed, its record defies investor confidence – never more so than during the July mayhem. Exposed as useless at the protection of people and property, local communities then came into their own. Taking forward their collective mobilisation into a civil initiative are retirement funds. Their investments are integral to the process of rebuild. No matter their willingness to reconstruct shopping malls, as a basic practicality, they cannot offer tenants an assurance that burn-outs won't happen again. Neither can Ramaphosa, irrespective of cabinet manoeuvres.

By themselves, ministers cannot change a relaxed police service into a protective one or a lackadaisical military into a fighting force. Moreover, government's policy positions tend to undermine the certainty of direction that investors crave. Ramaphosa's insipid promises, not to cause offence, have had their cover blown by the insurrection. Policy positions are confused, as in bits of privatisations on the one side and a ballooning public-sector wage bill on the other. His 'long game' is gone. ***Full Report:*** ***https://www.moneyweb.co.za/moneyweb-opinion/soapbox/to-get-the-economy-moving-rely-on-retirement-funds-not-on-government/***

Moneyweb | 9 September 2021 | Allen Greenblo

Combining a tax-free savings account with your RA can extend your earnings by an additional 12 years in retirement

Combining your retirement fund contributions in, for example, your retirement annuity (RA) with a tax-free investment (TFI) could extend the period over which you will receive an income at retirement by as much as 12 years.

"Given the increasing longevity, ensuring that you receive an income up to the age of 89, rather than just 77, can make the difference between a comfortable old age and one fraught with worry and suffering," says Tiaan Herselman, Head of Advice at Old Mutual Wealth. Since interest, dividends and capital gains are not taxed while you remain invested in an RA, the product remains a great mechanism for investors to save for retirement. Furthermore, since 2016, investors are now also allowed to claim a tax refund of up to 27.5% of total annual income (capped at R350 000) if this is invested in a retirement fund.

Examples of retirement funds include pension and provident funds and retirement annuities. This significant tax deduction is an incentive for South Africans to top up their annual RA contributions. While most South Africans end up spending this tax refund on some immediate need, Herselman believes that "we are missing a big opportunity in the tax-free investment

(TFI) introduced in 2015." Investing R 36 000 per annum and up to R500 000 over a lifetime* in a TFI vehicle ensures tax-free interest on growth and dividends with no capital gains tax as well. Importantly too, since TFI vehicles are not, like retirement funds, subject to Regulation 28, "TFIs can invest in higher earning high risk high return local and international equities and property funds with no legislative limits," says Herselman. The advantages of leveraging RA tax benefits in combination with the other tax benefits offered by TFI vehicles are illustrated in the following three scenarios.

Saving for retirement by combining a TFI with an RA VS using an RA alone

Let's assume a 28-year-old investor is saving R 5000 a month for retirement, aiming to retire at 60. Let's also assume his contributions increase 5% each year with inflation. At retirement the investor's aim is to receive an after-tax income equivalent to R 20 000 a month in today's value of money.

Scenario 1: The investor contributes R5000 a month in an RA only (with contributions adjusted annually for inflation) until age 60 when he retires.

Scenario 2: The investor contributes R5000 a month but split across an RA and a TFI, with R3000 going into a TFI, until it reaches the lifetime limit of R500 000, wherein those contributions will be redirected into an RA. Furthermore, the TFI contributions will be invested an offshore unit trust in order to gain exposure in the high-risk high return offshore market. The balance of R2000 is then invested in an RA (with contributions adjusted annually for inflation) until age 60 when he retires.

The scenarios also assume that that:

• The investor receives a return of inflation plus 4-5% (9.5% per year) after all costs on the RA and inflation plus 5-7% (11% per year)

• The investor does not re-invest his SARS tax deduction since, in practice, most people spend this money although they should re-invest it to grow their retirement nest egg even more,

• The investor converts his savings into a Living Annuity at retirement, with the initial 2.5% withdrawn and the balance funded from the TFI.

• Where there is no TFI the 2.5% is automatically increased until the 17.5% legislative limit is reached on the proposed Living Annuity investment. ***Full Report: https://www.fanews.co.za/article/retirement/1357***

FA News | 9 September 2021 | Old Mutual Wealth

Understand your most important asset – your retirement fund

Seven questions you need to ask to understand your fund better.

Do you know the following details of your retirement fund or funds?

1. What is the current value of your retirement fund/s?
2. What is the current net replacement value of your fund/s?
3. Can you explain the investment portfolio of your fund/s?
4. What has the historical return been on your fund/s?
5. What risk cover does your fund offer you?
6. Is your risk cover approved or unapproved?
7. Does your personal portfolio complement your retirement fund/s or are there conflicts?

I am often surprised by how little people know about their retirement funds. In most cases, a combination of retirement funds will represent the largest asset in most individuals' portfolios by the time they retire. That is if their retirement funds were preserved every time they left their employers in the past. Sadly, this rarely is the case… It is notable that when we assist clients with their retirement income provisioning that in most cases the individuals who can retire most comfortably are the ones who were government employees all their lives.

Although they are not the biggest earners, nor the most sophisticated investors, their constant contributions, and the fact that they could not access their funds in the past, created the perfect playing field for compound interest to take effect. This article is not about the importance of preserving retirement proceeds over time, although it probably is the most important factor that will lead to a comfortable retirement. This article is about the importance of understanding your retirement fund. So, have you managed to answer all the questions positively at the start of this article?

If your answer is "no" to any one of the questions, then you seriously need to start doing some homework on your fund/s. Note: Although this article deals with retirement funds, it's important to always consider all your assets when analysing your investment portfolio. Voluntary investments, shares, property (not your primary residence) and anything else of value (art, coin collections etc.) must be included in your analysis. For this exercise, however, I am going to be single-minded and focus just on your retirement fund.

1. What is the current value of your retirement fund?

This is the one fact that most people know about their retirement fund/s. It is important to know this if you analyse the current and future funding of your imminent retirement. Much has been written about what multiple of your salary you should have accumulated at different stages of your life. If you don't have those figures drop me a line, then I will send them to you. In short, if you wish to retire earning a pension equal to 100% of the salary that you earned on your last day employed and you want to leave a large portion of your pension funding as a legacy, then you will need at least 24x your final annual salary.

This is based on a drawdown of 5% against the capital value. Generally, people retire with no or very little debt and they no longer participate towards retirement funding, investments, bonds etc., so it becomes feasible to aim at 70-80% pension income of your final salary. If you require 70% of your last salary, then you should have accumulated at least 14x your final annual salary by the time you retire.

2. What is the net replacement value of your retirement fund?

The net replacement value works in unison with the capital value that I eluded to above. The net replacement value takes into consideration the fund value, fund returns and expected future contributions to provide you with a projection of what you can expect as a pension. This amount is projected as a percentage of your expected future final salary. It is one section of the road on your retirement planning roadmap. If your retirement fund is your only investment or asset and your net replacement value indicates anything less than 70% it is time to seriously start looking at ways to increase your funding or expanding your investment portfolio. ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/understand-your-most-important-asset-your-retirement-fund/***

Moneyweb | 7 September 2021 | Marius Fenwick - WealthUp (Pty) Ltd

Am I forced to bring funds from my offshore RA back to SA?

I wish to keep the RA offshore and then purchase an offshore-based annuity.

In 2001, I took out an offshore retirement annuity (RA) which entailed getting tax clearance annually. The RA was based in Guernsey with Momentum. The agreement was that the RA would be paid out to any bank account worldwide for my retirement. I continued to pay over a number of years. However, the policy has now matured and Momentum says that I have to bring the full amount back to South Africa and then purchase an annuity from an insurer registered with the Long Term Insurance Act. It needs to be brought back due to Regulation 28.

When the RA was purchased, it was done with all the necessary approvals. I wish to keep it offshore and then purchase an offshore-based annuity. Is this possible or am I forced now to bring it back due to Regulation 28?

Please let me know what to do from here.

Dear reader,

Thank you for posing this very interesting question which may be relevant to many Moneyweb readers.

I can understand your frustration, as over the last 20 years since the inception of this retirement annuity (RA) your understanding was that the structure would allow you to have capital paid to you anywhere in the world for your retirement and now at maturity you find that this is not the case. If I remember these types of RAs when they were launched correctly, I recall thinking at the time that these needed to be explained very carefully to an investor, or the investor could very easily misunderstand what the product could and could not provide. I must stress though, that relying on my memory going back 20 years or so is not the correct way to provide you with a recommendation in this format.

The best advice I can give you at this time

My suggestion is that you gather up as much information you have on this retirement annuity and consult an independent investment advisor, who will be prepared to analyse it, focusing on the structure and rules that should be stipulated in the policy document. I would add that you should be prepared to pay this independent investment advisor an hourly fee to analyse this RA for you so that you will receive an unbiased, independent and factual result.

If however this retirement annuity is structured as I remember, then the following would apply:

RAs fall under the pension fund rules in that they can be matured at any time after the investor has turned 55. At that time the investor can only access one third of the capital in cash (some of this may or may not be taxable but I am going to leave this point for discussion for another time). The balance had to be paid into an annuity from which the investor would draw an income, which would be taxable.

Even though you may be disappointed by the fact that you had perhaps misunderstood the structure of this “offshore retirement annuity”, or may not have had the structure of this investment properly explained to you, you may still have enjoyed a number of advantages by having this particular RA. I believe that we need to at this stage leave what has happened in past alone and focus on the advantages of having this offshore RA.

The advantages you have enjoyed during the term of the offshore retirement annuity:

- The contributions you made to the offshore RA may have been tax-deductible (based on the limits of contributions to RAs);
- During the term any interest earned, dividend distributions received and capital gains would not have been taxable; and
- You would have been invested in hard offshore currency, with access to hard-currency-based underlying funds that would invest your capital in global markets.

What can you do now that the offshore retirement annuity has matured?

In simple terms, normal RA/pension fund rules will apply.

One could leave the capital invested in the offshore RA if you do not yet need to live off the capital at this stage. The capital would remain invested in foreign currency within your offshore RA, and you would not be required to make further contributions unless you wanted to. Secondly, you could elect to take up to one third in cash. This would be subject to retirement lump sum benefit tax treatment. I would also advise you (or the independent investment advisor that you should consult as mentioned above) to check with Momentum, but I am quite certain that this cash benefit would need to be paid to you in South Africa and in rands.

The remaining two thirds would need to be invested in an annuity from which you would draw an income. I do note that your wish would be to purchase an offshore annuity. As we have established, purchasing an offshore annuity would not be possible, but I do know that Momentum Wealth does have an offshore living annuity, which is a South African living annuity that invests your capital in foreign currency in offshore funds. The income from this offshore living annuity would be paid to you in South Africa in rands and the income drawn would need to be selected by you and be between 2.5% to 17.5% of the capital value per annum.

The income, as mentioned, would be taxable. One could I suppose reinvest the net income from such a living annuity in offshore markets using the offshore investment allowance if one wished, provided the income is not required to be lived on.

In my opinion, I would suggest that you/your advisor contact Momentum and ask if the following would be possible through its investment structures:

- Would it be possible to commute the offshore RA to an offshore living annuity, then have the units held in the fund underlying the RA transferred to the living annuity – thereby effectively avoiding the capital coming back to South Africa, and having it reinvested in foreign currency?

This would avoid any possible loss as a result of any foreign exchange rate fluctuations. One would need to keep in mind that this would only be possible if the same underlying fund is used in the offshore living annuity as the offshore RA, and provided that Momentum is maintained as the overall product provider. If the above is possible, then we have in a way kept your retirement capital invested offshore.

In closing, it is imperative that the following be considered …

I would urge that the first step is to have this offshore RA analysed by a good independent financial planner/investment advisor prior to making any final decision, as there is simply not enough detail provided to us in this question to be able to provide a comprehensive response in this format.

Secondly, we need to keep in mind that once a RA has been commuted to an annuity this cannot be reversed.

Thirdly, other aspects should be taken into consideration, such as your own personal financial circumstances which cannot be realistically discussed satisfactorily in this format.

Thank you for engaging with us.

We hope this assists in providing a solution to your investment portfolio planning requirements.

Moneyweb | 7 September 2021 | Mauro Forlin

INTERNATIONAL NEWS

UK suspends ‘triple lock’ state pension policy for one year

The “triple lock” formula that determines annual state pension increases in the UK will be suspended for one year, it was confirmed today.

Addressing the House of Commons today, work and pensions secretary Therese Coffey said the average earnings component would be set aside for the 2022-2023 financial year. This means the state pension will increase by the consumer inflation rate or 2.5%, whichever is higher. Speculation about the triple lock has been rife in recent weeks in light of a spike in average earnings data linked to the coronavirus pandemic. The furlough effect on earnings meant that without a change the state pension would have been set to grow by around 8% “at a cost of billions of pounds in a time when public finances are increasingly stretched”, said Andrew Tully, technical director at Canada Life.

Steve Webb, partner at investment consultancy LCP and a former pensions minister, said it was understandable the government had decided to suspend the triple lock for one year only, and very welcome they had recommitted to the policy for future years. “The UK state pension remains relatively low by international standards and many women in particular depend on the state pension for a large part of their income in retirement,” he said. “To relax the rules on a one-off basis because of the distortions caused by the pandemic but to reinstate the policy for future years strikes the right balance.”

Chris Noon, partner at Hymans Robertson, said it was a “short-term technical issue” that the the triple lock formula was not fit-for-purpose for the April 2022 state pension rise. He also expressed approval of the decision. “The UK already has one of the worst state pensions across the OECD,” Noon said. “Throwing out the triple-lock would have risked pushing more pensioners in to poverty.”

At the Pensions Management Institute, Tim Middleton, director of policy and external affairs, appeared to question whether the suspension of the earnings link will be temporary. “Time will tell if the planned restoration of the earnings-related element will indeed actually happen,” he said. “However, all those who remain passionate about pensions will remain committed to further development of our system to ensure that the retired are guaranteed a secure and comfortable lifestyle.”

Helen Morrissey, senior pension and retirement analyst at Hargreaves Lansdown, said: “The triple lock has played a role in boosting the incomes of pensioners over the past decade, but the current situation has exposed its flaws. “While the suspension is only for a year, the time has come to look at whether the triple lock is fit for purpose and remains the best way to preserve the long-term value of the state pension.”

IPE | **7 September 2021** | **Susanna Rust**

UK will not raise state pension in line with wages next year – minister

LONDON, Sept 7 (Reuters) - Britain will not raise state retirement pensions in line with wages next year, but will instead increase them by the rate of inflation or 2.5%, whichever is higher, work and pensions minister Therese Coffey said on Tuesday. Coffey told parliament she would introduce legislation to temporarily override a "triple-lock" formula which would have seen state pensions rise by 8% or more next year, due to what she called an "irregular statistical spike" in earnings caused by the COVID-19 pandemic.

"For 2022-23 it will ensure the basic and new state pensions increase by 2.5% or in line with inflation, which is expected to be the higher figure this year," she said. The triple lock would return from 2023-24, she added. Prime Minister Boris Johnson promised in December 2019 election campaign to keep a 'triple lock' on state pensions which would rise by the highest of earnings, inflation or 2.5%. The promise did not specify what measure of wage growth would be used, but the one which has been used in the past - average weekly earnings published by the Office for National Statistics - has been heavily distorted during the pandemic.

Average weekly earnings showed annual growth of 8.8% in the three months to June, but the underlying rate absent these distortions was more like 3.5%-4.9%, the ONS said last month.
Most workers who were on furlough a year ago are now back at work, and so are now receiving full pay rather than reduced furlough wages. Job losses were mostly among the lower paid - artificially boosting average pay levels among those remaining.

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