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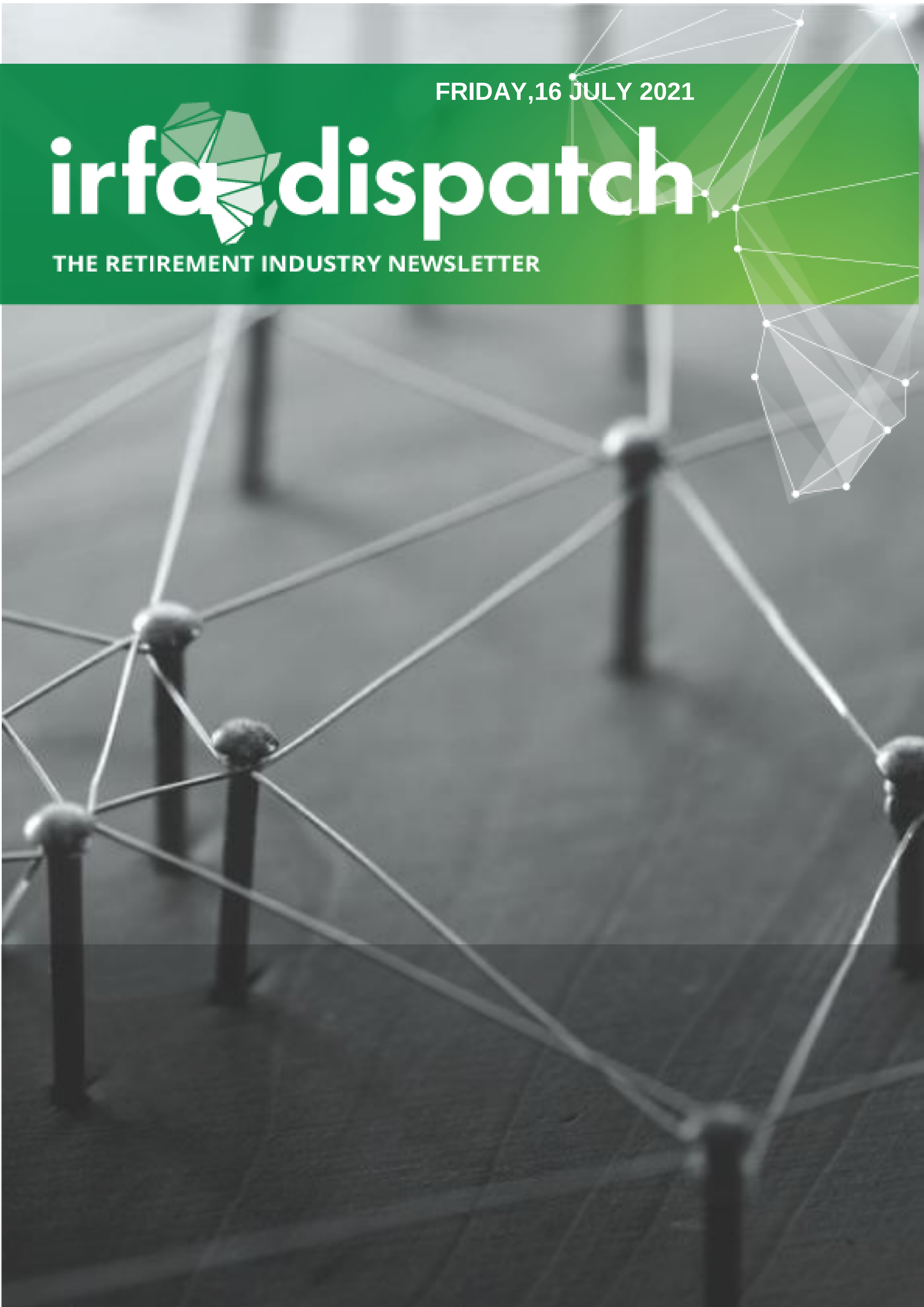
irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER



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How to reduce spending during retirement

Don’t be shy to ask for pensioner discount

While many people are looking forward to the freedom of retirement, making ends meet during retirement can be a challenge. But it isn’t all bad news. While you are most probably saying goodbye to a steady income, there are many ways to reduce your expenses to assist in not withdrawing too much money from your retirement funds. According to Alexander Forbes’s research on the largest retirement fund database, your retirement capital needs to be 12 times larger than your annual salary to achieve a replacement ratio of 75%. Unfortunately, only 6% of retirement fund members in fact manage to accomplish this. That is why most people will need to include the following tips in their monthly budget to reduce spending.

Start by dividing your budget into two parts, namely a ‘needs’ section for essentials and a ‘wants’ section for things you don’t really need or that are ‘nice to have’. Go through these expenses thoroughly to see what you can trim or leave out completely. By doing this, a number of expenses can be cut, while at the same time discovering which expenses you will have to keep on paying. Let’s start by looking at your car. Many retirees will have two cars in the household. Ask yourself if you still need both cars or even any car at all. Cheaper options like Uber or public transport might be available to you and you could be saving on monthly payments and other expenses related to owning a vehicle, including insurance, fuel and technical services.

Next, consider your bank charges and avoid the pitfall of owning a prestige credit card just to impress others in the supermarket checkout queue. It is a waste of money and as a pensioner you do not need to spend just to earn loyalty points. Grocery costs can easily spin out of control, so make a habit of comparing prices, be on the lookout for specials and avoid expensive convenience stores. Be sure that you really need the item with a ‘special price’ before you buy it. Don’t fall into the trap of ‘the more you spend, the more you save’-mentality. If you are not careful, you could save yourself out of all your money. Cancel your gym membership and exercise at home. Go for walks and try to avoid watching television too much. Advertising on various media platforms is designed to entice you to spend on items you don’t really need.

Never spend on impulse. Shop with a list and never go shopping when you are hungry. Really, It works in keeping you from spending on unnecessary items like ready-made foods. Try to cut back on entertainment like movies, eating out and spending too much on luxuries like specialist coffee or smoothies at coffee shops. Buy clothing during sales and again watch out for the 'the more you spend the more you save' sales pitch. Pensioner discounts are a sure-fire way of saving on expenses from places like hardware stores, furniture stores and supermarkets. Don't be shy to ask at any place if there is a pensioner discount, even restaurants. It is amazing how one question will often get results. Another way to ensure extra cash flows into your budget is by considering a downgrade on your home.

Alternatively, you could rent out a room in your house, share your living arrangements with someone else or move into a cottage on your children's property. When possible, look for available work to ease the burden. This could be either part- or full-time and will add cash to your budget, as well as ensure community involvement. A further fun and rewarding way to save on expenses is to grow your own vegetables. Apart from harvesting fresh vegetables and herbs like carrots, tomatoes and spinach on a daily basis, vegetables like potatoes, onions, beans, tomatoes, cucumbers and beets can easily be stored or preserved, ensuring more savings on the grocery bill.

Dropping unhealthy habits like smoking and drinking alcohol is an unpopular, but effective way to reduce spending. This [healthier lifestyle] may also lead to a reduction in medical cost. By reducing your expenses during retirement, the upside is that you need less money to live on and therefore you'll require a smaller income. Having enough money to retire is not always achieved by earning more and having more income streams, but also by saving on your expenses. If you have more tips on how to save on monthly expenses, we would love to hear them.

Moneyweb | 13 July 2021

Offshore investing fundamentals

Always carefully consider your reasons for investing offshore; ensure it's not a knee-jerk reaction to local bad news.

Offshore investing has experienced a rapid rise in interest and implementation in the recent past. Arguably, this rise in popularity can be attributed to the poor performance of and the rampant corruption within national government, combined with the stagnation of the South African economy. Naturally, when local outlooks are negative and bad news abounds, investors tend to look elsewhere for investment opportunities in pastures that appear more fruitful. That said, it is always advisable for investors to carefully consider the reasons for wanting to invest offshore, and to ensure that their decision is not merely a knee-jerk reaction to local bad news. Some investors seek offshore investment opportunities to improve diversification, provide for future liabilities or to seek alternative market conditions that are not locally available.

On the other hand, some investors make an emotional decision to externalise their rands, believing that they will sleep better knowing that their funds are invested offshore. For the sake of context, it is important to keep in mind that South Africa currently makes up only around 0.4% of the global GDP. As such, diversifying one's investments across international markets and economies can create a distribution of risk and volatility in one's portfolio that is less concentrated than a pure South African allocation. In this regard, keep in mind that the South African stock exchange is dominated by the major commodity producers together with a combination of Naspers and Prosus, and this makes our investment market quite sensitive to economic conditions which affect these businesses.

In circumstances where an investor is likely to incur their expenses in foreign currency, it may make sense for that investor to build an offshore portfolio in the jurisdiction in which they intend to live and spend. Primarily, this would involve hedging against a volatile currency exchange. Where an investor is contemplating a retirement abroad, a future emigration, or has children who are likely to study abroad, setting up an offshore portfolio in that region would make sound investment sense. The global offshore investment landscape is vast in comparison with the local South African investment market. Funds can be given exposure to selected regional opportunities in economies which are stable and therefore more certain. Alternatively, they can be directed to emerging economies in pursuit of more potential growth.

Also, keep in kind that many large-scale industries, such as information technology, have minimal diverse exposure in South Africa in comparison with the options available internationally. Once an investor has made the decision to invest offshore, he/she can effectively choose between direct offshore investing or indirect offshore investing. Investing directly offshore involves the physical transfer of one's rands out of the South African jurisdiction and onto an investment platform listed abroad, with the funds being invested into underlying funds which are domiciled in foreign currency. Investors are able to achieve this using either or both a combination of their single discretionary allowance (SDA), colloquially known as the 'travel allowance', and their foreign investment allowance (FIA).

The SDA is limited to R1 million per calendar year and may be used at the investor's discretion without the need for a tax clearance certificate or other supporting documents. The FIA enables an investor to transfer a further R10 million offshore over and above the SDA, although to do so he/she will need to obtain a tax clearance certificate which, once issued, is valid for a period of 12 months. It is important to note that the SDA and FIA allowances are not sequential which means that an investor does not need to first exhaust their SDA before making use of their FIA. The foreign investment allowance can be applied for and used without any of an investor's single discretionary allowance being accessed, bearing in mind that the SDA is very useful when it comes to travel, covering emigration costs, making international purchases, or moving smaller amounts of money offshore when exchange rates are favourable.

Once an investor's funds have been externalised and invested in an offshore account, withdrawals can generally be paid into any international account in the name of the investor provided the account can accept transfers in the domiciled currency of the investment. The funds do not need to move back into or through a South African account. There are a number of reputable service providers who can assist investors to move funds abroad. While almost all banks in South Africa offer the facility to make such transfers, there are also a number of companies that specialise in forex transfers. Due to their specialist nature, these companies are able to offer more preferential rates on exchange as well as other value-added services such as enabling the application for tax clearance which is included in their pricing.

In addition, more and more asset manager platforms provide for the exchange and transfer of monies to their own offshore platforms provided this transfer is within the investor's remaining SDA capacity for the year. In such circumstances, the investor will deposit the rand amount in their local account and the asset manager platform will then complete the exchange and transfer the funds to the offshore platform on the investor's behalf. A significant advantage of this method is that the fees on these transfers can be significantly more cost-effective due to the asset manager's bulk purchasing power. It is important for investors to consider the most appropriate structure for a direct offshore investment, with options including direct shares, discretionary unit trust funds, or an endowment wrapper. Depending on the investor's tax status and objectives, an endowment wrapper can be a highly useful structure as the taxes are both defined within the wrapper and paid on behalf of the investor to the relevant revenue authorities. In addition, beneficiaries may be nominated on such investments which opens the options for beneficiaries as to how such an inheritance is received, and the tax consequences of such. The other option for externalising funds offshore is to utilise the indirect option through rand-denominated funds. Indirect offshore investing means that no rands are physically transferred by the investor, and their investments remain domiciled in South Africa. As there is no transfer of funds abroad, the investor will not use any of the SDA nor will they need to apply for a FIA in order to make such an investment.

There are a myriad of available global feeder funds offered by various asset managers who then invest funds abroad on an asset swap basis in various markets determined by each fund's particular investment mandate. These indirect investments can be implemented and allocated relatively quickly and efficiently as the investor is making use of the asset manager's capacity to externalise funds. These feeder funds allow an investor to build offshore exposure into their portfolios while also providing an exchange hedge against a depreciating rand. Note, however, that withdrawals and disinvestments from such accounts will need to be paid into a South African bank account which is held in the name if the investor. Finally, an often overlooked but very important feature of offshore investing is the impact that it has on one's estate planning and the potential need for a foreign will.

When making a decision to externalise your funds, be sure to establish whether the administrative platform recognises your South African will for probate purposes, or whether a foreign will in that jurisdiction is required. While South Africa enjoys freedom of testation, this is not necessarily the case in other countries, especially those with civil law jurisdiction. Many countries have strict inheritance rules in place, also known as forced heirship or mandatory succession rights, which could impact on your ability to bequeath your foreign assets as you would like. That said, it is important to be clear on your reason for wanting to invest offshore and to seek professional advice on how best to externalise your funds in the best interests of both your investment plan and your estate plan.

Moneyweb | 13 July 2021

Consumers encouraged to save during Savings Month

With South Africans having one of the lowest Household Savings ratios in the world, at just 0.6%, National Savings Month in July provides a great opportunity for South Africans to consider their saving habits and how they can save more. Savings Month was launched in 2001 by non -profit organisation, the South African Savings Institute (SASI). It continues to receive industry-wide support, including from the Financial Sector Conduct Authority (FSCA). In line with its legislative mandate to provide financial customers with financial education, the FSCA has launched a variety of programmes such as the Financial Literacy Speech Competition, Expanded Public Works Programme (EPWP), Youth Finance, Entrepreneurship and Job Opportunity Campaign.

In its latest national financial education initiative launched during Youth Month, the #FSCAMyMoney resource aims to provide South Africans from all walks of life with free online information that will improve their financial acumen, enabling them to make informed decisions when buying financial products and services. Mr Lyndwill Clarke, the FSCA's Head of Consumer Education explains, " It has become increasingly important for consumers to be properly equipped so that they can make sound decisions when it comes to managing their finances. They have had to navigate price increases in fuel, electricity and food, while overcoming the negative financial effects of the pandemic.

Consumers also need to keep in mind that as the economy gradually recovers, interest rates may rise over the short to medium term, making paying off debts even more difficult. Keeping to a budget and saving may have become more a challenge. “The good news is however that the #FSCAMyMoney provides an easily accessible and comprehensive guide to better manage your money. More and more consumers are visiting the site to help them budget and save for the important things like becoming debt free, opening up a business, paying for their child’s education or planning for their retirement,” added Clarke. Consumers are invited to visit the FSCA's website (www.fscamymoney.co.za) to access a wealth of easily understandable and relevant free financial educational tips. They can also learn their rights and responsibilities when dealing with financial services providers.

FA News | 14 July 2021

INTERNATIONAL NEWS

France's Macron says pension reform to go ahead, virus situation permitting

PARIS, July 12 (Reuters) - France needs to push back the retirement age and the government will continue its pension reforms as soon as the COVID-19 situation is under control, French President Emmanuel Macron said in a televised speech on Monday. Pension reform was a central pillar of Macron's drive to create a more flexible and competitive labour market, while also reducing its financial burden on the state coffers. However, his initial proposal infuriated the unions and provoked weeks of protests and transport strikes just before the coronavirus pandemic hit. Macron put it on hold as he ordered France into lockdown a year and a half ago.

But on Monday, less than a year before the next presidential election, Macron revived the campaign pledge that aides see as an essential plank of his reformist credibility with some voters, while conditioning it on a return to a normal health situation. "Yes, our pension system is unfair. We will need to go towards more simplicity, more fairness," Macron said in the speech. "We will have to work longer and take our retirement later." He also said that special pension regimes in certain industries - which concern workers in highly unionised and strike-prone sectors such as public transport or power plants - will be scrapped for new recruits.

An Elysee official told Reuters Macron will tell the government to hold discussions with unions on pensions as soon as September, pending on the health situation. Sources told Reuters last month one of the options being studied was to push the legal retirement age by two years to 64 - something the government had stopped short of in its previous proposal. Macron said he also wanted the minimum pension to be set at 1,000 euros a month. Many pensioners, often agricultural workers, scrap by with only 300 or 400 euros currently.

Reuters | 12 July 2021

Nigeria's micro pension asset has grown by 58%

As more and more Nigerians from all walks of life begin to think about and take their retirement more seriously, the micro pension scheme is picking up at a faster rate than any other category of pension funds in Nigeria. According to the various pension asset summary reports released by the National Pension Commission (PenCom) and analysed by Quantitative Financial Analytics, Nigeria's conventional pension assets have increased marginally by 0.75%, from N12.31 trillion as of December 31, 2020, to N12.4 trillion as of April 30, 2021. The analysis shows that the fund 1 category's net asset value grew by 12.21%, while funds 2, 3 and 4 grew by 1.67%, 3.81%, and 1.12% respectively. However, fund 5, which is the micro pension fund category, grew by a whopping 58.65%. As of the end of December 2020, micro pension fund assets stood at N74.65 million but by the end of April 2021, the figure had increased to N118.43 million.

More information needed

Though micro pension funds are growing in leaps and bounds, not much information or data is available about them. Unlike the "conventional" pension funds, where the fund managers readily publish daily or weekly based price data, only a few micro pension funds have their prices being published. Analyses of the available data for the few micro pension funds indicate that, unlike the "conventional" pension funds, which have recorded mostly negative performance on a year-to-date basis in 2021, all the micro pension funds have generated positive returns in 2021.

Registration and contributions

According to information from the National Pension Commission, in the first quarter of 2021, 19 Pension Fund Administrators (PFAs) registered 3,292 micro pension contributors. In the same period, N16.7 million was remitted to the Retirement Savings Accounts (RSAs) of 435 micro pension fund contributors. If that is not growth, what is?

Conversion to conventional pension funds

The good news about Micro Pensions in Nigeria is that contributors can convert to Mandatory Contributory Pension Schemes (CPS) after meeting the conditions. In the first quarter of 2021, 105 Micro Pension participants converted to Mandatory Contributory Pension Schemes (CPS), an event that involved the transfer of N963,136 to the respective Retirement Savings Accounts of the affected participants.

PenCom facilitating further growth

The highly impressive growth is going to be further buoyed by the recent change in the fee structure of micro pension funds released by the National Pension Commission. One of the factors that dissuade people from fund investments, be it pension or mutual funds, is the fee structure or expense ratio of the funds. With PenCom's reduction of the fees chargeable on micro pension funds, more and more people are expected to enlist, which will push the growth even faster.

What it all boils down to

The message in this phenomenal growth is that those self-employed or small-scale businesses that have not started saving for their retirement should do so, as time is of the essence when it comes to investing. At least that is what the magic of compounding has taught us.

It is better to have your money in a government-regulated and overseen entity than to have it with privately organized *'Esusu'* organizations where the risk of loss is high, and where there are no returns except principal recoupment.

Naerametrics | 16 July 2021

Many 401(k) investors don't use target-date funds the right way

Target-date funds have ballooned in popularity over the past 15 years — yet many investors aren't using them the way they were intended. The funds were designed as a one-stop shop that put retirement savings on autopilot. Investors are meant to park their nest egg in one fund, generally based on their retirement year, which automatically shifts from stocks to bonds over time. However, a third of investors aren't limiting themselves to one target-date fund, according to 401(k) data from Vanguard. They're piling other funds on top. Specifically, 27% use TDFs along with other 401(k) mutual funds (like an S&P 500 index fund, for example).

Another 2% use more than one target-date fund; 4% use two or more TDFs as well as other funds. Those who use the funds this way may inadvertently assume more investment risk, according to financial advisors. "It's not what you're supposed to do," according to Ellen Lander, the founder of Renaissance Benefit Advisors Group, based in Pearl River, New York. "Do I think it's detrimental? Maybe and maybe not."

TDF popularity

Employers began adopting target-date funds with greater regularity after Congress passed the Pension Protection Act of 2006. The legislation gave legal protections for businesses who automatically enrolled workers into the company 401(k) plan and invested their money in TDFs.

Now, 80% of 401(k) plans offer a target-date fund, according to the Plan Sponsor Council of America. The funds hold 24% of all assets in 401(k) plans, the most of any investment option, according to the trade group. Among plans that offered a TDF last year, six of every 10 dollars flowed into such a fund, according to Vanguard, which is the largest manager of target-date funds. Here's how they work: Let's say an investor aims to retire in 2040, at age 65. This investor would select the 2040 target-date fund. The fund starts with a large stock allocation and shifts toward cash and bonds over time.

How 401(k) investors use target-date funds

A third of investors don't use TDFs as a one-stop shop

One TDF only 67%67%

One TDF plus other funds 27%27%

Two or more TDFs only 2%

Two or more TDFs plus other funds 4%

Source: Vanguard How America Saves 2021. Data reflects investors who owned TDFs in 2020 and includes 4.7 million people saving in 401(k) plans.

"They've done a lot to move things in a more positive direction for many investors," Christine Benz, the director of personal finance at Morningstar, said of how TDFs have simplified the investment process.

Asset allocation

But investing in additional funds may skew one's asset allocation. Investors who don't rebalance could end up with more risk than they'd like. For example, if an investor allocates half of 401(k) assets to a target-date fund and the rest to aggressive growth funds, the TDF would automatically adjust over time but the 50% stock holding would remain constant. "This is where it probably is detrimental," said Lander. "I took a strategy designed for my age and risk level and made it hugely aggressive." In some 401(k) plans, more than half of target-date investors use them in conjunction with other funds, according to Lander, who consults with employers about their retirement plans.

"I think it's probably not in the best interest," Aaron Pottichen, a senior vice president at Alliant Retirement Consulting, based in Austin, said of using TDFs in this manner. The trend has likely emerged for a few reasons. For one, investment diversification is commonly preached to retirement savers. Owning multiple funds may therefore seem like a logical extension. But in this case, TDFs are already diversified. "Employees don't quite understand that the TDF is made up of anywhere from five to 30 other funds," Lander said. "If you look at your enrollment form, it's listed there as a fund." And investors shouldn't necessarily shoulder all the blame, according to advisors. Retirement-plan portals may be confusing to investors, for example.

Availability of target-date funds

The share of 401(k) plans offering a TDF has grown since 2010

85%

80…………………………………………………….80.4%

75…………………………………………………….

70…………………………………………………….

65…………………………………………………….

60 2011 2013 2015 2017 2019

Source: Plan Sponsor Council of America's 63rd Annual Survey of Profit Sharing and 401(k) Plans report, which reflects the 2019 plan-year experience of 600 401(k) plans.

Let’s say a 401(k) investor who’d been auto-enrolled into a target-date fund wants to take a do-it-yourself approach and hand-pick their stock and bond funds. This person may change their future allocation but forget to change how their current dollars are invested if the web portal isn’t clear. It seems the trend is improving, though. A decade ago, almost half of TDF investors used more than one fund, compared to 33% today, according to Vanguard. “Directionally, it’s a really great trend,” Benz said. And there are defensible reasons for investors to have funds beyond just a lone TDF, advisors said.

For example, a 62-year-old investor may hold some side savings in a money-market or stable-value fund, in addition to the target-date fund, as a more liquid bucket of safe money for a potential down payment on a condo, Benz said. Some may also want to tailor their asset allocation to a more specific degree than a 401(k) plan’s target-date funds are able to provide, advisors said. “There can be a reason for it,” Lander said. “I think it’s for a very small group of people who would even have the time, interest or knowledge to do that.”
“Do I believe that’s why this is occurring? No,” she added.

CNBC News | 13 July 2021

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