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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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About to retire? Your first few years of retirement are critical - here's how to get them right

Your salaried years may be over, and your retirement contributions may have stopped, but that doesn't mean you should forego your savings mindset. After all, it could be critical to successful retirement planning.

1. Start retirement sustainably

As you approach retirement, speak to your financial adviser about the amount you've saved compared to the amount you'll need to live on in retirement. Then, make decisions around your retirement budgeting accordingly – you may need to cut back on your pre-retirement expenses, or consider a part-time job in your early retirement years. It's critical to have sight of this early into your retirement, so that you can put a sustainable plan in place. "If you've applied yourself diligently towards your savings, and you want longevity out of your retirement capital, then 25% of your retirement capital should give you an income at least in the short to medium term," says **Kiru Padayachee**, Business Development Manager at Glacier by Sanlam.

He also highlights longevity risk – the risk that an investor, who is drawing down an income from their savings, outlives their capital; and sequence risk – the risk that the timing of withdrawals from retirement savings will have a negative impact on the overall effective rate of return – as factors worth considering. Speak to your financial planner about how to ensure your withdrawals are appropriate to manage these risks. How you save and spend in your first few years of retirement will set you up for financial habits that will help ensure longevity into your retirement.

2. Apply the 4% rule

You've spent years planning for retirement carefully – now it's important to manage your retirement income withdrawals so that your hard work pays off for the duration of your retirement. The 4% withdrawal rule is the guiding benchmark that's used globally by pension funds, says Kiru. By withdrawing 4% of your capital per year in the first few years of retirement, you should leave enough of it to continue to grow, ensuring its longevity. For example:

Retirement capital	**R1 000 000**
4% of capital	R40 000/year withdrawal for the first 10 years

With this formula, you'd be able to set yourself up for the next 25 years. "The 4% rule is within the inflation target. If you can live with what you earn, adjusted for inflation on an ongoing basis, then you shouldn't run out of capital," says Padayachee. Lower capital means higher percentage withdrawals to maintain your standard of living, which won't sustain you for long, especially since it isn't geared to keep up with inflation.

"With the 4% rule, the general premise is that with a 50% equity portfolio and 50% bond/cash portfolio, you, as a retiree, should have at least 25 years of income," continues Padayachee.

3. Be intentional about eliminating debt (and avoiding new debt)

Do this so your retirement income isn't encumbered by outstanding debt, like student loans, cars and houses, in your golden years. A guide, suggests Padayachee, is to reduce your total debt by paying it off in set increments for each year leading up to your retirement. For example, if you have R20 000 in debt, aim to reduce your debt by R5 000 each year in the four years leading up to your retirement, so that by the time you retire, your debt balance is zero. Once you're in or nearing retirement, reducing debt becomes increasingly critical – and taking on new debt is to be cautioned against. Ideally, your retirement income should go towards living expenses rather than servicing debt costs. Speak to your financial adviser about how to speed up any debt repayments owed, and the impact this may have on your retirement income.

4. Draw up a retirement budget

This is an essential tool for helping you plan for the next chapter of your financial life. It links back to your desired lifestyle in retirement. It won't miraculously snap into place; it'll involve a budget adjusted for the income you'll receive after you've stopped earning a salary, and hopefully no need to service debt that you would've settled by the time you retire. Critically – and perhaps most uncomfortably – your budget will likely need to decrease into your retirement, since not many of us are able to increase our income from when we were earning into our retirements. The sooner you can plan what this looks like and make the adjustments, the better – and the more likely you'll be able to enter retirement comfortable that your income will be sustainable.

5. Discuss your retirement planning with a financial adviser

Put retirement planning on the agenda for your next meeting with your financial adviser to get a clear understanding of what you'd be able to afford in your retirement. Your pre-retirement savings efforts are only part of the puzzle; ask your financial planner about post-retirement solutions that are best suited to your needs.

Explore your post-retirement options

Depending on your wealth bracket, there are various options available to you for sustaining your retirement income.

If you're a middle- to high-net-worth retiree

A living annuity gives you market exposure, which means, depending on its composition, it'll be invested in funds, whether it's unit trust funds, shares, exchange-traded funds or index funds. "If you have too little retirement capital, then this is not the vehicle to be in because of the uncertainty of the way that it will earn its returns," says Kiru. Needless to say, the financial management of this solution is critical. **Full Report*:*** ***https://www.fanews.co.za/article/retirement/1357***

FA News | 21 September 2020

Asset managers favour private markets to underpin the impact investment trend

Local asset managers are increasingly turning to the private market to seek out asset classes with the potential to generate attractive returns for investors on both an absolute and risk-adjusted basis. The market for these asset classes is significant and some retirement funds have already generated market returns through exposure to them. Todd Micklethwaite, Head of Strategy & Impact at Sanlam Investments, observed that private market asset classes were under the spotlight because “investors were able to make a positive impact to society through private markets without sacrificing financial returns”. He was presenting to a Sanlam Investments webinar on responses to COVID-19.

The dawning of a new investment age: Financial planners are primarily concerned with constructing financial portfolios to meet their clients’ long-term return objectives; but could soon face pressure from clients in the millennial and following generations to balance investment return with social impact. The good news, according to Sanlam Investments, is that there are opportunities in the private market that achieve this balance. “There are key issues that investors must consider before investing in private markets,” said Micklethwaite, before sharing some of his views on the risk and return metrics in market segment that includes infrastructure, private debt, private equity and real estate.

The number of opportunities in the domestic private market already outweigh those in listed markets, with the number of listed companies on the JSE All Share having halved over the past decade. A second factor driving growth in the private market segment is the structural change caused by the Global Financial Crisis (GFC). Banks’ lending activities have been severely curtailed due to the stringent solvency requirements introduced post-GFC. “The significant shortfall in the amount of capital available to fulfil the financing needs of businesses in the market presents an opportunity for investors to fill the gap,” observed Micklethwaite. But there are pitfalls.

The barriers to entering private markets include high minimum investment levels, the cost of conducting exhaustive due diligence, regulatory constraints and illiquidity. According to Micklethwaite these barriers play into the hands of asset managers who are able to negotiate attractive purchasing prices and, by injecting enough capital, exert influence over the underlying assets over the life of the investment. “This allows us to drive the strategic direction, including the efficient allocation of capital to create additional value and improve the growth prospects of the asset,” he said. The asset manager can mitigate risk by being hands-on during each stage of the investment, starting with due diligence and continuing through each investment decision point.

A physical asset safety net: An important consideration is that private market opportunities in the infrastructure and real estate classes are typically underpinned by physical assets. “These assets have underlying cash flows that are stable, contractual and typically linked to inflation,” he said. The illiquidity associated with infrastructure and real estate investments, often held up as a drawback, can play into investors’ hands during periods of extreme financial market volatility. This is because the physical assets are less subject to sentiment-driven price changes in stock exchanges.

Sanlam Investments offers five-year historic returns data to illustrate how some exposure to private market asset classes could lead to better overall portfolio outcomes on a risk-adjusted basis. With the caveat that findings were purely based on historical performance, Micklethwaite concluded: “There is an investment case for considering private markets”. Balanced portfolios with a 20% allocation to private markets offered better risk-adjusted returns than regulation 28 compliant portfolios over the five years to 30 June 2020. Any forward-looking return assumption would depend on subjective expectations of a wide range of listed and private market asset class returns.

As mentioned in the opening paragraphs, the debate is not entirely return focused. Retail investors are nowadays putting pressure on the allocators of capital to invest with the United Nations (UN) Sustainable Development Goals (SDGs) in mind. “Investors in private market have a greater capability to direct their capital to where its application can be seen to be meaningful,” said Micklethwaite. “And the broad opportunity set afforded to investors as a result of the shortage of capital makes it possible to invest at market rates and contract for an impact-making investment”. What this means is that trustees of retirement funds have scope to consider impact investing without abandoning their fiduciary responsibility to meet fund members’ return objectives.

Beware attempts to purchase impact

The presentation concluded with a plea to asset managers to consider the true impact of their investing activities. An issue commonly encountered is the misconception that impact can be purchased through listed instruments… The capital so applied is not creating impact; but merely purchasing the impact generated by the initial investors’ capital. Sanlam Investments is answering the impact investing call by committing R2.25 billion to the three private market funds in its Legacy Impact range. These funds will generate return for investors by assisting struggling mid- to large-cap firms with their funding requirements post-pandemic, with a specific focus on job preservation and job creation.

These funds are aimed at institutional investors; but financial advisers and financial planners can certainly look forward to a wider range of impact-focused retail funds to address their clients’ future needs. Asset managers offering such investments will likely measure and report on their impact objectives alongside financial returns. Perhaps, thanks to this change in investment focus, we will all soon be able to recite the UN’s 17 SDGs by heart.

FA News | 22 September 2020

A systematic approach to ESG investing - imperative to manage costly trade-offs

Practical examples of managing potential clashes between environmental, social and corporate governance components

With COVID-19 having accelerated the need for socio-economic development, sustainability and societal impact continue to gain traction and recognition among the investment management and investor communities alike. This is according to Mike Adsetts, Deputy Chief Investment Officer of Momentum Investments, who recently presented a session on responsible investing at the Batseta 2020 Conference. This is a two-day virtual conference run by the non-profit body for South African retirement fund principal officers, trustees and fund fiduciaries, aimed at helping custodians of capital with navigating the new normal.

“As increasingly more investors begin to question the purpose and impact of their investments – beyond a singular focus on return – unlisted alternative assets have demonstrated how supporting environmental, social, and corporate governance (ESG) principles can generate solid returns for investors, while also having a tangible, positive and lasting impact.” With the rising mainstream appeal of responsible investing, Adsetts believes that the most effective way to achieve real impact through investment, is by taking an integrated approach. “This is because, in any said impact initiative, the environmental, social and corporate governance components are not always perfectly aligned, and in some cases, may even clash.”

It is for this reason that Momentum Metropolitan signed the global Statement of Investor Commitment to Support a Just Transition on Climate Change on 30 March 2020. “We recognise that the social dimension of the transition to a resilient and low-carbon economy is extremely important in our country, so we need to engage with various stakeholders to ensure the social implications on the broader community are managed responsibly.” Adsetts believes an integrated approach is key to doing this. “A good example of how we at Momentum have integrated ESG into our portfolios, can be seen through our approach to investing in state-owned enterprises (SoEs).

“In South Africa, lending to SoEs is a challenge, involving a fine balance between its strategic importance, adequate compensation and risk mitigation on the one side, and its ESG risk factors on the other side. Accordingly, governance issues with regards to SoEs are becoming increasingly important in the risk management process and, as a result, are influencing investment decisions. “Our SoE lending framework helps guide our risk management in this respect, as it is informed by corporate governance issues, SoE dependency on Government, funding constraints and ESG issues on an entity's credit rating,” he explains.
Having already touched on renewable energy, Adsetts says a broader topic that comes into stark focus here is infrastructure investment.

“Infrastructure investment is critical for our economy as it will have a direct impact on water and transport projects, as well as future plans for renewable energy. “Water infrastructure, in particular, is significantly underserviced in South Africa and therefore requires our support,” he notes. “We’ve approached this by looking within our real assets programme – of which infrastructure is a part – and identifying the impact investing opportunities that will offer our clients real economic return on the capital that’s invested, while achieving beneficial outcomes from an ESG perspective.”

To do this effectively, however, Adsetts emphasises the need to approach responsible investing in a systematic way. “Our investment philosophy here takes an outcome-based approach, which is based on six principles, namely advocacy; ESG integration; active ownership; to report progress and seek disclosure; and last but not least, to maintain integrity throughout. “The success of any initiative relies on the integrity that the proponents of that initiative have. For us, it is key that we hold ourselves accountable and practise what we preach. When we say we are going to drive a certain initiative, it is paramount that we stick the course and have integrity in all that we do,” Adsetts concludes.

FA News | 18 September 2020

S. Africa proposes use of DB funds to secure loans

Democratic Alliance, South Africa's opposition political party, has proposed an amendment to the country's retirement legislation to help citizens secure hardship loans amid the coronavirus pandemic.

DA wants to allow participants to use their registered defined benefit funds to secure emergency loans from banks, under the proposed Pension Funds Amendment Bill 2020. The change would be made to the existing Pension Funds Act, which allows plan participants to use their retirement assets as security to guarantee home-related loans only.

Up to 75% of the value of the pension fund can be used to guarantee the loan, the proposal said. The proposal is aimed at helping citizens withstand the impact of the COVID-19 pandemic on the South African economy. Lending institutions such as banks are expected to offer loans to pension fund participants at competitive interest rates and over extended or deferred payment periods, the proposal said.

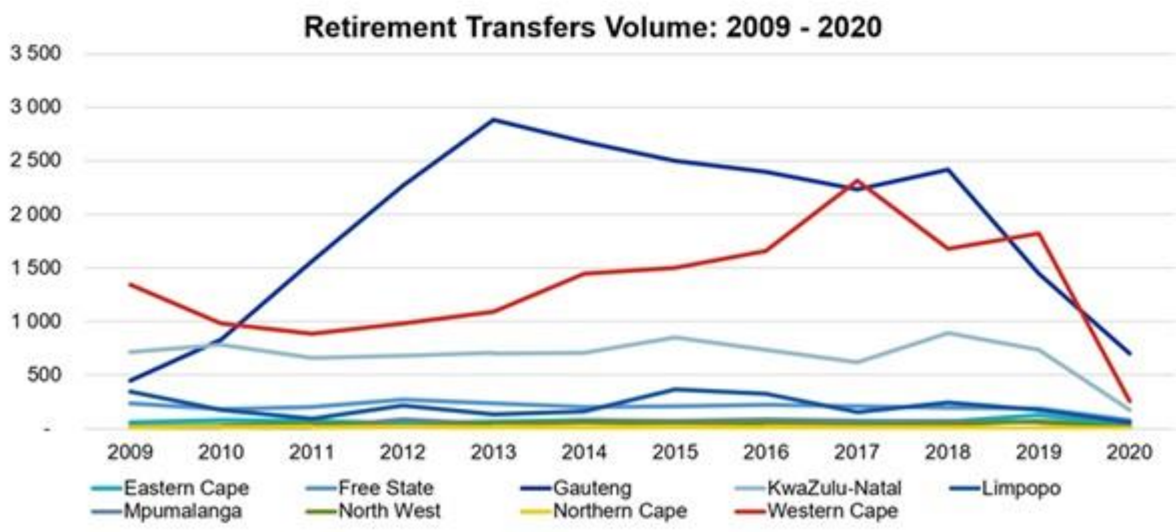
The proposal is open to comment and input from the financial services industry and South Africans.

Pensions&Investments | 21 September 2020

Retirement properties – a growing market

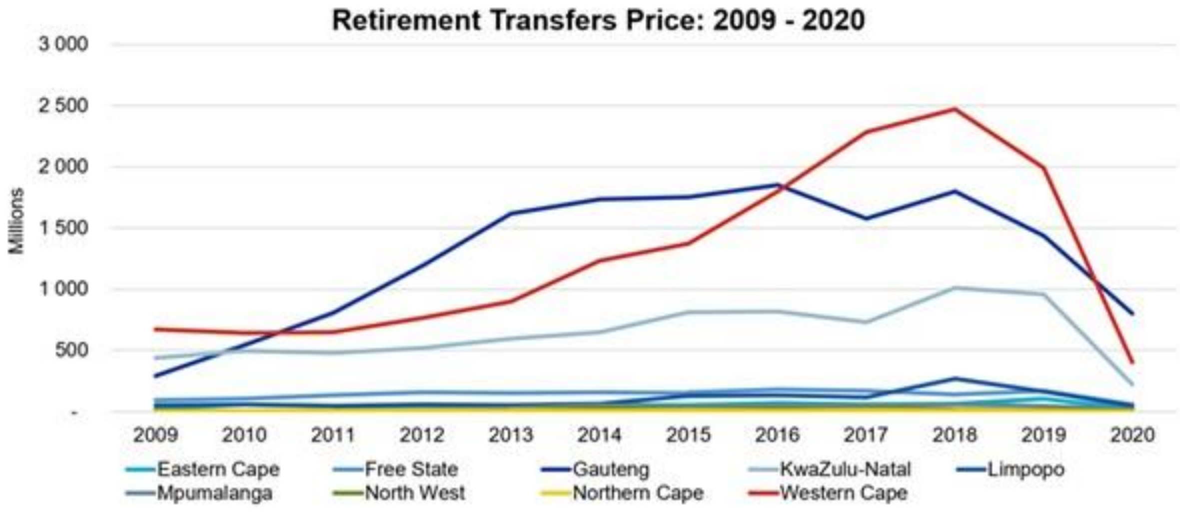
Over the last two decades the retirement property industry has evolved from limited options to now include an array of lifestyle estate options, sectional title or lock-up-and-go as well as the upmarket coastal home. Lightstone, the provider of trusted data and analytics for the property industry has investigated trends within the retirement property industry across South Africa.

In a view of the total volume of properties transacted over the last decade it is noted that the majority of transfers were conducted in Gauteng with the most transactions (2883) in 2013 with Western Cape showing a slight peak in 2017. According to Esteani Marx Head of Real Estate at Lightstone the trend of Gauteng enjoying the most collective transfers is not surprising as the most property transactions across demographics and value bands transpire in this province.

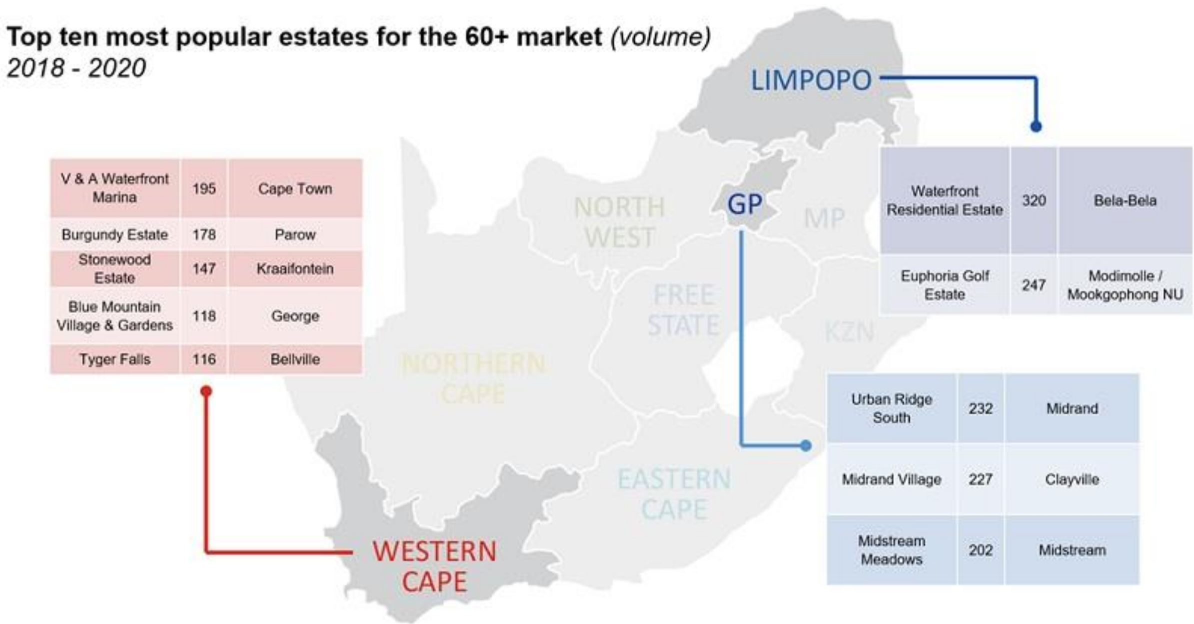


Volume of Transfers over the last decade

"When we investigate the value bands in the retirement category, the view is rather different over the last decade," says Marx from Lightstone. Gauteng started enjoying higher transfers in value from 2010 and remained the front runner for the next six years. From 2015 transactions in the higher value bands started to climb in the Western Cape and continued to do so until late in 2019. During 2018 the variance in value between Western Cape and its closest competitor, Gauteng was more than R 1 000 000 and compared to Kwazulu-Natal over R 2 000 000. According to Marx, Lightstone has consistently reported that the property market in the Western Cape has been higher in value vs volume over the last several years.

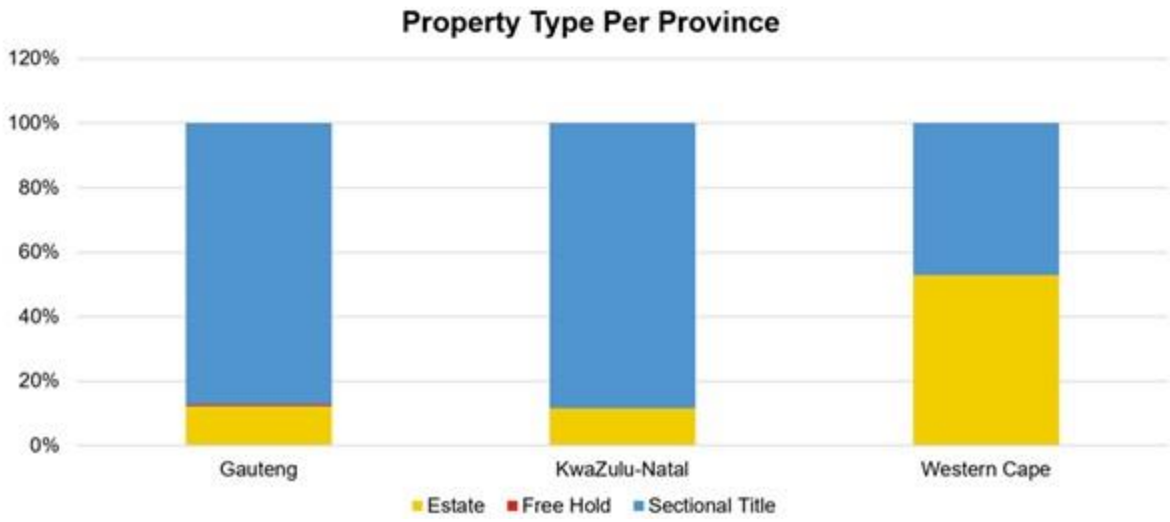


Transfers across provinces between the period 2009 – 2020



"In a holistic view of the top ten most popular estates for the 60+ market in terms of volume, five are located in the Western Cape making the Mother City the most attractive retirement destination with 754 transactions since 2018", says Marx. Analysis of South Africa's top ten most popular estates in the retiree age bracket (over 60) indicates that Waterfront Residential Estate had the highest volume growth since 2018 with 320 transactions, followed by Euphoria Golf Estate located in Modimolle with 314 transactions and thirdly, Urban Ridge South Retirement Estate based in Midrand with 232 transactions.

In the Western Cape estate living is the most popular property type in contrast to Gauteng and Kwazulu Natal where sectional title is the most sought after option, and a much smaller percentage of transactions occur within estates. As indicated in the below graph, Marx notes that freehold properties, which are usually the most popular choice across age and income groups is far less attractive to this age group with a fractional volume compared to the other two options.



The general retirement age has always been 60+, however many individuals in this age bracket is still economically active and properties sold to this demographic will continue to thrive and the demand for a variety of different properties will continue.

FA News | 18 September 2020

The demand for impact investing is outpacing supply

There is a significant opportunity for innovative fund managers able to offer relevant and credible solutions.

At a webinar hosted by Sanlam Investments last week, there was a clear consensus that the Covid-19 pandemic is paving the way for a new era of collaboration between business, government and labour. 'Never before have we seen this much collaboration between government and the private sector,' said Elias Masilela, chairman of recently established Impact Investing South Africa (IISA) and of DNA Economics. 'It is the first time since 1994 that a meaningful social compact is becoming a reality.'

This is most notably being expressed through a collective appreciation of the role that impact investing can play in supporting solutions to the country's social and economic challenges. 'If you are not sure about what impact investing is about, then consider your answer to the following question,' Masilela said. 'What is the economy or world that you want to bequeath to your children and future generations?'

Engagement

There is no way that this can, or should, be left to government. As Arthur Kamp, investment economist at Sanlam Investments, noted: 'The reality is that South Africa simply cannot recover through government's stimulus measures alone. Even though this makes up 10% of national GDP, it merely helps limit the downside.' Meaningful engagement from institutional investors is therefore critical. And, as *Citywire* has reported, local pension funds are clearly expressing an appetite. It is notable that while South Africa has specific socioeconomic challenges, it is not alone in seeing a shift in attitudes around impact investing due to Covid-19. This same theme was picked up at the Global Steering Group for Impact Investing Summit held last week.

Conducive environment

'Covid-19 has brought people's attention to the social factors in ESG,' said Hiro Mizuno, an external board member at Tesla and former chief investment officer at Japan's Government Pension Investment fund. 'These days the CEO talks a lot about social issues. Ten years ago or even five years ago, when the CEO made comments about social issues, investors didn't like it. These days if they don't make that kind of statement, investors are punishing them.' The environment, overall, is therefore becoming far more conducive for impact strategies.

'The demand for impact investing is coming from all segments, and is increasing rapidly,' said Prince Max of Liechtenstein, CEO of the LGT Group. 'Over the last three years we have really seen a strong increase in interest and demand. 'I would say the demand for impact investing is no longer the problem. The interest is there. The challenge and impediment for further growth, and I believe also the opportunity, is on the supply side of the market, where the product offering is largely still quite small, fragmented and not yet very obvious.' This, he suggested, was not unexpected from what is a young asset class.

Accelerated progress

'It takes time to build a track record and to build these great businesses that will correspond, eventually, to the demand,' Prince Max added. 'Some are already gaining traction and increasingly achieving good results, making excellent investments, attracting world class talent, and building increasingly scalable platforms with strong governance. 'Do we have the Tesla of the impact investing world yet? Not quite. I think some organisations are on a very good trajectory with teams, investments, processes, ambition and vision, but I think everyone needs to be a bit more patient.'

There is, however, a chance that the pandemic will accelerate this process, as it has done with so much else. 'Of course, it would be very helpful if we could show that impact investing strategies are better performing than traditional strategies,' Prince Max said. 'At this point it's a little early to assess that. But there is more evidence that companies that are socially inclusive, and that are environmentally responsible are coming better through this crisis than others who are less so.'

Moneyweb | 18 September 2020

Tax move on contract miners will affect the entire sector

Treasury called upon to properly consider the impact of the proposed amendment.

A proposed amendment to the Income Tax Act to exclude contract miners from claiming accelerated capital expenditure deductions may have a devastating impact on the entire industry. Several large mining houses, industry bodies and law firms are preparing submissions to National Treasury in an effort to ensure the proposal is not accepted in its current form. Treasury published the proposal in the Draft Taxation Laws Amendment Bill in July, basically saying that tax legislation should be clarified to state that only the holder of a mining right will qualify for the accelerated capital expenditure deductions. The effective date for this proposal is January 1 next year.

According to industry players the proposal stems from the Benhaus judgment delivered last year. The Supreme Court of Appeal (SCA) found that Benhaus (a contract mining company) was in fact involved in "mining activities" as it extracted minerals and was earning mining income. The court held that it qualified for the same capital expenditure allowances available to mining companies. The proposal is seen as a knee-jerk reaction from the South African Revenue Service (Sars) because the outcome of the SCA case was not its favour.

Pieter Janse van Rensburg, director of the boutique tax firm AJM Tax, says agricultural activities and mining operations have a favourable tax dispensation. Taxpayers in these sectors are allowed to deduct certain expenses of a capital nature and have accelerated capital allowances. They are allowed to claim 100% of the expense in the year it was incurred. "Given that mining contributes approximately R350 billion to the South African GDP, one can only assume that the consequence [of the proposal] will be far-reaching." Industry players note various reasons why the company holding the rights does not engage in the mining activity itself.

Red-tape delays

One reason is massive delays to obtain consent from the Department of Mineral Resources for the transfer of a mineral right when it's sold to another company. Adele de Jager, partner at law firm Bowmans, says this can take anywhere between six months and 10 years. While the purchaser awaits the consent, it enters into an interim mining arrangement with the holder of the right. The company that bought the right then has the ability to mine legally without being the owner of the mining right yet. "The impact of the proposed change on these arrangements will be significant," warns De Jager. "This is not beneficial to investments into the mining industry." **Full Report*:*** ***https://www.moneyweb.co.za/mineweb/tax-move-on-contract-miners-will-affect-the-entire-sector/***

Moneyweb | 18 September 2020

READERS' QUESTIONS

Can all my investment allocations in my provident fund be invested offshore?

Unfortunately not. The best thing is to look at the total allocation of your provident fund to ensure the maximum of 30% offshore exposure is fully utilised.

For the past five years, I have been contributing to a provident fund at the 14% minimum as per policy rules. Following are my questions:

1. Is there a way I can pay tax, not contribute to a provident fund at all and invest the contributions somewhere like offshore funds?
2. My provident fund is with Old Mutual. Can I ask that all my investment allocation be invested in offshore investments to get maximum returns?
3. In the next two to three years if I change jobs, am I allowed to withdraw all my provident fund savings?
4. If I switch jobs post-April 1 2021, am I allowed to withdraw my full amount? I hear a new law may limit me to withdrawing one third and with the balance; I would need to buy an annuity. Is this rule applicable to me?

Please advise:

1. Is there a way I can pay tax, not contribute to a provident fund at all and invest my contributions somewhere like offshore funds?

This is going to depend on what your employer's rules are. If it states that it is compulsory to contribute to the company provident fund if you are permanently employed, then you will, unfortunately, have to contribute to the fund and you will be limited within your provident fund due to Regulation 28. Pension and Provident Funds are managed according to Regulation 28 (under the Pension Fund Act) which limits total equities in the portfolio to 75% and, within that, limits 30% to offshore assets.

If you don't need to contribute towards the provident fund, then you can request that you no longer contribute towards the provident fund and instead save your money in a discretionary investment privately where you are not limited by Regulation 28. Just remember that if the rules allow for this and you do not have to contribute towards a provident fund, this will increase your taxable income and you will pay additional income tax.

Sars allows for our taxable income to be reduced by our contributions towards pension funds, provident funds and retirement annuities (capped at the lesser of 27.5% of the greater of your taxable income or remuneration and limited to R350 000 per year). With discretionary investments, you also need to remember that you will pay capital gains tax on any growth once the units are sold/switched off. In a retirement vehicle like a provident fund, no capital gains tax is payable.

2. My provident fund is with Old Mutual. Can I ask that all my investment allocation be invested in offshore investments to get maximum returns?

No, unfortunately you will not be able to allocate your full portfolio to offshore funds. Your provident fund is limited by Regulation 28 (which is part of the Pension Fund Act). This regulation was set in place to protect the member's retirement provision and to encourage diversification of the portfolio. Diversification of different asset classes in a portfolio helps to reduce the risk of the total portfolio. The goal of Regulation 28 is to reduce the risk on the retirement money so that the member does not unnecessarily lose capital.

Regulation 28 limits the extent to which retirement funds (including provident funds) may be invested.

The limitations are as follow:

- Equity: 75%
- Listed property: 25%
- Offshore: 30%
- Hedge funds: 10%

The best thing is to look at the total allocation of your provident fund and if the maximum of 30% offshore exposure is not fully utilised, to request that they change your underlying funds.

3. In the next two to three years if I change jobs, am I allowed to withdraw all my provident fund savings?

Yes. At resignation you have the following options:

- To transfer the full or a partial amount to a preservation provident fund, new work pension or provident fund or a retirement annuity; or
- Withdraw a portion or the full amount in cash. Just remember that you will be taxed according to the withdrawal benefit tables as shown below. This is a once in a lifetime benefit. In other words, if you withdraw R600 000 now and you want to withdraw R500 000 in the future before retirement, the amount will accumulate and you will pay a higher tax. In other words by the time you withdraw the R500 000, the R500 000 will be taxed in the third tax band (R660 001 – R990 000) because of your previous withdrawal. This will also negatively impact you when you retire as it will reduce your available tax-free portion.

2021 tax year (March 1 2020 – February 28 2021)

Taxable income (R)	**Rate of tax (R)**
1 – 25 000	0%
25 001 – 660 000	18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

4. If I switch jobs post-April 1 2021, am I allowed to withdraw my full amount? I hear a new law may limit me to withdrawing one third and with the balance, I would need to buy an annuity. Is this rule applicable to me? No, not at resignation (unless you are above the age of 55). The restriction for annuitisation is currently set to March 1 2021 and applies to retirement. It has been postponed previously. It might be possible that they will extend this date again. It will depend on when the date is finalised. You will still be able to withdraw the full amount from your provident fund if you choose to resign before the age of 55 (even with the new restrictions).

Just remember that you will be taxed before retirement on the withdrawal tax table as listed above. If this rule does come into effect, a provident fund will work in a similar way as a pension fund. You can then still withdraw (full or partial) from the fund when you resign from the fund before the age of 55 years, but you will be limited to withdrawing only a third once you retire and will be forced to buy a qualifying annuity with the remaining amount. Currently, members of a provident fund are not obliged to buy an annuity with the remaining amount at retirement and until this date is finalised this will remain unchanged.

Moneyweb | 22 September 2020

INTERNATIONAL NEWS

UK pension providers brace for surge in requests to cash in savings early

Demand expected to rise after government furlough scheme ends in October

Some of the UK's largest pension schemes are bracing for a significant jump in requests from savers to cash in their retirement benefits to help them through the Covid-19 crisis. Across the UK, about 5.8m people in the private sector hold entitlements to defined benefit pensions which are considered "gold standard" as they deliver a secure, inflation-proofed retirement income for life, based on salary and length of service. Since these employer-backed pensions are more secure than alternative retirement plans, the Pensions Regulator says most unretired members are better off not exercising their right to trade their future benefit for a lump sum now, and transferring it to a riskier arrangement where retirement cash can be taken from age 55.

Mercer, which administers about 4,500 "final salary-style" pension schemes with more than 2m members in total, said it believed the end of the government's job-support scheme next month would spark a "huge increase" in requests for transfer quotations. "We are bracing ourselves for a significant increase in requests for retirement and transfer benefits in the fourth quarter and 2021," said Lorraine Harper, principal at Mercer. "We believe that as people come out of furlough schemes and potentially lose their jobs, this will spark a huge increase in requests for quotations. "Hymans Robertson, another large scheme administrator, said it expected the number of members exploring transfer values to increase over coming months as job losses took hold and members took stock of their financial and personal situation. “It will be vital that schemes have the right communication and support in place to help members make well-informed choices,” said Ryan Markham, head of member options with Hymans Robertson. Barnett Waddingham, which administers 370 schemes with about 400,000 members, said: “Inevitably, we will see an increase in inquiries in either transfer or early retirement factors, once furlough ends.”

Pension schemes in sectors hardest hit by the pandemic have also reported a steep rise in members exploring quitting their gold-plated schemes. The British Airways retirement plan said requests for transfer quotes had doubled between April and September, compared with the same period a year ago, as lockdown disruption hit the economy. “In times of crisis, people do want to explore their options,” said Fraser Smart, chief executive of British Airways Pensions, which has about 50,000 members who qualify for a transfer.

“We are well prepared for an increase in transfer quote requests and we are building up resources to make sure we can process those quotations in the relevant timeframes.” However, Mr Smart said only 10 per cent of the transfer quotes issued during the pandemic were accepted by members and paid out. He said members could turn down a quote for several reasons, including difficulties finding a financial adviser to help them decide whether the offer was suitable. Once a transfer quote has been issued, it is typically valid for three months

In June, regulators, including the Pension Regulator, the Financial Conduct Authority and the government-backed Money and Pensions Service, took joint action to caution savers against tapping their defined benefit pensions if they were facing Covid-19 hardship. A letter for members exploring cashing in their pensions, prepared by the bodies, said transferring out of a DB pension scheme was “unlikely to be in your best long-term interests” and urged members to “not do anything in haste”.

Financial Times | 18 September 2020

OUT OF INTEREST

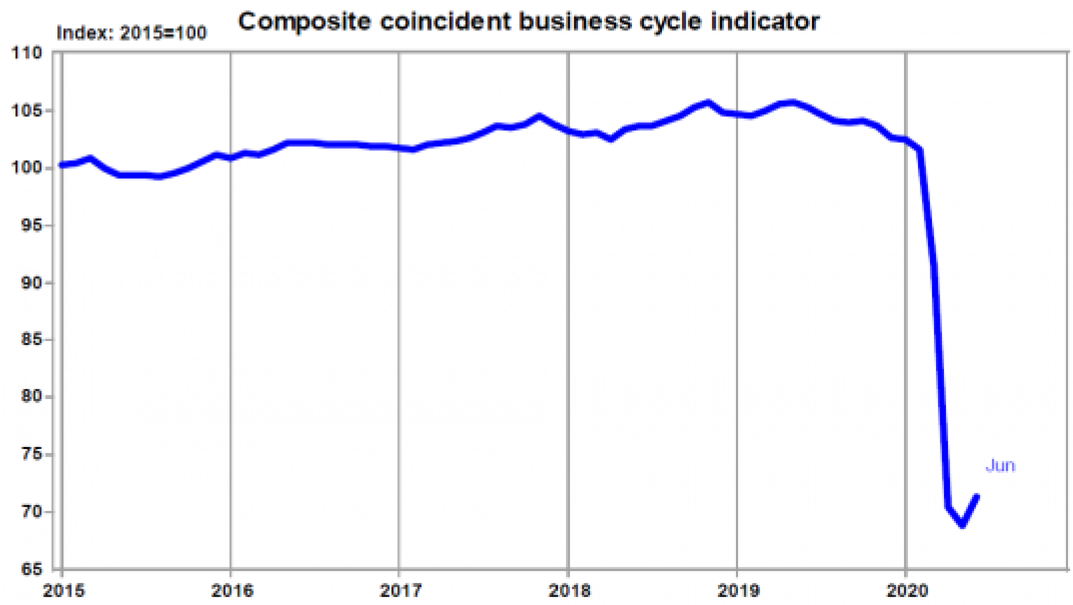
Economy on the mend – SARB

But too early to gauge the pace of the recovery.

The economy is on the mend. This is according to the South African Reserve Bank (Sarb) composite business cycle indicator released on Tuesday. The composite leading business cycle indicator, which is composed of 10 available time series components, saw eight of them improve on a month-to-month basis in July. “The largest positive contributions to the movement in the composite leading business cycle indicator in July were increases in the number of residential building plans approved and in the RMB/BER Business Confidence Index,” the Sarb said in a statement.

Source: Sarb

It said its composite coincident business cycle indicator increased 3.7% on a month-to-month basis in June. It was supported by increases in retail and new vehicle sales, and industrial production to a lesser extent, following improved economic activity as lockdown restrictions were gradually lifted.



Source: Sarb

For its part, the composite lagging business cycle indicator increased 2.1% on a month-to-month basis in June.

Source: Sarb

It was not, however, all good news, as seen in a pair of measures making up a part of the composite business cycle indicators. "The two negative contributors were a deceleration in the six-month smoothed growth rate in the real M1 money supply and in the 12-month percentage change in job advertisement space." Though the regression in these two indicators is disappointing, the overall positive direction is good news for an economy which has taken a pounding after the Covid-19 crisis saw the government implement an almost complete lockdown in late March and has seen it steadily open parts of it over the following months.

Next level

Although the country only went to Alert Level 1 on Monday (September 21), there were already signs that the economy was starting to get traction before the move to the current alert level, which allows the most economic activity within the country's Covid-19 risk adjustment strategy. Even so, it should not be seen as an indication that things are already back to where they were before the lockdown. "While the leading indicator shows expectations for economic activity in six to 12 months' time and it is showing improvement, one must be wary in concluding that this implies a full recovery from the lockdown," says Sarb economic analyst Adri Wolhuter.

She adds: "As the leading indicator has a good track record in predicting turning points in the economic cycle ahead of time, a continued increase in the indicator does suggest a recovery from the lockdown." Nevertheless, other than indicating that the recovery has started, the indicators cannot scale it. "One cannot deduct the pace of the recovery from this, only the direction – in the sense that activity should continue to improve. One could perhaps say that there is evidence of a normalisation of economic activity, especially now that Level 1 lockdown measures have been instated," Wolhuter says. For now, the Sarb does not want to speculate on the strength of the recovery.

“At the bank we make use of the three Ds – Depth, Duration and Diffusion – of the composite indicator components in order to evaluate the strength of a certain signal i.e. an improvement or deterioration. “These measures, while continuously improving over the past two months, remain well below long-term averages and therefore we remain cautious as to the timing of a full recovery to pre-lockdown levels of output.”

Table 2 Component time series of the composite leading business cycle indicator and their contribution to the July 2020 data point:

Positive contributors (ranked from largest to smallest)
Number of building plans approved: Flats, townhouses & houses larger than 80m²
BER*: Business Confidence Index
BER*: Volume of orders in manufacturing (half weight)
BER*: Average hours worked per factory worker in manufacturing (half weight)
Interest rate spread: 10-year government bonds minus 91-day Treasury bills
Commodity price index for South Africa's main export commodities (US dollar based)
Number of new passenger vehicles sold (percentage change over 12 months)
Composite leading business cycle indicator for South Africa's major trading-partner countries (percentage change over 12 months)
Negative contributors (ranked from largest to smallest)
Real M1 (six-month smoothed growth rate)
Job advertisements: The Sunday Times (percentage change over 12 months)
Unavailable component series
Gross operating surplus as a percentage of gross domestic product

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