irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

FRIDAY, 30 SEPTEMBER 2022

TABLE OF CONTENT

LOCAL NEWS

- Hybrid offshore pensions are not immune to tax
- Report Findings: Gender diversity in the Private Equity sector significantly increases
- Some musings on international retirement plans
- How to protect clients' annuities during market downturns
- FSCA releases discussion paper on unclaimed assets across financial institutions
- R81 billion of unclaimed benefits: is some of it yours?
- Is it my responsibility to redistribute funds in my RA?

INTERNATIONAL NEWS

- Workers cut pension contributions amid cost of living crisis

OUT OF INTEREST NEWS

- Saving for your autumn years: why you can't ignore it

LOCAL NEWS

Hybrid offshore pensions are not immune to tax

Words on Wealth

People send money offshore for a variety of reasons, many of which are sensible: you may want a hedge against the feeble rand, a global choice of investments, a pot of money for your kids studying at Oxford, or one for you in case South Africa goes belly up and you have to leave in a hurry. Over the years, this has become much easier – exchange control limits have become more and more generous. At present there is a discretionary allowance of R1 million per adult per year. If you go through the paperwork with the South African Revenue Service (SARS) and get clearance, you can take out R10 million a year, and you can take even more if you are in SARS's good books and ask very nicely.

But there's a corollary to this generosity on the part of the government: SARS has tightened up on taxing South Africans on their offshore investments. This brings us to the one nonsensical reason for taking money offshore: to evade or avoid tax. What you might have been able to get away with in the past you cannot get away with today under the increasingly stringent anti-tax-avoidance legislation here and globally. No matter where your money is invested, you cannot escape your obligations to SARS if you are a South African tax resident. Those obligations include donations tax, tax on income, capital gains tax and estate duty.

Of the various vehicles for investing offshore, one has come under scrutiny by SARS: the foreign pension trust. Typically, this is a hybrid structure that has characteristics of both a trust and a retirement annuity, based in a low-tax jurisdiction such as Guernsey. It allows you to make lump-sum or regular contributions, as you would into a retirement annuity in South Africa. You then have a vested right to withdrawals after retirement age, in some instances as low as 50 years.

SARS ruling

In a recent ruling (Binding Class Ruling 080) following an application by an unnamed company to market such a product, SARS made it very clear that the structure is not regarded by SARS as a retirement fund. There are no tax concessions on contributions or on investment growth, and capital gains tax is payable, as is estate duty. One concession by SARS, according to the ruling, is that contributions are not regarded as donations (which would incur donations tax). While the ruling pertains only to the product in the application, it does send out warning bells to

several offshore-based companies marketing this type of product, the investors who have put large sums of money into them, and potential investors who are looking at ways of investing offshore. The ruling reinforces what many clear-headed financial advisers and tax consultants have been saying for a while: offshore pension trusts are being marketed to South Africans for tax and estate planning benefits that may have applied in the past, but do not apply any more. They may avoid the high inheritance taxes of jurisdictions such as the UK or US and may save you having to draw up an offshore will, but so do other offshore investment products that are more SARS-friendly.

In a recent article, "SARS pours cold water on offshore tax gimmicks", tax attorneys Colleen Kaufmann and Monique Carvalho at Tax Consulting South Africa write: "For every compliant structure we review; there is a magnitude of ill-conceived, tax-driven products. These products lack technical substance and are designed by salespeople. Promises are made of remarkable tax benefits and the sales process is smooth and like a well-oiled machine, coming with all the bells and whistles to show legitimacy and the promise of a tax loophole." A strong selling point has been the premise that these products are not subject to estate duty. The SARS ruling puts paid to such a notion:

"When an investor dies prior to normal retirement date, the vested personal right will constitute 'property" in terms of section 3 of the Estate Duty Act. The right will form part of the deceased investor's dutiable estate. "On the death of an investor after normal retirement date, the right to an annuity will constitute 'property' as defined in the Estate Duty Act … [and] will fall within the dutiable estate of the deceased investor. The investor will be deemed to have disposed of the right to an annuity for market value."

Opaque nature

Charles McAllister, a Certified Financial Planner and executive director of Centric Wealth in Cape Town, is also critical of these offshore pension trusts. He says that, apart from the tax issues, a big concern is their opaqueness regarding the underlying investments and costs. "There appears to be very little oversight by the trustees over the underlying investments, which may include funds not approved by our local regulator, the Financial Sector Conduct Authority. For offshore funds to be marketed in South Africa, they have to be approved by the FSCA, and there is a good reason for that – so that an individual has recourse," McAllister says.

Worryingly, costs and sales commissions on the underlying investments, which would come out of your capital and which may be relatively high, may not be fully disclosed. McAllister says that although the SARS ruling pertains to a specific product, it would be remiss of a financial adviser not to make a client interested in this type of investment aware of the possible implications. "The environment has changed so dramatically that you can't set up a structure for 10 years

any more and ignore it. You have to review these things every single year. The question here is, once you're locked in, how do you unbundle something like this? I don't know if you really can," he says.

Personal Finance | 27 September 2022

Report Findings: Gender diversity in the Private Equity sector significantly increases

According to the latest Southern African Venture Capital and Private Equity Association (SAVCA) Private Equity survey for 2022, PE firms have shown a significant improvement in gender diversity, showing that the proportion of firms with more than 50% of women in their organisation has grown year-on-year. Further data indicates that for the 2021 period, 17% of firms have improved gender diversity compared to 2020, with 50% of women in front office roles, as opposed to 12% in 2020. The annual survey, which covers investment activity for the 2021 period ending in December, is recognised as one of the most detailed and comprehensive of its kind in the region.

It provides a snapshot of the state of the industry, identifying key insights, challenges and trends that are shaping the private equity landscape in Southern Africa. The survey shows that 51% respondents are more than 50% black-owned, with 65% having more than 50% black management. More funds are also being managed by higher B-BBEE rated firms than in previous years. Speaking at the recent launch, SAVCA Acting CEO and Head of Policy and Regulation Shelley Lotz said: "We are pleased to see the PE industry continue on its transformation journey in 2021. Our findings tell us that increasing gender representation was the top priority in hiring and onboarding talent for Southern African PE firms, with significant improvements being made in their overall gender diversity from 2020 to 2021."

Commenting on the industry as a whole, presenter of the survey's findings, Gergana Ivanova, EY Data and Technology Leader Strategy and Transactions: Africa, pointed to increased investment activity in 2021 as compared to 2020. She noted that the uptick in investment activity is indicative of the resilience of the private equity industry. "In 2021 PE investments totalled R14.9 billion, compared to R14.5 billion in 2020. The increase was driven by a 2.5 times rise in the value of new investments from R4.3 billion in 2020 to R10.6 billion in 2021. The industry has proved its resilience during uncertain times and this has set it on a trajectory of recovery and growth," she said.

Funds under management across the industry increased to R206.2 billion as at 31 December 2021, up 5.7% from the R195.1 billion seen at the end of 2020. Undrawn commitments at R39.5 billion represents 19.2% of FUM, an increase of R3.6 billion from the R35.9 billion recorded at the end of December 2020. While these are positive indicators that progress is being made, Mamedupi Matsipa, CEO of Ata Capital asserts that more needs to be done in terms of gender diversity at top-level management. "There are some areas in which improvements can be made. We note that board level gender diversity is not where it needs to be - the number of PE firm boards that have less than 10% female representation increased from 36% to 44% between 2020 and 2021.

There's no doubt we need to see more women on boards going forward, and to do this – we need to place a huge focus on not only attracting diverse talent, but also supporting them as much as possible once they have been onboarded" Given that there has been an increased focus in infrastructural development in Southern Africa, it comes as no surprise that this sector attracted the largest portion of investments – 20.4% - for the 2021 period. Commenting on what PE firms in Southern Africa can do to bolster the performance of the sector moving forward, Mike Donaldson, CEO of RMB Corvest, who spoke on the panel said:

"We believe that if the Southern African PE market wants to compete on a global scale, it is imperative that the smaller PE funds explore ways in which they can either merge or collaborate with one another, which would thus enable them to combine not only the experience of their fund managers and staff talent, but it would also give them access to a much larger allocation of capital. At present, we believe there are merely too many individual funds competing against one another, which is preventing them from achieving true growth and optimised performance." The SAVCA 2022 Private Equity Industry Survey is presented by SAVCA and EY.

The survey was based on responses from Private Equity firms operating in Southern Africa and covers the analysis of the industry's strategic priorities, investment and divestment activity, fundraising, funds under management, the impact of private equity, BBBEE and the diversity of PE investment. Lotz concludes: "As always, SAVCA remains unwavering in our commitment to support our members and the wider PE ecosystem. We hope that the information included in this report will be useful to our stakeholders as we all continue in our endeavours to grow, transform and improve the Southern African PE sector, and position is as the asset class of choice for investors."

FA News | 27 September 2022

Some musings on international retirement plans

There are a growing number of high net worth (HNW) South Africans that hold dual citizenships and can choose from more than one country to retire in. This reality is a real challenge to locally based financial advisers who are not always up to speed on the myriad financial, regulatory and tax considerations that go hand-in-hand with an international retirement plan. David Noon, commercial director for South Africa at Capital International Group, used the 2022 Sovereign Wealth International Retirement Seminar to share some of his views on the subject, in a presentation titled 'Navigating the windy road to [an international] retirement'.

Knowledge of tax dispensations non-negotiable

Noon singled out the regulatory environment and economic and political stability as critical considerations when choosing where to 'domicile' an international retirement plan. Other important considerations include having access to global financial markets, diversifying investments across asset classes and currencies and ensuring tax neutrality, to the extent possible. "You do not want to pay any unnecessary tax by way of double taxation, withholding tax or whatever other mechanism," he said. Financial advisers must ensure that their clients' financial plans deliver on their financial aspirations, regardless of where they plan to retire.

To do so requires answering questions such as: How much capital is needed to support the client's retirement; when does the client intend retiring; and where does the client intend retiring, among others. "The first of these questions is probably the hardest to answer, because the goal posts keep shifting [as your client's navigate their life journeys]," said Noon. He pointed out that the amount required in retirement, and the time taken to accumulate that sum, varied with significant life events, such as having additional children and / or putting those children through school and university. It is also worth noting that where your client chooses to retire could have a significant influence on the answers to 'how much' and 'when'.

Being 'stuck' between two countries…

Clients who are stuck between two potential retirement locations introduce a number of challenges for financial advisers. "The retirement plan needs to be flexible to accommodate life and regulatory changes; your clients need to have choices and options," said Noon. He suggested that the long and windy 'life stages' road to a sustainable retirement has not changed much over 25 years. These include early life, when your clients complete their education, start their first job and gain a taste for financial independence; accumulation and growth, during which your clients set about accumulating assets and saving for various financial goals and objectives, including retirement; transitioning into retirement; and finally, estate planning.

Financial advisers or planners who advise clients with international retirement aspirations need to partner with providers that operate in multiple currencies, can give your clients cost-effective access to multiple asset classes, globally; and are capable of global tax reporting. Having suggested Capital International Group as competent partner in each of these areas, Noon steered the discussion to a more immediate and real threat to cross-border financial transactions, namely South Africa's looming Day of Judgement with the Financial Action Task Force (FATF). Last October, the FATF gave National Treasury (NT) an ultimatum to address weaknesses in South Africa's anti-money laundering (AML) and countering of financial terrorism (CFT) framework, or risk being grey listed. Being grey listed, which looks increasingly likely, could introduce untold difficulties for HNW clients.

What the FATF now?

"Nobody talked about the FATF report when it appears in October 2021," said Noon. "At the time NT issued a one-page statement saying they were dealing with the matter, and we should not worry". Noon said it was almost inevitable that South Africa would make its way onto the grey list, despite the last-ditch end-August 2022 effort by the NT to ram through amendments to the Financial Intelligence Centre Act, the Non-profit Organisations Act, the Trust Property Control Act, the Companies Act and the Financial Sector Regulations Act. "Come October 2022, South Africa as a jurisdiction could have been grey listed for AML and CFT purposes, [meaning it will] have to undergo a programme of reform overseen by the FATF within an agreed timeframe," said Capital International Group's Chief Risk and Compliance Officer, Kath Quayle, in a pre-recorded video.

She added that the home affairs departments in many offshore jurisdictions "would undoubtedly put South Africa onto the list of jurisdictions that are perceived to present a higher risk of money laundering and terrorist financing". And that would mean closer scrutiny of virtually all financial transactions. The good news, according to Quayle, is that the potential impact of a FATF grey listing can be mitigated. "We will aim to deliver as little disruption to our client base as possible; South Africa is such an important marketplace to us [and] our appetite towards doing business with and in South Africa is unchanged and will remain unchanged," she said.

"We should be able to mitigate and manage those risk factors [meaning that] in a substantial proportion of cases the grey listing of South Africa would not really cause many of our clients to become higher risk". Quayle added that the firm would partner with its South Africa based intermediaries to support them in ensuring that they and their clients can continue to seamlessly access the firm's capital services and platforms These views were given in the context of financial entities licensed in the Isle of Man.

The sad consequences of grey listing

Of course, there are many other impacts to consider. Noon closed the discussion by suggesting that grey listing could result in a decline in foreign investment into South Africa, which might have an impact on the rand. “You can also expect far greater friction when you open accounts with overseas institutions on behalf of your clients,” he said, adding that it was common practice for global financial institutions to simply walk away when a country presented higher risk or compliance became too onerous. Financial advisers and wealth managers may be severely impacted, with a flood of requests for audited accounts; source of funds; and payslips, to name a few. The one saving grace is that there are solution providers that follow the mantra: “there is nothing wrong with being a good person in a bad place, which is what South Africa will be perceived to be”.

FA News | 28 September 2022

How to protect clients’ annuities during market downturns

The living annuity remains the weapon of choice for planners who want to turn their clients’ accumulated retirement-funding capital into a sustainable source of income. “Living annuities remain a popular choice because they combine the flexibility of adjusting client’s annual annuity income while allowing for a more hands-on approach to the level of risk in underlying portfolios,” says Roland Gräbe, Head of DFM at Old Mutual Wealth. The living annuity also facilitates inter-generational wealth transfer, allowing clients to bequeath remaining assets to a surviving spouse or dependents. South Africa’s financial sector regulators are prescriptive about how the accumulated capital in clients’ retirement funds must be used.

Upon retirement, clients can withdraw one third of the capital in cash, subject to the taxation laws, and must invest the balance in financial products that will provide them with annuity income through retirement. In the current context, this means choosing between a life or living annuity, or a hybrid of the two. So far, financial advice professionals have been quick to recommend living annuities to their clients, and with good reason. Living annuities provide a flexible income in retirement based on a percentage of the total assets under management.

The regulations allow for an annual withdrawal of between 2.5% and 17.5% of the total investment value, with the underlying capital then spread across a selection of unit trusts to achieve the capital and income growth needed to match the available capital to the income need. “Financial planners face a tough balancing act: they have to assist clients in determining the optimal drawdown and return profile to allow them to receive an adequate monthly income for life,” says Gräbe. The challenge is illustrated by the worst-case scenario of drawing down

17.5% per annum without generating any return on the underlying portfolio, in which case the entire accumulated capital will be reduced by half in just four years. Furthermore, capital erosion is just half the problem, because as the underlying investments decline, so does the amount that income is drawn from. “In a perfect scenario, clients’ investment returns must average out at the sum of their withdrawal rate and the inflation rate; if that can be achieved, the invested capital can provide for a constant level of income in real terms,” Gräbe says. A client withdrawing 5% of his or her capital each year would have to generate returns of 11%, assuming inflation of 6%.

This might seem reasonable to the average client; but financial planners are painfully familiar with the risk versus return trade-off that achieving an 11% nominal return demands. Going all-in on riskier, higher-return assets is not an option because it will leave clients horribly exposed if financial markets fall significantly, as they do quite frequently. The holy grail of retirement financial planning thus becomes a three-part equation: find the optimal withdrawal rate on a portfolio that balances risk taken and the return achievable. Old Mutual Wealth has dedicated significant resources to crafting winning investment strategies for the living annuity product segment, with a particular focus on protecting clients’ assets during market downturns.

The first step in finding an optimal solution for turbulent markets, according to Gräbe, is to acknowledge the shortcomings in the current living annuity space. “Living annuities are more sensitive to negative returns due to the constant withdrawal of income; by selling investments monthly, capital is reduced further while markets decline, leaving less capital to benefit from a market recovery,” he says, acknowledging that market volatility is a major influencer of the client’s choice of investment strategy. Despite this, most traditional investment strategies targeting inflation plus 5% or more hold as much as 70% in equities. “Holding a high level of equity exposure means that clients are at risk during financial market drawdowns,” explains Gräbe.

“This introduces the very real prospect of severe capital erosion which in turn puts tremendous strain on the trust relationship between planners and their clients”. It turns out that managing volatility is a good way to address this problem set. “The solution hinges on generating long-term capital growth whilst smoothing out a large portion of market volatility,” he says. Peaks and troughs in the financial market cycle can be smoothed out using the financial services group’s Smoothed Bonus Fund, which declares monthly bonuses, while returns accrue from a more aggressive balanced fund strategy that makes use of both active management and low-cost index funds.

Gräbe says that planners can achieve favourable outcomes for clients by combining the benefits of a smooth bonus fund with the more market correlated return of a traditional balanced fund. “This approach ensures that the bulk of the assets are invested in growth asset classes without any need to predict or time market cycles. It also reduces sequence risk, meaning that both the planner and the client are less exposed to the detrimental impact of a falling market early in the retirement period,” he concludes.

FA News | 28 September 2022

FSCA releases discussion paper on unclaimed assets across financial institutions

The Financial Sector Conduct Authority (FSCA) this week launched a seminal discussion paper on the almost R90 billion in unclaimed assets across the financial sector, the bulk of which (about R47bn) are in retirement funds. The paper builds on work done by the FSCA and National Treasury to reunite unclaimed assets with their rightful owners and to stem the build-up of such assets in the future. Dealing with unclaimed assets is a complex task, with many types of assets involved. They include retirement fund benefits, bank deposits, assets in collective investment schemes, life and non-life insurance policies, and listed shares.

FSCA Commissioner Unathi Kamlana says work is continuing to establish the true value of unclaimed assets in the sector, given that these assets are held by various financial institutions. He says a big hindrance to disbursing these funds is the lack of a common understanding of what constitutes dormant or unclaimed assets, and the lack of reliable data. “It is quite clear that we have to improve the outcomes for customers and that’s what this paper is trying to achieve,” says Kamlana. The FSCA’s discussion paper considered international unclaimed assets frameworks to determine the definitions, management and reporting of unclaimed assets.

The paper also outlines reasons for the nature and extent of the problem of unclaimed assets in South Africa, which vary by sector. The most common reasons are :

- Asset owners' failure to keep financial institutions updated with their contact details and the personal details of their beneficiaries;
- Asset owners' failure to inform their beneficiaries of the existence of the assets and the institutions where they are held;
- Inadequate record keeping by financial institutions and intermediaries in the value chain;

- Inconsistency in approach to the identification and treatment of unclaimed assets (including reunification efforts) both within market segments and across the financial sector overall;
- Failure by employers to provide retirement funds/administrators with complete details of the members of the fund; and
- Changes in intermediaries and administrators.

The FSCA proposes 13 recommendations in support of a holistic and consistent approach to the treatment of lost accounts and unclaimed assets within the financial sector. One of the most significant proposals is the establishment of a single Central Unclaimed Assets Fund into which all unclaimed assets, once identified as such, should be transferred and managed on behalf of the sector. Alternatively, such unclaimed assets can be transferred into the National Revenue Fund. Katherine Gibson, FSCA Deputy Commissioner, says the paper is intended to avoid a build-up of unclaimed assets in the future. "We are approaching this from a fairness point of view on behalf of customers, most of whom are from vulnerable backgrounds. This fits in well with our wider consumer protection framework," she says.

IOL | 22 September 2022

R81 billion of unclaimed benefits: is some of it yours?

It's hard to believe that there is a huge pot of money – around R81 billion – that South Africans (and foreign nationals who worked here or their descendants) could be using to improve their lives, that they don't know they are owed. I am referring to unclaimed retirement fund benefits of over R47 billion and unclaimed insurance and investment assets of about R34 billion as at the end of 2021, according to the Financial Sector Conduct Authority (FSCA) and the Association for Savings and Investment South Africa. This money is sitting in retirement funds and on the books of insurance companies and asset managers, accumulating interest, but also incurring investment management and administration fees.

There are ongoing efforts by the financial services industry and its regulator, the FSCA, to trace the rightful owners of these assets. But the truth is that the bulk of this money may never be united with its rightful owners. The benefits span several decades. Many direct beneficiaries will have died, and although their descendants may be able to claim, they are unlikely to know much about a late relative's finances or what pension fund he or she belonged to. The trouble is that the administration and record-keeping relating particularly to members of retirement funds (and within this space, particularly in the mining industry) were pretty slack in the past.

Jeanine Astrup, a consulting actuary and member of the Actuarial Society of South Africa Retirement Matters Committee, says that most retirement funds and their administrators are working with tracing agents in an effort to whittle down the unclaimed assets. However, this comes at a significant cost. “The more specialised and intense the search for beneficiaries of unclaimed retirement benefits, the higher the cost implications. Cases where ID numbers, dates of birth, or surnames differ, require further investigation. This has time and cost implications.” Astrup says fund trustees and administrators could probably do more to unite former members and beneficiaries with their benefits but says that individuals can also play their part.

If there is a possibility that you stand to benefit, Astrup says you need to take note of the following:

Surpluses for members of defined benefit funds pre-2004.

Under the Surplus Apportionment legislation, which came into effect in the early 2000s, many former members who were entitled to a share of any surplus in the fund were not traceable. “Many unclaimed surplus benefits date back to the years preceding the digital age. Old payroll systems, some of which were not even electronic, did not capture ID numbers, seldom had first and second names, and rarely recorded gender. There was no such thing as system verifications, and information was often captured incorrectly or not at all.” Astrup says former members of defined benefit funds or their beneficiaries who believe they might have a claim should contact their previous employers.

Differentiate between scams and genuine tracing efforts. “With all the scams out there, it is no surprise that members are sceptical when, out of the blue, they receive a phone call or email advising them that the employer they left five, 10 or even 20 years ago would like to pay them money,” says Astrup. Don’t dismiss these approaches out of hand, and try to differentiate between a genuine call and a scam (see box). ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement/r81-billion-of-unclaimed-benefits-is-some-of-it-yours-06348e32-a7a5-42fc-9b9a-67652d6ab250***

Personal Finance | 22 September 2022

Is it my responsibility to redistribute funds in my RA?

As it is the fund manager's responsibility to manage the fund to ensure Regulation 28 compliance, the investor would remain compliant if invested 100% in a fund.

If the underlying investments in my retirement annuity grow disproportionately to the allocation percentages which are Regulation 28 compliant, will the funds be redistributed to align with Regulation 28, or will they be left as is? Is it my responsibility to redistribute the funds? Retirement funds are governed by Regulation 28 of the Pension Funds Act which limits the extent to which retirement funds may invest in certain assets. Retirement funds have various limitations, most notably being the limit of 75% to the equity asset class, and the total limit to offshore exposure of 45%. Other limits include a maximum allocation of 25% to the property asset class.

Therefore, your investment asset allocation as a whole is required to be compliant. There are certain funds that are Regulation 28 compliant such as, example, the Allan Gray Balanced Fund. As it is the fund manager's responsibility to manage the fund to ensure Regulation 28 compliance, the investor would remain compliant if invested 100% in this fund. As an investor, you are not obligated to just invest in funds that are only Regulation 28 compliant. You can invest in multiple funds that might not be individually Regulation 28 compliant, as long as the overall portfolio complies. When an investor goes this route, the responsibility will fall on the investor to rebalance the portfolio.

Most service providers notify the client when their investment is no longer Regulation 28 compliant and requires rebalancing, although this is not always the case. When this happens, the investor will usually be given a 12-month time frame by the service provider in order to ensure the portfolio is Regulation 28 compliant. It is also important to note that no additional transactions will be able to occur on the fund until it is compliant. If the client does not have an advisor assisting them with selecting funds, it can become quite difficult for the average investor to choose funds from the fund list.

In such circumstances, appointing a multi-manager can be beneficial as the key function of a multi-manager is to research and analyse the funds offered by various asset managers, and to build a portfolio from these funds in line with a specific investment objective, such as a Regulation 28 compliant portfolio. The investor agrees to an investment mandate which determines the set of investment returns required by the client in order to achieve their goals. A multi-manager, therefore, does not directly handle invested funds but rather strategically allocates a client's capital to carefully selected funds in line with the agreed investment

mandate. The multi-manager will ensure that the funds are invested as per the investment mandate and remain compliant with Regulation 28 which they achieve via rebalancing. In the absence of an appointed multi-manager, an advisor and client would need to meet in order to select the underlying funds and agree on asset allocation, with the selected investment portfolio being reviewed typically on an annual basis. The danger of this approach is not only becoming non-compliant but also that the fund selection and asset allocation may become inappropriate as and when influenced by international politics and global economies. If the funds are required to be compliant due to the investment no longer being of 'grandfathered' status – which is when the retirement fund is not required to comply with Regulation 28 – then the investor usually has until the end of the tax year to comply, and this remains their responsibility.

Moneyweb | 28 September 2022

INTERNATIONAL NEWS

Workers cut pension contributions amid cost of living crisis

LONDON, Sept 27 (Reuters) - Britain's pension scheme trustees should review their cash flow positions and assess if they can cope with further market stresses, the Pensions Regulator said on Tuesday following a sharp rise in gilt yields that may trigger a scramble for cash. Many pension schemes have large investments in UK government bonds or gilts, which have been hit by concerns over the British government's planned tax cuts and increased borrowing. Short-term gilt yields rose 100 basis points over two market sessions, leaving some pension schemes with hedges designed to protect against market volatility under water, industry advisers said.

As a result, pension schemes large and small are facing emergency calls for collateral with as short a notice period as two days on some highly leveraged derivatives positions used to hedge against wild moves in UK government bonds, the advisers said Trustees and their advisers should look at the resilience of their investments, risk management and funding arrangements "in more detail", David Fairs, the regulator's executive director of regulatory policy, analysis and advice, said in an emailed statement. He said the pensions regulator expected trustees to "understand the source of those cash flows and how their availability might be affected by the ability to liquidate assets held and by the collateral requirements in a variety of markets, including one under greater stress".

Reuters | 27 September 2022

OUT OF INTEREST NEWS

Saving for your autumn years: why you can’t ignore it

There are many reasons why you need to start saving for retirement sooner rather than later. The obvious one is that you have enough time to build a large-enough nest egg on which you can retire comfortably without having to depend on either your children or the government for a living. But another is that you can take advantage of the government’s tax breaks on retirement savings for that much longer.

Research by Liberty shows that many working South Africans only start to think about saving for retirement once they are over the age of 40, and are therefore not benefiting from the tax advantages that will help them build a substantial nest egg for their retirement. Contributing to a retirement fund allows you to save a large chunk of your earnings tax-free every year. You are entitled to claim a tax deduction for your contributions (subject to specified limits) and your money will grow tax-free in the retirement fund itself – in other words, it is not subject to normal taxes on an investment: tax on interest earned, capital gains tax and dividends tax.

As an example of how much you save in tax on your contributions, if you have taxable income of R500 000 a year and contribute R100 000 to a retirement fund, you're taxed only on R400 000. Using the current tax tables, assuming no other deductions, you would pay tax of R119 830 on R500 000 and R88 265 on R400 000, so you save R31 565 in tax. Or, looked at another way, of the R100 000 you save, only R68 435 comes out of your pocket. When you retire, you are allowed to take one-third of your savings in cash - the other two-thirds must be used to “buy” a pension. On your cash lump sum, the first R500 000 is tax-free, with the balance taxed at a preferential rate.

Then, your pension from the remaining two-thirds will be taxed as income, but you will be paying lower income tax for a number of reasons: you’re likely to be earning less than when you were working; you have higher rebates from age 65; and you can claim more for medical expenses from 65. If you are not contributing to a retirement fund linked to your employer – or even if you are – you may consider saving in a retirement annuity fund (RA). These are attractive because they are portable (not tied to an employer), have no contribution limits, and your retirement benefits can be accessed from the age of 55. Although RAs remain one of the popular options, Liberty’s research found that at least 59% of South Africans perceive RAs as expensive.

"Having a comfortable retirement or being in a position to live life the way you want at a certain age should rate as an important life goal. But somehow many South Africans are not 'getting' this until they are older," says Nosipho Nhleko, lead specialist, investment propositions at Liberty. Only 31% of people between 30 and 35 have established a proper retirement savings plan, according to Liberty's research findings conducted in an effort to understand retirement trends from an insurer perspective. By the ages of 45-49 this figure jumps from 31% to 63%.

So South Africans become financially wiser as they get older, but it also indicates that too many South Africans are setting up their savings plan too late. "The fact is, the earlier you start saving, the easier it is and the more you can put away for a comfortable retirement. Every circumstance is different, and partnering with a financial adviser is the best way to plan your personal financial journey. The sooner you start, the better. You may well be saving yourself quite a bit of money in the long-term if you start early, while securing the life to which you aspire," says Nhleko.

IOL | 9 September 2022

Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

3 Williams Road
Bedfordview
Johannesburg 2008

Disclaimer: The IRFA aims to protect, promote and advance the interests of our members. Our mission is to scan the most important daily news and distribute them to our members for concise reading.

The information contained in this newsletter does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. The information contained herein has been gathered by the Institute of Retirement Funds Africa from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. The Institute of Retirement Funds Africa is not responsible for and provides no guarantee with respect to any information provided therein or through the use of any hypertext link. All information in this newsletter is for educational and information purposes and