FRIDAY, 29 MAY 2020

# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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## R400bn decline in pension funds affects South African household wealth

JOHANNESBURG - Pension funds in South Africa declined by more than R400billion in the first three months of this year, resulting in a negative chain reaction on households' net wealth. A study by Momentum/Unisa research released yesterday showed that households' real net wealth decreased substantially in the three months to March on jittery markets and the coronavirus pandemic. The study said households' real net wealth fell by about R828.2bn from the fourth quarter of 2019. The bulk of the decline stemmed from a sharp decrease in the real value of financial assets, which were R788bn lower and R40.6bn less than non-financial assets.

Momentum researcher Johann van Tonder said the decline was 52.5percent more than the previous largest quarterly fall during the 2008 Great Recession. "The recent plummet in household real net wealth - from an estimated R7043.6bn in the fourth quarter of 2019 to R6215.4bn in the first quarter of 2020 - can be largely attributed to a sharp decline in the real value of households' pension funds and other investments such as unit trusts," Van Tonder said. "The real value of pension funds declined by an estimated R427.6bn over the quarter, while other investments lost value of R363.9bn." Van Tonder said the negative impact of the Covid-19, the subsequent countrywide lockdown, and South Africa losing its last investment grade credit rating at the end of March contributed to the decline.

He said this also impacted on the real value of households' retirement funds and investments. "Households' pension funds and other investments were mainly invested in two asset classes: shares and bonds," Van Tonder said. "The decline in the prices of shares and bonds was caused by worldwide fear and panic selling of these financial assets stemming from the spreading of the coronavirus." The South African Reserve Bank last week cut the repo rate by a further 0.5percent to shore up the economy, bringing the total 2020 interest rate cuts to date to 2.75percent. Anchor Capital's Nolan Wapenaar said investors earning a 7percent return on their 32-day notice accounts saw their income plummet to 4.25percent in January on that same investment today.

Wapenaar said the latest repo rate cuts would do little for longer-term bonds than short-term interest rates. He said the coronavirus lockdown implemented in many countries incapacitated economies, as little production was possible. "Apart from the immediate negative effect on the prices of shares and bonds, the future impact of these decisions will be devastating for economies and households - as company profits will decline, while millions of households are expected to lose their income due to extensive employment losses across the economy, negatively affecting their ability to live properly and save for retirement and other goals," he said.

**IOL | 26 May 2020**

## OPINION: Is early access to retirement savings an option?

**RANDS AND SENSE:**

Many employees are in financial distress as they have either lost their jobs or are receiving reduced or no salaries as a result of the Covid-19 national lockdown. To alleviate some of the financial distress the government has implemented several relief programmes and the Financial Sector Conduct Authority (FSCA) has said retirement funds can apply to have their rules changed to allow the reduction or suspension of contributions to provide some relief to employers and members.

South Africa's retirement fund legislation currently stipulates that active members cannot access their retirement savings whilst employed and that benefits can only be paid when members leave their employers. In an effort to assist members affected by Covid-19, retirement fund regulators in other countries have amended their retirement fund legislation to grant members temporary early access to their retirement savings. They are using the following eligibility criteria, where members must be either:

- unemployed;
- made redundant;
- subject to reduced working hours; or
- sole traders whose business has been suspended, or whose turnover has fallen

The Australian government has allowed members to access up to AU$10 000 (about R120 000) of their retirement savings before 1 July 2020. These members will have another opportunity to access an additional payment of up to AU$10 000 between 1 July 2020 and 24 September 2020. These payments will be tax free. The Employees' Provident Fund Organisation in India has changed its rules to allow for an advance non-refundable withdrawal of retirement savings. Employees will be allowed to withdraw the lower of 75% of their retirement savings or three months' salary as an advance from the fund whilst remaining an active fund member. Members participating in the Malaysian Employees Provident Fund will be able to, over the next 12 months, withdraw up to 500 ringgits (around R2 175) per month from their retirement savings. This will only apply to members below 55 years old.

The US has implemented the Coronavirus Aid, Relief and Economic Security Act (CARES), which allows the following:

- Members can withdraw money from their Individual Retirement Accounts (IRA) and employer sponsored retirement plans without incurring the 10% tax penalty for early access.
- Members will have three years to repay this amount and when repaid within the three years, no income taxes will be due.
- The maximum loan amount from an employer sponsored retirement plan is now US$100 000 (about R1 906 000) and a member can now borrow up to 100% of vested assets.

The Global Pension Asset Study report of 2020 shows the size of these markets relative to that of South Africa. The figures in brackets in the first column indicate the ranking by size of assets, out of 22.

| Total Estimated Pension Assets 2019 (USD billion) | Pension assets/GDP ratio (%) | | |
|---|---|---|---|
| (1) | United States | 29 196 | 136.2% |
| (4) | Australia | 2 077 | 150.9% |
| (11) | Malaysia | 254 | 69.5% |
| (14) | South Africa | 231 | 64.3% |
| (19) | India | 185 | 6.3% |

Although National Treasury and the FSCA have not announced plans to amend the current retirement industry legislation to follow the global trend, a number of suggestions have come up over the past few weeks about how members could receive relief using their retirement fund savings. The ideas range from pension backed lockdown loans in partnership with banks, to accessing savings under a Special Relief Benefit. The Lockdown Loan would allow members to access competitively priced loans without withdrawing from their retirement savings.

In the longer term, the repayment of the loan instalments may become a financial burden to members. Should the members leave their funds, their retirement savings' balance will be reduced by the amount owed. These measures could be an opportunity to alleviate members' financial hardships by leveraging their retirement funds. Implementation would, however, require amendments to the legislation. National Treasury would also need to say whether these proposals are in line with their policy on retirement reform. Year to date major equity markets are severely down from their peaks, so withdrawal of retirement savings during such market conditions could see members locking in any losses incurred.

Early withdrawal can be likened to members borrowing from their financial futures, as every rand taken from retirement savings today means less will be available in retirement. With millions of members possibly experiencing financial distress due to the pandemic, the introduction of early access to retirement savings may result in a substantial outflow of funds within a short period of time, leading to a negative impact on the retirement industry and investment markets. This needs to be balanced with the potential relief such a measure could provide to employees facing financial hardship.

**IOL | 27 May 2020**

## Odds stacked against investment industry as Covid-19 hits pension contributions

The investment industry could face one of its toughest years to date in 2020 as people are losing their jobs and cashing out their pensions to survive, while companies are giving those who remain employed options to save less for retirement. One of SA's biggest asset managers, Coronation Fund Managers, said while it is still early to assess the impact of coronavirus-related job losses on the industry, it is safe to expect that less money will be coming in. On the other hand, the industry will be at the mercy of the financial markets and praying that the bloodbath that took place in February and March does not repeat and wipe out value of companies fund and asset managers have put their bets on.

**The lockdown effect**

"South Africa has experienced low economic growth for the past few years. We've seen unemployment rise. All that now has been exacerbated by the impact of Covid-19," said Coronation CEO, Anton Pillay. He said as more companies are announcing retrenchments, employees gain access to their pension funds and the number of people contributing to the country's overall savings pool is dwindling. "There's the unemployment and the falling contributions, because what the lockdown has allowed people to do is, for the next three to six months they may not contribute to their retirement fund. That means we are not going to get flows or there will be a lower level of flows coming in from people who are still employed," added Pillay.

**Shrinking savings pool**

This expected slump in contractual savings comes as South African households have already been in a **dissaving territory** since 2018, meaning that after spending all their income, they go further to borrow or use past savings to fund consumption. David Talpert, analyst at Avior Capital Markets said while it was difficult to quantify how fast the lockdown could accelerate dis-saving, it made sense that increased unemployment and lower GDP would lead to reduced savings and increased outflows from the asset management industry.

Karl Gevers, head of research at Benguela Global Fund Managers, said while retrenchments will spike withdrawals from institutional investors, retail savings will probably suffer too as people cash them out or stop putting money aside to survive the lack of income. "This, combined with weak markets, is certainly a big risk for asset managers as well as administrators and advisors. Generally, in the retail space one also finds that many clients pull their savings after poor performance, which is not always the best timing," he added.

The shrinking number of savers in the country as more people lose their jobs has been concerning pension fund administrators and the investment industry for some time now. Coronation said in the six months to March, it experienced net outflows – money that investors cashed out – of 3.8%, which Pillay said was in line with the industry and Coronation's experience in the previous comparable periods. "Formal retirement fund market has really been in a net outflow situation for the last decade," said Pillay, as Coronation recorded another 11% decline in its assets under management (AUM) – savings that clients have given to Coronation to manage. Pillay said roughly over 7% of the fall could be attributed to the market movements. Gevers and Talpert, however, pointed out that while the declined in AUM was exacerbated by sell-off in markets in March, Coronation had outflows of about R21 billion over the past six months and its cumulative outflows over the past five years exceeded R200 billion. "So while outflows are slowing, clients have still been moving funds away from Coronation," said Gevers. "The positive for Coronation has been the slight increase in fee margin, on the back of better performance."

**Fin24 | 26 May 2020**

## Covid-19: Taxpayers can apply for a tax debt deferment

Up to 35% of an employer's total employee PAYE tax liability may be deferred as well as 35% of its provisional tax liability. The bulk of the tax relief provided thus far has gone into providing cash flow support for tax-compliant businesses that have been negatively impacted by Covid-19. However, under certain circumstances, taxpayers with pre-Covid-19 tax debts may also be granted access to the Covid-19 tax relief, says Beatrie Gouws, head of stakeholder management and strategic development at the South African Institute of Tax Professionals (Sait).

Taxpayers with outstanding tax debt can generally apply for a debt deferment arrangement with the South African Revenue Service (Sars) and a waiver of the penalties on new returns. Once they have an approved debt agreement with Sars, the taxpayer will also be able to apply for the Covid-19 tax relief for pay-as-you-earn (PAYE) and provisional tax. In terms of the relief, 35% of the employer's total employee tax liability (PAYE) may be deferred as well as 35% of the provisional tax liability.

**Six instalments**

A Sars spokesperson says the taxpayer will pay 65% when the return is submitted and the balance (35%) for April, May, June, July and August will be deferred in six instalments. If an employer defaults on the payment of the instalments, penalties and interest will be imposed for the month of the default.Joon Chong, tax partner at Webber Wentzel, says if taxpayers do not need to defer the 35% of the monthly PAYE they can pay the tax in full. "This is ideal as employers need not keep track of instalment payments due on the PAYE statement of account and risk incurring penalties and interest due to late payments."

**Provisional tax deferrals**

In terms of the provisional tax deferrals, "qualifying taxpayers" with a gross income less than R100 million will be able to defer their first and second provisional tax payments. They will be able to pay 15% instead of 50% of the estimated tax liability for the first payment and then 50% as the second payment. Chong explains that 100% of the estimated tax liability will have to be paid by the third provisional payment to avoid interest. "It appears that turnaround times for responding to applications for additional relief (large businesses or qualifying taxpayers needing more relief) are not set yet and there is no set number of days by which Sars has to respond," notes Chong. She advises taxpayers to follow up with their relationship manager or the Sars call centre to find out who the application has been allocated to, and then follow up regularly with that Sars official for a response. Baker McKenzie tax experts Virusha Subban and Denny da Silva say the aim with the instalment arrangements is to alleviate the cash flow burden of tax-compliant businesses during the pandemic economic crisis. The instalment payment option applies to both small and larger businesses, as well as multinationals operating in South Africa, they say. "Taxpayers making use of this relief scheme must be able to prove substantial and material financial hardships as a result of Covid-19. "Penalties will only be remitted if taxpayers are able to successfully prove the serious impact of Covid-19 on their business."

**'Digital offerings' from Sars**

Sars has introduced several "digital offerings" in order to service taxpayers during the lockdown period. One is the introduction of an online appointment system. However, Yolandé Breedt, tax practitioner at Rabie Taxation Services, is frustrated with the appointment system. They have applied for appointments, but are getting no response. An application made in April is yet to receive a response. "Before lockdown we were able to secure an appointment within a month [of] applying. However, now we are not even getting a response."

This impacts many taxpayers' ability to obtain refunds, says Breedt. Tax practitioners are also unable to book appointments for their expat clients. The system does not allow the use of passport numbers, only SA identification numbers. Sars says the use of passport numbers for non-residents will be introduced in the next phase of the online booking service. Sars has also made it possible to submit certain supporting documents online, such as the original documents required to verify banking details. Previously this could only be done at a branch.

Breedt says in certain instances it is not possible to upload the documents because the link provided for the upload is not available, or the taxpayer is informed that their details cannot be verified by a third party. The taxpayer or theit practitioner then has to visit a branch – when they are able to get an appointment. Elle Sarah-Rossato, head of tax controversy and dispute resolution at PwC, says taxpayers need a case number in order to upload documents, which they have to obtain from the call centre. "The call centre appears to be swamped and contacting Sars through this channel takes significantly longer," says Rossato. Sars says the letter requesting supporting documents will also have a case number that will correspond with the request for documentation which can be used.

**Moneyweb | 29 May 2020 | Amanda Visser**

# INTERNATIONAL NEWS

## UK’s pensions minister endorses new guide for Covid-19 concerns

Guy Opperman said the online information guide, prepared by seven UK pension organisations, represents a "useful addition" to measures already put in place by the government.

The information guide is aimed to reassure scheme members amid concerns about the Covid-19 crisis on financial wellbeing in the UK. The guide, entitled ***Covid-19 and Your Pension: Where to Get Help,*** was created and written specifically for pension savers. It was prepared by the Pension Protection Fund (PPF) has joined forces with the Department for Work and Pensions (DWP), the Financial Services Compensation Scheme (FSCS), the Money and Pensions Service (Maps), The Pensions Regulator (TPR), the Financial Conduct Authority (FCA) and The Pensions Ombudsman.

Opperman said: "We're doing whatever it takes to ensure people are supported through these unprecedented times and this guide is a useful addition to the measures pensions bodies have already taken to assist savers, such as the TPR's transfer warnings and reporting easements. "Keeping people informed is vital, and I welcome the coordinated approach being taken by the different pension bodies to assist anyone who needs advice or guidance." Oliver Morley, PPF chief executive, said: "There are over 10 million members of corporate defined benefit schemes across the UK who may not be aware of our role in protecting them should their scheme or sponsoring employer be unable to pay their pensions in the future.

"It's really important that those saving into any scheme are aware of the measures that are in place to protect them. I'm delighted that we're coming together with our partners across the industry to reinforce this message and launch this guide today." TPR chief executive Charles Counsel added: "By working together, all organisations whose goal it is to protect savers are at their most effective, and so I welcome this guide as a useful tool to drive confidence in pensions."
The full guide **is on the PPF website.**

**International Investment | 28 May 2020**

# OUT OF INTEREST

## Cash isn't what it used to be

If SA can't get its budget deficit under control, how do investors preserve their capital?
Warren Buffett's famous first rule of investing is 'never lose money'. His second rule, of course, is 'never forget rule number one'. Identifying investments where you can be sure that you won't lose money in the current environment is however extremely challenging. Buffett's Berkshire Hathaway currently has more than $130 billion in cash because it is finding it so difficult to find appropriate opportunities. 'Preserving capital, at its core, is about maintaining the buying power of what you have,' said Andrew Lapping, the CIO at Allan Gray and co-portfolio manager of the Allan Gray Balanced fund and Allan Gray Stable fund.

'This is where cash comes in. A lot of people see volatility as risk, and so they find cash attractive. But the real risk is a permanent loss of buying power.' Locally, cash has been an outstanding investment over the past few years, as inflation has averaged around 4.5% while money market funds have been returning as much as 7.5%. A 3% real return has therefore been extremely attractive. This is particularly the case as local equities have struggled. However, this kind of real return from cash is extremely unusual. It has also quickly been eroded in the last few months as the South African Reserve Bank has cut the interest rate by 275 basis points.

**Fiscal trouble**
'The even bigger risk,' said Lapping, 'is how South Africa gets itself out of its current fiscal position. There is a huge budget deficit, relatively high debt-to-GDP and very little economic growth.' How does the government avoid this becoming a negative spiral from which it is impossible to escape? 'They could cut spending extremely aggressively, but that is very hard to do in any country, and particularly hard in South Africa,' said Lapping. 'They could increase tax rates substantially. But, again, that's tricky – corporate tax is going to take a long time to recover and personal income taxes are already relatively high in South Africa.

Or they could increase consumption taxes. None of these are particularly palatable.' The risk, if the country is unable to get the deficit under control, is that inflation could pick up substantially. 'Examples of how this happens range from the relatively extreme in Argentina to the very extreme in Zimbabwe,' said Lapping. 'These are countries that just couldn't control their spending. And in a case anywhere close to that you don't want to be in cash, because money in the bank can very quickly lose its value in a high inflation environment where interest rates don't respond accordingly.'

**So many ways to lose money**
How then, do investors respond? How do they preserve their capital?
'The traditional way to protect your assets is to own real assets such as commodities, property, or equity,' said Lapping. 'The problem with equities is that in South Africa valuations are cheap on the face of it, but

obviously there are very high risks. Equities in global markets, and particularly the US, on the other hand, are relatively highly-valued. And another sure way to lose money is to buy expensive assets.' For Lapping, preserving capital over the long term requires buying undervalued assets, with 'staying power'. The first obvious place to look is the local bond market. 'You can buy South African government bonds at a 10% to 11% yield, which is pricing in quite a lot of bad news,' he said. 'And if inflation goes up to 8% you're still getting a 2% real return, which isn't bad over the long term.'

Developed market bonds, however, don't offer the same long-term comfort. 'Given government debt burdens and zero yields, developed market bonds are extremely risky, because you are getting no return and governments are monetising their debt,' said Lapping. 'At least in South African bonds you have an interest rate buffer. In developed markets there is no buffer.'

**Global view**

Finding opportunities in equity markets is, however, far less clear cut. Often it is about looking for the 'least worst' option. 'In the global market, you've had just a few big winners,' said Lapping. 'In the US that's the likes of Microsoft and Amazon. 'People know that Amazon is a great company, but the price is massive and it's not worth it,' said Lapping. 'What you need to find is good businesses where the price makes sense. You can't only say I'm looking at price, because then you will buy a portfolio of junk.

You also can't just buy great businesses, because then you have a portfolio of assets at high valuations.' There are some pockets where these opportunities may be available. 'Where our partners Orbis are looking for value is in unfavoured areas, in places like Europe where you can buy great businesses on very reasonable valuations because there is so much uncertainty.' There are some similar opportunities in South Africa, although they are harder to find.

'The risks here are more acute,' said Lapping. 'For instance, banks are very cheap, but they are leveraged financial institutions and bad debts will no doubt go through the roof. But we do think that selected industrial stocks like Tiger Brands or AVI, which are pretty defensive companies trading on valuations well below their long-term averages, are interesting. These are businesses that should survive and don't have much debt. Logistics company Supergroup is another well-run business, which is the type of thing that you have to try to find.'

**Moneyweb | 27 May 2020**

## Business to play dual role of reopening economy and saving lives, says Patel

There will be a greater responsibility on workplaces as companies and employees grind back into action

The government is placing greater responsibility on businesses to control the spread of the coronavirus as it embarks on a delicate balancing act to protect lives while allowing more economic activity, says trade and industry minister Ebrahim Patel. “We have moved from just regulations, but we are collaborating more with business as we open up the economy,” Patel said during a media briefing on Thursday to outline some of the level 3 regulations. “We are building a system. It will not be perfect. The value of phased opening is we can learn as we go along.

This risk-adjusted approach is placing greater responsibility on workplaces and businesses in helping to make the working environment a safe one,” the minister said. He said level 3, which comes into effect on June 1, would result in close to 8-million workers returning to work as government moved to mitigate the economic fallout of the pandemic. Those returning to work would be required to have a letter from the employer and not a government permit as was the case under level 4 and 5. The move to level 3 meant most businesses would be operating at varying degrees, but various other sectors seen as high risk, including gyms and personal-care services such as hairdressers, would remain shut.

Minister in the presidency Jackson Mthembu suggested that such sectors were likely to open once there was agreement on how to they could operate while limiting the spread of the virus. The pandemic has caused pandemonium with a global economic depression all but certain. In SA, the lockdown, which came into force at the end of March, is set to lead to a jobs bloodbath and has put government's finances under severe strain, with economists predicting that its budget deficit for 2020 could be double the 6.8% tabled in the February budget. Patel and co-operative governance & traditional affairs minister Nkosazana Dlamini-Zuma were sharply criticised in recent weeks for gazetting regulations perceived by some as unnecessarily stringent and at times irrational, causing serious damage to business.

This included the ban on e-commerce that was later lifted. Patel said the lockdown had bought government valuable time to build up capacity in the health-care system, and now the focus was on kick-starting economic activity while limiting the spread of the virus. The role of business would be crucial, he said. Businesses that would be operating needed to put in place strict health protocols, and people who could work from home were encouraged to continue doing so, the minister said. “We cannot stop spread; our approach is to limit the rate of spread so as not to overwhelm the health-care system.”

The relaxed regulations mean that hot prepared food will be sold, and customers will be allowed to order and go to restaurants to collect food to eat at home. Drive-through services will also be allowed. Liquor stores will be able to operate from Monday to Thursday from 9am to 5pm. Patel said that to limit the initial rush — as experienced in other countries when liquor outlets were opened after lockdown — restaurants, taverns, and shebeens would be allowed to trade for off-premise consumption only. “This should reduce the number of persons who come to one place. They [liquor traders] have also indicated that they will take firm steps to reduce that rush, so that we do not have that rush we saw when liquor stores opened elsewhere in the world,” Patel said.

**Business Day | 28 May 2020**

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