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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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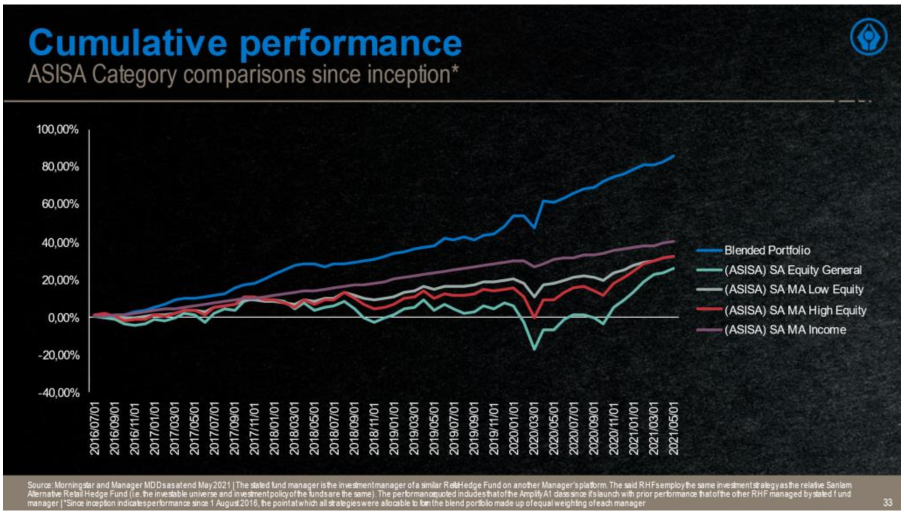
LOCAL NEWS

Living annuities: Innovation essential to achieve growth and income

When faced with high withdrawals, increasing longevity and a low returns environment, delivering smooth returns and growth for retirees requires innovation and out-the-box thinking. For its Living Annuity Strategy - which delivers income of between 2.5% and 6% - Sanlam Investments Multi-Manager has uniquely combined the use of fixed interest hedge funds, smooth bonus strategies and multi-asset class funds (local and offshore) to address this challenge. Adam Bulkin, Head of Research at Sanlam Investments Multi-Manager (SIMM) – Sanlam Investments' multi-manager - explains,

"The goal is to achieve 'asymmetry'; a balance of achieving the majority of the upside of a particular asset class, such as equities, while participating as little as possible in the downside of that asset class, and thereby controlling the downside and volatility in portfolios. We also seek alternative solutions for returns and portfolio growth. We've brought new thinking into the strategy and are using different ways, unique to our market, to generate high growth and low volatility." He said, in particular, the use of fixed interest hedge funds is an innovation that is working well. "Hedge funds offer high growth, with low volatility.

The funds have delivered consistent benchmark-beating returns, but these can be controlled in a way that equity-focused growth assets cannot be." A blended view of SIMM's hedge fund portfolio – which employs underlying fund managers such as Matrix Fund Managers, Terebinth Capital, Acumen Asset Management and Marble Rock Asset Management - shows that the hedge funds outperformed the ALSI and ALBI and delivered smooth annualised returns of around 14%, from August 2016 to May 2021.

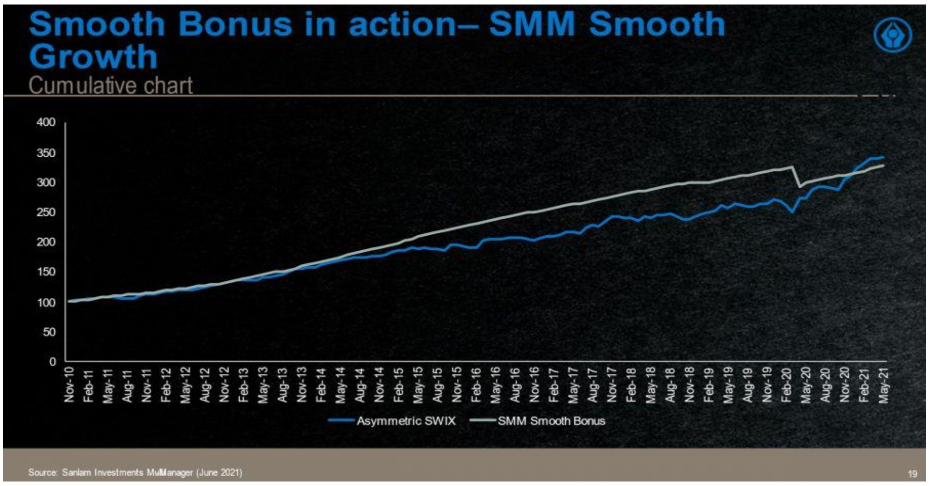


Cumulative performance

ASISA Category comparisons since inception*

Source: Morningstar and Manager MDDs as at end May 2021 | The stated fund manager is the investment manager of a similar RetaHedge Fund on another Manager's platform. The said RHFs employ the same investment strategy as the relative Sanlam Alternative Retail Hedge Fund (i.e. the investable universe and investment policy of the funds are the same). The performance quoted includes that of the Amplify A1 class since it's launch with prior performance that of the other RHF managed by stated f und manager | *Since inception indicates performance since 1 August 2016, the point at which all strategies were allocable to fom the blend portfolio made up of equal weighting of each manager 33

The next key component applied to address the Living Annuity volatility issue is the smooth bonus strategy. “This strategy delivers strong asymmetry because it has the ability, through a multi-asset portfolio, to capture growth in equities and other risk assets, while at the same time smoothing the journey,” says Bulkin.



Smooth Bonus in action– SMM Smooth Growth

Cumulative chart

Source: Sanlam Investments MultiManager (June 2021)

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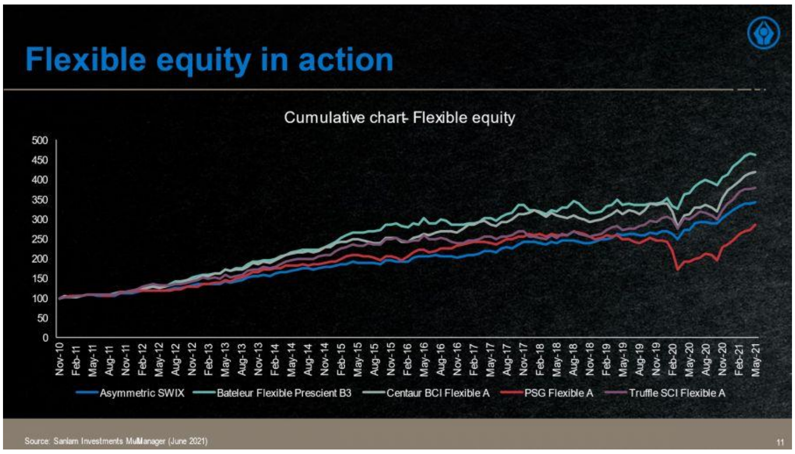
He said this is done by controlling volatility. “We put bonuses aside in good months and add them to returns in down months. An actuarial process that sits on top of the portfolio decides when the returns are high enough to reduce some of the bonus that is declared for the month. Then, when returns are low, when to take some of that reserve and provide it to investors. In this way, returns are smoothed out over time.” The final component is the traditional multi-asset class funds.

“Over time, almost all the underlying multi-asset funds in our portfolio have captured significantly more of the upside of markets returns than the downside of those markets, thereby achieving an asymmetric return profile to the upside and generating stable returns.” Bulkin says underlying funds are chosen for their different but complementary fund management styles. “For instance, the PSG Flexible Fund provides a strong value underpin, combining very nicely with other flexible equity funds in the strategy to provide an overall flexible equity fund component that has managed to achieve strong growth and, again, that asymmetry of performance to the upside for which we aim.”



Flexible equity in action

Cumulative chart- Flexible equity

Source: Sanlam Investments MultiManager (June 2021)

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Offshore components are very important in terms of diversification and the way that the global component combines with the local component. “Global equity solutions have outperformed when local equities underperform, owing to the currency effect as typically the rand weakens in times of global market sell-offs.” The Sanlam Investments Multi-Manager Living Annuity Strategy has delivered the targeted income for retirees and growth across all income requirements over the past year. SIMM has plans to add private markets to the strategy in the near future

FA News | 19 August 2021

Retirement terminology 101 - These terms should get you off to a good start

Unfortunately, we don't have to look very far in South Africa to locate frightening statistics about the state of retirement in our country. The Sanlam Benchmark Survey of 2020 showed that 61% of South African pensioners couldn't make ends meet. The 10X South African Retirement Reality Report 2020 found that nearly half (49%) of South Africans do not have a retirement plan. The Federation of Unions of South Africa (Fedusa) said that only one in three South African adults (including pensioners) have some form of pension.

What is so tragic about these statistics is that the deficit which many people find themselves with is a result of a lack of financial education, knowledge and counselling, rather than a lack of will. The truth is that retiring well is very manageable for those earning an income, and it just takes knowledge, discipline and commitment. The very best outcome for retirement is if you save for retirement from very early in your working life, but it really is never too late to start. Don't let the complexities of retirement speak to become a barrier to building confidence and making the right moves towards a healthy retirement. These terms should get you off to a good start:

Provident Fund

If you are working for a company, you've probably heard of this one. It is a compulsory saving tool set up by your employer. There is a tax saving, as contributions are subtracted from your gross annual income before tax is calculated. At retirement, the fund's benefits used to be fully available in cash once the tax has been paid. But effective 1 March 2021, provident funds are treated the same as pension funds. However, your contributions to a provident fund before 1 March 2021 will be ring-fenced, and the old rules still apply to the ring-fenced portion.

Retirement Annuity

This is a retirement-saving vehicle largely used by self-employed individuals or those without a retirement fund option at work. There is a tax saving, as contributions are subtracted from your gross annual income before tax is calculated. You will need to inform your payroll administrator if you want to enjoy the tax relief through your salary. Otherwise, you will have to submit a tax certificate to SARS every year to prove your contributions and possibly get a tax refund once your tax return has been finalised. At retirement, only a third of the capital can be taken as a lump sum, subject to tax. The remaining two thirds must be used to purchase a compulsory annuity product such as an investment-linked living annuity or life annuity. Fund benefits can only be accessed at retirement (usually after the age of 55).

Preservation Fund

If you're planning to change jobs, this is definitely one to remember. Preservation funds are literally meant to preserve capital. There are two types: a pension preservation fund and a provident preservation fund If you belong to a pension fund: On resignation, you can transfer your funds to a preservation pension fund. No tax is paid when the money is transferred, and the fund allows for a single withdrawal of your capital prior to retirement, subject to withdrawal tax. At retirement, a maximum of one-third of your fund value can be taken as a cash lump sum, subject to retirement tax, while the remaining two thirds must be used to purchase an annuity.

If you belong to a provident fund: On resignation, you can transfer your funds to a provident preservation fund. No tax is paid when your money is transferred, and the fund allows for a single withdrawal of your capital sum prior to retirement, subject to withdrawal tax. At retirement, a maximum of one-third of your capital can be taken as a cash lump sum, subject to retirement tax, while the remaining two thirds must be used to purchase an annuity.

Defined-benefit retirement fund

This is a traditional pension fund that considers, among other factors, the number of years you have been part of the fund and your salary at retirement, to define the benefits accrued. The advantages are that you don't take on the investment risk, and you can calculate the exact amount you receive at retirement (that is a percentage of your final salary). But the downside is that your pension may not keep pace with inflation because increases in contributions and benefits are at the discretion of the fund's trustees. There are not many of these funds around today because most companies have moved over to defined contribution funds over the past few decades.

Defined contribution retirement fund

Contributions to this fund are paid by the employer and the member (you). Unlike a defined benefit retirement fund, the amount of money you receive on retirement is not guaranteed. You decide where the fund should invest your contributions – from a range of underlying investment funds that the fund trustees make available – and you take on the full investment risk. The provident fund, pension fund, and retirement annuity mentioned earlier are all examples of defined contribution funds.

Personal Finance | 18 August 2021

Proposed amendments to retirement savings rules must be intentional and specific

Former Minister of Finance Tito Mboweni suggested recently that workers should be able to access a portion of their retirement funds – up to one third - provided that those doing so would use that money 'in a responsible manner'. He noted that government had been engaging at length with trade unions, regulators, and other stakeholders to reach agreement on how this could be done, expanding the access to pension savings that is already in place when an employee leaves a company while ensuring that citizens still have sufficient savings for their retirement.

Given that his successor, Minister Enoch Godongwana, has said that he will not be changing any policy direction now that he's taken the helm of the ministry, it's likely that this suggestion will be pursued, giving financially strapped South Africans a lifeline to help with the likes of paying off a bond (or portion of one), or helping them rise above crippling debt. The spirit of this move makes sense: South Africans are under more financial pressure than ever before, and as an extreme example, it doesn't makes sense to lose the roof that's currently over your head now because the regulations of your retirement fund are making sure that you have somewhere to live when you stop working.

The examples given by the Minister, such as settling a mortgage or other debt, are appropriate – but any changes that are put in place must consider the characteristic that makes South Africans both famous and notorious: where there is a loophole, we will find a way to wangle through it, and where there isn't a loophole, we will find a way to make one! For this reason, ASI Financial Services calls on the Department of Finance and all other stakeholders involved in the consultations around these proposed changes to be intentional and specific about the conditions under which pension fund contributors will be able to withdraw funds without leaving employment, and before they retire. Before any proposals are put forward for ratification, those doing so need to be clear about what their intentions for making the changes are. Would these changes be designed to relieve short-term debt burdens that are impacting the quality of day to life – or to lift the weight of a long-term debt? Any rules that govern any early withdrawals need to be specific too – even to the point where proof of where the funds are destined should be provided – and then even further checks and balances put in place to prevent this money being used for consumables, entertainment, or even gambling, for example.

Another consideration that needs to be factored into this process is how pension fund monies are distributed in the event of a divorce – is it fair for one party to have early access to saved funds, when the other party was counting on having access to their share of those funds, as defined by a divorce agreement? It's a fine line that's being tread here: even though it has been invested into a carefully regulated retirement vehicle, money invested by an employer on behalf of an employee does belong to the individual, and it could be argued that they should have a say in how and when that money is used.

However, South Africans have a notoriously low savings rate – the country's Gross Savings Rate fell to **11.6%** during June 2021, compared to a global average of nearly **25%**. The country's high unemployment figures make it clear that the State already carries a massive social welfare burden and needs to take proactive measures to minimise the number of aged citizens that depend on it for survival, in the future. It's for this reason that we welcome suggestions of a limited withdrawal amount, in tandem with mandatory preservation, but that we still call on those considering these changes to be intentional and specific at every step in this process.

FA News | 19 August 2021

Pressure on pensions: How to successfully fund Africa over time

With an estimated 85% of Africa's population informally employed, the traditional pension fund model faces a growing challenge. Innovative long-term savings products for this ever-increasing cohort of informal but economically active citizens are urgently required. Products like micro-pensions or other affordable solutions must be brought to market and soon. It is estimated that Africa had 13 million people aged 65 and over in 1975. Nearly 50 years later, this figure has increased and is expected to reach 150 million people by 2050. Africa's young population benefits from improved medicines and healthcare, which enormously increases the likelihood of Africans living for much longer. With increased longevity, the necessity for improving the outlook for long-term savings in Africa is critical.

Nigeria nudges closer, sets an excellent example for the continent

According to the latest **Bright Africa pensions research** from global investment firm, RisCura, just over 10% of the Nigerian workforce is formally employed, precipitating the National Pension Commission (PenComm) launching the micro pension scheme in 2019. The micro pension scheme seeks explicitly to cater to the informal sector and companies with less than three employees. Innovation of this nature can be adopted by other African countries that face similar demographics and economic constraints.

Fintech for the future

Harnessing fintech could foster financial inclusion while boosting African savings. Rwanda provides anecdotal evidence of latent savings potential through combining mobile telephony and fintech. Active mobile penetration in Rwanda now averages 75% of the population. By embedding fintech-enabled savings within active mobile telephony, micro-savings products can be accessible to the average mobile user.

A collective change

By design, pension funds are long-term institutional investors. In Africa, this institutional investor base now holds approximately US$ 350bn in long-term savings. The Covid-19 pandemic brought to light the need for capital to respond quickly to the urgent funding needs of African economies. A proportion of this savings base can meaningfully support and help reduce Africa’s infrastructure deficit. Regulators have been alert to this and progressively changing regulations to allow for meaningful pension fund participation in innovation and the real economy.

Concepts such as regulatory sandboxes are being adopted to ignite and curate innovative financial products and services that may not meet all current regulatory requirements. Pensions can be part of the solution development of Africa’s problems. Through aligned and proactive regulatory reform and leveraging digital and mobile technology, Africa’s institutional investors can direct their savings towards the sustainable development of African economies.

FA News | 19 August 2021

Finding the ‘why’ behind your money and why you should save

Saving is an afterthought for the majority of South Africans – because, for many battling unemployment or the effects of the pandemic and struggling to make ends meet, it is simply out of reach. Our savings track record proves this, with one of the lowest savings rates globally: research by the World Bank found that the country’s most recent gross savings rate is **under 15 percent of GDP** – well under the worldwide average of 25 percent. This is matched by an equally poor household savings rate, hitting **0.5 percent** in the fourth quarter of 2020.

“Many South Africans feel that saving is something is outside of their budget, and only do it if there is money left over at the end of the month,” says Andiswa Mojapelo, Client Success Lead at Momentum Velocity Club. “The pandemic only made this worse – but, against this challenging economic backdrop, this makes it more important than ever to save because it has brought into focus the importance of being prepared for emergencies and life’s curveballs. The first step is to make saving a fundamental part of the household budget. It needs to be considered an expense item in the budget, and paid as any other monthly expense or debit order is.

“This makes it critical to look at your budget in its entirety to ensure that you can accommodate savings,” says Mojapelo. Central to this is living within your means. A widely accepted budgeting rule of thumb has been the 50:30:20 principle. According to this, you should spend 50 percent of your income on fixed costs and essentials such as rent or a home loan repayment and levies, car repayment, and groceries; 30 percent should go towards wants such as entertainment, take-aways or eating out, or hobbies; and 20 percent should then be saved or go toward paying off debt.

Embracing the 65-15-20 principle

“However, we have amended that to the 65-15-20 principle at the Velocity Club to better reflect the financial reality of lots of South Africans,” says Mojapelo. “Under this rule, you should use a maximum of 65 percent of your net income (after tax) to pay for your needs. Use another 15 percent of your net income towards wants, and finally, put 20 percent of your net income into savings including long-term savings such as a pension or retirement annuity.”

But with many South Africans typically finding that there is too much month left at the end of their money, sticking to this rule can be difficult. Recent research by employee financial wellness solutions provider **Floatpays**, for instance, showed that up to 76 percent of South Africans regularly ran out of money before the end of the month – with as many as 57 percent running out of money before the month was halfway through.

How then can South Africans save?

“Find your ‘why’ – let your financial goals lead your savings,” says Mojapelo. “Saving isn’t easy, but if you have specific goals that you know you are working towards, this will act as an incentive and help you be disciplined to save towards creating and building these goals. Discipline also comes with consistency – so, to break it down simply, if you earn R5, don’t consider it an income of R5. Think of it as R3, with R2 automatically reserved for saving.” Compartmentalise savings: create ‘pockets’ of savings for your different goals. Have a pocket for holiday savings, for example, and a pocket for property savings, as well as another pocket for emergencies.

This makes it less likely that you will dip into your savings other than for their intended goal. Shift the way you think away from waiting for the ‘right time’ to save – such as when you’re earning a higher salary. “There is no right time. It’s not about the amount you earn, it’s about what you do with it. The time to start training your saving muscle is now: your expenses aren’t going to change, so make your budget accommodate your savings. Start now with what you have and live within your means,” says Mojapelo. Ultimately, saving is a mindset. “Think of savings as paying future you – you are paying yourself to create your future, help meet your financial goals and aspirations, and build your legacy,” says Mojapelo.

FA News | 11 August 2021

Early access to retirement funds at least a year away

Treasury cautions that a lot of work is necessary before new legislation comes into effect.

Emergencies and unexpected expenses happen, or there’s a sudden loss of income as experienced by many during the last 18 months. It’s then that people start wishing they could dip into their retirement funds. The money is there, it is yours and retirement is a long way off. Just a small loan …Unfortunately, current legislation prevents access to retirement funds and the money is only available on retirement, when people resign, or when they lose their jobs.

For many, these ‘forced savings’ are the only savings they have – and pressure to allow people to use some of this money has increased to such an extent that National Treasury has issued an update on the progress of changes in relevant legislation to provide for access to retirement savings. “In response to the many media queries, National Treasury wishes to provide more details on the approach and planned time lines concerning the proposal to allow for greater preservation with limited pre-retirement withdrawals from retirement funds,” reads the statement. “Even before the advent of Covid-19, the government recognised that many members may need to access part of their savings in particular unexpected circumstances.” However, Treasury warns that new regulations and processes won’t be in place before next year. The explanation of the process indicates that it would be towards the end of 2022. Former finance minister Tito Mboweni mentioned in the 2020 Medium-Term Budget Policy Statement (MTBPS) and the following national budget (2021) that access to some of the money in a retirement fund is under consideration, noting “limited withdrawals” from retirement funds under certain conditions, provided that this is accompanied by mandatory preservation upon resignation from a job.

This underlying motivation seems to speak largely towards preventing people from resigning their jobs for the sole reason of accessing their savings. Since the earlier announcements, government has been engaging with trade unions, retirement funds, regulators and other stakeholders to discuss how to increase savings and improve preservation of funds, while still allowing limited withdrawals. Treasury notes that early access will require changes in current legislation and in the rules and regulations governing pension and provident funds, and that this is a long and arduous process. **Full Report:** ***https://www.moneyweb.co.za/mymoney/retirement/early-access-to-retirement-funds-at-least-a-year-away/***

Moneyweb | 12 August 2021

Now is the time to rethink and recreate your retirement plan

Increased global longevity is giving us all more years of active health and possibly a longer retirement. According to the World Health Organisation (WHO), global life expectancy at birth has risen by six years. In South Africa, research from retirement income specialist Just SA shows that the average 60-year-old male will live to 82 and female a further five years. But within current economic and political constraints, how can South Africans approaching retirement make these extra years count for more than just ‘bought time’?

At a recent 50 Plus Skills webinar, CEO Lynda Smith suggested that those entering the second half of their life uses this opportunity to re-create themselves and in doing so, rethink their retirement. “As you approach retirement, effective financial planning can enable a better later life,” agrees Just SA CEO Deane Moore. “But instead of just adding years to your life, you should rather aim to seek and finance more life for your years.” In the webinar, author Nikki Bush spoke of the importance of the right attitude to navigate life’s transitions and manage crises.

She urged listeners to be curious, rather than fearful, of the unknown and to harness the playfulness of one’s inner child when confronting change, in order to open the door to new possibilities and opportunities. Strategy and Culture Consultant Niven Postma warned of being caught up in mind traps when faced with complexity, while Corporate Wellness Trainer Carine Fraser recommended mindfulness practice such as walking in nature to alleviate stress, improve emotional regulation and everyday life satisfaction. Similarly, a return to nature for healing and nurturing and to promote longevity was encouraged by herbalist Sandy Roberts.

Noting the resonance of this advice with financial planning, Moore wonders if the same attitudes can be used to face finances in retirement. “When planning for retirement,” he asks, “can you let your curiosity be greater than your fear? Can you see your finances as an exciting adventure to be curious about, rather than fearful of?” He similarly calls out the role of mind traps in financial planning, admitting that it is very easy to get caught up unnecessarily in a negative mindset, especially when making big decisions that will impact your future comfort and well-being.

“Try to avoid behavioural bias which may result in you taking financial actions that make your life harder, rather than easier, in small or extreme ways.” According to Moore, a fundamental requirement for a comfortable retirement is to have a financial anchor – a guaranteed income that covers your essential expenses no matter how long you live. “You don’t want to be betting on dying early,” he says, “especially as you incorporate new, holistic practices that promote longevity and a good quality of life.”

Those who are fortunate to have a secondary pot for excess savings, should be able to use this to cover discretionary spending or treats. Moore concludes: “As you live your life holistically and in inspiring ways, we urge you to make your finances part of the exciting adventure, and recommend that you speak to a trusted, financial adviser to enable you to rethink retirement and live out your second half of life to the fullest.”

Personal Finance | 16 August 2021

Can I get a special dispensation to withdraw R350k from my living annuity?

It has a value of just over R2m, and I need the money to settle my bond.

I retired in July 2018 and had a provident fund value of R2.2 million as well as an existing pension preservation fund with a value of R1.1 million. The preservation fund was placed into a living annuity (LA) after R400 000 tax-free encashment. My question pertains to the provident fund, from which by law I could have withdrawn the full cash value of R2.2 million. I only withdrew R200 000 before transferring it to the LA on the assumption that the combined portfolio value of approximately R2.7 million would perform better with a higher interest-vesting component (the larger amount invested).

This seemed better than settling my home loan, where the interest was at the bank's repo rate (7.5%) for staff members. The crux of the matter is that no one anticipated the worsening SA economic downturn, and then there was Covid-19 in March 2020. My LA portfolio lost in excess of R350 000! Hindsight is a perfect 20/20 and I could have used that lost money value to settle my bond. My question is, due to the above where I did not – but could have – taken the full cash value from my provident fund but instead did the responsible thing [and] provide a pension via the LA, can I now withdraw cash (from the balance of the provident portion R2 million) in the LA to settle my bond?

My after-tax income started at R46 000 pm (September 2018 to May 2019), reduced to R28 000 pm (June 2019 to May 2020) and in June 2020 reduced further to R25 000 pm. I made telephonic enquiries with the fund managers who suggested I present my request to the fund trustees. I wrote to the management trustees to ask if I could make such a withdrawal 'after the fact'. Their response was that it is now an existing LA and no special dispensation would be considered for a further cash withdrawal because there is governance by the Pensions Fund Act, notwithstanding that there is no reference to LA and certainly Regulation 28 is not applicable to LAs.

(Why then recommend that I put my position request forward?) My LA portfolio fund has a value of just over R2 million now so there are adequate funds to consider my request. I assume that the LA policy document's terms and conditions can determine the fairness of my request as I'm in the unenviable position that there is R2 million and I can't get R350 000 to settle and secure my home while still receiving an adequate monthly pension income, as with my current income of R25 000 I literally break even. This however will decrease from June 2021 and I shall become over indebted! I have

contemplated approaching Treasury and or Sars for an appeal for a special dispensation relative to the Pension Funds Act or the Allan Gray LA policy document? What can I do to get some help with this untenable situation as I have severe major rheumatoid arthritis and osteoarthritis and my longevity (shortgevity?) is less than 10 years; however, if I become over indebted my life expectancy will likely be greatly reduced to three or four years?

I am sorry to hear that you are unwell and that the additional stress of repaying your bond is worsening your condition. Living annuities are governed by the Long-Term Insurance Act, not the Pension Funds Act. The latter gives the trustees of the fund a certain amount of discretion in some situations, but the same amount of discretion does not apply in the case of a living annuity. For example, your beneficiary nomination is a guide to the trustees of a retirement fund, whereas your beneficiary nomination on a living annuity is binding.

Unfortunately, you can only withdraw a lump sum amount from your living annuity if the total value falls below a prescribed amount, and in that case, you have to take all the remaining capital out. The prescribed amount is determined by National Treasury and was increased to R125 000 last year in the Gazette published on June 1, 2020. While the value of the investment is higher than the prescribed amount (as in your case), the only way to get capital out of a living annuity is via the annual withdrawal.

You could increase your income withdrawal to the maximum amount allowed – 17.5% of the value at the anniversary date. But it sounds like you're already drawing close to the maximum already and, as living annuity income is subject to income tax, you might end up paying tax at a higher marginal rate by increasing your income rate further. You are quite right that no one could have anticipated Covid and the impact it had on financial markets. However, drawing income at the rate you appear to be doing soon after your retirement is also not sustainable. Drawing 17.5% or thereabouts from your capital will have caused the value to start dropping relatively quickly in most periods of history.

So, although the market downturn and impact of Covid-19 certainly would have made things worse for you, the reality is that you were already probably living beyond your means and we would have expected your pension income to start decreasing relatively quickly, with or without the events of the last 18 months. The sequence of investment returns in the first few years of your retirement has a big impact on how long your capital is likely to last and what percentage you can afford to draw as an income every year. Unfortunately, we cannot know in advance what the sequence of returns will look like. The '4% rule' provides a general guideline in the face of this uncertainty.

If you want to have a good chance that you will be able to draw an income from your retirement funds for the rest of your life and, if you want to be fairly certain that you'll be able to increase that income by inflation every year, you should not draw more than 4% to 5% of the capital as an income in the first year of retirement. You transferred about R2.7 million into living annuities when you retired. Using the 4% rule, your initial income should not have been more than R108 000 or R135 000 a year at most. We generally encourage clients to repay their debts as far as possible at retirement. Your outstanding bond at the time was R350 000. **Full Report:** ***https://www.moneyweb.co.za/qa/advisor-questions/can-i-get-a-special-dispensation-to-withdraw-r350k-from-my-living-annuity/***

Moneyweb | 11 August 2021

RA or ETF: Which is best for someone who does not get an RA's tax benefit?

If there is no tax benefit to an investor, then I do believe there are more suitable structures to invest in. Could you please advise if you would recommend a retirement annuity (RA) or an investment via ETFs [exchange-traded funds] for a long-term investment for someone who does not get the tax benefit of an RA due to working outside of South Africa? The key benefit to a RA is the tax benefit. If there is no tax benefit to an investor, then I do believe there are more suitable structures to invest in. Having said that, if you are planning to return to South Africa and retire here, then it may be a good idea to consider a RA.

If you will not be retiring here in South Africa, there are some reasons why investing outside of a RA would be more suitable. An RA also comes with Regulation 28 constraints which restrict how you invest your funds both from an asset allocation and offshore exposure point of view. Regulation 28 forces the investor to take less risk in their portfolio. This could be seen as a negative to many investors. When investing outside of the RA you won't find these constraints. An ETF is an excellent option to invest in, with its low cost and lots of choices around. You can gain excellent diversity from investing in different ETFs.

A long-term investment – investing for retirement would be regarded as long-term investing – should invest in growth assets, for example shares and property. A well-structured share portfolio historically has given the best return over the long term. There will be short term volatility but if you can accept that and let the markets run through the ups and downs, you will be better off in a share portfolio. Property is also regarded as a growth asset, perhaps a slightly shorter-term investment than a share, but the same principles apply in buying and holding for as long as you can.

Some ETFs to consider in this example would be the Satrix Top40, MSCI World, S&P 500, Satrix Property, Sygnia 4th Industrial Global Equity and Sygnia Global Property. I would also consider other jurisdictions to invest in. Depending on the tax system you are in now, you may have the option of investing in the likes of the US, UK, Australia and so on. An important component of investing is diversifying into other economies and currencies.

The world is a smaller place now with technology and we should be using that technology to our advantage. In these markets, you will have access to the same structures, like shares, property, bonds, cash and so on. Consider your investment strategy when deciding on which of these to invest in. I would have a look at the tax system in the country where you are paying tax and consider their investment structures. You may be allowed to invest in some tax-free structures there. As always, consider how it fits into your full investment portfolio in terms of liquidity, fees, asset classes, term and risk.

Good luck on your investment journey!

Moneyweb | 19 August 2021

INTERNATIONAL NEWS

Pressure increases on Rishi Sunak to suspend triple lock on pensions

Claim that wages element of formula is distorted by pandemic backed by latest figures, which would mean rise of over 8%

Rishi Sunak has come under further pressure to suspend the state pension triple lock after wage figures showed that the chancellor is on course to pay pensioners a rise of more than 8% next year. Sunak is understood to be considering telling Britain's 12 million state pension claimants that the pandemic has artificially inflated the official wages figures and a new formula is needed to calculate the rise in the basic state pension for next year. The decade-old triple lock, which Boris Johnson's government pledged to maintain at the 2019 election, is underpinned by a promise to pay either 2.5%, the rate of inflation, or the level of earnings recorded in the July employment figures.

In the latest official figures for June, earnings increased by 8.8% including bonuses and analysts said they were on course to remain above 8% next month, setting the stage for a political battle over the triple lock. Sunak has responded to calls for pensions payments to rise by 2.5%, or to track inflation – which is expected to hit 4% this year – by saying he will leave a decision until the autumn. Julian Jessop, an economics adviser to the free-market think tank, the Institute of Economic Affairs, said each percentage point increase in earnings growth will add about £900m to annual spending on state pensions, next year and in future years. A rise based on the latest official figures would therefore cost the exchequer at least £5bn more than a 2.5% increase.

"The pay data have been distorted by the pandemic in ways that no one could have anticipated," he said. "Unless the triple lock is changed, this will provide an unintended windfall to pensioners that are increasingly hard to justify." The Office for National Statistics said a more accurate reflection of pay growth would be between 3.5% and 4.9%, because the official figures had been "affected by temporary factors that have inflated the increase in the headline growth rate". The figures are based on pay data from a year ago, when earnings fell by 1.3% due to people on furlough receiving only 80% of their wages.

Widespread job losses amid the pandemic for low-paid workers has also meant fewer low pay packets have been counted in the official figures, pushing up the average pay level. Among the considerations for Sunak are likely to include the expected £105bn cost of the state pension this year, having increased by 35%, while average earnings have risen by 27% since the triple lock was introduced in 2012. It also comes after the government offered NHS staff a 3% pay rise and will freeze the pay of other public sector workers, alongside plans to cut universal credit benefits for working-age adults by £1,000 a year from October.

A Treasury spokesperson said it would confirm next year's state pension rates in the autumn, adding: "We will continue to support retired people while ensuring future decisions are fair for both pensioners and taxpayers." The employment figures covering the three months to June showed the UK's labour market continued to bounce back from the pandemic across a broad range of measures as government restrictions were relaxed. According to the latest snapshot from the ONS, the unemployment rate dropped to 4.7% in the three months to June, down 0.2 percentage points on the previous quarter.

Data for July showed the number of job vacancies passed 1m for the first time on record, in a sign of the difficulties firms are reporting in finding staff as the UK emerges from lockdown. The figures still show the proportion of the working population out of work is higher than before the pandemic, when unemployment was 3.9%, but the reopening of the economy and the rocketing demand for workers in some industries pushed up the number of people in work. Separate figures for July from HMRC also pointed to a strong recovery in the labour market, even as almost 2 million people remained on furlough, after the number of employees recorded on company payrolls increased by 182,000 to 28.9 million. The figures beat the forecasts of City analysts, who expected the labour market to recover more slowly as lockdown restrictions eased. Samuel Tombs, the chief UK economist at Pantheon Macroeconomics, said the strong growth in the number of jobs this year and the rise in wages were unlikely to alter the view of the Bank of England, which has forecast that wages growth will lose momentum as the economy returns to more normal levels of activity.

. “We continue to think that the labour market will lose its current momentum, enabling the monetary policy committee to wait until the first half of 2023 to raise [interest rates],” he said. The number of hours worked remained almost 5% below pre-pandemic levels, and the number of employees also remained 201,000 below February 2020 levels, indicating that many self-employed people who lost work in the previous 16 months were still unable to return to the labour market.

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