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Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

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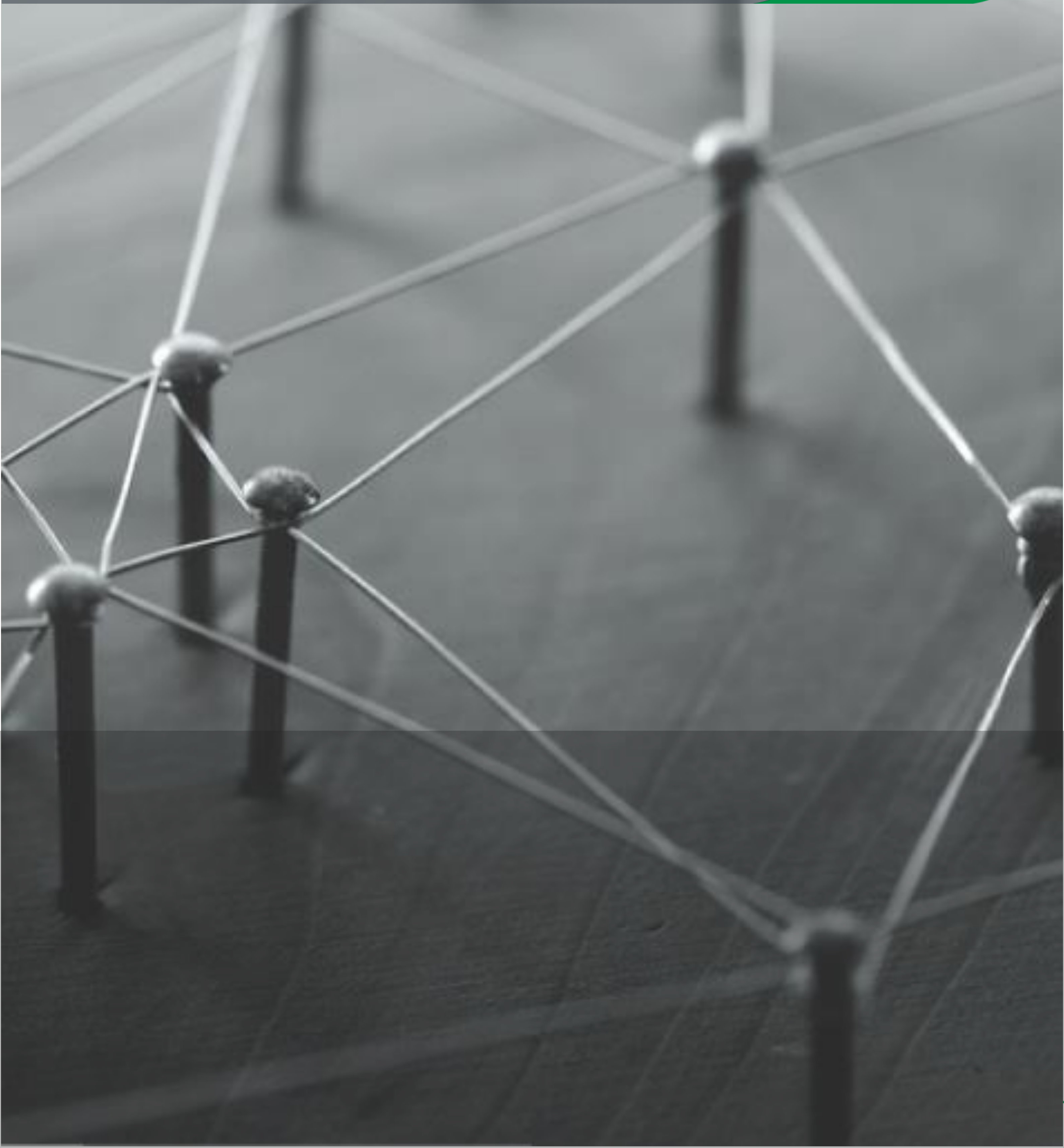

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Regulator confronts savings pot challenges and legacy pension fund issues

Three insights from two-pots implementation

The first is that if you want to stress-test a country's financial and pensions administration, this type of intervention is spot on. The second is that there is no better way to shine light into the murkiest corners of the pension funds universe than to encourage direct interaction between members and their funds. And the third is that poor communication between members and pension funds remains a sore point in the South African savings context. A recent two-pot media roundtable hosted by the Financial Sector Conduct Authority (FSCA) went way beyond updating attendees on savings pot withdrawals to exploring some of these legacy issues. The numbers are easier to report on, so we will begin this coverage there. The regulator set the scene by describing the pension funds sector under its supervision: at latest count, there were some R3.15 trillion in assets invested across 887 active funds, serving approximately 155000 employees and an impressive 9.6 million members.

According to the regulator, the funds under its supervision had largely complied with the new two-pots retirement regulatory framework, with 837 of 853 applications for rule amendments already registered. A further 11 applications were on hold pending further input from industry, and five were under review with analysts. The financial stress that local pension fund members find themselves under was on naked display too, per the most up-to-date summary of South African Revenue Services (SARS) activity related to its two-pot withdrawal function. By 22 November, SARS had received 2.153 million tax directives and issued 1.914 million, involving a gross withdrawal value of just over R35 billion. Readers will know by now that pension funds cannot fulfil a savings pot withdrawal without SARS approval. Diving into the statistics reveals 169509 applications (requests) for directives being declined for various reasons ranging from systems failures at fund managers to incorrect ID and tax numbers. A further 41523 directives were declined due to insufficient funds or incorrect codes.

Arrears contributions highlight systemic weaknesses

As mentioned in the opening paragraphs of this piece, the processing of two-pots withdrawals has revealed some glaring compliance shortcomings across the pension fund sector. Commenting on statistics at end-December 2023, the FSCA drew attention to an estimated R5.2 billion in arrear contributions involving around 7770 employers who had potentially contravened section 13A of the Pension Funds Act (PFA), affecting approximately 310000 members. The regulator conceded these numbers may be skewed by double counting of members who belong to more than one fund. Keabetswe Tsuene, Senior Analyst: Retirement Funds

Conduct Supervision at the FSCA, helped the media unpack these statistics further. “Most of the contraventions (36.2%) have occurred in the private security sector, involving just under 2400 employers,” she said. Other sectors included hairdressing, beauty and skin care (12.37%); building (8.57%); metal (7.79%); transport (7.65%); cleaning (7.2%); and electrical (6.8%). Employers in these sectors are often small, facing unique challenges due to the irregular nature of their cash flows and employment contracts. “The problem is widespread across not only private sector employers but also public entities and public employers as well,” Tsuene said. Municipal employers account for 3.95% of the total, or 58% of municipalities countrywide. The extent of the problem emerges from a closer look at the Private Security Sector Fund which boasted a combined asset value of R12.7 billion at end-February 2024. The fund reflects around 2.4% of total assets as arrear contributions, meaning roughly R305 million is owed by employers. Contraventions of section 13A introduce serious social harm due to delays in benefit payments and fund balances not reflecting the amounts deducted from members' salaries. According to the FSCA, these retirement fund savings are, in the overwhelming majority of cases, the only form of savings for working South Africans.

Errors and unallocated contributions

The regulator also admitted that the total arrears sum could be significantly misstated. Tsuene noted that many employers had approached the FSCA to argue that they were not in contravention of section 13A due to recording errors made by the funds. In many cases, employers were not paying over any member contributions because they were not operating for the period under review due to the nature of their operations. “The problem is these employers are not informing their funds [about periods of inactivity],” she said, before urging for closer scrutiny of arrears contributions when awarding new government contracts. At this point in time, the FSCA cannot initiate enforcement actions against employers. “Our role as a regulator is to monitor what the retirement funds are doing in an effort to recover the outstanding contributions and to hold the directors and owners of these companies personally liable in terms of section 13A(8) and (9) of the PFA,” Tsuene explained.

“We have limited powers to enforce compliance on employers participating in retirement funds as they are not regulated entities in terms of any of the [current] legislation.” The good news is that retirement fund boards can act in terms of the PFA. To date, they have responded by taking legal action; using bargaining council enforcement processes; lodging complaints with the Office of the Pension Funds Adjudicator; and reporting contraventions to the South African Police Service. The PFA allows for fines of up to R10 million plus jail time for employers who contravene section 13A. “Our role is to scrutinise what is hampering fund administrators and trustees from carrying out their duties properly, and seeing what tools we currently have, whether through enforceable undertakings, directives or penalties, to hold them to account,” said Takalani Lukhaimane, Manager: Retirement Funds Conduct Supervision at the FSCA.

An evolving supervision framework

The FSCA remit will change with the enactment of the Conduct of Financial Institutions (COFI) Bill, which will see participating employers being supervised entities in respect of an employer's obligations under the PFA. Until such time, the FSCA is taking an active engagement plus ‘name and shame’ approach to encourage compliance. Case in point, FSCA Communication 41 of 2024 named 2330 of the aforementioned 7770 employers for contraventions of section 13A. This list includes 2003 employers who have outstanding contributions that are more than R50 000,00 and have been outstanding for a period of more than five months; 200 employers who have outstanding contributions that are more than R50 000,00 but the last contribution date has not been provided; 113 employers whose outstanding contributions are less than R50 000,00 and have been outstanding for more than five months; and 20 employers that have not contributed since date of participation in a retirement fund.

Meeting challenges head-on

"The two-pot limitations and arrear contributions [challenges] are going to be with us for a while," concluded FSCA Commissioner, Unathi Kamlana. "The FSCA is busy with various interventions and strategies to deal with developments as they arise."

FA News | 9 December 2024

The tax implications of two-pot withdrawals

South Africa's two-pot retirement system, introduced on 1 September, divides all future contributions from retirement fund members into two components: a savings component and a retirement component. "The aim of the new system is to preserve your retirement investment for its intended purpose, while offering you access to your savings component once per tax year in case of emergency," comments Carla Rossouw, Head of Tax at Allan Gray. "But just because you can now access your savings once a year doesn't mean you should." Rossouw encourages investors to understand the implications before withdrawing and outlines some other key considerations:

1. You need to be registered with SARS

"To withdraw from your savings component, you must be registered with SARS," Rossouw states. To check, you can visit the SARS Online Query System (SOQS), SARS MobiApp and SARS eFiling.

2. You can withdraw the available amount in your savings component once per tax year

"The minimum withdrawal amount is R2,000 and you may withdraw up to the full value of your savings component if you need to, subject to one withdrawal per tax year for each of your retirement fund accounts," she says. Withdrawals aren't capped at R30,000. "This was simply the maximum amount used to 'seed' your savings component in the beginning so that you had an opening balance," she explains.

3. You will pay tax on your savings withdrawal benefit

Withdrawals are taxed at your marginal tax rate, meaning higher-income earners face higher deductions. "The higher your income, the higher your marginal tax rate, which means that the value of your withdrawal could push you into a higher marginal tax bracket, resulting in a higher tax bill in that tax year."

She also emphasises that tax directives issued by SARS are final and can't be reversed, so thorough planning is needed. "Using the SARS Two-Pot Retirement System Calculator will provide you with an estimate of the tax that will be deducted from your withdrawal," she says.

4. Why are you taxed at the marginal tax rate?

"If a retirement fund member withdraws from their savings component before retirement, they are reducing their provision for retirement and, in principle, should not benefit from it." She says savings component withdrawals are taxed at your marginal tax rate, so that "if you contribute to and withdraw from your retirement fund in the same tax year, you will be in a tax-neutral position."

5. Your withdrawals don't reduce your lump-sum amount at retirement

"Savings-component withdrawals aren't classified as retirement fund lump-sum withdrawals for tax purposes," clarifies Rossouw. "This means that it won't reduce the R550,000 tax-free withdrawal amount available at retirement."

6. You pay less tax on savings-component withdrawals at retirement

If you don't withdraw before retirement, the balance in the savings component can be withdrawn as cash at retirement or used to purchase a retirement-income product. "Any cash withdrawn at retirement will be taxed as a lump-sum benefit. These tax rates are generally lower than the marginal tax rates applied to withdrawals before retirement," she emphasises.

7. Withdrawing now could set you back significantly

Although it's tempting to dip into the cookie jar, you should only make use of this facility if you have no other option. "Remember that any assets withdrawn and not replaced will reduce your income during retirement," Rossouw highlights. Given the immediate and long-term tax implications of early withdrawals, she suggests consulting an independent financial adviser before submitting your withdrawal instruction.

FA News | 11 December 2024

Working longer vs retiring now: What's best for your retirement?

Deciding when to retire isn't always up to you. While some worry about retiring too early, for most South Africans, the bigger question is whether they can afford to retire at all.

Following the 2023/2024 Retirement Reality report, it's sobering that only 6% of us have enough saved up for retirement. That's why it's worth examining how working longer – among other factors – might affect your retirement readiness.

What difference does one more year make?

You might be surprised how much impact just one extra year of work can have on your retirement picture. Firstly, you're still adding to your nest egg. If you're earning R80 000 monthly and putting away 15% for retirement, that's another R144 000 in savings for the year – and that's before counting your employer's contributions or the tax benefits. But the benefit is two-fold. Working an extra year doesn't just mean more savings – it also means one less year of relying on those savings.

Let's break this down with real numbers:

Say you're aiming for R50 000 monthly from your retirement savings to maintain your lifestyle. With a 5% yearly drawdown, you'd need about R12 million saved up to make that work for 20+ years of retirement. By working just one more year, you're not only shortening your retirement period but also giving your existing savings more time to grow. And speaking of growth – your current savings can do significant work in that extra year. A R5 million portfolio growing at 6% above inflation would add about R300 000 to your retirement pot – without you adding a single rand. That could be enough to cover several months of retirement expenses.*

A simple truth about expenses

Every rand you trim from your monthly expenses is actually worth double in retirement planning. But how? Let's assume you've decided to invest in a low-cost, high performance living annuity and want to draw sustainable income from that investment. If you reduce your monthly spending by R5 000, that's R5 000 extra you could save each month before retirement. But more importantly, it means you'll need R1.2 million less in total savings to fund that same R5 000 monthly expense in retirement (assuming a 5% drawdown rate). There's an additional benefit: When you're drawing less from your living annuity you're not just preserving more of your capital – you're likely saving on tax too. Remember, you pay income tax on whatever you draw from your living annuity. Drawing R30 000 monthly instead of R35 000 can mean significant tax savings over the years – money that stays invested, working for you throughout retirement.

The critical impact of investment fees

While managing your daily expenses is important, there's another cost that can dramatically affect both when you can retire and how long your money will last: investment fees. The difference between paying 1% versus 2% or 3% in annual fees might seem small, but it can have a profound impact on your retirement timing. Let's look at a practical example: Imagine you have R6 million in retirement savings and need R25 000 monthly income. With investment fees of 1% or less, you might achieve this with a 5% drawdown rate. However, if you're paying 2% in fees, you'd need to reduce your drawdown rate to 4% to generate the same income with confidence that your savings will last through retirement. This means you'd need R7.5 million in savings instead of R6 million – that's R1.5 million more just to compensate for higher fees. This fee difference could mean either:

- Working several more years to accumulate the extra R1.5 million; or
- Reducing your monthly income in retirement by R5 000 to maintain a sustainable drawdown rate.

In other words, when you invest with lower fees, you could potentially retire earlier, draw the same income from a smaller retirement pot, or keep your drawdown rate lower to help your money last longer. Our Living Annuity Calculator demonstrates this clearly: lower fees mean more of your investment returns stay invested and compound over time, rather than being eroded by costs. This can make the difference between retiring now or having to work several more years to build up additional savings.

You don't have to choose all or nothing

Retirement doesn't have to be an all-or-nothing decision. Many South Africans are finding creative ways to blend different income sources as they transition into retirement. Consider property rental. A rental property bringing in R8 000 monthly might not sound substantial, but it can make a meaningful difference to how much you need to draw from your retirement savings. Or consider using your expertise for consulting work – even R10 000 a month from occasional projects means R120 000 less you need to take from your retirement pot each year.

Making smart lifestyle adjustments

Not every expense reduction requires a major sacrifice.

In fact, many changes in retirement can naturally lead to lower costs:

- Housing often represents the largest expense in retirement. Downsizing to a smaller home or moving to a more affordable area can substantially reduce monthly expenses while potentially freeing up capital from your property sale.
- Transport costs typically decrease in retirement. Without a daily commute, many retirees find they can manage with one car instead of two, or switch to a more economical vehicle.
- Entertainment and dining patterns naturally evolve. Many retirees discover they spend less while enjoying life more, as they have time to plan and cook meals at home or enjoy entertainment during off-peak hours.

Finding your balance

The decision of when to retire depends on balancing several key factors: your savings level, expenses, ability to generate additional income, and personal circumstances. While working longer can improve your financial position, smart expense management and additional income sources might allow you to retire sooner than you think.

Consider these key steps:

- Calculate your essential monthly expenses;
- Review opportunities for expense reduction;
- Explore potential additional income sources; and
- Use our Living Annuity Calculator to understand how much income you can sustainably draw from your retirement savings.

Retirement planning isn't just about reaching a specific savings number – it's about creating a sustainable financial strategy that works for your unique situation. Whether you choose to work longer, reduce expenses, develop additional income streams, or combine these approaches, understanding their relative impact will help you make the best decision for your future. Talk to us if you'd like to explore more options for your retirement investments.

Moneyweb | 9 December 2024

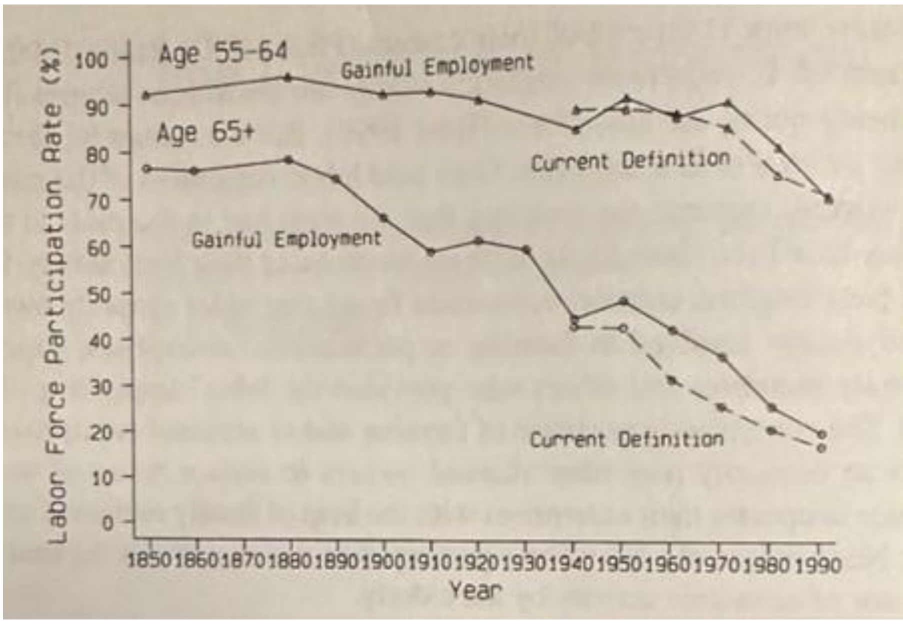
Talking retirement

Looking back at our history, old age has typically been a pretty bleak picture. But retiring today looks much better than in 1850 or 1950.

I spend a lot of time speaking to people either approaching or in retirement.

In its simplest form, we build financial dashboards and map them to desired lifestyle goals using a toolbox of local and offshore investment vehicles. This allows us to show individuals exactly what their options are and what is possible, i.e., do I have enough money, how to pay less tax, do I need to work longer, or can I retire early, and how to effectively structure my estate for passing on wealth to my children.

Of course, we also do estate and tax planning to complete the picture. Retirement planning is difficult for a number of reasons. It's interesting that when I discuss retirement, there's generally a shared understanding of the concept. I've been reading up on the history of retirement in America, and not surprisingly, it's a relatively new concept. It's only been around for a couple of generations. One hundred years ago, retirement simply meant you were about to kick the bucket (for 95% of the population, anyway). Have a look at the below chart on the labour force participation rate for men going back to 1850



Source: The Evolution of Retirement: An American Economic History, 1880-1990

In 1850, almost 80% of men aged 65 years and older were still actively working. By 1900, this number dropped to less than 66%, and by 1990, it dropped to just over 20%.

Other data points of interest that I found:

- In 1940, only 3% of those who retired did so because they could afford it. The remaining 97% retired for health reasons and consequently relied on their children or relatives for support.
- By 1963, however, 17% of people who retired could afford it, and by 1982, this number rose to 48%.
- During the early 1900s, 40% of elderly individuals in the United States depended on their children for financial support. This percentage decreased to 22% by 1940 and further to 5% by 1990.
- In 1910, less than 30% of wage earners reported taking vacations (and these weren't paid vacations). Vacation in itself was a luxury reserved for only the top fraction of society
- In 1880, a 20-year-old could expect to spend an average of just 2.3 years of 'retirement,' i.e., not working. Today, we 'retire' at 65 and expect to live another 20 to 25 years. That's almost another third of a lifetime just for 'retirement'.

We may be concerned that we have slightly less than we would like or may have to work slightly longer than anticipated. But looking back at our history, old age has typically been a pretty bleak picture. I'd much rather be approaching 65 today than in 1950 or 1850. Not just because I'd likely be dead by now, but because the social and economic structures we've built over the past two centuries allow us a much better life in old age (and a better life in general today). There's still a lot wrong with the world, but looking back, humanity has come a long way and I think that sometimes we forget this. This is a positive story that we should always be aware of.

Moneyweb | 9 December 2024

5 essential tips for effective retirement planning in South Africa

17 November 2024: Although retirement can be a thrilling and rewarding time, long-term financial security and stability depend on careful planning. Making money last during retirement is one of the top concerns for retirees, according to the most recent FNB Retirement Insights Survey 2024. The report notes that South African retirees overestimate their savings and underestimate their expenses, causing serious difficulties with money throughout their golden years. With the cost of living progressively increasing, retirement planning becomes even more important.

Here are 5 tips to consider when planning for retirement:

Have an emergency fund

Less than 27% of South Africans over the age of 60 have one month’s worth of emergency savings. Building up an emergency fund is crucial to safeguard yourself from unforeseen circumstances. One to three months' worth of income should ideally be in a fund that is accessible in less than seven days.

Actively reduce reliance on unsecured debt

Using debt to sustain a lifestyle can impact long-term financial resilience, especially since one is paying money on interest charges. It’s advisable to spend no more than 15% of your income on unsecured credit, which includes overdrafts, personal loans, and credit cards.

Protect yourself against loss with insurance and medical cover

Having home and car insurance can help shield you from paying out of the blue, in the event of an accident or unexpected incident. Ensure your yearly coverage is sufficient and suitable for your needs. The need for medical care and treatment also increases with age, so having the necessary insurance cover will help lower out-of-pocket costs, particularly in cases when hospitalisation may be necessary.

Have the right mix of investments

When investing your retirement savings, the right mix of investment asset classes is vital for ensuring your money lasts throughout retirement. Traditionally, people above 60 defaulted to more conservative or defensive types of assets, such as cash-type investments. However, having growth-type assets in a portfolio is a proven and effective way to beat inflation in the long run.

Don’t withdraw too much from a living annuity

In a living annuity, one can withdraw between 2.5% and 17.5% of the capital amount annually. However, a high drawdown rate significantly reduces the capital amount over time. For example, if your portfolio is growing at 10%, drawing down 10% will reduce the capital amount in 7 years. However, if the portfolio is growing at 10% but you only withdraw 5%, the capital amount will only start reducing in 33 years. There are a multitude of factors to consider when it comes to both preparing for retirement as well as ensuring that your money lasts throughout retirement. Getting the right advice will help you make the best decisions leading up to retirement while ensuring that you have the right asset allocation to have a stress-free and comfortable retirement.

Personal Finance | 10 December 2024

RSTP defaults on Pension, Retirees Empty – Handed

PHOCWENI – The Royal Science and Technology Park (RSTP) has been inconsistent in remitting pension payments to retirement fund administrators.

This has caused delays for retiring employees and their relatives in receiving their funds promptly. Notably, claims for deceased workers' relatives have also been affected due to the RSTP's failure to timely remit the monthly contributions. While the exact amount owed to the employee benefit consulting company remains undisclosed, the RSTP employs over 200 individuals. The number of affected retirees could not be ascertained but a couple of them called this newspaper to register their complaints against the company's pension fund, which has left them frustrated and greatly inconvenienced. However, assuming a conservative monthly contribution of E1 000 per employee, the employer's total contribution could reach E3 000 per employee. This is reportedly possible if the employer's contribution is E2 000.

Default

Sources suggest that the RSTP defaulted on payments for two to four months, possibly not up to five months though. If the default occurred thrice, the parastatal might owe E1.8 million, considering all 200 workers contribute E3 000 monthly (E1 000 from employees and E2 000 from the employer). Alternatively, if half of the workers contribute E3 000, and the other half contribute E1 500 monthly over three months, the total owed could be E1 350 000 (E900 000 for the E3 000 contributors and E450 000 for those contributing E1 500). Senzo Malaza, the Senior Communications Officer at RSTP, acknowledged the pension remittance inconsistencies and apologised to affected employees and their families. He assured that the company is diligently addressing the shortfall caused by circumstances beyond its control.

He said the Ministry of Information, Communication and Technology has shown unwavering support in resolving the issue satisfactorily. Sources indicate that the pension fund fell into arrears due to underfunding, leading management to utilise retirement funds for salary payments.Busangani Mkhaliphi, Director of the Public Enterprises Unit (PEU), highlighted the RSTP's cash flow challenges impacting operations and strategies, emphasising the need for urgent resolution. This she revealed in one of her quarterly reports. She said she was made to understand that government's fiscal position caused this challenge. However, it must be said the RSTP had received E18.86 million subvention for the quarterly period ended June 2022.

Deficit

Mkhaliphi commented that the RSTP incurred a deficit of E5.32 million, compared to a surplus of E8.35 million recorded in the last review period ended March 2022. The deficit was attributable mainly to the RSTP generating less other income and receiving less subvention compared to the last quarter. She said the public enterprise lacked coordinated effort to implement the Information Technology (IT) solutions for government. This was due to the silo approach to IT solutions by ministries. It is understood that the RSTP supported the Ministry of Agriculture in the development of the Agriculture Integrated Information System (AIIS) and the Elections and Boundaries Commission (EBC). The RSTP fund is managed by one of the entities under the Tibiyo Insurance Group. Tibiyo Insurance Group (Pty) Ltd (TIG)is the group holding company of Tibiyo Insurance Brokers (Pty) Limited (TIB), Swaziland Employee Benefit Consultants (PTY) Limited and Tibiyo Administrators and Premium Payment Plan (PTY) Limited.

These are companies incorporated in Eswatini and wholly owned by local shareholders. The Eswatini Employee Benefit Consultants (Pty) Ltd is a member of the Tibiyo Insurance Group. It was established in 1985. It is a retirement fund solution provider for employers in the country and is one of the largest private providers of retirement fund administration and consulting services in the Kingdom of Eswatini. One of its investment portfolio is the Sibaya Umbrella, which, at some point, had assets in excess of E520 million. It is the third largest fund in Eswatini. Sibaya offers retirement fund solutions tailored to include administration of funds, maintenance of fund accounts, benefit consulting, actuarial services, insurance broking without the employer ever having to establish their own fund.

Divided

Meanwhile, the RSTP is divided into two divisions - Information Technology Park and the Biotechnology Park.It manages about 317.17 hectares of land, for which 152 hectares is dedicated to industrial development land and 165.17 hectares are shared between research and laboratories, administration centres and residential buildings. Primarily, the RSTP was established to focus on the following activities:

- Agriculture, plant and animal biotechnology.
- Environment and biodiversity.
- Medical biotechnology.
- Biofuels, biofertilisers, biopesticides, biochemicals and bioenergy products.
- Bioprocesses, product development, and bioinstrumentation.
- Human resource development.
- Creation and strengthening of infrastructure in existing institutions and setting up new institutions.
- Basic research in new biology and biotechnology.

His Majesty the King, the pioneer of the RSTP, wants the facility to be a sustainable development built on the developmental elements of compatibility, diversity, identity and efficiency for future physical development. In 2022, in related or almost related incident, the National Workers Union in Swaziland Higher Institutions (NAWUSHI) informed its members that the University of Eswatini (UNESWA) Pension Fund was operating at a loss of E192 million. This was confirmed by a report of the UNESWA Board of Trustees for the year ended March 31, 2021. The workers complained that the fund was no longer able to pay terminal benefits and other packages of members who resigned from work, retired or died. He said the Board informed them that in order to be able to pay the packages, they had to disinvest from some of the fund's investments.

The UNESWA Fund, at that time, had investments in the country and South Africa. Over the past two years, it had disinvested about E50 million to pay packages of members who resigned from work, retired or died.

Affected

The affected employees numbered 955 members, inclusive of approximately 680 active members and 275 pensioners. In November 2023, over 100 parents took nine pension funds to court, compelling them to avail funds for their immediate needs until Likhwane Beneficiary Fund resumes normal operations. The pension funds were PSI Provident Fund, Eswatini Electricity Company Pension Fund, UNESWA Pension Fund, Eswatini Building Society Pension Fund, Raleigh Fitkin Memorial (RFM) Pension Fund, and Eswatini Civil Aviation Authority Pension Fund. Others were Royal Eswatini Airways Pension Fund, Eswatini National Provident Fund Pension Fund and Premier Swazi Pension Fund (Pty) Ltd.

Other respondents in the case were administrators of the provident/pension funds, Likhwane Beneficiary Fund and the Financial Services Regulatory Authority (FSRA). The funds are established by different employers for the benefit of their employees. The employer and employees enter into an agreement, in terms of which the former would deduct monthly sums from the latter. The employer adds a certain amount to that which has been deducted from the employee. The money would then be remitted to the pension fund or fund administrators. When the employee dies, the employer calls the beneficiaries to advise them about how much the employee each of them would receive from the member's provident fund.

Times of Swaziland | 8 December 2024

Bridging generations: Financial strategies for mixed-age marriages

These complex family dynamics give rise to a special set of financial planning considerations which should be considered as early in the relationship as possible.

Couples with significant age differences are more likely to have blended families, often including children from previous relationships. Research indicates that marriages with large age gaps face higher risks of failure, as each partner is typically at different psychological, emotional, and financial stages in life. These complex family dynamics give rise to a special set of financial planning considerations which should be considered as early in the relationship as possible.

Risk cover

When evaluating risk cover, the age and health of the older spouse can greatly affect their insurability. For those wishing to provide financial support for a younger spouse through a life policy, obtaining cover may be both challenging and expensive, particularly with a significant age gap. It is important to acknowledge that disability cover for the older spouse may decrease or cease between ages 60 and 70, presenting a risk if they intend to work beyond this age, especially if the couple depends on that income. Furthermore, if the older spouse has dependants or financial obligations from a previous relationship while aiming to support their younger partner, careful structuring and careful beneficiary nominations on life policies are vital to ensure all financial responsibilities are met.

Estate planning

When the older spouse has children or maintenance obligations from a previous relationship, comprehensive estate planning is essential. Blended families with complex dynamics can complicate this process significantly. For couples with a substantial age difference, estate planning necessitates a careful balance between addressing the financial needs and longevity concerns of the younger spouse while ensuring that the financial requirements of the older spouse's children and dependants are also adequately met. The older spouse must carefully assess the consequences of retaining funds in a retirement fund versus transferring them into a living annuity. Funds within a retirement fund are governed by Section 37C of the Pension Funds Act, which dictates asset distribution among dependants upon the member's death. This may complicate the older spouse's intent to financially support the younger spouse. In contrast, transferring retirement funds into a living annuity permits the older spouse to nominate the younger spouse as the beneficiary.

Additionally, it is important to consider the potential for the older spouse to develop dementia or Alzheimer's disease. In such cases, the younger spouse may need to take steps to ensure they can effectively manage their partner's affairs if they lose their mental capacity.

Retirement planning

Retirement planning for couples with a significant age difference is inherently more complex than for couples of similar ages, primarily due to the extended time horizon that must be addressed. The retirement timeline spans from the older spouse's retirement to the younger spouse's passing, complicating scenario planning and modelling. Depending on their unique situations, it may be necessary to develop two distinct investment strategies tailored to each spouse's retirement timeline. This approach facilitates a more precise transition of invested capital from growth-oriented strategies to wealth-preservation strategies, ensuring that the timing aligns appropriately with each spouse's life stage. The younger spouse should carefully evaluate the implications of retiring concurrently with the older spouse, as this decision could have significant emotional and financial repercussions. Early retirement may lead to the younger spouse's investments being allocated to overly conservative strategies, potentially resulting in missed opportunities for critical investment growth.

Additionally, they would need to consider the loss of tax deductions on future retirement funding premiums and the opportunity costs associated with forgoing career advancements and future earnings that could have contributed to growth. Retiring prematurely may also alter the dynamics of their relationship, particularly if the older spouse has accumulated the majority of their wealth and carries financial commitments beyond the marriage. Beyond the financial implications, the younger spouse must recognise that if the marriage were to end or the older spouse was to pass away, they might find themself alone, unemployed, and in a vulnerable position. Furthermore, an extended retirement could lead to feelings of unfulfillment, regret, boredom, and resentment, underscoring the importance of thoughtful consideration before making such a significant life change.

Where the older spouse chooses to retire while the other spouse continues working, the couple will need to contemplate how to replace the lost income of the retired spouse without jeopardising their retirement capital. If the couple starts drawing down from their retirement funding too early, it could lead to a situation where the younger spouse is left underfunded for retirement. They will also need to consider what it will mean for their relationship where one spouse is building their career while the other spouse is seeking a slower, simpler existence. In general, retirement forecasting for mixed-age couples should be based on the spouse with the longest life expectancy, illustrating various retirement scenarios for the couple. When considering retirement from a fund and purchasing an annuity, it is essential to factor in their unique circumstances, including discretionary investments, significant capital needs, their wishes to leave a financial legacy for heirs, and their expected longevity. From a planning standpoint, it is empowering to demonstrate how even a slight delay in retirement or extending the working years can significantly enhance retirement outcomes.

Given that the younger spouse is often a woman and that women typically live about five years longer than men, it is essential for both spouses to have a comprehensive understanding of their retirement planning. This awareness is vital, particularly as the younger spouse may need to manage the couple's affairs later in life.

Healthcare planning

Healthcare costs generally increase with age, which can result in staggered medical expenses for the two spouses. However, this situation may place a significant burden on the younger spouse, who may need to care for their older partner while managing their own career. Therefore, the costs associated with caregiving, frail care, and nursing should be incorporated into the couple's long-term care plan. The younger spouse should also reflect on their feelings regarding the necessity of moving into a frail care facility to support the older spouse. Additionally, in the event of the older spouse's passing, the younger spouse may find themselves alone without anyone to care for them in later years. From a financial standpoint, if the younger spouse benefits from a medical aid subsidy through their employer, it could be advantageous for the couple to enrol in that medical aid scheme. They should also explore various medical aid plan options tailored to their specific healthcare needs, ensuring comprehensive coverage for both partners.

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

3 William Road
Bedfordview
Johannesburg 2008