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THE RETIREMENT INDUSTRY NEWSLETTER

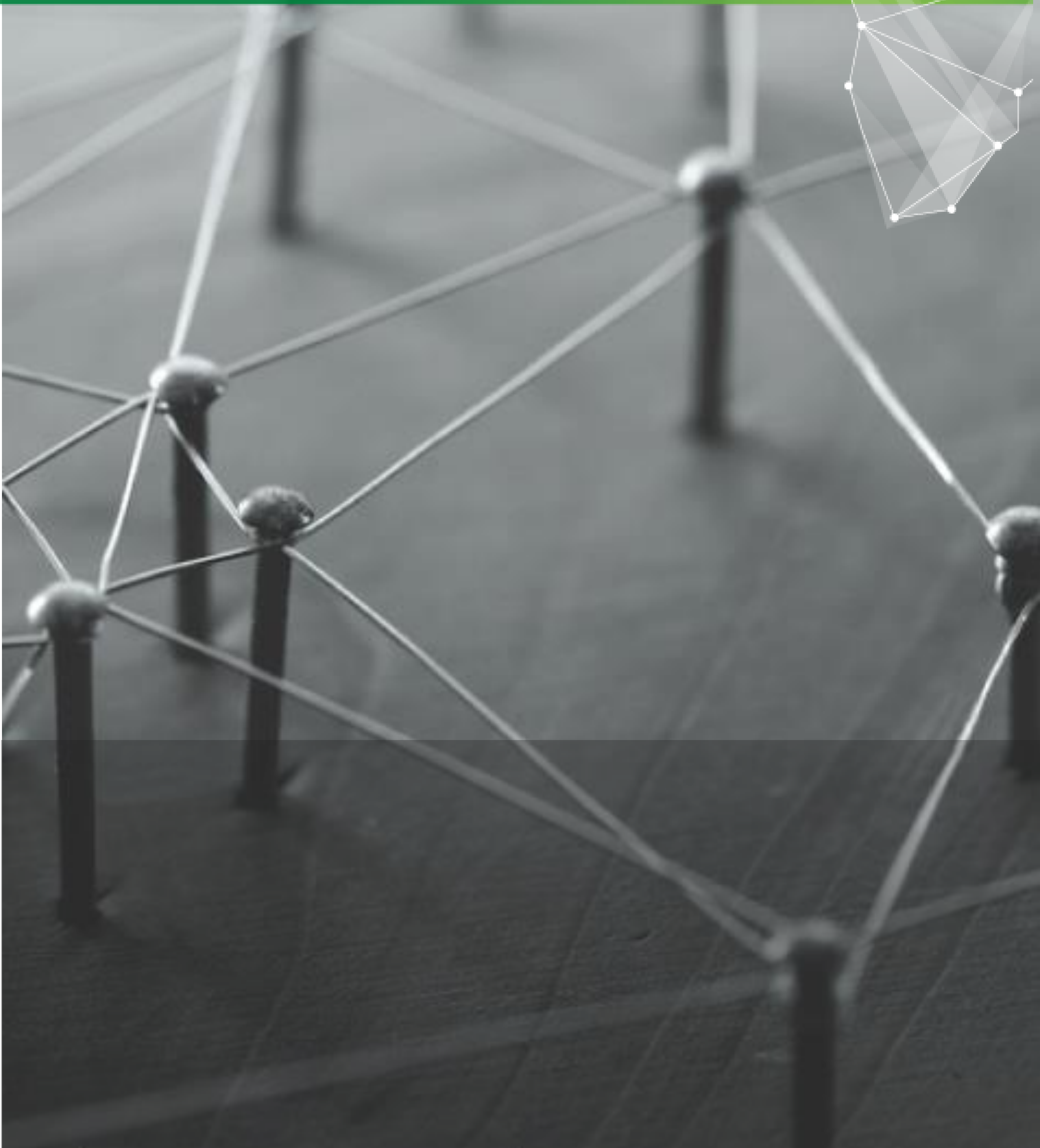

TABLE OF CONTENT

LOCAL NEWS

- Avoiding the 'should've, could've and would've' in your retirement years
- Retire with wealth in South Africa
- How will the new tax legislation impact you?
- Personal Finance | Two-Pot Retirement System explained for first-time contributors

INTERNATIONAL NEWS

- British expats locked out of pensions by Brexit rules
- Pension schemes encouraged to run on to avoid potential value loss
- 2 Reasons Not to Worry About the Future of Social Security
- U.S. corporate pension plans' funding ticks up in September

LOCAL NEWS

Avoiding the ‘should’ve, could’ve and would’ve’ in your retirement years

With the increased cost of living, managing your money in your retirement years can be a challenging exercise for many. Running out of money during one’s retirement years is a prime concern for many retirees. Although people have reasons to be concerned with the rise of economic pressures and the cost of living, consumers can lessen the risk of running out of money in retirement with proper financial planning and sound money management tools. The recent 2023 FNB Retirement Insights survey shows that responses from participants over the age of 60 reveal that only 21% of respondents in this age group are fully retired, while the majority are either working full-time (38%), part-time (7%), or retired but still have a secondary source of income (33%).

Samukelo Zwane, Product Head of FNB Wealth and Investments, says, “Most people simply cannot afford to retire or are forced to take major cutbacks on their lifestyle during their retirement age. The fact is, even if you’ve planned and saved carefully for your retirement years, you will still need to carefully manage your income, investments and expenses to sustain your reserves.” Below are some valuable lessons on retirement planning shared by the survey’s participants aged above 60:

- **The importance of seeking expert advice –** Seeking financial advice and guidance ahead of and during your retirement years is pivotal. This could be the make or break for you in sustaining your retirement savings and ensuring that your money works for you and your loved ones.
- **Diversify your income sources –** Consider income diversification options such as investments, side-hustles or less demanding consultancy work, to keep your income stream moving well into your retirement. This will lessen your heavy reliance on your retirement income to sustain your lifestyle.
- **Manage your money wisely –** Changes in your day-to-day lives have resulted in changes to our spending patterns. This is therefore a good reason to look at your budget with a different lens or new perspective. Reduce costs wherever possible, both on needs and wants. You might not be able to change some fixed expenses, like rent or bond, but you could look at reducing expenditure on variables.
- **Always practice discipline -** Look at your purchases over the past few months. Identify spending habits that you can eliminate. It might be a membership you don’t use any more, or

maybe you start cooking more meals at home instead of going out to eat as often. Keep a diary to track your spending. "Although retirees may not have a steady income like they did before retirement, it's still possible to save money so that they have more to spend on what's important to them, either by managing or reducing their expenses and leveraging some of their banking benefits. For help on how to manage and sustain your finances during your retirement years, consult your private advisor for some guidance," concluded Zwane.

FA News | 10 October 2023

Retire with wealth in South Africa

South Africa's Retired Person's visa program is among the topmost accessible visa regimes, offering one of the most affordable retirement visa options globally. The defining attractions to the SA retirement visa are the absence of an age requirement, the option to work in certain circumstances, a swift adjudication time and the low-cost financial requirement of R37,000.00 per month over a 4-year period. For many foreign nationals, South Africa (SA) is a dream retirement destination, thanks to its diverse landscapes, rich cultural heritage, and favourable exchange rates. Adding to its allure is the unique aspect of the visa process, which offers a seamless pathway to enjoying the country's abundant beauty.

Why South Africa

Whether you are looking for a luxurious and expansive residence nestled in the picturesque coastal neighbourhood of Camps Bay, or the modern sophistication of Sandton, SA offers some of the most sought-after real estate in Africa. Unlike most temporary permits, SA's Retired Person's Visa allows applicants to own property. Discovering an ideal new residence might feel overwhelming, but thanks to the country's thriving real estate sector and relatively lower purchase costs, the property market can cater to a wide range of property preferences. With a favourable exchange rate, applicants can stretch their retirement savings significantly further.

The country's well-established financial sector provides a range of investment options, including robust retirement annuity options, that offer steady and reliable income streams for retirees. South Africa's Retired Person's Visa allows holders to renew every 4 years, and after residing in the country for 5 years, applicants can qualify for Permanent Residency. With Permanent Residency, one would have the right to permanently reside in the country as a South African resident, without the need to renew their visa every 4 years.

Residing in South Africa

Living in South Africa offers a unique blend of diverse cultures, breathtaking landscapes, and natural wonders. The country's rich tapestry of traditions, languages, and cuisines reflects its vibrant multicultural society. For these reasons it is easy to understand why Cape Town took the top spot at the Telegraph Travel Awards, being voted the world's best city to visit for the second year in a row. South Africa boasts a reputation for providing high-quality private healthcare, equipped with advanced medical technologies and skilled healthcare professionals. Taking advantage of the greater financial comfort, retiring in South Africa presents an opportunity for individuals to retire wealthy with access to private facilities.

The Tax Considerations

Throughout the process, applicants must consider the tax implications of their move to SA. They should ensure they meet all the compliance requirements for both the South African Revenue Service (SARS) and the revenue authority of the country they are departing.

Applicants should bear in mind that if they intend to work in SA, they may need to meet additional requirements, which can include ceasing tax residency in previous jurisdictions and becoming a South African tax resident.

Make The Dream a Reality

SA remains a sought-after destination for foreign nationals seeking to settle into an idyllic lifestyle. While SA's Retired Person's Visa makes the country even more attractive for these individuals, the immigration process can be complex and burdensome. Equally important are the various documentary requirements for a smooth immigration process. These remain a critical part of the visa application process and should meet the standards set out by the Department of Home Affairs. With the assistance of immigration experts, however, the stress of the retirement visa application process is significantly reduced. The well-rounded immigration specialist would plan a roadmap that considers every step of your move to South Africa, ensuring the entire process is handled efficiently and effectively.

FA News | 10 October 2023

How will the new tax legislation impact you?

The immediate consequence for applicants of the AIT is a necessity for further comprehensive disclosure. To receive approval to move funds abroad, Sars will require intricate details.

What are exchange controls?

Exchange controls, often known as capital or currency controls, are restrictions set by governments on the buying and selling of currencies. Enforced to manage the flow of money and foreign currency across borders, these controls are pivotal for a nation aiming to mitigate risks associated with currency depreciation, inflation, and financial instability. Some countries (like South Africa) use exchange controls to prevent capital flight, which occurs when residents or investors move large sums of money out of the country in response to economic or political uncertainties.

Historical context of exchange controls

Many nations, including European countries and the UK, implemented foreign exchange controls in the past, especially in the aftermath of World War II. As these economies strengthened post-war, such controls gradually receded. For instance, the UK eliminated its final restrictions in October 1979. By the 1990s, the global shift was towards free trade, globalisation, and liberalisation. In current times, foreign exchange controls are imposed primarily in countries with transitional or developing economies. They serve to reduce speculative activities and substantial capital outflows. Countries like China, India, certain South American regions, and select African nations enforce such controls. Other nations, such as The Bahamas, Cuba, Iran, North Korea, and Sudan, also maintain stringent government-regulated exchange regimes (Griessel, 2023).

South African Exchange control background

South Africa’s history with exchange control dates back to 1939; however, in 1961, under the leadership of Prime Minister Hendrik Verwoerd, the nation faced heightened global isolation. This led to the proclamation of Government Notice R.1111 on 1 December 1961 by the National Party, establishing the legislative framework for contemporary exchange controls (Venter, 2020). The South African Reserve Bank, representing the National Treasury, oversees these controls today (Griessel, 2023). Fast forward 62 years, and the premise on which the legislative framework of exchange control was created is still intact. In April 2015, the annual Foreign Investment Allowance (FIA) for South African individuals moving funds abroad was revised upwards from R4 million to R10 million.

As discussed below, although this marked a substantial increase in rand, it is far less significant in hard currency. It should be noted that the FIA is, in addition to an annual discretionary allowance of R1 million, requiring no documentary evidence to be produced.

The new amendments to the FIA and its consequences

Over time, entities like the National Treasury and the South African Revenue Service (Sars) have tightened the scrutiny on individual offshore transfers. For instance, the 2020 Budget Review stated*, "*Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process. Such transfers will also trigger a risk management test that will include certification of tax status and the source of funds and assurance that the individual complies with anti-money laundering and countering terror financing requirements prescribed in the Financial Intelligence Centre Act (2001). This will be phased in by 1 March 2021*."*

In April this year, Sars introduced changes to the tax clearance process for individual cross-border capital movements, focused on substituting and changing the processes of FIAs and emigration allowances. Prior to the new amendments, individuals had to utilise **separate** Tax Compliance Status (TCS) pins for fund transfers abroad through their FIAs **or** for their emigration process. Post April this year, Sars **merged** the FIA and emigration applications (into the same process) in a significant shift, leading to a new process called the Approval for International Transfer (**AIT**) Application. This transition introduces a more demanding process for taxpayers than the former FIA system, as Sars now brackets emigration and offshore allowances in the same process.

So, what does this mean for individuals?

The immediate consequence for applicants of the AIT is a necessity for further comprehensive disclosure. To receive approval to move funds abroad, Sars will require intricate details, including:

- Direct or indirect shareholding in any legal entity, domestic or foreign, exceeding 20%.
- Beneficiary status in any trust, be it local or international.
- A comprehensive balance sheet outlining both local and foreign assets.

This amplification in disclosure mandates indicates Sars's enhanced oversight over both domestic and global assets. Many analysts and stakeholders speculate this to be a preliminary step towards introducing a wealth tax or potentially augmenting estate duties.

Net effect and illustrating the financial implications

I mentioned earlier that the net effect of raising the FIA from R4 million to R10 million is less substantial than many thought; here's why: Consider the ZAR/USD exchange rate. On 1 April 2015, it stood at 11.96. A person utilising their R1 million discretionary allowance would then secure $83 612. Over eight years later, at a rate of 19.29, the same allowance fetches merely $51 840. Despite the FIA increment from R4 million to R10 million, there's been a ZAR/USD depreciation of **-61.29%** in the interim.

Conclusion

Exchange controls are governmental tools shaped by both economic and political considerations. The new amendments mean that Sars now holds the cards and will have further oversight of both your local and global wealth due to new disclosure requirements. The recent reforms, especially the AIT application, spotlight Sars's intent to monitor high-net-worth individuals meticulously and has been in the pipeline since 2020. While ensuring regulatory compliance, these controls also pose challenges for potential foreign investors, given the administrative burden of transferring funds out of South Africa.

The underlying question remains – with the ZAR continually depreciating, will there be an upward revision of the discretionary allowance? At Paragon Wealth Managers, we continually guide our clients through these financial complexities, ensuring optimal utilisation of their discretionary allowances and aiding with AIT applications. We remain committed to delivering robust hard currency returns, targeting a US CPI +5% performance over five years. For more insights, visit us here.

Moneyweb | 10 October 2023

Personal Finance | Two-Pot Retirement System explained for first-time contributors

On 1 March 2024 there will be a radical change affecting everyone who is a member of a retirement fund. This is known as the Two-Pot Retirement System and applies to any member of an employer pension/provident fund, a retirement annuity, or a preservation fund. In partnership with Liberty, we are running a four-part educational series to ensure that you understand what the Two-Pot Retirement System means to you.

In our final article in this series, we focus on the first-time retirement contributor.
For a first-time retirement contributor who joins the retirement fund after 1 March 2024, the Two-Pot Retirement System will have the greatest impact. As they will not have accumulated any funds prior to 1 March 2024, they will not have any funds in their Vested Component. They will only accumulate funds in two of the components- the Savings Component and Retirement Component.

To recap, from 1 March 2024 all retirement contributions, whether to an employer fund or a retirement annuity, will be split between a Savings Component and a Retirement Component.

. **Savings Component:** One-third of the member's contributions will be paid into the Savings Component. The contributions, and all growth in the fund, would be accessible prior to retirement. Withdrawals may only be made once in a calendar tax year and only if the value of the Savings Component is at least R2 000 or more. Any withdrawals prior to retirement will attract fees and be fully taxable at marginal tax rates. At retirement, funds in the Savings Component could be taken as a cash lump sum and would be taxed according to the lump sum retirement tax tables.

. **Retirement Component:** Two-thirds of the member's contributions will be paid into the Retirement Component. The contributions and growth will be preserved until retirement. On retirement the funds will be used to purchase an annuity income. Analyses show that overall, the Two-Pot Retirement System will provide a better outcome for members of retirement funds than is currently experienced. This is because a portion of their retirement savings (the Retirement Component) must be preserved until retirement, unlike the current system where, in the case of employer pension and provident funds, all funds can only be withdrawn on resignation.

While members will still have access to the Savings Component, if members continually withdraw their savings each year, they could find themselves underfunded in retirement. At age 65, R4.5 million would be available in the Savings Component as a lump sum. Her cash lump sum retirement benefit would be taxed according to the lump sum retirement tax table, and she would receive the first R550 000 tax-free. She would have R9 million in her Retirement Component which must be used to purchase an annuity income. If she withdrew all her funds from her Savings Component before age 65, the withdrawals would be fully taxed at her marginal tax rate, and she would not have the R4.5 million in her Savings Component to provide a lump sum at retirement. She would only have the R9 million in her Retirement Component by age 65 which she would be required to use to purchase an annuity income.

PLAN FOR FINANCIAL EVENTS

Rather than relying on your retirement fund for emergencies or other life events such as your children's education, make sure you have other investments in place. You can put money away for emergencies in a notice account, purchase unit trusts or invest in a tax-free savings account for other medium-term goals. These should be built into your financial plan, even if that means a slightly lower contribution to retirement investments. The Savings Component should only be accessed before retirement as a last resort.

PROS AND CONS OF TRANSFERRING TO THE RETIREMENT COMPONENT

The draft legislation currently allows members to transfer the funds in certain of their components to other components within the same retirement fund. While a member may never transfer funds from the Retirement Component to the Savings component, one can transfer funds from the Savings Component to the Retirement Component. Depending on the retirement fund, it may be possible for the funds in the Savings Component to be invested in different investment portfolios from the Retirement Component.

Members who do not intend to ever withdraw from the Savings Component may wish to transfer funds from their Savings Component to the Retirement Component especially if this is then invested in a higher return investment portfolio. Before making this decision, remember that once the funds have been transferred to another component they cannot be transferred back. In addition, any funds in the Retirement Component must be used to purchase an annuity income and will not be available as a cash lump sum benefit at retirement. It is best to get financial advice to ensure that at retirement you have the option to take both a reasonable, tax-efficient cash lump sum benefit as well as funds to purchase an annuity income to meet your living expenses.

City Press | 7 October 2023

INTERNATIONAL NEWS

British expats locked out of pensions by Brexit rules

British expats across the world face being locked out of their pensions because of UK bank account closures linked to Brexit.

Most pension providers can only pay into a UK bank account, however lenders have stopped serving many overseas customers, leaving them scrambling to access their savings. Retirees are also struggling to move pensions into drawdown, buy annuities and make changes to their contributions as post-Brexit rules mean pension providers are less likely to offer cross-border services.

Forced to withdraw lump sums with large tax bills

Paul Beard, founder and chief executive of Alexander Beard Group, which specialises in giving advice to those moving overseas, said he had been contacted by dozens of retirees about pension providers who refused "point blank" to pay out. He said the policies were a "dereliction of duty" and contravened new consumer rules introduced by regulator the Financial Conduct Authority in July. Philip Teague, of Cross Border Financial Planning, said a "worryingly large" number of pension providers were creating barriers for expats.

"We're starting to uncover some big problems for our clients who have got these very vanilla regular pensions, that they just don't know about," he said, adding that clients had not been well informed. "We're proactively starting to feed complaints through to them which will ultimately end up with the Financial Ombudsman because of their lack of communication in this area," he said. He explained that some bereaved families were being forced to take one lump sum from providers, landing them with large tax bills.

Poor advice

Mr Teague accused pension providers of being unhelpful and failing to offer advice to pensioners living abroad who have had their UK bank accounts closed. He said the reason the funds didn't want to pay into overseas accounts was because "it turns a profitable client into an unprofitable one". Sources at pension funds told Telegraph Money that the problems were primarily caused by the bank account changes. The UK leaving the EU triggered a number of banks to review which accounts they allowed non-residents to open and retain. Barclays began a review of its international offerings in 2021 and is now writing to overseas customers with a six-month warning of account closure.

Wealthy expats can open a global account with Barclays, which allows easy online access and currency flexibility, but they need to maintain a balance of £100,000 in order to avoid a monthly charge of £40. HSBC offers an account for Expats but customers must save at least £50,000, have a salary of more than £100,000 or already be a “Premier” customer in order to be eligible. Santander stopped non-UK residents taking out new products in the country in the wake of Brexit. Lloyds Banking Group, which also runs the Bank of Scotland and Halifax, shut 13,000 accounts of expats living in Europe in 2020 as a result of Brexit rule changes.

‘Very few providers are able to offer cross-border pensions’

In the wake of Brexit, opening a new pension, moving money into drawdown so an income can be taken and making changes to contributions are considered cross-border business. Because UK pension schemes are no longer authorised by European authorities, they are often unable to offer the insurance activities. Providers also cannot open new pensions for Britons living abroad because HMRC requires that anyone starting a scheme ordinarily resides in the UK. A Royal London spokesman said: “Very few providers are able to offer cross-border pensions business due to the risks and complexity involved for customers in doing so.” The spokesman said there are some circumstances in which those living abroad can draw income from UK pensions, depending upon the type of contract they have and when it was taken out.

“For those who can’t, they will need to seek advice from an adviser in their local jurisdiction on their options to transfer their pension to an arrangement which allows them to do so.” Other pension providers, including Prudential, will not pay pension income into an overseas account and did not before the Brexit vote. Telegraph Money understands that many expats are having to transfer older policies which don’t have modern drawdown options. Some pension funds also require that a customer receives accredited advice in the country they have moved to before a transfer can be made, with financial advisors charging high commission for this service. A Standard Life spokesman said providers had been asked by banks to make payments into accounts in the country where the customer is living, rather than a UK account.

“For customers with existing drawdown policies that have been in place since prior to Brexit, we are seeing some banks request that payments are made to an account in the country where the customer is resident.” The spokesman continued: “In these cases we are working with customers to ensure payments are made to a new account.” A spokesman for The Pensions Regulator said it could not comment on the rules of individual pension funds but that concerned customers should follow complaint procedures.

The Telegraph | 10 October 2023

Pension schemes encouraged to run on to avoid potential value loss

Research by Van Lanschot Kempen Investment Management has found that a £1bn defined benefit (DB) scheme could lose £200m in value by defaulting to buyout over the next decade. Van Lanschot Kempen's projections also show that de-risking towards buyout could cost such a scheme a further estimated £50m in missed returns over the same period. For larger schemes, the potential opportunity costs and lost values are proportionally higher. According to the investment and fiduciary manager, increasing regulation, the short-term volatility of funding positions, and the growing pressure on corporate balance sheets and cashflow have all driven pension scheme trustees and sponsors to prioritise an insurance buyout or buy-in over the past decade.

This transfer of assets has gone largely unchallenged for several years, according to Van Lanschot Kempen. However, it added that with some pension schemes benefitting from significant surpluses, driven by shifts in Gilt markets over the past two years, there are now "material incentives" for sponsors and trustees to consider running pension schemes on. Van Lanschot Kempen said that adopting longer-term thinking and allowing schemes to run on, both retains value and offers additional benefits. Its projections show that running on a £1bn DB scheme could generate surpluses of £250m over the next decade, which could be redeployed to benefit members, trustees, sponsors, and to address intra-generational divides and wider society.

FM+ solution

In response to this value loss, Van Lanschot Kempen has launched a new extended fiduciary management solution to help schemes run on for longer for the benefit of members, trustees, sponsors and wider society, to avoid further "value leakage" from UK pension schemes.The solution FM+ was developed in partnership with C-Suite Pension Strategies and offers similar benefits to fiduciary management but also includes additional third-party security arrangements to provide protection against sponsor defaults and falling funding levels.This approach, according to Van Lanschot Kempen, shifts the focus from underlying risk concerns to longer-term surplus and benefit generation.

Andre Keijsers, head of UK and head of institutional client management and origination said: "Pension schemes now have a credible alternative to the more-or-less accepted approach of an insurance exit solution."Allowing schemes to run on enables them to protect and lock in value, rather than this being lost in the transfer to the insurance world," he said. Keiser's added that surpluses can then be generated and distributed to offer DB members better inflation proofing or give defined contribution (DC) members a better chance of a living pension with contribution top-ups. Reductions in sponsor contributions can feed through directly into improved company cashflow, Keijsers said, which can additionally be recycled for the benefit of employees or retained in the business to improve shareholder value. He continued: “This capital could also be invested in line with the government’s Mansion House reforms to stimulate the UK economy and promote wider societal benefits.” According to Iain Brown, head of strategic clients at Van Lanschot Kempen, while insurance transactions have long been considered the “gold standard” for pension schemes, in transferring assets, schemes have also transferred significant value to insurers and often “lost out substantially” in the process. He said this value loss has gone “largely unchallenged” for many years. He urged the pensions industry to act now and encourage sponsors and trustees to “seriously consider” continuing to run their pension schemes.

IPE | 11 October 2023

2 Reasons Not to Worry About the Future of Social Security

A lot of people are down on Social Security. Here's why you don't need to stress.

Will Social Security be there for you when you retire? If you ask today's workers, that's questionable. In fact, many people are convinced that Social Security is on the brink of ruin, and that their retirements are doomed because of that. But here's why the situation isn't as terrible as you might think it is.

1. Social Security's main revenue source isn't going away

Social Security gets the bulk of its funding from payroll taxes. And for that reason alone, the program will continue to be viable for many years despite near-term financial shortcomings. It's true that in the coming years, Social Security expects to owe more in scheduled benefits than it collects in revenue. It's also true that benefit cuts might have to happen once the program's trust funds run dry -- an event that may be on the table in about a decade from now. But Social Security can continue to sustain itself by continuing to tax workers on their income. And since people will perpetually need to work, the program should have a perpetual source of funding.

2. Lawmakers are working to avoid benefit cuts

While Social Security cuts may be on the table in the not-so-distant future once the program's trust funds run out, lawmakers really do not want to see that happen. And while an official solution to that problem has yet to be introduced, lawmakers are working on one. So far, there are several proposals that have been floated around, including raising taxes on wages to pump more money into Social Security and raising the wage cap for which those taxes apply. There's also been talk of pushing back full retirement age, which is the age when Social Security recipients are eligible for their monthly benefits in full. Furthermore, this isn't the first time Social Security has entertained the possibility of benefit cuts. But lawmakers managed to avoid them in the past, so hopefully, they'll manage to do so again.

All isn't lost

You may be ready to give up on Social Security for your retirement. But there's really no need to. In a worst-case scenario, you may not end up with the full monthly benefit you'd normally be entitled to based on your personal wage history. But a slashed benefit is better than no benefit at all. And there's a good possibility lawmakers will manage to avoid Social Security cuts entirely. That said, it's a good idea to save for retirement on your own so you're not so reliant on Social Security.

Even if nothing changes with the program for the worse, those benefits will only replace about 40% of your pre-retirement income if you earn an average wage. Most retirees need a lot more income than that for a comfortable lifestyle, so it's in your best interest to build up a strong nest egg regardless of what transpires with Social Security. In fact, the simple act of actively saving for retirement might give you peace of mind as you read news of Social Security-related doom and gloom. And that's an important thing for your mental health in the course of your retirement planning.

The Motley | 8 October 2023

U.S. corporate pension plans' funding ticks up in September

The overall funding ratio of the 100 largest U.S. corporate pension plans improved slightly in September, climbing to 103.6% as of Sept. 30 from 103.1% at the end of August, according to the Milliman 100 Pension Funding index released on Oct. 6. Milliman explained that a significant jump of 43 basis points in the monthly discount rate — from 5.41% in August to 5.84% in September — was responsible for this result, citing that discount rates have not risen this much since September 2022 and have not been this high since March 2010. This increase also helped to offset September's investment losses of 3.73%, the worst such month of the calendar year thus far, as the market value of plan assets declined by $55 billion to $1.27 trillion, Milliman noted.

"September was a record month of sorts, even though the net movement in funded ratio was modest," said Zorast Wadia, a principal and consulting actuary at Milliman, in the release. "September returns were the lowest of the year, yet the rise in discount rates was the largest monthly change we've seen in the last 12 months." Wadia added that "in the end, this rise and the corresponding $60 billion liability drop outweighed September's decrease in assets due to down markets."

Pensions & Investments | 9 October 2023