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LOCAL NEWS

Reforms to bring errant pension funds into line

Errant pension funds and administrators must fall in line with the rules and adhere to good governance, says Finance Minister Tito Mboweni.

Errant pension funds and administrators must fall in line with the rules and adhere to good governance, says Finance Minister Tito Mboweni.

In a foreword to the 2018/19 annual report of the Office of the Pension Funds Adjudicator (OPFA), Mboweni said market conduct remained a burning issue as funds and administrators continued to grapple with issues such as the non-payment of contributions and the late payment and non-payment of benefits.

He said data collected from complaints must be used by the Financial Sector Conduct Authority (FSCA) to ensure that the performance of all role-players improves to embrace compliance and good governance.

“From the government side, efforts will be made to ensure that all reforms implemented are for the benefit of members and continue to develop the South African retirement funds’ sector in an orderly manner, including supporting growth, employment and the eradication of poverty,” Mboweni said.

FSCA commissioner Abel Sithole said for the first time since the establishment of the OPFA 21 years ago, more than 10000 complaints were finalised within a financial year. He said this was due to the accessibility of the OPFA to pension fund members and the efficiency of its processes.

In the year under review, the OPFA finalised 10289 complaints - 17 percent higher than the previous year - and 98 percent of complaints were resolved within nine months.

“Notwithstanding the OPFA’s performance, the unprecedented increase in the number of complaints is of concern and requires our undivided attention.

“There has been increased engagement with funds, fund administrators and the regulator to find ways of collaborating to address existing challenges such as non-compliance on payment of contributions and on death benefit lump sum payments, delays in the payments of benefits to beneficiaries, lack of adequate documentation and records management, and poor-quality/delayed responses by funds to the OPFA.

All these challenges, particularly in the current economic conditions, have a direct impact on pension fund members' welfare, and at times, right to human dignity.

"A welcome development is that there has been an increase in the number of settlements, especially in matters where there were no outstanding contributions.

"Some funds were able to pay the benefit complained of to the complainant even before the finalisation of the complaint. This level of initiation and co-operation by funds motivates the OPFA and fuels it to continue engaging the industry at large and tell the good stories," Sithole said.

Pension Funds Adjudicator Muvhango Lukhaimane said complaints to the tribunal had increased steadily to a record number, thus affecting turnaround times.

In the year under review, she said 11399 new complaints were received, 16.38percent more than last year.

"It is unfortunate that, with an office that is more than 20 years old, complaints continue to increase. ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement/reforms-to-bring-errant-pension-funds-into-line-35078181s***
Personal Finance | 16 October 2019

Unseen threats to your retirement plan

One of the single biggest threats to a couple's retirement funding is adult children who continually ask to borrow money.

While many investors consider the greatest threats to their retirement savings to be volatile markets, poor returns and stagnant economies, the truth is that some of the largest threats to one's retirement can be somewhat latent. Even the most bullet-proof retirement plan can be disrupted by seemingly innocuous reasons such as the following:

Divorce

Although most couples in their 40s and 50s probably don't anticipate divorce, the numbers are somewhat unnerving. Regardless of the scale of a couple's wealth or the amiability of the separation, a divorce can have catastrophic effects on one's retirement planning; and any couple would be naive to believe they can unravel their marriage without severely compromising their retirement plans in the process.

A divorce later on in life is bound to not only disrupt one's financial independence, but also force a number of lifestyle changes to be made by both parties. What was once a jointly-conceived retirement plan comprising of a single retirement home, mutual travel plans, appropriately timed vehicle upgrades and a retirement income sufficient to support a combined lifestyle would need to be cast aside and recalculated for each individual. Other than in a case of substantial wealth, both parties need to be prepared to compromise on lifestyle.

Second homes

Buying a second home while both spouses are still working may often seem both affordable and practical, especially if the bond on the primary residence has been settled. While one's children are at school, a second home is often the family's holiday hub and a vacation bastion for friends and extended family. The thrill of owning a second home is, however, often replaced by anxiety once the reality of funding a second home from a reduced retirement income sets in.

Added to the financial pressure of financing the second home, the upkeep of the second property often becomes an arduous duty rather than a weekend pleasure. In addition, if the equity in the second home is needed to supplement other retirement investments, the timing of the sale of a second home can be instrumental to secure one's retirement cashflow. Being forced to sell a second property at an inopportune time can result in your nest egg being compromised. The timing of a future sale, together with the emotional consequences of selling the family's holiday home, are factors that need to be taken into account at the outset.

Adult children

One of the single biggest threats to a couple's retirement funding is adult children who continually ask to borrow money from their parent's nest egg. Helping one's adult children with the purchase of their first property or assisting them financially when embarking on a new business venture is something that many parents do as a means of assisting their child gain a stronger financial footing. The problem, however, arises when financial assistance happens so often that it becomes a form of annuity income for the adult child who, in most instances, is completely oblivious to his parent's dwindling resources. ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/unseen-threats-to-your-retirement-plan/***
Moneyweb | 7 October 2019

Consider your options, as the state eyes your pension

If prescribed assets are implemented, SA pension funds may have to invest a portion of their assets into SOEs with social and economic development mandates.

While speculation abounds and scare tactics surface every now and then, details are scant about the state's plan to prescribe SA's pension funds, there are, however, options each investor should consider to protect their retirement benefits.

Anyone 55 years of age and older, could potentially retire from their retirement annuities, preservation, provident or pension fund (depending on the rules of the fund), draw a lump sum and convert a portion to a living annuity. In so doing, an investor can protect his/her savings, converting pre-retirement products governed by Regulation 28 to a post-retirement living annuity. Once converted to a living annuity the investor has full flexibility with regards to asset allocation without any interference from government. This allows the investor the freedom to invest their tax-free and or after-tax lump sum wherever they choose, without being subject to prescription or Regulation 28.

But how high is the probability of prescription? Especially for investors not yet 55 who are locked into their retirement benefits until then?

The ruling party's 2019 manifesto refers to prescribed assets – the proportion of financial institutions' resources that would be assigned to socially productive assets – as a key priority.

The easiest way to do this is to change Regulation 28, currently governing all pre-retirement products such as pension, provident, preservation funds and retirement annuities.

The most important limitations of Regulation 28 in its current form are equities 75%, listed property 25%, offshore assets 30% and alternative assets 10%.

If prescribed assets are implemented, it could become government policy for the local pension fund industry to invest a portion of its more than R4 trillion in assets into state-owned enterprises that have social and economic development mandates like Eskom and Transnet.

If pushed ahead, Regulation 28 will be altered, forcing asset managers with Regulation 28-compliant mandates across retirement assets to buy a certain amount of government institutional bonds.

The fact that this will be at higher yields, could soften the blow, and most South African pension funds currently have some exposure to government bonds anyway.

But constant bailouts of these government-run institutions, and state capture revelations have created much uncertainty, even concern in the market, especially around prescribed asset requirements that could force all fund managers to invest in government-approved instruments, regardless of the underlying economic circumstances of the underlying entities.

The concern is understandable, the country has burnt its fingers with similar policies before. Prescribed assets were first introduced in South Africa in 1956 by the National Party when pension funds were required to invest more than half of their assets into state bonds.

The Prudential Investment Guidelines during that time required that 53% of retirement fund assets, 33% of assets of long-term insurance companies and 75% of the Public Investment Commissioners' (now Public Investment Corporation (PIC)) managed assets to be invested into government and SOE bonds. ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/consider-your-options-as-the-state-eyes-your-pension/***

Moneyweb | 10 October 2019

Potential perils of passive investments

With passive equity funds threatening to take over their active peers in the US, and active managers struggling to outperform the market over recent years, you may be tempted to start switching into passive investments.

With passive equity funds threatening to take over their active peers in the US, and active managers struggling to outperform the market over recent years, you may be tempted to start switching into passive investments.

However, as the global economy potentially heads into more volatile conditions, it needs to be asked whether now would be the correct time to do so.

Passive investing vehicles, be they index-tracking funds or their more complicated cousins, exchange traded funds (ETFs), divorce investing from economic and company fundamentals.

Driven largely by computer trading systems, passive investments pay no attention to individual stocks in an index and the fundamentals driving their prices.

Strong bull markets offer the perfect conditions for passive funds to perform well. Until the end of last year, US markets had enjoyed a 10-year bull run. It's not surprising that this period saw a massive increase in the passive investing industry.

In the UK, funds invested in passive equity funds have grown by more than 700 percent since 2008.

Globally, the volume of money held in ETFs has soared. Some $5.74trillion (R85 trillion) was held in ETF assets globally at the end of July this year, up from less than $100 billion at the turn of the century.

When it comes to mutual funds and ETFs that buy US stocks, those that passively track indexes now hold 48 percent of the market, according to estimates from Morningstar. It's estimated that they will top 50 percent in 2019 if the current trend holds.
Personal Finance | 16 October 2019

INTERNATIONAL NEWS

State pension age rises next month - will you be affected by state pension age changes?

STATE PENSION age changes have been underway for some time, with another increase due to come into effect in November. Who is affected by the changes to the state pension age?

The state pension age is the age at which a person is able to claim the state pension. It's up to the individual as to whether they do claim the payment from this point, or whether they instead opt to defer the state pension. The state pension age has been rising in recent years. Changes to the state pension age for women have been made under the Pensions Act 1995 and the Pensions Act 2011, meaning the state pension age for women increased form 60 - reaching 65 in November 2018.

Now, the state pension age is rising for both men and women. It is set to reach 66 for both sexes by October 2020.

November 6, 2019 is the date of when people with the date of birth between April 6 1954 and May 5 1954 reach state pension age.

This means that depending on when they were born in this time frame, their state pension age will range from 65 years and seven months, and 65 years, six months, and one day.

Following this group, the next affected will be those born between May 6 1954 and June 5 1954.

They will reach state pension age on January 6 2020.

It is set to rise from 66 to 67 between 2026 and 2028, under the Pensions Act 2014.

Under the Pensions Act 2007, the state pension age for both men and women will rise from 67 to 68 between 2044 and 2046.

It's possible to check a person's state pension age online, using the "Check your State Pension age" tool.

In addition to finding out when they'll reach state pension age, the tool also allows users to check their Pension Credit qualifying age and when they'll be eligible for free bus travel.

It is required to enter one's date of birth as well as state whether they're classed as a man or woman in order to check one's state pension age via this tool.

Express.co.uk's weekly series Retirement and Me looks at how people are spending their time and money as they approach retirement.

Earlier this month, Dena Hunt, 60, explained that she had been looking forward to spending time with family during retirement, but couldn't afford to stop working without her state pension.

She left her full-time job at the age of 59, and said of her decision: "I left [my full-time job] one year before I was 60, so 59, because I didn't feel I could continue.

"It was fairly stressful work and I was tired and the travelling and everything."

Dena currently works part-time as a sales assistant during the week and on weekends, in a job which pays minimum wage. ***Full Report:*** ***https://www.express.co.uk/finance/personalfinance/1191004/state-pension-age-uk-changes-rises***

Express | 18 October 2019

U.S. pension funds took positions in blacklisted Chinese surveillance company

BOSTON (Reuters) - Some of the biggest public pensions funds in the United States have invested in one of the world's largest purveyors of video surveillance systems that the U.S. government claims are used in wide-scale repression of the Muslim population of western China.

The Trump administration's decision to put the company, Hangzhou Hikvision Digital Technology Co (002415.SZ), on a blacklist last week has prompted at least two of the pension plans to say they are reviewing or monitoring that development.

The blacklist applies to Hikvision and seven other companies because they allegedly enabled the crackdown that has led to mass arbitrary detentions in the Xinjiang region.

"We are tracking the situation given this new development with the Department of Commerce's announcement," a spokeswoman for the California State Teachers' Retirement System (CalSTRS) said in an email.

CalSTRS owned 4.35 million Hikvision shares at the end of June 30, 2018, the last data available. The holding, owned directly and through emerging market exchange-traded funds, would be worth $24 million at that share count.

The New York State Teachers Retirement System also owned Hikvision, reporting 81,802 shares at the end of June, up from 26,402 shares at the end of 2018, fund disclosures show.

"Our holdings are primarily held according to their weights in passive portfolios matching the MSCI ACWI ex-U.S. index, our policy benchmark. We are monitoring the situation," said a spokesman for the teachers' fund. The ex-U.S. All Country World Index includes stocks from 22 developed and emerging markets.

The blacklisting means Hikvision and the other companies will not be able to buy U.S. technology, such as software and microchips, without specific U.S. government approval. It does not prevent U.S. investors from buying the companies' shares.

In August, Hikvision had been banned from selling to U.S. federal agencies because the government said its products could allow access to sensitive systems.

Hikvision’s General Manager Hu Yangzhong told Reuters on Wednesday it has been talking to the U.S. government about Xinjiang and has hired human rights lawyers to defend itself against the blacklisting.

A spokeswoman for law firm Sidley Austin LLP, which has lobbied for Hikvision this year, declined to comment.

Another major fund investing in Hikvision shares is the Florida Retirement System (FRS), with 1.8 million shares at the end of June.

A spokesman for the fund said it was working closely with external money managers “related to the issue in order to meet all regulatory and fiduciary requirements.”

POSTER CHILD

Risk consultants say the ease with which money used for the retirements of tens of millions of Americans is being invested in such companies should concern U.S. authorities at every level, as well as Americans generally.

“Hikvision has emerged as the corporate poster child for enabling Chinese human rights abuses, with its surveillance cameras visible atop the walls of detention camps incarcerating some one million or more Uighurs in Xinjiang,” said Roger Robinson, president and CEO of Washington DC-based risk consultancy RWR Advisory Group. ***Full Report: https://www.reuters.com/article/us-hikvision-pensions-focus/u-s-pension-funds-took-positions-in-blacklisted-chinese-surveillance-company-idUSKBN1WU191***

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