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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Why you should avoid raiding your retirement fund in a crisis

Most of us will experience some unforeseeable crisis during our lifetimes. Life is, after all, riddled with uncertainties, as is evident from the current pandemic. If you should lose your job or have your income reduced considerably, how do you plan on making up the shortfall? Without an emergency fund or access to investments, you might be eyeing your retirement savings to close the gap. But there are serious pitfalls to raiding your retirement fund prematurely. Here is what you need to consider.

Think about the tax

One immediate consequence of an early withdrawal from your retirement fund is the tax you'll have to pay. For example, the lump sum you take from your preservation fund will be taxed at the following withdrawal benefit tax rates:

Taxable income	Rate of tax
R1 – R25 000	0%
R25 001 – R660 000	18% of taxable income above R25 000
R660 001 – R990 000	R114 300 + 27% of taxable income above R660 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000

The long-term impact on your overall financial plan could be severe. Consider the following scenario that illustrates the different outcomes you could face. Let's compare Tshepo and Charles. Both are 45 years old and apart from having current employee benefits in their respective jobs they also have their own preservation fund investments from previous employment with a fund value of R1 900 000 each. Tshepo has appointed a financial adviser and together they have set short-, medium- and long-term financial goals. Tshepo made provision for any short-term cash flow needs by having an emergency fund and a short-term voluntary investment.

Charles decided not to set out clear goals or make short-term provisions and only has his existing employee benefits and his own preservation fund investment for his retirement. In April 2020, their respective employers started operating within national lockdown regulations and their working hours were reduced significantly. They both suffered a pay cut and now need to supplement their income to meet financial obligations, such as bond repayments, car payments and household expenses. Tshepo, who planned ahead, has the necessary liquid funds to top up his income. Unfortunately, Charles has no available funds, but he can make a once-off withdrawal from his preservation fund before he reaches 55.

He decides to take R900 000 to help him meet his payments for the next few months. He takes such a large amount because the future feels daunting and uncertain, and having used his one allowable withdrawal, he knows he can only access his funds at retirement again. Despite having to pay tax of R179 100 (leaving him with only R720 900), he withdraws the funds, leaving much less for when he retires.

Assuming both Tshepo and Charles retire at age 65 and have an investment return of 9% per annum (after fees), these are the results of their actions:

	Tshepo	Charles
Preservation fund value at present	R1 900 000	R1 900 000
Less withdrawal benefit taken to cover immediate need	-	(R900 000)
Amount to keep invested for retirement for the next 20 years	R1 900 000	R1 000 000
Preservation fund value at age 65 (in nominal terms)	R10 648 380	R5 604 411

Making a withdrawal from your retirement fund can make a big dent in your provision for retirement. You'll have to work longer, contribute more, or be content with much less income at retirement. The better alternative is to plan and save smartly.

How to avoid a reduced retirement income

Take the time to set out your financial goals and work out a plan to reach them. The earlier you start, the better, although it is never too late. Make sure you have short-, medium- and long-term savings that form part of different savings pools, and which allow different levels of access. Should you need to make use of your short-term, emergency savings funds along the way, remember to top up your savings pool again.

A qualified financial adviser can help you work out which product is best, and which is right for you. The current pandemic has proven how important it is to have savings to fund your short-term needs and to prevent the need to loot your retirement fund when a crisis looms. By structuring your savings and investments with care, and planning for short-term uncertainty, you can work to prevent one crisis creating another, bigger one when you need to retire one day.

FA News | 21 July 2020

Mboweni says he has not authorised state funds to bail out SAA, but may approach pension funds

- Minister of Finance Tito Mboweni says he has not authorised the use of funds from the National Revenue Fund for emergency funding for the embattled flag carrier.
- He does not, however, exclude the possibility of approaching "institutions" to invest pension funds for this purpose.
- About R10 billion in additional funding is needed for SAA's rescue plan and it is as yet unclear whether government has come up with the money.
- Based on Mboweni's affidavit submitted, the DA has removed its application to prevent the use of emergency funding from the urgent court roll.

While Minister of Finance Tito Mboweni says he has not authorised the use of funds from the National Revenue Fund for emergency funding to implement the business rescue plan of South African Airways, he does not exclude the possibility of approaching "institutions" to invest pension funds for this purpose. "This is not the case. No such decision has been taken," Mboweni states in an answering affidavit in an urgent application the Democratic Alliance intended to bring in the High Court in Pretoria on Tuesday to prevent section 16 of the Public Finance Management Act from being used for "emergency" funding for SAA.

Mboweni, Minister of Public Enterprises Pravin Gordhan, the directors general of their respective departments, as well as SAA and its business rescue practitioners were cited as respondents. SAA went into business rescue in December 2019 following years of losses and repeated state bailouts. More than seven months after it went into administration, the airline's creditors eventually voted to proceed with its proposed business rescue plan last week. This requires government or a strategic equity partner to provide an additional R10.3 billion in funding.

The flag carrier's rescue plan stipulates that all requirements must have been fulfilled by Wednesday, July 22. If this is not the case, creditors would have to meet on Thursday, July 24 to determine whether the accepted plan must once again be amended. If this is not accepted, the rescue practitioners might have no other option but to "discharge" the rescue process, which may leave the only option left to apply for SAA to be liquidated.

'False premise'

In his affidavit opposing the urgent application, Mboweni says the DA's urgent application stems from a "false" premise that he has authorised the use of funds from the National Revenue Fund to fund the implementation of the business rescue plan for the airline. He points out that a letter of commitment he and Gordhan supplied to the rescue practitioners on July 15 as requested simply indicated that government acknowledged the funding requirements set out in the rescue plan and that it is committed to "mobilising" funding. Mboweni sets

out that there are a number of options which government may explore to "mobilise" such funding. These include government retaining a portion of the issued share capital in a newly formed airline, approaching private equity partners or strategic partners to acquire shareholding in the new airline, approaching "institutions" to invest pension funds, or approaching local private investment institutions and global investment institutions regarding funding. "At this stage there are various options being considered and no definitive decisions have been taken," Mboweni states. "No such decision [to fund SAA via emergency funding] has been taken. Neither is such a decision imminent." Mboweni mentions that Cabinet supports the proposal for a new airline and the "concerted effort" to mobilise funding from various sources, including from potential equity partners.

Application on hold

In a statement on Tuesday the DA's finance spokesperson, Geordin Hill-Lewis, said the party welcomes Mboweni's affidavit. "This means the DA has achieved its immediate goal of preventing this bailout from happening secretly, behind the scenes, as happened previously when former minister Malusi Gigaba, used his 'emergency powers' under Section 16 of the PFMA," said Hill-Lewis. Based on Mboweni's affidavit, the DA has removed its application from the urgent court roll. However, the party says it has retained the application on the normal court roll, should the need arise in future to prevent the finance minister from using section 16 of the PFMA to fund SAA. ***Full Report:*** ***https://www.news24.com/fin24/companies/mboweni-swears-no-decision-on-govt-bailout-of-saa-but-potential-of-pension-funds-to-the-rescue-20200721***

News24 | 21 July 2020

All agree: Use Pension Funds

About a year ago, during a question and answer session in the National Assembly, President Cyril Ramaphosa said South Africa should discuss using pension funds to finance infrastructure projects. Now the proposal is gained traction in an economy battered by the Covid-19 pandemic. Last month, when Finance Minister Tito Mboweni told Parliament's finance and appropriations committees meeting about the supplementary budget, he said that if regulation 28 of the Pension Funds Act was slightly amended, it would allow investment managers to invest a percentage of their funds in infrastructure, in addition to immovable property.

The ANC and Business for South Africa (B4SA) recently released their respective economic recovery plans for the country. Both proposals said using savings and retirement funds to finance infrastructure projects with the purpose of driving economic growth should be looked into. B4SA was formed in response to the pandemic and represents the majority of business organisations. Regulation 28 controls the extent to which retirement funds may invest in particular asset classes. This is mainly to ensure that members' retirement annuities are protected from being invested in poorly diversified investments.

Only 15% of member benefits may be invested in alternative investments as such private equity, hedge funds and unlisted property. There is no allocation for investment in infrastructure.

Business

B4SA's Martin Kingston says the organisation is encouraged by the government's call to place infrastructure development at the heart of the country's economic recovery. Long-term investment in the sector is likely to create jobs for low-skilled workers and investment in bankable projects will drive much needed growth and employment generally. Kingston says there is a need to fund the state's infrastructure projects and the effective use of retirement funds and savings could help close the gap.

There is an obligation on asset managers to protect the value of their clients' investments and secure appropriate returns on assets, he says, adding that retirement funds should not be arbitrarily invested in sectors or projects without ensuring that no unnecessary risks will be taken with retirement money. "If the trustees of the funds consider that it is an appropriate, secure asset class to invest in and they can receive appropriate returns, we support it," he says Amending regulation 28 to allow for the more effective use of people's savings and retirement annuities would create an appropriate regulatory environment in which to invest or lend, Kingston says. ***Full Report: https://mg.co.za/business/2020-07-16-all-agree-use-pension-funds/***

Mail & Guardian | 16 July 2020

Are provident fund transfers restricted when changing jobs?

You may move your provident fund but it's important to understand all the options available before making any decisions. Are provident fund transfers restricted when changing jobs if you are under retirement age and the provident fund with the old employer is held by a third party such as Old Mutual?

Thank you for your question regarding your provident fund. When changing employers, you are permitted to move your provident fund from your previous employer's pension or provident fund. However, before making a decision regarding the transfer, it is important to understand all the options available to you. When changing employment, you essentially have the following choices to make regarding your provident fund:

- Firstly, you have the option to preserve your provident fund in a provident preservation fund. There are no tax implications for doing so, and you have the added benefit that a preservation fund permits one full or partial withdrawal to be made before age 55, subject to the retirement lump sum withdrawal tables. In choosing your preservation fund, you are free to make your own fund choices, although your investment strategy would need to be Regulation 28 compliant. Unfortunately, while a preservation fund allows you to preserve your retirement capital, it does not allow you to make additional contributions to the fund.

• Another option is to transfer the funds to an individual retirement annuity in your name. Once again, you would be able to choose your own Regulation 28 compliant fund in which to invest, with the added benefit that you can make additional contributions towards the investment on a monthly, quarterly, annual or ad hoc basis. The transfer of funds to a retirement annuity would not attract tax. Once transferred you will not be able to access your funds before age 55.

• You also have the option to withdraw your capital from the provident fund when leaving your employment, although bear in mind that you will be taxed as per the withdrawal tax tables below.

• You further have the option to defer the funds and leave them in your previous employer's provident fund until your retirement.

• Then, lastly – as you have already mentioned – you can choose to transfer the funds to your new employer's pension or provident fund.

Below please find the retirement withdrawal tax tables which would only apply should you choose to withdraw your capital, or make a withdrawal at a later stage from a preservation provident fund.

Taxable income (R)	Rate of tax (R)
1 – 25 000	0%
25 001 – 660 000	18% of taxable income above 25 000
660 001 – 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

MoneyWeb | 22 July 2020

INTERNATIONAL NEWS

Watchdog calls for review of UK pensions tax relief

Policy costs £38bn a year and government does not know if it works, says public accounts committee

A parliamentary select committee has called for a wide-scale review of UK pensions tax relief after concluding the government did not understand whether the £38bn a year policy was effective. To encourage retirement saving, the government provides tax breaks on money saved into pensions by both individuals and employers, up to annual and lifetime limits. Some of this tax relief is later recouped, such as when the pension is paid and it is liable to income tax. But the public accounts committee, which scrutinises whether taxpayers are getting value for money, said authorities did not understand the impact of pension tax breaks, which were the "most expensive" relief, with a cost of £38bn in 2018-19.

"The government has not made any assessment of whether that huge cost actually encourages saving for retirement or reduces dependence on state retirement benefits, or whether it just enables those already

saving comfortably to save more," the PAC said in a report published on Monday. It added that it was concerned that some workers were not benefiting from pensions tax relief when they should. "Around 1.75 million low-paid and part-time workers earning less than the personal allowance, of whom three-quarters are women, will not be getting tax relief on their pension contributions after being automatically enrolled into employer pensions," the report said.

"Tax breaks are not freebies – they cost the Public purse hundreds of billions of pounds in lost income, Meg Hiller PAC chair. Baroness Ros Altmann, former pensions minister, said: "The injustice for the lowest earners — mostly women — in net pay pension schemes [where relief on contributions is received in the pay packet], has taken far too long to address." In its report, the PAC was also critical of the government for failing to undertake a wider evaluation of the 10 largest tax reliefs, including breaks on value added tax on food and new dwellings, which combined cost around £117bn a year.

In a case highlighted in the report, the PAC said the government did not know whether the £15bn cost of VAT relief on the construction of new dwellings was subsidising new luxury properties or affordable homes. "The government knows too little about the tax reliefs it provides: whether they work, or offer value for money, or even how much they actually cost," the PAC said. The conclusions echo those of a report of this year by the National Audit Office, which, along with the PAC, has repeatedly raised concerns over the government's management of tax reliefs. ***Full Report:https://www.ft.com/content/fa76ea43-f30c-443f-b818-c14ac36cf9fb***

Financial Times | 20 July 2020

Pension providers 'abandoned' savers during coronavirus crisis

Two in three people received no communication from their pension provider during the pandemic

Savers have been "abandoned" and offered little to no support from their pension providers during the coronavirus crisis, a report has found. More than two-thirds of savers were not contacted by their pension firms at all regarding the pandemic despite markets falling more than 30pc and many near-retirees forced to push back their retirement plans, according to consultancy PensionBee.

Only one in 10 said they were supported enough to make any decisions regarding their pension, while 12pc said the only information they had received from their providers was a warning that there would be increased delays to enquiries during the lockdown. The economic downturn caused by lockdown has thrown millions of people's retirement plans off course, dashing dreams of an end to working lives. Nearly £20,000 was wiped off the value of the average "defined contribution" pension pot for savers in their 50s when the stock market plummeted in March, according to figures from Quilter, a wealth manager.

The lack of support has come at a time when savers needed it most. The lockdown has had a significant impact on the finances of households across the country. More than a third of those surveyed said they had found it difficult to know what to do with their pension savings during this time. Romi Savova, of PensionBee, said the industry had a duty to provide easily accessible information to allow people to plan ahead. She said: "The coronavirus pandemic has brought about increased levels of economic uncertainty, a growing number of job losses and a lack of clarity about what the future holds.

It is therefore more important now than ever for pension providers to provide the support and guidance that savers deserve." Legal & General, the pension firm, estimated that more than 1.5 million workers aged 50 or more would defer their retirement and work an additional three years on average. It found that workers who had been furloughed or taken a pay cut during the pandemic were most likely to delay retirement. The PensionBee survey reported that members receive minimal communication from pensions providers even under normal circumstances.

Two thirds of people said they have never received any information from their pension provider about how they might access their pension. This has left many unsure of how to find out how much they will receive in retirement from their pension. A study published by insurer Aviva found that more than a third of savers – or seven million people – have taken action relating to their pension during lockdown. This could include reviewing their investments, checking the value of their pension or changing the amount they pay in. More than 5pc of respondents were said to have stopped contributing to their retirement fund altogether, while a further 6pc had cut back monthly payments.

The Telegraph | 20 July 2020

OUT OF INTEREST

SA growth ambitions hampered by low savings pool

SA has little hope of boosting economic growth through its infrastructure investment drive if it cannot raise domestic savings levels, which hover at near record lows and leave SA a laggard by global and emerging market standards, economists say. As SA faces an economic contraction that could breach 10% by private-sector estimates, and has precarious state finances characterised by soaring deficit and debt levels, the state wants infrastructure investment to form a linchpin of SA's recovery plans.

The ANC, meanwhile, has advocated changing regulation 28 of the Pension Funds Act to steer SA's pension fund industry towards infrastructure and capital projects as a solution to the state funding constraints. But without a stronger domestic savings pool, which by 2019 totalled just 14.6% of GDP, SA's economic growth

prospects will remain stifled and continue to leave businesses and households vulnerable to crises such as Covid-19, according to a report from Stanlib economists Kevin Lings and Ndivhuho Netshitenzhe. At these levels, SA's entire domestic savings is equivalent to the main budget deficit outlined by finance minister Tito Mboweni in the recent supplementary budget. "Effectively what that means is we are deploying all of the domestic savings to fund the government's deficit … which leaves no additional savings for the private sector to flourish — that is how bad the savings have become," Lings said in a webinar presenting the report.

This has left SA reliant on foreign inflows to supplement domestic savings, which has been declining over time, with foreign ownership of government bonds falling to about 30% in June, the lowest level in eight years. "This exposes SA to its limitation of a lack of savings," Lings said. After the boost provided by the World Cup in 2010, fixed investment in SA has slowed to 17.4% of GDP. Achieving a GDP growth rate of 6% and enabling the creation of at least 500,000 jobs a year would require fixed investment levels to reach 25%-30% of GDP, and remain there, according to Stanlib. Under these circumstances, changing regulation 28 to direct more pension fund savings towards infrastructure does not address SA's savings constraint, it only redirects how the existing pool of savings is used, said Lings.

SA needs to tackle the shortage of savings, particularly among households whose savings levels now hover at 0% of GDP. Though SA has high levels of contractual savings in the form of tools such as pension funds, it has low levels of "precautionary savings", which are short term and easily accessible during a crisis. To increase SA's savings pool, SA needed higher employment, said Netshitenzhe. "Getting people into the job market and getting them earning income will lead to a bigger pool of available money to save," she said.

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