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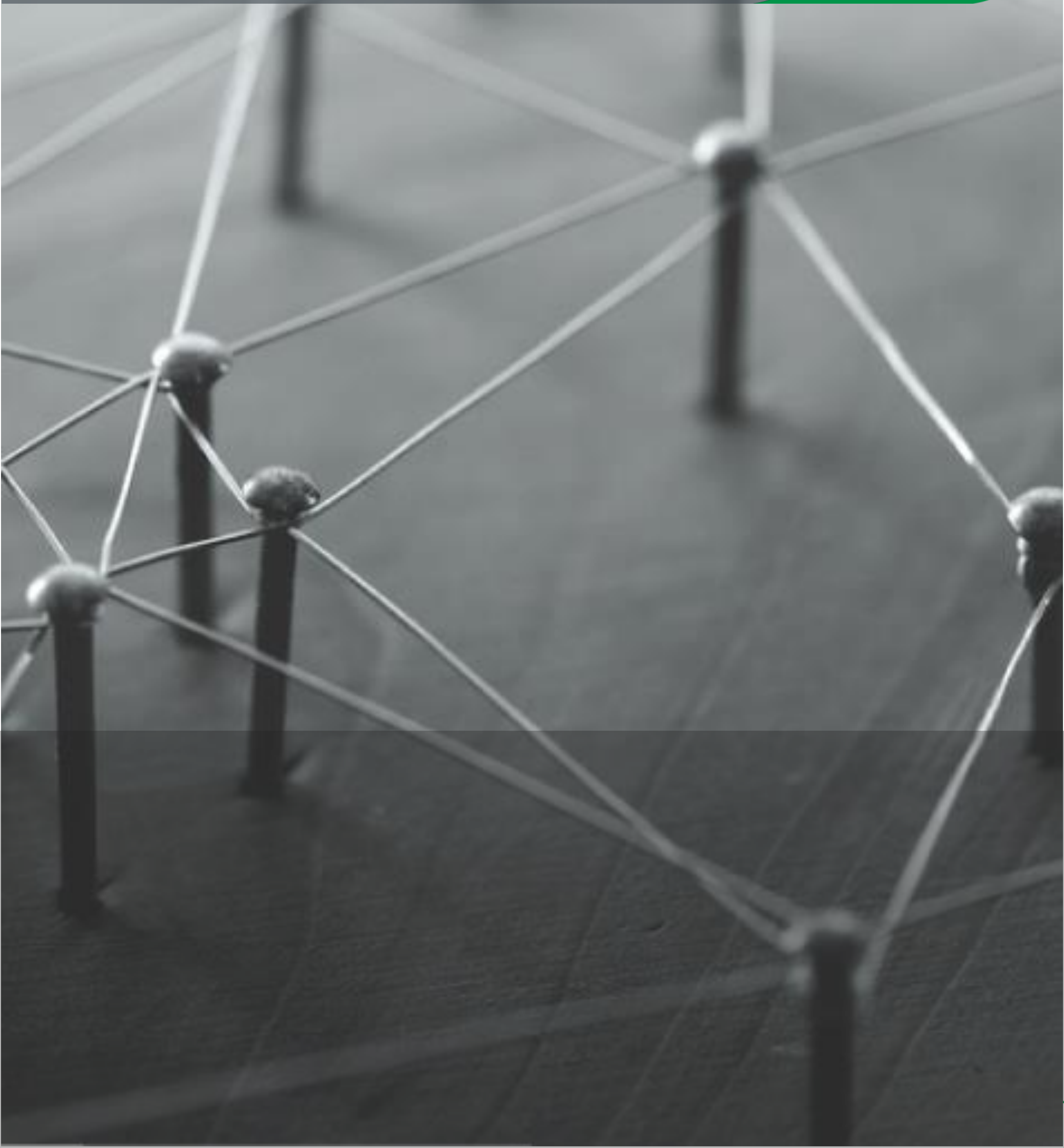
Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

22 NOVEMBER 2024



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What’s next for retirement?

Many of us are either failing to find a sound path to retire the way we want to or have yet to begin the journey of saving for life after work. The 2024 Mercer CFA Institute Global Pension Index ranked South Africa 44 out of 48 countries for retirement outcomes. Far too few people have access to retirement products and those who do too often fail to meet their goals. Fortunately, we have many strong institutions, world-class professionals, and a relatively advanced economy to leverage. To build on this foundation and resolve pressing challenges in a fast-changing world, it is critical that we understand – and prepare for – the retirement world of the future.

Blessing Utete, Managing Executive of Old Mutual Corporate Consultants, sums up the moment we are in. “I am concerned as well as upbeat. It is deeply worrying to see how many South Africans battle to get into formal employment, and then thrive once there. Too many people are under-served by fundamental retirement planning. At the same time, we sense real energy and practical ideas that can harness this low base to create reform and real change.”

Pots of potential

Even though it forms part of a wider push towards retirement reform, the new Two-Pot Retirement System has already created a seismic shift. It has dominated not just boardroom discussions but the popular conversation in South Africa. The formulation, drafting and implementation of the Two-Pot Retirement System represents a dynamism that many industries can aspire to. The collaborative, consultative effort involving multiple stakeholders, including government and private sector, bodes well for further innovation. Be it artificial intelligence (AI), economic tumult or geopolitical black swan events, it is this sort of progressive partnering that will help the retirement industry to thrive.

Taking the lead

Technology will also be key to meeting the growing need for funds to be more than efficient products. As Humphrey Mkwebu, General Manager: Employee Benefits Solutions at Old Mutual Corporate, puts it, “Retirement funds need to evolve. Being ‘just a fund’ will not be enough.” Digital engagement and contextual management through technology can improve members’ experiences and retirement saving outcomes. Mobile apps, for example, can dramatically improve day-to-day communication on claims. Nudges, based on behavioural economics, can also help to foster small improvements in saving behaviour that add up to meaningfully improved retirement outcomes.

It also takes a village to build a comfortable retirement.

As Mkwebu puts it, “The future is about empowered members and their outcomes. Everyone else – insurers, trustees, employers, intermediaries, sponsors, regulators – exists to enable that noble goal.” Multisided platforms can do just that. These technological tools can craft a symbiotic ecosystem that provides members seamless access to the right expert at the right time.

Coming soon?

While high unemployment may be the primary reason for low participation in retirement funds, part of the difficulty is the large number of employees who simply have not enrolled in any scheme. Data suggests nearly a third of employees in the formal sector do not participate in a retirement fund. Often this is not a deliberate choice, but an omission. This informs the auto-enrolment plan proposed by the National Treasury, a further step in the retirement reform process. Automatically signing employees up for a retirement plan has several models from around the globe to learn from. The UK introduced such a plan in 2012. It was rolled out in phases, starting with the largest employers, followed by medium-sized employers and finally small ones. Automatic enrolment depends on a few simple criteria (for example, a worker must earn at least £10 000 per year and be aged between 22 and state pension age). Employees may, however, actively opt out.

Nigeria “uses compulsory minimum contributions,” explains Stephen Walker, Head of Actuarial Consulting at Old Mutual Corporate Consultants. “Everybody must belong to an approved pension scheme, and they must contribute a minimum of 18% of their earnings (including 10% contribution from the employer).” A model for South Africa should make use of a public-private partnership. Michelle Acton, Chief Customer Officer and Retirement Reform Executive at Old Mutual Corporate, explains the approach of the country’s largest pension fund administrator: “We believe that all earning South Africans should be in a retirement fund. This is the benefit of the National Treasury’s proposed auto-enrolment, which seeks to ensure that there is some level of minimum contribution to a retirement fund. Ideally, government would provide the structure by setting up a well-run, well-governed, very low-cost, potentially subsidised, basic catch-all defined contribution scheme for atypical workers and low-income earners.”

“Employers would be free to choose whichever approved retirement fund they prefer, but this new, low-cost government fund would act as a default. We need a system where every working South African is contributing towards their retirement, with no option to opt out.” According to Old Mutual Corporate’s calculations, auto-enrolment would bring up to five million additional contributors into the retirement funding ecosystem.

The case for collective contributions

Another powerful development is the collective defined contribution (CDC) pension scheme. This novel structure bridges the gap between defined benefits and defined contributions. It is already being used in other countries in various forms, the UK has recently crafted legislation implementing such a scheme and the Royal Mail is now busy implementing a CDC approach. It may also work well in South Africa’s context. With a CDC plan, employees and employers contribute a fixed amount. Then, “similar to a defined benefits (DB) plan, the contributions are paid into a collective (or pooled) fund, with the goal of providing a target retirement income for life rather than a lump sum amount at retirement, which comes with complex decisions for individual retirees," explains Colin Haines, EMEA Chief Commercial Officer, Wealth Solutions, Aon. Among several benefits of CDC the contributions from all participants are pooled and invested together, allowing for more flexibility in investment strategies. The upshot is that CDC schemes can make higher return-seeking investments over longer time horizons than is currently the case with closed DB or individual DC schemes. While a CDC plan does not guarantee benefits as per a DB plan, it aims to achieve higher predictability than a standard DC plan. For South Africa, a CDC approach is at best several years off, as there would need to be agreement from stakeholders, including the financial services sector and trade unions, Haines explains, but the opportunity exists. These are big challenges in our retirement industry that need concerted solutions, and the future of retirement is as challenging as it is bursting with opportunity. Now is the time for the industry and stakeholders to act together and decisively.

Daily Maverick | 18 November 2024

Living annuity drawdown rate average lowest in five years at 6.6%

Living annuity policyholders withdrew, on average, 6.6% of their invested capital as income in 2023, the lowest average living annuity drawdown rate recorded in the past five years.

The 2023 living annuity statistics, released today by the Association for Savings and Investment South Africa (ASISA), show that South African retirees had R682.2 billion of their retirement savings invested in 535 509 living annuities at the end of 2023. Jaco van Tonder, deputy chair of the ASISA Marketing and Distribution Board Committee, says while the decrease in the average drawdown rate was marginal–from 6.7% in 2022 to 6.6% in 2023–it is noteworthy because it was achieved in an environment of rising living costs for South Africans. A living annuity is a compulsory purchase annuity that does not guarantee a regular income. Instead, living annuity policyholders must select an income drawdown of between 2.5% and 17.5% of the value of their living annuity assets. This can be reviewed once a year on the policy's anniversary date. Van Tonder explains that in order to prevent the erosion of invested capital over time, the percentage of income drawn may not exceed the real returns of the investment portfolio supporting the living annuity.

Three key factors determine how long the capital will be able to produce a regular income:

• The level of income selected;
• Performance of selected investments; and
• The lifespan of the annuitant.

According to Van Tonder, annual drawdown rates of 4% to 5% in the first decade of retirement and below 8% in the later retirement years are generally considered prudent, providing annuitants with a high probability of preserving their purchasing power for their lifetime. He says it is encouraging that 34.7% of assets (R236.8

billion) held in living annuities at the end of 2023 fell into the 2.5% to 5% income band, followed by 24.1% (R164.1 billion) in the 5% to 7.5% income band.

A 5-year overview of South Africa's living annuity book

Period	Average Living Annuity Drawdown Rates*	New inflows	Number of Living Annuities**	Total Assets Under Management
2019	6.7%	R63.9bn	491 286	R486.1bn
2020	6.7%	R74.2bn	516 989	R507.2bn
2021	6.9%	R85.6bn	515 234	R614.1bn
2022	6.7%	R67.1bn	527 038	R625.9bn
2023	6.6%	R78.3bn	535 509	R682.2bn

The average income drawdown level is weighted by fund size (the total value of the drawdowns against the total value of the living annuity book).
The number of living annuities does not imply the same number of policyholders. It is not uncommon for policyholders to have more than one living annuity.

FA News | 18 November 2024

Regulator sounds alarm over South Africa's R5.2bn pension contribution arrears

Could leave retirees facing poverty and destabilise the retirement ecosystem if it reaches a significant amount, the head of the financial regulator said.

The failure by South African employers to pay R5.2 billion ($288 million) in pension contributions could leave retirees facing poverty and destabilise the retirement ecosystem if it reaches a significant amount, the head of the financial regulator said. Currently 7 770 employers have failed to make pension contributions deducted from workers' salaries, including almost 150 local governments, whose arrears are estimated at about R1.4 billion, Unathi Kamlana, commissioner at the Financial Sector Conduct Authority, said in a speech Tuesday. "As pension funds rely on steady contributions to maintain liquidity and fulfill their obligations, they may become strained when contributions are inconsistent or delayed," Kamlana said.

“This in turn could limit their ability to invest in long-term projects, diminishing their role as major institutional investors in the economy,” making the entire retirement system more vulnerable, he said. Failing to make the contributions also have implications on workers’ retirement savings in a nation where already less than 10% of the population is able to retire comfortably, said Kamlana. To remedy the situation, the regulator is banking on the enactment of the Conduct of Financial Institutions Bill. The law will bring employers who pay retirement contributions under its supervision, allowing it to boost compliance and accountability, Kamlana said. The regulator is also considering greater penalties on fund managers and administrators who don’t take action against employers that have pension-contribution arrears, he said.

Moneyweb | 20 November 2024

Two-pot admin fees could top R1.25bn in first 6 months

According to actuarial firm, but fund administrators say the initial and ongoing costs to run the new regime are substantial.

South Africa’s retirement fund administrators have incurred enormous costs to prepare for the two-pot retirement system, and a lot of the costs will be ongoing, says Vickie Lange, head of best practice at Alexforbes. Because of the increased running costs associated with withdrawal transactions, many fund administrators and retirement funds are charging administrative fees to recoup these costs. The administrative fees that fund administrators charge are currently being investigated by the Financial Sector Conduct Authority (FSCA), according to a report on BusinessLIVE on Tuesday. Responding to an enquiry by Moneyweb, the FSCA said: “As part of our supervisory obligation, the FSCA is looking at the fees charged by administrators and funds in respect of the two-pot legislation.” The FSCA is anticipated to issue a report on its findings before the end of January 2025.

‘A material windfall’

Moneyweb understands that the FSCA sent a questionnaire to retirement funds and administrators asking them specifically about the fees they charge as well as the costs involved in readying themselves for the two-pot system. Keystone Actuarial Services, a Johannesburg-based consultancy firm, did a survey in September on the costs of the two-pot system. Based on feedback from fund administrators, it can “reasonably be assumed” that an average fee of around R320 is changed by administrators per (savings pot) withdrawal, it notes. Keystone estimates that the administrative fees charged for savings pot withdrawals could range from R640 million to R1.25 billion from the period 1 September 2024 to 28 February 2025. Assuming retirement fund members make withdrawals in each tax year, this means the fees charged by fund administrators could reach between R500 million and R1 billion annually. “This will represent a material windfall to the administrators and a consequent reduction in member benefits,” the company notes.

“We would hope that all administrators, once they have recovered any initial expenses of implementing the two-pot system assess their ongoing costs and, if applicable, adjust their savings component withdrawal fees appropriately.”

Substantial initial and ongoing costs

Lange told Moneyweb that while she could not provide exact numbers as Alexforbes is in a closed period, the costs associated with the two-pot system have been “substantial”. “There were once-off costs in terms of upgrading technology to cater for the new claims [under two-pot], [and] also ongoing expenses to maintain the previous retirement regime on top of the old one, which adds an extra layer of costs.” Alexforbes also had to train existing staff and employ new personnel in its administrative team to deal with the additional volumes of claims. “As much as you try to digitise, you still need manpower to make sure claims are valid,” Lange notes. In the first six weeks of implementation of the two-pot system, Alexforbes received more than 260 000 queries from fund members through email and its call centre. “You can imagine the manpower needed to respond to these volumes,” she adds.

Alexforbes charges its fund members who withdraw from their savings pot a scaled transactional fee of 2% of a pre-tax withdrawal amount at a minimum of R100 and a maximum of R600. “A scaled fee is standard practice where the pricing is different between the various member categories. For that reason, we opted to not charge a flat fee,” Lange says. Alexforbes will review its administrative fee in the near future, as the current fee structure is based on estimates, according to Lange. “Once we have seen the actual [withdrawal] figures we’ll review it, but the timing cannot be confirmed.” Michelle Acton, retirement reform executive at Old Mutual Corporate, confirmed that it charges a flat fee of R250 per withdrawal for occupational schemes and R300 for the South African Retirement Annuity Fund. These fees will be reviewed annually. Acton says the “benefit” of charging a two-pot withdrawal fee is that only members who use the “functionality” will be charged.

Latest statistics

The South African Revenue Service (Sars) confirmed on Tuesday that fund members have withdrawn just over R35 billion from their savings pots since the beginning of September. Altogether, 1 914 306 tax directives were issued. Alexforbes has so far paid out over 331 000 claims, with a total payout value of R6.3 billion, says Lange. “The withdrawals are in line with Alexforbes’s half-year tax estimates of a 1% to 2% impact on assets flowing out. But we think it will be closer to 2%.” Old Mutual’s Acton says the group has received around 265 000 claims and has finalised 251 000 of them to the value of R3.2 billion.

Moneyweb | 20 November 2024

SARS says R35 billion withdrawals have been made in Two-Pot retirement system

The South African Revenue Service (Sars) has announced that withdrawals from Two-Pot retirement system have increased to more than R35 billion from more than more than 1.9 million applications. The Sars yesterday updated the total figures for tax directives received concerning withdrawals from the Savings Withdrawal Benefit under the Two-Pot system. Of the 2,153,942 applications received, SARS issued a total of 1,914,306 directives, amounting to a cumulative gross value of R35,052,572,876.62. However, the disparity between applications and directives issued highlights several issues; with 169 509 applications declined for a myriad of reasons, ranging from systems failures from the fund management entities to wrong identification number, wrong tax number etc.

At least 41,523 directives were declined because of insufficient funds, wrong codes etc, while 28,525 directives were cancelled by taxpayers who changed their minds. Sars said it remained committed as per the principles and values embodied in our strategic objectives, which is to provide taxpayers with clarity and certainty on their tax matters and to make it easy and seamless for them to comply. It said the work that has been accomplished so far was in large measure because of good cooperation with retirement fund management entities. “Sars wishes to thank these institutions who play a critical role in the tax ecosystem for their professionalism that has allowed Sars to play its part in efficiently and speedily issuing required tax directives,” it said. Sars Commissioner Edward Kieswetter cautioned taxpayers to avoid any actions that could constitute criminality and emphasised the importance of using the correct identity and tax numbers when applying for this benefit. Sars encourages voluntary compliance and, in this regard, offers a range of communication options on the Sars website to achieve this objective.

Business Report | 20 November 2024

UK pension fund loses more than £350m with waste incinerator power plants

Shareholder accuses Aviva Investors of 'calamitous' investments as three sites expected to go bust

One of the UK's biggest pension funds has lost more than £350m on a series of "calamitous" investments in incinerator power plants that are expected to go bust in the coming days. The Guardian understands that Aviva Investors will put three incinerators into administration this week after pouring millions of pounds into what has been described as the country's "dirtiest form of power generation". Aviva's own accounts show that the three incinerator plants – in Hull in East Yorkshire, Boston in Lincolnshire and Barry in south Wales – accumulated loans totalling £480m from its investors between 2015 and 2023. Aviva has written off £368m for the plants, which were originally intended to run on biomass waste wood and later converted to burn household waste, but which struggled to reach their targets.

A source said Aviva had originally hoped to play a role in supporting renewable energy alternatives, but it had become apparent that the technology posed significant challenges that would require more investment to solve. There were 60 fully operational energy-from-waste (EfW) plants in the UK at the end of last year, which generated about 3.1% of the country's total net power generation and kept 16m tonnes of residual waste from heading to landfill. But critics of incinerators argue that generating energy from burning waste contributes to greenhouse gas emissions compared with renewable power and may deter efforts to cut single-use plastics and improve recycling. The plants in Hull and Boston have generated far less electricity than planned, while the plant in Barry has been mothballed due to a planning row with the Welsh government. Aviva is expected to put all three incinerators into administration this month. The company declined to comment. The decision follows months of criticism from individual shareholders.

Speaking to the Guardian, one shareholder accused Aviva of making "calamitous investments" on behalf of its UK pension fund investors. Shlomo Dowen, a campaigner at the UK Without Incineration Network (UKWIN), said incineration was "harming recycling and exacerbating climate change". "Additionally, at a time when all efforts should be made to improve air quality, incinerators are harming the air that we breathe. And that is just one example of why incinerators are experienced as bad neighbours." Dowen urged the UK government to follow Wales and Scotland in banning new incinerators. Rudy Schulkind, a political campaigner at Greenpeace UK, said: "We can't burn our way out of this growing waste problem. Nearly half the rubbish from UK homes is now being sent to incinerators, and even more of them are being planned. "This isn't an issue just for the disproportionately poor communities whose lives are blighted by the traffic, smell, noise and air pollution from these facilities.

Partly thanks to the growing amount of plastic ending up in our bins, incinerators are also a major source of planet-heating emissions, with some experts branding them the country’s dirtiest form of power generation.” He added that the “real solution” to Britain’s waste problem was producing less waste in the first place. “We should start by setting legally binding targets to cut plastic production, and next week’s UN summit in South Korea gives the UK government an excellent opportunity to push for effective action on the global stage,” he said.

The Guardian | 20 November 2024

Wife unhappy as adjudicator allocates more funds to kids, adds mother-in-law on late husband's R2.4 million pension fund

A disgruntled wife took the Pension Fund Adjudicator (PFA) to the Financial Services Tribunal (FST) after her 50% share from her late husband's over R2.4 million pension fund was reduced to 25%.

The wife had four boys with her late husband.

When he died, he was survived by his elderly mother, his wife, his stepdaughter, and their four boys. Before he died in July 2023, he had already submitted a nomination in a form of writing, dated June 16, 2016, where he determined the allocation of his pension fund as follows: 50% to his 47-year-old wife; 5% to his 29-year-old stepdaughter; and 15% for each of his three sons aged 20, 10, and eight respectively. His 23-year-old son was not nominated, as well as his 79-year-old mother. After his death, the wife lodged a claim for funds with Old Mutual Superfund Pension Fund and the PFA conducted an investigation before releasing the funds. When the investigation was concluded, the funds were reallocated and the deceased's mother and his 23-years-old-son were also added as beneficiaries.

The reallocation and addition of the beneficiaries were made as follows: The wife's share was reduced from 50% to 25%; the eight-year-old son's share increased from 15% to 30%; the 10-year-old son's share was increased from 15% to 20%; the 20-year-old son's share decreased from 15% to 10% and the 29-year-old stepdaughter's share was kept at 5%. The other two dependants, the 23-year-old son and the late man's mother, were given 5% each. The wife was unhappy with the new figures as well as the inclusion of her mother-in-law to the benefits. She sought relief at the FST. Explaining the reallocation of funds, the PFA said the deceased's mother was 79-years-old when her son died, she was unemployed and was financially dependent on the State's old age grant. Moreover, she was not receiving any financial support from her other children.

The FST agreed with the PFA's decision and said her inclusion was fair because the deceased financially assisted her with necessary payments when he was still alive. Regarding the wife, the FST found that 25% should be sufficient to take care of herself because she already had a decent home and her wish to build another home in Limpopo was her choice and it won't be used as a consideration to change PFA's decision. It was also heard that when the husband died, they had already separated for five years. She argued that she stopped working as a nurse due to ill-health, however, it was said that she did not provide sufficient

evidence to suggest that it would not be possible to do other forms of work or that she was not employable in any other capacity. Meanwhile, the reduction of 15% to 10% for the 20-year-old son, who is still in tertiary, the FST said the move cannot be construed as unfair or not equitable in favour of the two minors. It emphasised that it was important to protect the interests of the two minor children who still have many years before they become of age. “The two children, aged eight and ten respectively, have a long way to go even after matric. The 30% and 25% respectively in our view, is equitable and fair. Their benefits would be controlled and monitored by the Guardian Fund to take care of their immediate needs,” read the ruling.
Lastly, the FST said it did not agree with the PFA’s decision to allocate only 5% to the 23-year-old son on reasons that he had an income.

The FST considered the son’s email sent to the PFA during investigation explaining that he was not directly employed by the bank, but was working with a financial advisor as an assistant. He stated that he was not permanently employed and that his contract can be terminated at any time depending on his performance.
He further added that he was not earning enough and he would often run short of transport and food. The FST said the PFA failed to investigate the assertions made by the 23-year-old even though he had invited them to investigate all the information he had provided. As a result, the FST said the reallocation of 5% to the 23-year-old must be set aside and referred back for reconsideration. “The application for reconsideration regarding the rest of the nominees and the mother of the deceased as a dependant of the deceased, is destined be dismissed,” read the ruling.

IOL News | 12 November 2024

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