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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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How to choose between a living and a life annuity

Retiring can be fraught with decisions which impact the rest of your life.
Don't make choices that you'll regret. Retirees looking to earn an income from their retirement savings have two options: a living annuity and a guaranteed annuity. A living annuity is an investment-type product which allows you to continue growing your savings in the market while drawing an income based on the growth of your investments. A guaranteed annuity on the other hand is an insurance product that offers a guaranteed income amount regardless of market conditions. "A common mistake made by retirees when choosing between these two products is focusing solely on their income needs without considering the capital," says Michael Rossouw, senior investment consultant at 10X Investments.

A living annuity and a guaranteed annuity should not be compared on income alone. Rather, retirees should also consider the flexibility of the retirement product to meet their evolving lifestyle needs and the estate they can leave to their beneficiaries. A key advantage of a living annuity is that any residual capital goes to your beneficiaries when you die. Living annuities also allow you the flexibility to adjust your income from year to year as your needs change, choose how frequently you wish to receive this income (yearly, quarterly or monthly) and the ability to choose your investment portfolio. For example, retirees planning on spending more time overseas travelling or visiting family members can choose to invest in international portfolios where they can earn their investment income in hard currencies such as dollars and pounds.

But as long as you live off the interest and don't dip into your capital, a living annuity should never run out. A guaranteed annuity offered by insurance companies is a safe option since the insurer guarantees your income amount for the rest of your life. However, a guaranteed annuity requires you to forfeit all your capital to the insurer in exchange for taking on this risk. Retirees who choose a guaranteed annuity cannot draw a higher income than the guaranteed amount should their circumstances change. This is why a blend of living and life annuities is a useful option, mixing the certainty of a life annuity with the flexibility of the living annuity.

Consider the scenarios

Whether to opt for a living or a guaranteed annuity depends on the circumstances. Rossouw says there are four broad scenarios to consider when choosing between the two, assuming a 65-year old with a 35-year retirement time horizon.

1. If you can live on a 2.5%-6% a year drawdown, a living annuity can comfortably sustain your income while you retain full flexibility and 100% ownership of your hard-earned capital.
2. If you need more than 6% of your capital annually, a living annuity may not be the best option. Nor, for that matter, is a life annuity. What may be more suitable here is a blend of the two: the life annuity to give you guaranteed income and a living annuity to give you market upside to offset some of the capital depletion as you draw down. In this scenario, you would put perhaps 50% of your capital into a living annuity and 50% into a life annuity.
3. If you need to draw 7.5% or more a year from your savings, a life annuity will give you that but you will forfeit your capital.
4. If you need a significantly higher income drawdown a living annuity may be the only option as you may withdraw up to 17.5% of your capital. However, this level of drawdown is unsustainable.

If you're uncertain as to which scenario best fits, a living annuity is probably best because you can always change your mind later and switch to a life (or guaranteed) annuity. You cannot later switch from a life to a living annuity. Here again, the flexibility of the living annuity shines through. "There are a lot of assumptions behind these scenarios," says Rossouw. "Asset allocation and the level of exposure to equities, as well as fees, can have a material impact on the outcome."

Fees

Fees are one of the most overlooked determinants of retirement savings outcomes. It is not uncommon to see fees as high as 2.5% in the retirement industry once factoring in investment management, administration and advisor fees.If you opt for a life annuity, you will forego about 1.5% of your capital upfront, while a living annuity has ongoing fees. The 10X Living Annuity charges an annual investment management fee, at a maximum of 0.86% a year of your capital. The fee drops for amounts above R5 million. Apart from costs, there's another benefit to a living annuity: there is no tax on the growth of your investments, nor are there any estate taxes when the annuity is passed on to your beneficiaries (except in exceptional circumstances).

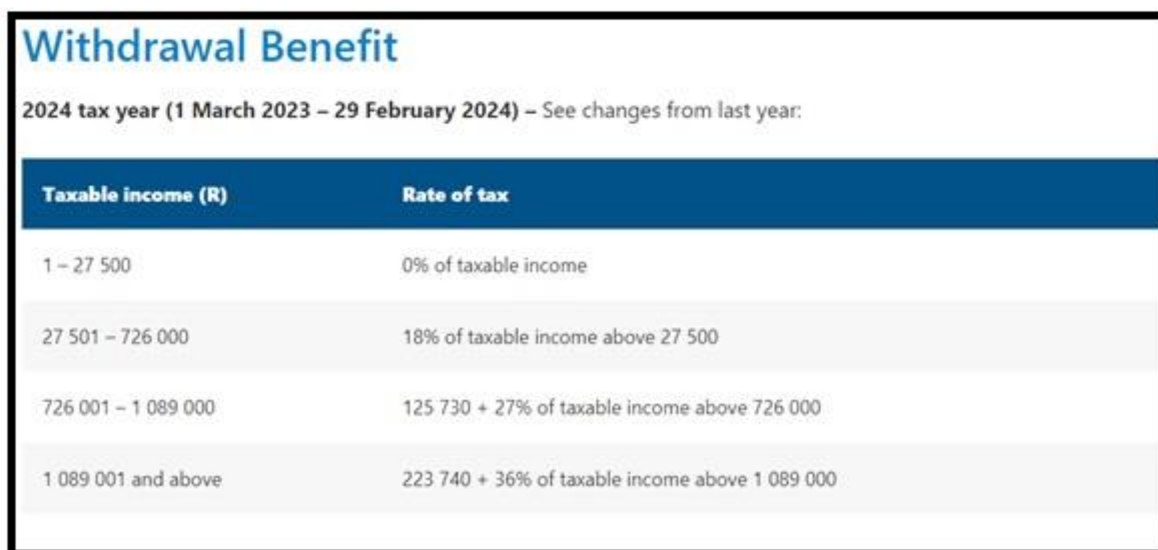
Moneyweb | 24 October 2023

Do my retirement funds come with me when I leave South Africa?

For those looking to move from South Africa, a burning question often remains: what happens to their hard-earned retirement funds? How, and when, will they be able to withdraw their retirement interests in South Africa; and of course, where will these be taxed? With our recent trip to the Isle of Man, it has been clear that that there is still a lot of puzzlement among South African expatriates when it comes to this issue. With recent changes to legislation, understanding the nuances of withdrawing these funds has become crucial. Here's what expats should know.

The three-year lock up rule

Previously, individuals leaving South Africa could withdraw their retirement funds immediately after confirming their emigration status with the South African Reserve Bank (SARB) and South African Revenue Service (SARS). However, since March 2021, a new rule mandate a minimum three-year lock-up period before these funds can be accessed in full. The application of the lump sum withdrawal table becomes pertinent in such cases.



Withdrawal Benefit

2024 tax year (1 March 2023 – 29 February 2024) – See changes from last year:

Taxable income (R)	Rate of tax
1 – 27 500	0% of taxable income
27 501 – 726 000	18% of taxable income above 27 500
726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

Proof of tax non-resident status

Navigating the withdrawal process involves understanding the **procedural requirements** and specific nuances associated with it. An essential step includes providing proof of tax non-resident status, which is generally in the form of a Notice of Non-Resident Tax Status issued by SARS. This Notice confirms the individual's date of tax residency cessation and is considered to be crucial evidence required to process the withdrawal by the relevant policy holder. Without this Notice, these retirement funds will often remain locked in South Africa.

The two-pot retirement system – a potential hurdle

The anticipated introduction of the two-pot retirement system in March 2024 could pose further challenges for expatriates seeking to withdraw their retirement funds from South Africa. Under this system, a third of all retirement savings will fall under the savings "pot", with the remaining two thirds falling under the retirement component. A vested "pot" will consist of all retirement savings prior to the commencement of this system and will be treated the same as they are currently being treated (i.e., separate to the two-pot retirement system). However, the impact of this system for expatriates and the associated **tax implications** largely remain unclear at this stage.

A guiding hand in the withdrawal process

Expatriates still in the dark about their tax situation may find themselves facing complexity when attempting to withdraw their retirement funds from South Africa. A clear and guided approach is essential to help individuals secure the necessary proof and facilitate the seamless remittance of these funds offshore. Understanding the intricacies of the withdrawal process and taxation can make a significant difference in ensuring a smooth transition for expatriates departing South Africa.

FA News | 24 October 2023

Rise in complaints due to trust in Office of Pension Funds Adjudicator

There has been an upward trend in new complaints reaching the Office of the Pension Funds Adjudicator (OPFA), moving towards pre-Covid levels.

New complaints received for 2022/23 saw an increase of 4% when compared to the previous year and a substantial 26% when compared to 2020/21 i.e., during the pandemic when lockdowns were implemented. The rise in new complaints, according to Pension Funds Adjudicator Muvhango Lukhaimane, may be attributed to two things: complainants are aware of the OPFA, the function that it serves and the level of trust that complainants have in the OPFA to fulfil its mandate; and retirement funds are simply not doing enough to resolve disputes internally. In the 2022-2023 fiscal year under review, the OPFA received a total of 9190 complaints. Notably, electronic and online channels accounted for 77% of the complaints, while walk-in complaints constituted 18%, with only 5% received through postal services. 2559 complaints were carried over from 2021/2022.

A total of 7809 complaints were finalised during the reporting period, reflecting a 7% decrease compared to the previous financial year. Among these finalised complaints, 56% (4368) were resolved through investigations and reasoned determinations, while 1382 cases were settled. An additional 1326 complaints were deemed to be outside the jurisdiction of the office (mostly for being out of time), and 733 complaints were resolved through alternative means. 82% of the cases were finalised within six months of receipt. As of 31 March 2023, 3970 complaints were active of which only 4% exceeded six months. According to Ms Lukhaimane, there was an increase in complaints lodged via the self-serve function on the OPFA website following its launch on 12 December 2022.

This facility enables complainants to track the progress of their complaint on the website through the different investigation steps. The highest number of complaints came from Gauteng province (46 %). The OPFA's offices are situated in Gauteng only and this could be a contributing factor, together with the fact that there is higher coverage of pension fund-related matters by various media in Gauteng. The second highest province is Mpumalanga with 9%. The recently implemented "Refer to Fund" process wherein the OPFA acts as a facilitator for dispute resolution between funds and complainants has yielded positive results. A total of 620 complaints were successfully concluded through this process.

The OPFA will continue to encourage parties to harness the benefits of this process, particularly because of its quick turnaround time and overall value added to fund/member relationships. Similar to previous years, the primary concerns by complainants pertained to withdrawal benefits and non-compliance with section 13A of the Pension Funds Act, where employers neglect to contribute to pension funds. Jointly, these two categories constitute 84% of the total closed complaints. Almost 50% of these types of complaints arise from members of the Private Security Sector Provident Fund (PSSPF). "The persistence of these issues and the significant volume of complaints are causes for substantial concern.

"Stakeholders are strongly encouraged to address and rectify this undesirable outcome, stemming from inadequate fund governance, management, and administration. "If left unaddressed, this situation effectively undermines the government's endeavours to enhance trust, coverage, adequacy, and sustainability within the retirement funds system," said Ms Lukhaimane. The establishment of the Ombud Council, as a regulatory entity for ombud schemes, aims to enhance the independence, access, and fairness of the alternative dispute resolution process for financial sector-related complaints. "The Financial Services Tribunal (FST) is a fee-free appeals avenue for aggrieved persons wishing to challenge or review the Pension Funds Adjudicator's determinations.

“The increased use of the FST by aggrieved persons is encouraging. Complainants now have access to an efficient appeals process, at little to no cost compared to the expensive and lengthy, formal court process,” Ms Lukhaimane said. During the reviewed year, 72 applications for reconsideration were submitted by individuals dissatisfied with OPFA decisions. The FST issued a total of 69 decisions, with 37 OPFA decisions being upheld and 32 being sent back for reconsideration. Less than 1% of the issued determinations were remitted based on the same facts, while the remainder resulted from new evidence presented by the aggrieved party during the FST proceedings, which had not been presented before the OPFA.

With around 77% of complaints received through digital platforms and all being processed internally through ICT systems, the OPFA continues its digital transformation agenda, prioritising the modernisation of systems used to deal with complaints and improving internal operations whilst enhancing the ICT Infrastructure and security. Membership of the PSSPF is compulsory in the private security sector by virtue of a collective agreement, and this fund remained the largest contributor to new complaints. The requirement for compulsory membership in the PSSPF is questionable as several employers fail to comply with the requirement to pay contributions.

“Furthermore, the fund does not appear to be achieving its purpose of providing retirement benefits since the majority of its members do not remain in the fund until retirement age given the nature of the occupation. “The PSSPF has also failed to allocate hundreds of millions of rands in contributions paid by employers leading to utter frustration for employers and members. It does not seem as if there is a plan to bring the allocation of contributions up to date, anytime soon,” Ms Lukhaimane said. In a message to the Annual Report, Minister of Finance Enoch Godongwana offered his gratitude to Ms Lukhaimane for ensuring the reforms that affect ombud schemes are a success. “In addition, I would also like to thank and congratulate the OPFA team, for the 25-year anniversary and the consistent performance achieved throughout this period,” he said.

FA News | 24 October 2023

Extended deadline for Two-Pot Retirement System unfortunate but necessary to facilitate seamless access for consumers

The decision by the National Treasury to delay the implementation date for the Two-Pot Retirement System from 2024 to 2025 will allow enough time for legislation to be finalised, rule amendments to be processed, and member engagement to be effected, according to Old Mutual. Old Mutual today expressed its support for the extended deadline, following the National Treasury and SARS providing feedback at the Standing Committee on Finance on Wednesday as part of the parliamentary process. Initially scheduled for 1 March 2024, the new proposed date for implementing the Two-Pot Retirement System is 1 March 2025. Michelle Acton, Retirement Reform Executive at Old Mutual, noted that the proposed implementation date for 1 March 2024 would not have been achievable as the legislation has not yet been finalised.

It is however, critical that the legislation is finalised in the next month or two to ensure that Funds could be ready for 1 March 2025. She underscored the importance of this extension, saying it would provide an invaluable opportunity to ensure that the new system can seamlessly process the anticipated surge in applications for access to pension savings. “We understand that many financially strapped South Africans will be disappointed at the delay, and we call on the government to expedite the promulgation of the legislation to create certainty and to allow for access to the savings in 2025. “This latest extension will, however, allow us to fine-tune our preparations, ensuring our customers are well-prepared for the transition and informed about the consequences of accessing their retirement savings prematurely. We encourage our clients to update their contact information to receive timely updates and crucial information regarding their retirement products.”

The proposed Two-Pot Retirement System presents a significant shift in retirement savings management. Two-thirds of contributions will be channelled into a retirement pot, accessible only after normal retirement age. The remaining one-third will go into a savings pot, allowing immediate access under certain conditions. Acton says Old Mutual has been diligently preparing for the transition to the Two-Pot Retirement System for the past 12 months. The additional time granted by the extension will provide an invaluable opportunity to pressure test their systems, integrate the SARS processes, engage with their customers, and ensure they are well informed about the forthcoming changes, the process of accessing funds, and the implications of tapping into their retirement savings before reaching retirement age.

Increase in Cap on Access

Under this system, part of the funds accumulated before its implementation could be accessed as seed capital from the savings pot, which members can withdraw from annually. Initially, the regulations indicated that the seeding would be a maximum of 10% of existing savings with a cap of R25,000. On Wednesday, the National Treasury announced that while the seeding would remain fixed at 10%, the withdrawal cap would be increased from R25,000 to R30,000.

Acton said Old Mutual, and the broader pension fund industry welcomed the fact that seeding remained fixed at 10%, noting that the increased cap would have a minimal additional impact on pension fund liquidity.

Other Notable Confirmations

Acton noted that while the National Treasury clarified several areas of concern, the confirmation that intra-fund transfers between the savings pot, retirement pot and vested pot would be fully or partially allowed under the new system needed clarity. She said intra-fund transfers presented a significant administrative burden and called for more detail to be provided in the updated regulations.

Acton noted several issues that were clarified, including the following:

1. Defined Benefit funds would be given more flexibility around calculations of the contribution split.
2. Regulation 28 would not be changed, as National Treasury saw no reason to do so.
3. Provident fund members over the age of 55 (as at 1 March 2021) would have the option to opt in rather than opt out of the new Two-Pot Retirement System.
4. Pensioners, funds where there are no active members, closed and dormant funds and funds in liquidation would be excluded from the new system.
5. Savings Pot withdrawals would be taxed on the marginal tax rate; and
6. SARS would provide the marginal rate, which would be applied by the fund releasing the money.

Long Term Impact

Blessing Utete, Managing Executive of Old Mutual Corporate Consultants, said Old Mutual recognised the financial challenges many South Africans faced, with immediate access to retirement funds appearing appealing. However, the company emphasised the critical importance of considering the long-term impact on financial security in retirement when making such decisions. “Immediate financial relief is crucial, but it should not come at the expense of one’s retirement nest egg. We advise all South Africans to consult with experienced financial advisers before making any decisions related to their retirement savings, regardless of the amount involved.”

Utete said that Old Mutual's data shows that, on average, most South Africans save only two to three times their annual income for retirement, this is significantly less than the required average 12 times annual income required to have an adequate income in retirement. "By refraining from accessing their savings prematurely, they could potentially accumulate 12 times their annual salary. The Two-Pot Retirement System is designed to encourage increased savings rates and better financial security in retirement," he said. "In a dynamic financial landscape, we remain committed to empowering our customers with the knowledge and resources to make informed financial decisions. The extended implementation date for the Two-Pot Retirement System aligns with our mission of ensuring long-term financial wellness for all South Africans," Utete concluded.

FA News | 26 October 2023

The lowdown on living annuity income payments to foreign bank accounts

The rules around the payment of proceeds from South African long-term insurance policies to foreign bank accounts can be confusing. Alix Moreillon, legal adviser at Allan Gray, clarifies when annuity income from a living annuity may be paid to a foreign bank account and explains the exchange control regulations surrounding these payments.

South African legislation specifically prohibits the transfer of living annuities to other financial service providers abroad. This means that as a South African living annuitant, if you are emigrating or cease to be a South African tax resident, you will not be able to access the capital underlying your South African living annuity policy and you will continue to receive annuity income from the issuer of that policy. Part 2 discussed your tax obligations related to this income. Below, we explain how you can receive your annuity income. It is important to remember that the concept of residency for tax and exchange control purposes varies – care should be taken when considering this terminology in different contexts.

How to receive your annuity income

In certain circumstances, annuity income may be paid to a foreign bank account held in the name of an annuitant. The different limitations are contained in the Currency and Exchanges Manual for Authorised Dealers ("the Manual"). These limitations vary depending on whether that individual is a South African resident, a resident who financially emigrated prior to 1 March 2021, a resident who ceased to be a tax resident after 1 March 2021, a resident who is temporarily abroad or a non-resident. These different parameters are discussed below.

South African resident

The Manual does not permit the payment of annuity income to a foreign bank account for South African residents. However, as a South African resident, you may receive payment of your annuity income to your South African bank account and transfer this amount abroad as part of your annual single discretionary allowance (SDA) or foreign capital allowance (FCA). The SDA is available to South African natural persons who are 18 years and older and permits transfers of up to R1 million per individual per calendar year outside the Common Monetary Area (CMA), i.e. Eswatini, Lesotho, Namibia and South Africa, without the requirement to obtain a Tax Compliance Status (TCS) PIN from the South African Revenue Service (SARS), which may be obtained online.

If you wish to transfer more than R1 million, you may use your FCA, which allows residents to transfer an additional amount of up to R10 million in their name outside the CMA, per calendar year. For the purposes of the FCA, SARS introduced an enhanced TCS process in April 2023, known as the "Approval for International Transfer (AIT)" process. This enhanced process combines the TCS process for emigration and FCA. SARS requires additional information to process these requests, such as the disclosure of both local and foreign assets held by the investor. There are two TCS types that taxpayers can apply for: Good standing is issued when a taxpayer wants to confirm that their tax affairs are in order with SARS. AIT allows a taxpayer to apply to transfer funds internationally. This process applies to South African residents who wish to use their FCA and to non-residents who are transferring funds from a South African source.

South African resident who emigrated prior to 1 March 2021

Individuals who emigrated prior to March 2021 had to keep a rand-blocked account open in South Africa. This account was used for exchange control purposes to remit capital transfers from South Africa, and international payments made from South Africa were processed through these accounts. However, the concept of rand-blocked accounts has fallen away. Therefore, if you formally emigrated prior to 1 March 2021, you would need to follow the AIT process described above to transfer funds from South Africa. This process is administered through SARS and is required regardless of the value of the annuity income that is paid as the SDA does not apply to non-residents. Additionally, verification of your tax compliance will be required through the TCS of good standing process.

South African resident who ceased to be a tax resident after 1 March 2021

If you cease to be a South African tax resident, the Manual permits the payment of pensions and/or compulsory annuities directly to a foreign bank account held in your name. As discussed in **Part 1** of this series, the process of ceasing to be a South African tax resident is administered through SARS. Again, the AIT process will need to be followed regardless of the

value of the annuity income that is paid. Additionally, a TCS of good standing will be required by your authorised dealer on an annual basis. A TCS of good standing enables you to authorise any third party to view your tax compliance status online via eFiling.

South African resident temporarily abroad

If you are abroad temporarily, which the Manual defines as having "*departed from South Africa to any country outside the CMA with no intention of taking up residence or who has not been granted permanent residence in another country, excluding those residents who are abroad on holiday or business travel*", you can have your income paid into a foreign bank account in your name. Note that this income is not included as part of your SDA or FCA.

Non-resident

If you are a non-resident, i.e. your normal place of residence is outside the CMA, the Manual allows for annuity income to be paid into a foreign bank account in your name. A non-resident in this context is an individual who has never been considered a South African tax resident. As the annuity income originates from a South African source, the AIT process will need to be followed.

Your tax residency status is the defining factor

Table 1 reflects who is typically allowed payment into foreign bank accounts. Whether you can receive your living annuity income into your foreign bank account will depend on your tax residency, the SARB and SARS requirements, and your insurer's processing procedures. Your independent financial adviser and/or financial services provider can help you determine whether you are eligible for foreign payments in terms of the Manual.

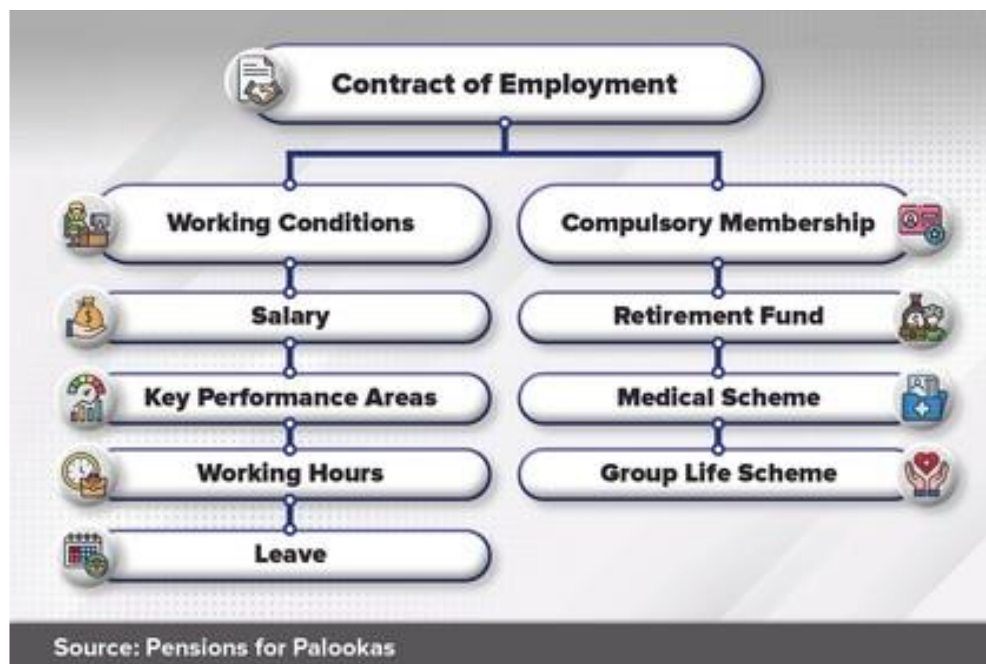
Table 1: Living annuity payments into foreign bank accounts

Type of individual	Payment into foreign bank account permitted
South African resident	No
South African resident who emigrated prior to 1 March 2021	Yes
South African resident who ceased to be a South African tax resident post 1 March 2021	Yes
South African resident temporarily abroad	Yes
Non-resident	Yes

FA News | 19 October 2023

Is it fair to force me to belong to a retirement fund?

When you enter into an employment contract with your employer, compulsory membership of a retirement fund in which the employer participates is generally a condition of employment. In some industries, employers are bound by bargaining council agreements to participate in industry retirement funds and to make fund membership of the funds a condition of their contracts of employment. Your contract of employment will consist of two components, namely working conditions and compulsory participation in retirement funds, group insurance policies and medical schemes set up for the benefit of employees of the employer, as illustrated below:



Source: Pensions for Palookas

New employees often question why they are forced to take home less money each month due to the deduction of compulsory retirement fund contributions from their salaries, without taking the benefits of fund membership into consideration. The first reason for compulsory retirement fund membership is that it is a requirement under the Income Tax Act in order for a fund and its members, to receive favourable tax treatment. Your contributions to the fund (up to 27.5% of taxable income limited to R350 000 per annum) are tax deductible.

This reduces your taxable income and thus your income tax liability. All investment income earned by the fund is tax-free, which accelerates your investment growth. Where you choose to take lump sum benefits at resignation or retirement, those benefits are taxed on tax scales that might be significantly less than the marginal tax rate you are paying. The table below illustrates how your income tax bill is reduced by fund contributions:

INCOME TAX BILL THAT IS REDUCED BY FUND CONTRIBUTIONS

Annual Salary	R100 000	R300 000	R600 000	R1 000 000	R1 500 000	R2 000 000
Tax Payable for the year	R765	R41 797	R135 632	R292 284	R497 284	R709 604
Fund Contribution @ 27.5%	R27 500	R82 500	R165 000	R275 000	R350 000	R350 000
Taxable Income	R72 500	R217 500	R435 000	R725 000	R1 150 000	R1 650 000
Tax Payable for the year	R0	R21 915	R80 122	R182 192	R353 784	R558 784
Tax saving	R765	R19 882	R55 510	R110 092	R143 500	R150 820
Amount Saved for Retirement	R27 500	R82 500	R165 000	R275 000	R350 000	R350 000

Image source: Freepik.com

Compulsory retirement saving creates economies of scale that reduce the average fund operation costs per fund member. Employers have more power to negotiate lower fees from service providers, such as fund administrators and asset managers, on behalf of their employees as a group than those employees have individually. As a result, retirement funds that are set up for groups of employees are cheaper to operate than individual/voluntary retirement saving products where all the benefits of economies of scale are not always passed on to the fund member.

Employers are often also in the position to negotiate lower insured life premiums via fund-owned policies. The fund can enter into an agreement with an insurer to provide life cover to all members, often without the requirement that members provide proof of good health, where the premiums calculated on a group basis can be significantly less than the premium that a member might have to pay on an individual basis. Life is about give and take.

You sometimes have to give up the freedom of choice to participate or not to participate in a retirement fund to accept a greater benefit, namely the benefits offered by retirement funds. Before you enter into a contract of employment, ensure that you obtain as much information as possible from your potential employer as possible regarding the retirement vehicles that you are obligated to join. When in doubt, get assistance from a financial adviser who can compare the various retirement fund options that are available and who can help you find the most suitable retirement vehicle that best suits your needs and wants.

Personal Finance | 19 October 2023

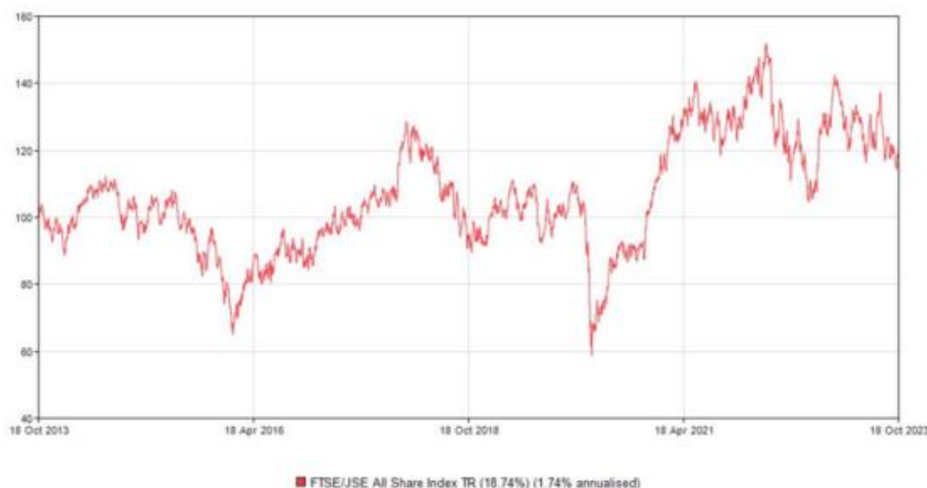
Why offshore diversification is crucial

The SA economy is fragile and the stock market has seen an increase in delistings.

Over the last 10 years, SA investors have not been rewarded for taking equity-type risk if most of their wealth was invested in the JSE. Smart investors have started considering alternatives and flows to offshore markets, seeking better opportunities for long-term investors. The number of delistings on the JSE is increasing, and local fund managers could be under pressure to perform for their investors with fewer stocks available to buy. You could argue that if you track the returns of the JSE over a longer period than 10 years, you'd discover some sort of "acceptable" return to compensate a long-term investor.

However, an annualised return of **1.74%** from the JSE over 10 years should be unpleasing to investors who have committed to remaining invested for long periods of time and have accepted the levels of risk associated with equities. The bull run during the Covid-19 pandemic was mainly due to strong performance from commodity stocks. These stocks benefited from rising commodity prices during the pandemic, as demand for commodities increased from China and other emerging markets.

Returns from the JSE over 10 years: Unable to beat inflation. The risk taken was not rewarded with returns.



Source: Profile Data/Highcharts.com

SA's debt crisis: Government's inability to create economic growth prospects.

In recent weeks, news headlines have dominated the financial media over the ever-rising fiscal debt crisis in SA, and a further $1 billion is being negotiated at the World Bank for investment into the failing energy sector. A recent publication in Business Day suggests that SA's widening budget deficit raises the prospect of a fiscal crisis. Although developed economies such as the US, too, have high fiscal debt levels, unemployment is low, and therefore, the economy still

thrives as consumer demand remains resilient. This is not the same for South Africa, as the country's unemployment rate is one of the highest in the world. How does a possible fiscal crisis impact the South African economy? The crisp and short answer is that besides the borrowing cost of this debt exceeding R1 billion per day, it means that the government cannot allocate finances to stimulus projects to create employment as well as economic growth opportunities. This, too, poses a risk of wealth tax, exchange control tightening, and higher taxes, which will be felt by businesses and consumers.

South Africa and the rest of the world: We need foreign investment inflows and higher export numbers

South Africa is a commodity-producing economy, and being an open economy, the reliance of the rest of the world for stability and growth is big. Recent numbers indicate that foreigners are net sellers of South African equities and bonds. This creates less demand for the rand, and more demand for other developed market currencies, overall contributing to gradual rand weakness over time. This, together with slowed down exports of SA commodities to major trading partners such as China, places pressure on fiscal revenue collection, negatively impacts commodity prices, and again contributes to a weaker rand.

Here is how the rand has weakened over time: Rand depreciation is not good for foreign investors

On average, the rand weakened against the USD over the long term. This is unfavourable for foreign investors, as they earn less in USD or in their equivalent foreign currency terms.

Source: Bloomberg

Offshore investing remains a crucial part of a diversification strategy, and investors should take careful consideration to consider diversification away from the fragile SA economy and stock market in search of better opportunities, especially for long-term capital that is not required to service lifestyle needs. All investment decisions are best decided with the guidance of a trusted wealth advisor.

Moneyweb | 25 October 2023

INTERNATIONAL NEWS

UK state pension could rise by 8.5% next year

The UK new state pension could rise 8.5% to £221.20 per week (just over £11,500 a year) in April 2024, offering retirees an inflation-busting boost.

For those under the old state pension (those who've reached state pension age on or before 5 April 2016), it'll increase to £169.50 per week, over £8,800 a year. Thanks to the triple lock, the state pension should rise annually by either 2.5%, average earnings growth or inflation based on September's figures, which was unchanged from the previous month at 6.7%. As the highest of the above is average earnings growth of 8.5% in the three months to July, the state pension is likely to rise by this amount.

Why the state pension rise is yet to be confirmed

The government is yet to confirm the state pension rise, as there have been reports that ministers are considering adjusting the triple lock policy by looking at earnings, excluding bonuses. If this measure is used, the state pension will rise by 7.8%. The government may push for this lower increase, arguing that NHS bonus payouts inflated earnings figures in July. The government suspended the triple lock policy during the pandemic as earnings figures were distorted, so adjustments are possible, but the upcoming General Election may impact this decision. "Provided the government sticks to its state pension triple-lock promise, the CPI figure should confirm an inflation-busting 8.5% increase for April next year," said Tom Selby, head of retirement policy at AJ Bell.

"While that will cost the Treasury billions of pounds, it may be viewed as a price worth paying for prime minister Rishi Sunak given the proximity of the general election and with the Conservatives trailing Labour in the polls." While the rise in the state pension is good news for pensioners, the frozen personal allowance means more pensioners face a tax bill if their annual income exceeds £12,570. As the state pension is set for another bumper increase, concerns about the affordability of the triple lock policy are once again in the spotlight, as well as whether it should be maintained. While the state pension can offer some income in retirement, it's worth having a decent pension pot so you can enjoy the retirement you want. If you want to review your pensions or build a retirement plan, Unbiased can connect you with an FCA-regulated financial adviser.

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Govt likely to sweeten deal in national pension scheme

NPS allows pensioners to withdraw 60% of the corpus at time of retirement (tax free), and buy an annuity for remaining 40%, payments from which are taxable

New Delhi: The Union government is likely to amend the national pension scheme (NPS) by the year-end to ensure employees get at least 40-45% of their last-drawn salary as retirement payout based on recommendations of a high-level panel currently looking into the matter, two people familiar with the developments said. The issue of pension is currently a politically polarising issue, with several Opposition-ruled states switching to the old pension scheme (OPS) which offered pensioners monthly benefits of 50% of their salary drawn at the time of retirement. The current market-linked pension plan, launched in 2004, offers no such guaranteed base amounts.

The other point of contention is that the NPS is based on an employee contribution of 10% (of their salary), with the government contributing 14%; there is no employee contribution in OPS. We're now on WhatsApp. Click to join. The modified new pension scheme will see some changes in "actuarial calculations" to offer higher returns, one of the officials said. It is also likely to see changes in the share of contributions made by the employee and the employer, in this case, the central government and states. "It is possible to assure a base amount as payout depending on how the actuarial framework is arrived at," the first official said. NPS allows pensioners to withdraw 60% of the corpus at the time of retirement (tax free), and buy an annuity for the remaining 40%, payments from which are taxable.

States ruled by Opposition parties, including Rajasthan, Chhattisgarh, Jharkhand, Himachal Pradesh and Punjab, have reverted to the old pension system, which some economists say could push state governments into bankruptcy. Under the current national pension scheme, nearly 8.7 million federal and state-government employees contribute 10% of their basic salary, while the government pays 14%. The final payout depends on returns on that fund, which is mostly invested in government debt instruments. The old pension system guarantees a fixed pension of 50% of an employee's last drawn salary, without employees contributing anything. Therefore, it is considered to be an "unfunded" retirement scheme.

"The government is not going back to the unfunded old scheme but a better model can be put in place that gives an assured basic amount, which will be indexed to inflation," the second official said. The ruling Bharatiya Janata Party-led central government, which faces a general election next year, aside from polls in four states, had set up a committee led by TV Somanathan in April this year to review the current pension system. The altered pension

scheme will continue to be linked to market returns, but the government could work out a methodology to give a minimum of, say, 40% of an employee's last drawn salary. Ultimately, this means that the government would have to intervene to make good the shortfall in pension in case the payouts are less than whatever the base amount is. Currently, employees earn returns of between 36%-38% on average. The old pension scheme is fiscally unsustainbale and could worsen the debt of state governments, according to Soumya Kanti Ghosh, group chief economic adviser of State Bank of India, the country's largest lender. In 2023-24, India's federal pension budget was ₹2.34 lakh crore.

What makes the old pension scheme adopted by many states politically attractive is that it offers an assured benefit to the retiree, fixed at 50% of the last drawn basic pay. Also, like their salaries, pensions under the old scheme are routinely hiked to account for an increase in inflation. According to Ghosh's research, pension liabilities of state governments over the long term has showed a sharp increase. The compounded annual growth in pension liabilities for the 12-year period, ended 2021-22, was 34% for all state governments. As of 2020-21, the pension outgo as a percentage of revenue receipts stood at 13.2%, Ghosh's research showed.

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