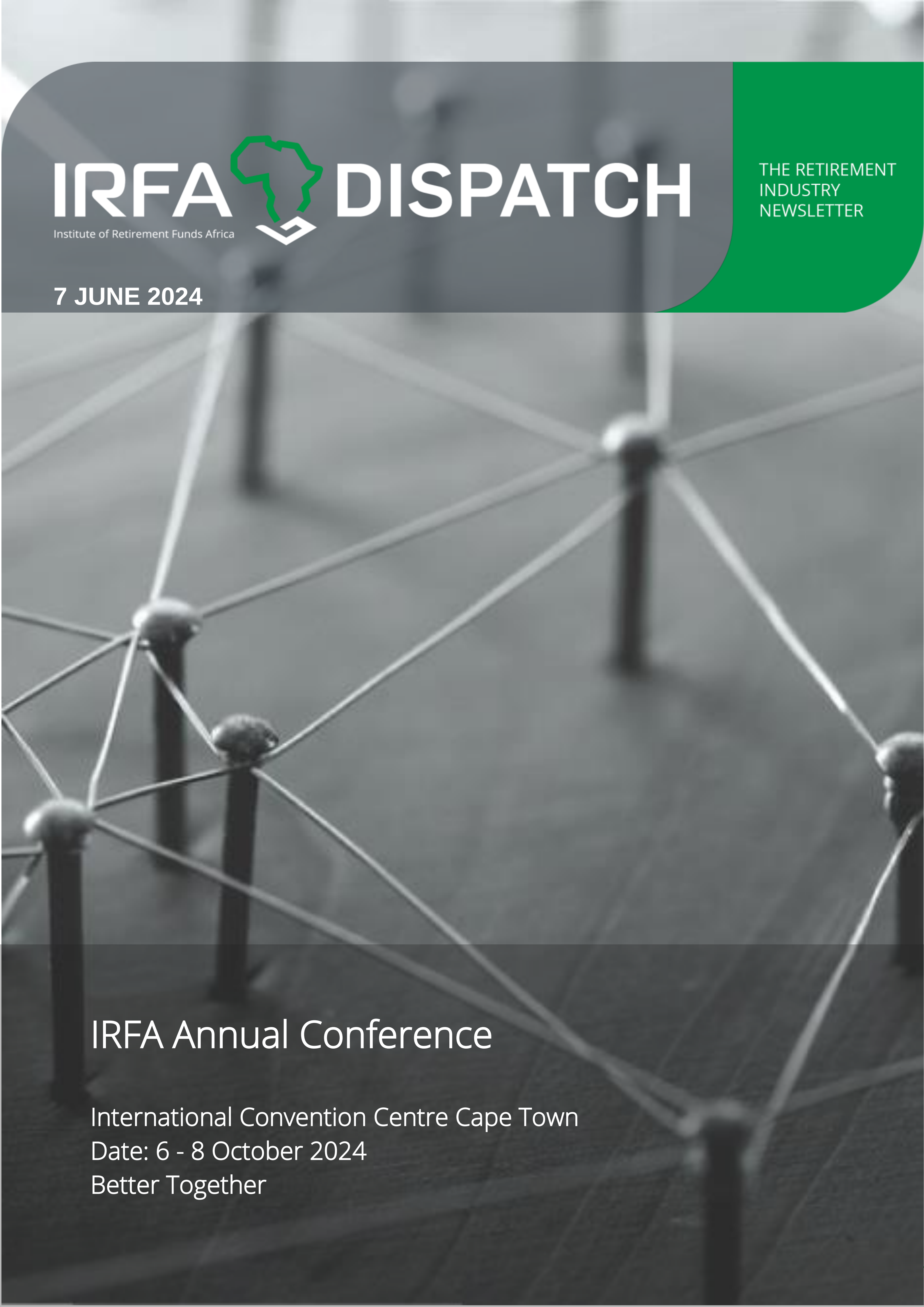

# IRFA DISPATCH

Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

**7 JUNE 2024**

## IRFA Annual Conference

International Convention Centre Cape Town
Date: 6 - 8 October 2024
Better Together

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## Ramaphosa signs Revenue Laws Amendment Bill into law – green light for two-pot retirement reforms

While the rest of the country was still reeling from the national elections on 29 May and waiting for the results amid a sea of coalition conjecture, President Cyril Ramaphosa quietly signed the Revenue Laws Amendment Bill into law on Saturday, 1 June.

Unlike the controversial National Health Insurance Act though, this piece of legislation is likely to be welcomed with relief rather than dismay – by citizens and the financial services industry alike. Guy Chennells, chief commercial officer of Discovery Corporate and Employee Benefits explains that this means the signing of the Pension Funds Amendment Bill is imminent, and the scheduled two-pot retirement system rollout is likely to move ahead on 1 September 2024. “This legislative action signifies the final step towards the implementation of this new retirement system and effectively means there is no turning back,” Chennells says. However, it does mean that retirement fund administrators, in particular, have only a few months left to organise their affairs, particularly regarding pending legal matters.

Chennells emphasises that this is a crucial period for all providers to ensure they are fully prepared for the potentially unprecedented volumes of savings withdrawal requests coming their way from clients who may still be battling with financial woes in the aftermath of the Covid pandemic and the financial headwinds facing all South Africans. Managing executive of Old Mutual Corporate Consultants Blessing Utete says the success of the two-pot retirement system hinges on thorough preparation and targeted member education. “One of the most important points to communicate to members is when their money will be accessible. Even though the legislation goes live on 1 September, it doesn’t mean funds may be able to pay out on that date as there are several steps that need to be implemented first,” he said.

*Retirement funds need to amend rules by mid-July*

Retirement funds have until 15 July to submit their rule amendments for registration so that new fund rules can be registered and approved before 1 September. Retirement funds submitting rule amendments after 15 July stand the risk of their amendments not being registered in time, which will result in the delay of implementing two-pot reforms and paying out savings withdrawal claims. In a nutshell, if your retirement fund does not register rule amendments for two-pot implementation with the Financial Services Conduct Authority

(FSCA) by 1 September, this means you will not be able to make any savings withdrawal claims. Chennells says this could also impact the tax approval status of retirement funds when the South African Revenue Service (SARS) does its annual tax assessments. “If retirement funds lose their tax approval status, it will mean that contributions to retirement funds are then no longer tax deductible and employers could have an industrial relations disaster on their hands,” he cautions.

*Automated processes will alleviate bottlenecks*

“The volumes (of withdrawals) are expected to be unprecedented,” Chennells says. Finance Minister Enoch Godongwana indicated in his 2024 Budget Speech that he was anticipating a R5-billion revenue windfall from taxing two-pot withdrawals in the next financial year. Chennells says this highlights the importance of providers being able to process claims on a “straight-through process”. This refers to an automated electronic payment process which does not need manual intervention. “One could easily see claims volumes in September being 50 to 80 times higher than a normal month of exit claims. It would not be possible to increase staffing adequately for this. And so, without the straight-through process for payments, providers could have very long payment turnaround times before savings withdrawal claims can be paid,” Chennells says.

*How the two-pot retirement rules will work*

From 1 September, members will see 10% of the value of their retirement fund, capped at R30,000, allocated to their savings pot under the new system. From that point on, two-thirds of any new savings will be allocated to the retirement savings pot and may not be accessed before retirement. Members of provident and provident preservation funds who were 55 or older as at 1 March 2021, will have the choice of whether to opt into the new system or stay in the current system. Michelle Acton, retirement reform executive, explains that seeding calculations can only be conducted after the end of August, using the values from that month. “The legislation allows for seeding calculations soon after implementation, not necessarily on that date – as a result, actual access for members will likely take place after 1 September,” Acton said.

The seeding calculation, which determines the initial amounts to be allocated to different “pots” or accounts based on existing retirement savings, relies on the current amount of savings in each member’s retirement account and their market value. This process could take several working days to weeks, depending on the rules set by each retirement fund. Fund members will need to have their tax affairs in order to apply for a savings pot withdrawal, and SARS may deduct any other outstanding tax before payment is made. All members must have a tax number to apply for a savings pot withdrawal.

**Daily Maverick | 2 June 2024**

## Leading Industry Body Welcomes the Official Establishment of the Two-Pot Retirement System

At the start of June, President Cyril Ramaphosa signed into law the amendment bill that establishes the "two-pot" retirement system, which allows members of retirement funds to access a portion of their retirement savings while still employed.

The “two-pot” system, according to Institute of Retirement Funds Africa (IRFA) President Geraldine Fowler, offers retirement fund members an opportunity to think more about their retirement savings. This system provides flexibility for fund members that was not available in the past. Members will now need to engage with their retirement funds more often and consider the long-term impact and the taxation of benefits. Wayne Hiller van Rensburg, Executive Officer and spokesperson for IRFA, states that the organisation has consistently endorsed retirement reform and the impact the establishment of the system will have in assisting members in the short term while securing future benefits.

The Pension Fund Amendment Bill awaits the President's signature. Hiller van Rensburg notes, “We are, however, waiting for the Pensions Bill and look forward to its signature, which is necessary for full clarity but not necessary for the implementation of this reform.” The two-pot system's implementation date is set for the 1st of September this year. Both Fowler and Hiller van Rensburg assure members of retirement funds and the sector as a whole that, in line with its mandate, the IRFA will continue to share important information to support all stakeholders in effectively implementing and realising the beneficial potential of the “two-pot” system.

IRFA will be gathering in Cape Town in October, for its annual conference.

**FA News | 3 June 2024**

## Living annuities require dynamic management to preserve your capital

When you buy a living annuity, you sign up for a difficult balancing act – spending your money just fast enough to enjoy a decent standard of living but not so fast that your capital expires before you do, according to Andrew Davison, chairman of the Investments Committee of the Actuarial Society of South Africa (ASSA). Davison says this cannot be achieved by simply opting for low drawdown rates and then hoping for the best. “A living annuity is not a set-and-forget product,” he adds. “The management of a living annuity needs to be dynamic. Drawdown rates and investment strategies may need tweaking over time, taking into account the age, gender and circumstances of the pensioner and their spouse as well as the economic environment.”

Living annuities are also referred to as investment-linked living annuities because they allow you to choose the investment portfolios into which your retirement money is invested. Because you can choose the underlying investments, a living annuity does not guarantee a regular income or the preservation of your retirement capital. To highlight the challenges involved in managing living annuities, Davison recreated the outcomes of living annuities for 75 hypothetical pensioners.

**The assumptions**

Davison’s objective was to compare identical strategies applied during different market conditions to understand the impact of market returns and the fluctuations of those returns on outcomes. Assumptions were the same for all 75 living annuities, except that the pensioners retired on different dates. The first retired in January 1957, with another retiring every six months thereafter until 1994, allowing for a 30-year period until the end of 2023. All 75 pensioners had a retirement horizon of 30 years and bought their living annuity with a retirement capital of R1 million.

The 75 pensioners had the same income strategy of drawing an income of 5.7% at the start, increasing by inflation every year. Living annuities allow clients to select an income level between 2.5% and 17.5% annually. The pensioners were also assumed to have applied comparable, diversified investment strategies to the underlying investment portfolios. Davison’s dataset for global asset classes began in 1990, so the investment strategy assumed before that was 100% exposure to domestic South African asset classes. However, the overall allocation to equities, bonds and cash was consistent throughout.

**FA News | 3 June 2024**

## Sanlam urges South Africans to pause before withdrawing

Sanlam has long been preparing for the Revenue Laws Amendment Bill, 2023 which President Ramaphosa has now signed into law, for implementation on 1 September 2024.

This establishes the **Two-pot system**, which aims to give struggling South Africans access to a portion of their retirement savings in an emergency.

“We fully support the new system which seeks to balance immediate financial struggles with long-term security,” says Lorraine Mekwa, Managing Executive, Sanlam Corporate. Financial advice and education will be key to enabling people to make informed decisions through understanding the long-term impact of withdrawals. Mekwa adds: “It is important to encourage people to learn about the Two-pot system, understand the consequences of making an early withdrawal and plan for what that means for your future self.” Lize de la Harpe, Senior Legal Advisor at Sanlam Corporate says, “From 1 September, all new monthly retirement contributions will be split, with a third going to the Emergency Savings pot, and two-thirds going to the Retirement pot.

For example, if you’re contributing R300, R100 will go to Emergency Savings, and R200 to the Retirement pot. Following this, people will be permitted one annual withdrawal from their Emergency Savings, subject to prescribed minimums of R2 000. Note that there is marginal tax on every withdrawal made. A financial adviser can help people think through their options and analyse the opportunity costs of big financial decisions. Ultimately, the new two-pot system means that South Africans can now access some of their savings without having to resign or cash out their pension funds. This brings more flexibility but also the need for caution and a well-considered financial plan. “We are committed to supporting individuals to save enough to retire comfortably. Our north star is to empower more people to be financially confident, secure, and prosperous. A big part of this is walking the retirement journey alongside individuals at every life stage,” says Mekwa.

De la Harpe explains that members will have access to the savings pot come 1 September. “On the first of September, 10% of the value of your retirement fund, or up to R30 000, will automatically be allocated to your Emergency Savings pot. Any new contributions you make from that date will be split between your pots, with two-thirds going to the Retirement pot, which will remain inaccessible until you retire. The initial seeding calculations, which are based on the market value of each person’s existing retirement savings as at end August 2024, determine how much goes into each pot. All retirement funds must now participate in the new Two-pot system; however, individuals do not need to withdraw money from their Emergency Savings pot if there is no emergency. Investment returns will not be affected by the ‘split between pots’.

Provident (preservation) fund members who were 55 years or older on 1 March 2021 (T-day), and who remained members of that provident fund or provident preservation fund, are exempted from these provisions unless they opt-in to participate in the Two-pot system. De la Harpe says that there's still a lot left to finalise, with the President needing to sign the Pension Fund Amendment Bill for the changes to be fully implemented. She also stresses people must understand the tax implications of a withdrawal, "Note, you will pay tax on every withdrawal you make. You also need to 'settle' any outstanding taxes you owe before you can access your funds. SARS still needs to finalise their business requirement specification requirements for tax directive applications.

**FA News | 4 June 2024**

## The Labour threat that could cost you £108,000 in pension savings

Rachel Reeves has supported a flat rate of tax relief in the past – will she now?

Have you accessed your pension by taking a tax-free lump sum? We're looking for readers to tell us how they spent it for a new regular feature. Email rob.white@telegraph.co.uk if you're interested in taking part. A feared Labour raid on pensions tax relief would cost higher-rate taxpayers...

A feared Labour raid on pensions tax relief would cost higher-rate taxpayers tens of thousands of pounds in their retirement savings, new analysis has revealed. If tax relief was cut to a flat rate, millions of higher and top-rate pension savers could see five-figure losses, calculations from Hargreaves Lansdown show. Labour has said changes to how relief on pensions contribution works is not party policy – but shadow chancellor Rachel Reeves said in 2016 that she supported calls for a flat rate of relief.

In 2016 former chancellor George Osborne was believed to be on the brink of announcing a similar move, which would save huge sums for the Treasury, but changed his mind at the eleventh hour. Pension savers currently receive tax relief on contributions at their marginal or highest rate of income tax. It means everyone receives 20pc relief, but higher rate taxpayers are entitled to 40pc and additional rate payers get 45pc. HMRC figures for the last financial year projected there were 5.6 million higher rate and 862,000 additional rate taxpayers. Saving into a pension would become far less lucrative for these groups, particularly if they were higher or top-rate payers in retirement.

How pension tax relief works for additional-rate taxpayers

| Contribution by higher-rate taxpayer | £32,000 |
|---|---|
| Automatic 20pc basic government top-up | £8,000 |
| Total contribution | £40,000 |
| Higher rate relief (20pc refund) | £8,000 |
| Actual cost to pension saver (32,000-£8,000 refund) | £24,000 |

Source: Lumin Wealth

A worker earning £100,000 a year and contributing 10pc of their salary into a pension would lose £700 a year, according to Hargreaves Lansdown. Someone earning £200,000 a year would lose £2,400, while someone on £300,000 would lose £3,600. Over a 30-year career, the same people would lose at least £21,000, £72,000 and £108,000 respectively. Once you factor in salary increases and investment returns, the total lost would be far higher over decades of savings. When asked by the Telegraph to rule out attacks on pension tax relief, Labour did not respond. Retirement experts warned how uncertainty can affect workers' ability to plan for their future.

Helen Morrissey, of Hargreaves Lansdown, said: "Governments looking to raise money are all too often tempted to tuck into pension tax relief as the gift that keeps on giving, resulting in years of fiddling at the edges without considering the full impacts on saving behaviours.  "Constant speculation about changes undermines the predictability people need in order to make informed long-term retirement decisions." Rob Morgan, of Charles Stanley, a wealth manager, said: "A higher-rate taxpayer could end up obtaining relief at the flat rate and then paying a higher rate of income tax when they withdraw money. This potentially creates a disincentive to make pension contributions, especially if the future rules surrounding tax-free cash are uncertain.

"Another problem is many individuals only pay higher rate tax towards the end of their careers, when pension saving is often highest. This creates problems for those playing pension catch-up in their peak earnings years, who in good faith expected pension tax relief at their highest marginal rate. "People that planned with the current rules in mind, especially the self-employed, could lose out, and the net result is likely to be smaller pension pots across society as a whole. "It's imperative that people have confidence in the pension system and that there are no knee-jerk changes that undermine the plans of those prudently trying to provide for their later years."

**The Telegraph | 4 June 2024**

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