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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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SA retirement fund industry faces multi-component challenge

Yes, dear reader, there are worse things in life than giving financial advice or writing newsletters on insurance and investment topics. For example, you could be a financial services provider (FSP), retirement fund administrator or trustee tasked with 'bedding down' one of the most expansive retirement fund reforms to 'land' in South Africa in decades, and by no later than 1 March 2024 to boot. This writer left a recent discussion on the two-pots retirement system relieved that the complex implementation its introduction necessitated would be somebody else's problem.

Comprehensive and progressive reform

The recent Retirement and Investment Conference webinar, hosted by the Financial Planning Institute of Southern Africa (FPI), featured two retirement-focused discussions. Today's newsletter will focus on the administration and planning requirements that go hand-in-hand with the two-pot, or as National Treasury now refers to it, the two-component retirement system. Geraldine Fowler, President of the Institute of Retirement Funders Africa (IRFA) opened with some background information. "South Africa's two-component system is seen as one of the most comprehensive and progressive retirement reforms being introduced globally; the reform process, and progress made to date, is highly regarded and followed by pension fund stakeholders worldwide," Fowler said. National Treasury has been eyeing changes to domestic retirement funding mechanisms for some years, with the overarching objective being to ensure better retirement outcomes.

Two pieces of legislation have been introduced to chase through the two-pots reforms, namely the Draft Revenue Laws Amendment Bill, 2023 and the Draft Revenue Administration and Pension Laws Amendment Bill, 2023. For simplicity we will christen these RLAB and RAPLA. According to Fowler, these laws serve two purposes. First, they enforce preservation by "discouraging the early withdrawal of the whole fund through employer changes and / or resignations". And secondly, to allow for one withdrawal per tax year for emergencies. The process was still underway at the time of writing: final commentary on the RLAB / RAPLA closed mid-July 2023 with National Treasury consultation sessions set down for 6-8 September; comments to Parliament's Standing Committee on Finance from 18-19 September; and a second draft of the bills due end-October. "Hopefully, we will see promulgation of both bills in the first week of January 2024, leaving little time for industry to finalise implementation," Fowler said.

Two- or three-components, and a new seeding requirement

Nancy Andrews, Head of Legal at Discovery Employee Benefits, took to the virtual podium to offer comment on the administrative load that would greet industry stakeholders early in the New Year. She confirmed the shift in terminology from two-pots to a two- or three- component system, which this writer adopts in the remainder of this piece. PS, the legislation also introduces a seeding requirement, so that retirement savers would have access to a pre-funded component for emergencies rather than building up from a zero balance. South Africa's previous 'major' retirement reform saw fund balances split into a vested benefit for pre-1 March 2021 balances, and a non-vested benefit for post-1 March 2021 amounts. "We will now have three components: a retirement component made up of your vested and your non-vested benefits with values determined on 29 February 2024," Andrews said.

"And a savings component will be set up when the legislation is introduced, on 1 March 2024". From the implementation date, two thirds of your retirement-funding benefits will go to your retirement component, and one third to your savings component. The balance in the retirement component is accessible upon retirement, in line with the legislation. Retirement fund administrators need to pay close attention to the legislative requirements described for the savings component. Their first task will be to transfer an amount of seed capital to the savings component, being the lesser of the value of total retirement benefits on 29 February 2024 or R25 000,00. This sounds simple enough but there are still some unanswered questions about how the seeding capital calculation should differentiate between non-vested and vested retirement balances. From 1 March 2024, a third of your monthly retirement funding contributions will be added to the savings component.

Non-vested versus vested 'tug of war'

"There is no clarity in the legislation about how the 10% seeding capital should reduce the non-vested and vested balances; we assume that funds would opt to reduce each of these balances proportionally," Andrews said. The funding of this component features in the IRFA comment to the new laws, with the institute calling on National Treasury to make an 'opt in' requirement for retirement fund members who are over-55 on 1 March 2021. "Members over age-55 should have an opt in provision as opposed to an opt out provision because the change affects their vested rights; [under the previous laws] they were not expecting access to this money," she said.

Another challenge that the IRFA reckons should be addressed is that the current amendments treat all funds the same, whereas there is a need for beneficiary funds, or retirement funds where all members are pensioners, to be treated differently. "You cannot apply this to beneficiary funds because the benefit has already exited the fund of which a member was a member, and it is now in a fund for the benefit of beneficiaries or dependents; the same with

pensioners: if you have a fund with pensioners only, you need to exempt this kind of provision … pensioners are getting regular pensions and would not need access to a lump sum amount," Andrews said.

Take note of this taxation change

The latest iterations of the RLAB and RAPLA offer greater certainty around withdrawals from the savings pot. There is no limit to the maximum that retirement fund member can withdraw each year, subject to the balance on the account; but they cannot withdraw less than R2000,00. Financial advisers should note that withdrawals from the savings component will be taxed at the taxpayer's marginal rate as opposed to the retirement taxation tables applicable to retirement fund withdrawals. Another point worth noting is that although members can sweep their savings component balance into the retirement component, they cannot reverse that decision. The seeding of the savings component will only happen once.

Retirement fund administrators are quite anxious about how the new legislation will treat transfers between components. "Moving between the components is not a transfer but a reallocation of a member's benefit to a different component within the fund; the tax directive application should only be relevant when you transfer to another fund," said Andrews. Financial advisers and planners are going to have to study up on how future withdrawals from the retirement and savings funds of their clients will be treated; but this requirement pales in comparison to the challenges facing retirement fund administrators.

Complex and technical

"The system development that needs to happen to accommodate these changes is extensive because you need to accommodate three different components; keep track of the vested and non-vested parts pre-March 2024; and develop system rules around the entitlements, restrictions and tax applications," concluded Fowler. "These changes are complex and technical".

FA News | 3 October 2023

Balancing between immediate access and future savings critical to safeguarding pension fund members

New Two-Pot Retirement System is an excellent opportunity, but financial advisers are crucial to guiding customers to the best retirement outcomes, says Lizl Budhram, Head of Advice at Old Mutual Personal Finance

In a world where the sands of financial security are ever-shifting, South Africa is poised to take a monumental step towards safeguarding the golden years of its citizens. Picture this: a future where retirement planning is not just a passive activity but a dynamic strategy that can adapt to the ever-changing tides of personal needs and market fluctuations. As the clock ticks closer to the effective date, financial advisers find themselves on the cusp of a transformative era in retirement planning – the advent of the Two-Pot Retirement System. Steering through this new landscape will demand expertise and a nuanced understanding of each customer’s journey towards retirement.

Amid opportunities and potential pitfalls, advisers are the beacon of wisdom, equipped to guide customers towards making choices that foster long-term stability without sacrificing immediate needs. Evidence of prudent, insightful decision-making will be required when drawing up a retirement game plan that takes account of both the opportunities and drawbacks that await customers. This will involve cataloguing all the risks that could present themselves when customers sign off on their respective retirement plans.

Understanding the consequences

Before introducing the new scheme, the adviser must ensure that the rationale for the proposed Two-Pot Retirement System is clearly outlined to each customer. Customers must understand the consequences of making ill-informed and reckless choices. This, in particular, relates to premature access to the savings pot without fully understanding the negative trickle-down effect on the customer’s retirement bottom line. Customers need to understand that accessibility comes with inherent risks if they are tempted to access savings without understanding the impact it will have on their long-term goals. Advisers should note that emergencies may necessitate tapping into these savings, but doing so could seriously erode retirement benefits later on when preservation matters most. The essential advice is that accessing retirement savings prematurely jeopardises the entire retirement plan.

When circumstances warrant access to the savings pot, this decision must be carefully considered, alternative financial strategies explored, and the long-term implications understood. The consequence of withdrawing funds prematurely should be illustrated with examples to show the potential impact on the plan. The tax payable on withdrawals should also serve as a deterrent. The following example illustrates how accessing savings prematurely can have a significant financial impact on a retirement plan. Cindy is 29 years old and is a member of two retirement annuities, each with a value of R300 000 on 1 March 2024. She decided to withdraw R25 000 x 2 to fund a great travel deal to celebrate her 30th birthday. If we ignore future contributions, the difference this will make to Cindy's retirement fund at age 65 looks like this:

- R550 000 invested at 10% return over 35 years = R15 456 340.
- R600 000 invested at 10% return over 35 years = R16 861 462.
- This is a R1 405 122 difference in the retirement capital at age 65. In current value, that equates to R 131 607.
- Cindy is depleting her retirement savings to access the R50 000 now.
- After-tax (assuming a tax rate of 30%), this will only give her R35 000 in her pocket.

The benefit of preservation in the retirement pot will only manifest over the longer term. In this instance, it is recommended that the adviser suggest a segmentation customer communication strategy. The well-educated would need minimal intervention to be prepared for the advent of the Two-Pot Retirement System. In contrast, another customer might need the above example or a newsletter or web link to help create awareness and understanding of what is in store for them on their retirement horizon. Customers who don't have a substantial savings discipline and are struggling financially would need help to decide whether accessing any part of the savings pot was in their best interests immediately or in the long term.

The new system aims to help South Africans secure a more stable retirement. Customers should consider setting up dedicated emergency funds rather than using retirement annuities as contingency savings. Advisers must emphasise the importance of long-term planning over short-term indulgence. Access should be carefully considered in a detailed consultation between the customer and the adviser. All alternative financial strategies should be considered, along with a plan to replenish the withdrawn funds in the future.

Time frame presents challenges

Financial advisers will not always find it easy to explain the Two-Pot Retirement System to existing customers. On the face of it, the changes may appear simple, but they may have more complex consequences for specific customers, like provident fund members, some of whom will have a choice in whether to have Two-Pot Retirement System rules apply to their fund. Since the deadline for the new system is relatively close, there is a rush across the industry to be

ready in time. For example, exactly how SARS will implement and apply the tax on withdrawals is not yet known. It is also essential for advisers to stay up-to-date with information from retirement fund administrators and product providers. They will have had to develop cohesive responses for customers to make sound and informed decisions on critical questions concerning Accessibility and Preservation in Retirement Planning. The introduction of the Two-Pot Retirement System will provide advisers with the opportunity to offer customers a stable new plan for retirement. It will also provide an invaluable retirement dashboard for customers to stay on track if satisfied that their well-crafted and robust retirement plans will stand the test of time.

The need for wise counsel

Customers not disciplined at saving will need extra support to ensure they don't succumb to temptation with the new accessibility in the Two-Pot Retirement System world. For those battling financial pressure and not making ends meet, advisers should help them decide whether accessing any part of the savings pot would be in their best interests immediately or in the long term. For most customers, making provision for retirement is an easy choice because the aim is to accumulate sufficient savings for retirement. Any option which provides early access to these savings will put the retirement plan at risk. So, the advice to customers should be to try not to access these funds; the fact that they can access them does not mean they should.

Of course, this does not mean the savings pot should never be accessed. There are certain circumstances where access would be warranted – but only after a carefully considered, detailed consultation between the customer and adviser. It is also essential for advisers to stay up-to-date with the information provided by retirement fund product providers to understand how future withdrawals from savings pots will impact adviser remuneration and incentives. In this context, the role of the adviser has never been more pivotal. As the guardians of financial well-being, they are equipped to lead customers through the intricacies of the Two-Pot Retirement System, offering compassionate and informed guidance.

Through careful consultation and collaboration, advisers can help forge resilient, flexible plans tailored to each individual's unique financial landscape. With the proper guidance and a spirit of collaboration, there is every reason to believe that the road ahead is paved with opportunities for growth and prosperity. The Two-Pot Retirement System beckons a promising horizon, where the dreams of a secure and fulfilling retirement are not just a possibility but a tangible reality within reach for all South Africans.

FA News | 4 September 2023

Living annuity: Be aware of the taxes when you die

One must be mindful of the conditions that render them ‘non-taxable’

The general perception is that living annuities and products like retirement annuities, preservation funds, and corporate retirement funds do not form part of your estate and, therefore, do not attract executor fees or estate duty when you die. While this holds true, one must be mindful of the conditions that render them “non-taxable”. Get it wrong, and taxes in the form of withdrawal fees of up to 36% will be levied… Retirement funds, in general, and this includes corporate retirement funds and retirement annuities, are the most dynamic investments that an individual can make, contrary to much negative publicity about retirement annuities in particular.

If one considers the tax deductibility of the contributions, the tax-exempt status of the returns and no capital gains tax on portfolio switches, the benefits and potential growth far outweigh the negative aspects of Regulation 28 constraints that govern pre-retirement products/funds. Granted, income will be taxed the day you retire, but once again, the additional capital you accumulated due to the favourable tax treatment and the lower tax bracket that you should be in at retirement justifies optimising contributions to pre-retirement products.

Don’t spend years benefiting from all the tax advantages of contributing towards retirement funds just to give it all back because a few simple rules were not adhered to. Structured correctly, retirement annuities, as well as other retirement vehicles, offer one of the most dynamic estate planning tools. I want to distinguish between pre-retirement products like corporate retirement funds and retirement annuities compared to post-retirement products like living annuities. It is important to understand what laws and acts govern each product. Pre-retirement products (corporate retirement funds, preservation funds and retirement annuities) fall under the Pension Funds Act. Living annuities fall under the Income Tax Act.

Why is this important?

- Where pre-retirement products are applicable, you do not own your “retirement fund”; you are a member of the particular retirement fund together with a larger pool of many other members. This also applies to retirement annuities. The trustees of the fund will determine who will ultimately receive what proportion of the fund value, irrespective of who you nominate as your beneficiaries. They will use your beneficiary nominations as a guide, but there is no guarantee that your nominated beneficiaries will receive proceeds as you requested.

Since the trustees decide who inherits, no executor fees will apply to pre-retirement products and by nature, products that fall under the Pension Funds Act do not form part of your estate, so no estate duty will be applicable. However, taxes will apply on amounts that are commuted to cash based on the retirement tax tables as they apply to the deceased retirement fund member taking previous retirements and withdrawals into consideration. Retirement taxes are tiered with an upper limit of 36%. These taxes can be avoided if the receiving parties transfer the proceeds to a preservation fund or a retirement annuity or if they invest in a post-retirement product like a living or a life annuity, which they can do if they are over the age of 55. Those who take the cash will bear the brunt of the applicable retirement taxes.

- Since living annuities fall under the Income Tax Act, you, as the individual, are responsible for the nomination of your beneficiaries. There are no trustees who decide how your funds are invested (no Regulation 28 constraints) or how the proceeds get distributed. Both these obligations fall squarely in the lap of the annuitant. The insurance company that underwrites the living annuity will act 100% according to your nominated beneficiaries without question. Payout is swift and efficient as long as you have nominated beneficiaries. As a matter of interest, a trust can also be nominated as a beneficiary; however, care must be taken. Depending on who the ultimate beneficiaries of the trust are, trust taxes (income tax) of 45% may apply to the income received. Once again, if any amount is commuted to cash, the retirement tables will apply.

Living annuities have been granted the same status as pre-retirement retirement products as far as estate duty is concerned, with an exemption and an exclusion from the annuitant's estate.

- The problem arises when no beneficiary is nominated on the living annuity. In this case, the proceeds will be paid to the annuitant's estate after deducting the required retirement taxes, which once again can be as high as 36% depending on previous withdrawals and commutations. Now the executor will have to allocate the proceeds according to the annuitant's will, thereby attracting executor fees that can be as high as 3.5% + Vat.

A further complication where no beneficiaries were nominated is the time it will take before the proceeds are distributed to estate beneficiaries. Distributions can only take place after the executor is appointed by The Master and after the final distribution account is submitted. At best, this will be after six months, but it can take several years. If the living annuity was a major asset of the annuitant and there were financial dependants reliant on the proceeds, financial hardships would more than likely occur. Where beneficiaries nominate to invest their proceeds in a new living annuity or a compulsory life annuity, no retirement taxes will apply. Taking the above into consideration, it is important to sit your beneficiaries down and discuss the

implications of their decision on how they wish to receive the proceeds from your living annuity. Try and convince them to retain the proceeds in a living annuity in their own name since that will be the most tax-efficient option. It will also go a long way to boost their future retirement funding. If you have not commuted any proceeds to cash in the past, it makes sense for beneficiaries to draw the R550 000 tax-free portion in cash and invest the balance in a new living annuity or annuities where more than one beneficiary stands to inherit.

Remember, the taxes and withdrawals apply to the deceased annuitant, not the nominated beneficiaries. First and foremost, please nominate beneficiaries with urgency if you have not already done so. It is also a good idea to nominate secondary beneficiaries on a living annuity in case a nominated beneficiary is not alive at the time when the annuitant dies. If no secondary beneficiary is nominated and the nominated beneficiary has since passed away, the proceeds will be paid to the annuitant's estate and attract the applicable retirement withdrawal taxes.

Moneyweb | 4 October 2023

What's in a name? The important role of beneficiary nomination in your estate plan

Incorrect nomination can materially affect the nature of the policy, result in additional estate costs, and reduce the inheritance received by your loved ones. Beneficiary nomination is critical to the efficacy of your estate plan because incorrect beneficiary nomination can materially affect the nature of the policy, result in additional estate costs, and reduce the inheritance ultimately received by your loved ones.

In this article, we explore the intricacies of beneficiary nomination in respect of the different types of policies.

(i) Retirement funds

All retirement funds (pension, provident preservation, and retirement annuity funds) are governed by the Pension Funds Act. When it comes to beneficiary nomination, keep in mind that Section 37C is the overriding piece of legislation that governs this process, to the exclusion of all other laws. Designed to ensure that no financial dependant of the deceased member is left destitute, Section 37C places a responsibility on the fund trustees to identify and trace those who were financially dependent on the member at the time of death and to distribute the death benefits accordingly.

This means that while the member can nominate individuals to receive some of the death benefits, the trustees will give priority to the financial dependants of the member, which could

include a spouse, children, siblings, aged parents, grandchildren, or grandparents – meaning that there is no guaranteed that the nominees will receive a portion. Keeping in mind that the fund trustees have a fiduciary duty when conducting the affairs of the retirement fund, this process is strictly adhered to, although it can be time-consuming and labour-intensive. In order to allow time for untraced dependants to come forward, the trustees have up to 12 months to conduct their investigation and make the distribution, so it's important to bear this timeframe in mind when putting your estate plan together.

(ii) Insurance policies

(a) Domestic life policies

Life policies make excellent estate planning tools, especially when it comes to providing liquidity in your estate and making financial provision for your loved ones – although their effectiveness is dependent on correct beneficiary nomination. As an example, if the purpose of the life policy is to provide liquidity in your estate, it would be appropriate to nominate your estate as the beneficiary of the policy, which will ensure that, in the event of your passing, the proceeds of the policy will be paid directly into your deceased estate. Having said that, keep in mind that the proceeds of a life policy are considered deemed property in your estate and will be included for estate duty calculation purposes. Thus, when calculating the quantum of life cover needed to provide for liquidity, don't lose sight of the potential estate duty payable on the proceeds.

In terms of section 4(q) of the Estate Duty Act, the value of all property that accrues to the surviving spouse, including the proceeds of a domestic life policy where the spouse is the named beneficiary, is deductible from the gross estate of the deceased and is therefore not estate dutiable. Further, where a domestic life policy is registered under an ante-nuptial or post-nuptial contract where the spouse and/or child are the nominated beneficiaries, the proceeds of such a policy do not form part of the deceased's dutiable estate. As minor children are limited in how they can receive their inheritances, be intentional about structuring the beneficiary nomination on life policies intended to benefit minor children. An effective estate planning technique involves setting up a testamentary trust in terms of your will with your minor children named as beneficiaries of the trust. Nominating the trust as beneficiary on your life policy will ensure that the proceeds of your policy will be paid to the trust in the event of your passing, where they will be managed on behalf of your minor children until they are old enough to manage their own affairs.

(b) Business assurance policies

If you own shares in a business or are the owner of key person cover, note that the proceeds of business assurance policies are exempt from estate duty provided that the policy is correctly structured. To qualify for an estate duty exemption on a buy and sell policy, the policy must be

taken out by a person who is a co-owner of a business with the deceased. In addition, the policy must be taken out with the specific purpose of purchasing a deceased shareholder's share of the business, and premiums must not have been paid by the deceased. In the case of key person assurance, the company that owns the policy must not be a family company in relation to the person whose life is insured. Further, the company in question must pay the premiums and must be the nominated beneficiary on the policy. The structuring of business assurance policies can be complex, and we always suggest seeking expert advice.

(iii) Endowments

Although fairly complex in nature, endowments are useful estate planning tools for those with a marginal income tax rate of 30% or more. Endowments allow for multiple persons to be insured on the same policy, which means that an endowment can remain active after your death until the passing of the last life assured. This means that any nominated beneficiaries on the endowment will only receive their benefit on the death of the last life assured, at which point the proceeds will be paid directly to the beneficiaries as per the apportionment on the policy. While nominating beneficiaries to an endowment can help avoid executor's fees, note that the value of the policy will be considered deemed property in your estate for the purposes of calculating estate duty.

(iv) Living annuities

Living annuities are highly effective estate planning tools although, once again, the efficacy will depend on getting the beneficiary nominations correct depending on what you hope to achieve in your overall estate plan. Where you have nominated beneficiaries to your living annuity, the funds – to the extent that the initial retirement fund contributions qualified as a tax deduction – do not fall within your deceased estate and will not be subject to estate administration. In the event of your death, your living annuity service provider will pay the proceeds to your nominated beneficiaries in accordance with how they elect to receive the funds. Where you have not named beneficiaries on your living annuity, the proceeds will form part of your deceased estate, where they can be used to create liquidity in your estate. That said, bear in mind that the proceeds will be taken into account for estate duty calculations and when determining executor's fees, so be sure to factor this in when developing your estate plan.

(v) Tax-free investments

Your ability to nominate a beneficiary on a tax-free investment depends on the nature of the investment. Where the tax-free investment is operated under a life licence, you are able to nominate beneficiaries on the investment, which means that, in the event of your death, the proceeds will be payable to your beneficiaries immediately. On the other hand, if your tax-free investment is housed on a LISP platform, there is no mechanism to nominate beneficiaries, and the funds held in this investment should be dealt with in terms of your will.

(vi) Unit trusts

Similarly, as unit trusts are housed on a LISP platform, these assets should be dealt with in terms of your will. The proceeds will therefore form part of your deceased estate and will be subject to potential estate duty and executor's fees.

Moneyweb | 3 October 2023

Minimising the "luck" factor in the passive phase of retirement

We sometimes hear people say their retirement savings will last for as long as they live – if they're lucky. While it's true you can't predict how long you'll live, and you can't predict how investment markets will perform, there are ways to minimise the role of luck in your retirement planning. One of the reasons luck plays a role in whether your retirement savings will go the distance is the fact that investment markets are essentially random. In other words, they often go up and down for some reason and there's not much anyone can do to predict or control this. Fortunately, short-term market movements play a relatively small role in how long your retirement investments will last.

On the other hand, long-term market trends can either set you up for a happy retirement with enough money to last a lifetime, or a potentially unhappy retirement where you run out of money prematurely. This is because the returns your portfolio delivers early in retirement have a disproportionate impact on the overall outcome. If you're lucky, you retire at the beginning of a long-term bull run, where markets go up in value overall. But if you aren't and you retire in a bear market where markets go down, you're more likely to run out of money. However, if you weren't lucky enough to retire into a bull market, you can still minimise the role of luck in your retirement finances.

Even if you have saved a substantial sum of money that should be more than sufficient to fund a comfortable retirement, if you invested your retirement savings in a living annuity, and your withdrawal rate rises above a sustainable level, then luck plays an increasingly important role. Minimising the role of luck, then, is strongly related to keeping a tight rein on your withdrawals. What is the right level of withdrawal? If you're a 65-year-old male when you retire, the most you should draw from your capital is 5,5% a year. So, for example, if you've saved R1 million, the most you should take as an income is R55 000 a year, or R4 583 a month. The figure for a 65-year-old female is 5%, or R50 000 a year, as women tend to live longer. This is based on the

average lifespan of a male who retires at 65, which is 82 years. For females retiring at 65 the average lifespan is 87.
Cutting your spending is a good way to help your retirement savings last. In the fourth, or passive, phase of retirement you will probably start to slow down a little, take fewer trips and maybe even downsize your primary residence. It makes sense that if you're doing less, you're also spending less. However, this is also the phase where health concerns such as an illness or the need to take expensive medications may arise. This should be taken into account as some expenses during the passive phase may be higher than you've planned for. A rule of thumb is to budget for medical costs to increase by 2–3% a year more than general inflation. So, if inflation is running at 7% per year, make sure you budget for your medical expenses to increase by 9–10% a year.

Also, what happens if you live beyond the averages? If you are budgeting to meet your living and medical expenses from your own savings in a living annuity, you need to allow for the fact that you may live to age 95 as a male or 100 as a female. This is used as a rule as there is a 10% chance of that happening – planning for anything shorter is thus risky. A further way to help minimise the role of luck in this phase of retirement is to take another look at how you've invested your capital. If you invested all your savings solely in a living annuity, perhaps it's time to consider switching some of it into a life or guaranteed annuity. Remember, investing only in a living annuity for the duration of your retirement is only appropriate if you've saved enough capital to give you a sustainable income for life.

If you haven't saved enough, don't rely on luck to grow your capital once you retire. Luck isn't a strategy. With a life or guaranteed annuity, on the other hand, the monthly income cannot go down and it is guaranteed for as long as you live, which eliminates the luck factor. In summary, here are a few ways to minimise the role of luck and ensure your retirement savings go the distance: Realise that even if you're less active, your monthly expenses won't necessarily go down because your medical expenses are likely to increase. Consider securing some of your income by investing in a life or guaranteed annuity. Ask your financial adviser to look at your options. Make sure to regularly review your retirement planning and investment strategy. Now is a good time to re-evaluate where you are and for how long your savings will need to last.

Personal Finance | 29 September 2023

INTERNATIONAL NEWS

UK savers continue to raid pensions as inflation takes its toll

£4bn withdrawn between April and June this year

Cash withdrawals from pension pots jumped by nearly one-fifth, according to official UK data which raised concerns about retirement savings being squeezed during the cost of living crisis. Between April and June this year, £4bn of taxable pension payments were withdrawn from retirement pots by 567,000 individuals, according to the latest data from HM Revenue & Customs. This compared with £3.4bn of withdrawals in the previous quarter made by 519,000 individuals. The average withdrawal in April to June was £7,100, nearly a fifth (17 per cent) higher than withdrawals in the same quarter in 2022. “It’s extremely worrying that so many more people are withdrawing funds from their pensions and at higher rates,” said Alice Guy, head of pensions and savings at investment platform Interactive Investor.

“Pension savings take years of dedication and hard work to build and it’s a huge concern that so many are having to dip into these savings, at potentially unsustainable rates.” Advisers said householders were likely to be leaning more heavily on their retirement savings to help tide them over during a period of high inflation. “This may be down to increased energy bills and food prices soaring, with pensioners feeling that they need more each month just to get by,” said Jon Greer, head of retirement policy at Quilter, a firm of advisers. “While the state pension will rise with wage growth going forward and help offset some of the costs, it will be far from enough for people to rely on.” The data this week also revealed a surge in the number of savers breaching the annual savings allowance, exposing them to pension tax charges.

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