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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

People save little, but have high expectations of retirement income

A recent survey by Just Retirement Life found that more than 60% of the respondents have less than R1 million in retirement savings, but quite high expectations about the income they will be able to draw from it in retirement. The industry 'rule of thumb' holds that for a sustainable retirement – one in which your money will not run out on you – a person can expect R4 000 per month for every R1 million of retirement savings.

In terms of the survey, however, the expected income is R8 000 per month.

Just CEO Deane Moore said at a 50Plus-Skills conference in Johannesburg that the rule-of-thumb drawdown rate for people between 60 and 64 is around 5%, however the expectation for people earning less than R1 million is a drawdown rate of 16.5%. People with the same retirement savings, but who are aged between 65 and 70, have even higher expectations. They expect income from a drawdown rate of 20.5%, when the recommended rate is around Moore says South Africa has experienced a bull market for many years where investment returns were north of 15%. After the global financial crisis everything bounced back quickly, but in the past five years investment returns in the market have flattened.

"Typically, people would expect returns of 4% above inflation [which is currently around 4%] in their investment portfolios. If we look at what they actually got for the past five years it is below that."

5.5% (for a male aged 65) and 5% (for a female aged 65).

This means people who have been saving for retirement should now be expecting around 15% less than what they were expecting it to be five years ago. "They are hitting retirement with less money." In the survey respondents were asked what percentage they could afford to lose before it seriously impacts their retirement plans, and 40% said they could not tolerate any fall in the market. Despite this, Moore says many people are invested in retirement products where they are exposed to the volatility of the markets.

"While most people prefer a stable income in retirement and cannot tolerate the risk of a decline in investment markets, the majority of pensioners are exposed to these risks in a living annuity, drawing an unsustainable level of income." A key takeaway, he adds, is to make every rand count when people reach retirement.

Retirees should consider three ‘buckets’:

- One is to ensure that their essential expenses are covered (accommodation, food, transport, insurance and medical costs).
- Then, to allow for more flexibility during the transitional stage when they move into retirement, some money for travel and leisure.
- The final bucket relates to leaving a legacy, bearing in mind that having an income that lasts and leaving a legacy for children are often opposing ideas.

People often neglect to consider longevity or their mental health in terms of dementia and Alzheimer’s disease – this applied to more than 40% of respondents. Almost 70% thought their health was “above average”. “Our key concern arising from this latest study is the high proportion of people approaching retirement who have not saved enough, yet expect an unrealistically high level of income from their existing retirement pot.”

Moore adds that few people realise that they can sustain a 2.5% per annum higher level of income in retirement, and guarantee this for life, by using a life annuity or a lifetime income option within a living annuity. “It highlights the important role of careful planning to help make informed decisions around the effective use of limited resources.”

Moneyweb | 8 November 2019 | Amanda Visser

Industry body brings more clarity to hedge funds

The development will hopefully allow investors to better understand what is a rather opaque area of the investment landscape, says Morningstar’s Michael Kruger. Image: Shutterstock
For more than four years hedge funds in South Africa have been recognised as collective investment schemes, the same as unit trusts and exchange-traded funds (ETFs). Yet they hardly enjoy the same prominence.

To some extent this is because they are more complicated products, and not so easily understood. Investors see them as niche or risky, even when that isn’t the case. Perhaps more pertinently, though, is that investors have never had any easy way to contrast and compare the various hedge funds in the market. There are around 300 hedge funds in South Africa, and the variety of strategies they can follow makes it very difficult for investors to know how they should be choosing between them.

Making things simpler
Last month the Association for Savings and Investment South Africa (Asisa) announced that it had finally formalised category definitions for local hedge funds that will begin to make this easier. As Hayden Reinders, head of alternative fund administration at Prescient Fund Services and chair of the Asisa

standing committee on hedge funds notes, this should make these products more approachable. “It should enable us to make more information available and explain this asset class better,” he says.

“There are different types of hedge funds, different risk profiles, and you are now able to compare these different funds within their categories.” Investors will therefore be able to more directly compare funds that use similar approaches.

“Data from hedge funds in South Africa has historically not been widely available, making it difficult for retail investors to evaluate and compare like-for-like offerings,” explains Michael Kruger, investment analyst at Morningstar Investment Management.

“We welcome the increased transparency introduced by Asisa in grouping hedge funds with similar strategies or investment objectives together. Hopefully this will allow investors to better understand what is a rather opaque area of the investment landscape in order for them make an informed decision on whether to use these products.” ***Full Report:*** ***https://www.moneyweb.co.za/investing/industry-body-brings-more-clarity-to-hedge-funds/***

Moneyweb | 8 November 2019 | Patrick Cairns

Caring may be the catalyst for saving

Last week, I looked at South Africa’s poor saving rate, as measured by the Investec GIBS Savings Index, and at a few “miracle” countries where a saving culture was a vital factor in their economic growth. Admittedly, there was a fair degree of forced saving through government interventions and, in one case, restrictions on consumer loans and on the consumption of luxury goods.

In South Africa, companies are not compelled to offer pension benefits to their employees, but most of them do. The snag is that employees are not forced to preserve their savings on leaving a company. While the government has not taken the drastic step of forced preservation, it is intent on preventing you, as far as possible, from cashing in before retirement. The tax you pay if you cash in is prohibitively high (to offset the generous tax incentives for contributing to a pension fund), and the new “default” regulations have introduced further measures, such as retirement benefits counselling, to encourage you to preserve.

In June, Personal Finance reported on Sanlam’s annual Benchmark Survey of retirement funds, which showed there were promising signs from pension funds that retirement benefits counselling was proving effective in boosting preservation rates.

Behavioural change

Financial education is an important tool in promoting a saving culture. The report accompanying the Investec GIBS Savings Index, “The path to prosperity for South Africa”, quotes research that shows a correlation between a country’s financial literacy levels and its household saving rate.

But education does not automatically lead to behavioural change. A major change of behaviour takes effort, and people are unlikely to put in the required amount of effort on knowledge alone. Smokers are continually reminded that smoking is harmful, but they light up regardless. There is a strong emotional component to behavioural change, which the Sanlam Benchmark Survey research touched on and which is worth exploring in further research.

Viresh Maharaj, actuary at Sanlam Corporate, says the survey revealed that most people start becoming concerned about retirement only in their 40s and 50s. This may simply be because retirement is looming closer on the horizon. But there is another intriguing possibility. Maharaj says. This is about the time people may see their parents in retirement begin to struggle financially, and it’s only then that the reality of not having enough to retire on hits home.

“It often takes something tangible to cut through apathy. Getting people to care about something intangible, such as retirement, goes beyond financial education. We know what’s good and bad for us, but our behaviour doesn’t change until a catalyst is applied. “The only way we start to engage as consumers is if we start to care. That’s the trigger to change behaviour,” he says.

In this instance, observing one’s parents in retirement may be the catalyst that impels individuals to take stock of their own retirement situation. We need to be jolted into caring enough - about our own future needs and those of our loved ones - to justify the extra effort.
Maharaj uses the analogy of the Cape Town water crisis. Although the worst of the crisis is hopefully over, Capetonians have adopted an enduring water-saving mindset. It has hit home that water is a scarce commodity not to be wasted. Capetonians care because, for them, an abstract idea has become real.

The problem with retirement planning is that by your mid-40s it is too late to make a meaningful difference to what you have saved, or to start saving. You ideally need to have adopted a saving mentality by the time you first start earning, in your 20s.

What, at this younger age, could be the catalyst for caring, for making the intangible tangible? “It could start with a conversation,” Maharaj says. “Young people need to sit down with their parents, grandparents or other ‘elders’ in their lives, and ask them if they feel ready to retire, or, what they’d do differently if they’ve already retired. Or if you have children or grandchildren in their 20s, do the same and help them to understand what you have learnt.

"Then you need to take the lessons learnt and implement changes in your own retirement savings journey. As a young person, you have time on your side. The trick is to care, to get educated and to then take action."

Personal Finance | 8 November 2019 | Martin Hesse

Applying big data in retirement funding

What if someone told you that compared to 'the Joneses', you're saving about 20% less for retirement each month. Chances are, that information would be impactful. You'd probably feel the necessity to relook your money management to try and put in a little bit more each month. That's the potential power of big data in the retirement funding space to catalyse meaningful interventions at the right time using impactful insights.

These kinds of data driven interventions are essential as the Sanlam Benchmark Research shows just most employed South Africans will not be able to maintain their standard of living into retirement.

Johan Prinsloo, CEO of Retirement Fund Administration at Sanlam, says it's a moot point that members don't save enough. "We also know that HR practitioners and retirement fund administrators accumulate vast amounts of data. We need to start responsibly using this to see who is at risk and how we can intelligently intervene. Like for like comparisons between people in similar profile groups could be a mechanism to influence individuals to review their choices. Having a peer-based benchmark allows individuals to assess whether they are themselves at risk and to implement appropriate course correction."

Prinsloo says that Sanlam Corporate is pioneering a first-of-its-kind big data project focused on how to address 'retirement resilience' by improving Net Replacement Ratio outcomes. "Customer expectations have shifted. Our clients expect us to offer them a bionic user experience that integrates the best of machine learning with considered human interaction to optimise member outcomes. That's exactly what we're aiming to do by presenting insights in formats employers and trustees can easily understand and implement."

Motivating through competitive data is one such potential action. J.V. Wood – referenced in this research paper – says that people "tend to adopt the performance standards of others who are similar regarding surrounding dimensions". This means we can be inspired by comparing ourselves to others, but only if we believe we can attain similar success. That's the crucial bit. Big data can help us identify those who may benefit from a well-timed intervention. But the right guidance must accompany this so people feel like they can get back on track.

Prinsloo says, "If you're told you're one of the 1% of employees in your company saving successfully, that may motivate you to do even more. If you are suddenly aware you're in the bottom percentage of savers, that's probably also going to change your behaviour. There's a powerful message in comparing the individual to the collective. But, as an industry, we need to ensure this is done responsibly, in a way that doesn't further demotivate people and bring about more apathy."

He adds that big data will allow for increasingly detailed information on all factors influencing retirement resilience, including the impact of stress, indebtedness, divorce and so forth. He says that, crucially, fund administrators need to be training in-house teams of data scientists and analysts to be able to extrapolate data. Additionally, cybersecurity must be top of mind to ensure data is protected.

"Ideally, in the future, members will trust us and give us permission to collaborate across industries to responsibly share data in order to build more complete pictures. To give members the best possible guidance, we need a holistic understanding of their financial lives."

Prinsloo says interventions are required throughout an individual's life. "We need to make sure people know they have access to Retirement Benefits Counselling and other benefits. Big data will assist us to enable employers not to have a 'shotgun' approach with information, but to be more targeted with communications. "For instance, one insight that emerged from Sanlam's project was that members receive salary increases below inflation resulting in them not increasing contribution rates adequately, which means they contribute less to their retirement funds in real terms." He concludes, "To start integrating big data, fund administrators or trustees need to understand the reality of the 4th Industrial Revolution on this data. It's a journey with many factors to consider but you have to start somewhere."

Personal Finance | 8 November 2019

Pension fund vs provident fund vs retirement annuities in South Africa

The National Treasury calculates that only around 6% of South Africans are on track to retire comfortably, which means it is crucial to start saving towards one's retirement as early as possible, says CEO of Fedgroup Walter van der Merwe. He said that the hard truth is that most people have to retire, whether they have a choice in the matter or not.

"Even if you still have a bond or car to pay off, and a family to support, once you hit the retirement age, most companies will send you packing," he said. To maintain your standard of living, a proper retirement plan will help ensure sufficient income once permanent employment is no longer an option, said van der Merwe. He said that the general rule is that you should consistently save between 15% and 20% of your monthly salary between the ages of 20 and 60, to retire comfortably. An increasing number of funds in South Africa offer their employees variable contribution rates, from 5% to 20% of their annual salary, he said. "A carefully considered retirement plan needs to take into account all your expenses – big and small, as well as planned and unplanned, to ensure that you put away sufficient savings every month." Van der

Merwe said that one of the most commonly asked retirement questions is, what is the difference between a pension fund, a provident fund and a retirement annuity fund?

In the past, the differences between these three savings vehicles were substantial, but recent legislation have made them very similar, he said.

Pension fund

A pension fund can only be joined through a company that employs you, and your money is managed by the trustees of the fund. "Your contributions as well as your employer's contributions, are tax-deductible up to a point. Upon retirement, you can take up to a third of your savings in a cash lump sum, which is taxable. The rest must be used to purchase an income/annuity, which is also taxable.

"If you leave the company before retirement, you can move your retirement savings out of the company fund, either to your new employer's fund, a preservation fund or a retirement annuity fund, or take a cash payout, which is taxed," the financial expert said.

Provident fund

A provident fund was once different to a pension fund in that you were able to withdraw the entire savings amount as a lump sum when you retire, said van der Merwe. "Legislation passed in 2018 means that provident funds are now essentially identical to pension funds, which means that you are only able to withdraw a third of your savings, while the rest has to be invested in an income/annuity that pays you a monthly income.

"However, this legislation has not been applied retroactively, which means that you can withdraw the full contribution made before 1 March 2018, when the legislation came into effect, but only a third of your contributions made after this date."

Retirement annuity

A retirement annuity fund, to which you also make monthly contributions, is completely independent of your employer, allowing you to choose what funds you invest this money in (limited by retirement fund regulations), said van der Merwe.

"Upon retirement, you are allowed to take a maximum of a third of your savings as a cash lump sum and the balance must be used to purchase an income/annuity. "If you change jobs before retirement, this will not impact your retirement annuity, as you are not permitted to access any portion of these funds before retirement," he said.

Personal Finance | 10 November 2019

INTERNATIONAL NEWS

U.S. lawmakers seek to ban federal pension fund from investing in China

A group of U.S. lawmakers introduced legislation on Wednesday that would block a federal retirement fund from investing in Chinese stocks. The group, led by Republican Senator Marco Rubio, say the bill is aimed at reversing a decision to allow federal employees and military service members to invest their retirement savings in a fund that includes China-listed stocks.

Amid heightened U.S.-China trade tensions and efforts to limit the flow of U.S. capital to Chinese companies because of security concerns, Rubio and other senators described that move as “short-sighted,” saying it amounts to “effectively funding the Chinese government and Communist Party’s efforts to undermine U.S. economic and national security.”

In November 2017, the Federal Retirement Thrift Investment Board, an independent government agency that oversees the federal retirement plan, decided to shift the index it uses for its international stock investment fund to the broader MSCI All Country World ex-U.S. Investable Market Index, which represents 99% of the international equity market and is 7.5% weighted to Chinese companies. The plan currently relies on another MSCI index that represents just 58% of the international market, and excludes China. The index shift is expected to take effect in the summer of 2020.

The bill attempting to block that move was offered up by a group of Republican and Democratic lawmakers, including Democratic senators Kirsten Gillibrand and Jeanne Shaheen, and Republican senators Rubio and Mitt Romney, who was the Republican Party’s nominee for president in 2012.

Representative Mark Meadows, a staunch conservative and ally of President Donald Trump, is offering the same bill in the U.S. House The FRTIB administers the Thrift Savings Plan (TSP), a retirement savings plan similar to a 401(k), for federal employees and members of the military. As of July 2019, the TSP had $599.5 billion in assets, which are owned by the plan’s participants, who choose which of the TSP’s funds they want to invest in.

The FRTIB is set to discuss its decision at its Nov. 13 meeting and plans to review the legislation, a spokeswoman said.

Reuters | 6 November 2019

OUT OF INTEREST NEWS

Mauritius' star on the rise for SA investors, families

President says the SA Investment Conference is no talk shop, as the half-way mark of his investment target of R1.2trn is surpassed.

President Cyril Ramaphosa announced that government has secured international and local investment commitments to the tune of R363 billion in his closing address at the second SA Investment Conference in Sandton on Wednesday night.

Following pledges by business to invest around R300 billion in the country at last year's inaugural investment conference, this effectively brings total commitments thus far to the president's high-profile SA investment drive to R663 billion. Ramaphosa first announced his ambitious target to attract $100 billion in new investment into SA over a five-year period (to 2023) back in February last year, when the rand was trading at around R12 to the US dollar. This investment target, aimed at boosting SA's flagging economy, translated into R1.2 trillion at the time.

The initial R1.2 trillion target still seems to be the investment figure government has in its sights, even though $100 billion now equates to around R1.5 trillion based on the weaker rand/US dollar exchange rate.

The targeted total investment of R1.2 trillion by 2023 was mentioned several times at the second annual SA Investment Conference this week. This means that Ramaphosa is past the half-way mark in terms of secured investment commitments, however, it remains to be seen how much of this will translate into actual investments that boost economic growth and jobs.

Just last week during his Medium-Term Budget Policy Statement (MTBPS) in parliament, Finance Minister Tito Mboweni reduced the anticipated 2019 growth outlook for the SA economy to a mere 0.5%. This is down from the 1.5% expected GDP growth forecast in March.

"The total value of investment commitments made today at our second SA Investment Conference is R363 billion. I repeat: R363 billion," Ramaphosa declared at the Sandton Convention Centre last night.

"We have received indications of a further R8 billion in planned investments that are subject to either regulatory or company board approvals and therefore we have not named the companies here today. This commitment of investments amounting to R371 billion if you add the R8 billion that is still subject to regulatory and board approval processes is 17% higher than the commitments that were made last year [R300 billion]," he added.

Ramaphosa said this was “a clear vote of confidence” in the South African economy. “More importantly it is a sign of confidence in the future of our country and the belief that the South African economy is poised for growth going into the future.”

Major investments announced include R14 billion by paper and pulp giant Sappi; R50 billion by telecoms heavyweight MTN; R6.5 billion by Rio Tinto in Richards Bay Minerals; R14.7 billion by Coca-Cola; a R6 billion Automotive Industry Transformation Fund under the umbrella of the National Association of Automobile Manufacturers of South Africa; R2.4 billion by Toyota SA in its Durban plant; R20 billion by mining group Exxaro; and R1.48 billion by brewing giant Heineken, among others.

Moneyweb is aware of some of the other investments on the cards, however, the groups did not want to speak about the planned investments until all approvals are in place. This includes the development of SA’s first Club Med beach resort on the KZN North Coast, reportedly valued at R1 billion.

Ramaphosa projected that the new investments announced at this year’s conference will “conservatively lead to the creation of around 412 000 direct jobs over the next five years”. He noted that “this does not include the hundreds of thousands of indirect jobs” that will be created through allied linkages to these investments.

Speaking ahead of the conference at the launch of the Tshwane Automotive Special Economic Zone (SEZ) in Pretoria on Tuesday, Ramaphosa said more than 16 000 direct jobs have been created since the government last year announced its intention to mobilise more than R1.2 trillion in new investments over the next five years. Meanwhile, speaking earlier to the more than 1 500 local and international business and government leaders at the opening of the conference, the president was firm in his comments that “this is not a talk shop, it’s serious business”.

Reporting back on last year’s secured investment pledges of R300 billion, Ramaphosa said between the 31 projects announced, eight have been completed and 17 are in the “construction or implementation” phase. He noted that this means that 80% of the projects announced last year have either been completed or are being implemented.

“In total this represents R238 billion of [the] investments announced last year. It is pleasing to see that investors continue to consider South Africa as a country with much to offer and [as a] viable and profitable investment destination,” he added.

Moneyweb | 7 November 2019