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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Regulation 28 of the Pension Funds Act: Your questions answered
- Words on Wealth: Retiring comfortably: a luxury for the few?
- Navigating the effects of high interest rates on your retirement funds
- SA pension system in the doldrums
- Will industry players be ready to implement the new laws?
- Two-pot retirement regulations have sweet and sour ingredients
- Achieve your dream retirement with 'The Ultimate Guide to Retirement in South Africa'
- Where to save your savings – A practical look at the products available

INTERNATIONAL NEWS

- Analysis: Dutch pension fund reform spells investment rethink

OUT OF INTEREST NEWS

- June economic update
- Publication of the FSCA's Regulation Plan (2023 – 2026)

LOCAL NEWS

Regulation 28 of the Pension Funds Act: Your questions answered

Legislation needs to be fully understood in the broad context of one's overall investment portfolio without succumbing to fear mongering, greed, or emotional biases. Controversial as this piece of legislation may be, Regulation 28 needs to be fully understood in the broad context of one's overall investment portfolio without succumbing to fear mongering, greed, or emotional biases. In this article, we answer the most frequently asked questions in relation to Regulation 28.

What is Regulation 28?

Part of the Pension Funds Act, Regulation 28 is designed to protect investors against poorly diversified investment portfolios by ensuring that pre-retirees invest their hard-earned money in a sensible way without too much exposure to risky assets. While proponents of Regulation 28 believe that this piece of legislation is effective in protecting pension fund money from high-risk investments, some critics believe that it is unfair to expect long-term investors to dilute their potential returns. That said, the recent changes to Regulation 28 have seen the relaxation of certain limits and have created greater flexibility for retirement fund investors.

What is an approved retirement fund?

Regulation 28 applies to approved retirement funds, including pension, provident, preservation, and retirement annuity funds, and essentially limits asset managers' allocations of retirement savings to certain asset classes, including equities, property, and foreign assets. For the sake of clarity, note that an approved retirement fund refers to a fund that Sars has approved in terms of the Income Tax Act in respect of which a member meets the eligibility requirements for admission to the fund.

What are the current limits?

A notable amendment to Regulation 28 has raised the aggregate exposure to foreign assets in an approved fund to 45%, which refers to the aggregate of all applicable investments outside of South Africa. With retirement fund investors now able to invest up to 45% of their portfolio in offshore assets, asset managers are able to create more diversity in their portfolios by seeking investment opportunities in companies, industries, and sectors not available in South Africa. Other limits include 75% in equities, both local and foreign, 25% in property, 15% exposure in private equity, 10% in commodities, 10% in hedge funds, and other excluded assets of 2.5%. Further, retirement funds may not invest more than 25% across all asset classes in one

particular entity or company. Despite these limits, however, retirement annuities continue to provide tax-efficient investment opportunities for investors. This is because individuals are permitted to save up to 27.5% of the greater of their taxable income or remuneration each year, with an annual maximum of R350 000, which has the effect of significantly reducing their tax liability. In addition, retirement annuities are exempt from tax on dividends and interest, and no capital gains tax is paid on investment growth. At the end of the tax year, investors can include their RA contributions on their tax return forms and claim a deduction from Sars.

What about cryptocurrencies?

The amendments to Regulation 28 clearly prohibit investment in crypto currencies as a result of the volatile nature of these investments as well as the lack of industry regulation. Remember, retirement fund trustees have a fiduciary duty towards the fund and its members, and exposing retirement fund assets to crypto currencies is not deemed to be in the best interests of the fund members.

What are the disadvantages of Regulation 28?

Although the offshore limit has been increased to 45%, the reality is that 55% of your retirement fund capital must be invested in South African assets, which, given the rate at which the number of listed companies on the JSE has shrunk over the past few years, means that investors have limited choice when it comes to investing in local companies. Having said that, one should not lose sight of the fact that JSE-listed companies generate over 50% of their earnings from overseas, which means that retirement fund investors are getting exposure to foreign economics through their local investments.

Given that South African shares can be particularly volatile in the short term due to currency fluctuations, as well as the ongoing political and economic issues within the country, the 55% local asset allocation can make some investors uneasy. It also means that investors can allocate only 45% of their portfolio toward global industries, many of which include technologies and innovations that do not have local equivalents.

What is meant by the grandfather clause?

Prior to April 2011, assets were managed in accordance with Regulation 28 at fund level, which meant that individual retirement fund members were not required to comply with Regulation 28 provided that the collective fund was in compliance. Since April 2011, all new retirement investments are required to adhere to the provisions of Regulation 28 at individual level, while all individual members who invested prior to this date are exempt, provided that no transactional changes are made to the portfolio. These pre-April 2011 investments retain what is referred to as ‘grandfathered’ status and do not need to be Regulation 28 compliant. However, should the member make any changes to their debit order, make ad hoc

contributions or perform any switches in the portfolio, the 'grandfathered' status will fall away, and the individual will need to make their investment Regulation 28 compliant.

So, should I keep my money housed in my retirement fund?

Many critics of Regulation 28 encourage investors to cash in their pensions as soon as possible or resign from their retirement funds as early as possible so as to move their money into more diversified portfolios with greater offshore exposure. However, there are significant tax implications when retiring and/or withdrawing money from a retirement fund, and doing so should not be a knee-jerk reaction to the restrictions of Regulation 28, keeping in mind that there are several other factors, such as investment fees and investor behaviour that can negatively impact on your investment. Remember, higher fees do not necessarily provide higher returns, and it makes no sense to compromise your returns by paying too much for investment management, administration, and/or advice.

When it comes to investment behaviour, investing in a retirement annuity is a great way to enforce disciplined savings, as you are not permitted to access your capital before your reach age 55. Once committed to an investment strategy in a compulsory fund, investors are more likely to stick to the strategy over the longer term, which bodes well for investment returns. On the other hand, the flexibility provided by discretionary investment vehicles makes it easier for investors to attempt to time markets which, in turn, can be to the overall detriment of the investment. While discretionary investments provide for better diversification and can create liquidity in your retirement years, such benefits need to be weighed against the tax implications of investing in a discretionary vehicle versus a compulsory retirement fund.

The fact remains that South African investors have a wide range of discretionary and compulsory funds to choose from when building their portfolios, and incorporating global diversification into one's portfolios has never been easier. Finding the balance between minimising tax, optimising investment returns, ensuring future liquidity, and managing risk can be difficult to achieve, so before making any knee-jerk decisions regarding your retirement fund investments, we recommend seeking professional, independent advice.

Moneyweb | 6 July 2023

Words on Wealth: Retiring comfortably: a luxury for the few?

A new retirement survey, the inaugural FNB Retirement Insights Survey, released last week, underlines once again the fact that the vast majority of South Africans will not be able to afford to retire comfortably when they reach retirement age.

These surveys in the past have come from retirement fund administrators or asset managers, such as AlexForbes, Old Mutual, Sanlam and 10X.This survey, to the best of my knowledge, is the first one from a bank. That's notable, because banks are on the front line when it comes to the finances of everyday consumers and can actively engage with them through cellphone banking apps, which are increasingly the banking method of choice across all sectors of the population. These apps, which are becoming increasingly user-intuitive, are an ideal platform for tools to help consumers manage their money and save for retirement, and FNB, to their credit, are at the forefront in this regard.

I am sure the motives are not entirely altruistic, as one would expect from any profit-driven company. For years now, the lines between the financial sectors of banking, insurance, asset management, and retirement fund administration have become increasingly blurred, with most big players now having fingers in all these pies. So FNB is probably looking at cornering a larger piece of the retirement funding market which, despite widespread concern about South Africa's dismal savings rate, is huge. According to the report "Retirement Funding in South Africa 2022" by Research and Markets, South Africa's retirement industry has assets in excess of R4.6 trillion, representing one of the highest assets-to-GDP ratios in the world. The Research and Markets report also notes that only 7 to 10 million individuals have retirement savings products, out of an employed labour force of about 15 million.

But even among people with retirement savings products (a retirement annuity if you're self-employed or typically an occupational retirement fund if you work for an employer) only a relatively small proportion are on course to have saved enough to retire comfortably by the time they reach that watershed age of 65. This is backed up by some statistics to come out of the FNB survey. The research employed a mix of quantitative online surveys and face-to-face interviews with 1 069 banking customers. The data was collected between January 13 and February 23. Respondents were categorised according to age and personal income, with a relatively even distribution across the four age categories (18-35 years, 36-54 years, 55-60 years, and 60+ years) and six income categories (Entry Wallet, Entry Banking, Middle Market, Emerging Affluent, Affluent, and Wealth).

Household expenditure across the six income categories differed the most in the areas of saving for retirement (8% of expenditure among the Entry Wallet respondents versus 17% among the Wealth respondents) and spending on groceries (25% for Entry Wallet versus 14% for Wealth). Servicing debt was highest in the Emerging Affluent category at 15% of expenditure – this would exclude spending on accommodation, which presumably covers mortgage bond repayments. Even so, this figure seemed low to me in the context of media reports of our alarmingly high consumer debt rates.

Digging into some of the more interesting retirement statistics:

- 26% of respondents under 60 years did not have a retirement plan of any sort.
- Only 21% of respondents over 60 were fully retired.
- 36% of retired respondents over 60 relied on a living annuity for a pension income, 35% relied on a life annuity; 27% on a government pension; and 18% on a state old-age grant.
- 44% of respondents in the Entry Wallet anticipated continuing to work after retirement age, while a significant percentage of middle-income and affluent participants, 64% and 59% respectively, expected to continue working either full-time or on reduced hours.
- The age for starting retirement savings appeared to advance as individuals advanced in age: 18-25-year-olds planned to start saving at 31, while 26-35-year-olds aimed to start at 36.
- Entry Wallet and Middle Market respondents expected to earn the same income in retirement, while Emerging Affluent, Affluent, and Wealth respondents expected a decrease in income in retirement.

The report indicates low levels of financial education, especially among younger earners, around what it takes to save for retirement – you can't expect to earn the same income post-retirement as pre-retirement but postpone the starting date for saving. The fact that most respondents below 60 expect to continue working in retirement (it's not clear whether they want to carry on or expect to be forced to) underlines an issue I have returned to a number of times: the financial services industry needs a fresh approach to building wealth and, where possible, needs to retire the word "retirement". With the world of work changing as I write, the existing concept of retirement is quickly becoming anachronistic. I'm not saying that people won't reach a point where they'll have to retire physically, but the work-life continuum is becoming increasingly fluid, and financial institutions must begin acknowledging that in their product development and marketing.

Personal Finance | 2 July 2023

Navigating the effects of high interest rates on your retirement funds

High interest rates can significantly influence the performance of pension funds, annuity rates, and the funding of defined benefit pension plans.

One of our clients recently raised an intriguing question about how interest rates impact retirement funds and whether it is advisable to consider withdrawals. High interest rates can significantly impact various aspects of personal finance, and retirement funds are no exception. For individuals planning their retirement and relying on retirement funds, understanding the effects of high interest rates is crucial. This article aims to explore the profound influence of high interest rates on your retirement fund while also providing valuable insights on effectively managing these effects to ensure a secure and steady income during retirement.

Considering the short-term negative impact of interest rates on retirement funds, individuals might contemplate liquidating their pension or retirement fund. Exploring the options for liquidation is the initial step to be taken. However, it is important to note that certain legislation governs retirement funds, which may restrict the possibility of liquidation for some individuals. Presently, in South Africa, National Treasury has hinted at the potential for withdrawal before reaching the normal retirement age of 55, but it is not currently permitted.

Withdrawals from your retirement fund in South Africa are generally only allowed in the following circumstances:

- At the retirement age of 55, subject to the value of your retirement fund;
- Before reaching the retirement age of 55, if the value of your retirement fund is equal to or less than R15 000;
- If you are emigrating and can prove non-tax residency in South Africa for more than three years;
- Upon the expiration of your work visa or permit; or
- Upon resignation from your company.

While the situations mentioned above provide possibilities for withdrawal, it is important to recognise that liquidation should not be the primary solution when facing a declining retirement fund. A comprehensive retirement plan is crucial to ensuring financial stability during retirement. There is no need to sell off your investment solely due to high interest rates. To mitigate the effects of high interest rates, retirement funds often adopt diversified investment strategies. By balancing fixed-income assets with equities and other investment vehicles, they aim to reduce vulnerability to interest rate fluctuations. It is essential for pension holders to have a clear understanding of their fund’s investment allocation and risk profile, as it can help gauge the

potential impact of high interest rates on their pension's performance. Retirement funds are investments meant to be kept for a long period of time. This is to allow the investment to go through the different cycles of the market. Younger investors have the benefit of having a more aggressive risk portfolio to achieve higher returns, as they still have a longer time horizon. For people who are almost at retirement, it is much better to maintain a more moderately risky portfolio, i.e., a balance between equities and fixed-income assets. Annuities play a significant role in retirement planning, providing a steady income stream throughout one's retirement years.

High interest rates can affect annuity rates, which determine the amount of income generated from pension savings converted into an annuity. When interest rates are high, annuity rates tend to rise, potentially increasing the retirement income for individuals choosing this option. Conversely, if interest rates are low when an individual decides to purchase an annuity, they may receive lower monthly or annual payments. It is important for those nearing retirement to carefully assess the prevailing interest rates and evaluate their potential impact on their future income. Seeking professional advice and considering various annuity options can help optimise retirement income, especially during periods of high interest rates.

Defined-benefit pension plans, which offer a predetermined retirement income based on factors like salary and years of service, can be affected by high interest rates. When interest rates rise, the present value of future pension obligations decreases. This can have a positive impact on the funding status of the pension plan as the liabilities decrease relative to the plan's assets. A well-funded pension plan ensures a higher likelihood of receiving promised pension benefits. However, it is crucial to note that the effect of interest rates on pension funding is complex and depends on various factors, including plan design and investment performance. It is advisable to stay informed about the financial health of your pension plan and consult with plan administrators or financial advisors for a comprehensive understanding of the potential impact of interest rate fluctuations.

High interest rates can significantly influence the performance of pension funds, annuity rates, and the funding of defined benefit pension plans. Understanding these effects is vital for individuals planning their retirement and relying on pension income. By monitoring the investment allocation within their pension funds, considering annuity options, and staying informed about the financial health of their pension plans, individuals can navigate the effects of high interest rates and work towards securing a stable and sustainable retirement income. It all comes down to having a well-diversified portfolio and keeping in mind that a pension or retirement fund is a long-term investment that should be allowed to go through market trends.

Moneyweb | 30 June 2023

SA pension system in the doldrums

If you or your clients are putting your faith in the South African pension system as a safety net for your golden years, then it may be time to rethink your retirement planning strategy. This advice follows the publication of the Allianz Global Pension Report 2023 which, like many other global rankings produced over the years, places South Africa deep in the bottom quartile. The report offers a comprehensive overview of pension system outcomes in 75 countries, from top performers like Denmark, the Netherlands and Sweden to bottom-of-the-table, Morocco; Lebanon; and Sri Lanka.

Friends in poor places…

South Africa sits alongside countries like Cambodia; Kenya; and Kuwait with an Allianz Pensions Index 2023 (API 2023) score of 4.2 out of a possible five, with one being good and five being poor. PS, the API assesses the adequacy and sustainability of pension systems based on three sub-indices and around 40 parameters, each having a different weighting in a country's index score. Per the report's executive summary "Pension reform is back in the spotlight; but although the challenge is a global one, the focus of reform differs: policymakers in industrialised countries are more concerned about sustainability, while those in many emerging markets are faced with the all-important task of broadening the coverage of the pension system in the first place".

The report leads with an overview of the three pillars or sub-indices that inform the API. Pillar I is described as 'basic conditions' and is informed by demographic change, public indebtedness and general living standards, among others. In other words, the study starts by reflecting on the "structural preconditions that any pension reform has to take into account". Leaders in this area include Israel, the Netherlands and Norway while the laggards include three of the so-called PIGS (Greece, Italy and Portugal) and China. It turns out that age is a major factor under the 'basic conditions' pillar due to the constraints placed on social systems by rapidly ageing populations. PS, France's recent decision to raise the state retirement age from 62 to 64 years has been met by widespread protest, despite this intervention considered necessary for the long-term sustainability of its retirement system.

Key 'age and mortality' considerations

The 'basic conditions' segment of the study drilled deeper into the long-term impact of COVID-19 on life expectancy and the influence of declining birth and fertility rates on average retirement ages. "Record-low births in Brazil, China and Italy point to the possibility that fertility rates could remain permanently lower than expected and thus accelerate the aging of populations even further," Allianz wrote. In fact, the most recent United Nations' world

population projections expect the share of people aged 65 and older to rise from 10% of the total today to 17% in 2050. This share is set to double in Asia and Latin America, from 10% to 19%, and reach 24% in North America, Australia and New Zealand. Europe, meanwhile, is sitting on an age timebomb, with their 65-plus age group forecast to expand from 20% to 29%. "These numbers underline the importance of preparing pension systems for demographic change to guarantee their long-term financial sustainability and avoid overburdening future younger generations," Allianz said.

They noted that Africa was in the 'sweet spot' of the demographics curve with the share of people older than 65 years expected to reach a modest 6% by 2050. Unfortunately, the percentage of working age people is offset by the dearth of economic opportunities evidenced as high levels of unemployment in many countries. High unemployment is a major constraint to pay-as-you-go pension systems in which the workforce funds the pensions of current retirees. Solutions, according to Allianz, include raising retirement ages and / or reducing state pension benefits. Ironically, South Africa's most recent decision was to reduce the age hurdle for the State Old-age Grant to just 60-years.

A need for capital-funded elements

Pillar II is focused on sustainability or an "assessment of how well a pension system can cushion the impact of [the aforementioned]demographic change". The best performers in this sub-index are Egypt and Indonesia, "mainly thanks to increases in their retirement ages and the introduction of capital-funded elements into their pension systems". Sri Lanka and the United Arab Emirates, meanwhile, sat at the bottom of the pile on this measure. Their poor performance on this sub-index were explained by low retirement ages and failure to introduce incentives to delay retirement. Retirement ages in Egypt averaged at 60-years for men and women compared to Sri Lanka at 55-years for men and 50-years for women.

South Africa comes in at 60-years for men and women. However, the official retirement age is not the main rating factor under this pillar. Allianz mentioned: "capital-funded elements; incentives to postpone retirement; and the introduction of demographic factors in the adjustment of retirement benefits" alongside age. The third pillar derives from "the adequacy of pension systems, by questioning whether they provide an adequate living standard in old age". According to Allianz, key performance indicators in this sub-index include access to financial services, benefit levels and the integration of older workers in the labour market. Denmark and the Netherlands top this segment, with Laos and Uzbekistan at the bottom. In the latter countries, "coverage of the workforce population is comparatively low [while much] of the population has no access to financial services".

South Africa does not fare too badly on an access to financial services measure; but it performs rather poorly on the 'old-age as savings motive' measure. Whether a country's pension system provides an adequate standard of living in old age was identified as an important measure under the adequacy heading. Allianz used International Labour Organisation (ILO) standards to set benefit ratio targets from a pension system of between 40% and 60% of an average wage. Using OECD statistics, they commended Brazil for having one of the most generous pension systems worldwide, with a benefit ratio of around 89%. South Africa, which pays a State Old-age Grant of just ZAR2 080,00 per month was among the worst performers with a gross benefit level of just 15%.

More formal sector jobs; better pension system outcomes…

"The 2023 Allianz Global Pensions Report findings suggest that most pension systems lay greater emphasis on the well-being of the current generation of pensioners than on that of future generations of tax and contribution payers," warned Allianz. They advocated for "a strong capital-funded pillar" to guarantee a more sustainable and adequate pension system before suggesting that pension reforms had to start with labour market reforms. "Without increasing the share of people in the formal labour market in emerging economies and fostering the integration of older workers in the labour market in industrialised economies, even well-intended pension reforms will yield only meagre results," they concluded.

FA News | 5 July 2023

Will industry players be ready to implement the new laws?

The insurance industry waited in anticipation for the release of the updated draft retirement reform legislation. Michelle Acton, Retirement Reform Executive at Old Mutual, provided insights and commentary to FAnews. She addressed some of the concerns and also provided clarity on the recent draft legislation.

The key takeouts

The updated draft legislation provides clarity to several areas of concern that have been unclear in the past. The most important takeouts, according to Acton, include:

- The implementation date has been confirmed as 1 March 2024.
- The confirmation of the "seeding" concept thus defining the portion of current savings allowed to fund the accessible savings pot (now referred to as the savings component).

- Assurance for provident fund members over 55, who will have the option to continue with their current fund or move to the new system.
- The draft legislation stated that defined benefit funds would be accommodated.

"National Treasury has clarified the 'seeding' element, by setting a limit whereby a maximum of 10% of the member's existing savings, capped at R25 000, will fund the savings component from 1 March 2024. This helps address the initial concerns around liquidity that may have arisen. We are comfortable that the manageable seeding will have minimal impact on the liquidity requirements of retirement funds," said Acton. In addition, Acton said the regulations also provide clarity for provident fund members over 55 and retirement annuity funds underpinned by legacy member policies.

The changes expected by March 2024

The legislation is still in draft format with the intention of it coming into effect on 1 March 2024, by which time the industry players must be ready to implement the new laws. This, according to Acton, includes:

1. The ability to split future contributions into two new components (1/3 savings and 2/3 retirement).
2. The ability to transfer the seeding amount into the savings component in March 2024, and the ability to pay out this new claims type in exceptionally high expected volumes.
3. The ability to ring-fence existing retirement savings into the vested component and retain all the rules around this.
4. Member and adviser communication campaigns, so that they will understand the changes.
5. The ability to facilitate a choice for members over 55 as to whether they will move into the new two-pot system or move into the new regime. "This requires the development of new and intricate automated systems for processing the appropriate claims and the requirement to update all current processes and documentation," she said.

"If the timeframe proves insufficient, it may result in a number of funds not being compliant on time and not being in a position to process the high volumes of claims which could potentially affect service delivery and the processing of claims. However, we are confident that the timeline is challenging but achievable," she continued.

The impact on the industry

"These regulations will ensure that every member of a retirement fund will have both a savings component that they can access in case of an emergency, as well as a retirement component, which, with compulsory preservation, will go a long way to improving member retirement

outcomes," emphasised Acton. These changes, she said, are coming in with all vested rights protected, which also means the change will be gradual. "The rules will not change for existing savings, but only for future savings, which will be a great step in terms of easing members into this new world. However, in the long-term, these changes will significantly simplify the retirement industry," she added. "At the moment, claims within a retirement fund only occur on retirement, death or in the case of occupational funds, on withdrawal. These claims also come through either an adviser or an employer. With the new changes, members will be able to claim more frequently from the savings component, and we believe this will result in a more customer-centric approach, with members taking a lot more interest in their long-term retirement funding plans."

How the industry should prepare

"The industry should prepare by, firstly, engaging with the proposed regulations to ensure that commentary provided back to National Treasury is clear and constructive. The industry should focus on developing the necessary infrastructure to implement the new laws. This includes building new automated systems for processing claims and redefining their existing operational processes. Furthermore, industry players should engage in open and consistent communication with their members, explaining the changes and their impact in a simple, understandable manner," said Acton.

"For brokers and advisers, it is crucial to familiarise themselves with the new regulations and understand their implications for clients. Keep in mind that the goal is to offer better retirement outcomes for members. Use this time to proactively communicate with clients, explaining what the new regulations mean for them and reassuring them that these changes are being implemented to their benefit. We are all part of a transformative journey towards a more flexible and robust retirement fund industry," she concluded.

FA News | 3 July 2023

Two-pot retirement regulations have sweet and sour ingredients

While there has been much emphasis on the fact that savers will be able to access a "savings pot" in the event of emergencies, the new system will also make two-thirds of your retirement savings inaccessible until retirement. Speaking at a media roundtable this week, Michelle Acton, retirement reform executive at Old Mutual, says this is a positive benefit that few people are talking about. "Before 2016, there were three different types of retirement funds – provident funds, pension funds and retirement annuities – all of which were taxed differently and this caused much confusion for the average man on the street.

“Since then, the system has been aligned so that regardless of which retirement savings product you use, the tax benefits are the same – you can claim a tax deduction up to 27.5% of your pensionable income, up to a maximum of R350,000,” she explains.

The issue then turned to the accessibility of funds.
While retirement annuities were 100% locked until retirement, you could access the entire savings in your pension or provident fund whenever you changed jobs. This has led to severe depletion of retirement savings over the years, with South Africans even deliberately resigning to access their retirement savings. Acton says Old Mutual’s statistics show that more than 90% of retirement fund members exercise the option to withdraw all of their retirement savings when changing jobs, instead of transferring the money to a preservation fund, a new fund or simply leaving it invested with the original fund. Under the proposed two-pot retirement system, you can access one-third of any contributions you make towards your retirement savings from 1 March 2024.

To address the fact that some South Africans battling to cope with an increasing cost-of-living crisis will need access to funds immediately, National Treasury’s draft legislation states that retirement fund members will be able to access “seed capital” – or a portion of their available balance – immediately. The seed capital will be a minimum of R2,000 or 10% of your savings in the “vested component” as of 29 February 2024, capped at R25,000. This money will not be accessible without costs – withdrawals will be taxed at your income tax rate, which immediately makes withdrawals a less attractive prospect for those in the higher income tax brackets. This means, for example, someone paying income tax at a rate of 36% and who wants to withdraw R25,000 on 1 March next year, would pay R9,000 tax and only withdraw R16,000.

Acton says retirement funds are now “doing quite a bit of work to get ready” for what is a fundamental change in the South African retirement fund system. “The challenge is that even with all the work we’re doing, we don’t have all the answers yet. If the legislation is not finalised soon, we can’t close off the finer details in time,” she says. Acton notes that the savings pot is not going to “solve anyone’s financial woes on day one” as it will take time to build up a significant amount in that pot.

You will only be able to access or withdraw from your savings pot once a year, and although the seed capital amount is capped, there is no maximum cap on withdrawals post-2024. This means that retirement fund members have a minimum withdrawal amount of R2,000, but could theoretically withdraw their entire savings pot once a year. Blessing Utete, managing executive of Old Mutual Corporate Consultants, points out that when you make a retirement fund withdrawal currently, the administration fee is already factored into your monthly admin fees.

"Going forward, there is going to be a great deal of admin required around withdrawals, which means retirement funds are likely to charge members an admin fee to enable the transaction," he says.

Case study

Utete provided the following example:

Member A has a pension fund balance of R100,000 on 29 February 2024 and pays a monthly contribution of R900 at the end of each month. On 1 March 2024, 10% or R10,000 will be transferred to the member's savings pot. At the end of March, the R900 contribution is split into thirds, with R300 added to the savings pot and R600 going towards the retirement pot.

This means the amount now eligible for withdrawal will be R10,300. If the member withdraws the full amount, it will take them five years to build up an amount of R22,500 in their savings pot (assuming no further withdrawals are made).

The retirement savings contributions over the five years would be R60,6oo, and the initial retirement savings amount of R90,000 would have grown to R144,000. So, the total retirement savings available in five years would be R227,100.

Member B

Pension Fund Balance 29 February 2024	**R100 000**
Monthly Contributions (paid month end)	**R900**
Ignore interest	

MEMBER C	VESTED PENSION COMPONENT	SAVINGS COMPONENT	RETIREMENT COMPONENT	TOTAL SAVINGS
29 February 2024	R100 000			R100 000
1 March 2024	R90 000	R10 000		R100 000
31 March 2024	R90 000	R10 300	R600	R100 900
Withdraw 2 April all Savings Pot	R90 000	R0	R600	R90 600
...Resignation date (5 years later)	**R144 000**	**R22 500**	**R60 600**	**R227 100**

Resignation Benefit

Amount that can be taken in cash	**R22 500 + R144 000 = R166 500**
Amount to be preserved	**R60 600**

(Image: Old Mutual)

Daily Maverick | 5 July 2023

Achieve your dream retirement with 'The Ultimate Guide to Retirement in South Africa'

A look at why this book is an absolute necessity for individuals.

Are you ready to embark on a journey towards a fulfilling and financially secure retirement? Look no further than *The Ultimate Guide to Retirement in South Africa*, a book that promises to be your trusted companion on this transformative path. Authored by esteemed experts Bruce Cameron and Wouter Fourie CFP, this third edition is a beacon of knowledge and wisdom, equipping you with the tools and insights needed to navigate the complexities of retirement planning. In this article, we delve into the reasons why this book is an absolute necessity for individuals seeking to achieve their dream retirement.

Unparalleled expertise

The Ultimate Guide to Retirement in South Africa is a product of the combined expertise of Cameron and Fourie, two highly regarded authorities in the field of retirement planning. With their deep knowledge and years of experience, they bring invaluable insights and practical strategies to the table. By immersing yourself in the pages of this book, you gain access to their wealth of expertise, empowering you to make informed decisions and take control of your financial future.

Comprehensive and actionable guidance

Retirement planning can be overwhelming, with numerous factors to consider and decisions to make. This book serves as your comprehensive roadmap, guiding you through every aspect of retirement planning with clarity and precision. From assessing your financial readiness to creating an effective investment strategy, managing risks, and optimising your pension options, the book covers it all. It provides step-by-step guidance and actionable advice, ensuring that you have a solid foundation for building your dream retirement.

Recognition by the Financial Planning Institute of South Africa

The Ultimate Guide to Retirement in South Africa has received recognition from the esteemed Financial Planning Institute of South Africa. This is a testament to the book's credibility, accuracy, and alignment with professional standards in the financial planning industry. By choosing this book, you align yourself with a trusted resource that adheres to the highest standards of quality and expertise, giving you the confidence and reassurance, you need as you navigate your retirement journey.

Tailored for every retirement stage

No matter where you are in your retirement timeline, this book caters to your specific needs. Whether you're a decade away from retirement, transitioning into retirement, or already enjoying your golden years, the authors provide tailored guidance to address the unique challenges and opportunities at each stage. With their insights, you can make informed decisions, maximise your savings, and adapt your strategies to ensure a secure and prosperous retirement, regardless of your current circumstances.

A gateway to continuous professional development:

For financial advisors seeking to enhance their expertise and earn Continuous Professional Development (CPD) points, *The Ultimate Guide to Retirement in South Africa* is a valuable resource. By engaging with the book's principles and applying them to their practice, financial advisors can deepen their knowledge and provide clients with up-to-date retirement planning advice. This recognition further emphasises the book's value and relevance within the financial planning community.

Conclusion

The Ultimate Guide to Retirement in South Africa is an essential companion for anyone desiring a successful and fulfilling retirement journey. With their expert guidance, comprehensive insights, and practical strategies, the authors empower you to make informed decisions and take control of your financial future. Don't let retirement planning be a daunting task — unlock the secrets to a secure and prosperous retirement by acquiring this invaluable resource. Visit www.retirementplanning.co.za to learn more about the book, access additional articles by the authors, utilise helpful calculators, and discover where to purchase your copy. Embrace the opportunity to shape your dream retirement today!

Moneyweb | 5 July 2023

Where to save your savings – A practical look at the products available

South Africans are lucky to have a wide variety of savings and investment options available to achieve their diverse financial goals. This may be for long-term wealth creation, medium-term goals (like saving for a deposit on a house) or short-term emergency funds that need to be available immediately. Before we take a practical look at the various choices or products available through which to save and grow wealth, it's important to take note of some initial considerations:

• **Consideration 1:** Your time horizon
The first consideration is the time horizon of your goal and ensuring it matches the product you ultimately choose. Just as it makes no sense to have your short-term emergency funds stuck in your retirement annuity (RA) it similarly doesn't make sense to have your long-term savings sitting in cash in your bank's saving account. As things currently stand, South Africans are also mostly encouraged to save for the long term via different tax incentives.

• **Consideration 2:** Tax benefits and trade-offs
This brings us to our second consideration which is the different tax benefits available via the different products on offer. It is important to be aware of the unique benefits and trade-offs each product offers. The rule of thumb is generally to maximise risk-adjusted returns net of fees, and after-tax (within your unique preferences and requirements). Actively engaging with one's financial adviser is, therefore, not only needed but vitally important.

With these basic considerations established, let's delve a bit deeper into some of popular product options South African investors have access to. Pre-retirement savings via a Retirement Annuity (RA) or an Employer's Provident and Pension Funds. For most South Africans, saving towards retirement is still by far the most popular way to build long-term wealth.

The benefits of saving via these products, include:
• Immediate tax benefits as the amount saved gets deducted from your annual taxable income (thereby reducing your taxable income). • From a longer-term perspective all income and capital gains generated are tax free, so your net investment returns can compound far quicker.
• In addition, these pre-retirement products also offer various estate planning benefits which your financial adviser will be able to elaborate more on.
At retirement, the majority of your wealth accumulated in your RA or Pension fund must be used to buy an annuity (adhering to the two-thirds rule1). Post-retirement income withdrawn is,

however, subject to income tax. In addition, these RA's and pension funds need to be Regulation 28 compliant, which limits the exposure to asset classes such as equities, property and total offshore investments. Recent changes to Regulation 28, including the ability to invest far larger portions offshore (45%) and the inclusion of alternative investments (such as hedge funds, infrastructure, unlisted debt and private equity) have largely addressed previous concerns such as limiting the amount of risk and diversification and therefore the potential return opportunities available.

FA News | 4 July 2023

INTERNATIONAL NEWS

Analysis: Dutch pension fund reform spells investment rethink

AMSTERDAM, June 30 (Reuters) - An overhaul of the private pensions system in the Netherlands - the biggest in the European Union - is leading asset managers there to rethink how they invest 1.5 trillion euros ($1.64 trillion) of retirement savings. Asset managers for top Dutch pension funds said the reform, which takes effect on Saturday, could spark outflows from euro zone government bonds in favour of riskier assets and change the way such funds protect themselves from swings in interest rates. Changes approved in May mean funds which struggled to meet payouts during a decade when rates were negative will no longer promise benefits. Instead, both future and - unprecedentedly - accrued pensions will move to a defined contribution model.

Funds will divide their assets into pots for each individual and payouts will depend on contributions and market conditions. Unlike defined contribution systems elsewhere, however, most funds are expected to choose a "solidarity" framework within the new system where they still invest collectively, then allocate returns to age cohorts and spread some risks. "It is a complete new system that the Netherlands wants to implement", said Wim Barentsen, head of investment strategy at Achmea Investment Management, which oversees 175 billion euros in assets for pension funds. "Nowhere in the world do you have the same system." Funds must transition to the new system by 2028, with most expected to do so in 2026.

DITCH GOVVIES?

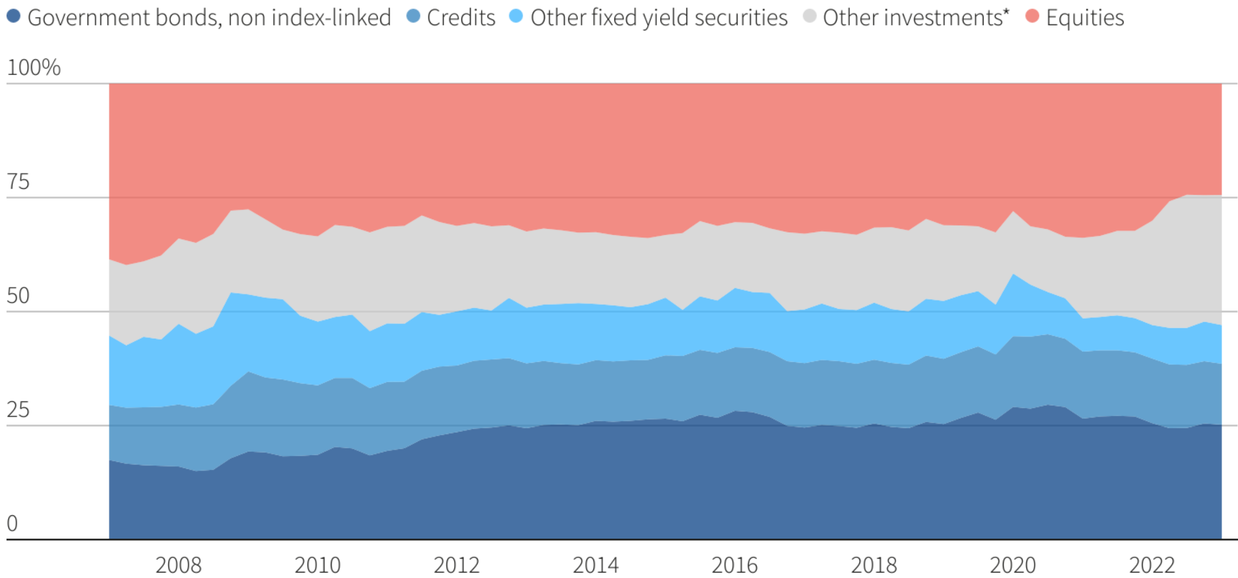
Occupational pension funds in the Netherlands make up two-thirds of all such pensions in the euro area, according to the European Central Bank, so any shift in their investments could have a big impact. The idea is that pension funds will allocate more risk to younger cohorts and less

to those nearer retirement. The new system also includes fewer safety buffers overall, allowing more leeway to take risks. Frank Vinke, senior strategist at PGGM, which invests mainly on behalf of healthcare sector pension fund PFZW, the country's second-largest, said a "significant change" in portfolio holdings was likely, including fewer top-rated government bonds. "In the new system there is scope to be less precise and still effective. And that would entitle us to make more use of products such as corporate bonds with a high rating, or mortgages," Vinke said. An ABN AMRO model based on three Dutch defined contribution pension funds suggests an optimal asset mix would be a roughly 30% allocation to bonds overall versus 50% currently, said senior rates strategist Jaap Teerhuis.

That implies pension funds could sell some 140 billion euros of triple-A and double-A rated euro zone bonds, including German and Dutch debt, and buy more equities, Teerhuis added. The new rules also mean pension funds can be less strict in protecting against swings in interest rates and exchange rates using derivatives like swaps. Hedging will focus on older workers and retirees, so investors expect a shift to shorter-dated interest rate swaps. Commerzbank expects a "seismic" change to the market, where Dutch pension funds are key players. Fewer FX hedges would also have implications for currencies. Onno Steenbeek, managing director of strategic portfolio advice at APG Asset Management, the biggest Dutch pension investor, managing 541 billion euros of assets, saw potential to increase dollar holdings.

Bonds make up half of Dutch pension fund assets

Pension fund reform allowing more risk-taking could lead to selling of govt bonds
Investment type as % of total market value



*Other investments include real estate, alternative investments, hedge funds and commodities.
Source: De Nederlandsche Bank | Reuters, June 28, 2023 | By Vincent Flasseur

Reuters Graphics

HOLD ON

The market impact will depend on what investment strategies are adopted.

Pension funds are surveying their members to understand how much risk different age groups are willing to take."If you (see) younger generations don't like volatile pension pots, there could be a case to stay put and still put quite a lot of assets in government bonds," said Steenbeek, adding that APG's research so far showed age was not the only determinant of someone's risk appetite. Ultimately, interest rates determine how much risk pension funds need to take to generate future payments. Euro zone rates have shot up over the last year from levels below zero percent to fight a surge in inflation. "It will be only at January 2026 that we know what our target portfolio is," PGGM's Vinke said.

ROCKET LAUNCH

Sharp falls in asset prices right before the transition date could leave some groups with less money than planned, so firms will need to keep buffers high enough to address any pitfalls - a big challenge given uncertain interest rates. "It's basically launching a rocket ... once you have made the transition on the day, you cannot change anything anymore," said Achmea's Barentsen. "You have to be aware of the risks that may change the outlook quite shortly before you make the transition." Asset managers said they are talking to pension funds about how much risk they are willing to take during the transition period, which could temporarily raise demand for interest rate swaps and equity derivatives. Proponents say the new system is fairer, better reflecting an ageing society, and will make it easier to raise payouts with inflation. Opponents worry that payments will be uncertain. "When push comes to shove and your pension payout is cut ... will it lead to upheaval?" said Gerard Moerman, European head of fiduciary services and investment solutions at Aegon Asset Management.

"That's the biggest risk and what most pension fund board members are worried about."
($1 = 0.9132 euros)

Reuters | 30 June 2023

OUT OF INTERST NEWS

June economic update

The South African economy narrowly missed a technical recession in the first quarter.

- Markets rebounded in June as investors cheered news that the US had reached an agreement to lift the debt ceiling and avoid default. Sentiment is also being buoyed by hopes that China will introduce fresh rounds of stimulus in order to support the ailing economy. On the other hand, hawkish central bank comments and growing concerns regarding slowing global growth have been put on the sidelines for the time being. Consequently, the Morgan Stanley Capital International (MSCI) All Country World index ended June up 5.6%. Developed markets outperformed, with the MSCI World index returning 5.9% as compared to 3.2% for the MSCI Emerging Markets index.
- The US economy is displaying mixed signals. According to the latest data from the Institute of Supply Management's report, the manufacturing PMI dropped to 46.9 in May, indicating the seventh consecutive contraction in the manufacturing sector. In the same month, the services PMI also declined to 50.3, falling well below the anticipated increase of 52.2. These reports emphasise that businesses are grappling with heightened uncertainty over fears of future demand.
- On the other hand, the labour market remains tight, with approximately 1.79 jobs per unemployed. There was also a surprising development in the latest nonfarm payrolls release, which revealed that the US economy added 339 000 jobs in May. This figure marks the highest increase in four months and significantly surpasses the forecasted 190 000 jobs. Adding to the relative resilience of the US economy was a string of positive releases relating to the housing market. Building permits, new home sales, and housing starts all experienced month-on-month growth in May, with increases of 5.6%, 12.2%, and 21.7%, respectively.
- The US Federal Reserve also decided to leave interest rates unchanged at its meeting in June; however, it has since come out with hawkish comments that two more rate hikes are on the cards before year-end. With the labour market and interest rate-sensitive housing market both showing signs of strength, more rate hikes cannot be ruled out. Despite the Fed forecasting two more rate hikes, the market is currently only expecting one more 25 basis point hike.
- China continues to report weak economic data as euphoria post-reopening begins to fade. Factory activity declined for a third consecutive month in June, as the manufacturing PMI came in at 49.0, still below the 50 mark. The services sector also seems to be cooling off as the non-manufacturing PMI fell to 53.2 from 54.5 in May. With data continuing to disappoint to the

downside, there will be additional pressure on authorities to step in to prop up growth for the second half of the year.

- The UK economy remains in a very difficult position as ongoing inflation concerns, rising rates, and slowing growth dampen the outlook for economic growth. The latest CPI report showed that annual inflation remained at 8.7% in May, above consensus for a drop to 8.4%. Of more concern was the fact that core CPI, which excludes the effects of volatile items like food and energy, increased to 7.1% from 6.8% in April. As a result, the Bank of England surprised markets by raising rates by 50 basis points in June and joined other major central banks in stating that future rate hikes will be necessary.
- The South African economy narrowly missed a technical recession in the first quarter as GDP growth came in at 0.4% quarter-on-quarter. Local manufacturing production advanced 0.5% (month-on-month) in April, following a downwardly revised 3.4% jump in March. This points to the resilience of the manufacturing sector, which has had to deal with bouts of load shedding. Retail sales, on the other hand, contracted 1.6% in April, marking the fifth consecutive decline as load shedding, inflation, and higher rates adversely impact the sector. On the inflation front, both annual headline and core CPI declined to 6.3% and 5.2% in May, respectively.
- South African equities followed global peers higher, with the JSE All Share index returning 1.3% in June. The broad index was dragged down by resources which fell 8.2%, whereas both financials and industrials advanced 11.4% and 3.6%, respectively. South African listed property was flat with 0.0%.
- One-month index movements:
  - JSE All Share Index: 1.28%
  - S&P 500 Index (US): 6.47%
  - FTSE 100 Index (UK): 1.15%
  - Hang Seng Index (Hong Kong): 3.74%

Moneyweb | 3 July 2023

Publication of the FSCA's Regulation Plan (2023 – 2026)

On 30 June 2023 the FSCA published its 2023 Regulation Plan, covering the period 1 April 2023 to 31 March 2026.

The publication of the Regulation Plan will continue to support transparency surrounding how the FSCA carries out ongoing legislative review and development of the regulatory framework, and also to assist the industry to prepare for upcoming publications and legislative changes. The FSCA is committed to developing and establishing a robust regulatory framework that promotes the fair treatment of financial customers and the efficiency and integrity of financial

markets. It is informed by international standards while being fit for purpose considering the domestic context. The FSCA also acknowledges that to achieve this, stakeholder engagement and consultation is critical. The FSCA therefore calls on industry stakeholders to participate in this process of regulatory change and we look forward to constructive stakeholder engagement as we shape the future of the financial sector for the benefit of South Africa as a whole.

On 30 June 2022, the FSCA published its inaugural Regulation Plan, which covered the period April 2022 to March 2025 (2022 Regulation Plan). The FSCA's rolling 3-year Regulation Plans will be reviewed and revised on an annual basis and used as a strategic tool to assist the FSCA in developing the regulatory framework falling within its purview, in a strategic and focused manner. The annual review ensures that the Plan remains up to date, effective and continues to align to the FSCA's broader strategic objectives, also taking into account emerging risks and developments.

The review of the 2022 Regulation Plan considered the following, which also informed the revisions to the 2023 Regulation Plan:

- The extent to which the deliverables for the period 1 April 2022 to 31 March 2023, as set out in the 2022 Regulation Plan, have been achieved;
- Whether the priorities reflected in the 2022 Regulation Plan, as well as the stipulated deliverables and timelines, are still appropriate, and making changes to deliverables and timelines, where necessary;
- Including deliverables and/or timelines in respect of existing projects running over into the 2025/2026 business year, as the 2023 Regulation Plan covers the period 1 April 2023 to 31 March 2026; and
- Whether there are new initiatives of strategic importance that should be reflected in the Regulation Plan and, if so, the inclusion of such projects together with deliverables and timelines.

FA News | 3 July 2023

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