FRIDAY, 9 OCTOBER 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Retirement savings quandrum when considering emigration
- ASISA must know that denying the risk of prescribed assets is naïve
- How unclaimed retirement benefits can be put to better use
- Fund ordered to pay benefit to employee convicted of R1.8M fraud

INTERNATIONAL NEWS

- UK state pension age increases to 66 – and is set to rise further

OUT OF INTEREST NEWS

- September 2020 economic update

Retirement savings quandrum when considering emigration

With all the political and socio-economic challenges in South Africa emigration numbers continue to rise. Those remaining in the country are questioning if a retirement savings investment is worthwhile when emigration remains a future option. Elena Bevilacqua, Certified Financial Planner ® professional at Fiscal Private Client Services looks at the concept of saving for retirement, "As soon as one starts earning an income, saving for when you can no longer draw a salary, becomes an important part of your financial plan. "If for example you earn an income from 25-65 years of age - that gives you a window of 40 years to save. If you are healthy and likely to live a long life, there is the possibility that you will need to draw on your savings for 25 years post your retirement: 65-90 years.

This means you need to have saved enough money during your working years, so that after retirement you can draw an income for a further 25 years. "Many people I talk to expect to be working into their golden years, but will their health allow it? And will they still be employable – a fair question in the rapidly changing age of technology," says Bevilacqua. During the 40 year window of earning an income, individuals and families are not only saving for retirement but some will need a deposit on a first home, a car, school fees etc. It is highly likely that the first 10 years of anyone's career, just managing to meet expenses is a reality. Therefore, the saving period has likely reduced from 40 to 30 years.

Bevilacqua explains, "You now have 30 years of saving to provide you with 25 years of income when you can no longer work. And this is assuming there are no unexpected financial events or surprises along the way! Added to this, many will be looking to leave South Africa and may possibly spend their retirement years in another country." Formal emigration requires a number of financial considerations including (and not limited to) ensuring that your tax affairs are in order and paying any capital gains tax on your assets. If you have accumulated savings in a Retirement Annuity the question remains – has this been a worthwhile investment platform?

Contributions to a Retirement Annuity are tax deductible (**1**). However, a Retirement Annuity can only be accessed from age 55. If you have not taken your allowance (**2**) you are entitled to the first R500 000 of your retirement annuity tax free. The balance must be used to purchase a compulsory or living annuity paying you a monthly income. "If you are officially emigrating, you can withdraw the full capital any time, which will be taxed. (**3**)" Bevilacqua adds that growth in a retirement annuity has limitations due to the regulated asset allocation. The basic underlying limits imposed under Regulation 28 of the Pension Funds Act states:

- 75% in the equities
- 25% in property either local or international

- 30% in foreign investments excluding Africa, and
- 10% in Africa, not counting South Africa

If however you invest your savings in a non-retirement product, you forfeit the tax benefit of your annual contributions. You will also pay tax on interest and dividends earned, and you will be subject to Capital Gains Tax. Your non-retirement investment does not have Regulation 28 limits, thereby allowing a broader opportunity to target higher returns in offshore markets. Options in non-retirement investments are products like a Linked Investment which has wider flexibility and higher tax implications; an Endowment/Sinking Fund which has term restrictions and a 30% cap on tax payable; and/or a combination of products will ensure you are structuring your financial plans to align to both your retirement and emigration plans.

Bevilacqua's final piece of advice for people who may want to emigrate, "Make sure that your investment framework is structured with your own personal goals in mind. When you start putting together your financial savings plan, it is important that your certified financial planner is clear about your personal goals, and tailors your investment options with them in mind. While you may forfeit tax benefits, you may improve your long-term opportunity of having offshore funds."

REFERENCES:

***1,2**. Pension, Provident and Retirement Annuity Fund Contributions*

Contributions to a pension, provident or retirement annuity fund during a tax year are deductible by the member of the fund. The deduction is limited to the greater of:

• 27.5% of the employee's remuneration for PAYE purposes (excluding retirement fund lump sums and severance benefits); or

• 27.5% of the employee's taxable income (excluding retirement fund lump sums and severance benefits). The deduction is limited to a maximum amount of R 350 000. Ref: SARS>Individuals>Tax and Retirement

***3**. Currently, individuals are able to withdraw their retirement annuity when they turn 55 or when they financially emigrate and their emigration has been approved by the South African Revenue Service ("SARS") and by the South African Reserve Bank ("SARB"). Ref: SARS>Individuals>Tax & Emigration*

FA News | 6 October 2020

ASISA must know that denying the risk of prescribed assets is naïve

To deny that asset prescription is on the table is either naive, ignorant or disingenuous, the Institute of Race Relations (IRR) said today in response to a statement by the Association for Savings and Investment South Africa (ASISA). ASISA said in its statement that it 'has taken note of the most recent attempt by the South African Institute of Race Relations (IRR) to once again draw ASISA members into the prescription debate', adding that ASISA CEO Leon Campher 'says this seems to be a deliberate endeavour by the IRR to stir up panic amongst South African investors during a time when calm and rationality is needed more than ever.'

IRR deputy head of policy research Hermann Pretorius responded: ‘President Cyril Ramaphosa and ministers Pravin Gordhan and Tito Mboweni have all placed prescribed assets on the table, with the ANC’s head of economic policy, Enoch Godongwana, stating in so many words that prescribed assets will (not “might” or “could”) apply in cases where people are unwilling to invest.’ He said it was clear the ANC barely recognised the distinction between party and government, and for anyone to ‘cling to such a theoretical separation – and put the savings and pensions of clients at risk – is to betray a disengagement from reality’.

Pretorius said it was plain that the ideological, political and economic constraints on the government meant that ‘it can’t tax, borrow or cut’ its way out of financial difficulties, which meant the only remaining options were to print money or grab assets. ‘The questions that arise with regard to assets are: will the government reduce the legal proportion of offshore exposure? And will it reduce the legal proportion of equity exposure? Doing this would mean introducing prescribed assets by the backdoor, as government bonds would essentially remain the most feasible investment destination.’

Noting ASISA’s argument that it had answered questions put to it by the IRR more than year ago, Pretorius said: ‘Even ASISA must be aware of the enormous difference between July 2019 and October 2020 in the finances of ordinary South Africans, in the economy, the fiscal situation, and in government expenditure plans. ‘We've heard the most slithering rhetoric from corporates, willing to use the savings and pensions of ordinary people as bargaining chips: “‘no’ to prescribed assets … but, if you absolutely must...”.’ He said ASISA could be judged noble in trying to deflect criticism of corporate SA, ‘but South Africans aren't clients of ASISA’.

‘When will corporate SA learn from the failures of the mining sector, which sought to placate an overtly ideological government into pragmatic policy only to see itself decline as a feasible sector in the country? ‘The best time to stop a disastrous policy is before it is implemented. Corporate SA seems to insist we take a “wait and see” approach. Well, we've been waiting and we've been seeing. But perhaps more tellingly, investors have seen as well, and their money is doing the talking through walking.’

Pretorius concluded: ‘Perhaps it would be pertinent to ask Mr Campher whether he is as insouciant with his own money and assets as he expects South Africans to be with theirs? ‘The cost of opposition to bad policy is vigilance. Those tasked with managing the savings and pensions of South Africans are paid to be vigilant. As the economic reality of the country and the constant flow of money leaving our shores show, sentiment, on which Mr Campher places such high value, is a terrible basis for sound commerce or finance.’

FA News | 7 October 2020

How unclaimed retirement benefits can be put to better use

Exploring an investment strategy designed to promote decent outcomes for investors while delivering societal benefits. Prescribed assets for retirement funds have been discussed extensively as a potential source of funding for state-owned entity debt as well as the country's developmental imperatives. This raises concerns about the possible implications for investment outcomes of more than 16 million members of South African retirement funds. But there are alternative models of investment that can go at least some way in addressing the funding needs of our country while providing a new and differentiated investment proposition for investors. An unclaimed benefit is a sum of money that is due to a retirement fund member (or beneficiaries) that has remained unclaimed, perhaps because the former fund was unable to contact them.

After two years, the tracing success rate falls to 10%

Our experience indicates that if benefits transferred into an unclaimed benefit fund are not traced within the next 24 months, the likelihood of finding these members is very low. The tracing success rate once such claims have been moved into an unclaimed benefit fund, when tracing has already been done in the occupational fund, is 10%. With this in mind, we decided to explore whether the investment strategies of such monies could promote decent outcomes for investors and greater benefits for society. According to data from the Alexander Forbes Unclaimed Benefit Fund, 49.8% of unclaimed monies are older than eight years and tracing has been attempted more than once.

It is for this reason that Alexander Forbes has resolved to look at how we can structure an investment strategy that will:

- Grow the unclaimed benefit for the benefit of the member or beneficiaries should they later be found;
- Support the transformation of the investment industry; and
- Contribute to economic and social development.

Reverse lifestage approach

We are calling this investment plan a 'reverse lifestage' strategy. Unlike a common lifestage strategy that moves members from a growth portfolio to a more conservative portfolio to reduce investment risk as they get closer to retirement, this strategy is about doing the opposite. As we have seen, the first 24 months of a benefit becoming unclaimed are crucial. The strategy has therefore been designed to invest in a conservative portfolio to ensure liquidity and growth for the first 24 months. Thereafter the benefit is invested in a growth portfolio that has a mix of private market investments and broad-based black economic empowerment (B-BBEE) domestic multi-asset classed managers.

This strategy allows a member's unclaimed benefit to grow while we are attempting to trace them or their beneficiaries. It also helps support the transformation of asset managers and forges new relationships within the industry. Then, by adding the private markets, we see an opportunity to invest in projects that contribute to economic and social development objectives and the transition towards a greener economy.

We can invest in renewable energy projects or fund initiatives such as:

- The completion of a retirement village and frail-care facility in urban and peri-urban communities across KwaZulu-Natal, Gauteng and the Western Cape;
- The development of rural retail infrastructure to give consumers access to basic goods and services;
- Supporting taxi owners and small business operators in expanding their operations to get South Africans safely to their place of work; and
- Increasing the rollout of mobile Covid-19 testing.

The reverse lifestage solution can help develop the South African economy and transform our broader society, while delivering strong investment performance. By using this approach, we can both assist communities and ensure investment growth for members with unclaimed benefits.

Moneyweb | 7 October 2020

Fund ordered to pay benefit to employee convicted of R1.8M fraud

A Johannesburg employee who was convicted of fraud against her employer and was sentenced to seven years imprisonment in 2014, must be paid her pension, Deputy Pension Funds Adjudicator, Advocate Matome Thulare, has ruled. The tribunal found there was no compensation order made by the criminal court entitling the employer to a deduction from the employee's pension benefit. The complainant was a member of the GTC Umbrella Pension Fund (first respondent), administered by GTC Employee Benefits Administration (Pty) Ltd. She was employed by Sterklewies (Pty) Ltd (third respondent) for 12 years until she was found guilty of fraud in June 2014.

She was sent to prison for seven years. Upon exiting the first respondent, a withdrawal benefit became due and payable to the complainant. The complainant's fund credit as at 27 July 2020 was in the amount of R367 431.19 The first respondent withheld the complainant's withdrawal benefit at the instance of the third respondent pursuant to section 37D(1)(b)(ii) of the Act. The complainant submitted she did not receive payment of her withdrawal benefit after she resigned from employment.

She stated that she never signed an acknowledgement of debt in order for the third respondent to withhold the payment of her withdrawal benefit. The first respondent submitted that the third respondent requested that the complainant's fund credit be paid to it in terms of section 37D(1)(b)(ii) of the Act. The first respondent submitted that the complainant was convicted of defrauding the third respondent in the amount of R1.8 million and sentenced to imprisonment. The first respondent submitted that the third respondent

suffered a loss due to the complainant's theft. The first respondent stated that Section 10 of the Pre-Sentence Report provides that the complainant had admitted to defrauding the third respondent in the amount of approximately R1.8 million. Approximately R700 000 had been recovered from the sale of the complainant's house and vehicles and obtaining the value of her pension fund. This left a net amount of damages of R1.1 million, which is what the magistrate took into account when considering sentencing.

It was the magistrate's understanding that the complainant had agreed to her pension fund money being diverted to the employer. The first respondent further submitted that in the Confidential Psychological Report, the complainant accepted that her pension money had been diverted to the third respondent. In an e-mail to the Human Resources Division of the third respondent, the complainant confirmed her liability to the employer and further stated that perhaps her pension value would be sufficient to cover the loss, which conveyed a willingness for the complainant's pension value to be offset against the loss by the third respondent.

In his determination, Thulare said that as a general principle of law, pension benefits are not reducible, transferable or executable save for certain exceptions as outlined in sections 37A and 37D of the Act. The relevant section of the Act in this complaint is section 37D(1)(b), which states a fund may "deduct any amount due by a member to his employer on the date of his retirement or on which he ceases to be a member of the fund, in respect of compensation in respect of any damage caused to the employer by reason of any theft, dishonesty, fraud or misconduct by the member".

In this regard, the member must have admitted liability in writing to the employer; or judgment had been obtained against the member in any court, including a magistrate's court, from any benefit being paid in respect of the member or a beneficiary, and for such amount to be paid to the employer concerned. Thulare found that Section 37D(1)(b)(ii) is unambiguous. It provides that in order for a deduction to be lawful, the member must have admitted liability to the employer in writing or that judgment must have been obtained against the member in respect of damage caused to the employer by reason of any theft, dishonesty, fraud or misconduct by the member. The Deputy Adjudicator found that there was neither an admission in writing by the employee nor was there a judgment in respect of the damages caused to the employer.

The employer had not instituted civil proceedings, and even if it did so now, such proceedings would be unlikely to survive a defence of prescription. Neither the pre-sentence report nor the confidential psychological report was authored or signed by the complainant. Accordingly, they could not be regarded as an admission of liability in writing by the member and, therefore, these documents do not assist the respondents. Thulare said that the circumstances, there was no lawful reason for the continued withholding of the complainant's withdrawal benefit and for any deduction to be made from same. Accordingly, the complaint must be upheld and the first respondent was ordered to pay the complainant's withdrawal.

FA News | 7 October 2020

INTERNATIONAL NEWS

UK state pension age increases to 66 – and is set to rise further

Increase applies to both men and women, and reflects growing life expectancy. Men and women in the UK will have to wait until they are 66 to draw their state pension from Tuesday, after a decade of increases in the qualifying age for the benefit. Ten years ago, women could claim their state pension at 60 while men qualified at 65, but changes in recent years have brought both qualifying ages in line, and phased in increases for both sexes. The phased increase meant that someone born on 5 October 1954 reached state pension age on 6 September this year, while someone born a day later waited another month to qualify.

The state payment is worth up to £175.20 and is paid to anyone who has made at least 10 years' worth of national insurance contributions during their working lifetime. The moves reflect growing life expectancy – when the first old age pension was introduced in the UK in 1908 it did not start paying out until the age of 70. Life expectancy at birth was 40 years for men and 43 for women, and only 24% of people reached state pension age. Those who did would typically claim it for nine years. By 2017, 85% of people were reaching the state pension age and the typical life expectancy for those who did was another 24 years.

However, the former Pensions Minister Ros Altmann said the system failed to take into account the big differences in life expectancy between people from different regions, occupations and social groups. "The most disadvantaged members of society tend to have the poorest health. Many had hard manual working lives, which has taken its toll on their health. **Full Report:** ***https://www.theguardian.com/money/2020/oct/06/uk-state-pension-age-66-rise-men-women***

The Guardian | 6 October 2020

OUT OF INTEREST

September 2020 economic update

The rand continued to recover in September and is still expected by most economists to recover even further before the end of the year.

- Spring is here, and things are starting to heat up again. After a great month for markets in August, volatility has once again reared its head in September as we drift towards the end of 2020.
- President Cyril Ramaphosa announced on September 20 that the country will be moving to Level 1, easing some of the restrictions imposed on citizens under lockdown.

- The rand continued to recover in September and is still expected by most economists to recover even further before the end of the year, although volatility could increase over the coming days as US elections draw nearer.
- Capitec has reported a 78% fall in headline earnings after it lost out on transaction fees and loan sales during the lockdown as customers borrowed and transacted less.
- The pound rallied against the dollar and euro before falling back slightly after a Bank of England official dismissed talk of possible negative interest rates to boost the UK economy.
- UK Prime Minister Boris Johnson announced tougher lockdown restrictions for the UK as new cases surged to the highest since the pandemic began:
    - Pubs, bars and restaurants to close at 10pm;
    - People should work from home where possible;
    - Fines for not wearing masks or following rules increased to £200 for a first offence.
- Over the past few months, since the whole world basically went into lockdown, e-commerce experienced rapid growth and showed no signs of slowing even during September when almost all countries went back to some sort of normal.
- Zoom smashed estimates, sending the stock skyrocketing in September and pushing CEO Eric Yuan's fortune to $4.2bn. The market cap of Zoom is now worth more than Mexico's market index.
- On a lighter note, the world was up in arms when it came to light that US President Donald Trump paid $70 000 to style his hair for television and then claimed it as expenses.
- One-month index movements:
    - JSE All Share Index: – 1.58%
    - S&P 500 (US): – 3.80%
    - FTSE (UK): – 1.54%

Moneyweb | 5 October 2020

Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

2nd Floor Leppan House
No 1 Skeen Boulevard
Bedfordview 2008

Disclaimer: The IRFA aims to protect, promote and advance the interests of our members. Our mission is to scan the most important daily news and distribute them to our members for concise reading.

The information contained in this newsletter does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. The information contained herein has been gathered by the Institute of Retirement Funds Africa from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. The Institute of Retirement Funds Africa is not responsible for and provides no guarantee with respect to any information provided therein or through the use of any hypertext link. All information in this newsletter is for educational and information purposes and does not constitute investment, legal, tax, accounting or any other advice.