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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

National Treasury wants two-pot retirement system implemented in 2025

The National Treasury has amended its original proposals on the two-pot retirement system, which would permit members of retirement schemes to access their pension funds before retirement, and proposed that it be implemented in 2025. The new proposed two-pot system intends to allow members of retirement schemes the flexibility to access one-third of their savings before retirement while keeping the other two-thirds for retirement.In the new system, members of schemes will have three "pots": vested (built up before the legislation becomes effective), savings, and retirement.Treasury now wants the system implemented on March 1, 2025, as opposed to the original implementation date of March 1, 2024, because of the magnitude of the reforms and the necessity to ensure that the new system operates seamlessly.

The final legislation has yet to be issued, and parliamentary approval is still required before there is certainty that the system will be implemented. Webber Wentzel Partner Joon Chong and senior associate Nicolette van Vuuren said: "We believe that retirement fund administrators would welcome this move as there were many concerns that the initial date of March 1, 2024, would provide far too little time for the industry to have the necessary systems in place and to enable the required training of staff and members". Alexforbes' head of best practice Vickie Lange said the two-pot system is the latest milestone in the retirement reforms that have taken place over the last decade.

"This new system is exciting and will significantly enhance our retirement system. Alexforbes anticipates that the implementation of this system will improve retirement outcomes for members. "The two-pot system will increase retirement savings over the longer term and will assist members in managing their more urgent financial needs. Based on certain assumptions, the two-pot system will improve members' retirement outcomes by 2 to 2.5 times compared to the current system," she said. Treasury has also proposed increasing the amount that members can access when the two-pot system comes into effect from an initial R25 000 to R30 000. The seed capital is about 10% of a member's retirement savings value on February 28, 2025, up to a maximum of R30 000. "It is important to recognise that the higher limitation on seed capital may result in higher withdrawal amounts from retirement funds.

This may result (on average) in an asset outflow impact of 1% to 2% and higher claims volumes for retirement funds. This will mainly be driven by financial distress and higher indebtedness amongst fund members of South African retirement funds. “Should this transpire, it will significantly impact fund administrators as they will have to process large claim volumes in a limited time. Further, this will ultimately result in lower retirement incomes for members upon retirement,” Lange said.

Personal Finance | 29 October 2023

Report highlights death-benefit headaches for pension funds

Although the beneficiary nomination form serves as a guide, retirement funds are required by law to check that the needs of a deceased member’s dependants are taken into account when distributing a death benefit, whether they are nominated beneficiaries or not. However, a nominee does not need to prove dependency to be allocated a portion of the benefit.

The benefit a retirement fund pays on the death of a member is made up of their accumulated retirement savings plus a life insurance payout if the member belonged to a group life scheme. Distribution of the money can be a headache for funds and is frequently a matter of contention among relatives of deceased members. Complaints about death benefits made up 6.6% of the complaints handled by the office of the Pension Funds Adjudicator, Muvhango Lukhaimane, in its 2022/23 financial year, according to its annual report released last week. This was the third most frequent complaint, behind complaints about withdrawal benefits (50.5%) and those pertaining to the non-payment of retirement fund contributions by employers (33.6%). Two cases published in the annual report highlight the problems retirement funds face in distributing death benefits.

Two siblings versus nominated ex-fiancé

Mr A died leaving two siblings and a nominee. The nominee had been Mr A’s fiancée but their relationship had ended four years before Mr A’s death. Shortly before his death, Mr A had approached his human resources department to replace his ex-fiancée with his sister as a nominee, but his failing health had prevented him from completing the form. Mr A had also, apparently, impregnated a woman many years previously and said he wished to contribute towards the child born from this relationship. However, the woman’s whereabouts were unknown. The fund resolved that the death benefit should not be paid to allow a “reasonable time” for the unknown child to come forward. If the child did not come forward, the benefit should be shared equally between the two siblings, as they were more likely to be dependent on Mr A than his ex-fiancé.

The ex-fiancé contested the decision, arguing that the benefit was rightfully hers, as she was the sole nominee.

Among other things, the adjudicator held that:

• The fund had conducted a substantial investigation into the whereabouts of the alleged minor child and mother and could not trace them.
• Even if the minor child existed, there was no dependency on the deceased.
• It was not clear what the fund meant by allowing a "reasonable time" to lapse, but the fund should adhere to the 12 months referred to in the Pension Funds Act.
• In order for the siblings to qualify as dependants, they had to satisfy the conditions under which Mr A would have become legally liable for their maintenance. Two factors must be present: a sibling must be indigent and must be unable to claim maintenance from their parents or children. These required further investigation by the fund.
• In respect of the ex-fiancée, the fact that she was a nominee did not necessarily mean that she should receive a portion.
• If it was shown that the siblings were dependants, then there would have to be an equitable distribution between the siblings and the nominee.

Life partner versus nominated ex-spouse

The complainant, the ex-wife of the deceased member, Mr B, claimed that during their marriage her husband was financially irresponsible and that she had taken out a retirement annuity policy in his name, paid the contributions and made it paid up before their divorce. She said that in their divorce settlement, they had agreed that if Mr B predeceased her, the benefit would be paid to her. She claimed that since she paid for the policy, was the nominee on the policy, was named in his will and was recorded in the divorce settlement as a beneficiary, she should have been awarded the death benefit. Mr B had a life partner with whom he had been in a relationship for 18 months before his death. They were engaged to be married.

On making the distribution decision, the retirement fund submitted that, although Mr B had been married to the complainant for 21 years, she was not financially dependent on him at the time of his death, nor was there a maintenance order in her favour following their divorce. Mr B's children had submitted affidavits stating that they were not financially dependent on him. On the other hand, Mr B's partner had shared a household with him and they shared expenses. As such, she fell within the definition of "spouse" as a permanent life partner. Based on certain assumptions, the life partner's dependency on Mr B was calculated by the fund to be R657 094. Considering that the amount available for distribution was only R91 761, the fund allocated 100% of the benefit to the life partner.

The adjudicator held that:

• The permanent life partner qualified as such and the period of their relationship did not matter. She was entitled to be considered for an allocation.

• The board was not bound by a will or a nomination form completed by the deceased. The form served merely as a guide to assist the board to exercise its discretion.

• Considering that the complainant and her children were majors who were not dependent on Mr B at the time of his death and that the permanent life partner shared household expenses with him, the board did not act irrationally in allocating 100% of the benefit to the life partner.

The complaint was dismissed.

Personal Finance | 29 October 2023

Private equity provides more pools of liquidity, but are they big enough to make a splash for investors?

The amendments to Regulation 28 of the Pension Funds Act at the beginning of the year were warmly welcomed by local private equity players. As of January this year, investment limits on hedge funds and private assets had been split, and the allocation limit on private equity had been increased from 10% to 15%.

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.Whether the higher limit on investments in private equity will have a material impact on how money managers view unlisted assets, or whether institution capital mandates will follow suit, remains to be seen. However, the regulatory change was one of the key themes that were discussed at this year's Private Equity Conference – an annual event hosted by The Southern African Venture Capital and Private Equity Association (SAVCA). SAVCA is a non-profit industry association, representing 180 members in southern Africa, who collectively manage in excess of R205 billion in assets, and has launched a massive awareness campaign to educate, inform, and shift perceptions on the asset class in the local market.

On this point, one of the panellists at the conference, William Dlanga Nkutha, Deputy Principal Officer of the University of Cape Town Retirement Fund (UCTRF), stated that the latest regulatory developments have compelled allocators to learn more about the asset class. In his opinion, the increased limit has created flexibility for a greater degree of diversification and has piqued the interest of retirement funds to explore their options in unlisted markets. To this end,

the UCTRF has committed to strongly considering private equity and infrastructure, particularly given the government's objective to explicitly enable and reference longer-term infrastructure investment. Another panellist, Suvira Bodha, Head of Alternatives and Portfolio Manager at Sanlam Investments: Multi-Manager said, that Regulation 28 had steered the trajectory of investments into private equity which have proven to be significantly impactful over the period they have been investing. "It is possible to deliver impact-related goals while placing equal importance on return-related goals. In today's socio-economic climate, capital allocators are tasked with asking themselves how investments will make a difference in South Africa over time, as well as develop a sound business case for how investing in unlisted entities can boost much-needed infrastructural development," she said.

In fact, Roy Havemann, CEO of Krutham (formerly known as Intellidex) said private equity played a pivotal role in bolstering public sector efforts to rejuvenate the country's infrastructure. The most recent study, conducted by SAVCA in partnership with Krutham revealed that last year, 20% of PE investments went into infrastructure-related projects. This in turn enabled a substantial injection of funds into the communities behind these projects. As he asserted: "PE fund managers are agents of social change. And, in light of the recent regulatory developments, if pension funds can unite behind Regulation 28 in a drive to supercharge local investment, there is no reason why South Africa cannot be the first country on the continent to reach developed status."

But social impact and transformation aside, the latest concession might provide greater freedom of choice to investors and pensioners whose capital bases have either stagnated or eroded in a public market where Naspers rules supreme and new listings are few and far between. Pedestrian performance has also left the market wanting. Regulation 28, is also the rule that limits local investors' offshore allocations, and potentially enjoy better spoils across borders. ***Full Article:*** ***Private equity provides more pools of liquidity, but are they big enough to make a splash for investors? (iol.co.za)***

Personal Finance | 29 October 2023

Help clients get ready for retirement holistically

Sanlam's 42nd Benchmark report revealed that 25% of South Africans haven't started making retirement provisions. Now, the looming two-pot system adds even more complexity to the nation’s retirement landscape. Intermediaries can play a pivotal part in guiding clients to optimal and personalised outcomes as they approach their wind down years. Gert Bezuidenhout, Regional Executive at Sanlam, who is preparing for his own retirement, shares how he believes advisers can add maximal value to clients in this critical chapter. “Despite having the benefit of time to invest in my pension fund over my career, I've found that retirement sneaks up on you. This is a common concern shared by many South Africans, the biggest concern is whether what they’ve saved will be sufficient, given rising inflation and increased life expectancy. As intermediaries, our role is to equip clients with the necessary tools and knowledge to alleviate their financial stress and empower them to retire with confidence.”

The role of an intermediary

Bezuidenhout says inadequate planning can leave clients under immense financial stress rather than provide a leisurely retirement. “As an intermediary, you must encourage your clients to save towards their retirement as early as possible. Preparing for retirement isn't a sprint they can start later in life. It’s a marathon requiring long-term financial saving stamina.” He adds that engaging with clients regularly and gaining their trust helps intermediaries craft a tailored retirement plan and adjust these strategies to align with changing life circumstances. “I’ve reduced my stress levels and fortified my retirement plan through my long-term contributions to a pension fund guided by sound advice and regular check-ins with my own intermediary.

This approach helps clients avoid high-risk, detrimental financial decisions many people fall prey to when playing catch-up, such as investing in high-yield, high-risk investments, or Ponzi schemes.” Bezuidenhout says, much like retirement planning, building a trustworthy client relationship takes time. “The goal for intermediaries is to ensure that, while your clients are busy in their respective fields, they feel secure knowing that they have a professional adviser in their corner who facilitated their retirement planning early and will review their finances regularly as their life changes.”

Approach the two-pot retirement system with caution

Bezuidenhout says the newly proposed two-pot retirement system presents opportunities and challenges in clients' retirement planning. "On one hand, having access to a separate savings pot offers a financial lifeline for those under financial stress, potentially preventing a deep descent into the debt trap. However, the same system could tempt individuals to make ill-

advised withdrawals for non-essential expenses, such as a new car, thereby diminishing their retirement nest egg." He adds that this becomes especially significant as clients near retirement age when that savings pot can provide a crucial lump sum to kickstart a well-planned retirement venture. He says intermediaries must help clients understand the long-term impact that tapping into these savings will have on their retirement provisions. “Every rand withdrawn today could translate into fewer months of financial security later. Sometimes, alternative solutions, such as taking a loan, might be more practical than compromising a client’s retirement savings.”

Don’t underestimate the emotional and social impact of retirement clients

Bezuidenhout says intermediaries must also consider how retirement impacts clients' lives emotionally and socially. He says individuals can experience a sense of being sidelined when approaching retirement, which can have profound psychological implications. It's easy for people to feel irrelevant. However, you can use these transitions to encourage introspection.” Bezuidenhout says intermediaries can encourage clients to shift their perspective from ending their careers to starting a new chapter, whether this is a traditional retirement or a second, gentler career. “The emotional retirement journey is complex, but it doesn't have to signify an end. This change in perspective enables clients to realise that they still have a purpose and can continue to make valuable contributions. It's not always about retiring from something; it can be about moving towards a new phase that continues to stimulate a client’s body and mind.”

Equip clients with the tools to navigate retirement

Bezuidenhout says today’s complex financial landscape makes it more challenging for clients to make informed decisions, with the extensive variety of products and services overwhelming even the savviest individual. “Your role as an intermediary is to simplify these offerings, empowering clients to make well-informed decisions. Sanlam equips you with the tools, information, and solutions needed to tailor plans that align with your client's unique financial objectives. He adds that clients nearing retirement present an opportunity for intermediaries to steer them toward a rewarding second cat in their lives, reminding them that they are never too old to unlearn, relearn, and venture into new career opportunities. Bezuidenhout concludes, “You can make your client’s transition into their next life stage seamless by packaging tools, information and advice into a tailored strategy that suits their unique needs and aspirations. That way, you can empower their financial confidence by offering affordable solutions that reflect their dream retirement.”

FA News | 31 October 2023

This is why you should rethink retirement

Are we working for long enough and saving enough to prepare for a long retirement considering that we live longer?

It is time for consumers to rethink retirement because we are living longer and current economic pressure as well as the escalating cost of living is making it almost impossible to save enough to retire comfortably. The retirement landscape in South Africa stands at a pivotal juncture, requiring innovative strategies that respond to these changing dynamics. As we navigate this uncharted territory, a multitude of crucial considerations are evident, Sonja Steyn, head of wealth management strategy at Consult by Momentum, says. “In the midst of shifting demographics and evolving economic conditions, the effectiveness of traditional retirement planning strategies is under scrutiny. As we navigate this changing landscape, we must ask if the roughly 35 years most of us spend working is enough to ensure a comfortable retirement.”

She says this requires a thorough evaluation of the prevailing retirement age range of 60 to 65, particularly when confronting the implications of our prolonged lifespan. “Thanks to significant advances in healthcare and the adoption of healthier lifestyles, life expectancy in South Africa is increasing. This shift implies that individuals now face the prospect of considerably longer retirement periods that demands a fundamental re-evaluation of how we approach financial preparations for retirement.”

You can live until 90, but can you afford?

Steyn says it is important to acknowledge that life expectancy might extend to as much as 90 years, which implies preparing for a retirement period that could span around 26 years or more. “This brings us to a critical point: the current retirement contribution rate of 15% of your monthly income is probably not enough and therefore, it is advisable to consider increasing the contribution rate of your monthly earnings to align with these evolving realities. Your future financial well-being is at the heart of this adjustment.” It is now recommended that you contribute 30% or more of your monthly earnings towards retirement, which is certainly a wise goal for ensuring a secure retirement, although it is probably not feasible for the majority of South Africans, who are already under severe financial pressure, she says. “For many South Africans, their retirement savings are the only significant savings they possess. Unfortunately, a troubling trend has emerged with consumers choosing to withdraw their pension or provident funds upon changing jobs, making the retirement “gap” even bigger.”

She points out that given this looming crisis, Treasury is implementing a two-pot system to encourage consumers to retain a portion of their retirement savings when changing jobs, with the overarching goal of preserving a financial safety net for their later years.
"Although this is a commendable step, it still may not adequately address the broader retirement challenges we face."

Is a 35-year working life enough to save for retirement?
Steyn says when determining whether a 35-year working life is enough to provide for a decent retirement, you must consider:

- Inflation because it erodes the purchasing power of your money over time. When planning for retirement, it is essential to account for inflation to ensure that the money you saved will be enough to cover your expenses in the future.
- Debt management and payment before retirement is crucial. High-interest debt can erode your retirement savings and jeopardise your financial stability during retirement.
- Healthcare expenses that tend to increase with age. It is important to consider potential healthcare costs when planning for retirement, including the costs of health insurance and potential long-term care needs.
- Market volatility that can affect your investments. Economic downturns or poor investment performance can affect your retirement savings. Factors such as the percentage of your income that you save, the returns on your investments and the compounding of your savings over time are all important considerations.
- Embracing alternative income streams can help and lifelong learning will enable you to engage in part-time work or entrepreneurial ventures. The concept of a 'side hustle' or alternative income stream is gaining prominence as a strategy to supplement retirement funds. Retirees might need to engage in additional work or entrepreneurial endeavours to sustain themselves and prevent the premature depletion of their retirement savings.
- The lifestyle you want when you retire will determine how much money you must save. Some people may want to travel extensively, while others may prefer a more conservative lifestyle. **Full Article** ***:This is why you should rethink retirement | The Citizen***

The Citizen | 28 October 2023

Planning for retirement as an entrepreneur is a unique but exciting challenge

Retirement is one of those phases of life that invites many perspectives.

For some, it's the golden horizon they've been dreaming about, and working towards, their entire career - a chance to finally kick back, relax, and spend their days doing whatever they want. For others, the idea of ceasing work is unimaginable; a notion that contradicts their lifelong passion or sense of purpose. Entrepreneurs fall into a particularly unique category when it comes to retirement. These are individuals who have often invested not just money but also their heart and soul into building their business. For them, walking away from this lifelong project isn't just a career change; it's like leaving behind a piece of themselves.

Yet, the reality remains that even the most energetic entrepreneurs will need to slow down at some point in their lives. And unlike many salaried employees with retirement funds set up by their employers, entrepreneurs bear the full responsibility for planning their financial future. So, while retirement may look vastly different for every entrepreneur, one common thread binds them together, and that is the absolute necessity to plan. And irrespective of what your ideal retirement, or slower pace of life, looks like, there are a few common considerations to keep in mind:

1. *Recognise that post-retirement is as important as pre-retirement.* When planning for retirement, it's crucial to consider not only how you'll finance your leisure days but also how you'll fund the not-so-small details that come with getting older. For example, are the appliances and car you own today going to last you through retirement? Have you considered what your cost of living will be two decades after you stop working? And let's not forget the potentially sky-high medical costs that can come with advanced age. A good retirement plan digs deep into all these factors.

2. *Consider all possibilities.* It's tempting to think that your business will be your golden goose, ready to provide a massive lump sum upon your retirement. But as the Covid-19 pandemic taught us, nothing is guaranteed. Your business value can be wiped out, or massively reduced, overnight. So, it's prudent to diversify your retirement savings across multiple avenues. Fortunately, as an entrepreneur you have many tools at your disposal to do this, ranging from retirement annuities, properties, shares and alternative investments, to unlocking value or income from the business you built. Remember that, when you don't have an employer pension fund, spreading your investment risk isn't just a good idea; it's essential. Ensure that your retirement savings span multiple assets, sectors, industries, and even geographical locations.

The last thing you want is to decide you're ready for retirement, only to realise that a market or sector slump makes that impossible because all your eggs are in that poor-performing basket.

3. *Leverage your business wisely.* If your retirement plan includes unlocking value from your business, be sure you understand its true worth and you've put the structures in place that allow you to achieve your financial goals. Many entrepreneurs have an inflated sense of their business's value due to emotional attachment. Then there are also the many complications that come with a family-owned business. You need to have honest discussions with the family members you have identified to succeed you, clarify the logistical aspects of your exit strategy with a details business constitution, and understand all financial implications of that exit strategy.

And if your business is a franchise, make sure that you fully understand the exit requirements and expectations of the franchisor. Ultimately, retirement for entrepreneurs is not merely an age or a date on a calendar; it's a life phase that requires as much planning, if not more, than the businesses they've built. Not only must that planning include financial foresight, but it also requires a conceptual shift in understanding what they want their life after business ownership to look like. Just as entrepreneurs dedicate years to building their enterprise, they also need to invest the same rigor into meticulously planning the financial future they envisage.

FA News | 25 October 2023

Can I make a second withdrawal from a preservation fund based on my disability?

You're not permitted to take another lump sum from your fund, but you may be eligible to take early retirement as a result of ill health.

I have a preservation fund and have already withdrawn the once-off partial withdrawal. I now find myself in a predicament in that I am unemployed and have a disability which requires a specific diet. I can't afford that now, and my health is deteriorating. I have lost weight. I have money that can prolong my life, but I can't access it. Should I die first, then my children will access the money? Please kindly advise if I can access this money on the basis of my disability and what requirements are there for such a request – if permissible. According to the Pension Funds Act, you are permitted to make one withdrawal from your preservation fund before you reach the age of 55. This may be a partial or a full withdrawal, and you will be taxed according to the withdrawal tax tables. Since you have already used the one-time withdrawal, you will not be eligible to access these funds until you retire from this investment.

The normal retirement process is to retire from your preservation fund at any stage after age 55. At this point, you may take up to one-third of the proceeds in cash, while the remaining two-thirds must be used to purchase a compulsory living or life annuity. That said, the Pensions Fund Act does make provision for investors who have been declared medically disabled to take early retirement from the fund before age 55, provided that the specific rules of the particular fund allow for early retirement as a result of permanent disability. We suggest that you reach out to the administrator of the fund to find out if the fund rules allow for early retirement. Should the fund rules make such a provision, you would be able to retire from your preservation fund and take up to one-third of the funds in cash. The remaining two-thirds must be used to purchase a compulsory living or life annuity.

Tax and income options

As you would be electing to retire from these funds, you would be taxed according to the retirement tables, with the first R550 000 tax-free. It is important to note that, as you have previously withdrawn from this fund, you would have to deduct the lump sum that you have already taken from the R550 000. If you choose to purchase a living annuity with the remaining two-thirds, you can elect a drawdown of between 2.5% and 17.5% of the total fund value of the living annuity per annum. You may also choose a payment frequency, such as monthly, yearly, bi-annually and so on. Once a year, upon the anniversary of your living annuity, you may choose to change the drawdown percentage or frequency of the payments to suit your needs at that point in time.

Once the value of the living annuity is less than R125 000, you may withdraw the full amount in cash. Alternatively, you may purchase a life annuity where the administrator will provide you with a monthly income until your death. This amount will be a set income agreed upon by you and the insurer before the contract is signed. You will not be able to amend the income percentage or frequency of payments, but the income will be guaranteed for the rest of your life. To answer your question briefly, no, you may not take another lump sum from your preservation fund, but you may be eligible to take early retirement as a result of ill health and withdraw up to one-third in cash, subject to the retirement tax tables, whereafter you would need to use the remaining two-thirds to purchase a compulsory annuity.

Moneyweb | 31 October 2023

INTERNATIONAL NEWS

Zimbabwe seeks compensation for pensioners whose savings were wiped out in 2009

'It is right, fair, proper and desirable for those affected by the loss to receive some compensation from relevant pension funds and insurers and from the state,' said Grace Muradzikwa.

Zimbabwe wants the retirement industry to help compensate pensioners who lost their savings 14 years ago following a bout of hyperinflation that led to the collapse of the local currency and its eventual scrapping in favour of the US dollar.The switch to the greenback immediately wiped out the value of Zimbabwe dollar-denominated investments, leaving thousands of pensioners destitute. The payment of compensation is a key step toward helping restore confidence across the retirement industry, said Grace Muradzikwa, head of the Insurance and Pensions Commission, the state regulator.

"It is right, fair, proper and desirable for those affected by the loss to receive some compensation from relevant pension funds and insurers and from the state," she said in a statement on Monday. "The industry has the capacity to compensate eligible members to the fullest extent practicable." The payment plan will cover the nine years through February 2009 and only apply to savings that were held in Zimbabwe dollars. Pension funds and insurers have until year-end to present the regulator with a total amount that needs to be paid to eligible pensioners.

Once approved by the commission, payouts will take place from March next year. The southern African nation's retirement industry had Z$9.14 trillion ($1.6 billion) in assets as of June this year, with 980 854 people holding policies, according to the latest IPEC industry report. Real estate and equity investments are the main sources of income for the sector. An 800% stock market rally earlier in this year bolstered its asset base.

The country's largest independent asset manager, Imara Asset Management, which oversees more than $100 million, warned that the government's demand for compensation issued through IPEC could put the entire industry at risk. The compensation framework appears to exclude the national statutory pension body, the National Social Security Authority, which isn't being asked to offer similar payouts, according to John Legat and Shelton Sibanda, the chief executive and chief investment officer at Harare-based Imara. "The implication is that value

loss was only limited to the private, voluntary schemes," they wrote in a note to clients last week. "Our view is this process is very convoluted and needs a serious rethink. In its current proposed and accelerated format, it will certainly lead to more industry harm."

Moneyweb | 24 October 2023

Huge ethnicity pension gap revealed in UK figures

Shortfalls fuelled by misconceptions and distrust of employers, as well as lack of spare income, figures show

A UK individual from a minority ethnic background typically has a pension pot less than half the size of that belonging to the average white British saver, data reveal. The research from Legal & General's investment arm claimed there was a sizeable "ethnicity pensions gap" in the UK that was being fuelled by "misconceptions" around pensions and a "significant distrust of employers", as well as a lack of spare income. The average saver from a minority ethnic background has a pension pot of £52,333, compared with the average white British saver, who has a pot of £114,941, the researchers found. More than 4,000 UK adults were surveyed, and there were also interviews with six focus groups to explore the key areas, making this one of the biggest pieces of research done on the topic, according to Legal & General Investment Management (LGIM), which manages £1.2tn of investment and pension cash.

The company said the ethnicity pensions gap was being fuelled by "multiple structural and interrelated economic, social and educational factors". A lack of disposable cash was the key factor identified: those from a minority ethnic background were more likely to be on a lower income. About 20% of the respondents from a minority ethnic background said the cost of living crisis was preventing them from paying into a pension. For white British respondents, the figure was 13%.The report also found there appeared to be "a lack of trust and even fear about workplace pensions," with more than a quarter of those from minority ethnic backgrounds (26%) "not wanting to take a risk with their money", versus just 7% for their white British counterparts.

"The perception of pension instability appears [to be] due to an underlying concern that the very structure of pensions is corruptible," said LGIM. Pensions were frequently associated with risk, with some survey respondents expressing fears that their employer would "keep their money". For some minority ethnic individuals, cash and property were seen as safer options. By contrast, pension savers among minority ethnicities were, on the whole, more likely than white British respondents to trust the government and community and religious centres for financial

advice. The LGIM findings come months after research from the Social Market Foundation thinktank found that people from minority ethnic backgrounds were "much less likely" than white Britons to save into a pension. In February it said only 25% of people from minority ethnic backgrounds had a workplace pension, well below the national rate of 38%, and that people in this group were "more sceptical than others about the value of private pension savings". LGIM has recommended a number of steps to close the ethnicity pensions gap, including going further on extending the UK's workplace pensions "auto-enrolment" regime so that it better caters for those on lower incomes or with multiple jobs.

Rita Butler-Jones, head of DC (defined contribution) at LGIM, said the uncertainty of the past few years had exacerbated financial, social and health inequalities across British society. She added: "While we are beginning to understand the drivers of the ethnicity pensions gap, it is clear the factors affecting the gap – including pay levels, lack of familiarity and knowledge, pensions' perceived lack of relevance, and expectations of the duties and activities of the state – have been compounded by instabilities caused by Covid, the cost of living crisis and the continuing challenges for all women associated with the gender pensions gap."

The Guardian | 29 October 2023

OUT OF INTEREST NEWS

Sygnia creates new fund for offshore-maxed SA investors

The Life Transnational Equity Fund allows increased global exposure through a low-fee, actively managed fund. Regulations have long constrained the amount South Africans can take directly offshore and how much we can externalise inside our retirement and living annuities. Those constraints are about to get even tighter because of the JSE's index harmonisation. Sygnia has moved quickly to provide investors with an alternate offshore option by creating the new Sygnia Life Transnational Equity Fund. The fund is an actively managed equity portfolio that invests in JSE-listed equities with predominantly foreign revenues, providing global revenue exposure of 95%.

From a regulatory perspective, the fund is viewed as South African equities; therefore, there is no global limit for retirement or living annuities. This, in turn, enables South African investors to max out international revenue exposure well beyond the 45% global limit.We plan to launch a sister fund, the Sygnia Transnational Equity Unit Trust, shortly. This fund will mirror the Sygnia

Life Transnational Equity Fund in terms of holdings and foreign revenue exposure. The only difference is that the fund will be wrapped in a unit trust, not an investment policy.

The JSE's offshore investment squeeze

For any investor scrambling to get money offshore, the JSE's increasing focus on domestic stocks in its indices is not welcome news. The JSE's index harmonisation of the FTSE/JSE Index Series is particularly jarring for investors who have maxed out their 45% retirement or living annuity offshore allocation.That's because the harmonisation, which is expected to be finalised by March 2024, will effectively reduce the All Share Index's foreign revenue exposure from around 65% to be in line with SWIX's 50%. The process has been happening by stealth for nearly two years.

BHP Group was reduced from 12% to 2% in March 2022, then Richemont was reduced from 20% to 3% in June 2023. AngloGold will be on the chopping block in December, followed by Anglo American in March 2024 in the final phase of the harmonisation process. Since many offshore-maxed investors have traditionally used the All Share as a default option to increase offshore exposure, the harmonisation will effectively decrease this exposure. The harmonisation also means that many funds are redundant.

For example, Sygnia is in the process of merging its SWIX 40 and Top 40 exchange-traded funds, as they will be the same fund post-harmonisation. The new Sygnia Life Transnational Equity Fund has been designed to provide a much-needed alternative to the All Share and SWIX and, with 95% foreign revenue exposure, also gives investors the opportunity to radically increase offshore exposure. In addition, the new fund is an innovative solution for constrained medical scheme investments, as medical schemes are not allowed to invest in offshore equities.

Controlled short-term risk vs long-term rewards

The Sygnia Life Transnational Equity Fund invests in around 30 holdings across three key sectors – industrials, resources, and financials – and includes among its top 10 heavy-hitters Prosus, Anheuser-Busch InBev SA, British American Tobacco, Richemont, Glencore and BHP Group. While companies may be based in South Africa, they must have their majority share of revenue outside the country and are, therefore, not directly linked to domestic economic growth. Although the fund's high offshore revenue diversifies the source of growth impacting the securities, it is by nature a high-risk fund, owing largely to concentration, sector, and currency risks.

Sygnia's fund managers minimise these risks by spreading investments across sectors and capping the maximum exposure to any holding. Even so, investors can expect some short-term

market fluctuations. However, this short-term volatility must be assessed against an estimated outperformance of 4.6% over the last five years (versus the Capped SWIX), making this new fund an excellent option for investors looking to maximise long-term offshore growth. In addition, fees for the Sygnia Life Transnational Equity Fund are at a low rate of 0.425%, allowing investors to benefit from the strategic growth of an actively managed fund at the same fees as a passively managed fund.

Lifelines for offshore-maxed investors

Essentially, the Sygnia Life Transnational Equity Fund has been purpose-built for investors who want to invest more outside South Africa but have reached their cap on traditional offshore investment options. World Bank Africa recently revised South Africa's GDP growth forecast to only 0.5% for 2023, while Fitch Ratings revised its forecast to zero real GDP growth. And in September, South Africa slipped even further down BankservAfrica's Economic Transactions Index, which is typically a robust early economic scorecard for South Africa's growth trends.

Whichever way you look at it, it's clear the prospect for domestic growth in the foreseeable future is not good, and investors are right to be anxious. It's also clear that, in times like these, local investors need alternate options to increase offshore diversification. With its 95% offshore revenue exposure, I'm confident the Sygnia Life Transnational Equity Fund and the upcoming Sygnia Transnational Equity Unit Trust are the lifelines offshore-maxed investors have long been holding out for.

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