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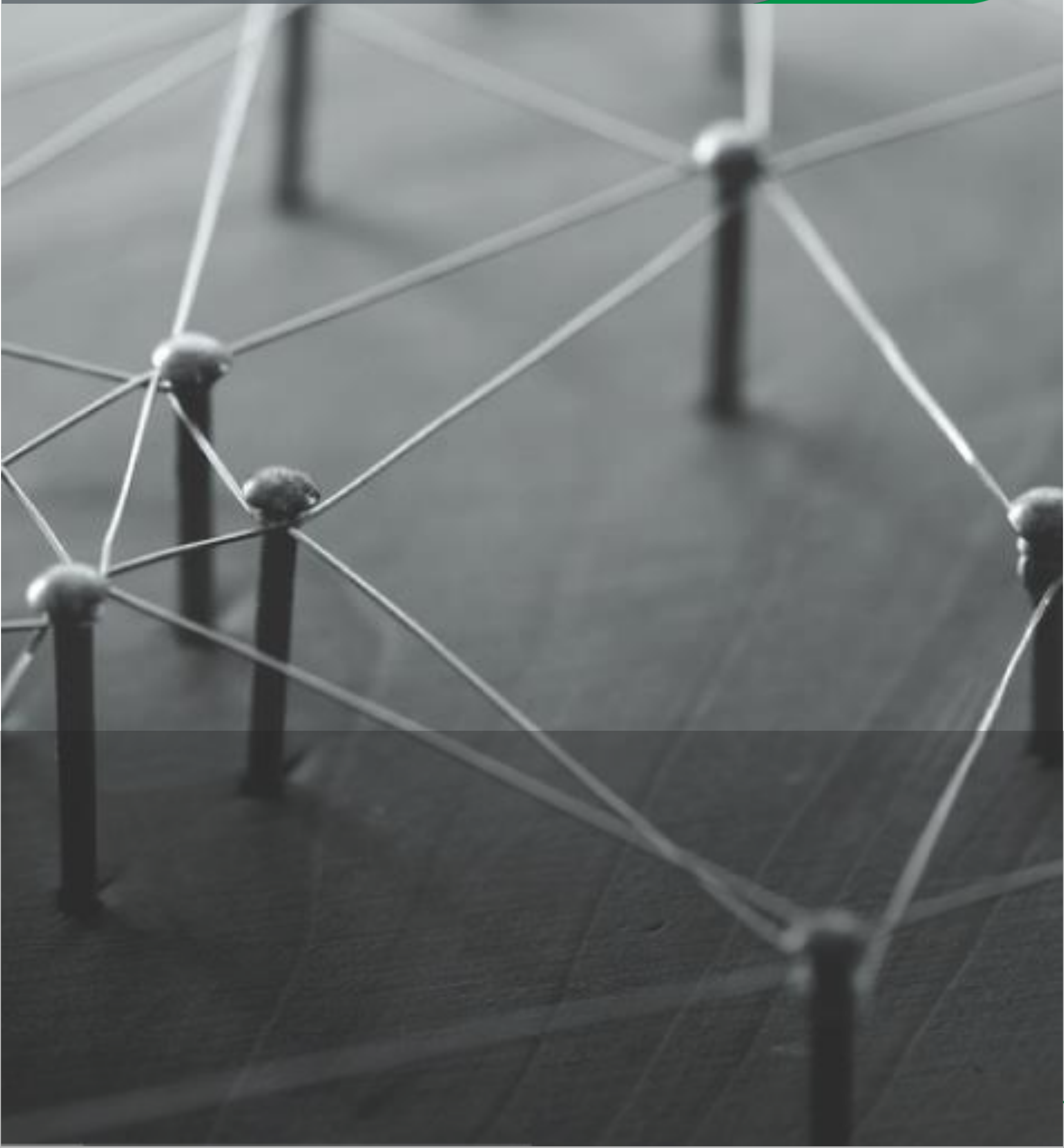
THE RETIREMENT INDUSTRY NEWSLETTER

15 NOVEMBER 2024



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Getting the asset allocation in your living annuity right

Strategically diversifying your assets can help you meet your income needs while safeguarding against inflation.

Your retirement shouldn't be filled with the stress of wondering whether your investments are in the right place. Once you've understood that high fees can pose a big threat to your retirement income, the next question is whether your money is invested in the assets most likely to give you the investment outcomes you want. Below, 10X investment consultant Brett Mackay walks you through the basics of asset allocation in your living annuity to help you make the best decision for your money. Did you know you can speak directly to Mackay about your retirement investments? There are no call centres at 10X, just experienced professionals ready to help. Simply get in touch. Asset allocation refers to the mix of different investment assets in your living annuity portfolio, such as equities, bonds, cash, or property. This allocation can impact the balance between your portfolio's stability and growth potential and should be customised according to your risk tolerance and financial goals.

Equities typically produce more growth but come with higher risks as they are more exposed to market fluctuations than bonds, for example. Diversifying your living annuity across various asset classes allows you to tap into different economic sectors, which can boost performance and potentially generate returns that outpace inflation. During market turbulence, conservative assets like bonds and cash provide stability. Offshore investments help manage country-specific risks, like a weakening rand, and broaden access to international markets and sectors unavailable to rand-based investors. A thorough assessment of your financial situation and proper asset allocation can help your portfolio endure market volatility and ensure stable income throughout retirement. By strategically diversifying your assets, you can meet your income needs while safeguarding against inflation's diminishing effects on your purchasing power. *Did you know you can get a free cost comparison from 10X? We'll look at your current investments and see whether they could be doing more for you.*

Asset allocation in living annuities

Your asset allocation, balancing risk and growth, is key to your annuity's long-term success. While equities provide higher returns, they carry more risk. Bonds and cash, though safer, offer lower returns. Proper asset allocation, tailored to your financial goals and risk tolerance, ensures long-term performance.

What to consider

Age/time horizon

A living annuity investment is meant to provide an income for as long as possible, so it is important to consider the long-term time horizon when setting up the investment. Retirees often make the mistake of becoming overly conservative too early in their investment journey. While this might feel safer, balancing your portfolio based on your risk tolerance and investment timeline is better. For shorter time frames, defensive assets like bonds and cash may be suitable. However, living annuities are long-term investments, often spanning 20 to 40 years. Over such periods, equities have consistently outpaced inflation, making them an essential part of your portfolio for long-term growth.

Drawdown rate

It is also very important to consider the drawdown rate of the living annuity. A lower drawdown rate will ensure that the living annuity income is never higher than the return generated by the underlying fund. This means you don't need to take on unnecessary risks when selecting the underlying funds. However, a higher drawdown rate could lead you to chase higher returns as you will need to grow the fund to ensure that the initial investment value is preserved. One needs to be wary of being too aggressive. Many living annuity investors cannot stomach volatile movements in the equity markets, as their time horizons are typically shorter than those of younger investors.

Local vs offshore

Investing offshore through a living annuity provides access to a wider range of global investment opportunities and helps diversify against country-specific risks. Unlike most retirement funds limited by Regulation 28 of the Pension Funds Act, living annuities allow up to 100% of assets to be invested offshore – something 10X is proud to offer clients. This flexibility offers the potential for growth in international markets and reduces reliance on the local economy, enabling you to take advantage of foreign sectors, currencies, and industries that may not be available locally. While offshore investments can enhance growth and diversification in your living annuity, the allocation should be balanced to manage currency risks and align with your specific financial situation and spending patterns. You also shouldn't rely solely on past performance as a guarantee of future performance – it's a little more complex than that. You'll want to pay careful attention to your asset allocation and determine the right onshore and offshore exposure for your specific time horizon and investment objectives.

Furthermore, if you spend considerable time abroad or have large foreign currency expenses, aligning your assets with your liabilities becomes crucial. Determining the right offshore investment allocation requires thoughtful consideration. Although living annuities allow up to 100% offshore investment, our data suggests that an allocation of between 40% and 60% typically offers the best balance for rand-based investors (dependent on the individual's situation, of course). This range tends to optimise diversification benefits while minimising the risk of depleting funds due to currency fluctuations and market volatility.

Diversified asset allocation options through 10X investment funds

10X Investments offers a range of diversified funds with varying asset mixes to suit different investor profiles and time horizons: The 10X Your Future Fund provides diversified exposure to various asset classes, including stocks, bonds, and property – locally and internationally. This fund is tailored for investors seeking long-term capital growth with a balanced approach to risk. Suitable for a variety of investor profiles, it aims to deliver returns that outpace inflation while managing volatility through diversification. This flagship fund is great for those looking to secure their financial future with a well-rounded investment strategy. The 10X International High Equity Fund is heavily invested in growth assets, primarily international equities, with a small portion in defensive assets like bonds and cash. This fund is ideal for investors with a higher risk tolerance who aim for significant capital growth over the long term (seven years or longer). With an annualised return of 13.7% since inception, it suits those willing to endure higher volatility for potential long-term gains.

The 10X Defensive Fund features a higher allocation to defensive assets, including bonds and cash, compared to growth assets like shares and property. This fund offers cost-effective exposure to a range of local and international asset classes. It is suitable for investors seeking a steady income level and capital growth at low volatility over the medium term. Recommended for a time horizon of one to three years or longer, the fund has an annualised return of 9% since inception. The 10X Medium Equity Fund offers a balanced mix of equities and bonds, with moderate exposure to growth assets while maintaining some defensive assets too. This fund is suitable for investors looking for a balanced approach with moderate capital growth and income over the medium to long term (five years and longer). It has an annualised return of 11.3% since inception and is designed for those looking for a middle ground between high growth and stability.

The 10X Money Market Fund invests in a balanced and diversified mix of short-term interest-bearing money market instruments and short-term bonds. This fund is suitable for investors seeking income and capital preservation with low risk, making it ideal for those with a short-term investment horizon of a month or longer. With an annualised return since inception of 6.6%, this fund is designed for conservative investors who prioritise stability over high returns. These are just a few of our funds which cater to different financial goals and risk appetites. We offer you the flexibility to choose a fund that aligns with your risk tolerance and investment objectives. Get in touch with us today and get the retirement you deserve. The content herein is provided as general information. It is not intended as nor does it constitute financial, tax, legal, investment, or other advice. 10X Investments (Pty) Ltd is an authorised FSP (number 28250). 10X Fund Managers (RF) (Pty) Ltd is a registered Manager of the 10X Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002. Past performance is not indicative of future results, all investments carry risks.

Moneyweb | 12 November 2024

When two-pot withdrawals and tax debt collide

South African taxpayers who withdraw from their two-pot savings will only be paid after settling any outstanding tax debt, except where payment arrangements have been made with SARS. “Taxpayers need to know how their two-pot withdrawals are treated in relation to their tax debt to avoid being caught off guard,” says Thomas Lobban, Director at Ibex Consulting, a division of the Latita Africa group. This is in the wake of reports that some taxpayers have come away from their withdrawal attempt empty handed after SARS deducted outstanding amounts.

Two-pot and tax debt

When a fund administrator processes a savings pot withdrawal, they must request a tax directive from SARS that tells them how much tax to deduct. That tax directive can include an instruction to also deduct any available amount needed to settle a taxpayer’s outstanding tax debt. However, where they have already made arrangements with SARS to pay off or defer the debt, the pot will not be affected. Only the withdrawal amount itself will be taxed. Where no arrangement exists, some taxpayers could return home without their withdrawal, with no savings left, and still in debt to SARS! And, if the money was meant for the kind of financial distress the savings pot was created to alleviate, the taxpayer will be worse off than before. “This makes a debt arrangement with SARS highly desirable - it not only reduces the financial pressure on the taxpayer but also protects their emergency funds from being seized,” says Lobban.

Do you owe SARS money?

So, how does a taxpayer know if they are in debt to SARS? Like any debt, they will receive a letter of demand in the mail. Or, they can regularly check their eFiling profile online by:

• Clicking the Tax Status button on their homepage, then under the “Tax Compliance Status” tab, which may reveal arrears amounts

• Requesting a statement of account that will show arrears amounts in the 30-, 60-, 90- or 120-days ageing columns

• Reviewing SARS correspondence for any electronic letters of demand

Alternatively, they can make an inquiry through the SARS call centre, its USSD channel or via WhatsApp on their mobile device.

Available payment arrangements

When making payment arrangements to settle a tax debt with SARS, unless the amount can be legally challenged, taxpayers have two main options available to them: deferral of payment or debt compromise. **Deferral of payment** is simply an arrangement whereby the full debt can be paid off in agreed upon monthly instalments or settled at a later date.

Debt compromise means the taxpayer can negotiate with SARS to settle a portion of the tax debt and have the rest written off, freeing them of the obligation.

However, in both cases, the taxpayer needs to formally prove their inability to make payment and must meet a shopping list of requirements. At its discretion, SARS can decline the request, which is more likely if the taxpayer represents themselves inadequately.

The low-risk approach

"It's not enough to plead poverty or play the victim - you need to approach SARS with a professional regard for their procedural and legal constraints," says Lobban, noting that this is a complex process most taxpayers have no experience in. Engaging with a professional tax consulting firm - specifically one with a solid legal function - will increase the chances of being granted payment relief exponentially. "It's always advisable to get guidance from a tax professional who has submitted many dozens of similar requests with a high rate of success," says Lobban.

FA News | 12 November 2024

Understanding the Two-Pot Retirement System: What Financial Advisors Need to Know

With the recent implementation of South Africa's two-pot system for retirement savings, financial advisors play a crucial role in guiding clients through this significant retirement change. This article explores the details of the system and highlights how financial advisors can best support their clients in making informed decisions for their future financial security. As of 1 September 2024, South Africa's two-pot system has introduced a major shift in retirement planning, providing both flexibility and long-term security for retirement fund members. In the past, individuals could cash out their entire retirement savings when changing jobs, often leaving themselves with insufficient funds for a financially stable retirement. Recognising this issue, the government implemented the two-pot system, which allows members to access a portion of their retirement savings in emergencies while ensuring that most of their funds are preserved for the future.

At Masthead's recent Cape Town Masterclass, Lizl Budhram, Head of Advice at Old Mutual Personal Finance, discussed the importance of this change. "For years, we've spoken about the fact that only 6% of South Africans can retire with financial stability," she explained. "It's been 25 years, and that number hasn't improved. Despite our best efforts, we've struggled to make a significant difference. Now, with the introduction of the two-pot system, the legislation itself will help drive better outcomes. While the two-pot system offers immediate access to funds, its primary purpose is to improve retirement outcomes over the long term. The system is designed with a view toward future financial security. Lizl explains: "While we anticipate a lot of withdrawals in the short term, the Reserve Bank projects that in nine to 10 years, we'll start seeing the benefits of the system. People will have accumulated more in their retirement funds, ensuring better outcomes for retirees."

Previously, retirement funds could only be accessed when you resigned, were dismissed or retrenched, but the new system is designed to address both immediate financial needs and long-term retirement goals, and financial advisors will play a key role in helping their clients navigate these changes effectively.

How Does the Two-Pot System Work?

The two-pot system will impact your client's rights as a member of various retirement funds, including pension funds, pension preservation funds, provident funds, provident preservation funds and retirement annuities. Under this system, all affected retirement funds are required to create two distinct "pots", which together make up one unified fund. The system also includes a vested pot, which we describe in more detail below:

1. The savings pot: This pot, also known as the "access pot", receives one-third of the member's retirement contributions. Starting from 1 September 2024, members are allowed to withdraw from this pot once every tax year, provided the minimum withdrawal is R2 000 (subject to deductions such as tax and other administration fees). The pot was seeded with either 10% or R30 000 – whichever was lower of the member's accumulated benefits as of 31 August 2024. This pot is intended to provide members with financial flexibility in emergencies.
2. The retirement pot: This pot, also known as the "preservation pot", receives the remaining two-thirds of your retirement contributions. This pot needs to be preserved and cannot be accessed until retirement, ensuring that the majority of the member's savings are preserved for their future.
3. The vested pot: This is your fund value before the two-pot system was introduced. No further contributions can be made to this pot apart from arrears contributions, and it remains subject to the rules in place before the system's implementation, meaning it's accessible according to the previous withdrawal terms. Starting from 1 September 2024, up to 10% of your vested pot (capped at R30 000) will be transferred to your savings pot as seed capital, making it accessible if needed.

Here is a practical example of how the two-pot system works: If you contribute R6 000 per month to your retirement fund, R2 000 (one-third) will go into the savings pot; R4 000 (two-thirds) will go into the retirement pot. Together, these pots strike a balance between allowing members access to funds when necessary and preserving long-term financial security. This dual-purpose structure is aimed at improving retirement outcomes across the board.

The Role of Financial Advisors in the Two-Pot System

The immediate engagement with the two-pot system has been significant. The South African Revenue Service (SARS) reported that within the first month of its implementation, R4.1 billion was withdrawn from the savings pots of retirement funds. In addition, Discovery's Employee Benefits team found that 22% of eligible retirement fund members opted to withdraw from their savings pots in September. These figures underline the crucial role that financial advisors must play in helping clients understand the implications of their decisions. Withdrawing funds can provide short-term relief but may have long-term consequences if not carefully considered.

As a financial advisor, here's how you can guide your clients through the two-pot system:

1. **Training:** Ensure you and your team have undergone comprehensive training on the two-pot system. Document this training in your FSP's competence register and establish a clear operational process for handling client withdrawal requests. This will ensure compliance and consistency when assisting or advising clients.

2. **Communication and compliance:** Be upfront with clients about potential delays in processing withdrawals due to the high volume of requests. Ensure that your team follows proper FICA and due diligence protocols to verify the identity of clients requesting withdrawals.

3. **Key client considerations:** Once a client decides to withdraw from their savings pot, it is crucial for the financial advisor to inform them of the following:

- ***Tax implications**:* Withdrawals from the savings pot are taxed as income and are considered with all other taxable income. Clients need to be fully informed about how this will affect their overall tax liability. For example, a withdrawal may push a client into a higher tax bracket than usual, resulting in an escalation of personal income taxes, an impact which may reduce the immediate withdrawal amount or may only become apparent in the period after a withdrawal was made.

- Withdrawal fees: Retirement fund administrators may charge processing fees for withdrawals, which should be clearly communicated to clients.

- ***Withdrawal limits and rules:*** Clients must understand that there are specific rules and caps that apply to the amount they can withdraw. In addition, it is important to know how the rules and limits will impact their ability to "resave" or "replace" what has been withdrawn from the fund. In practical terms, withdrawal decisions are not decisions that can simply be fixed by "repaying" the amount taken. The same rules that apply to retirement (monthly) contributions will apply to all future contributions. Therefore, if a client withdraws R9 000 from their savings pot now, they will have to contribute an amount of R27 000 to the fund to ensure that R9000 is reallocated to the savings pot (one-third or R9 000 to the savings pot and two-thirds or R18 000 to the retirement pot).

- ***Impact on long-term goals:*** While the savings pot offers flexibility, withdrawing too much can deplete the funds needed for future needs due to the significant impact of compounded interest over longer periods. It's vital that clients are educated on the importance of balancing immediate financial needs with their long-term retirement objectives.

- ***Effect on investment growth:*** Early withdrawals reduce the amount available for investment, which can limit growth opportunities. Clients need to understand how this could affect the overall value of their retirement fund at retirement date. Additionally, these withdrawals may impact the projected retirement age and income outlined in their financial plan, potentially altering long-term retirement goals.

- Be clear on alternatives: Encourage smart saving by advising clients to maintain separate emergency funds which do not attach fees or tax obligations. This can reduce the temptation to withdraw from the savings pot for unexpected expenses.

- ***Behaviour and customised services:*** Advisors play a critical role in terms of being the first contact point for customised and tailored financial services. Advisors know their clients and their behaviours and should apply this knowledge to guide them to make considered choices, guarding against reactive or impulsive behaviour which may negatively impact their financial position and financial planning objectives.

- ***Guard your clients and their financial plan against myths and misconceptions:*** Over the past few months, it has become clear that several myths and misconceptions have been fuelled by a lack of understanding of the two-pot system and rules. As a financial advisor, clients trust and rely on your input and advice. A lack of communication on important aspects or rules, and failure to provide correct and clear information on impacts or facilities may present an unnecessary opportunity for clients to be caught up in misinformation. Manage your client communications effectively to ensure that they have access to correct and verified information and are made aware of important information like administration channels, calculators or other information points. To ensure your client is fully informed, you could provide written communication outlining the potential effects on their investment.
- ***Taking advantage of annual reviews:*** Conducting a review is a legislative requirement but could be an ideal opportunity to update information regarding the client's savings circumstances and behaviour. It presents an opportunity to discuss what has been implemented, but also plan for future needs, including cash flow requirements, possible emergencies, or general enhancements, changes or additions. It is recommended that the annual review process be updated to include a standard check on clients' retirement savings status and needs, in particular, whether the client expects or foresee that they will have to access their savings pot in the near future. Where this is recorded as a discussion point, the advisor can use this information to adjust the financial plan accordingly.

It will also serve as a protection for financial advisors, should any queries arise at a later stage where a pattern of unplanned withdrawals may have negatively impacted the client's retirement outcome. Review is necessary when there are changes in the client's financial situation or when a new financial product is taken up or changes are made to an existing one. Where advice is provided, you must follow the standard advice process, which includes preparing a record of advice. This document serves as proof that a review was conducted, provides details on ongoing fees, commissions and product benefits and demonstrates your commitment to treating customers fairly. These are just some of the factors that a financial advisor should consider when engaging with and advising clients on how the two-pot system can impact their retirement investment.

Helping Clients Navigate the New Retirement Landscape At the heart of financial planning is the responsibility not only to help clients prepare for the future but also to educate them on how to make informed decisions today. The two-pot system presents new opportunities and challenges for both financial advisors and their clients. By ensuring that clients fully understand the implications of their decisions – whether to withdraw from the savings pot or preserve their funds – advisors can help them strike a balance between short-term needs and long-term retirement goals. As a financial advisor, your role in this new system is critical. With proper guidance and informed advice, you can help clients navigate the complexities of the two-pot system and secure their financial future for years to come.

FA News | 12 November 2024

Pre-retirement: The make-or-break moments

The sooner you start thinking about retirement, the better the chance you have of influencing the vision of what it is going to look like.

The years in the run-up to retirement, probably from the age of 55, are probably going to be the most important in terms of what your eventual retirement looks like. You at least have some wiggle room to improve the outcome. It's also the time to do some serious adulting – risk and gambling have no room anymore in your investments. It's not cool to be clueless, and it's very dangerous to abdicate the responsibility to a spouse or partner who enjoys and understands this stuff better than you do. Retirement is an event, not a date, and it can also be an event that you 'ease into' aka semi-retirement – but whatever route you decide to take, the sooner you start thinking about it (even if you and your planner look at different scenarios) the better the chance you have of influencing the vision of what your retirement is going to look like. As much as you may have avoided it in the past, you are going to have to get professional help. A once-off retirement plan is not going to help; this is a journey, pre- and post-retirement.

Find a planner/advisor who is experienced in retirement planning and is prepared to help you walk that road. Your retirement pot is probably going to be one of the biggest investment pots you have built to date, and from age 55, it's probably time to consolidate them. Why age 55? That is the magic 'retirement age' set out in the Pension Funds Act (among others), where the better tax dispensation kicks in if you want to 'retire from' your formal pension investments. You'll notice the deliberate use of the phrase 'retire from' because it has nothing to do with *actually* retiring from your 'active income'. Pensions, by their sheer definition, are 'passive' income streams. I have found over the years that clients, by the time they reach this age, inevitably have investments dotted all over the place, and part of our job is to consolidate these and find a single coherent objective so that the desired outcome – a sustainable income that meets expectations – can be achieved. This can often be done at no cost and with substantial fee savings if done right.

In our profession, we call these crucial pre-retirement years the 'accumulation phase'. Usually, this is the time of life when mortgages are paid off, debt is way down if not paid off, and children are on their way to leaving the nest. Unless you've allowed 'lifestyle creep' to eat up your spare discretionary income, there should be more available to invest. There are two hard variables that you need to wrap your head around when it comes to planning for retirement – and if you're 10 years away from retirement you still have the privilege of working with those variables and more:

- Firstly you need to know (in present value terms – let your planner do the math) how much monthly income you want/need in retirement.
- Secondly, you need to give some thought to that retirement event date (this gives you and your planner an idea of how many years you have to implement this plan).

Even at this very basic level, a planner can tell you what sort of income you can expect if you maintain the 'status quo'. This sets a great benchmark for planners like me and is something we can monitor frequently as we travel toward that investment crossroads. For both your and your planner's sanity, it's important to be clear on the expectations and outcomes at least 10 years out from retirement. I can tell you from years of experience that if this conversation is held at the retirement event, a client's expectations are rarely met! That is not to say that if you shop around, you aren't going to find a broker who will tell you the words you want to hear by promising you the income you desire. In terms of the Pensions Fund Act, you can draw down on your formal pension investments between 2.5% and 17.5% per annum – but the prudent rate (of around 4-5%) that will give you a sustainable income growing with inflation, whether you live to be 66 or 106 years old – is both dependent on market conditions and ensuring that a sustainable income is taken.

What that broker isn't telling you is that at a drawdown of 17.5% per annum that income is going to last seven to eight years, declining every year until it falls below the minimum and you can cash in the last bit (by which time the broker will be long gone). If you leave your financial affairs too late, all your planner will have to work with is what you've got, and you'll have to live with the income that comes out of it (and believe me, it's never as much as you think it is). When you still have a few years to work on your retirement pot, your planner can be more creative with how those funds are invested. They can take advantage of higher growth and offshore stocks that might have more volatility in the short term but this evens itself out over time.

When retirement is imminent, however, the planner and asset manager will have far fewer investment choices to invest your pot in to secure you a stable income that grows with inflation and lasts as long as you do. From your required income at retirement, it is quite easy for a planner to determine how big your investment pot should be, and there are calculators on the web that will do it for you, but there are a couple of other variables you will need:

- Annual drawdown on the capital – in other words, the income you will need. This will vary depending on the prevailing interest rates, but in South Africa, the maximum prudent amount is 5% per annum. But remember that this is a dynamic number. What is right for one individual at age 65 may be completely wrong for another at the same age. Also, this number can shift with age, but understanding its capital effects should be the cornerstone of financial planning.
- You need to make an assumption on the growth rate of stocks and inflation.
- The third variable is not used by all planners and advisors, but it is crucial to my investment philosophy in the immediate run-up to retirement (say 18 months or so out). That is the yield of the investment – or in other words, all the income the portfolio will generate over the course of a year as a percentage of the portfolio value.

Obviously, in order to make assumptions on these variables you need to have a pretty good understanding of investments and keep close to the market on a daily basis. Knowing how big that retirement pot should be is only one part of the equation, the planner needs to draw up a plan with you on how to get there

The difference between growth and interest

Please excuse me if I am keeping it too basic here, but I encounter confusion between interest and growth every day with my clients. Let's keep it to the RSA discussion (where interest rates are much higher than in the UK or US, for example). You might be thinking that you can easily get 5% to 7% or more annual interest from a fixed deposit – and you can even guarantee that rate of interest for five to 10 years when fixed-rate bonds are bought. However, unless you plough back a chunk of that interest, the price you paid for the bond is slowly going to be reducing in real terms, as a fixed income is not a good inflation hedge. This is why owning equities and other assets in a portfolio is so important. They protect the portfolio against inflation creep as equities grow in real terms over long periods of time. The balance between the various asset classes is what is important, though, and just what a financial planning process should point out.

When we design income-generating portfolios for our retirement clients, the yield – from ALL the various sources – is the backbone of the retirement income investment. Capital preservation over the long term is critically important. Consolidating your investment portfolios (which can be done with all formal retirement funds without interrupting their tax status) often brings the investment up to a 'critical mass', which allows your advisor and asset manager to reduce costs and tailor-make your portfolio. Your retirement pot need not all be "investable" capital and can include properties from which you get rent (but this isn't the pot of gold it was promised a few decades ago). I often get clients adding the value of their residential property to their retirement pot, usually based on misconceptions of the capital that can be liberated by 'downsizing'. The ugly truth is that the cost of housing in a retirement village is probably going to be very close to what you sell your property for, net of the costs (and then there are the ever-increasing levies, frail care costs, etc).

Importance of asset allocation

For most people, their retirement savings are usually their single biggest asset, by the time they get to retirement it probably eclipses your house value. The good news here is that the sheer 'critical mass' of the investment makes it much easier for a planner and asset manager to tailor-make a lower-cost solution for you than just throwing it into a bunch of well-known unit trusts and hoping for the best. Most of the clients in my practice are over the age of 55 – so we have seen from experience what works and what doesn't over the long term. The investment philosophy that the planner and asset manager will use to invest your funds at retirement to ensure that you get the income you need is crucial. This is not an airy-fairy mission statement found on a slick webpage of a financial institution – it is going to make a huge difference to your retirement outcome and whether your income is going to run out before you do.

The prevailing 'wisdom' when I came into this profession was that retirement income should last 20 years, and the principle of capital depletion over that time was used (in other words your capital ran out in 20 years). This approach pleased clients no end because it gave the illusion that they were getting more bang for their buck, and on a couple of occasions, we found clients shopping around for the highest income – without understanding those long-term implications. One of the reasons I like to work with clients over a long period of time is so that I can manage their expectations and dispel some of those dated ideas before crunch time.

Even today I find that some brokers are happy to use this ‘capital depletion’ method of income generation knowing that the chances of any comeback from a client in 20 years is remote. I always had a huge problem with that approach. I never wanted to sit in front of a client, now probably well into their 80s, and explain this to them …

*“*Remember when we had that discussion 20 years ago, and I told you that this money was going to run out in 20 years, and you said it was fine, nobody in your family lived into their 80s anyway? Well …”

Today, I would rather walk away from a client who insists on capital depletion, knowing that there are plenty of brokers out there who will gladly do as their asked and not care about the consequences (so long as they get their commission). I have a very different retirement investment philosophy to the old capital depletion model, I believe that the income produced by the retirement investment should be:

- Certain (not fluctuate – with the normal trend of the equity markets);
- Grow with inflation; and
- Never run out and, if possible, have some wriggle room for ad-hoc expenses.

I will go into this in more detail in a future post. But if you’d like to get our weekly newsletter, a heads-up on our new posts and podcasts or just ask a question, then drop me an email.

Moneyweb | 11 November 2024

Pension Form 6-A: When the new single pension application Form 6-A for pensioners will be available, how to apply

The Department of Pension & Pensioners' Welfare (DoPPW) has issued a notification regarding the submission of pension cases in Single Pension Application Form 6-A in respect of Central Government retiring officers through online mode.

According to the DoPPW Office Memorandum dated November 11, 2024, “It has been stated that the pension case of a Government servant shall be processed through online mode and the retiring officials shall submit Form 6-A through Bhavishya/eHRMS. This new Form 6-A is scheduled to come into force after 120 days from the date of notification i.e. 16.11.2024.”

From when will the new Form 6-A be available, how to apply?

The new Form 6-A has been integrated into Bhavishya and e-HRMS 2.0 and will be available to retired Central Government workers beginning November 16. These online channels are intended to streamline the application process and provide candidates with a user-friendly digital interface. According to the OM dated November 4, 2024, “The new Form 6-A has been incorporated into Bhavishya and e-HRMS 2.0 and will be accessible to retiring Central Government employees w.e.f. 06.11.2024. Consequently, the retiring Central Government employees, are henceforth, required to fill out the new Single Pension Application Form 6-A exclusively through the online mode on Bhavishya or eHRMS 2.0.”

What is pension application Form 6-A?

According to the PIB release, "In this new form a total 9 Forms/Formats have been merged. The old Forms/Formats that have been merged are Form 6, 8, 4, 3, A, Format 1, Format 9, FMA and Zero Option Form.In order to incorporate this change, amendment to Rules 53, 57, 58, 59, 60 of CCS Pension Rules, 2021 have been made. The amendment has been notified following the due process of consultations with all the stakeholders such as Dept of Expenditure, Dept of Law & Justice, Controller General of Accounts, Comptroller & Auditor General of India, Dept of Personnel and Training." "This new form and related changes in the business process of Bhavishya, will be a game changer, on the one hand simplifies the pension form submission for the employee to a single sign only and on the other hand achieves the end-to-end digitisation of the entire process of pension processing till the start of pension payment after retirement. This paves the path towards paperless working in the whole process of pension. With a pensioner friendly User Interface, now the pensioner need not to worry about the forms which he has filled or might have missed," it added.

Important points to know about Form 6-A

- The Department of Pension and Pensioners' Welfare issued a gazette notification regarding Form 6-A on July 16, 2024. Here are a few important points to know about the new pension application form. The Government servant shall submit the up to date details of the family again in Form 6-A at the time of retirement from Government service
- Unless otherwise exempted by a general or special order of the Government, the pension case of a Government servant shall be processed through online mode (Bhavishya/e-HRMS) and the retiring officials, who are on e-HRMS, shall submit Form 6-A through e-HRMS (only superannuation cases). Retiring Government servants, who are not on e- HRMS and for cases other than superannuation (i.e. Voluntary retirement, Premature retirement, Permanent absorption in State Government/Public Sector Undertaking/ Autonomous Body, Invalidation, Compulsory retirement and Dismissal/Removal from service), shall submit Form 6-A through Bhavishya.";
- The Government servant shall submit duly completed Form 6-A to the Head of the Office, not later than six months prior to his date of retirement
- Provided that where the said form is submitted by the spouse or any other member of the family, the Government servant shall not be entitled to the benefit of commutation of a percentage of pension until he himself subsequently applies for such commutation in accordance with the Central Civil Services (Commutation of Pension) Rules, 1981.
- A Government servant, who is retiring or has retired for reasons other than superannuation, shall submit Form 6-A to the Head of Office, immediately after the competent authority has approved such retirement or the retirement has become effective, as the case may be.
- Provided that where the said form is submitted by the spouse or any other member of the family, the Government servant shall not be entitled to the benefit of commutation of pension until he himself subsequently applies for such commutation in accordance with the Central Civil Services (Communication of Pension Rules, 1981.
- Provided that if there is no member of the family eligible to receive family pension on death of Government servant, a member of the family in whose favour a nomination was made by the Government servant for payment of gratuity, shall be allowed to submit Form 6-A in place of Form 10 and the said member of the family shall indicate, the details of his or her Bank Account in Form 6-A.

The Economics Times | 13 November 2024

South Africa's civil service should be restructured

A plan to reward early retirement won't solve the problem, says economist.

South African Finance Minister Enoch Godongwana announced in his October Mid-Term Budget Policy Statement that cabinet had approved funding for an early retirement programme to reduce the public sector wage bill. R11 billion (about US$627 million) will be allocated over the next two years to pay for the exit costs of 30 000 civil servants while retaining critical skills and promoting the entry of younger talent.

The statement states that this will assist in improving the structure and organisation of the state. But past initiatives of this kind have done little to reduce costs. In 2019, there was a similar offer, but it didn't solve the problem. In 2020, the government took the more drastic step of reneging on the final year of a three-year wage agreement. The main effect of early retirement offers is always to enable capable and experienced people to move on to other careers without losing their accumulated pension benefits. As an economist, I believe there is a more fundamental problem with this proposal. To improve the state's structure and narrow the gap between the promise and delivery of public services, government functions and activities must be reviewed. The state must cut back on what is inessential or ineffective. This will create room to expand core services and activities that promote growth and development.

Time for structural reforms

In times of fiscal restraint – with revenue growth too slow to finance existing policy commitments – tough choices must be made. This is the opportunity to make the structural and organisational changes that will bring enduring improvements to the delivery of public services. Further delays simply deepen the problem.

Some of what needs to be done is hinted at in the mid-term budget policy statement. Godongwana says the National Skills Fund, administered by the Department of Higher Education and Training, and the programmes governed by the Skills Development Act, will be reviewed. Yes, the skills levy system involves a tax on employment. This is unhelpful in an economy which needs to encourage job creation. The system for funding training is administratively cumbersome. There are 21 sector education and training authorities (Setas) which serve no discernible productivity-enhancing purpose. In recent years, skills development funds have been diverted to meet shortfalls in the National Student Financial Aid Scheme. This temporary fix exposes another policy overcommitment. If the government was serious about addressing the national skills crisis, it would repeal the Skills Development Act. State resources should be refocused on improving colleges and formal vocational education.

The policy statement also indicates that financial support for the unemployed is to come under scrutiny and that the social security landscape is fragmented. Indeed. It is more than 20 years since the Taylor Committee canvassed these issues thoroughly. But there has been no progress on institutional rationalisation.The Unemployment Insurance Fund, in the meantime, is embarking on business support ventures under the guise of job retention and employment creation. Its financial statements reveal large impairments from these investments, amounting to R2.7 billion in 2019 and 2020 alone. No further analysis is needed: it is time for the finance minister to instruct that the Unemployment Insurance Fund not use its funds for activities other than its core statutory purpose. It has also been more than 20 years since the Satchwell Commission's report on the Road Accident Fund, which drew attention to its financial unsustainability. It recommended an alternative social security arrangement to compensate victims of accidents. However, the country is no closer to replacing the Road Accident Fund with a defined benefit fund or eliminating its wasteful spending on legal disputes and uncapped income compensation that should be dealt with through the insurance market.

Targeted expenditure reviews

The Government Technical Advisory Centre, an agency of the National Treasury, initiated a programme of public expenditure reviews in 2013. Since then, over 200 reviews have been undertaken, covering a wide spectrum of national and provincial functions. After all this work, you would think that there would be detailed proposals to take to cabinet and parliament for meaningful changes to the structure of the state. But no, we have instead a blunt and untargeted instrument likely to generate unhelpful outcomes. Expenditure reviews sometimes indicate opportunities to terminate programmes or merge institutions to save costs. Finally, progress has been made towards an integrated national water infrastructure entity and a single economic regulator for the transport sector. But more often, reviews indicate incremental reforms or programme design changes that could contribute over time to better services and cost-effective delivery.

They also provide evidence on what should be cut back where private sector alternatives would be more efficient. In rural provinces, for example, the drift of people to towns and peri-urban areas has left many schools and clinics serving declining village populations. There has been some progress in closing small multi-grade schools in parts of the Eastern Cape. However, not enough has been invested in expanding the classroom numbers or capacity of health clinics that serve growing urban populations. The dysfunctionality of housing subsidy projects and poorly integrated national, provincial, and local responsibilities for human settlements have been studied intensively. However, practical steps to focus on what works and discard what doesn't are hard to find. In the criminal justice system and policing, long delays in investigations and court proceedings and overwhelming caseloads must be addressed to relieve congestion.

This will require deliberate efforts to accelerate court processes and promote alternative dispute resolution mechanisms. It could cut unnecessary duplication, for example, in medico-legal cases and challenges to public procurement decisions. Over time, the number of non-departmental organs of state whose personnel structures and remuneration are not subject to the oversight and controls of national and provincial treasuries has increased. In many of these entities, as well as in state-owned companies and provincial agencies, executive pay and directors' remuneration have increased disproportionately without commensurate improvements in functional efficiency. In keeping with the principles of consolidated budgeting and accountability, they should come under stricter oversight.

Restructuring local government

The most challenging area of "structural reform" ahead is likely to be in local government. Almost without precedent internationally, South Africa has a two-tier system of district and local municipalities. They have no distinction in governance between urban and rural zones. This is a critical underlying cause of financial and service delivery shortcomings at the local level. District municipalities serve no discernible public accountability purpose. Their service delivery responsibilities should fall under local councils through jointly overseen administrative arrangements if warranted by spillovers across borders. For the fiscal integrity of local municipalities to be secured, their urban zones must be ring-fenced, and the current patchwork of financial transfers from the national budget must be overhauled. Recruitment of engineers into municipal government must be hugely stepped up. Here, just perhaps, there might be a useful targeted application of the cabinet's new initiative to promote the entry of young talent, while retiring redundant incumbents.

Moneyweb | 12 November 2024

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