TUESDAY, 9 JUNE 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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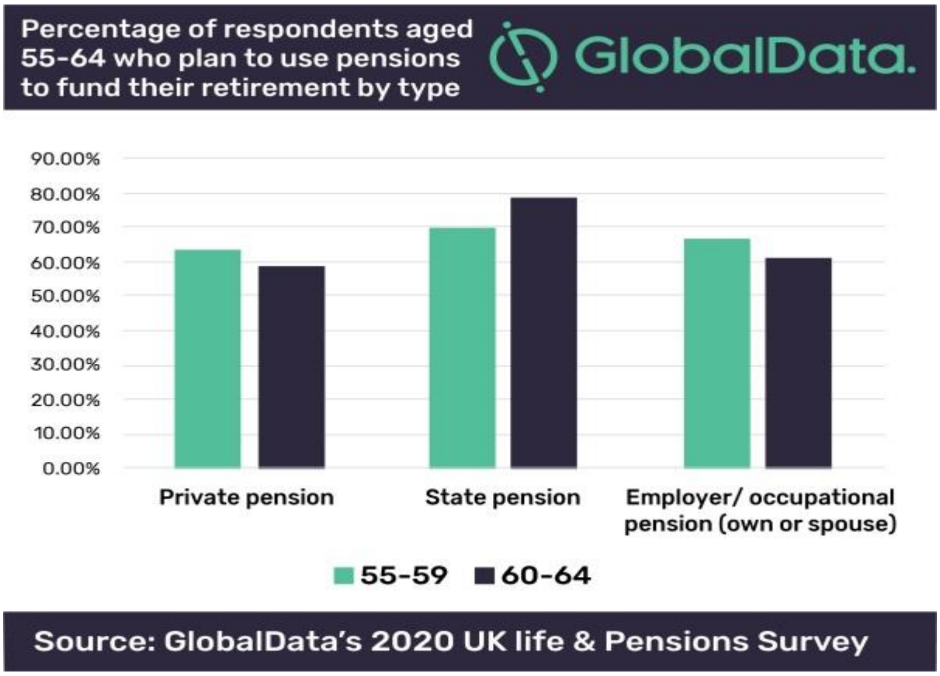
LOCAL NEWS

COVID-19 likely to cause diversification of retirement funding

COVID-19 has highlighted the vulnerability of capital markets to external shocks and makes the diversification of retirement funding increasingly likely, according to GlobalData, a leading data and analytics company. GlobalData's 2020 UK Life & Pensions Survey found that over half of all respondents identified an employer pension as being part of their plan to fund retirement, while 48% stated that a private pension formed part of their plan.



The reliance on pensions as a means to fund retirement is arguably most concerning for those aged 55–64 who are most likely to be considering retirement in the near future. GlobalData senior insurance analyst, Daniel Pearce, commented: "With the value of pensions being especially vulnerable to volatility in capital markets, pension holders in these age groups may now have to push back their retirement plans to offset the losses that have occurred due to COVID-19.

"However, other individuals in these age groups may not be willing to continue working and, as a result, look towards other assets as means to fund their retirement, such as income from rental property or equity release on mortgages. Both options are relatively insulated from market volatility when compared to pensions and could become increasingly popular for individuals to consider as they move closer to retirement age, should their pension not have reached its desired value.

Pearce concludes: "The insurance industry should prepare for individuals to look for a more diverse portfolio of assets to fund retirements. If the impact of COVID-19 on capital markets lingers for years to come and dampens returns, then the shift to diversification may become ingrained into retirement planning and spur others outside of these age groups to give their retirement funding plans greater attention."

FA News | 4 June 2020

Why a retirement annuity is a good idea

For many years retirement annuities (RAs) have formed part of investors' retirement savings plans. They're often the first investment products that newly-employed, young professionals sign up for on their retirement income planning journey, and with good reason. Roenica Tyson, Investment Product Manager at Glacier by Sanlam, reminds us why these products have increased in popularity and why you should probably consider having one in your investment portfolio.

It's your decision – and it's a good one

An RA offers flexibility in terms of who you can invest with and the investment choices you can make with the help of your financial adviser. That means you can decide if and when you want to invest in an RA, how much to invest and the underlying unit trust choices you would prefer.

We're just not saving enough for retirement

The reality is that most people who enjoy a retirement benefit at work, opt to make the minimum contributions that the retirement fund allows for, and it may not be sufficient. So, topping up with an RA is advisable. People who invest in an RA as well as their employer retirement fund, create a larger pot of retirement savings, which means they have more to invest to secure a better income during their retirement.

So, here are seven reasons why investing in an RA makes good investment sense:

1. It provides a kickstart to your retirement savings plan. Whether you are a full-time employee, on a fixed-term contract, or self-employed, an RA can propel you on your retirement savings journey – as a standalone solution, or as part of a retirement savings plan.

2. Enjoy a bunch of tax benefits. A portion of your contributions is tax deductible (currently up to 27.5% of the higher of taxable income or remuneration, up to a limit of R350 000 per year). You also don't pay tax on any interest or dividends and no capital gains tax is applicable.

3. It ticks many of the right retirement savings boxes*. An RA potentially offers you the opportunity for investment in a wide range of funds, risk-profiles solutions and share portfolios, customized to suit your needs and risk profile.

4. It's affordable.

A small monthly investment can make a big difference in your retirement savings outcome years from now.

5. Your savings are protected from your creditors. If you are in the process of insolvency, your retirement annuity investment is protected from creditors – they won't be able to take from your savings. This ensures that your savings will be available when it is most needed and for what it is intended – saving for retirement.

6. You can't touch the investment until you are at least 55 years old. Once you invest in an RA, it's for the long haul. Committing to an RA until you reach retirement age is sensible. The 60-year old you will be grateful that you did.

7. The underlying investment options of your RA are selected based on your particular risk profile. Every investor is different with different needs, lifestyles and risk appetites that change over time. This is why consulting a financial adviser is critical. Appoint one to help you establish your risk profile, based on your life stage and financial needs. The table** below is an example of the retirement savings outcomes for three investors who each invested R500 per month in an RA.

FA News | 3 June 2020

Pressure on finances caused by COVID-19 lockdown - how can your pension fund help you?

The financial consequences of the South African lockdown - caused by the Covid-19 infection which is currently sweeping the globe - are being immediately felt. Loss of earnings and the consequences on debt obligations are serious concerns which individuals are having to cope with right now.

South Africa's Pension Funds Act already caters for unforeseeable events such as the nationwide lockdown currently underway, to assist employers or individuals who may be experiencing financial difficulty because of lack of income. Bruce Knight, Senior Consultant at wealth and financial advisory firm GTC, says that as individuals and companies need to cut costs wherever possible including pension fund contributions, all mechanisms to accommodate both employers and employees' urgent needs will need to be reviewed to prevent defaults on contractual payments.

"The Pension Funds Act caters for situations where employees are temporarily absent from work, where employers need to downwardly adjust – or reduce – staff members' salaries, or even cease or reduce company or member contribution levels during this uncertain time," says Knight. "Within our own GTC Umbrella Funds, the trustees are able to assist participating employers by outlining a range of suitable solutions when assessing financial relief requirements for them and their employees." He details the options available and outlines solutions which may assist companies and individuals with payment relief during these unprecedented and difficult times.

1. Temporary absence

"This option applies when pension fund members are temporarily absent from work, on either a reduced salary from their employer, or no pay at all," says Knight. "In this situation, participating employers may elect to suspend contributions in respect of retirement benefits." He outlines that the suspension of contributions would apply for the period that the staff member is absent, and this can be applied for up to a maximum of 12 months.

The relevant risk benefits would remain in place, meaning that members would continue to have their death and disability benefits during their absence, and these would remain unchanged and not reduced according to their reduced salaries. Knight cautions, though, that risk premiums and administration fees will continue to be payable. To qualify for this option, he adds that it is important for the participating employer to notify the fund - and the employee - that members will be temporarily absent for an extended period. "Also, the monthly membership and payroll data submission must reflect the member's temporary absence," he continues.

2. Amendment to pensionable salaries

"Participating employers can also choose to amend their employees' pensionable salaries for a period. This means that employers may reduce staff salaries as a preventative measure, in order to stay in business," says Knight. Risk salaries may be maintained to ensure the risk benefits remain in place and unchanged at the level determined by the previous salary. The level of life and disability cover will not be reduced according to the new reduced salaries.

Once again, Knight says that risk premiums and administration fees will continue to be collected. "As with 'temporary absence' the participating employer must notify the fund that pensionable salaries will be amended for a period," he continues. "And monthly membership and payroll data submission must reflect the member's revised pensionable and risk benefit salaries, where applicable."

3. Reduction or suspension of contributions

Where members are not absent from work, participating employers may elect to reduce or stop employer, employee (or both) retirement benefit contributions. "This means that although the company continues to operate in a 'business as usual' manner, it will probably be at a reduced working level as a result of the lockdown, forcing many employers to make financial adjustments to sustain the business."

Even though the contributions will have been decreased or suspended, risk benefits would remain in place and unchanged, ensuring that even though premiums in respect of retirement savings are no longer being submitted, the life and disability benefits remain in place and these are still provided for, through the fund. As with the previous two options, risk premiums and administration fees will continue to be collected. ***Full Report:*** ***https://www.fanews.co.za/article/covid-19-coronavirus-disease/1425/general/1430/pressure-on-finances-caused-by-covid-19-lockdown-how-can-your-pension-fund-help-you/29257***

FA News | 3 June 2020

Hybrid annuities: Some of the choices

The choice of hybrid annuities is growing all the time. They offer a number of choices combining investment-linked living annuities (living annuity, or illa) with one of the underlying choices being a guaranteed annuity and a with-profit smoothed or stable guaranteed annuity.

The most favoured combination of a hybrid pension is a with-profit annuity to provide the guaranteed income that should be sustainable for as long as you live. The main difference relates to how future increases on your pension are determined. With a normal guaranteed annuity, you get as a pension what a life company offers you with future increases specified as either a fixed % increase or as a % of the change in the official inflation rates.

The main features of a with-profit annuity are:

- Your income is guaranteed for life. This includes your starting income and every annual increase, relating to investment returns.
- Annual increases are linked to the smoothed returns of a balanced fund investment portfolio (usually 60-70% invested in equities, with returns smoothed over 5 to 6 years). There may be positive or negative adjustments, usually small, if longevity or credit risk experience is different to the best estimate basis used by the insurer.
- Your increase can never be less than zero.

While there is a range of options available, many of the legislated pension defaults being put in place by retirement funds are using living annuities, with profit annuities or combinations within the hybrid annuity. A fair number of asset managers and retirement fund administrators, including the biggest administrator, Alexander Forbes, are using a comparatively new company, Just SA, which specialises in retirement income products with its with-profit annuities as one of the underlying choices for a hybrid living annuity.

In the case of hybrids, many companies are choosing Just SA to provide the with-profit annuity as one of the portfolios within a living annuity. Other bigger life assurance companies are using their own with-profit structures in combination with living annuities. The main reason for choosing Just SA seems to be that much of the secrecy has been removed by the company. The increases and investments used by Just SA make use of predetermined formulas and are not wound up in any secrecy.

Some examples:

- Alexander Forbes head of research John Anderson, says that the Just SA offering is one of the best choices available, particularly with its use of open formulas on how its bonuses (pension increases) are determined. Among other things, he says, the basis of increases for pensioners are more predictable.

- The Professional Provident Society (PPS), which aims its products at graduated professionals, is using Just SA for the with-profit annuity choice within its normal living annuity as well as its default annuity.
- Others include Sygnia Asset Managers.

Chief executive of Just SA, Deane Moore, says future increases in your pension are transparently linked to a publicly quoted balanced fund. There may be positive or negative adjustments, usually small, if longevity or credit risk experience is different to Just's best estimate basis, but every adjustment is audited by an independent company. The cumulative adjustments made to date have been positive. Moore says before investing a pensioner should talk to a financial adviser, who will tell you about such things as drawdown rates and the annuity rate from Just SA.

Just SA supplies a blending tool which helps out advisers in providing advice on such things as how much to invest in each portfolio, how much will be received by the pensioner and how much may be left to beneficiaries. Moore says behind the scenes Just SA employs sophisticated risk management to switch between the balanced portfolio and cash/interest-earning assets that will secure your guarantee. The aim of the company is to keep assets (the capital you invested) and liabilities (what they owe you) in perfect line, regardless of the investment market conditions. Just SA has some of the top actuaries in this field, who have years of experience in developing competitive annuity rates.

Full Report: ***https://www.dailymaverick.co.za/article/2020-06-03-hybrid-annuities-some-of-the-choices/#gsc.tab=0***

Business Maverick | 3 June 2020

Local or offshore equities?

Selecting well-capitalised good quality stocks at reasonable prices is likely to be a good strategy.

The key question that remains on investors' minds is how long it will take for Covid-19 to be contained and what is priced into assets. We point out upfront that it is inherently challenging to quantify the economic and financial market impact of major unexpected shocks, such as the current Covid-19 outbreak. Our view nonetheless is that global authorities have done the right thing in implementing unprecedented monetary and fiscal policy measures that are aimed at offsetting some of the economic damage caused by the pandemic-driven economic lockdowns and to shore up liquidity in funding markets.

Global equity markets have responded strongly to these stimulus measures, as well as early moves to gradually re-open economies, while mid-term economic indicators remain quite depressed. Unfortunately, all the stimulus efforts will not do much to drive a recovery in the global economy for as long as people are not free to move and trade. Financial markets normally look forward a couple of quarters ahead of current economic data and are likely pricing in an economic recovery from 2021. It is therefore the right time to question if the economy is likely to be the disappointment factor to the current sharp recovery in global financial markets so far.

We think that James Bullard, the president of the Federal Reserve Bank of St. Louis, summed it very well in a recent speech: “The shutdown can’t go on forever because if it does, deep into the second half, then I think you risk getting into a financial crisis or even a depression scenario…. And if you get into that I think even health outcomes would be way worse.” Yes, visibility is currently very low in the global economy and, in turn, global financial markets that are supposed to follow wealth creation over the long term, but investors have to keep investing …and very uncertain times such as this one may actually present huge investment opportunities.

We believe how to approach investments in this environment depends very much on one’s circumstance and time horizon. Short-term traders and those investing for short-term goals have to be extra careful given the potential for the global economy to disappoint over the next 12 months, while long-term investors have the opportunity to acquire high quality assets at reasonable valuations in certain segments of the market.

The situation in South Africa

There is no doubt that the combined impact of weaker global growth, Covid-19, weaker South Africa government finances and the Eskom electricity supply constraints will present unprecedented challenges to the South African economy over at least the next 12 to 18 months.

Full Report :https://www.moneyweb.co.za/moneyweb-opinion/soapbox/local-or-offshore-equities/

Moneyweb | 2 June 2020

INTERNATIONAL NEWS

U.S. clears private equity as investment option for retirement plans

(Reuters) - The U.S. Department of Labor issued guidance on Wednesday that allows private equity investments to be offered to U.S. retirement plans as part of diversified investment funds, a move that the leveraged buyout industry has long called for. Employee-sponsored defined benefit plans, such as the pension funds of public sector workers, have long been allowed to include buyout funds in their investment portfolios, turning private equity into a multi-trillion-dollar industry.

But managers of defined contribution plans, including 401(k) plans, stayed cleared of private equity investments, uncertain whether federal rules allowed them to include them in their portfolios and fearful of the risk of litigation. The Department of Labor said on Wednesday that direct contribution plans are allowed to invest in private equity funds offered through professionally managed vehicles such as target-date, targetrisk or balanced funds. The funds must include private equity only as one of component of their portfolio, the Department of Labor said.

The new guidance, issued in response to a request for clarification by investments firms Pantheon Ventures and Partners Group, is aimed at helping Americans saving for retirement gain access to alternative investments that often provide strong returns, Labor Secretary Eugene Scalia said in a statement. It comes after President Donald Trump signed an executive order in May directing federal agencies to eliminate “unnecessary regulations that impede economic recovery.” The new guidance gives the private equity industry access to 401(k) plans, which have over $6 trillion in assets, said Robert Collins, a managing director at Partners Group.

But it’s unclear how quickly and to what extent large mutual fund managers and other fiduciaries of retirement assets will add private equity to their portfolios. The shares of major publicly listed private equity firms, such as Blackstone Group Inc (BX.N) and KKR & Co Inc (KKR.N), were up only in line with the wider stock market on Wednesday, indicating tempered investor enthusiasm over the impact of the change.

Reuters | 5 June 2020

OUT OF INTEREST

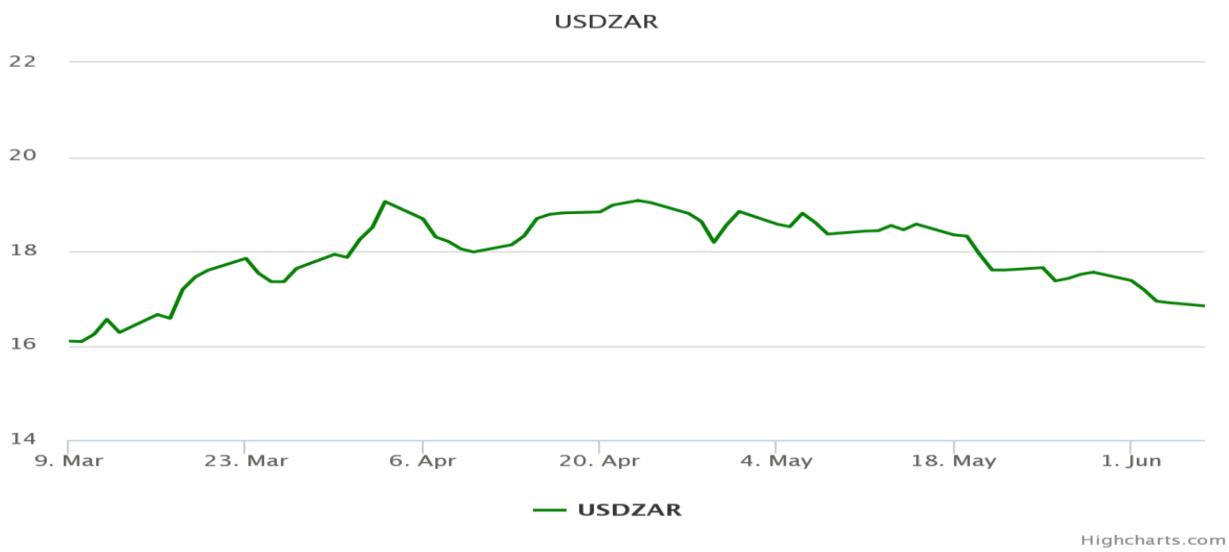
Rand strengthens, touching R16.99 to US dollar

Following a weakening of the greenback

South Africa’s rand strengthened to R16.99 to the US dollar at around 12.24pm on Wednesday, its best level since before the Covid-19 lockdown began in March.

The currency is currently around the R17 range to the dollar.

Rand vs US dollar over three months



The rand has improved by more than R2 to the dollar since it breached the R19 level twice in April. At the time some market commentators were predicting that the rand could even breach the R20/US$ level. The local currency improved by almost 1% over the last day against the greenback, which has weakened in the wake of large-scale protests in the US, following the death of George Floyd while in police custody.

On Tuesday US President Donald Trump threatened to send in the military to end the unrest in dozens of cities across America, which is also now home to the world's biggest Covid-19 outbreak. The dollar has also come under pressure as the risk appetite of traders has increased, following the easing of Covid-19 lockdown restrictions globally, according to fxleaders.com. Meanwhile, the JSE is also up more than 1% following a green market day on Tuesday as well.

Moneyweb | 3 June 2020

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