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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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Section 37C and the allocation of fund death benefits – how much weight does a beneficiary nomination really carry?

In this article we look at the wording of section 37C of the Pension Funds Act No. 24 of 1956 ("the PF Act") and focus on the impact of the wishes of the deceased as set out in beneficiary nominations.

The primary objective of Section 37C of the PF Act

Before delving into the detail, we need to remind ourselves of the overall purpose of section 37C of the PF Act. When a member of a retirement fund dies before reaching retirement age (and if the rules of the particular fund permits) the lump sum benefit which becomes payable (hereinafter referred to as the "death benefit") must be paid to the member's dependants and/or nominees. Section 37C regulates the payment of death benefits with the primary objective of ensuring that those persons who were dependent on the deceased member are not left destitute after his/her death, irrespective of whether or not the deceased was legally required to maintain them.

In essence, section 37C imposes three duties on the Board of Trustees, namely to:

1. Identify and trace "**dependants**" (as defined in section 1 of the PF Act) and those persons, if any, who have been **nominated** by the deceased member;
2. Make benefit allocations on a fair and equitable basis; and lastly
3. Determine an appropriate mode of payment of the death benefit.

Dependants versus nominees

Section 37C must be read in conjunction with the definition of a "*dependant*" as set out in section 1 of the PF Act. In essence, the PF Act distinguishes between three categories of dependants based on the deceased member's liability to maintain such a person, namely legal dependants, factual dependants and future dependants. The fact that someone falls within the definition of "*dependant*" only entitles him/her **to be considered** by the Board when making the benefit allocation decision. It does not mean he/she automatically qualifies to share in the death benefit payable.

A nominee, on the other hand, is a person designated in writing by the deceased to receive the benefit, or a portion thereof. As we can see from the wording, section 37C imposes a duty on the Board of Trustees to conduct a proper investigation to determine all the "*dependants*" of the deceased member. What this means is that the Trustees cannot merely follow the beneficiary nomination made by the member during his/her lifetime – the nomination will merely serve as a guide to the Trustees. The overriding factor will however always be the beneficiary's dependence on the deceased when he/she was alive. Although it is accepted that the legislature intended to favour dependants over nominated beneficiaries, it does not mean that the Board of Trustees can *unilaterally ignore beneficiary nominations*. This was recently highlighted in the matter of *Swart N.O and Others v Lukhaimane N.O and Others (54157/2019) [2021] ZAGPPHC 124* discussed here below.

Swart N.O. and Others v Lukhaimane N.O. and Others [2021] JOL 49952 (GP)

In the matter of *Swart N.O and Others v Lukhaimane N.O and Others (54157/2019) [2021] ZAGPPHC 124* (12 February 2021), the High Court considered aspects of section 37C, including the significance of the wishes of the deceased as set out in a beneficiary nomination. The member died leaving behind a wife aged 39 (they were married for less than four years at the date of death) and two major children from a previous marriage. The children had received regular cash payments from the deceased, and he had also paid certain monthly expenses such as their medical aid and insurance premiums. After the member's death, the wife remarried.

She also instituted a maintenance claim against the deceased estate.During his lifetime the deceased completed a nomination form in which he nominated his wife and a family trust (of which the two major children were beneficiaries) to each receive 50% of his death benefit. Concluding that the maintenance needs of the children had been met by the proceeds of the trust and other life policy payments, and that the wife's maintenance needs took precedence over the children's claim, the Fund awarded 100% of the death benefit to the wife. Aggrieved by the Fund's decision, the major children approached the Pension Funds Adjudicator ("PFA").

The PFA found that the Fund had not conducted a proper investigation in terms of section 37C and ordered the Fund to reconsider its decision. After requesting additional information from the dependants, the Fund made exactly the same decision as it had made previously, allocating 100% of the benefit to the wife. Upon the children again complaining to the PFA, they were told that the PFA regarded herself as functus officio, and that if they were to take the matter further, it would have to be by way of a review application. The children and trust accordingly approached the High Court, seeking an order that the Fund's decision be set aside and that the deceased's wife pay 50% of the death benefit to the trust. The children argued that the Fund had failed to give proper consideration to the deceased's wishes as expressed in the nomination form and that the Fund failed to make the necessary enquiries into the value and solvency of the trust (more especially given the fact that there was a cash shortfall of some R11 million in the Trust, and that assets would have to be liquidated to restore the trust to solvency). The Fund simply accepted, without any basis in fact, that the trust would be able to meet the children's maintenance needs.

They also argued that the Fund had failed to conduct proper enquiries into the maintenance requirements of the wife, specifically as she had already received some R4.3 million from the deceased's life policies, the fact that she was relatively young, had remarried, and was employed. The Fund in response submitted that there was no evidence that the children were dependent on the deceased. It further submitted that it was not required to consider the solvency of the estate when making a decision.

At paragraphs 31 and 32 the court held as follows:

"*[31] The Fund's basic approach to the matter was flawed. Its view, that the solvency of the trust was irrelevant, and the argument that the maintenance claim proved fourth respondent's dependency were both irrational, in my view. [32] Finally, although I accept that the Fund is not bound by the wishes of a deceased person, the wish expressed in a nomination form or in a will is not to be lightly ignored. It is one of a number of factors to be taken into account, but it is a substantial factor. Therefore, before the Fund decided to ignore the nomination, it should have considered whether there were compelling reasons to do so. If it would result in an injustice or be inequitable should the deceased's wishes be given effect to, then the Fund would be justified in deviating from the deceased's wishes. Here there is no evidence that the Fund placed any weight at all on the nomination*".

(my emphasis)

Interestingly, the Fund also (*in a last desperate attempt?*) tried to argue the trust was not a "*dependant*" as defined in the PF Act, and as such the relief sought was therefore not legally competent. The court rejected the Fund's argument and referred to the wording of section 37C(2)(a) of the PF Act which states that a death benefit can be paid to a trust on behalf of a dependant or nominee. At paragraph 36 the learned judge held as follows: "*[36] It is consequently not the trust that is the dependant, but the person who receives a benefit by way of payment to the trust. Payment to the trust is regarded as a payment to the dependant. There is no merit to this argument.*"

(my emphasis)

The court accordingly found that the Fund had not investigated the wife's and children's circumstances sufficiently to conclude that the wife was in need of maintenance and the children were not and ordered that the Fund’s decision to allocate 100% to the wife be set aside.

Conclusion

Here are some key take-aways from the Swart-case discussed above:

• The Board of Trustees has the discretion to award any proportion of the death benefit to any dependant, even in the face of a nomination by the deceased, depending on what is equitable in each case.

• What exactly “equitable” means is not defined in the PF Act – however, the PFA has identified certain factors that should be considered in the decision-making process, including but not limited to:

- age of the dependants;
- their relationship with the deceased;
- the extent of the dependency;
- **the wishes of the deceased;**
- the financial affairs of the dependants and their earning potential; and
- the amount available for distribution.

• Although the Board of Trustees is not bound by the wishes of the member, the “wish” expressed in a nomination form is a **substantial factor** to be taken into account when allocating death benefits.

• As such, the Board would need **compelling reasons** to ignore the nomination form, for example, where it would result in an injustice or be inequitable should the member's wishes be given effect to.

FA News | 4 May 2022

FNB Retail customers saved over R5.5 billion by banking their change

FNB Retail customers have saved over R5.5 billion in the last three years by saving small amounts ranging from R2 to R50 through the Bank Your Change® feature linked to their FNB Savings Account. Over R2 billion in savings were accumulated in the last year from customers who have activated Bank Your Change®, and customers earn up to 3.8% per annum based on their savings balance. Bank Your Change® is a free feature that allows all FNB customers who have a transactional bank account to save a portion of their change each time they use their FNB debit card to buy goods or services.

Customers who activate Bank Your Change® automatically save their 'change' when they swipe their FNB debit card. The functionality rounds up each debit card purchase to the nearest Rand value chosen at activation and sweeps the difference into their linked FNB Savings Account, helping customers save for an emergency. Raj Makanjee, CEO of FNB Retail, says, "This innovative feature has been instrumental in helping our customers save effortlessly and get access to cash reserves in case of emergencies or unforeseen expenses. We're particularly excited to see that this savings instrument is popular across our entire Retail customer base, with percentages of users ranging between 30% and nearly 70% depending on the income segment.

In addition, we encourage all our customers to use our free tools like nav>> Money on the FNB App to help them in their money management journey." According to Himal Parbhoo, CEO of Cash Investments for FNB Retail, FNB has been steadily expanding solutions to help customers save. "South Africa has consistently had a lower-than-average savings rate, which is largely due to our culture of consumption and limited use of formal savings instruments. We've made significant investments to change this by allowing customers to use our platform to save and track their short- and long-term savings goals," he says.

"The most difficult challenge for many people is starting, and a solution like Bank Your Change® makes it simple for many to begin a savings journey. We've also enabled group or collective savings through digital solutions that cater to stokvels, which are some of our country's most well-known formations. As customers improve their ability to save, we can assist them with solutions for more complex needs, such as getting exposure to long-term investments through equity investments starting at just R10," Parbhoo concludes.

FA News | 9 May 2022

State pension fund sticks with the 'secretive' Public Investment Corporation on BEE investments

The Government Employees' Pension Fund has agreed on a new mandate for unlisted investments with the Public Investment Corporation. In other words, the PIC will continue managing the Isibaya Fund and pouring GEPF money into black economic empowerment deals.

Despite the Public Investment Corporation's (PIC) trail of sullied investments worth billions of rands, the state-owned asset management firm's biggest client is sticking by it on black economic empowerment and unlisted deals. The PIC's biggest client is the Government Employees' Pension Fund (GEPF), which looks after the pension savings of current and retired public servants — it was worth R2.09-trillion at last count. The GEPF mandates the PIC to invest the pension savings of public servants in a range of asset classes (including listed shares, bonds, property and unlisted companies) to generate attractive returns while supporting South Africa's developmental goals.

But the GEPF's investment relationship with the PIC was up in the air for more than a year as neither institution had an agreement on the management of investments into unlisted companies. The PIC's mandate to oversee the GEPF's portfolio of unlisted investments — called the Isibaya Fund and worth more than R70-billion — expired in March 2021. And the GEPF opted to not renew it, bringing into question its relationship with the PIC as the latter managed the former's portfolio of unlisted investments, or Isibaya Fund, since 1997. Started at the time as an "impact investment fund" with a focus on infrastructural investments with an economic and social benefit, the Isibaya Fund has morphed to prioritise investments into companies with a favourable black economic empowerment profile.

About 10% of the GEPF's pension savings (worth about R2-trillion) are shifted into the Isibaya Fund. The GEPF is not ready to cut ties with the PIC as it has agreed on a new mandate for unlisted investments with the state-owned asset manager. In other words, the PIC will continue managing the Isibaya Fund and pouring GEPF money into black economic empowerment deals. The PIC is not prepared to disclose the financial terms of its new arrangement with the GEPF on the Isibaya Fund. The PIC didn't specify if it would still manage R70-billion under the Isibaya Fund as before, or whether the GEPF had reduced this mandate amount.

When pressed for more information on its new mandate with the GEPF, the PIC told *Business Maverick* that it won't be commenting beyond a statement it issued on Tuesday announcing its continued relationship with the GEPF, regarding the Isibaya Fund.The PIC was only prepared to say that the new mandate allows it to deploy investments, on the GEPF's behalf, into companies that are based in South Africa and the rest of Africa. In South Africa, the PIC will consider unleashing investments worth up to R500-million per company. And in the rest of Africa, the PIC will deploy investments of between $20-million (R316-million) and $40-million (R632-million).

Old habits die hard

The PIC's secrecy around its new mandate with the GEPF on the Isibaya Fund is arguably reminiscent of its old habits. It is the secrecy and opaqueness surrounding the Isibaya Fund that led to sullied investments worth billions of rands to be pencilled in by the PIC when Daniel Matjila was at the helm of the asset manager from 2014 to 2018. That the Isibaya Fund invests in companies that are not listed on the JSE, or any exchange, takes away the transparency or disclosure requirements on the part of the PIC. The way the Isibaya Fund came to work under Matjila was that deals were opaquely selected.

Most of the controversial or dud investments that the fund has made include among others Independent Media, AYO Technologies, Erin Energy, VBS Mutual Bank and S&S Oil Refineries. Underscoring this is that the Mpati inquiry into the governance affairs of the PIC has found that 41% of the R123-billion of the asset manager's unlisted investments (including the Isibaya Fund) were at risk and were "on watch, underperforming" or non-performing. The Isibaya Fund and its future governance are crucial. The Mpati inquiry has called for greater transparency regarding the PIC's investments under the fund — requiring the value of its investments to be listed online and in real-time. But the PIC is off to a poor start if it isn't prepared to disclose the terms of its new mandate with the GEPF on unlisted investments. **DM/BM**

Daily Maverick | 3 May 2022

Take charge of your retirement plan

If you're not on track with your retirement planning, it's best to act sooner rather than later. Many South Africans plan to retire as early in life as possible, but the reality is that most cannot afford to retire as early as they'd like. Perhaps it should be a wake-up call that you are responsible for your own retirement plan and if you're not on track, perhaps best to act sooner rather than later.

How can you take charge of your retirement plan?

SAVE, SAVE, SAVE….

The first step is to determine whether you are saving enough capital on a yearly basis. So, if you were to retire at your planned retirement date, how long would your capital last if you were to draw your required income? If your capital will not last very long, it is a sign that more money should be saved on a yearly basis. Drawing a financial roadmap is a great way of visually planning your retirement.

Monitor your investment performance:

Markets move in cycles, so investment performances will vary each year and are sometimes not as pleasant as expected. However, if your portfolio is not performing over a longer period such as three to five years, you should be asking why. A good way to measure your performance is against South Africa's annual inflation target of 6%, and if your portfolio is not beating inflation comfortably over longer periods after costs, then it should be a serious concern for you. Investment advisors should be able to construct suitable portfolios that aim to beat multiple benchmarks on a client-specific level. It is recommended that your portfolio is constructed to best suit your long-term objectives. Investing in money market is no longer the safe place to be in a high inflation environment – your wealth will erode in real terms.

Invest in growth assets:

Over long periods of time, riskier asset classes such as equities have outperformed inflation at a comfortable level. To grow your wealth, you need to have a suitable allocation to equities, both locally and internationally. Growth asset classes do carry more risk and do expose your portfolio to market volatility, and it is best to take a long-term view when measuring performance. The below graph is an illustration of how a more aggressive portfolio outperforms conservatively structured portfolios as well as beating inflation (CPI) over the long term:

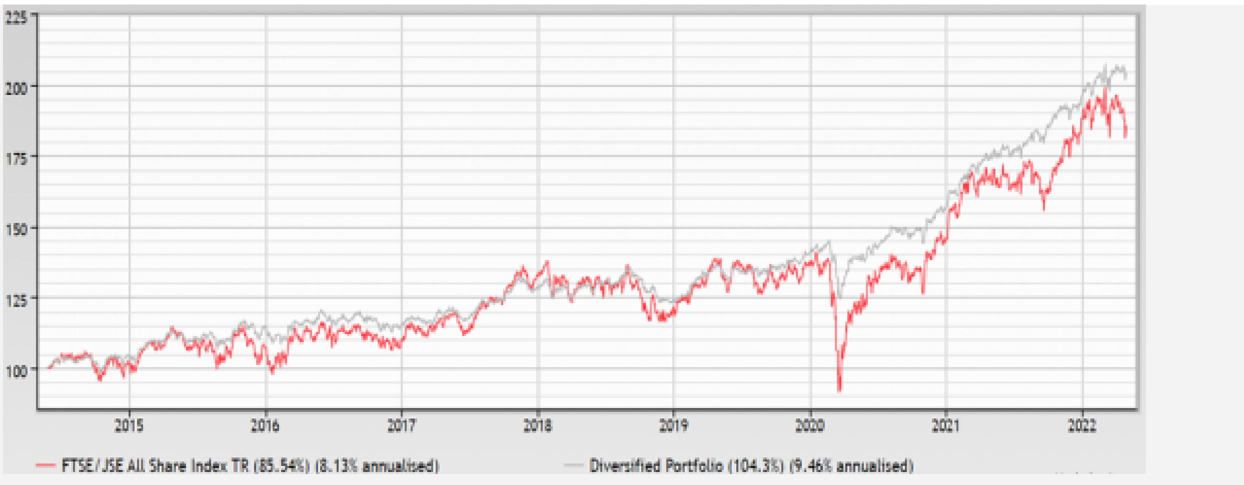
- **Conservative portfolio:**
    - The below portfolio comprises mainly income and balanced funds. Although beating inflation, it is not by a large percentage
- **Aggressive portfolio**
    - The below portfolio comprises mainly balanced funds and equity concentrated funds, with a higher allocation to equities both locally and internationally. The portfolio aims to beat inflation by a much larger percentage over the long term.

Source: Profile data / Brenthurst Investment Committee

Ensure that your portfolio is well-diversified:

Diversification benefits are well noticed when markets suffer a downside swing. This was very evident in March 2020 because of the Covid-19 crisis and the swift negative impact it had on markets. Diversifying a portfolio means not investing all your capital in the same asset class. A well-diversified portfolio will be constructed to include exposure to multiple asset classes as well as over various geographic locations.

The below graph illustrates how a diversified portfolio offers more protection to your wealth in a downside market cycle (seen in March 2020), as well as outperforms the benchmark on the upside:



Source: Profile data / Brenthurst Investment Committee

Taking charge of your retirement is the first step to enhancing your chances of a successful retirement. It is also recommended that your retirement plan is reviewed regularly and adjusted as circumstances and market conditions change. It could be a daunting task for some and navigating through the challenges and investment solutions is best done with the assistance of an investment advisor.

Moneyweb | 3 May 2022

What to consider when determining your retirement cash flow needs

If you underestimate your post-retirement expenditure, you run the risk of running out of capital during your retirement years.

If you're approaching retirement, determining your income and cash flow needs in retirement will be a critical part of the planning process. If you underestimate your post-retirement expenditure, you run the risk of running out of capital during your retirement years or running into cash flow problems when it comes to drawing down from your annuities.

Find a baseline income

While rules of thumb can be a useful guide for determining your post-retirement cash flow needs, as you get closer to retirement, we advise that you take a more precise approach to your calculations. Many suggest that a post-retirement income equivalent to between 70% and 80% of your pre-retirement income should be used as a guide, but this is subject to a number of factors such as the levels of debt you were servicing in the years leading up to retirement, the percentage of your taxable income you were investing towards retirement, and the costs of the long-term insurance you had in place. Ideally, take a careful look at your actual expenditure and consider the standard of living you envisage for yourself in your retirement years. This will help you develop a baseline budget which you can then adjust and refine as you consider the various post-retirement costs more carefully.

Deduct your investment contributions

Formal retirement marks the point where you effectively stop contributing towards your various investments and begin drawing down from them. As such, when calculating your post-retirement expenditure, you will need to deduct the amount that you're currently investing towards your nest egg. Remember, if you started investing early on in your career, your investment contributions as a proportion of your income are likely to be smaller than if you only started investing later on in life – which demonstrates the danger of relying on rules of thumb in determining how much you will need after you retire.

Deduct your debt repayments

Ideally, you should aim to settle all your debt by the time you retire which means that you can deduct your home loan, vehicle and credit card repayments from your post-retirement budget. Before retiring, our advice is to develop a plan that will allow you to settle your debt in the most tax-efficient manner while ensuring that you retain sufficient discretionary money to provide for your cash flow needs throughout your retirement.

Reduce your insurance premiums

Retirement is an opportune time to do an in-depth review of your risk cover, although there are a number of important factors to take into account when doing so. Firstly, keep in mind that much of your life cover would have been put in place to insure against any debt in your estate in the event of your death and, settling your debt at retirement means that you may be in a position to decrease your life cover. That said, life cover is a highly effective estate planning tool, and we advise that you do not cancel or reduce any life cover until you've had an updated estate plan prepared.

From an estate planning perspective, you may need life cover to cover estate duty liabilities in your deceased estate or to provide capital to your loved ones in the immediate aftermath of your death. Some benefits, such as capital disability, may fall away at age 60 or age 65, meaning that this premium will fall away as well. Very often, dread disease or severe illness cover is for whole-of-life and, as many diseases are a function of old age, it is advisable to keep such cover in place if you can afford it.

Healthcare costs

We all know that medical inflation outstrips consumer inflation by around 3% – 5% per year, and it is, therefore, essential that you build these increases into your post-retirement budget. However, there are a number of other factors that should be taken into account when assessing the future costs of your healthcare. If you currently receive a medical aid subsidy as a result of your employment, find out what happens to this subsidy once you retire. If you've been relatively healthy to date, it may be that a good hospital plan has been sufficient for your needs.

Consider, however, that you may need to move onto a more comprehensive plan option later in retirement which can significantly increase your medical aid contributions – something which should be factored into your budgeting. Also important to keep in mind is that most medical aids have benefit limits for high-cost items such as hearing aids, medical appliances, spectacles, walking aids and devices, and prosthetics – and if you need any of these in retirement, you may need access to discretionary funds to help cover the costs. **Full Report:** ***https://www.moneyweb.co.za/financial-advisor-views/what-to-consider-when-determining-your-retirement-cash-flow-needs/***

Moneyweb | 3 May 2022

Your taxes in retirement

One would think the government would have more sympathy for pensioners by allowing them to live tax-free – after all, they have been paying tax throughout their working lives!

Sadly, pensioners who are earning above a certain minimum amount are obliged to pay income tax, just like everyone else. And apart from income tax, there are virtually no concessions for pensioners when it comes to capital gains tax, dividends tax, VAT, or estate duty, to mention some of the other ways the government extracts revenue from its citizens. That said, the government is not totally unsympathetic, and there are a few important ways in which pensioners can pay less tax, through higher exemptions and thresholds for over-65s.

Let's look at some of your main taxes and concessions.

Income tax

You pay PAYE on pension income from an annuity provided by a provider such as a life insurance company. If it is a compulsory annuity (one you have to buy with two-thirds of your savings in a retirement fund), you are taxed on the whole amount, in accordance with the SARS income tax tables. You pay income tax because your contributions to your retirement fund during your working life were tax deductible. If it is a voluntary annuity (that is, one that you buy with discretionary savings or from the one-third of your retirement savings you are allowed to take as a lump sum), you only pay tax on that part of your income that derives from investment returns, not from your original capital (because that capital came from after-tax money).

Within the annuity investments that are providing your pension, there is no tax on capital gains, dividends or interest. If you are receiving income from various sources, you will need to register with SARS as a provisional taxpayer, subject to certain thresholds. For the 2022/23 tax year, the rebate for over-65s (the primary plus secondary rebates) is R25 425. For over-75s this rises (primary plus secondary plus tertiary rebates) to R28 422. This equates to tax thresholds (the amount of annual income below which you do not pay tax) of R141 250 for over-65s and R157 900 for over-75s.

Tax on interest

If you are earning interest on a discretionary investment such as an RSA Retail Savings Bond, bank deposit or interest-bearing unit trust fund, there is a higher exemption for over-65s: R34 500 (for under-65s it is R23 800). In other words, if, for example, you earned R100 000 in interest from a fixed deposit, R34 500 would be tax-free and the remainder (R65 500), would need to be added to your total taxable income for the year, on which you will be taxed according to the SARS income tax tables.

Capital gains tax (CGT)

There are no CGT concessions for over-65s, except that you don't pay CGT on gains within an annuity product. On property and on share-based investments (such as an investment in an equity fund), you pay CGT when you realise a gain – in other words, when you sell the investment or switch funds, say from an equity fund to a balanced fund. On that gain you have an annual exclusion of R40 000. On anything over that, 40% must be added to your taxable income for the year. On your primary residence property, the exclusion is R2 million. Currently, you don't pay CGT on gains on "personal-use" assets, which include artworks and wine collections.

Estate duty

Estate duty is levied at 20% on estates up to R30 million and at 25% on amounts over R30 million. However, there is an exemption of R3.5 million, meaning essentially that if your estate is below that amount, you do not pay estate duty. This exemption rolls over to the surviving spouse, meaning the estate of the last-dying spouse has an exemption of R7 million minus any of the R3.5 million exemption used by the first dying spouse.

Medical tax credits

One additional concession by SARS to pensioners is that they can claw back higher amounts on medical expenses. Some years ago, the government introduced the medical tax credit system, which is more complicated than the old system of claiming deductions for medical expenses. You get credits in two ways:

1. On contributions to a medical scheme (R347 a month for the taxpayer who pays the medical scheme contributions and for the first dependant such as a spouse, totalling R694, and R234 for any additional dependants). If you are 65 years or older you may also claim 33.3% of your contributions that exceed three times the medical tax credit to which you are entitled. For example, if, as a single person with no dependants, you are contributing R3 000 a month to your medical scheme, you can claim a monthly credit of:

R347 + 33.3% of [R3 000 - (R347 x 3)]

= R347 + 33.3% of [R3 000 - .R1041]

= R347 + 33.3% of R1 959

= R347 + R653

= R1 000

2. On allowable “out-of-pocket” medical expenses not paid for by your medical scheme. If you are 65 years or older you may claim 33.3% of these medical expenses. Note that you do not deduct these amounts from your taxable income for the year. The credits act like rebates, deducted from the tax amount you owe SARS.

Personal Finance | 29 April 2022

INTERNATIONAL NEWS

U.S. corporate pension plan funding rises in April

U.S. corporate defined benefit plan funding ratios rose in April despite poor market returns, primarily due to rising discount rates, which lowered liability values, three reports show. In Wilshire Advisors' monthly report, the aggregate funding ratio for U.S. corporate pension plans increased by 30 basis points in April, to 97.4% as of April 30 from 97.1% as of March 31. While assets fell 7.7 percentage points due to a troubled equities market in February, liability values offset those losses by dropping 7.9 percentage points, due primarily to an estimated increase of discount rates by more than 60 basis points, said Ned McGuire, managing director at Wilshire, in the report.

"Moving nearly in tandem with the liability values, the asset value decreased by a similar amount with core fixed income's performance the third worst month ever and worst since February 1980," Mr. McGuire said. Wilshire's assumed asset allocation is 34% long-duration fixed income, 25% core fixed income, 24% domestic equities, 16% international equities and 1% real estate. Wilshire spokeswoman Amy Bradford could not be immediately reached for further information.

Legal & General Investment Management America said in its monthly pension solutions monitor that it estimates that the typical U.S. corporate pension plan's funding ratio rose to 97.2% as of April 30, from 96.3% a month earlier. LGIMA estimated that U.S. Treasury rates rose 54 basis points for the month while credit spreads increased 18 basis points, resulting in the average discount rate dropping by roughly 2 basis points. Insight Investment in its own estimate said the funding ratio for U.S. corporate DB plans rose to 99.4% from 97.8% during April. Assets decreased by 6.6 percentage points, while liabilities declined by 8.1 percentage points. The average discount rate rose to 4.59% as of April 30 from 3.91% a month earlier.

Pensions & Investments | 4 May 2022

Taking your state pension early could cost you £12,000

Let people retire early, a former pensions minister is urging. But they risk paying more tax if they do

The Government has come under fresh pressure to allow 63-year-olds to take their state pension early but doing so could cost them nearly £12,000, new figures have shown. Anyone who took their state pension three years early would be £11,883 worse off by age 90, calculations by Canada Life, a pension firm, found. They would be £2,719 out of pocket by the average male life expectancy of 85 years. The Government has been running a statutory review into increasing the state pension age, potentially pushing retirement back for millions of people. This has sparked criticism from the pensions industry as experts have called for more flexibility and the option for retirees to take their state pension early.

One in six people would be interested in taking their state pension early given the chance, according to a survey by AJ Bell, a stockbroker. At present the state pension age is 66 and two further increases have been set out in legislation – a rise to 67 for those born on or after April 1960 is due to take effect by 2028 and a rise to 68 between 2044 and 2046 for those born on or after April 1977. But as part of the review the Government wants to accelerate plans to increase the state pension age. It has confirmed that it will publish the findings by May 2023. Baroness Ros Altmann, a former pensions minister, said the lack of flexibility in the system was "socially unjust". Older people should be allowed to draw their retirement income early, she said.

"The National Insurance system only has flexibility for the well off, not the poorest, which seems the wrong way round. It allows those who are healthy and wealthy enough to wait longer and receive more by delaying, but does not enable those in poor health and with no other income to receive a penny of their state pension before the ever-rising age," she said. Tom Selby of AJ Bell said early access would be "relatively simple" to implement as it would mirror the existing flexibility that allows people to defer receiving their state pension. But he warned that healthy retirees who took their state pension early at a lower rate could face severe income challenges in later life.

Steven Cameron of the pensions group Aegon said more people would struggle to stay in full-time work the higher the state pension age and called for more flexibility in the system. "We support giving people the choice to draw it up to three years earlier, say, at a reduced amount to make it financially fair for all. An ever-rising fixed state pension age could become increasingly divisive and out of sync with today's flexible private pensions world," he said. A

63-year-old who earns £20,000 a year and who starts to take the state pension three years early while working would receive £7,953 in the first year. However, the benefits of taking the state pension early would be wiped out by age 78 as they would pay more income tax in the early years, calculations by Canada Life found. Andrew Tully from the firm said there would be winners and losers from early access. Those who died before average life expectancy would benefit from taking the state pension early, despite the lower income paid. Others would lose out by paying more income tax than if they had left the state pension until after they retired at 66.

“Those who enjoy average life expectancy or beyond are likely to lose out financially,” he said. The review will also consider whether existing rules around the state pension age are “appropriate” in view of the latest life expectancy data, the Government said. Past changes to the state pension age have been highly controversial. Millions of so-called “Waspi” women argued that they had been discriminated against after the Government equalised the state pension age for men and women between 2010 and 2020.

The Telegraph | 4 May 2022

OUT OF INTEREST NEWS

April 2022 economic update

The IMF to cut the UK’s GDP growth forecast to 3.7% for 2022 down from January’s forecast of 4.7%

- April proved to be a devastating month for global equities as a myriad of factors dragged down the major indexes. Expectations of a 50-basis-point hike by the Federal Reserve are lifting yields to new highs; whilst the war in Ukraine and the Covid-19 outbreak in China are threatening to further exacerbate supply chain issues and boost prices. As a result, the Morgan Stanley Capital International (MSCI) All Country World Index lost 8.1% in April. Developed markets were the biggest drag with the MSCI World Index losing 8.4% as compared with -5.8% for the MSCI Emerging Markets Index.
- The US manufacturing sector remains in a supply-constrained, high demand environment which caused the Institute of Supply Management’s Manufacturing Purchasing Managers Index (ISM Manufacturing PMI) to fall for the second month to 55.4, missing forecasts of 57.6.

- The US added 431 000 payrolls in March, below expectations of 490 000, but still indicating tightening conditions in the labour market. The unemployment rate for March also dropped for the second consecutive month to 3.6%, down from 3.8% in February.
- Inflation is showing no signs of easing after accelerating to 8.5% year-on-year (y/y) in March. The biggest culprit continues to be energy which increased 32% for the month. Elevated inflation coupled with the tightening labour market has opened the door for a 50-basis point hike by the Federal Reserve at their meeting in May.
- China's stringent lockdowns amid a surge in Covid-19 infections are slowing down the economy and further hampering global supply chains. This has led both manufacturing (Caixin Manufacturing PMI) and services (Caixin Services PMI) activity to drop to 48.1 and 42.0 respectively – the lowest levels since the start of the pandemic.
- The UK is also showing signs of a slowdown due to depressed household spending and investment brought about by higher prices and interest rates. This led the IMF to cut the UK's GDP growth forecast to 3.7% for 2022 down from January's forecast of 4.7%, whilst the 2023 growth rate was cut to 1.2% from 2.3%.
- Given that households are facing a large tax hike as well as soaring prices, it comes as no surprise that the UK'S GfK Consumer Confidence indicator fell to -38 in April, its lowest level since the 2008 financial crisis. The collapse in consumer confidence indicates that the rise in the cost of living is beginning to weigh down on growth.
- Inflation in the UK also advanced to 7% in March, the highest reading in just under 30 years. The largest contributor was the rise in transport costs due to increases in motor fuel and petrol prices. Consequently, it is largely expected for the Bank of England to raise rates for the fourth consecutive time at their meeting on Thursday.
- Locally, manufacturing production went up a meagre 0.2% (y/y) in February, falling sharply from the 2.9% growth in January. The sharp fall in manufacturing activity is likely a result of the increased load shedding being experienced. Retail sales also fell by 0.9% in February after the spending spree in January saw a rise of 7.7%. This is a result of unemployment, rising interest rates and elevated inflation weighing down on consumer spending.
- The local inflation rate jumped to 5.9% for March, up from 5.7% the month before but below market forecasts of 6.0%. This is the 11th consecutive month that the rate has been above the South African Reserve Bank's 4.5% midpoint and has likely opened the door to another rate hike at their May meeting.
- The rand has dropped to its weakest level in close to five months as expectations of a 50-basis-point hike by the Federal Reserve keep the greenback elevated. This coupled with our local issues caused the rand to lose 8.3% against the greenback in April and is currently trading around the R16.00 level. The rand also lost 3.6% and 3.1% against the pound and euro respectively.
- South African equities followed their developed peers lower with the FSTE/JSE All Share Index ending April down 4.1%. The biggest drag on performance was financials with -7.8%, followed

by resources and industrials with -5.4% and -2.0% respectively. South African listed property also ended the month down 2.6%.

- One month index movements:
    - JSE All Share Index: -4.05%
    - S&P 500 (US): -8.80%
    - FTSE 100 (UK): 0.38%

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