MONDAY, 8 JUNE 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Change your living annuity, not your drawdown rate
- Pensioners with living annuities can now access more cash flow as Covid-19 regulation kicks in
- Other countries granting access to retirement savings
- SAVCA calls for Regulation 28 amendments to support SA's economic recovery
- Solly Moeng | First things first: We must be able to trust those running our SOEs
- Financial freedom and retirement
- South Africa, once a beacon of innovation in the financial sector infrastructure has lost its lead. It is time to take a serious look at the numbers and face the reality of reinvention to save what is left.
- Pensions may fund recovery

INTERNATIONAL NEWS

- Pension: UK regulators join forces to provide comprehensive guidance – expert responds
- How COVID-19 and low yield affect Nigeria's pension funds

LOCAL NEWS

Change your living annuity, not your drawdown rate

The relatively poor market returns over the last five years, coupled with the devastating crash in March this year, has exposed the risks associated with standard living annuities where pensioners carry all of the investment and longevity risk on their own. As part of its response to the COVID-19 crisis, National Treasury announced a change in living annuity drawdown restrictions where pensioners will be allowed to temporarily adjust their drawdown rate to as low as 0.5% or as high as 20%, even if it is not the anniversary date of the living annuity.

Many commentators suggest living annuity investors do nothing in this tumultuous market, and there may be merit in that. Others suggest you reduce your drawdown rate, which makes sense on paper, but is not a possibility for most pensioners. Insights from Just's retirement-focused study in 2019 revealed that two in five respondents said they cannot afford to lose any retirement fund money before it seriously affects their retirement plans. But current market conditions present a unique opportunity to improve the sustainability of your income in retirement despite the recent market movements. And this does not require you to reduce your drawdown rate.

A combination of market factors caused long-term interest rates on bonds to increase (and is a rare opportunity not seen in many other countries around the world). This is really good news for pensioners looking to secure an income for life. Life annuity rates have improved significantly which means a guaranteed retirement income is now cheaper compared to before the market crash. Great - but you may be asking what that has to do with sustaining an income in a living annuity. No guarantees are provided in a standard living annuity.

The good news therefore only really applies to living annuities that have the ability to access a guaranteed income within a single vehicle. And there are only a handful available in the market – referred to as 'blended' living annuities. Recent research has proven that a combination of a living annuity and a guaranteed income for life offers a more optimal solution than either on its own. A blended living annuity will allow you to maximise consumption by securing lifetime income to cover essential expenses, or to re-invest, and you can maintain discretion over the balance of the assets to maximise the long-term capital growth to meet flexible financial needs or to leave a legacy to beneficiaries.

As it stands, current regulations do not allow you to split your living annuity after retirement. So, in order to take advantage of current cheaper guarantees, you may want to consider the following choices for your retirement income:

1. If you are already invested in a blended living annuity, consider increasing your allocation to the lifetime income portfolio to secure a higher guaranteed income for life
2. Transferring your entire living annuity to a blended living annuity to access a lifetime income portfolio
3. Converting your entire living annuity to a guaranteed life annuity, especially if you are drawing at a rate higher than the recommended drawdown rates
4. Remaining in a standard living annuity and effectively self-insuring against volatile markets and outliving your capital.

The age-old investment advice is stay invested for the long term. But if your time horizon is shorter, you should also focus on additional options to secure a sustainable long-term solution to protect yourself (even partially) from the next market crash.

FA News | 1 June 2020

Pensioners with living annuities can now access more cash flow as Covid-19 regulation kicks in

Individuals can now choose to access more income from their living annuity, should they need more cash flow as they face the financial impact of Covid-19. The notices allowing this were gazetted by Finance Minister Tito Mboweni on Monday, as part of tax measures rolled out to combat the Covid-19 pandemic. A living annuity is a financial product that pays you an income from your retirement savings. Individuals receiving income from a living annuity fund can either choose to increase access to as much as 20%, or decrease their access to 0.5%, depending on their needs, according to the notice.

Legislation had required that you access between 2.5% and 17.5% of your annuity income, per year. "This will assist individuals who either need cash flow immediately or who do not want to be forced to sell after their investments have under-performed. "As a result, living annuity members can now approach their financial sector providers to adjust the proportion they receive as annuity income, instead of waiting up to one year until their next contract anniversary date," Treasury said. Treasury also amended the threshold at which individuals can withdraw their retirement benefit as a full cash lump sum, to R125 000.

Government has set aside a R500 billion fiscal package to help buoy the economy amid the challenges of Covid-19. Of this amount, R200 billion is attributed to a loan guarantee scheme to assist businesses, and which has already been launched. Tax relief measures part of the package amount to R70 billion and include deferrals of some tax payments such as carbon tax and excise duties. The finance minister is yet to table an adjusted budget detailing how R130 billion of the package will be reprioritised from the existing budget.

Fin24 | 2 June 2020

Other countries granting access to retirement savings

South Africa's retirement fund legislation stipulates that active members of retirement funds cannot access their retirement savings while employed, and benefits can be paid only when they leave their employers. In an effort to assist members affected by Covid-19, retirement fund regulators in other countries have amended their retirement fund legislation to grant members temporary early access to their retirement savings.

They are using the following eligibility criteria. Members must be unemployed, made redundant, subject to reduced working hours, or sole traders whose business has been suspended or whose turnover has fallen. The Australian government has allowed members to access up to AU$10 000 (R114 949) of their retirement savings before July 1. These members will have another opportunity to access an additional payment of up to AU$10 000 between July 1 and September 24. These payments will be tax free. The Employees' Provident Fund Organisation in India has changed its rules to allow for an advance non-refundable withdrawal of retirement savings.

Employees will be allowed to withdraw the lower of 75% of their retirement savings or three months' salary as an advance from the fund, while remaining an active fund member. Members participating in the Malaysian Employees Provident Fund will be able, over the next 12 months to withdraw up to 500 ringgits (R2004) a month from their retirement savings. This will apply only to members below 55 years old.

The US has implemented the Coronavirus Aid, Relief and Economic Security Act, which allows the following:

* Members can withdraw money from their individual retirement accounts and employer-sponsored retirement plans without incurring the 10% tax penalty for early access.
* Members will have three years to repay this amount and when repaid within the three years, no income taxes will be due.
* The maximum loan amount from an employer-sponsored retirement plan is now $100000 (R1.7million) and a member can now borrow up to 100% of vested assets.

Although the National Treasury and the Financial Sector Conduct Authority have not announced plans to amend the retirement industry legislation to follow the global trend, a number of suggestions have come up over the past few weeks about how members could receive relief using their retirement fund savings. The ideas range from pension-backed lockdown loans in partnership with banks to accessing savings under a special relief benefit.
The lockdown loan would allow members to access competitively priced loans without withdrawing from their retirement savings. ***Full Report:*** ***https://www.iol.co.za/personal-finance/other-countries-granting-access-to-retirement-savings-48797312***

IOL | 2 June 2020

SAVCA calls for Regulation 28 amendments to support SA's economic recovery

Private equity and venture capital funds ('private equity') play a unique function in the investment marketplace because they are actively involved in growing companies and their workforces. This differentiates private equity from hedge funds, collective investment schemes and other institutional investors, which generally play no active role in the strategic growth of companies. Despite this distinction, Regulation 28 – the part of the Pension Funds Act that specifies ceilings for exposures to different asset classes – currently places private equity in the same bucket of alternative investments as hedge funds, which is capped at 15% of compliant funds' assets under management.

Considering that private equity focuses on the real economy and on building successful companies through a combination of capital and strategic know-how, greater awareness is required to enable pension funds to direct capital to private equity and manage their investments appropriately. Private equity offers pension funds attractive returns, the opportunity to diversify their investment exposure and facilitates sustainable and impact investing.

This matter is particularly pertinent now, seeing as measures that enable pension funds to increase their allocation to private equity would be highly supportive in confronting South Africa's growing unemployment problem; fiscus shortfalls; gross domestic product contraction; the COVID-19 economic crisis and the recovery efforts thereafter; as well as the country's broader development goals. The Southern African Venture Capital and Private Equity Industry Association (SAVCA) has prepared a positioning paper, which outlines two proposed amendments to Regulation 28:

1. Separate hedge funds and private equity into independent asset classes, each with their own caps. This would enable investment decision-makers to model the asset classes independently in their portfolio construction process, so as to properly accommodate the risk/return characteristics of each, thereby evaluating risk-adjusted real returns.
2. Gradually increase the private equity cap from 10% to 15%. This step can be phased, allowing the industry and investors to scale up capacity in tandem, possibly by one percentage point each year. A gradual approach is also low-risk as unintended consequences can come to light before full implementation.

Increasing the private equity cap would effectively allow a pension fund to take a larger exposure to the entire asset class, enabling a higher degree of diversification. This offers positive public benefits by improving the overall financial security of pension fund savers in the long run. We believe that a case can easily be made for an even larger increase to the private equity cap, however, we respect that regulators should take a gradual approach to expanding exposure – particularly as pension funds will need to develop the skills to analyse the asset class and the supply side may need to increase capacity.

FA News | 2 June 2020

Solly Moeng | First things first: We must be able to trust those running our SOEs

According to copies that have been seen of the ANC's economic reconstruction document, there are plans afoot to establish a state bank and a state-owned pharmaceutical company. It is hoped that once in place, these two entities will help government decrease the price of medicines; and for the pharmaceutical company and for the state bank to enable the state to play a bigger interventionist role in the economy, specifically in mining, manufacturing, energy and other sectors.

No one on the political left can deny that all of these are noble aims. The only worry is that no one on the political left will admit that the state has a poor record in managing anything that involves a lot of money. It has, over time, squandered its credibility in this respect. We know how the story ends, and it's a major concern when the money involved belongs to someone else.

In truth, it always belongs to someone else.
And if credibility is currency, SA's government has spent its share unwisely.
Having run the economy to the point of a total sovereign credit rating junk status – and we were most of the way there before we faced Covid-19 – and having managed to come up with a R500 billion stimulus package made, in part, of loans that will have to be repaid over many years, it is clear that the state has run out of sources of easy, relatively cheap, funds. (Well, not quite; there are the pension funds of South Africans. First, government employee pension funds, next, those of everyone else.)

The aims are good – but the means?
Enoch Godongwana, head of the ANC's aptly named Economic Transformation Sub-Committee, will not refer to what the governing party aims to do as prescribing assets - those are not the words markets would like to hear. So there will be no force used to access pension funds. Instead, there is a proposal to amend Regulation 28 of the Pension Funds Act to enable trustees to look beyond the stock market and bonds when making investment decisions. According to Godongwana, this isn't a veiled attempt to introduce prescribed assets.

Now, few will disagree that there is a need to kickstart, restructure, and to grow an economy in South Africa that is a lot more stable and inclusive than we have known for too many decades. It is therefore not the aims of government we should be worried about, but the means. And our worry should be informed by our experience of at least the past decade; certainly more. That past cannot be erased. Government, in other words, has some work to do if it wants to live down that past and convince South Africans that it is trustworthy. Has it done that? ***Full Report:https://www.fin24.com/Opinion/solly-moeng-first-things-first-we-must-be-able-to-trust-the-running-our-soes-20200603-2***

Fin24 | 3 June 2020

Financial freedom and retirement

Are you future ready?

If you are not ready for retirement, it becomes a curse. Your goal should be financial freedom either before or on retirement. You do this by future-proofing tomorrow. Financial freedom generally means having enough savings, investments, and cash on hand to afford the lifestyle we want for ourselves and our families. This can be the goal before or on retirement. In the uncertain and disruptive world of today, we all need to future-proof tomorrow. This means protecting yourself and your family and preserving and growing wealth to maintain your lifestyle now and into the future.

The challenges of retirement

1. Average life expectancy continues to rise

They say the new 70 is 60 and the new 50 is 40 and so on. What an opportunity to have the time to do all those things we dream about – if you have an income/pension that is:

- Sufficient today;
- That will retain its purchasing power (if your wealth-income is largely in a soft currency).

In short, do not plan for an average life expectancy, *plan for more.*

2. You can't work forever

You might be defiant and think you can work until the day you drop, and for some, that may be the dream. But the fact is you can't work or perform your profession at a high level for your entire life – irrespective of whether technology keeps us healthy for longer and we enjoy a greater quality of life (assuming you can afford it).

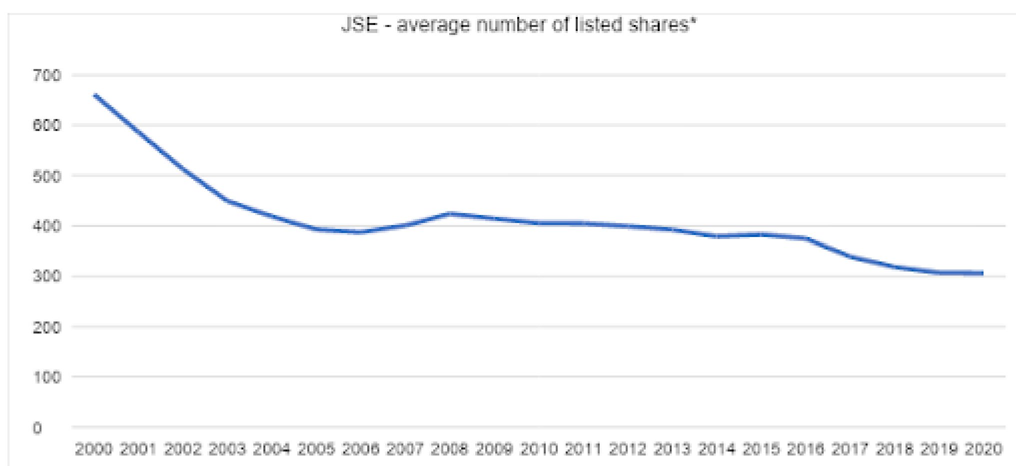
3. Globalisation and relocation

Increasingly, friends and family are scattering across the globe as work and lifestyle opportunities are pursued. With children living in different cities and countries, living with them on retirement is a fading option. With this uncertainty and disruption, retirement planning needs to be flexible and global in outlook. ***Full Report:https://www.moneyweb.co.za/financial-advisor-views/financial-freedom-and-retirement/***

Moneyweb | 29 May 2020

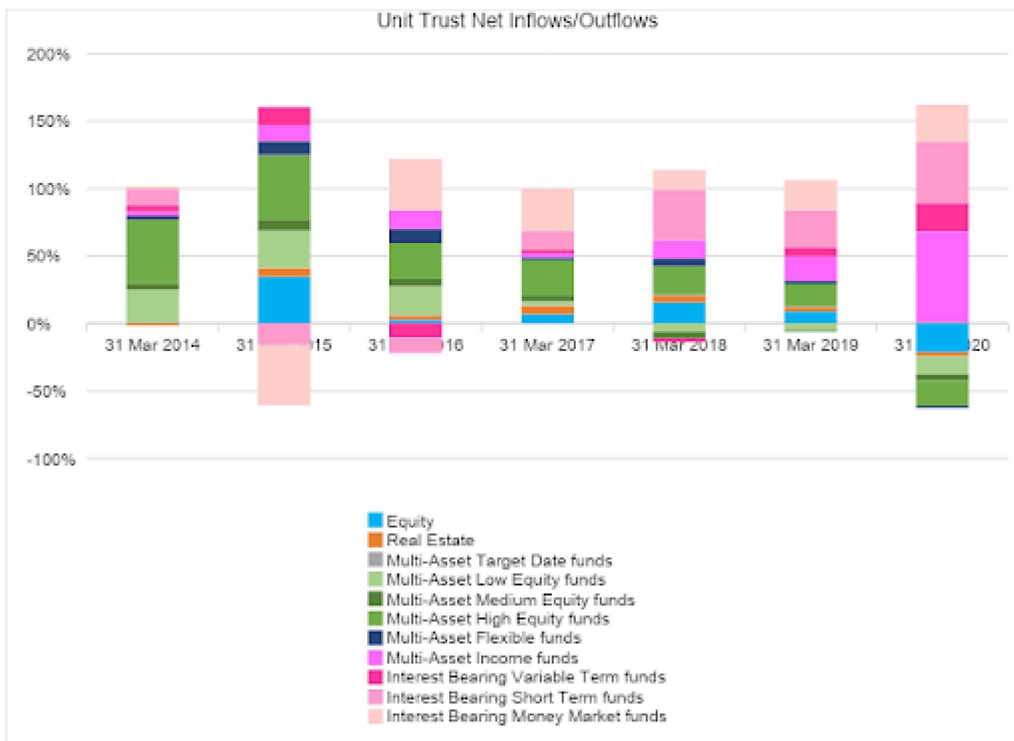
South Africa, once a beacon of innovation in the financial sector infrastructure has lost its lead. It is time to take a serious look at the numbers and face the reality of reinvention to save what is left.

I often wonder whether people in charge look at the numbers. The most recent collective investment schemes data released by the Association for Savings and Investments SA (Asisa) paints a grim picture of South Africa's savings industry. The data tells a tale of slow decay for domestic listed equities. A once buoyant, deep, and vibrant market has, over the past two decades, halved in the number of listings and reduced to only a handful of mega stocks and a tail of illiquid mid and small-cap counters. The chickens have finally come home to roost and there is nowhere to hide. (Graph 1)



**Per year excluding cash shells, trusts and exchange-traded funds. Data source: 27four Investment Managers*

According to Asisa, at 31 March 2020 the size of the domestic unit trust industry fell to R2.26-trillion from R2.38-trillion recorded exactly a year ago; a drop largely expected given the size of the March 2020 Covid-19 sell-off. A deeper peek into the data, however, reveals a savings sector in need of resuscitation. The graph below shows the net unit trust inflows (defined as sales less purchases) for South African funds over the last seven years, which has averaged around R110-billion of annual net inflows. Whilst this number is positive, the real concern is where this money is coming from and where it is going to (graph 2).



Data source: https://www.asisa.org.za/statistics/collective-investment-schemes/local-funds/

Full Report: https://www.dailymaverick.co.za/opinionista/2020-06-02-the-terminal-decline-of-sa-savings/

Business Maverick | 3 June 2020

Pensions may fund recovery

ANC proposes greater financial intervention to revive economy after pandemic

An ANC document on economic reconstruction, leaked to Business Times, is proposing using private pension savings and direct financial interventions by the Public Investment Corp (PIC) and the Reserve Bank to "fund long-term infrastructure and capital projects" to help revive the economy after the Covid-19 crisis. It calls for more state intervention across all sectors, including speeding up the creation of a state-owned bank, establishing a state-owned pharmaceutical company to help decrease the price of medicines, and more interventions in mining, manufacturing, energy and other sectors.

The document proposes amending regulation 28 of the Pension Funds Act "to increase access [to] the savings of South Africans to fund long-term infrastructure capital projects managed by development finance institutions (DFIs)". It calls for a "necessary regulatory mechanism to ensure increased pension fund investments directly into projects such as real assets, which can unlock capital that is currently not finding its way into [these] projects". When approached for comment, Enoch Godongwana, chair of the ANC's economic transformation committee, said this was not an attempt to introduce prescribed assets via the back door.

He said regulation 28 prescribes where pension funds should invest, which is the stock exchange and bonds, and loosening this regulation would allow fund trustees to make a decision to direct their funds to more developmental projects. "Pension funds are not allowed to put funds directly to DFIs. Those funds have to get there through asset managers, but funds that reach DFIs have a cost structure of those asset managers." As a result, the bulk of the funds go to the stock exchange and bonds, and "very little goes to DFIs", he said. "It undermines development objectives."

The asset management industry - which includes pension funds, insurers and other investors - has R8-trillion under management. But there has been uproar in the past over any suggestion to force pension funds to invest in state-owned entities or government bonds. Business SA said it was against any moves towards prescribed assets. **Full Report:** https://www.businesslive.co.za/bt/business-and-economy/2020-05-31-pensions-may-fund-recovery/

Sunday Times | 31 May 2020

INTERNATIONAL NEWS

Pension: UK regulators join forces to provide comprehensive guidance – expert responds

PENSION income is something that most people will be worried about at the moment as coronavirus (COVID-19) continues to wreak havoc on the economy. The disease is impacting retirement assets in a number of ways but thankfully, the UK's main pension regulators have joined forces to provide comprehensive guidance. Pensions can be very complicated things to manage at the best of times but coronavirus has made it even more difficult. The disease is impacting financial assets in ways no one could foresee and it has forced the government and other public bodies to make unprecedented changes.

One of the latest things to emerge from this is a comprehensive guidance package from the UK's leading pension and financial regulators. Over the last week or so, a "COVID-19 and your pension" document has been released which provides guidance on every single pension concern. The guidance is provided jointly from the Pension Protection Fund, the Financial Conduct Authority, the Financial Services Compensation Scheme, the Money & Pensions Service, the Pensions Ombudsman and the Pensions Regulator.

Within the guidance, each regulator provides their individual insight on what should be done but each section tends to be structured around a Frequently Asked Questions (FAQ) format. There is also a big focus on how to protect yourself from scammers - a prevalent problem at the moment. There is huge range in what is covered in the guidance but savers and retirees can find helpful answers to the following kinds of questions:

- **What happens to my pensions contributions if I've been furloughed?**
- **Is my pension protected by the PPF?**
- **How can the Pensions Ombudsman help me?**
- **How do I protect myself from pension's scams?**
- **Is it safe to move my pension?**

The guidance has been welcomed by many within the private sector, as Svenja Keller, the Head of Wealth Planning at Killik & Co, highlighted the direness of the situation: "One of the realities of the Coronavirus crisis is that those who were looking to retire in the next few years have been significantly impacted, with recent figures indicating over a million workers are currently in this situation.

"This is because the values of their retirement pots will have fallen, but also because they may have less opportunity to save now due to job losses or reduced earning potentials. It's an incredibly worrying time, knee-jerk reactions may take over and more are vulnerable to scams – such as the temptation to cash in a pension before its time or drawing out more than 25 percent tax free cash.

Full Report: ***https://www.express.co.uk/finance/personalfinance/1290138/pension-uk-regulators-guidance-retirement-coronavirus***

EXPRESS | 2 June 2020

How COVID-19 and low yield affect Nigeria's pension funds

Covid-19 and low yield are conniving to rub pension fund managers of a chest-beating performance, and the pension fund investors of blissful retirement.

Towards the end of 2019 it became evident, judging by the way interest rates were going, that pension fund managers might find it difficult to replicate prior years' performances. It even became more evident, when viewed against the realization that most of the assets under management by pension fund managers in Nigeria are invested in financial instruments that derive their benefits or even existence from the yield curve. As if that was not enough challenge, and to add insult to injury, out of nowhere and without any notice, came coronavirus.

Today, those two, Covid-19 and low yield are conniving to rub pension fund managers of a chest-beating performance and the pension fund investors of their hope for a long-lasting and blissful retirement. Already, the impacts of those two are being felt by pension funds, not only in Nigeria but the world over. My pension fund account is yet to recover from the 18% drop it suffered in March 2020. Although Nigerian pension funds recorded positive returns during the first 4 months of the year, such returns are nothing to write home about, when compared to prior years' returns.

According to an analysis conducted by Quantitative Financial Analytics, the RSA category of Nigerian pension funds generated an average of 1.64% on a year to date basis, as at April 30th, 2020, while the Retiree fund category generated an average return of 2.96%. Compared to a similar period in 2019, RSA funds generated an average return of 3.46% while the Retire fund category had an average of 4.13%. For the year to date, April 30th, 2020, Pension fund manager, Veritas Glanvills (VG) recorded the highest return in both categories of 4.24% and 5.38% respectively and a couple of funds made losses.

Full Report: ***https://nairametrics.com/2020/06/02/how-covid-19-and-low-yield-affect-nigerias-pension-funds/***

Nairametrics | 2 June 2020

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

2nd Floor Leppan House
No 1 Skeen Boulevard
Bedfordview 2008

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

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