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# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER



# TABLE OF CONTENT

## LOCAL NEWS

- ❑ PIC refutes government pension fund insolvency claims
- ❑ Retirement annuities: Your questions answered
- ❑ Retirement planning - How to be part of the 6%
- ❑ 5 things you need to know about retirement annuities

## INTERNATIONAL NEWS

- ❑ IPEC in headache over \$3,4 billion unclaimed pensions 14 years later
- ❑ Ghana: Pensions Go up by 25 Percent

## OUT OF INTEREST NEWS

- ❑ Five megatrends to guide your investment decision making in 2023
- ❑ Saved by the savings: The importance of emergency funds



# LOCAL NEWS

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## PIC refutes government pension fund insolvency claims

Following allegations that a legal claim worth over R3.3 trillion will obliterate the state's pension funds.

The Public Investment Corporation (PIC), which manages over R2 trillion in funds, is refuting claims circulating on social media that the Government Employee Pension Fund (GEPF) is facing insolvency risks, as a result of an alleged £158 billion (R3.3 trillion) legal claim against its portfolio of assets. According to a PIC statement released on Monday, 'Nedbank Private Wealth', a Nedbank subsidiary previously affiliated with insurer Old Mutual, is alleged to have engaged in "bad business practices" in the UK and US, which led to the alleged legal claim. The PIC, on behalf the GEPF, is an investor in both Old Mutual and Nedbank listed shares. The allegations further level that South African state pensions will cease to exist because of the legal claims, but the PIC has said there was "simply no factual or legal basis for these assertions".

The PIC adds that Nedbank and Old Mutual have refuted the allegations. In response to Moneyweb's questions, Nedbank said there is no claim or pending legal matter relating to the GEPF or the PIC, in which it is linked. "Any allegation in this regard would therefore be baseless, unsubstantiated and false," the lender said. Old Mutual, however declined to comment on the matter. The PIC emphasised that itself and the GEPF are connected to the allegations, with the aforementioned conclusions reached, solely because they are invested in Old Mutual and Nedbank. "Old Mutual and Nedbank are limited liability companies. Therefore, the PIC's exposure, acting on behalf of the GEPF, to any claims against Old Mutual and Nedbank, assuming they are legitimate, is limited to their shareholding only. This is the case with all investments in companies with limited liability, globally," it explained.

### Probes

The complaints have been submitted to and probed by several regulatory and investigative bodies in South Africa, the UK and US. "As far as the PIC is aware, none of the regulatory and investigative bodies have confirmed the veracity of these allegations," it said. The PIC added that the Financial Sector Conduct of South Africa moved to close the matter after soliciting and obtaining information relating to the complaint and, that this indicates that there is no merit to the allegations. The probes follow United Democratic Movement president Bantu Holomisa questioning the veracity of the allegations in a letter addressed to Finance Minister Enoch

Godongwana, PIC CEO Abel Sithole, and the GEPF's principal executive officer. In it, Holomisa refers to a letter sent to GEPF chairperson Dr Renosi Mokate in November last year, that questioned the alleged negligence of the PIC and failure to abide by risk identification laws, and thus the insolvency of the fund. The PIC is unaware of the motive behind the allegations and has committed to engage "any legitimate authority that has been enjoined to consider the matter." "The PIC can only assure its clients and their beneficiaries, the public and other stakeholders that the allegations are false and that all its client assets are secure."

**Moneyweb | 17 November 2022**

## **Retirement annuities: Your questions answered**

If you're new to the world of retirement fund investing and want to know more about retirement annuities, read on.

With a few weeks to go before the end of the tax year, now is the time to maximise your tax-deductible contributions towards a retirement annuity. If you're new to the world of retirement fund investing and want to know more about retirement annuities, read on.

### **What is a retirement annuity?**

Retirement annuities are specialised investment vehicles designed for individual investors who want to save for retirement in a tax-efficient manner. They are governed by the Pension Funds Act (PFA) and are available as investment vehicles for any taxpayer wishing to fund for retirement or supplement their occupational retirement funds, such as a pension or provident fund.

### **How do retirement annuities work?**

New-generation retirement annuities are housed on LISP platforms and are, as such, unit trust-based investments held in the name of the individual investor. Investors have the flexibility to structure their investment portfolios to ensure that they are aligned with their investment horizon, propensity for risk, and their goals for retirement, although it is important to bear in mind that there are some restrictions imposed by Regulation 28 of the PFA (see below). At retirement, at least two-thirds of the invested capital must be used to purchase an annuity income for retirement.

### **Who should invest in a retirement annuity?**

A retirement annuity is ideal for anyone who is self-employed or for an employee seeking to supplement their contributions to their pension or provident fund in a tax-efficient way. If you're

investing on a LISP platform, you can fully customise their retirement annuity contributions, making this type of vehicle ideal for those with irregular earnings or commission earners.

### **How much can I invest toward a retirement annuity?**

Taxpayers can invest up to a maximum of 27.5% of taxable income per year, capped at R350 000, on a tax-deductible basis. This means that at the end of the tax year, you can claim back the tax on the contributions you made towards your RA up to the above-mentioned limits.

### **What are the benefits of an RA?**

In addition to being able to effectively invest with tax-free money, retirement annuities are exempt from tax on dividends and interest, and no capital gains tax is payable on the growth earned in the investment. Further, funds housed in your retirement annuity do not form part of your estate and are therefore not estate dutiable. With invested funds being inaccessible before age 55, investors can avoid the temptation of dipping into their retirement nest egg prematurely, which is an added advantage.

### **How will my money be invested?**

As an individual investor, you are free to construct a portfolio that is fully customised to your needs although you will be limited by the provisions of Regulation 28 as mentioned above. This piece of legislation is designed to protect retirement fund members by limiting the extent to which funds may be invested in a particular asset class and preventing excessive risk-taking. For example, Regulation 28 limits offshore exposure (including Africa) to 45% of the overall portfolio, and caps exposure to equities as an asset class to 75%.

### **Is there a minimum monthly amount that I need to invest?**

Most unit trust platforms in South Africa require a minimum contribution of between R500 and R1 000 per month, or a lump sum annual contribution of between R10 000 and R50 000, depending on the service provider.

### **What happens if I can't afford my monthly premium?**

In respect of a unit trust RA, you can stop contributing to your investment at any time without any fees or penalties. As there is no recoupment period as in the case of insurance RAs, you will not be penalised for stopping or starting your contributions.

### **What happens if I contribute more than the annual tax-deductible limit?**

While your tax-deductible premiums are limited to 27.5% of your taxable income per year and capped at R350 000, this does not mean that you cannot invest more than this in a tax year. Any over-contributions are rolled over to the following year and can be used for tax deduction purposes in that year. The advantage of this is that the over-contributions will still enjoy any

potential investment growth tax-free, even though the tax-deductible benefit will only be gained in the following year.

### **How many retirement annuities can I have?**

Investors are permitted to take out as many retirement annuities as they like. However, the tax benefit is calculated in aggregate and not in respect of each retirement annuity. Similarly, the tax-free portion at retirement may only be claimed once. While it may be administratively easier to have only one retirement annuity in place, there are benefits to having multiple RAs in place. For instance, having multiple RAs can allow you to stagger your retirement from your various investments thereby spreading your living annuity drawdown anniversaries across the year, thereby providing flexibility in respect of your retirement income.

### **What happens when I retire?**

Generally speaking, an investor can only access the funds in their RA from age 55 onwards, with no upper age limit for retirement. When you retire from your retirement annuity, you have the option to withdraw one-third of the investment in cash, with the first R500 000 being tax-free. The remaining two-thirds must be used to purchase an annuity income for your retirement. If you do not wish to make a lump-sum withdrawal, you can choose to purchase an annuity with the full amount, although it is important to first do a retirement liquidity assessment before investing the full amount.

When purchasing an annuity income, you can choose between a life annuity (being an insurance policy in the name of the policyholder) or a living annuity (being an investment held in the name of the retiree) or a combination of the two. Several important decisions need to be carefully navigated at formal retirement and this process is best undertaken together with a retirement planning expert.

### **Can I transfer the funds in my RA?**

In general, most retirement annuity funds allow investors to transfer their funds to another retirement annuity. This process will be done in terms of Section 14 of the Pension Funds Act. This means that if you are not satisfied with where and how your retirement annuity is currently invested, you can transfer your funds to another investment platform, with this transfer being tax neutral.

### **What happens to my retirement annuity if I die?**

If you die before retiring from your RA, your death benefits will be distributed equitably amongst your financial dependants by the fund trustees. This means that, while you can nominate beneficiaries to your retirement annuity, these nominations will be used as a guide by the fund trustees when making their assessment. The fund trustees are obliged to undertake an



investigation to determine who is financially dependent on you, whether partially or wholly, and to allocate the funds accordingly. Your beneficiaries can take a cash lump sum which is subject to tax as per the retirement tax table and in accordance with your withdrawal history. Currently, the retirement tax table allows for the first R500 000 to be tax-free, with any balance above this taxed on a sliding scale. Alternatively, your beneficiary can use the capital to purchase a life or living annuity and, while no tax will be paid when purchasing the policy, the annuity income will be taxed in the hands of your beneficiary. Your beneficiary can also choose to implement a combination of the above.

### **What happens if I emigrate from South Africa?**

If you have plans to emigrate from South Africa, it is important that you understand what your relocation means for your retirement annuity. With effect from 1 March 2021, the concept of emigration for exchange control purposes has been phased out and, if you leave the country to take up permanent residence in another country, you will need to advise Sars that you have ceased to be a SA tax resident. In doing so, you will need to request a tax compliance status (TCS) for emigration before being permitted to transfer any funds abroad.

That said, you will only be able to access the funds in your RA once you have not been a South African tax resident for an uninterrupted period of three years on or after 1 March 2021. The only other circumstance where you may be permitted to access the funds held in your RA prior to the age of 55 is in the event of early retirement as a result of ill health or disability, although you will need to meet the criteria of permanent disability as set out in the fund rules in order to qualify.

### **Are the funds in my retirement annuity protected from creditors?**

If you are declared insolvent, Section 37B of the Pension Funds Act provides that the funds in your retirement annuity are protected from your creditors, although this does not mean that your RA funds enjoy complete protection from creditors. In terms of the Act, certain monies can be deducted from your pension fund money, including money owed to Sars, and amounts due and payable under the Divorce Act and Maintenance Act.

**Moneyweb | 17 January 2023**

## Retirement planning - How to be part of the 6%

Jack Welch famously said, "Take control of your own destiny, or someone else will." In so many ways, this applies to retirement planning as well.

The number of South Africans who are able to retire comfortably has stubbornly stayed around 6% for a few decades now, one of the traits these individuals share is that they are taking control of their destiny. This includes saving for retirement, having a holistic financial plan to support effective saving for retirement, and having the stamina and commitment to execute on this plan. This is easier said than done, so this article provides a checklist to help you start, and stay committed to a plan to be part of the group of South Africans that will be able to retire comfortably.

### **Develop new and healthy habits**

Investing in your retirement plan implies making a long-term commitment. In our world of instant gratification and cheap credit, this means sticking to your long-term retirement plan and not letting it become derailed – for example by a desire for the latest fashion trend, car or cell phone. The key is to ensure that your plan is practical and to stick it. You also need to understand factors that might lead you to stray from your plan and have the tools in place to address those temptations if they arise. The hardest part (as with anything worth doing) is to start committing to a retirement plan. The second hardest is staying committed. Building healthy habits takes time, and just like committing to a new diet or exercise regime, understand that it will take willpower to see your plan through to completion.

### **Understand your investment journey**

Establish where you are now compared to where you need to be. Have true introspection into what your retirement will look like with the various scenarios you may be faced with. Next, visualise these scenarios, and choose the one that matches your desired outcomes. A comfortable retirement will certainly mean a tighter budget today. Also keep in mind and understand the alternatives or support from family, your community and the state should your retirement capital run out.

### **Speak to an adviser**

A financial adviser will guide you in identifying your investment gaps and formulate plans on how to meet them. A retirement plan needs to be robust, yet flexible enough to meet your retirement objectives practically and realistically. Part of this will be understanding the gap between your current plan (if you have one), and the one that will deliver the desired retirement outcomes. This may include understanding investment shortfalls ranging from capital saved up



so far, to ensuring the appropriate allocation to growth assets, including appropriate diversification over asset classes, sectors and geographies, and currency risks, to name a few.

### **Revisit your retirement plan as your needs and goals change**

It is important to ensure you embark on this journey with a financial planner. Having an objective viewpoint will ensure you don't fool yourself on whether your plan will be sufficient for your needs. As you go on the journey of saving for retirement, your needs and goals may (and most likely will) change. Your financial planner will be able to adjust your plan to realistically fit your circumstances as they change.

### **Don't look at your portfolio too often**

You will likely have a substantial allocation to growth assets – such as equities – in your portfolio. While these deliver handsome returns in excess of inflation, they are more volatile than more conservative asset classes like cash. It is crucial to understand their role in your plan to deliver those inflation-beating returns, and to afford them sufficient time to deliver those returns and be rewarded with full benefit of the effect of compound growth. The best time to start was yesterday, but the next best time is today – carpe diem! Understand your reality and plan your place as part of the 6%.

## **Business Report | 14 January 2023**

### **5 things you need to know about retirement annuities**

JOB opportunities have widened considerably and to a large extent disrupted the way we work. This has also largely been exasperated by the pandemic, which has accelerated the need to be relevant in a very disruptive era.

Starting or changing jobs is appealing but we urge individuals to continue managing their finances during the process. One such area to manage is your retirement savings. A Retirement Annuity (RA) is a regulated retirement-savings product. At retirement, you can use the accumulated contributions to purchase retirement income either through a living annuity or a guaranteed life annuity. Your retirement savings is crucial as it offers that safety net when you retire. When changing employers, it's important to avoid withdrawing your retirement savings. Your aim is to preserve your retirement savings by transferring them to a RA where you can continue making contributions or transfer it into a preservation fund where you will not have an option of continuing with contributions. We should always ask ourselves the following questions before tapping into our RA's.

### **How does an RA work?**

You are allowed to make regular contributions to a RA. The contributions you make are tax deductible (the state refunds you the tax on the contributions) up to 27.5% but not more than a maximum R350 000. Returns on investments in a RA are not subject to tax on interest, dividends, or capital gains. Unlike a pension fund, savings in a RA are not linked to your employer. When you move from one employer to another, you still continue contributing to a RA.

### **How can I benefit from an RA?**

Contributing to a RA has many benefits. The contributions are tax deductible up to 27.5% -- not exceeding R350 000. This means that any tax that you have paid on the contributions will be refunded to you. The returns on investments in a living annuity are not taxed. The amount that would have been taxed is reinvested into your living annuity resulting in bigger savings. RA savings are protected from creditors, in the event that you go insolvent your creditors can not claim against your living annuity. It is independent from your employer allowing you to continue contributing to the product even if you leave your employer.

### **What RA options do I have once I have resigned from my job?**

Deciding which option is best for you is important. The beauty about a RA is that it is independent from your employer. When you resign from your employer you can still continue making contribution into your living annuity. If you were contributing to an employer pension fund you have an option of transferring your savings into a RA when you change jobs; it could be an existing or new RA. It is important to note that preserving your pension or transferring it into a RA will help you to achieve your retirement goal.

### **Are there any rules/laws that I need to follow if I want to withdraw my RA funds?**

Firstly, it's important to note that withdrawals from a RA is not allowed unless the total invested amount is less than R15 000. In which case you will be allowed to complete a RA withdrawal form to access any of your RA savings. If you become permanently disabled or are a non-resident for South African tax purposes for a consecutive 3-year period, you can get access to your RA savings. Once you reach the age of 55, you can access 1/3rd of your RA savings as a lump sum. You are required to use 2/3rd of your savings to purchase retirement income either through a living annuity or guaranteed life annuity.

### **Can I look to change my RA to a different plan, such as a Provident Fund?**

You can transfer your existing RA into another RA. However, you can transfer from pension fund, provident fund and preservation fund into a RA. About 90% of people retiring are not retiring comfortably, the main reason for people not retiring comfortably is because they are

using up their pension when they change jobs. If you have cash flow challenges when changing jobs you must try to use other sources of money instead of using your retirement savings. Your retirement savings is crucial and will enable you to retire comfortably in your golden years.

**IOL Business | 14 January 2023**

# INTERNATIONAL NEWS

## **IPEC in headache over \$3,4 billion unclaimed pensions 14 years later**

A total ZW\$3,4 billion pensions attributable to the Clothing Industry Pension Fund (CIPF) remain unclaimed 14 years later raising concerns on the traceability of members, Insurance and Pension Commission (IPEC) has revealed in a quarterly update. The regulator says about 95% of the unclaimed benefits have accrued for over 10 years, raising concerns on the ability of the funds to trace and pay the eligible members. "It is noteworthy that out of the ZW\$3,8 billion in unclaimed benefits under the stand-alone funds, ZW\$3,4 billion due to 89,088 members are attributable to the CIPF alone. "The unclaimed benefits have remained due for over 14 years, raising concerns on the traceability of the members," said IPEC.

It is noted that total unclaimed benefits for the quarter-ended 30 June 2022 amounted to ZW\$4,3 billion, compared to ZW\$4,4 billion reported as at 31 March 2022. Total membership with unclaimed benefits for the period was about 106,000, compared to about 146,000 as at 31 March 2022. The decline in unclaimed benefits is however attributed to payments made to members as well as transfers to the Guardian Fund by some funds. "An analysis of the unclaimed benefits data revealed that stand-alone funds have the largest proportion of unclaimed benefits, accounting for 90%, translating to about 96,000 members. On the other hand, insured funds and self-administered funds accounted for 8% and 2%, respectively.

"About 86% of the unclaimed benefits had accrued over a period in excess of 10 years, raising concerns over the traceability of the members entitled to the amounts. "It also raises compliance issues, given the requirement to transfer unclaimed benefits aged over five (5) years to the Guardian Fund Guardian Fund under the Master of the High Court," said IPEC. For insured funds, the bulk of the unclaimed benefits were aged below five (5) years accounting for 78% of unclaimed benefits pointing to the continued challenge of data integrity amid plans that IPEC will continue to engage the funds to ensure that the members are traced and paid their benefits.

**New Zimbabwe | 17 January 2023**

## Ghana: Pensions Go up by 25 Percent

The Social Security and National Insurance Trust (SSNIT) has increased pensions for 2023 by 25 per cent.

This represents a 150-per cent increase over the 10 per cent increment last year. With the new increment called pension indexation and sanctioned by the National Pensions Act 2008 (Act 766), the low pension earner who takes a monthly pension of pension GH¢300.00 from the beginning of this month will take a monthly pension of GH¢ 430.58, representing an increase of 43.53 per cent. Also, the highest monthly pension earner of GH¢ 142.564.97 will take a monthly pension of GH¢169, 725.89 representing an increase of 19.05 per cent. Indexation of pension according to SSNIT is a technique used to adjust pension payment to help maintain purchasing power.

The Director-General of SSNIT, Dr John Ofori-Tenkorang, who announced this in Accra yesterday said the increment was in line with the SSNIT Act, 2008 which enjoins the Trust to index pension every year in line with inflation trends and sustainability of the scheme. He also said the increment was done in consultation with the National Pensions Regulatory Authority. Dr Ofori-Tenkorang said that the 234,000 pensioners on the SSNIT Pension Payroll as of December 31, 2022 would have their monthly pension increased by a fixed rate of 19 per cent plus a redistributed flat amount of GH¢73.58. He explained that redistribution was a mechanism applied to the indexation rate to cushion low-earning pensioners in conformity with the solidarity principle of social security.

"The effective increase in pensions would therefore range from 19.05 per cent for the highest-earning pensioner to 43.53 per cent for the lowest-earning pensioner," the Director-General stated. Accordingly, he said the highest-earning pensioner as of December 31, 2022 would receive GH¢ 169,725.89 per month in 2023 and the lowest-earning pensioner as of December 31, 2022 would have his / her monthly pension increased from GH¢300.00 to GH¢438.50 in 2023. "The SSNIT Scheme, like any other defined benefit scheme, pays pensions which mirror the earned salaries on which contributions were paid," Dr Tenkorang stated.

Dr Ofori-Tenkorang explained that the new pension indexation would cost SSNIT GH¢850 million in pension benefits payment this year. Last year, the Director-General said SSNIT paid more than GH¢3. 6 billion on pension benefits. Dr Ofori-Tenkorang disclosed that including the payment of pension, survivors benefits, and lump sum, SSNIT would pay pension benefits of GH¢5 billion in 2023.

The Director-General of SSNIT assured that the management of the Trust would continue to work hard to guarantee positive annual indexation for pensioners bearing in mind the long term sustainability of the scheme. "The Trust remains committed to paying out legitimate benefits accurately and timely," Dr Ofori-Tenkorang said. The General Secretary of the National Pensioners Association, Stephen Boakye, said the 2023 pension increment was the highest pensioners had received in the history of the scheme. He commended SSNIT for the increment. Mr Boakye urged workers to take pension issues seriously while in active service. The General Secretary of the National Pensioners Association also entreated employers to pay promptly the monthly pension contributions of their staff.

**Ghanaian Times | 17 January 2023**

# OUT OF INTEREST NEWS

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## Five megatrends to guide your investment decision making in 2023

There are five global megatrends that will guide financial advisers and their investor clients in optimising asset allocations through 2023. In its Crystal Ball 2023 Investment Outlook presentation, global investment manager Schrodgers mentioned 'regime shifts' in fiscal and monetary policy responses to inflation as likely key influencers of market returns this year. As expected, the outlook for inflation and interest rates in the Eurozone, United Kingdom (UK) and United States (US) dominated the discussion. After 15-years of record lows, interest rates are rising fast world wide while inflation is spiralling out of control, contributing to a cost-of-living crisis in many developed economies.

In addition, the ongoing energy crisis and fears over deglobalisation are contributing to doubts over financial market performances. "We are approaching a turning point in the world economy as far as growth and inflation are concerned," said Keith Wade, Chief Economist at Schrodgers, before predicting recession in the Eurozone, UK and US during 2023. He warned that this year may deliver the slowest global economic growth since the 2008-9 global financial crisis (GFC). Wade set the stage for Azad Zangana, Senior European Economist and Strategist at Schrodgers to introduce the five megatrends in a presentation titled 'Regime shift: investing into the new era'. Although these trends will be developed and expanded upon throughout the year, they contain useful insights for investment professionals who must optimise clients' portfolio allocations to bonds, cash, equities and property over the coming 12-months.

### **Trend 1: Central banks will prioritise inflation ahead of growth**

The lower-for-longer interest rate policy pursued by developed market central banks for the better part of 15-years is over. “Central banks are [finally] ready to prioritise fighting inflation over supporting growth,” said Zangana. He added that until recently, the Bank of England and US Federal Reserve had responded to any sign of slowdowns in economic activity by cutting interest rates, adding additional liquidity to the point where interest rates reached near zero in the US and below zero in Europe and Japan. These interest rate cuts coincided with trillions of dollars in quantitative easing injected into Western economies immediately following the GFC and, again, during the two-year-long COVID-19 pandemic. “We are seeing a big regime change in monetary policy ... investors have to understand that the old central bank ‘put’ is over for now,” he said. “Central banks are responding to high inflation and are focused on that part of their mandate, at least in the near term”.

### **Trend 2: Fiscal policy likely to be more active**

Wikipedia.org offers a simple definition of fiscal policy as “the use of government revenue collection and expenditure to influence a country’s economy”. In a South African context, government’s decision to implement a ZAR350,00 per month Social Relief of Distress (SRD) grant during pandemic is just one example of the myriad fiscal policy interventions that take place on an ongoing basis. More recently, we have seen fiscal policy in action through European governments’ responses to the cost-of-living crisis brought about by soaring energy prices. “We are likely to see more fiscal policy interventions going forward, given that central banks are stuck fighting high inflation; the risk is that governments are [already] highly indebted after the impact of the pandemic on their public finances,” noted Zangana. He warned that populist responses to such crises often led to outcomes that were less desirable for financial markets. Just ask the UK’s shortest-serving prime minister, Liz Truss.

### **Trend 3: A new world order will challenge globalisation**

The Russia-Ukraine war, underway since February 2022, has placed tremendous strain on relationships between NATO-aligned countries and Russia and its supporters. According to Schroders, the war has impacted energy and food policy throughout the region while forcing countries to rethink their allegiances. “Even before the pandemic and war there were problems with the trade relationship between China and the US,” said Zangana, who added that the unbundling of the 30-year-long production ‘shift’ from the West to the East was contributing to structural inflation in the West. As a result, many Europe- and US-based companies are reconsidering their supply chains and diversifying away from simply relying on China and other parts of Asia and Latin America, with the consequent rise in input costs coupled with slower economic growth potentially causing stagflation.



#### **Trend 4: Labour shortages to drive investment in technology**

Both private sector firms and public services entities are finding it increasingly difficult to fill vacancies, let alone meet the rising wage demands of those currently employed. By way of example, consider the crisis facing the UK-based National Health Service (NHS) where the system has been virtually brought to its knees by a combination of strikes for better wages and almost 50 000 nursing staff vacancies. Data published by NHS Digital in December 2022 showed 133 400 unfilled jobs across the NHS in England! “Companies, faced with higher costs on the back of labour shortages are having to take a different approach,” said Zangana. He expected labour shortages to accelerate investment into technologies aimed at improving productivity, including artificial intelligence (AI) and robotics.

#### **Trend 5: Response to climate change is accelerating**

The global response to climate change remains top of mind among investment managers who are keen to lock in any return dividend as the world migrates from fossil fuels to green energy. Unfortunately, the infrastructure investments required to facilitate this transition will prove inflationary over the short- to medium-term. “The energy transition process requires greater investment in new technologies and new forms of energy which are more expensive than traditional fossil fuels; governments are also going to have to introduce more legislation and increase taxes in order to encourage individuals and companies to shift away from fossil fuels,” Zangana said. Shortages of the key raw materials required to build green energy infrastructure could cause the cost of the energy transition to rise exponentially.

#### **Conclusions and macroeconomic outcomes**

Asset managers and financial advisers must consider the impact of each of the aforementioned trends on the various asset classes they invest in. The first observation is that high inflation is likely to persist for longer than initially anticipated. As such, investors can expect tighter monetary policy through higher interest rates in addition to reduced liquidity and quantitative tightening. Put another way, central banks are going to prioritise lower inflation rather than supporting economic growth, while governments will push ahead with fiscal initiatives in spite of record debt levels.

Schroders warned about increased volatility, both in a macroeconomic sense and also in financial markets, as populism continues to rise. They predicted a ‘full reshaping’ of global supply chains and energy policy during 2023. “Investors really need to think about what happens to supply chains and be nimble in thinking about past relationships and how they will change going forward,” Zangana said. “And finally, we can expect more investments in technology to support profitability ... substituting away from the cheap labour that we enjoyed for many decades now”.

## **Recession seems a certainty...**

Tougher monetary policy looks certain to overlap with recession in much of Europe and the US. “We expect to be hitting recession signals in the second quarter of 2023, which suggests that there is a bit more work to do in terms of [a fall in] equity prices before we can turn bullish,” noted Johanna Kyrklund, Co-head of Investment and Group CIO at Schroders. This bullishness would likely coincide with the start of the recession, with the caveat that emerging desynchronised economic models will create equity opportunities in different regions. As for bonds: “We have upgraded our view on fixed income markets and have been taking advantage of the yield spread in credit and emerging market debt; we think there is a significant cushion in [these classes] after the declines of 2022,” she concluded.

**FA News | 16 January 2023**

## **Saved by the savings: The importance of emergency funds**

With more than **75% of the country’s employed adult population earning less than R5 800 per month**, there’s only so much income people can dedicate to any kind of saving initiative. We see this especially when it comes to retirement. According to a **BusinessTech survey** in January 2022, more than a third (35%) of middle-class South Africa are not contributing any of their salaries to retirement savings. But the lack of saving also rears its ugly head when people are faced with accidents or unforeseen events or expenses that result in them struggling to make payments. Whether it’s car repairs, pet healthcare, or a sudden loss of employment, South Africans need to look into establishing an emergency or “rainy day” fund.

“With interest rates as high as they are, it’s not always wise to resort to personal loans or credit cards to pay for large, one-off expenses or compensate for a sudden loss of income. An emergency fund, whatever form it takes, gives people a landing pad and reprieve so that their financial health is not compromised in the near and far future,” says Motlatsi Mkalala, Head: Main Market at Standard Bank South Africa. Here’s what you need to know about emergency funds and how you can financially prepare yourself for emergency expenses.

### ***Making contributions***

Ideally, an emergency fund should have enough capital to cover between one and three months’ worth of expenses. Provided there are other financial plans such as medical aid and home insurance in place to protect you, that should result in an adequate amount that covers monthly expenses and any debt obligations you may have. Emergency funds also benefit from you having a savings plan. By determining how much you can put in per month, you can establish reasonable expectations and goals. A good way to start saving is to put any additional

cash you already have or will have into it. By prioritising essential items such as groceries and transportation, and not spending it on one-off luxury ones, you can begin to make monthly contributions. Also, consider putting any cash you receive from an income tax refund into your fund. Refunds can range from small to big amounts and they can be useful to initially kickstart your savings. Another option is to supplement your existing income with a second or part-time job. Digital transformation has opened up new streams of revenue such as content creation, online teaching and remote teleworking.

“South Africans face incredible economic challenges and many are simply not able to dedicate a portion of their existing income to a saving initiative,” Mkalala explained. “Because of that, it’s important to think outside the box, to consider new opportunities and expand our capabilities of accumulating for ourselves and the generations that follow us. Along with access to the right tools and resources, we can this a reality for everyone.”

### ***Choosing the right account***

There are various tools available to South Africans to help them bolster their savings for the short term. In addition to having an account that offers liquidity (easy and quick access to funds), people should also consider banking solutions that help grow their savings and promote a culture of good financial behaviour. Standard Bank’s **Fixed Deposit investment account** offers an innovative and reliable way to save capital and invest at the same time. With an opening deposit of just R1 000 and no monthly admin fees, account holders can choose their investment period, sit back and watch their money grow with a fixed interest rate of up to 9.5%.

Regardless of the investment period, ranging from one month up to five years, holders can then transfer amounts to any other account of their choosing while also linking their Standard Bank card for in-app, online and ATM access. “The benefits of starting to put money into an emergency fund during this period is that it helps you to develop a habit. In time, you may find that you have become used to making provision for these contributions in your budget. You can then continue to do this, and if you don’t end up having to dip into the funds, they will build up nicely and could then be rechanneled to top up a longer-term investment housed in a Tax-Free Savings Account or Retirement Annuity,” concludes Mkalala.

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