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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Unclaimed pension benefits have increased to over R47bn, shows regulator's latest study

The Financial Sector Conduct Authority's (FSCA) attempts to reunite unclaimed retirement benefits with their rightful owners have only helped over 14 000 people to get R1.2 billion in payments. The regulator published the Financial Sector Outlook Study on Tuesday, in which it also detailed progress made in finding people with unclaimed monies in pension funds and guardian funds. The study showed that unclaimed retirement benefits increased to more than R47.3 billion at the end of 2021, rising from R42 billion previously reported for 2015 and 2018. The FSCA's study showed that almost 80% of the unclaimed funds are with trade union-affiliated pension funds, and the majority of these unpaid members are low-income miners.

There are 1 623 of these occupational retirement funds, and of the 4.8 million beneficiaries of unclaimed benefits in SA, 3.8 million should look for their monies there. The second biggest area housing these funds is the unclaimed benefit funds. These are funds created by private sector investment houses specifically to keep money that has not been claimed for a long time. Beneficiary funds, which predominantly safeguard retirement benefits due to minor children, only have 0.2% of the unclaimed benefits to the value of R118 billion.

As the awareness of the billions sitting in unclaimed benefits grew, with the investment industry and the regulator taking flak from groups like the Unpaid Benefits Campaign, the FSCA implemented what it called the "Know-Your-Customer" directive. The search engine implemented under that directive led to the payment of approximately R1.2 billion in benefits cited in the study. The FSCA said while the National Treasury previously announced that it was looking at legislation that can consolidate unclaimed retirement benefits in one place, it continues to prioritise the fair treatment of beneficiaries and hopes to reduce unclaimed benefits further.

SA's dire retirement picture

As far as retirement savings in SA are concerned, the outlook study also looked at the increased number of pension funds that applied for liquidation in 2020, the shrinking number of retirees who had an income and the low take-up of retirement products. The FSCA said estimates show that only between seven and 10 million people have retirement savings products out of the 15 million employed people in SA. It said while there were approximately 16.4 million retirement funds members in 2021, that number double-counts people who have

more than one pension product. But even among the people who save, many are not putting away enough for their retirement years. The FSCA's retirement fund division found that the average contribution to pension funds is around R900 per month in real terms. This under-saving for retirement resulted in only 12% of the 3.6 million people in the retirement age group receiving an income in 2020. The low contribution to retirement funds, exacerbated by the Covid-19 lockdowns, was largely the reason why some applied for liquidation in 2020. The number of pension funds that applied for liquidation that year increased by 21.5% due to financial distress as member contributions fell due to salary reductions, retrenchments and business closures. The majority of the funds that applied had smaller businesses as members.

FIN24 | 5 April 2022

Offshore pensions a key part of gaining financial freedom

How do I retire comfortably, and maintain the lifestyle I've become accustomed to? That's the question many of us ask ourselves at some point – and there's no single right answer.

Everyone has their own circumstances and goals.
Lately, though, we're seeing three emerging trends in financial planning. One is a clear shift towards family and legacy planning. Call it the impact of Covid-19, if you will, but growing numbers of individuals are considering family within their retirement planning. People want to leave a safety net for their dependents and loved ones. Another trend is that people are starting to plan their futures earlier. Fact is, planning for retirement is not only for the middle-aged anymore. Also, some individuals are looking beyond the usual array of local retirement plans to offshore international pension options.

Local pensions have their place in a portfolio, but they have limitations that international options can cover. That's why many investors are investing in the global market for growth purposes and saving offshore for retirement with legacy planning options. There are several good reasons for this. For one, international retirement plans have no limitation to equity exposure, which means they can invest in a range of global funds. Local pensions only allow up to 30% of global fund selection. Secondly, international plans are not restricted by the location of the investments.

They are typically in hard currency (such as the Pound, USD or Euro), which are less volatile than the Rand. Thirdly, international pensions are more flexible. The retirement age can be anywhere between the age of 50 and 75, and members can draw down ad-hoc amounts that suit their specific needs, with no constraints around the amount of cash that can be withdrawn

or the need to purchase an annuity. This allows the funds to remain in equity investments even when the member is in drawdown. Fourthly, and importantly, international pension fund members can draw down from their contributed capital, which means they don't trigger capital gains tax. Members only pay capital gains tax in South Africa when they draw from the capital gains component. This allows for tax free growth within the international pension. Capital gains is only tapped into once the capital component has been depleted, and every time a member contributes, they increase the capital amount.

Fifth, a member of an international pension may appoint discretionary beneficiaries, which allows legacy planning. On death, the assets would be passed into a trust or international pension plan, which would provide for the beneficiaries - usually the member's spouse and children. This option offers asset protection beyond the death of the member, instead of returning the funds to South Africa. The payment of death benefits will not trigger a capital gains or income tax charge when the transfer takes place. The gains accumulated thereafter will be taxable when distributed to the beneficiaries.

Six, and a growing consideration, is the portability of the pension if a taxpayer emigrates. International pensions are completely portable, whereas local retirement annuities and pension funds are not. A financially immigrated individual will have to prove they have been non-tax resident in South Africa for three full consecutive years before they can move their SA pensions or RAs out of the country. By using a combination of the annual foreign investment allowance and annual discretionary allowance, the SA Revenue Service and the Reserve Bank allow South African investors to invest up to R11 million per taxpayer per year offshore.

The funds will always be net of tax, being used for further pension and retirement planning with beneficial factors to enhance your entire retirement portfolio, as it will consist of a mixture of your current local pension/s and the addition of your international pension plan. Lastly, look at retirement planning with diversification in mind for pension provision and legacy planning alternatives. Also, ask the right questions to ensure the trustee is administering the international pension plan in line with pension regulations. Ultimately, international pension plans are designed for retirement purposes, and the trustees will have to administer them in accordance with pension provision regulations.

FA News | 11 April 2022

Forget the Easter egg, what about your nest egg?

4 egg-cellent reasons why it's never too early or too late to start saving for retirement

Whatever your religion, April is a time for family. Some of us gather our loved ones and begin the pilgrimage to Zion City Moria in Limpopo, while others get together with their nearest and dearest over Easter Sunday lunch. While enjoying the April holidays with our family is what life is all about, it is also a good opportunity to give some thought about what we want for ourselves as well as those we love in the future – and this includes preparing for retirement. Alex Ollewagen, Client Solutions Actuary at Metropolitan, provides four egg-cellent reasons why you should prioritise your retirement savings this April – no matter your life stage.

Give your family the runway they need to build a legacy

Many of us do not adequately prepare for our later years so when the time comes for us to retire, we rely on our family members to support us financially, explains Ollewagen. A significant portion of South Africa's population is financially responsible for both their parents and their children, which has earned this group the term 'sandwich generation'. Ollewagen explains that while supporting an extended family is a lived reality for many South Africans, this double-ended financial pressure may negatively impact their building wealth for generations to follow.

"While we may not view supporting those we love as a burden, through preparing for retirement we can support ourselves in our later years, giving our dependents the runway they need to build a legacy for their children. "Instead of your children purchasing groceries for you when you retire, your regular retirement income will enable you to buy these essential goods for yourself, freeing up those funds for your grandchildren's education," he offers as an example.

A retirement annuity will save you on tax

There are several tax breaks in place to encourage saving for retirement, and you must take advantage of these, says Ollewagen. You can contribute up to 27,5% of your yearly taxable income (with a maximum of R350,000 per year) in a tax year to a retirement annuity, completely tax-free. "Remember, says Ollewagen, that any amounts you pay to a pension or provident fund through your workplace are also taken into account when calculating these limits." In addition, you will find it reassuring to know that you won't be taxed on your retirement savings growth from the day you take out the annuity up until your retirement date – so what you put away will be able to grow over time, without being taxed.

It’s never too early…

Ollewagen emphasises that it’s never too early to start saving for retirement. “The earlier you start, the more runway you give your retirement savings to grow. It is especially over the longer term when the magic of compound interest comes into effect – which is when your interest earns interest.” Say you start working at age 25 and save R500 per month until the age of 65. At a yearly growth rate of 6%, your savings may grow to R1 000 000 or even up to R2 500 000, if you increase your savings amount by 6% every year. “This is an example that serves to show you how a relatively small amount can add up to a sizeable pot over time. However, it is important to keep in mind that there are many economic factors that would influence and affect your retirement savings,” he adds.

But it’s also never too late…

By that same token, Ollewagen says that it is also never too late to start saving for retirement. "While saving from a younger age gives your savings more time to grow, do not despair if you are well into your working years without any savings – it is never too late to start. Ollewagen offers the following tips for those who have yet to start saving for retirement. “Firstly, fine-tune your budget, and calculate how much you can reasonably afford to put away. Aim for as much as possible – remember, the more you put away, the more it will grow (thanks, interest!)

“Secondly, consult a qualified and experienced professional, such as a Metropolitan financial adviser, who will be able to talk you through the various options available, and help you pick one suited to your needs. “Finally, set up a debit order so that your retirement contribution leaves your account each month automatically, without you having to think about it,” he advises. Ollewagen highlights that it is also very important to stay invested. “Have a ‘rainy day’ fund that you can access in times of emergency, says Ollewagen, “to avoid using some of your retirement savings. “While it is never too early or too late to start saving for retirement, you want to give your savings the time and space it needs to grow so that you can enjoy a comfortable retirement in your golden years.”

FA News | 6 April 2022

Using RSA Retail Savings Bonds for retirement income

When recently answering a reader's query about RSA Retail Bonds, I was again struck by what good value these products offer currently, particularly for retirees requiring risk-free, steady retirement income.

These bonds, offered by National Treasury and available to South African consumers, come in two types: those that have a fixed rate for the term of the bond, and inflation-linked bonds, which have a lower rate but in which the capital is adjusted by the inflation rate. While the fixed-rate bonds can be used for saving or for income, as interest compounds over the term if reinvested, the inflation-linked bonds can only practically be used for income, because interest is paid out and therefore does not compound. The current rates beat virtually anything available from comparable bank or money-market investments. Working on the January Consumer Price Index inflation rate of 5.5%:

- On a fixed-rate bond over five years (the maximum term), you get an annual return of 9.25%, which is 3.75% above January CPI.
- On an inflation-linked bond over 10 years (the maximum term), you get an annual return of 4.5% in addition to your capital (and hence income) being adjusted twice a year for inflation.

On top of the rates being very attractive, there are zero fees.

As on any investment, you pay income tax on interest, subject to exclusions, exemptions and deductions applicable to you. If you are investing a lump-sum for an income, you need to weigh up which – the fixed-rate or the inflation-linked bond – will serve you better, and this will depend on several factors:

- For how long you intend to remain invested;
- Whether you want to preserve the real (after-inflation) value of your capital – so that it has the same buying power at the end of the term as when you invested it – or are willing to let your capital depreciate by inflation over the term in exchange for receiving a higher income initially; and
- Your view of inflation: do you expect it to remain contained within the government's 3-6% range, or to increase beyond 6%?

I compared a R1 million investment in the two products over 10 years under two inflation scenarios. To simplify the comparison I kept the rate for the fixed-rate bond constant for the 10-year period, although you would need to re-invest after five years at what could be a different rate. My reasoning was that if inflation was the same after five years, the rate would probably

remain the same, and if inflation was higher, the rate would be higher, which would benefit you even more than I have calculated. Also, I have adjusted capital for inflation only once a year, at the end of each year.

Scenario 1

In this scenario inflation remains a constant 5.5% over the 10 years. (If fluctuations were minor, both up and down, then you could work on 5.5% being an average.)

a) Inflation-linked bond: At an interest rate of 4.5%, you would receive an income of R45 000 in the first year. This would increase by the inflation rate each year, as would your capital, so that in year 10 you would receive R72 859 and your capital at the end of year 10 would be R1 708 144.

b) Fixed-interest bond: At an interest rate of 9.25% you would receive an income of R92 500 each year for 10 years. With inflation reducing the buying power of that amount, in the 10th year, your income would be worth R55 594 at today's rand value. However, the R92 500 you receive would still be higher than the R72 859 (R45 000 at today's rand value) you would receive in year 10 of the inflation-linked bond. But your capital would have depreciated by about 43% to R567 960 at today's rand value.

Scenario 2

In this scenario, inflation rises by 0.5% a year so that in the 10th year it is 10%.

a) Inflation-linked bond: Again, you start with an income of R45 000 in the first year, rising by inflation so that you would receive R86 220 in the 10th year. Your capital would have increased to R2 107 594 by the end of the 10th year.

b) Fixed-interest bond: The R92 500 you receive each year would be ravaged by inflation, but in year 10 it will still be more than the R86 220 you receive from an inflation-linked bond. However, your capital would be severely depleted, having lost 55% of its value – it would be worth R445 797 at today's rand value.

Conclusion

In both inflation scenarios, over 10 years, your cumulative real (after-inflation) income from a fixed-rate bond at 9.25% will be higher than that from an inflation-linked bond at 4.5%. The cost will be the depleted value of your capital. Over longer periods, however, the inflation-linked bond slowly gains the upper hand regarding cumulative real income, while your capital retains its original buying power.

IOL | 4 April 2022

Telkom froze an employee's pension payout. Here's why a judge allowed it

Telkom has succeeded in "freezing" a pension pay-out to a former employee it is suing for over R200 million. In a civil trial, Telkom alleges Andrew Johannes Jacobs sold information to its competitors. He resigned in October 2012, ahead of an internal disciplinary hearing. Jacobs applied to the Pretoria High Court to have his pension released. He said his family was suffering financially due to an "inordinate delay" in proceedings against him. Telkom launched a counter application asking for an interim interdict, preventing the payout of the pension money until the civil case is concluded.

Judge Ronel Tolmay, in her ruling last week, said on the facts before the court, it was in the interests of justice to grant the interim interdict, in spite of the inordinate delay. "It is clear that if the monies are paid to Jacobs he will, on his own version, try to meet his existing financial obligations, which would, in turn, leave Telkom with no recourse. Any judgment against him would have no value. "The disputed evidence is serious and potentially criminal. As a result, I am of the view that it is in the interests of justice to grant the interdict."

The judge said the civil trial would probably be set down for hearing during the course of this year, or next year, and the parties could apply for an early date from the deputy judge president. The judge said the law pertaining to the withholding of pension benefits and the rules of the relevant pension fund provided that a benefit may be retained where legal proceedings have been instituted or a criminal charge had been laid and, on the face of it, the employer had a reasonable chance of success in either forum. Judge Tolmay said evidence before her was that Telkom had laid a criminal charge in 2013 under the Prevention of Organised Crime Act.

Jacobs was not prosecuted but in 2021 his attorney had been informed by the NPA that a criminal matter was proceeding. In 2014, Telkom had issued a summons against him. Telkom produced emails indicating that the NPA had asked that it hold back on the civil proceedings until the outcome of the criminal matter. "Telkom says it had no control over the delay at the NPA … The NPA had assured that the matter was being attended to but nothing was done," the judge said.

She said Telkom had put up documentary evidence, including a forensic report, which formed the basis of the allegations against Jacobs. He had chosen not to respond to these. "He relies on his right to remain silent and not incriminate himself in criminal proceedings which may follow. The result is, that although he had a right to remain silent, the court is largely left in the dark as far as his version is concerned. "The unintended consequences is that this court only has the evidence provided by Telkom to determine whether the requirement for an interdict has

been met." She said there was no question that there had been an inordinate delay, brought about by various factors to which both parties had contributed. "If it were not for the exceptional circumstances of the case, the delay would have been unreasonable. If the [civil] matter could not be finalised in the foreseeable future, the court may have come to a different conclusion," the judge ruled.

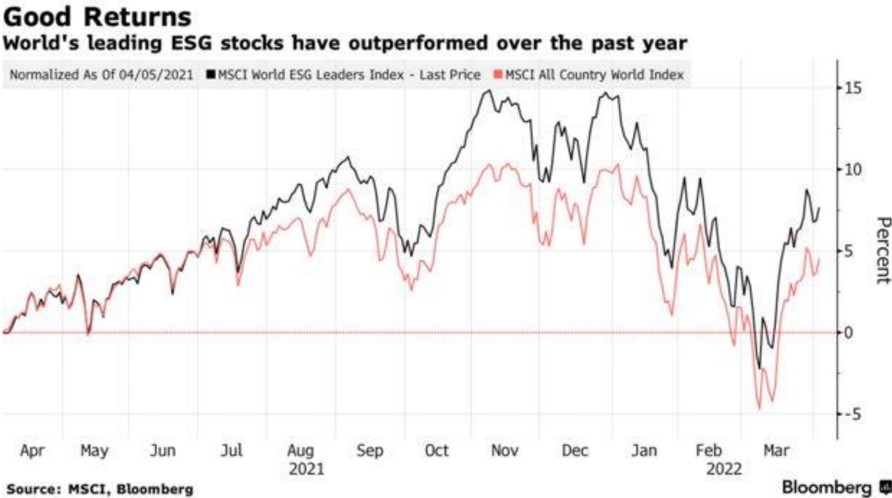
Fin24 | 5 April 2022

INTERNATIONAL NEWS

Australia's Pension Giants up the Ante with Shareholder Activism

Australian pension funds are increasingly weighing the use of shareholder resolutions to improve environmental, social and governance issues at the companies they invest in. Funds are looking to be more forceful on issues such as climate change and gender equality by supporting ESG-linked resolutions and also filing their own, according to Simon O'Connor, chief executive officer of Responsible Investment Association Australasia, whose members oversee A$9 trillion ($6.8 trillion) in assets globally.

"It's a step up," he said in an interview. "We're going to see more of this, because the super funds are feeling like they need to be much more proactive to influence change and to protect not only long-term investment outcomes, but really the environment within which they invest in." Recent resolutions have included those launched by Health Employees Superannuation Trust Australia this year against Hormel Foods Corp. on antibiotic use and Facebook owner Meta Platforms Inc., where the fund accused the social media giant of a lack of oversight on misinformation.



O'Connor expects HESTA's resolutions and other actions taken by Australia's pensions to be in focus at the RI Australia conference starting Wednesday in Sydney. Managers overseeing the nation's A$3.5 trillion in retirement savings are also collaborating more, through bodies including the United Nations-backed Principles for Responsible Investment, he said. "They're much more willing to step up and flex their ownership muscles to influence change and disagree with companies and try to really influence and shape companies much more forcefully," O'Connor said.

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