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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

A pension fund cannot challenge the Pension Fund Adjudicator’s section 37C decision

A pension fund failed in its application for reconsideration of the Pension Fund Adjudicator’s (PFA) decision to refer the matter back to the fund for reconsideration because, according to the Financial Services Tribunal the fund is not a ‘person aggrieved’ as required by section 230 of the Financial Sector Regulation Act of 2017. The fund made an allocation of benefits including the surviving wife of the deceased and an ex-wife and his three daughters of the first marriage under section 37C(1)(a). The PFA set the allocation aside saying it should have been a decision under section 37C(1)(bA) and ordered the fund to reconsider and supply reasons for its new allocation.

The fund made same allocation under that section. The PFA disagreed and referred the matter back again to the fund to apply the PFA’s reasoning. The fund applied for reconsideration of that PFA decision. The Tribunal held that the fund was not an aggrieved party and could not challenge the PFA’s decision. The decision affects the Fund in that it would be required to reconsider the matter but it has no legal interest in the allocation. The PFA was therefore required to decide whether the fund had exercised its decision properly and legally. If not, the PFA had to exercise the discretion.

In the course of the decision the Tribunal said that it was inconceivable in a case such as this that all the identified dependants should not share in the benefit although the percentages were a matter for discretion to be exercised by the PFA. The surviving wife wanted all the benefits. Although the other beneficiaries were not dependant on the deceased at the time of his death they were struggling financially. Even though the surviving wife was nominated as beneficiary that did not entitle her to all the benefits simply because of the nomination. A discretion still has to be exercised by the fund; and now by the PFA.

FA News| 21 July 2021

Savings month: Pursuing dreams in retirement not only for the likes of Bezos

A wise person once said, "Take care of your pennies and the dollars will take care of themselves". However, saving and investing seems increasingly difficult in the current post-pandemic environment. Recently it was announced that the CEO of Amazon, Jeff Bezos, will be retiring with a lumpsum of US$ 197 billion, some 739 489 times the median American's retirement wealth. However, unlike Bezos – who will soon be pursuing his lifelong ambition of traveling to space – many cannot afford to follow their dreams during their golden years. The extraordinary retirement venture prompts an important question – how does a 'normal' person go about achieving real wealth, and are the only alternatives to either inherit your wealth or become a business mogul? For many of us, neither of those are realistic options.

Many would argue becoming a dollar millionaire provides a good proxy for being truly financially well-off, and this may seem like a steep target. According to the World Wealth Report only 1 in 380 people reach this position. However, what is really interesting, is that how these people became millionaires. Here the evidence often runs contrary to what we would expect. Many people don't realise that most dollar millionaires are not of the likes of Bezos, Musk and other successful entrepreneurs. Nor have they earned their place on the list through an inheritance. 88% of dollar millionaires are self-made, and are on average 61 years old (source: Fidelity investments). Author Thomas Corley has argued much of the success of self-made millionaires are due to what he called "rich habits", providing important evidence being wealthy is also a behavioural choice.

Corley's research also shows millionaires can be evenly split into two groups:

- Saver-investors, who he describes as a typical employee who diligently saves (typically around 20% of gross income) over their whole working career, and investing these savings for the long term.
- Dreamer entrepreneurs, who build wealth through taking on substantial risk themselves, and the majority of them have failed at least once.

What seems clear, however, is that building wealth is not only a matter of means, but also a matter of mindset. Healthy saving habits are key to achieving success. For the average person, this only happens after four decades of a career, and many who get there, don't wish to retire. Rather than call it retirement, they call it financial freedom. However, what seems clear is that building wealth is not an overnight, nor accidental journey, nor just a matter of luck. Savings month provides an important reminder that accumulating real wealth starts with a conscious decision to change our approach to our finances. Saving with purpose should be the starting point for anyone wanting to change their financial outcomes, and ultimately achieve financial freedom. Engaging with a trusted financial planner can help you clarify your goals, and put a plan in place to help you get there. Most importantly, it's time we realise successful saving and investing is a multi-decade journey that starts by making daily choices.

Personal Finance | 20 July 2021

Planning for a modern retirement

Today's retirement bears very little resemblance to a retirement of even 20 years ago. Not only is the retirement funding industry significantly more complex, but increased human longevity has made planning for a longer period in retirement somewhat trickier to get right. Retirement planners have had to gear their advice to accommodate a more modern notion of retirement with its many idiosyncrasies and adaptations, and in some instances, this modern retirement is a wholly disrupted version of the traditional retirement.

Global families

More and more South African families find themselves widespread around the globe as a result of a number of pull and push factors. While some South African families settle abroad to escape rampant crime and corruption, other seek to pursue career opportunities that are not available locally. Whatever the reason for emigration, statistics show that approximately 23 000 South Africans emigrate from this country every year, and that the number of South African-born persons residing outside of South Africa has increased from 330 000 in 1990 to 900 000 in 2017 – an average of 21 000 South Africans per year. Naturally, emigration has slowed down over the 2020/2021 period as a result of the coronavirus and closed borders.

The rise in emigration has had a significant effect on retirement planning, and the impact of having adult children living abroad needs to be taken into account when putting one's retirement plan together. For those retirees with family members living abroad, naturally the cost of international travel will need to be built into your retirement plan, keeping in mind that these costs can be significant if you have a number of adult children residing in different countries. Also important to consider is that travelling internationally becomes more difficult as you age and become less physically mobile, which means that the bulk of your international travelling costs would need to be incurred in the early stages of retirement, and this can significantly impact on your future retirement funding.

That said, probably one of the most significant effects of having your adult children living abroad is not having close family to care for you later on in your retirement years. The heartbreaking stories of elderly people confined to their retirement homes during the coronavirus pandemic, while their adult children living abroad were unable to travel, really brought to light the plight of many elderly people who are wholly dependent on their paid carers to look after them. With this in mind, a critical part of your retirement plan would be the need to put a long-term healthcare plan in place to ensure that you can afford high quality assisted living or frail care if/when the time arises.

Transitioned retirement

Many forward-thinking companies are experimenting with what is referred to as a phased or transitioned retirement. As opposed to a sudden departure at formal retirement age, companies are allowing older employees to slowly reduce their working hours and to transition slowly into a lifestyle that looks and feels like their vision of retirement. Not only does a phased retirement allow one to continue generating an income, albeit a gradually reduced income, it also allows one to get a feel for what a full retirement would look like.

Knowing that your transition into full retirement is going to be phased in over a period of time can also help reduce the stress and anxiety that many pre-retirees feel at the thought of suddenly disengaging from the workplace. It is well-documented that many retirees suffer from depression and stress in the early stages of their retirement, often brought about by a sense of purposeless and lack of self-esteem. A phased retirement will necessitate careful planning to ensure that you make timeous and appropriate decisions with regard to your retirement funds and other investments, especially when it comes to managing cashflow and reducing your tax liabilities.

Sandwich generation

With the vast majority of South Africans being desperately under-funded for retirement, many households currently have three or more generations living under the same roof. However, such arrangements are often brought about, not as a result of financial need, but rather as a communal living arrangement that works for everyone, especially when it comes to childcare. The rise in working-from-home arrangements coupled with interrupted schooling over the past 15 months has led many working parents to realise the benefit of having their retired parents close by to assist with homework, transporting of children, meal preparation and other chores.
Full Report: ***Planning for a modern retirement - Moneyweb***

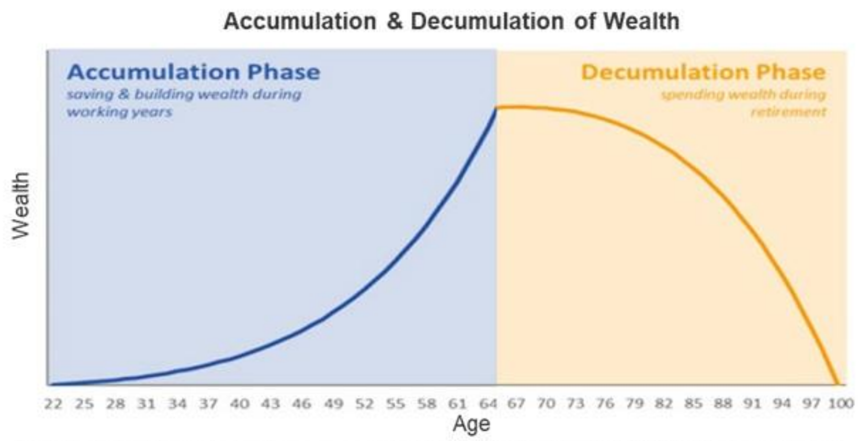
Moneyweb | 19 July 2021

Ideal for Living Annuities: The Glacier Invest Real Income Solutions

In this article we discuss how the construction of the Glacier Invest Real Income Solutions for Living Annuities make them ideal for post-retirement clients who draw an income from their investments. We'll show you where these solutions fit into our holistic discretionary fund management (DFM) offering – a comprehensive offering that covers the needs of a wide range of clients across a variety of life stages and risk profiles, providing you with the means to meet the needs of a diverse client base.

Where do the Glacier Invest Real Income solutions fit into the bigger picture?

The Glacier Invest Real Income Solutions are specifically created for clients with living annuities and are therefore specialist retirement income portfolios. Below is a graphical depiction of clients' investment life stages and the corresponding return requirements and portfolio construction techniques.



Generation	Millennial 20's	Accumulator 30s	High Earners 40s	Pre-Retirement 50s	Post-Retirement 60s+
Risk Profile	Long Term Retirement		Wealth Preservation		Consistent Income
Return Requirement	CPI + 5/6%	CPI + 5%	CPI + 4/5%	CPI + 3/4%	CPI + 4/5/6%
Benchmark Requirement	ASISA Equivalent				Inflation Plus Target
Port Construction Technique	MVO				C-VAR

It is important to note a few key points:

First, take note of the suggestion that clients in their 20s, 30s and 40s should invest in fairly aggressive and high growth investment portfolios, assuming they have the risk tolerance for that. As clients start moving into their fifties, it may be prudent to move them into more moderate or medium growth and medium risk portfolios, to start focusing more on preserving wealth for their retirement. These life stages are covered by the range of portfolios we manage in collaboration with financial intermediaries through our investment consulting services and the regular investment committee meetings we have with financial intermediaries.

We suggest that retired clients should move into specialist retirement income portfolios, designed to be specifically for this part of a client's investment lifecycle: The Glacier Invest Real Income Solutions. The bottom row of the table above is labelled "Portfolio construction technique". You will note that we use a construction technique called Mean Variance Optimisation (MVO), for pre-retirement portfolios, but the technique changes to the Conditional Value at Risk Optimisation Approach (CVaR) after retirement. This is the technique used for the Glacier Invest Real Income Solutions.

The link between asset allocation and portfolio optimisation

Why a change in the portfolio construction approach is so important when designing and managing retirement income portfolios

Source: Sanlam Investments

Asset allocation is of course the process of dividing investments among different kinds of asset classes such as equities, bonds, property, cash, etc. The aim is to achieve the best combination of asset classes that will lead to risk and reward outcomes consistent with an investor's specific situation and goals. And **portfolio construction** is the process of assigning a weighting to each chosen asset class and choosing the appropriate investment funds within each asset class to underlie the portfolio, so investors get the best possible return for a given level of risk. **Full Report:** ***General featured article: Ideal for Living Annuities: The Glacier Invest Real Income Solutions (fanews.co.za)***

FA News | 23 July 2021

Should I cash in my RAs and invest in living annuities?

And does it make sense to buy another RA after one retires as I will be paying tax on my income from part-time work?

I am 59 years old and plan to retire at 60 with a GEPF [Government Employees Pension Fund] pension and a living annuity. I will also work part-time thereafter. I have three other retirement annuities (sold to me by different advisors early in my career) all of which I can withdraw as I am over 55. Should I cash in the RAs and invest in living annuities? Also, does it make sense to buy another RA after one retires as I will be paying tax on my income from part-time work?

Dear Reader,

Thank you for your valid question. Your question has a lot of different segments, and I will deal with them hereunder. Please do not see this as advice but as general information. My advice to you would be to see a Certified Financial Planning professional to analyse your situation and present you with a tailormade solution to your specific situation. The decisions you make now will affect the rest of your life.

Your pension fund

If you have been a member of the GEPF for less than 10 years, you will be entitled to only a gratuity. If you have been a member of the GEPF for more than 10 years you will be able to receive a gratuity and an annuity income from the GEPF. Before 1 March 1998 government employees were not taxed on their lump sum. The tax-free lump sum is calculated in terms of the ratio of years worked before 1998 relative to the number of years you have worked for the government. The amount should be reflected on your benefit statement, to enable you to make an informed choice.

This means that your tax-free lump sum can be much more than the R500 000 allowed by the current tax tables applicable to lump sums from retirement funds. If the above applies to you, it would be best to take the full lump sum that you are entitled to tax-free, and invest it in a discretionary investment from where you can draw a tax-friendly income. In some cases, it might be prudent to withdraw up to R1 000 000 of the gratuity as the tax payable on the lump sum will be less than the tax on your annuity income. The balance of your gratuity, which will then be taxable can be transferred to a living annuity to avoid paying tax on it.

Your retirement annuities

If a large penalty is not payable on your retirement annuities, it would be a good idea to withdraw them. The one-third portion can then be invested elsewhere, and it can be left to grow without attracting further retirement lump-sum tax. You will be released from the Regulation 28 requirements of where you can invest and if you should pass away, the trustees will no longer have a say on who gets your funds. On the living annuity portion, you can choose an income of between 2.5% and 17.5%. If you have enough income, you can choose the lowest percentage of income and invest the income in your discretionary investment. Should you need additional income later, you can increase the percentage. Currently, we advise an income percentage of between 4 and 6% per annum as being the best choice, to enable your annuity income to grow in the future.

Working after retirement

You also plan to continue working after retirement and you asked if you should invest in a new retirement annuity again. Continuing with a retirement annuity will definitely save you tax. Retirees often forget that they are drawing income from various sources and all sources are taxing you as though you are only earning the income from one source. You would have to keep track of your gross income and ask the various sources that you are drawing income from to adjust your tax rate. Either this or face a huge tax bill.

Invest in a new retirement annuity?

If you should invest in a new retirement annuity, which I assume would be short term, you can invest in it until the value is just below R247 000. Under the current Pension Funds Act, you can then withdraw this amount as a lump sum, if it is the only retirement annuity you have with the provider. I hope that this information will help you, and I wish you all the best in this next cycle of your life.

Moneyweb | 22 July 2021

INTERNATIONAL NEWS

Largest U.K. pension funds urged to commit to net-zero

Large U.K. pension funds should not wait for the upcoming U.N. climate change conference, known as COP26, to commit to net-zero targets for addressing climate change, the non-profit campaign Make My Money Matter said Thursday. Make My Money Matter sent letters to 73 of the largest defined benefit funds in the U.K., including the £64 billion ($85 billion) Universities Superannuation Scheme, Liverpool, the pension fund for academic staff employed by British universities. Other recipients included The Natwest Group Pension Fund, Barclays Bank Retirement Fund, HSBC Bank Pension Scheme, BP Pension Fund, Shell Contributory Pension Fund, BBC Pension Scheme and Rolls-Royce Pension Schemes.

The letter asks them to commit to net-zero by using seven criteria that include:

- Matching the 1.5 degrees Celsius ambition of the Paris Agreement and reaching full net-zero no later than 2050.
- Rapidly exiting from all coal investments.
- Active engagement and proxy voting with companies.
- Divesting where necessary.
- Investing in climate solutions.

A similar letter was sent to defined contribution trustees, encouraging them to commit to net-zero targets. Make My Money Matter CEO Tony Burdon said in a news release that the focus was broadened to the DB sector because it accounts for the large majority of the U.K.'s £2.6 trillion pension industry. "These schemes have extraordinary power to help tackle the climate crisis and protect savers' investments, but many have yet to respond to growing demand for cleaner, greener pensions," he said.

On May 19, the Make My Money Matter campaign kicked of the green pledge, "to ensure the £2.6 trillion in U.K. pensions builds a better world," by having pension fund officials and service providers commit to net-zero emissions targets before COP26 begins Oct. 31. The group's website includes a quote from Mark Carney, the United Nations Envoy on Climate Action and Finance and former Bank of England governor: "By helping align the trillions in our pensions with society's values ... this campaign will support the whole economy transition required to achieve net zero."

Pensions & Investments | 22 July 2021

OUT OF INTEREST NEWS

Gender-lens investing and the post-COVID19 economic recovery in Africa

The COVID-19 pandemic has exposed and intensified the already deep inequalities across Africa as unemployment has risen. According to research conducted by McKinsey, women in Africa currently account for more than half of the population, but only generate a third of the continent's GDP, as of 2018. In addition, 40% of SMEs in sub-Saharan Africa are women owned, but only 20% of these have access to institutional finance, leaving a funding gap of about $42 billion in often overlooked sectors and industries where women are economically active. A recent IFC report revealed that gender-balanced teams in private equity generate a 20% higher net internal rate of return and according to McKinsey's research, advancing women's equality in the workplace would add $28 trillion to annual global GDP, equivalent to the economies of China and the USA combined.

The business case for gender lens investing and gender-smart strategies is compelling in the private sector. While we see significant progress and change taking place as a result of the accelerated interest in economic, social and governance (ESG) investments since the COVID-19 pandemic hit, there is a need for more emphasis on the social element, and gender in particular. The investment opportunity for capital allocators is significant. Progress in gender-lens initiatives seem to have stalled since the onset of the pandemic, and at the current pace, it will take an estimated 140 years to see gender parity in Africa. To speed this up, strategic partnerships and continued multi-stakeholder action is needed to deploy gender-lens capital at scale.

It is for this reason that the Standard Bank Group joined forces with the United Nations (UN) Women HeForShe movement in 2018, with CEO, Sim Tshabalala standing up as a thematic champion of the movement. HeForShe invites men and women to stand in solidarity with gender equality and promote women's empowerment. Standard Bank has been intentional and has taken deliberate action in this regard, implementing socially impactful projects that target and empower women across of the continent to be the drivers of Africa's growth and sustainability. In 2020 we launched the African Women Impact Fund Initiative (AWIF) in partnership with the UN Economic Commission for Africa (UNECA) with the aim of creating a sustainable investment platform to grow the number of women asset managers on the continent.

Women currently manage less than 6% of the funds in Africa and typically only get funding for micro type initiatives. We are effectively looking to move women from small-scale money management to making large sustainable capital allocation decisions. Through the AWIF, we set ourselves an ambitious target to raise $1 billion over ten years for women-owned and managed asset management firms. They will in turn be invested in high-impact businesses and projects across the continent, driving female entrepreneurship. We are harnessing the power of finance to promote inclusive and sustainable development in Africa. Working in partnership with UN Women, we have collaborated with stakeholders to empower 50 000 women farmers in Malawi, Uganda, Nigeria and South Africa, through modern, climate-smart agricultural practices.

This includes working to negotiate equitable market terms and to establish business and social contracts with sustainability-focused retailers. For over a decade we have also worked with Lionesses of Africa, an established network of over one million female entrepreneurs across the continent, and through this vehicle supported their businesses as they grow from strength to strength. Change begins at home, and we are also committed to reaching gender parity in executive positions across our operations. Aligned to this we have set ourselves a number of targets and are steadily working towards their realisation. One such target is for 33% representation of women on our board by the end of 2021.

Women in executive positions across the group in Africa are now up to 33.6% and we are confident of reaching our target of 40% by 2023. In South Africa, women already make up 36.3% of executive positions and here too, we plan to reach our target of 40% by the end of this year. Standard Bank’s employees are the biggest champions of this cause and we want to visibly lead in this space, making an impact that is real and valuable to women across the continent. We aim to be even more visible and purposeful in championing gender issues because we recognise that for Africa to emerge out of this pandemic stronger, women must be placed at the centre of economic recovery plans on the continent.

FA News | 22 July 2021

Keeping it simple this savings month

Five things investors should not care about…
In a world of information overload, social media, the increasing size of the investable universe, cryptocurrencies and Robinhood trading – to name but a few – it can be easy to get distracted from what is important. With so much market noise, it has become more important than ever to identify the things investors should not care about. We outline our top five below.

1. How rich 'The Kandasamys' are…

Lottery ticket stocks will always have buyers. Why? Our brains are wired in such a way that expecting to make money feels even better than the act of making money itself. It's the anticipation that puts your brain on high alert. This is also why gamblers are rarely satisfied with a single win. Your brain always needs another shot of dopamine to get that high again. The temptation to speculate increases when we watch others around us getting rich. Unfortunately, the stories of individuals starting a 'tech company' and selling it for billions, are the exception, and not the rule.

Going from zero to zillionaire isn't the order of the day and the reality is that, for most of us, we need to build our wealth over time, through diligently saving and investing our hard-earned money. There will always be people with more success, prestige, money and accolades than you. The important thing when it comes to money and investments is to play your own game and to be good at your own game.

2. The amount of time you spend on your investments

How many hours does it take to master a skill? Well, if you read Malcolm Gladwell's bestselling book Outliers, you'll remember that according to him "10,000 hours is the magic number of greatness." Unless you are planning on becoming the expert(s) you employ to manage your hard-earned money, there is no need for you to spend hours of time and effort on your investments. Rather focus on improving the skill set that is generating your income. In many areas of life, trying and/or working harder leads to better results. That's not necessarily the case when it comes to investing. Once you have made peace with the fact that your investment is going to take 20-30 years to build, it is actually very boring in-between. Let it be boring, that is when the good stuff is happening.

3. How smart you are

When it comes to investing, the biggest asset to use to your advantage, is your behaviour and temperament. Warren Buffett once said, "Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." In addition to the wise words of Mr Buffett, a study published in November 2016 in the Proceedings of the National Academy of Sciences showed that a high level of innate intelligence is not an indicator of financial success. The study found that personality plays a much bigger part than IQ in financial success.

4. Timing the market perfectly

The biggest problem with "timing the market" is – we have no idea when stocks will bottom or when they will climb. Maybe stocks will bottom today? Maybe it will climb next week…or in a year. Who knows? Will you invest at the absolute bottom? Not unless you're ridiculously lucky. But the point remains that the bigger the losses the higher the expected returns and, unfortunately, the biggest up days are normally very close to the largest down days. As the saying goes – a river cuts through a rock, not because of its power, but its persistence. Time in the market remains superior to timing the market.

5. The short-term performance of your investment(s)

American economist, Robbert Shiller said that one year is the time it takes for the earth to go around the sun and that it has no other significance. Especially when it comes to investing. As investors, we naturally want the best performing portfolio and believe this is what will make the difference in our journey to wealth creation. Yes, performance is important, particularly when monthly contributions are small, but what is more important than performance, is a consistent contribution and the time you allow your money to grow.

As boring and uninspiring as that may sound, there is something fabulous about it too. Regardless of how much you invest, if you just have the patience to let your investment compound and the discipline to continue saving through good, bad and boring times and to not get distracted, you will be amazed by the power of compounding over time. It is in fact, the eighth wonder of the modern world.

In conclusion

You don't have to outsmart the market if you can simply outperform it. Cut through the confusion and noise and focus on what actually matters - a simple, consistent diversified approach over the long term. While noise and speculation can act as an emotional rollercoaster, your goals are unlikely to have materially changed and, therefore, your plan shouldn't either. So, if you catch yourself getting down about the state of the equity market, trying to predict what's next, or getting bored with your investments, always remember why you are investing in the first place.

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