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# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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# LOCAL NEWS

## Savings and retirement considerations in Covid-19

Saving and investing consistently is essential when planning to build a large enough nest egg to retire comfortably. The latest 10X Retirement Reality Report showed that out of 15 million economically active South Africans, 67% have no retirement plans. Your retirement savings should enable you to support yourself and maintain your lifestyle after your working years. Building this nest egg does not happen overnight. “With advances in technology and medicine extending lifespans, it is expected that the average person may need to prepare for 20 years of retirement if they retire at 65.

Keeping up with the rising cost of living (inflation) is key – whether you want to retire early, or are planning to supplement a corporate pension,” says Nicholas Riemer, Investment Education Head, FNB Wealth and Investments. Retiring comfortably is a result of contributing early, contributing consistently and allowing your funds to compound over time. Below we highlight some of the key considerations to retiring comfortably.

**Compounding!**

In simple terms, compounding is achieved when returns from your initial savings and investments are reinvested and those returns then deliver further returns. Over the long term, compounding will have a massive impact on portfolio growth. He says that, “Compounding goes hand in hand with long-term saving and investing. Allowing returns to compound from a young age is a proven strategy when building up retirement funds. The power of compounding means that time is a powerful tool when looking to beat volatile movements and achieve good returns.”

**Staying the course in a volatile market**

He adds that, “A major concern for most investors and savers, when looking to grow savings for retirement, is market volatility and the market moving against them. Volatility measures the degree to which asset prices move up and down over time. The larger and more frequent these moves, the more volatile the investment is. More volatile investments are regarded as carrying higher risk.” An important caveat to this is that short-term volatility does not alter the long-term trend of an asset price. An asset can be highly volatile and may still provide strong growth over the long term. This is particularly true of the equity market.

The JSE All Share Index broke its long-term trend and fell from 57 900 to 37 900 points in March 2020. Had an investor panicked and exit the market at that time, he or she would have realised substantial losses in the process. Those staying the course would have seen the index recover from April and build its way back to pre-pandemic levels by July. The index breached 67 000 points in February 2021. Staying invested in the market for the long term has historically yielded good results. Long-term goals need to be aligned to the strategy of staying invested, as staying invested allows investments and savings to ride out short-term market volatility.

Importance of goals

Himal Parbhoo, CEO Cash Investments explains that "goals form an important part of your saving and investment journey. Having well defined short or long-term goals will help you in the long run as well as with your daily and weekly targets. In addition, saving for your retirement serves an important goal as these will help you when you stay the course and retire comfortably. Setting those simple goals is just one step that will help in maintaining life once you retire."

Why the need for emergency funds?

One thing that Covid-19 has taught us is that unpredictable events can and will occur. Staying invested requires funds to be left for the correct time period to perform. Should cash be required in an emergency, these long-term vehicles should not be cashed out? An emergency fund must be accessible to long-term savers and investors so that long-term investments and savings do not need to be cashed out when a crisis occurs. "Building up three months' worth of income and utilising a short-term saving vehicle to do so is a sound strategy in protecting your long-term vehicles when cash is required immediately," explains Parbhoo.

Pensions, investment vehicles or both?

For most, saving for retirement is done through a company pension fund. While this is an effective method for saving, it may not be accessible for everyone and you may need to supplement such a pension fund with additional retirement savings. A retirement annuity fund (RAF) is a long-term retirement vehicle bearing similar characteristics to a pension fund. The main difference is that this fund cannot be paid out in a lump sum like a pension fund. When changing jobs, savers have the option of reinvesting their pensions with a new company or receiving a lump sum.

For some, that new car or home renovation seems more important at the time but means that their nest egg will be significantly smaller, and future retirement contributions must make up a lot of lost ground. Estimates show you will require roughly 75% of your current monthly income to retire comfortably and maintain the lifestyle you are used to. Requiring this for 20 years plus will require years of consistent contributions. Cashing out pensions to fund short-term expenses

might seem like a good idea at the time, but the consequence will be that a higher percentage of monthly income will be required to fund the gap, or alternatively not having enough funds put away to retire comfortably. When moving jobs, funds should be reinvested into another pension fund or an RAF. These vehicles are not mutually exclusive; both can be utilised by savers for retirement. An RAF is fantastic vehicle for wealth preservation as only up to a third of the fund can with withdrawn as a lump sum when reaching 55 years of age and the balance can be paid out in a monthly living annuity.

Having both options allows you to contribute more savings to retirement while being able to deduct contributions made for tax purposes, up to the contribution limit set out by the South African Revenue Service. “Investing and saving for retirement consistently and through multiple vehicles allows compounding to take place. Having a healthy balance of both investments and savings is crucial in retiring comfortably. While starting early is the best strategy, it is never too late to start saving and investing for the long term,” concludes Riemer.

**Personal Finance | 27 May 2021**

## Retrenched? Changing jobs? Best handle your retirement savings with care

2020 was the year of the retrenchment and unfortunately, 2021 may not fare much better as the world continues to fight the effects of Covid-19. The latest Statistics SA Quarterly Labour Survey found that the number of unemployed persons increased by 701 000 to 7.2 million in the fourth quarter of 2020 following an increase of 1 million in the previous quarter – putting the retirement plans of millions of South Africans jeopardy. Shameer Chothia, Consultant at Momentum Corporate Administration and Advice, believes that in light of this, it has never been more important to think carefully about your retirement savings if you’re facing retrenchment.
You should consider all your options, including:

- Preserving all your savings in the retirement fund where it is invested, even though you are leaving the employer (This is known as in-fund preservation)
- Transferring your savings to a preservation fund
- Transferring your savings to your new employer’s retirement fund or a retirement annuity fund
- Taking part of your savings as cash to meet immediate needs and preserving the balance
- ]Withdrawing all your savings as cash

**Preserving your retirement savings should be high on the agenda**

Chothia emphasises that you should always consider preserving your retirement savings as far as financially possible. "Investing for retirement is a long-term objective. It's a bit like taking a long drive. Say you are driving from Johannesburg to Durban but an hour outside Johannesburg you hit roadworks. Are you going to go back home or wait until the roadworks end so you can progress and reach your destination? "There may be many obstacles on your journey to retirement, such as market volatility, retrenchment and changing jobs, but sticking to your long-term plan and staying invested through the ups and downs will get you to your final destination – a financially secure retirement. It's important that you don't allow retrenchment today to derail your way of life for tomorrow."

**Consider the tax implications**

When exploring the prospect of digging into your retirement savings, tax alarm bells should ring in your head. "Although special tax rules apply to voluntary severance packages, liquidating your pension or provident fund is taxed at a high rate in accordance with the retirement fund withdrawal tax table," says Chothia. You may end up giving away a lot of your hard-earned retirement savings to the taxman, especially if you withdraw the full amount. For example, depending on your tax bracket, if you have R1 million in your retirement fund and withdraw the full amount, you'll pay tax a tax rate of 36%. "I don't know about you, but seeing 36% of my retirement savings disappear will not feel good. You'll need a good reason for doing so."

**Use any retrenchment package wisely**

What if you're unable to find new employment or another source of income by the time you leave your existing employer? Chothia still recommends that you consider preserving your retirement savings if at all possible, especially if you'll be receiving a retrenchment package from your employer. Look at how you can cut back on any unnecessary expenses and stretch your retrenchment package as far as possible to meet immediate needs rather than tapping into your retirement savings to maintain your current lifestyle. "If you keep your retirement savings well preserved and untouched, you can reap the rewards of compound interest and watch your money grow on its own. The more you take out, the less it will grow and the more you will be taxed."

**What about withdrawing only a portion of your retirement savings?**

If you belong to a group pension or provident fund, you will know that these types of funds are linked to your employment. When you leave your employer, you can choose to take a portion of your retirement savings and transfer the balance into a preservation fund. "This means that if it's really necessary, you can access some of your retirement savings to meet urgent needs and preserve the balance which, will have grown into a much larger amount by the time you reach retirement."

From 1 March this year, all transfers, whether from a pension or provident fund to a preservation fund, are tax-exempt. “Explore all your options before opting to cash in your hard-earned and irreplaceable retirement savings. It’s also important to always consult with a qualified financial adviser for advice tailored to your personal situation, as the rules of retirement funds differ. In addition to this, if you are part of an employer-sponsored retirement fund, you have access to benefit counsellors who can give you all the information you need on the options for your retirement savings to help guide you on your journey to a financially secure retirement.”

**Personal Finance | 27 May 2021**

## How an increasing life expectancy affects retirement planning

In the previous article of this miniseries, we reflected on how the rapid disruption of the workplace occurring in the wake of the Fourth Industrial Revolution is one of two socio-economic metamorphoses that are rapidly converging to compel an urgent paradigm shift in retirement planning. As we bridge into the second, the Longevity Revolution, this quirky line borrowed from Cognizant’s creative exploration of the *Future of Work* seems decidedly apt: “*The guilty little secret of the technology world is that every solution begets a problem. Fix A, and then B goes on the fritz. Develop C — which is a great new thing — and then realize you’ve also created D — which is a terrible new thing that needs fixing.*”

An unprecedented digital transformation, driven by a confluence of many advancing technologies, is delivering enhanced economic efficiencies and personal freedoms. And it is creating a pressing dilemma, as many of the productive human activities that we rely on for our incomes are becoming better performed by our artificial counterparts. Immense opportunities are being created, but so are immense challenges. A synonymous phenomenon is taking place in the space of life and health.

**The effects our shared-value model has on people’s lives**

Discovery's shared-value model which underpins everything we do, was built on a simple, but profound idea: If we could help people get healthier, we could improve their lives, improve our claims rates, and improve society. Since we introduced the model in the space of life insurance, it and the behavioural incentives which bring it to life, have continuously evolved alongside the rapid advance of medicine and technology. It has unquestionably come a long way in helping to solve the problem of early and preventable disease, disability and, ultimately, untimely death.

Recent empirical studies show that our Vitality members live, on average, substantially longer than the wider insured population. Our Diamond Vitality members live lives that are comparable to those select pockets of global society, known as the Blue Zones, which live the longest, healthiest lives of all. Of course, this is a source of great pride for us at Discovery. Yet, it would be disingenuous to say that the longevity revolution is unique among our members. Instead, they are at the leading edge of a global phenomenon.

**Global longevity is increasing exponentially**

"All societies in the world are in the midst of a longevity revolution – some are at its early stages and some are more advanced" reads the UN's 2019 report on World Population Ageing, "but all will pass through this extraordinary transition". The ageing transition is described by the likelihood of individuals within a society living past the age of 65. As societies 'develop', this likelihood rises, from less than 50% – as was the case in Sweden in the 1980s – to more than 90%, as we see in countries with the highest life expectancy today.

As people live longer, while conceiving less, the related and revised World Population Prospects data, also released by the UN, estimates that the number of people across the globe aged 65 or over will more than double by 2050. The number of people living beyond 80, meanwhile, is expected to triple. The average life expectancy has been increasing by, on average, one year every five years since the middle of the previous century, according to a white paper released by the World Economic Forum.

**The effects of an ever-increasing longevity on society**

Driven largely by the near exponential pace of advancements in medicine and the science of wellbeing, humankind is undoubtedly making remarkable progress in achieving healthier, longer lives for people. Yet, '*every solution begets a problem'.* "In most countries around the world, standards of living and healthcare advancements are allowing people to live longer. This should be celebrated, but we should also consider the implications for the financial systems that have been designed to meet our retirement needs, which in many countries are already under severe strain," according to the World Economic Forum (WEF).

In essence, the longevity revolution presents us with a wonderful, urgent, problem: How do we plan for our healthier, longer lives? As people live longer, but work for the same amount of time, or less, it will soon become a reality that we spend as many years working as we do in retirement. Clearly, this has implications in terms of the proportions of our salaries that we need to put away each month in order to have enough to live on when we retire. Furthermore, as societies age, this "will have a profound effect on the potential support ratio," defined by the UN as the number of people in working age (between 25 and 64 years old) and the number of people aged over 65.

"The key driver of the challenges facing retirement systems is increasing life expectancy and a falling birth rate. This leads to a smaller workforce supporting an ever-growing population of retirees," according to the WEF.

**The retirement savings conundrum caused by the Longevity Revolution**

South Africa is already presented with a situation where the vast majority do not save sufficiently to retire comfortably. When this intersects with the new reality that we need to be saving more, considering our increasing life spans, we have an age-old problem, colliding with a rapid evolution of the old-age problem. When this, additionally, intersects with the new reality of the accelerated uncertainty that the skills we rely on to generate an income may be irrelevant in only a matter of years, we have an age-old conundrum colliding with a rapid, twin evolution.

**FA News | 24 May 2021**

## 10 things to know about divorce and your retirement funds

Before contemplating divorce, couples should first seek to understand the impact that it will have on their retirement savings.

Divorce is very rarely simple, especially when it comes to achieving equitable financial separation. Before contemplating divorce, couples should first seek to understand the impact that it will have on their retirement savings and what options are available to them.

**1. The nature of your marriage contract matters**

The first step in understanding the impact on your retirement funding in the event of divorce is to understand the nature of your marriage contract. If you are married in community of property, all retirement funds will form part of the joint estate and, in the event of divorce, each spouse will be entitled to a 50% share of the joint estate. The only exception to this would be where the court grants a forfeiture order in terms of Section 9 of the Divorce Act where one spouse's pension interests could be awarded to the other if it is found that the member spouse benefited unduly from the marriage.

Where a couple is married out of community of property without the accrual after 1 November 1984, each spouse will retain their own assets – including retirement fund benefits – and no claim against each other in respect of pension interest will arise. Where a couple was married prior to 1 November 1984, while each spouse will retain their own assets, Section 7(3) of the Divorce Act makes allowance for a spouse to bring an application for a redistribution of assets – which can include a member spouse's pension interests – if that spouse can demonstrate

that they contributed directly or indirectly to the other spouse's estate during the subsistence of the marriage. Where a couple is married with the accrual system, the value of their respective retirement funds will be taken into account when determining the accrual.

**2. You can exclude your retirement funds in terms of your antenuptial contract**

A couple who choose to marry out of community of property will need to enter into an antenuptial contract before marriage which effectively alters the financial consequences of marriage in line with the couple's wishes. A couple is free to tailor-make their antenuptial contract to suit their needs, provided that the terms of the contract are not illegal or immoral. This means that, where a couple chooses the accrual system, they can elect to expressly exclude their retirement funds from the accrual. In the event of divorce, each spouse's retirement fund assets will not be taken into account in the accrual calculation.

**3. The pension interest calculation differs for retirement annuities**

The calculation used to determine the pension interest in respect of retirement annuities differs from that used in respect of pension, provident and preservation funds. When calculating pension interest in the latter, the pension interest is the total benefit to which the member spouse would have been entitled in terms of the fund rules if their membership had terminated due to resignation at the date of divorce. On the other hand, pension interest in respect of a retirement annuity refers to the total amount of the member spouse's contributions to the fund up to the date of divorce plus simple interest at the prescribed rate.

**4. The duration of your marriage does not impact your pension interest**

When calculating the pension interest of the non-member spouse, keep in mind that the pension interest calculation is done as of the date of the divorce. The calculation does not take into account how long the marriage subsisted for, nor whether the couple was married when the member spouse joined the fund. The calculation depends purely on the type of retirement fund, and the pension interest award is determined by the nature of the matrimonial property regime.

**5. Cohabiting couples have no claim for the pension interest**

Cohabiting couples do not have a right to claim a share of the member spouse's pension interest. The right to claim a share of the member spouse's pension interest is legislated in terms of the Divorce Act of 1979 and, for these purposes, the right does not extend to couples who choose to live together rather than get married. Couples who choose to live together and who wish to protect their financial futures should consider entering into a domestic partnership agreement.

**6. Living annuities are excluded from pension interest calculations**

Pension interest as defined by Section 1 of the Divorce Act makes it clear that it applies to the spouse's pension interest in a retirement fund as at the date of divorce. Where a member spouse retires from the fund prior to the date of divorce and uses the proceeds, or part thereof, to purchase a living annuity, the annuity does not fall within the definition of 'Pension interest, and the non-member spouse cannot claim against the annuity for a pay-out. This is because the nature of a living annuity is such that the annuitant has a right to the annuity income but not to the underlying capital.

The annuitant cannot make a lump sum withdrawal from a living annuity and, as such, their spouse cannot claim a portion of the invested capital. However, divorcing couples should keep in mind that any annuity income received should be taken into account when determining future maintenance needs. Particularly relevant where a couple is married with the accrual system is that the courts have recently found that the value of an annuity holder's future annuity payments should be considered an asset in the estate for accrual purposes. How that value of that asset should be determined is still subjudice and it remains to be seen how the courts will give effect to this valuation.

**7. Muslim marriages**

Where a couple is married in terms of Islamic law only, the Pension Funds Adjudicator has rules that a non-member spouse to such a marriage will have a claim against the member spouse's pension.

**8. Divorcing couples can design their own settlement**

While the Divorce Act sets out the manner in which pension interest should be calculated, it is important to bear in mind that divorcing couples remain free to structure their own divorce settlement agreement and are not bound by the pension interest legislation. Where a divorce is an amicable one, or where effective mediation is sought, a couple is free to structure a separation of assets that is in line with their needs and respective circumstances.

**9. The wording of the divorce order is paramount**

It is absolutely essential that the divorce order is clearly worded and meets all legal requirements. Specifically, where a non-member spouse is awarded a share of the member spouse's pension interest, the divorce order must clearly name the retirement fund and must clearly stipulate the percentage interest to be paid over to the non-member spouse. If there is any vagueness in the divorce order, the retirement fund can refuse to pay out the pension interest and the non-member spouse will need to approach the courts to have the divorce order amended.

**10. The non-member spouse is liable for tax**

Where a non-member spouse is awarded a portion of the member spouse's pension interest, any cash lump sum will be taxed in the hands of the non-member spouse as per the Income Tax Act. Where the non-member spouses elect to transfer the full benefit to an approved retirement fund, no tax will be paid on transfer, although the proceeds will be taxed in their hands upon future withdrawal or when they retire from the fund.

**Moneyweb | 24 May 2021**

## The importance of beneficiary nomination

Depending on the nature of the policy or investment, an estate planner can use beneficiary nomination to reduces estate costs.

An important part of estate and succession planning is ensuring that your beneficiary nomination accurately reflects your wishes and allows for no confusion when it comes to administering your estate. Depending on the nature of the policy or investment, an estate planner can use beneficiary nomination to reduces estate costs and ensure that his loved ones receive their inheritance efficiently and without delay.

**Life policies**

Life policies make excellent estate planning tools, especially when it comes to providing liquidity in your estate and making financial provision for your loved ones – although their efficiency is very much dependent on the correct beneficiary nomination. For instance, if the purpose of the life policy is to provide liquidity in your estate in the event of death, it is advisable to nominate your estate as the beneficiary of the policy. In the event of your death, the insurer will pay the proceeds directly to your deceased estate. However, remember that the proceeds of a life policy are considered deemed property in your estate and will be subject to estate duty.

As such, it is important to include your potential estate duty liability when calculating the quantum of life cover you need to ensure estate liquidity. In terms of section 4(q) of the Estate Duty Act, the value of all property that accrues to the surviving spouse – including the proceeds of a domestic life policy where the spouse is the named beneficiary – is deductible from the gross estate of the deceased and is therefore not estate dutiable. Where a domestic life policy is registered under an ante-nuptial or post-nuptial contract where the spouse and/or child are the nominated beneficiaries, the proceeds of such a policy do not form part of the deceased's dutiable estate.

If your intention is for the proceeds of your life policy to be paid to your minor beneficiaries, think carefully about naming them as beneficiaries on your policy. In terms of our succession laws, children under the age of 18 are limited in how they can receive their inheritance. For instance, a lump sum bequeathed directly to them will – in the absence of a testamentary trust – be housed and administered by the Guardian's Fund or a Beneficiary Fund. The most effective way of ensuring that your minor children receive the proceeds of a life policy is to set up a testamentary trust in terms of your will and to nominate the trust as beneficiary on the policy. In the event of your death, the insurer will pay the proceeds directly into the trust where the funds will be administered by your trustees in the best interest of your minor children until they reach a pre-determined age.

**Tax-free investments**

If you have a tax-free investment in place, you are able to nominate beneficiaries on your account. In the event of your death, the proceeds will immediately be paid directly to your nominated beneficiaries and the value of the investment will not be included for the calculation of executor's fees.

**Endowments**

Endowments are, generally speaking, complex structures and are useful estate planning tools for those with a marginal income tax rate of 30% or more. Because endowments can remain active after your death where multiple life assureds are nominated, these vehicles can be used to achieve a number of estate planning goals. As the policyholder, you can decide who the life assured is, with the policy only coming to an end on the death of the last life assured. Similarly, any beneficiaries that you have nominated on your endowment will only receive their benefit on the death of the last life assured. When the proceeds become payable on the death of the last life assured, the funds will be paid directly to the beneficiaries. Again, the use of beneficiary nominations can avoid paying executors fees but the value of the funds will be considered deemed property in your estate for estate duty purposes on the passing of the owner.

**Retirement products**

While retirement funds, including provident, pension, preservation, and retirement annuity funds, provide investors with significant tax and estate planning benefits, it is important to keep in mind the limitations that Section 37C of the Pension Funds Act imposes on these vehicles in respect of distribution in the event of death. In terms of legislation, it is the trustees of each retirement fund that are responsible for deciding how a deceased's retirement benefits will be distributed, ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/the-importance-of-beneficiary-nomination/***

**Moneyweb | 25 May 2021**

# INTERNATIONAL NEWS

## UK workplace pensions set for charges reform

Government unveils plans to ban combination charges to make fees easier for savers to understand and compare

The UK government has unveiled proposals for a major shake-up of workplace pension charges to make them clearer, but conceded the change may leave some savers worse off. Experts said the move would likely pave the way for further reforms that would give the 29m workers on such schemes more freedom to switch to better value retirement plans. Currently, pension providers can choose from several different charging structures for workers automatically enrolled into a "default" pension fund by their employers. These include a single percentage charge of the pot value or a combination of percentage based fees with annual, monthly or contribution charges.

On Monday, ministers unveiled plans to ban combination charging models and instead impose a single charging structure across the auto-enrolment market. "We said that in 2021 we would look at how we could make it as easy as possible for pension savers to have access to comprehensive and transparent information on costs and charges," said Guy Opperman, pensions minister. "I believe that moving, in the future, to a single, universal charging structure could make a significant difference to the transparency of charges, make comparison easier, and unlock greater choice for members." Experts estimated that about 17m pension pots would be affected by a ban on combined charging structures, including those held with Nest, the £16bn government-backed scheme, which has more than 10m members.

Nest currently levies a charge of 1.8 per cent on each new contribution into a member's retirement pot alongside an annual management charge of 0.3 per cent on the total value of a member's fund each year. In its analysis, the government said that moving to a universal charging structure would mean that some members currently paying a combination charge were "likely to pay more" when charged under a single annual percentage fee. A 2019 analysis by the Pensions Policy Institute, a think-tank, concluded that combination charges generally provided better outcomes for savers over time, particularly after more than a decade of contributions. In contrast, members with lower value pots may see charges fall under a universal charging structure.

However experts said further reforms could pave the way for savers to switch to a better deal, if they lose out under simplified charges. Currently, there is no compulsion for employers to pay their minimum 3 per cent contribution to the employee's pension if a worker decides to shift their savings to a non-workplace plan. As part of the consultation, the Department for Work and Pensions said it would "carefully consider" how an employer may influence or affect, if at all, a member's preference to switch funds. Becky O'Connor, head of pensions and savings for interactive investor, an investment platform, said: "This consultation paves the way for more competition, greater freedom of movement and ultimately better value for people investing into pensions."

David Robbins, director with Willis Towers Watson, the professional services firm, said: "The DWP does not explicitly say that it might force employers to divert contributions to a provider of the employee's choice, but this appears to be the subtext." Steve Webb, a former pensions minister and now a partner with actuarial firm Lane, Clark & Peacock, welcomed proposals to simplify charging structures but said the government needed to "tread very carefully" before going further. "Allowing members to shop around for a different pension provider could add considerably to burdens on employers and could destabilise the whole basis on which automatic enrolment was established," he said.

**Financial Times | 13 May 2021**

## UK gender pensions gap averages 38%

Research carried out by Pension Bee has revealed that depending on age and location, the UK gender pensions gap is as high as 57%. The online pension provider found UK men have saved £24,236 towards their retirement compared to just £15,006 saved by UK women, which is a 38% gap in the size of their pension pot. The largest gap of 57% is in Northern Ireland, with average retirement savings for men totalling £17,883 versus £7,737 for women. The north east and south west of England both have gaps of 46%, with men saving £20,514 compared to women saving £11,177, and men saving £24,641 compared to women saving £13,326 respectively.

Meanwhile, those living in Greater London have the lowest gender pension gap of 28%, with men saving £24,853 and women saving £17,863. The research, analysed the data of more than 65,000 people, also highlighted that the gender pay gap widens with age. It discovered a 46% gap among those aged 50 and over, with men and women saving £52,592 and £28,249 respectively. This is more than double the 18% gap of savers under 30, with men and women having pension funds of £3,925 and £3,215 respectively. Romi Savova, CEO of PensionBee,

said that it is “incredibly disappointing” to see that where a pay gap exists for women, a pensions gap will follow. “At the same time, female savers must be encouraged to keep paying into their pension, even when taking breaks from paid employment or working reduced hours. Women are more likely than men to take time off work to look after children, and many women stop contributing to their pension while on maternity leave.

The combination of lower salaries and long career gaps, with little or no pension saving for years, are a massive disadvantage for women,” she said. “The benefits of compound interest and tax tops from HMRC make a pension an attractive long-term investment, and the more women can contribute their pensions now, the more they will be able to improve their quality of life in retirement,” Savova added.

**Employee Benefits | 27 May 2021**

# OUT OF INTEREST

## Sars wants to limit tax relief for disabled costs

Sars argues in the document that school fees are not in the consequence of a disability. The South African Revenue Service’s (Sars) continued attack on the ability of taxpayers to claim tax relief for the education costs of the disabled has been described as “mean and disrespectful”. School fees as a qualifying expense have been removed in the recent draft response document on the list of qualifying physical impairment or disability expenditure. This is the latest curveball thrown at parents of disabled children to ostensibly “curb abuse” and prevent discrimination against parents with abled children.

Sars argues in the document that school fees are not in the consequence of a disability but in consequence of education. Therefore, school fees will no longer qualify as a medical expense. Craig Miller, tax director at Webber Wentzel, says this is a very simplistic way of looking at it. There is a reason for the existence of special needs schools. Special needs children cannot survive in a mainstream environment and the government has not provided any viable alternatives, he says.

**Disability interventions**

“The special needs school creates the structure from where the different therapies can be administered in order for the children to develop, as mainstream schools typically do not have the infrastructure. These schools often operate on the premise that the school fees cover the

therapies offered at the school." Last year parents received the first blow when school fees for private and public special education needs schools were limited to the amount in excess of fees at their closest fee paying private or public schools. In terms of the proposed new rules, the parent must separately list the cost of "interventions" at the school "in consequence" of the disability. This includes among others, a care worker assisting a child, a social worker or psychologist, occupational therapist, physiotherapist, or audiologist assisting the learner. "It (Sars) wants you to itemise every [separate] therapy which is provided at the school. It is really difficult to see how this will work in practice."

**Unfair comparisons**

When Sars started with its attack on relief for school fees for disabled or impaired learners it argued that it would be unfair to parents of those children who do not have a disability. "Parents of disabled children do not simply send their kids to special needs private schools because they think it is a nice thing to do. It is a necessity," remarks Miller. Kyle Mandy, tax technical and policy director at PwC, says the reason learners with disabilities go to special needs schools is precisely because they have a disability. The link with the disability is therefore obvious.
Special needs school fees could never be claimed in full. It has been limited to the extent to which such school fees exceed those of ordinary schools.

"Inevitably this will be the case because (even without the interventions on the Sars list) costs are higher due to the need for smaller classes and specialist teaching skills," says Mandy. "It is therefore wrong to say that these additional costs are not in consequence of a disability." Miller adds that the education of a child going to a mainstream school, who then matriculates and decides which university to attend, can surely not be compared to the education of a severely autistic child. "These special needs schools deal with integrated therapies and responses for disabled children. It is a known fact that the state cannot provide these services," says Miller.

Beatrie Gouws, head of the South African Institute of Taxation, agrees. The Constitution provides that everyone has the right to a basic education, including adult basic education, and to further education, which the state through reasonable measures must make progressively available and accessible. "Where a disability affects a child's ability to access education, the policy has been to bridge that gap with the tax relief provided, so that the child's access can be restored," says Gouws. "By discounting the value of this basic right, their future livelihood, happiness, and the contribution that these children may make to our society and economy, is dealt a severe blow."

**The formula**

Miller explains that Sars is using a formula – depending on the expenditure – to calculate the tax credit. The taxpayer could claim a percentage of the disability expenditure as a credit to the

total tax liability. For example, if the parent earned R100 000 per annum, with a tax liability of R20 000 a year, and school fees of R10 000 a year the parent was allowed to claim one-third of the medical expenses (33%) which could be offset against the tax liability. (R20 000 minus R3 333). There are many parents who rely heavily on this relief. When the first round of changes was introduced Sars ignored the most heart-rending submissions by parents affected by the changes.

One parent, with a severely autistic daughter, said it left a bad taste in her mouth for Sars to think that parents of special needs children were abusing the system. "It is difficult enough to be a parent of a special needs child and for Sars to redraft the qualifying list of expenses limiting the expenditure is disrespectful and demeaning." It appears that Sars considers parents wanting to give their special needs children the best possible treatment in private schools – when there is no other alternative – to be "abusive", another parent said.

Miller says he cannot imagine that the latest change will result in a material revenue gain to the fiscus. In fact, if Sars focused their energies on a few other things they may find that this is small change in terms of tax collection. "This new amendment is particularly surprising given that Sars has recently amended the treatment of school fees. Now it is changing [the guidelines] again and people have not been given proper notice." Affected parties have until May 31 to respond.

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