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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Will COVID-19 vaccine reverse retirement fears?

An increased need for certainty in times of uncertainty is a retirement trend that gained momentum in the wake of the pandemic.

Latest research shows that 70% of South Africans in or approaching retirement prefers a guaranteed retirement income for life that will never decrease over an income that fluctuates depending on investment performance. Dig deeper and you'll find that almost 90% want to know exactly how much they will receive from one month to the next. Yet, in the race to bring a vaccine to the market, will these sentiments still ring true once it is readily available and the associated risks of the disease are no longer top of mind? It is possible that retirees may revert to pre-pandemic attitudes towards retirement planning.

We don't think so, and here's why.

The existing retirement risks stay the same

Irrespective of the pandemic, many retirees run the risk of depleting their retirement savings too soon. This risk may have been masked behind rose-tinted expectations of future returns or by not carefully considering financial needs in retirement. But Just Retirement Insights 2020 reveals that almost two thirds of retirees took the opportunity to look more closely at their risks following the COVID-19 market crash. And perhaps in response to a much-needed wake-up call, an increasing number of respondents now attest to putting greater thought into their financial planning.

There is less wiggle room

Approximately one third of respondents admit to dipping into their retirement savings as a result of the ramifications of COVID-19. Of this group, 40% viewed it as a permanent disinvestment. When asked how much they could afford to lose in a market crash before it seriously impacted their retirement plans, almost 40% of respondents say they can't afford to lose any money at all. The research also indicates that almost three quarters of people would have been seriously affected following the 10% market decline earlier this year. The stark reality is that many retirees are not in a position to take on unnecessary risk due to the financial hardships suffered at the hands of the pandemic. This is unlikely to reverse in the short to medium term.

Increased longevity is sinking in

Retirees are slowly getting to grips with the reality of longevity and its implications for retirement. Nine out of 10 of respondents say the most important use of retirement money is to generate an income to pay their regular bills for the rest of their lives, up 6% from last year. While the preference for known and reliable income is perhaps not a new trend, it has been rising steadily since Just's first retirement tracking study in 2015.

Leaving a legacy is becoming less important

The ability to leave retirement capital to dependents was once an important factor for retirees in the argument for living annuity solutions. However, research responses indicate that this need is becoming gradually less important, possibly due in part to increased longevity awareness. What is more important is that retirement money should last (at least) as long as they do.

The retirement product market has evolved

Many players in the South African retirement industry have worked together to address the shortcomings in the annuity market and it is refreshing to see other insurance companies prioritise the increasing need for guarantees. The conversation used to be an 'either-or' choice between the flexibility provided by living annuities or the security of life annuities. But retirees now have access to new-generation annuity solutions that better suit retirees growing need for security and flexibility.

A *blended annuity* provides this type of flexibility without losing any income security. It comes in the form of a living annuity, but within that, a portion of capital is allocated to an insurance-based life annuity, enabling retirees to obtain a guaranteed income for life to cover essential expenses. The living annuity portion remains invested in the market, meaning retirees get the benefit of investment participation and depending on future market performance, a higher income, while still being able to leave something behind.

FA News | 3 December 2020

Financial emigration and retirement funds

Earlier in the year National Treasury announced via the Budget that the concept of "financial emigration" would be scrapped. According to Denver Keswell, Senior Legal Advisor at Nedgroup Investments, a South African with the intention of formally emigrating has always had to apply to the South African Reserve Bank (SARB) but the intention was that the concept of "financial emigration" would be replaced by a more stringent test. This proposal was evident in the Taxation Laws Amendment Bill 2020 (TLAB).

What does this mean for retirement fund members?

"Retirement fund members are generally only allowed to access their retirement fund benefits when they reach retirement age (55 for retirement annuity members and preservation fund members who have already taken their one withdrawal). However, the definition of a pension preservation fund, provident preservation fund and retirement annuity fund in the Income Tax Act allows a fund member to withdraw their full fund value prior to retirement if they "formally emigrate" from South Africa. Scrapping this requirement would require a new test for a retirement fund member to withdraw their retirement fund benefit when they "emigrate" from the country," he explains.

What is the proposed alternative test?

The explanatory memorandum of TLAB 2020 indicates that a new test should be inserted into the definition to make provision for the payment of a (retirement fund) lump sum benefit when a member ceases to be a South African tax resident and such member has remained non-tax resident for a period of at least three consecutive years.

How do these proposals affect retirement fund members?

"Firstly, it is important to note that the above amendments are still just a proposal which if passed will become effective 1 March 2021. Members of preservation funds who leave the country thereafter will be entitled to take a full withdrawal as per preservation fund rules. Members of retirement annuities or preservation fund members who have already taken their one withdrawal will have to be non-resident for a period of 3 consecutive years prior to taking a full withdrawal. Alternatively, they can access their funds as per normal retirement fund rules at retirement," says Keswell.

What is not clear from the proposal is whether retirement fund members who have already "financially emigrated" prior to promulgation will be allowed to fully withdraw due to such emigration. "Another concern is that "emigrating" members who require access to their retirement funds to settle into their "new life" will not be able to do so for a period of 3 years."

"Therefore, while there will likely still be some discussion around the detail, it is clear that the concept of financial emigration is changing and retirement fund members looking to emigrate from South Africa should make sure they are informed about what this will mean for their retirement savings. As always, your financial advisor and the team at Nedgroup Investments is available to assist with any queries in this regard," he says.

FA News | 2 December 2020

Investing in alternatives: Blended approach for sustainable returns, social impact

The Alexander Forbes Investments Private Markets Porfolio achieved its CPI plus 7% before fees target last year and has 'fared very well' this year – David Moore of Alexander Forbes Investments.

RYK VAN NIEKERK: Welcome to this Market Commentator podcast. My name is Ryk van Niekerk, and it's my weekly podcast where I speak to leading investment professionals. My guest today is David Moore. He is head of alternative investments at Alexander Forbes Investments. David, thank you so much for joining me. I always do a lot of research prior to an interview, but I'm afraid to say that I found very little public information regarding Alexander Forbes Alternative Investments. There seems to be very little information on the website; or, at the very least, I couldn't find it, if there is information – and it wasn't for lack of trying. First of all, where does Alexander Forbes Alternative Investments fit into the AF investment business?

DAVID MOORE: Hi Ryk, and thanks for having me. In the context of alternatives, let me just delineate what that category of investments really means. It comprises two buckets, hedge funds and private market assets. And in the context of I think the portfolio that we are going to chat a little bit more about today, private-market assets really sit within our delegated-product solution, so accessible via our clients. And so they are really niche kind of unique offerings tailored to our clients' needs from both a return and/or impact perspective, given the nature of the asset class.

RYK VAN NIEKERK: How big is the team, and how much do you have in assets under management?

DAVID MOORE: The product sits within the broader investment team, and that's 25-plus people strong. I'm dedicated to the specific product and supported ably by our portfolio management and manager research team. So there's a couple of individuals on both sides of those fences who help me in the construction and development of the programme. The programme as it stands today is just around R5 billion in terms of size and assets under management.

RYK VAN NIEKERK: I'm looking at the Private Markets portfolio fact sheet. You emailed it to me prior to the interview – around R4.8 billion, and the targeted return is CPI plus 7% before fees. We can talk about fees later. Tell us about the performance of this fund over the last few years.

DAVID MOORE: Sure, Ryk. We've really modelled it on providing our clients with returns that are stable, steady, and with much lower volatility than I think they've experienced in the traditional asset classes – be it listed equity and the like. **Full Report:** ***https://www.moneyweb.co.za/moneyweb-radio/market-commentator-moneyweb-radio/investing-in-alternatives-blended-approach-for-sustainable-returns-social-impact/***

Moneyweb | **30 November 2020**

ESG from niche to mainstream

Sustainable investment themes are abounding

Social responsible investing was considered niche when South Africa was sanctioned in the 80s, but today environmental, social and governance (ESG) investment considerations are resounding and the impact of investments is being applied much more broadly, beyond just investment return.

There is a strong case to argue that the impacts on corporate governance and social factors brought about by Covid-19 have piqued more attention on this theme. The numbers also point to increased attention in this space. Morningstar reported global fund flows into sustainability themed funds amounted to $71bn between April and June 2020, bringing the total of assets managed to $1trn.

On a quest for more transparency

Considering the allocation to oil and gas sectors globally, these are significant contributors to carbon emissions. Ten years ago, you could not see a portfolio without it, but fast forward to today, an asset manager finds difficulty in navigating a host of risks such as carbon tax, lack of disclosure in financial statements, and weak leadership around ESG concerns. This makes ultimate investment propositions problematic. Analysts and activists alike are on a quest for more carbon emissions data and climate-related reporting information to be disclosed in trying to measure the "footprint" of their investments. Investment management companies have a fiduciary duty to not only achieve the best possible returns at acceptable levels of risk, but also to act in the best interests of the wider community and environment within which they operate. ESG factors can directly affect the short- and long-term financial performance of businesses through operational and reputational reasons. For this reason, the returns on investment from such companies can be compromised, and are important.

For example, whether it is an oil spill related to a large petroleum company, workforce unrest at a global mining company, or false carbon emission reporting from a leading car manufacturer, these all lead to headlines which have caused massive drops in the share prices of major organisations as well as creating material issues for stakeholders and society. If your investment portfolio held shares in the organisations at fault, the value of your investment would have dropped given the impact on their reputation.

Risks, reputation, return and impact are all linked

And that is precisely why an investment approach which considers such risks (and opportunities) is preferred – it is better positioned to deliver superior risk-adjusted and sustainable investment outcomes. The expression against ESG issues that cause harm across the globe has been unrelenting. We are witnessing scientists, governments, regulators, corporates, and civil society sitting up and taking note. The magnitude or materialities of issues are so impactful that the past is no longer a prologue.

2020 is the tipping point for global climate policy, decarbonisation, and sustainability reporting frameworks

Ranchod concludes: "The hot discussions in 2021 for ESG professionals across the globe will no doubt centre on climate and quantifying materiality, and how to balance whether ESG issues have economic significance or if they satisfy shareholder interests only. Reporting authorities will look to standardise sustainability reporting frameworks in an effort to allow markets to price for risk and opportunities."

FA News | 2 December 2020

How a reduced income could affect your retirement fund

Many South Africans have lost their jobs in 2020 and more still fortunate enough to be employed, face salary cuts or reduced hours of work, as companies and organisations try to survive a profoundly challenging economic year. However, a reduced retirement fund contribution is better than none at all.

Less really is better than none

A reduction in your salary probably means that you will reduce your monthly contributions to your retirement fund. This is not the end of the world. Continuing to make any contribution will only help to strengthen your financial position when you retire. It's also helpful to remember that the reduction may not be permanent, so when your salary increases again, your contribution can increase. We know that the financial knock-on effect of a salary cut is far-reaching in the medium term, but what of the long term? Your retirement fund is meant to be an income during your retirement, so what happens when you reduce your contributions? Let's look closely at three employees – Linda, Vuyo and Sumesh – and how reduced contributions would impact their employee retirement savings.

	Age now	Contributing since	Risk profile	Assumed growth rate	Monthly contributions to their retirement fund until May 2020	Size of retirement fund at the end of May 2020	Reduced monthly contributions following 10% salary cut	Size of retirement fund if retiring at 60	Size of retirement fund if retiring at 65
Linda	48	2010	Moderate Aggressive	10%	R 2 000	R 437 385	R 1 800	R 1 942 554	R 3 335 488
Vuyo	55	2015	Moderate Aggressive	10%	R 2 000	R 171 594	R 1 800	R 421 713	R 833 234
Sumesh	59	2000	Moderate Aggressive	10%	R 2 000	R 1 595 210	R 1 800	R 1 784 867	R 3 076 045

Source: Supplied

We're all in the same storm but in different boats – while we may be facing the same crisis, every person is unique with their own set of financial circumstances. In each of the scenarios, staying invested, even with a reduced monthly contribution, has significant positive financial outcomes in the medium and long term. Any adjustment to your retirement savings – negative or positive – has an impact on your financial future.

What to do if you're facing a salary cut

1. Get help from a financial adviser

This truly is the best time to talk to your financial adviser. There are some big, important financial decisions to be made, and your qualified financial adviser can help you make them with confidence. This could include revisiting your budget, your debt repayments and your retirement plan in light of your reduced income.

2. Cut your household budget

Bills will continue to reach you, while your income will have reduced in size. Now is the time to go through your monthly household budget with a fine-tooth comb. You need to be strict and clinical about the expenses that are unavoidable (e.g. your bond repayment or kids' school fees) and those that are luxuries and can be eliminated – at least for a while.

3. Contribute to your retirement fund for as long as possible

Your retirement savings is your money, but not for today. Early retirement may be tempting, especially if you're nearing retirement age. However, if you are able to continue to work – and contribute to your retirement fund, even with a reduced salary – that would be first prize.

4. Speak up

Don’t be embarrassed to ask for better interest rates, reduced instalments on your accounts or even payment holidays if you are feeling the pinch of a reduced income. Whatever you do, don’t ignore your debt obligations. If you are struggling to keep up your debt payments, a conversation with the credit manager at your bank or a debt counsellor will go a long way in preventing judgements and blacklisting.

5. Early retirement

While it’s wise to work for as many years as you can and, in so doing, contribute to your retirement fund for as long as possible, the reality is that many employers are offering early retirement to their employees. If you have decided to take up this option, there are a few decisions you would need to make regarding the funds that you have worked so hard to accumulate over the years. Don’t make these decisions alone – a financial adviser can help. Together, you can decide how the money will be invested to ensure that you have the best financial outcome during your retirement.

Moneyweb | **27 November 2020**

INTERNATIONAL NEWS

Canadian pension funds, insurers seeking private debt face shrinking pool of lower-risk firms

TORONTO (Reuters) - Canadian pension funds and insurers are facing a shrinking universe of higher-quality private debt investments to lift returns in a low-yield world, as the coronavirus pandemic has crushed many businesses, while banks maintain lending to better ones. The tightening supply of this high-yielding credit comes as many Canadian institutional investors have been accelerating their exposure to the private debt. Private credit is issued primarily by closely held companies, offering a premium over corporate bonds due to fewer disclosures and less liquidity. It is dominated by institutions and high-net-worth individuals.

They offer about 10% yield compared with some 5% generated by Canadian high-yield corporate bonds, according to Deloitte. That has encouraged institutions including Caisse de dépôt et placement du Québec (CDPQ) and Sun Life Financial to increase their private debt allocations, while fund managers like Ninepoint Partners have seen increased investor demand. But the pandemic-induced repeated lockdowns have slammed smaller and privately-held business more than their larger rivals, limiting their need and ability to raise debt capital.

"Ironically, for the companies that need the help, the banks don't have the appetite to lend to them, but neither do many private credit funds," said Andrew Luetchford, capital advisory partner at Deloitte Canada. The dearth of opportunities is pushing institutions to either accept lower returns or invest in lower-rated firms. They are offsetting the risks by including stricter covenants and lowering lending amounts, said Ramesh Kashyap, managing director of alternative investment at Ninepoint Partners. "There has definitely been a ratings migration from higher ratings to lower ratings," said Fitch Ratings Director Dafina Dunmore, adding this is likely to continue through 2021. "For firms that are solely focused on investment grade credit... the universe is smaller than it was a year ago."

FORGING AHEAD

Despite the shortage of higher quality credit, some pension funds are forging ahead with their plans to increase private debt exposure. CDPQ, Canada's No. 2 pension fund, expects to hit C$50 billion ($39 billion) of private debt investments in the next four years, after nearly doubling them to C$35 billion since 2016, Head of Corporate Credit Jérôme Marquis said. He partly attributed its ability to deploy capital to its continued investment during the coronavirus crisis, even as others retreated.

For investors still looking to tap private credit market there is some hope. Brad Meiers, debt capital markets head at HSBC Securities Canada, said he expects debt issuance to rise after a lull in the run up to the U.S. presidential election and fears of a second coronavirus infection wave. But "we will not make up the deficit of issuance supply that we normally see this time of the year," he said. Canadian institutions with global exposure can also look for investments elsewhere if they can't find them at home, Fitch's Dunmore said.

Of annual global private debt issuances of up to $100 billion, about 60% comes from the U.S., according to SLC Management, Sun Life's alternative investment arm, which bought a majority stake in U.S.-focused credit manager Crescent Capital in October to boost its private debt exposure.But for some others, the lower quality is not worth it. Manulife Financial, which focuses solely on investment-grade credit, is allocating less to private debt this year due to lower borrower demand, said Chief Investment Officer Scott Hartz. "We do not compensate by going down in quality," Hartz said, adding Manulife is satisfied with public corporate debt returns as credit spreads widen.

Reuters | 29 November 2020

Retirement planning: Annuity plans can ensure regular cash flow

Annuity products from life insurers cover an individual for life, remove reinvestment risks and are not vulnerable to market volatility. At a time when interest rates on fixed deposits are falling, getting an assured income for retirees for the rest of their life has become challenging. Purchasing annuity from life insurance companies is certainly one solution they can look at for a regular cash flow after retirement.

An annuity is a guaranteed amount paid for a subscriber's lifetime. While insurers offer various types of annuity products ranging from pension for life, pension to spouse on the death of the annuitant, there is no provision for surrendering the policy in case of any need for money for any emergency.

There are options where the corpus is returned to the legal heir of the investor only after his death, but this lowers the effective returns. Annuity plans are suitable for risk-averse investors who do not want to park their retirement savings in equity-related instruments. B Srinivas, head of products, ICICI Prudential Life Insurance Company, says annuity products by life insurance companies are ideal for taking care of retirement needs since they are not vulnerable to factors like market volatility and changes in interest rates.

Types of annuity plans

Life insurers offer two types of annuity plans—deferred and immediate. In the immediate annuity plan, the investor pays a lumpsum amount to get pension payout at regular intervals like monthly, quarterly, half-yearly. This is suitable for those who have received a lumpsum like gratuity or from Employees' Provident Fund after retirement or have accumulated a corpus.

Full Report: ***https://www.financialexpress.com/money/insurance/retirement-planning-annuity-plans-can-ensure-regular-cash-flow/2139350/***

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