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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

The impact of retirement reform in South Africa

Receiving the same tax treatment

Changes to retirement benefits for provident fund members, initially meant to come in five years ago and now scheduled for next March, will see tax uniformity for all who contribute towards retirement. These changes, in terms of the Taxation Laws Amendment Act, will also encourage greater savings, something South Africa desperately needs as it seeks to crawl its way out of an economic hole. Dolana Conco, regional executive – consulting at Alexander Forbes, says: "One of the aims of retirement reform is to create a uniform retirement fund system for all types of retirement savings vehicles, such as pension, provident and retirement annuity funds.

This will allow all members to receive the same tax treatment of the money contributed and how benefits can be paid at retirement." Alexander Forbes Member Watch analysis shows that about 50% of members retire with less than one-fifth of their final salary to live on in retirement. Many reforms have been implemented over the last few years, but it has been a long journey for this next vital step. "The changes are beneficial for most retirement fund members and encourage greater savings for retirement and address issues in the retirement system," remarks Conco.

Conco adds, "Currently provident fund members can take their retirement benefit as a full cash lump sum and do not have to buy a pension (annuity) from a registered insurer when they retire. However, pension fund members must use at least two-thirds of their retirement benefit to buy a pension, unless the total benefit is less than R247 500."

How retirement reform affects members

From 1 March 2021, retirement benefits from provident funds will be treated in the same way as pension funds for the part of the benefit based on contributions. Conco explains that the changes for provident fund members are:

1. Provident funds will have the same annuitisation rules as pension funds. This means that members will have to buy a pension (annuity) from a registered insurer with at least two-thirds of their retirement benefit, unless the total benefit is R247 500 or less.

2. Vested rights will apply. Retirement savings will be ring-fenced as follows before the new legislation takes effect:

• Any provident fund balance saved before 1 March 2021 plus the future growth on this until retirement won't be affected and can be taken in cash on retirement.
• Members who are 55 years or older on 1 March 2021 will not be affected by this change at all if they stay a member of the same provident fund (or provident preservation fund, as proposed in the draft Taxation Laws Amendment Bill until retirement. This means that the retirement benefit will be treated in the same way as it is currently being treated when these members retire. If these members transfer to another fund, they will still have vested rights, but contributions and growth on this to the new fund will require them to buy a pension with two-thirds of their retirement benefit.

The benefit of this change is that funds will be able to transfer members' savings tax efficiently. Conco suggests that employers who have multiple retirement funds consider consolidating these funds, as pension funds, provident funds and retirement annuity funds will be harmonised in the tax treatment of contributions and the retirement's benefits at the time of retirement. Consolidation requires many other factors to be considered. One such example is understanding the implications on vested rights when transferring provident fund members who are 55 or older on 1 March 2021. Other factors include:

•the size of the funds
•potential cost savings or cost implications
•Section 14 transfer requirements
•deregistration
• liquidation requirements of the transferor fund and so on

"The changes to ensure further harmonisation between pension funds, provident funds and retirement annuity funds take effect on 1 March 2021. It is important for trustees to start implementing project plans to get ready for these changes. Amendments to rules, communication to members, and fund consolidation will be some of the matters to consider," concludes Conco.

FA News | 18 November 2020

Stretching the retirement cents further

Liberty's Living Annuity is designed to respond to the needs of the client in a flexible way, offering them both a range of choices and solutions to make their retirement more stress free, while optimising their finances in current markets.

It's well-known that medical advancements, together with healthier diets and lifestyles, mean people are living longer, which brings an increased risk of clients outliving their retirement savings. There's also the added complication that investment markets, traditionally a safe haven for the retirement pot, are becoming more volatile. Liberty has redesigned and updated its offerings to cope with these trends in investment markets and changes in retirement lifestyles. "Today's economic climate is more challenging than ever due to its effect on the investment markets and the cost of living.

The idea is that we can now offer the features and benefits clients find the most valuable and offer them as stand-alone add-ons," says Henk Appelo, Liberty Investment Product Developer. The Liberty Living Annuity, formerly known as the Liberty Bold Living Annuity, has been redesigned with the core idea being to offer more choice to clients, while simplifying existing ones. One of the features is its Income Enhancer Benefit. This is designed to provide an additional layer of security against the client running out of money.

"Clients have the option to commit a percentage of their investment to a bonus pool when they pass away. In exchange, they will receive a bonus pay out when other contributors pass away. In essence this benefit enables individuals to get bonuses as they grow older to help offset living longer than expected and potentially running out of money," says Appelo. "This means that if they have two or more qualifying Liberty investments, we will group their combined investment values to reduce the overall platform fee. The higher the combined value of their investments, the lower the aggregated platform fee," explains Appelo.

The Living Annuity maintains its High Water-Mark Guarantee optional feature which lets clients invest more aggressively with the aim of enjoying higher potential returns, whilst keeping downside risk at bay. "A High-Water Mark Guarantee protects your investment from falling by no more than 20% of the highest value reached at the end of every three months. It is based on the value of your investment at the end of every quarter. If at this point your investment has reached a new high, your guarantee increases to take this into account. So you can lock in your growth and protect against drops.

Even if the markets go down, your investment is protected, thus creating a safety net during market downturns," says Appelo. "Financial Advisers and Fund Managers are always looking for fresh strategies to accommodate the retirement realities of clients. With the Income Enhancer Benefit and High-Water Mark Guarantee options, you can tailor a policy in a number of ways to ensure that your client can benefit from growth and the full value of their investments in the long-term," he says.

FA News | 17 November 2020

Gender pay gap set to grow in retirement

Echoing concerns raised by the World Economic Forum earlier this year, 10X Investments' new South African Retirement Reality Report adds more data showing this worrying trend of women falling further behind men. 10X's third annual Retirement Reality Report (RRR20) shows that the retirement savings gap between the genders has grown in the last year, not only because the gender pay gap has widened, but because many women continue to reject the best option they have for narrowing the gap, which is investing their money for growth.

RRR20 found that the proportion of women who said they didn't have a retirement savings plan at all, already significantly worse than for men, had increased to 53% this year from 51% a year ago. The report, which is based on the findings of a survey that measures the lifestyles of the universe of 15.1 million economically active South Africans, confirms the findings of the two previous reports: South Africa is sitting on a retirement timebomb and women are in a worse position than men in general.

The latest data from StatsSA shows South African women earn approximately 30% less than their male counterparts on average, a seven percentage point increase in the disparity recorded last year. As we know, this inequality is magnified when women's careers are interrupted during pregnancy and the raising of children. It is also made worse by the fact that women at retirement age have a higher life expectancy than men, which means they require a relatively bigger retirement pot than their male counterparts.

The RRR20 echoes concerns in a release from the World Economic Forum earlier this year. According to the release: "Even before Covid-19, individuals around the world were on average outliving their retirement savings by 8-20 years; women in particular are at the sharp end of this scale, with longer lives and pension savings around 40% lower than men's." 10X's RRR20 also confirmed that women are more likely than men to be cash savers (32% of female respondents said they saved money, compared with 28% of male respondents), but were significantly less likely to be investors. This, says Lauren Davids, Senior Investment Consultant at 10X Investments, really compounds the problem because women are effectively rejecting the best opportunity they have of closing the gap with men. “Investing in a well-diversified, high-equity portfolio and keeping fees low is the most effective way to grow money over the long term, yet only 13% of women said they invested their money for growth, compared with 22% of men,” said Davids.

She added that the problem should not be a concern only for women. “Considering that women make up more than half (51.1%) of the population in South Africa and live longer on average, a problem that affects older women in South African society is a problem for us all.” The worsening financial picture for women is reflected more widely in the Retirement Reality Report, not just with regards to retirement saving. Three-quarters of women surveyed reported that they were not doing well financially or were not sure how they were doing.

Another change that does not bode well for women closing the gap with men is that double as many men described themselves as doing very well financially this year (4%), while the proportion of women was unchanged at 2%. The Retirement Reality Report 2020 is based on findings of the 2020 Brand Atlas Survey, which tracks and measures the lifestyles of the universe of 15.1 million economically active South Africans (currently those living in households with a monthly income of more than R8,000) through online completion surveys.

The data are weighted to reflect the profile of this universe as defined by Unisa’s Bureau of Marketing Research in their 2019 Household Income and Expenditure report. The Retirement Reality Report is being released a little later than normal this year because of the arrival of the coronavirus pandemic in the middle of data collection. The data in this report includes the early effects of Covid-19.

FA News | 17 November 2020

Pension funds’ landmark legal victory and what it means

Regulation affecting billions in unclaimed benefits declared invalid.

A watershed ruling by the Supreme Court of Appeal (SCA) in Bloemfontein on November 2 represents a positive upshot for pension funds in South Africa and could see members benefitting from billions of rand in unclaimed funds. Pension funds have been legally challenging the prescriptive Regulation 35(4) addition to the Pension Funds Act (PFA) around actuarial surpluses and contingency reserve accounts for years.

Now a trio – Hortors Pension Fund, Southern Sun Group Retirement Fund and the Vrystaatse Munisipale Pensioenfonds – have won their respective cases on the matter, which were heard jointly at the SCA in August. The court ruling allows them to use this money in other ways if they can't find the member. This followed the funds initially losing in the Gauteng High Court, with applications to secure an order declaring Regulation 35(4) invalid being dismissed. The Hortors application was against the Financial Sector Conduct Authority (FSCA) as the first respondent and the minister of finance as the second respondent.

The Southern Sun Group Retirement Fund's case was against 'the Registrar of Pension Funds and Others' while Vrystaatse Munisipale Pensioenfonds's case was against 'the Minister of Finance and another'. Johan Esterhuizen, a partner in the pension funds department at law firm Shepstone & Wylie, represented Hortors. He tells Moneyweb that the SCA decision is of "great significance" for the pension funds industry as the regulation in question has been a bugbear for over a decade. "The [regulation] change came as far back as 2001, but only became an issue in later years," he says.

"When older pension funds could not find certain members, this regulation called for their portion to go into contingency reserve accounts. However, pension funds have been questioning what happens to the money if there have been exhaustive steps to find such members over several years. "Regulation 35(4) essentially meant this money [actuarial surpluses] stays in contingency reserve accounts in perpetuity," he adds. "The consequence of the SCA's recent judgment is that this regulation has now been found to be invalid [as it is beyond the finance minister's power and not in accordance with the Pension Funds Act 24 of 1956] and thus is unenforceable," notes Esterhuizen.

He says this means pension fund boards are now empowered to decide how such funds can be used, including using a portion to pay top-up benefits to other members or even offering a 'contribution holiday' to current members. "This can run into billions of rand [between the various pension funds] but different funds can opt to do different things … The critical thing is that pension funds will still be liable if members that previously could not be traced do come forward. The liability never goes away," he adds. ***Full report: https: www.moneyweb.co.za/news/south-africa/pension-funds-legal-victory-and-what-it-means/***

Moneyweb | 16 November 2020

What role does ESG play in SA fixed income?

How should fund managers be incorporating such considerations into their portfolios?

Momentum's head of fixed income, Ian Scott, is sure that environmental, social, and corporate governance (ESG) is a "game changer for fixed income". However, there is still a lot to learn about how to incorporate ESG considerations pragmatically into a fixed income portfolio. "Our credit process is where ESG will have the most relevance," said Scott, who co-manages the Momentum Bond fund. "If you think about a credit process, we have to assess the fundamentals of a corporate or SOE (state-owned enterprise).

Firstly, is it a good business? Secondly, does it have a good management team? And, thirdly, is it a profitable business? Can it actually pay our coupons. Those are the fundamentals we have to deal with, and ESG has to become another part of this analysis." The challenge is working out how to evaluate the interplay between ESG considerations and these fundamentals.

Priorities

"In the fixed income industry, we like to quantify things – attribute them and give them a score," said Scott. "Once we have a score, we can assess the price and whether we are being rewarded for the risk we are taking." The question is how ESG fits into this kind of framework. Can an ESG analysis be used in the same was as a credit rating, for instance? "When credit ratings started, people looked at them and asked: 'what do these actually mean?'," said Scott. "Today, we live in a world where we couldn't live without ratings.

"Is this the path we are going to follow with ESG as well? At the moment, we can get an ESG score for an issuer, but what does that score mean? And what does it mean for our investments. Do fundamentals override ESG, or does ESG override fundamentals?" This is the kind of debate that credit teams are currently having.

Pragmatic

"If we have a company with great fundamental scores and great credit scores, but low ESG, will that rule it out?" said Scott. "Or do we say the fundamentals are more important because we as fixed income investors have to make sure we are getting our clients' money and our coupons back, even if we are investing in a company with a low ESG score? "Similarly, can we look at a company and say the credit quality is so-so, but it has a great ESG score and because we should go ESG we'll just do it? These are the fundamental questions that we have to answer."
Scott added out that there is a need to be pragmatic in this area.

He pointed out that it is possible, for instance, to make a sound case for investing in carbon-intensive companies. “For example, we will invest with Exxaro on the proviso that there is a path or transition to clean energy,” said Scott. “We will not do dirty coal anymore, but we can’t just take the coal industry away. So, we’ll say we’ll invest and walk this path with you.” A similar approach may apply where corporate governance at an entity needs to be improved. “Yes, there is bad governance in some corporates and SOEs, but we as debt investors will walk the path with good quality companies where we see there are measures in place where they want to strengthen their corporate governance,” said Scott.

‘False ESG’

He added that, while incorporating ESG means that there is another layer of scrutiny applied for investors, it can’t simply supersede everything else. “We support ESG, but we will not support false ESG,” said Scott. “We have seen entities in South Africa issue green bonds that are not really green. And we have seen other entities issue green bonds at very expensive prices, just because they are green. “We say that, as value investors, we won’t just pay any price for an ESG bond. We will support it if it makes sense on a risk-adjusted basis to have it in our portfolios. We would love to be in sustainable investing, but surely it cannot override our overall philosophy of valuation and risk.”

Moneyweb | 12 November 2020

Will I be able to draw all the cash from my pension preservation fund after March 2021?

The scheduled tax legislation change relates specifically to provident preservation funds.

I have an Allan Gray pension preservation fund and I’m feeling very nervous about the new tax laws to be implemented March 2021. I have very little financial know-how so wanted advice on what route to take. There is a strong possibility I will need to access the whole amount within the next year before I turn 55 (I’m now 52). If I cash it in this tax year my tax liability will be approximately R152 000 but if I wait until the next tax year it will be R63 000 – a huge difference. How will the changes in the new tax laws affect my needs outlined above? Will I even still be permitted to do a 100% cash withdrawal after March 2021?

Thank you very much for sending in your question. In order to provide an answer, I have made some assumptions about your financial situation, but hopefully the explanations of the rules and regulations pertaining to preservation funds will help answer your questions and alleviate your concerns.In the first instance, we have assumed that your concern regarding the change in legislation is in relation to provident preservation funds. Currently, the legislation states that when you retire from a *provident* preservation fund, you are permitted to access 100% of the funds subject to the retirement tax tables. On the other hand, if you have a *pension* preservation fund in place, you are only able to access one third of the investment as a cash withdrawal while the rest must be used to purchase an annuity.

The scheduled legislation change relates specifically to *provident* preservation funds and provides for the following: From March 1, 2021, when retiring from a provident preservation fund, the proceeds from the fund will be subject to annuitisation, where you will be required to use two thirds of the proceeds to purchase either a living annuity or a life annuity, which would in turn provide an annuity income. If you are age 55 or older on March 1, 2021 and have not yet retired from the provident preservation fund you are entitled to 100% of the benefit as a cash lump sum, including any fund returns.

If you have not reached age 55 by that date, the compulsory annuitisation will only apply to funds vested after March 1, 2021 – and you will be able to take the full lump sum amount that was invested prior to this date, taxable at the retirement lump sum tax tables. Assuming you are currently invested in a pension preservation fund, the above legislation will not apply to you. Should you wait until retirement age to access the funds, and you retire from the fund, you will only be able to access one third of the fund as a cash lump sum and the remaining two thirds will need to be used to purchase an annuity. For reference, please see the tax tables below, applicable to the cash withdrawal portion of the fund when retiring from the fund:

Retirement tax table

Taxable income (R)	**Rate of tax**
1 – 500 000	0% of taxable income
500 001 – 700 000	18% of taxable income above R500 000
700 001 – 1 050 000	R36 000 + 27% of taxable income above R700 000
1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

In your question, you mentioned that you would most probably need to access the funds before you turn 55. If this is the case, bear in mind that you will only be able to access these funds by making a withdrawal from the preservation fund. It is important to remember that you are only allowed to make one full or partial withdrawal from a preservation fund prior to the age of 55. This means that if you have previously made a withdrawal from a preservation fund, you will not be able to access your current funds before age 55. Assuming that you haven't withdrawn from the fund before, the tax tables applicable to the withdrawal will be as follows:

Withdrawal tax table

Taxable income (R)	Rate of tax
1 – 25 000	0%
25 001 – 660 000	18% of taxable income above R25 000
660 001 – 990 000	R114 300 + 27% of taxable income above R660 000
990 001 and above	R203 400 + 36% of taxable income above R990 000

You further mentioned differing tax liabilities in this year compared to 2021. Kindly note that the income you earn in a tax year does not affect the tax you pay on a preservation fund withdrawal as it is a separate tax liability that is subject only the amount you are withdrawing. For example, if you have R1 million in your pension preservation fund and, assuming you have made no previous withdrawals, you would pay R207 000 in tax and have a net amount of R793 000 available to you.

Moneyweb | **17 November 2020**

INTERNATIONAL NEWS

Why cashing in a pension pot as Covid bites should be a last resort

It has become a quick fix for more over-55s, but it can come at a high price in retirement, writes Shane Hickey

As the pandemic continues to cause financial strain across the country, some people are taking a drastic step to shore up their finances by dipping into their pension pot. HM Revenue and Customs reported that 347,000 people withdrew money between July and September, a notable rise compared with last year. With businesses now shuttered during the second lockdown, the prospect of further high numbers of withdrawals is possible.

The shackles came off British pensions in April 2015. Reforms introduced by the then chancellor, George Osborne, got rid of the requirement to convert a pension pot into an annuity, meaning that people could do what they wanted with their retirement money once they reached 55. They could cash in some, or all, of it. The changes immediately resulted in a collapse in the sale of annuities – which guarantee an income for life – and many used the money to pay off their mortgage. However, the pandemic is the first time that Britain has faced a financial crisis since the freedoms were introduced.

“Money may have been withdrawn to offset falls in income. Covid has, and will continue to, change lives and, in some cases, trigger early retirement or a decision to access funds early,” says Laura Stewart-Smith, workplace savings manager at Aviva. “The extension of the furlough system to March 2021 will help a lot of people, but there is still a proportion of the population who will be suffering financially.”

Rebecca O’Connor, head of pensions and savings at Interactive Investor, a share- and fund-dealing platform, says it makes sense to assume that “in hard times, when jobs and incomes are suffering, debt is high and savings are being run down rapidly, there is greater pressure to dip into this money”. She adds: “It’s a case of immediate needs becoming so great that future ones must be sacrificed. And it’s a warning that a poor economy can result in significant pressure on pension pots.” Besides solving an immediate financial problem, there are few benefits to withdrawing from your fund early – and a large number of drawbacks.

It’s a taxing move

Taking money out of a pot early has immediate tax implications. You can take 25% tax-free, but the rest will be taxed as your income for the year. It will be added to any other earnings and could push you into a higher tax bracket. “If an individual were to draw large sums, particularly if they are still working, they may find they pay tax at 20%, 40% and possibly 45% on these withdrawals,” says Jonathan Watts-Lay of Wealth At Work, a financial advice firm. The taxman also frequently applies an emergency tax to withdrawals.

If you are not subject to tax you will be charged, and then need to claim the money back, says former pensions minister Steve Webb, who now works for pension consultants LCP. “It happens to tens of thousands of people each year. This is important if you are budgeting and need an exact amount in your bank account,” he says. Taking money out early may affect tax reliefs on future contributions. At present, you can pay up to £40,000, or all of your salary, into a pension and get tax relief on the contributions – this is known as your annual allowance. But if you withdraw more than 25%, the tax relief reduces.

If you take too much, your annual allowance is replaced by the “money purchase annual allowance”, which is just £4,000. “If you want to avoid triggering the MPAA, you could just take your 25% tax-free cash,” says Tom Selby from AJ Bell, an investment platform. “It is only taxable withdrawals which result in an annual allowance cut.” With a reduced allowance, rebuilding your pot will be more difficult – and that problem will be aggravated by the fact that you will not have as long for the money to grow. “This is because the power of compound growth works best when money is invested over longer periods, with relatively small, regular contributions hopefully growing to become a significant retirement pot,” says Selby.

"If you are having to start from scratch (or you drained a substantial portion of your fund) in your 50s, you will probably have to make significant annual contributions to get back to where you were." Taking pension cash can also have knock-on effects on other benefits. "Taking out a lump sum that takes your annual income over £50,000 in a year can also mean you have to pay back child benefit, through the high income child benefit charge," says O'Connor. "Universal credit, pension credit and council tax reductions might all also be affected."

Beware of fraud

Financial scams are on the rise and older people are among the most vulnerable, especially those who have just taken money from their pension. With many facing financial uncertainty as a result of the pandemic, they are especially susceptible to scammers who target them with fake investment schemes. Ed Monk of investment managers Fidelity International says there are several schemes criminals use to part people from their cash. "They might ask victims to transfer their pension pot into either nonexistent or non-genuine schemes. Or, offer cash incentives to gain early access to their pension benefits – referring to them as a pension loan', leaving the pension holder with significant losses and serious tax implications."

Full report: ***https://www.theguardian.com/money/2020/nov/15/why-cashing-in-a-pension-pot-as-covid-bites-should-be-a-last-resort***

The Guardian | 15 November 2020

OUT OF INTEREST

What does your good health mean for your retirement plan?

Being fit, healthy and free from ailments may give one a false sense of security when it comes to planning for the future. If you're fortunate enough to enjoy good health as you enter retirement, longevity is a factor that will affect almost every aspect of your retirement planning. Being fit, healthy and free from ailments may also give one a false sense of security when it comes to planning for the future. In this article, we explore the impact that good health has on your future planning.

Past health is no indication of your future health

While you may currently be in excellent health, bear in mind that many illnesses such as heart disease, dementia and cancer are a function of old age, which means that the longer you live, the more likely it is that you will contract or develop some form of age-related illness. As such, it is important to remember that your past medical history and current health status are not necessarily indicators for the future. If you do enjoy good health in retirement, you may be tempted to cut back on your medical aid and/or gap cover premiums, especially if you feel you are not getting any benefit from them. However, keep in mind that medical aids function on the basis of cross-subsidisation where the premiums of the young and healthy are used to cross-subsidise the claims of those who are older and in ill-health. If you do suffer from ill-health later on in retirement, bear in mind that it will be your turn to enjoy the benefits of cross-subsidisation.

If you choose to downgrade your medical aid plan option, keep in mind that you will only be able to upgrade to a more comprehensive plan at the start of the next benefit year. Another factor to consider is that medical aid premiums escalate at a rate higher than inflation on an annual basis – normally at around 10% per year – and it is therefore important to factor this increase into your retirement planning.

Take a long-term view of your retirement accommodation

Buying and selling property is expensive and stressful, so it is advisable to think long-term when it comes to your retirement accommodation. If you're fit and healthy, you may want to remain in the family home for longer. You may also not feel ready to enter into a retirement home or village while you are still enjoying good health, which is understandable. That said, it is not advisable to put off researching suitable retirement accommodation, especially as many retirement villages have extensive waiting lists for admission. If you need to access liquidity in your family home in order to augment your retirement funding, you will want to be meticulous in the timing of the sale of your property. You will naturally want to avoid an urgent sale which could compromise the sale price and, in turn, your retirement funding.

Build flexibility into your retirement plan

Depending on the age at which you retire, your good health could result in a retirement horizon of thirty years or more. Planning for such a time period is always difficult as your personal and financial circumstances can change dramatically during this time. As such, it is important to build flexibility into your retirement plan, both in terms of your retirement objectives and in respect of your funding. Your vision of retirement at age 65 could be dramatically different when you reach age 80, and your retirement plan needs to be fluid enough to adapt. Specifically, be cautious of locking all your retirement capital into compulsory investment vehicles as this will hinder your ability to alter your retirement plan if necessary.

Consider your spouse's health

Although your health may be good, the same may not be true for your spouse or partner, and this dichotomy can really complicate your retirement planning, especially when it comes to agreeing upon retirement accommodation. For instance, if your spouse is diagnosed with earlystage dementia, you may need to consider moving into a retirement village with assisted living and/or frail care facilities to accommodate them as the illness progresses, albeit this may not be your preference in terms of living arrangements. It may also mean that you need to recalibrate your post-retirement budget to account for the additional healthcare expenditure.

Don't invest too conservatively

Planning to live a long life also requires that you give careful consideration to your investment strategy, bearing in mind that a thirty-year period is considered a long-term investment horizon. If you are invested too conservatively by taking on too little risk in your portfolio, you run the risk of your capital not keeping pace with inflation which, over a thirty-year period can dramatically decrease the purchasing power of your investments.

That said, it is important to overlay your risk strategy with the goals and objectives you have for your retirement, specifically where large capital outflows may be required, such as overseas travel, home renovation or vehicle upgrades. The result should be an investment strategy that is stress-tested to survive the long-term while at the same time ensuring liquidity over the short- to medium-term.

You still need a retirement plan

If your plan is to continue working without formally retiring, keep in mind that you still need a retirement plan. Ill-health, retrenchment, job loss and other unforeseeable events can disrupt even the best-laid plans, and it is always advisable to develop a retirement plan that covers the various scenarios you may be confronted with. As such, scenario planning in the context of retirement planning can be particularly powerful as it can give the retiree peace-of-mind that all possible eventualities are financially provided for.

Full Report:[***https://www.moneyweb.co.za/financial-advisor-views/what-does-your-good-health-mean-for-your-retirement-plan/***](https://www.moneyweb.co.za/financial-advisor-views/what-does-your-good-health-mean-for-your-retirement-plan/).

Moneyweb | 17 November 2020

Yes, you might actually enjoy a 'working' retirement

Many people who go back to work after retirement are motivated by the psychological and existential payoffs. Pedestrian returns from retirement funds, a struggling economy, and Covid-19 have all conspired to make those in their late 50's contemplating retirement to feel anxious about what this next phase in their lives is going to hold, especially if their vision of retirement was going to be a time filled with travel, golf, sleeping in ….name your fantasy! The reality is that even if you have prepared financially for retirement and 2020 has not dented your balances too badly, the real impact of retirement can be more jarring than you may have anticipated. After dealing with what 2020 has thrown at you, you might be looking forward to taking a complete break from work but is this actually healthy for you? An extremely important part of your retirement planning is a discussion of the benefits of working (as crazy as this may sound), regardless of age. Retirement is no longer an event – it is a segue into an altered definition of life as you know it.

A definition of work that I like is that it is an activity that brings value to others and meaning to you. While you may feel that you've had enough work, it's probably the underlying issues (i.e., meetings, corporate politics, commuting) that have left you drained and exhausted. Many people who go back to work after retirement are motivated by more than money – they are also motivated by the psychological and existential payoffs. You need to consider work and retirement in more holistic terms. What exactly do you want to retire *from*?

Keep in mind that the word "retire" means to withdraw, and while it may be tempting, you need to consider the pros and cons of not working at all. You may want to withdraw from your environment, but do you want to withdraw from the challenge of solving problems? You may want to withdraw from an egotistical boss, but do you want to withdraw from colleagues you've developed relationships with over many years? Alzheimer's and dementia research are underscoring the power of leading an intellectually challenging life, especially as we age.

The brain is a highly-sophisticated muscle that needs to be used, lest it atrophies just like any other unused muscle. Any engagement that we find intellectually stimulating helps expand the computing capacity of our brains. If we treat life as a learning experience and are intentional about continued learning, we are constantly building and expanding our brain circuitry. The discussion surrounding "who we are" has received short shrift in the retirement conversation.

Most of us are unprepared for the realities that come crashing down around us once we retire: playing golf every day quickly loses its appeal; the family doesn't want us visiting that much; spouses need space, and we don't know where to ply a lifetime of know-how and know-who any longer. The old retirement question that most clients asked me as they were nearing retirement was, "How will I invest my money so I can retire comfortably?" The new question I am asking them now is, "How will you invest yourself and your time, as well as your money?"

In order to answer the new retirement question, you need to talk about the pros of working and how they apply to you:

- Physical health/energy;
- Intellectual stimulation;
- Social stimulation;

- Creative tasks;
- Competition;
- Meaningful contribution;
- Sense of relevance;
- Problem-solving;
- Engagement/doing what you love; and
- Opportunity for growth.

Full Report: ***https://www.moneyweb.co.za/financial-advisor-views/yes-you-might-actually-enjoy-a-working-retirement/***

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