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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Cyber Risks Facing the Retirement Industry

Contending with the intensity and frequency of cyber threats to business operations is a 24/7/365 challenge. While the banking sector has intensified its cyber defences, threat actors have set their sights on the retirement industry. Not only is the financial quantum at risk huge, but the wealth and sensitivity of personal data sitting within retirement funds places the employers, administrators and trustees of retirement plans at significant risk in an environment that is increasingly litigious. The retirement industry is governed by a strict set of fiduciary responsibilities when it comes to the administration of personal and financial data.

On the one end of the spectrum the industry needs to remain compliant with regulations set out by the Protection of Personal Information Act (POPIA), while on the other end of the spectrum, addressing the demand for digital capabilities such as online access to funds and records, which increases their exposure to cyber threats. According to Aon's 2021 Cyber Security Risk Report, tougher decisions need to be made in an increasingly complex environment where **the continuous rush to transform has organisations playing catch-up in the cyber security game**. **Reducing Cyber Risk Across an Ecosystem**

Addressing the cyber risks that retirement funds face requires working across the entire ecosystem of the value chain which includes administrators, technology, legal and human resources teams, along with any third-party contractors and clients themselves. "The space where the retirement fund and technology meet, creates a complicated playing field where the inherent responsibilities of IT, finance and HR operations overlap. It needs these groups to rally around a common goal that focuses on keeping cyber security risk front and centre, especially as it relates to the sensitive nature of the information retirement funds are custodians of," says Zamani Ngidi, Cyber Solutions Client Manager at Aon South Africa.

Aon's 2021 Cyber Security Risk Report outlines four major areas for retirement plan administrators to consider in order to balance risk and opportunity through better decisions:

1. Navigate new exposures – Rapid digital evolution

The continued drive towards innovation, for example the Internet of Things (IoT), Internet of Bodies (IoB), and Smart City initiatives, will continue to pose yet more cyber risk. Operating in this environment, organisations are called on to weigh the projected benefits of a digital agenda against the cyber risk introduced by adopting new technologies or business models.

As part of an enterprise-wide approach, it is essential to identify the cyber risks and threats; mitigate risks as appropriate through best cyber security practices; prepare and be ready for incidents; and consider which part of the risk to transfer off the balance sheet through insurance, and then scrutinise current and available policies to ensure new risks are covered.

2. Know your partners – Third-party risk

It is crucial to evaluate the cyber risks arising from supply chains in new ways and with heightened concern as it takes just one undefended back door to compromise a business' information integrity. Explore key risks arising from supply chains, map them to key cyber security controls and determine actions your organisation can take to close the cyber security gaps. Social engineering continues to be a top method for cyberattacks, which is why it is important for all players in the retirement plan administrative ecosystem to educate staff members on basic cyber security awareness.

3. Concentrate on controls – Ransomware

Ransomware is no longer confined to the simple model of 'pay to decrypt' as data may be extorted, breached, or even erased. With 24% of South African companies having experienced a ransomware attack in the last year according to findings in the **Sophos' State of Ransomware 2021** white paper, significant business interruption is highly likely. It is critical to take steps to reduce your organisation's exposure footprint and minimise the impact of data infiltration. A good place to start would be to engage with qualified cyber security professionals who will be able to identify vulnerabilities, stress test security measures in place, establish business continuity plans and assist with breach response.

4. Perfect the basics – Regulation

The Protection of Personal Information Act (POPIA) came into effect on 1 July 2020 in South Africa, making it essential for businesses to process personal information in line with regulations. According to **Aon South Africa's Insurance and Data Privacy report**, even a retirement plan administrator needs to be aware of and co-ordinate the appropriate steps to mitigate the impact of POPIA on its day-to-day business activities.

"Data processing is becoming a litigious minefield with a swath of global data privacy laws adding to the fray, such as the EU's General Data Protection Regulation (GDPR), the California Consumer Privacy Act (CCPA) and Brazil's General Data Protection Act, Lei Geral de Proteção de Dados (LGPD) along with POPIA. It is creating greater awareness of the financial impact of cyber risk as well as emphasising the need for organisations to increase its understanding of cyber insurance," says Zamani.

Protecting Data and Assets

"The retirement industry is striving to diversify its product offering while optimising investment strategies, which converges with the need to protect data. Making informed decisions in this space requires concrete data and analytics from a seasoned cyber risk expert in the field, who will be able to aid you in taking the necessary steps to protect information assets and data, whilst holding business partners and suppliers to similar standards, in order to mitigate any supply chain risk," concludes Zamani.

FA News | 25 May 2022

You only have yourself to blame

The statistics covering savings outcomes in South Africa's formal retirement funding industry are shocking, varying from the oft-reported claim of only six in 100 people saving enough to maintain their pre-retirement lifestyles in retirement to the more recent comment that 60% of individuals nearing retirement "lack the confidence that their income will cover their monthly expenses throughout retirement". How, one wonders, should a 21st Century financial adviser or financial planner respond to these statistics.

Tell your clients like it is

One response may be to give the client a stern "you only have yourself to blame" lecture. The financial adviser could then continue: "you have been reading and writing about the formula for a successful retirement for decades, how on earth did you fail to follow the basic steps of saving from when you start your first job; saving 15% of your annual gross income; and always preserving? Answering the question turns out to be easier than correcting the shortfall. You see, dear reader, many South African savers are playing catch up on their retirement savings because they delayed setting out on the journey for too long.

As professionals in the financial and risk advise disciplines you will all know how quickly the required monthly retirement instalment grows if your clients start saving at age 30 or 40 instead of 20 or 25. In the last couple of weeks we stumbled across two articles that should help your clients not to make such a basic mistake. The first was an article posted online by Just SA titled *'Five common mistakes to avoid when planning your retirement'*. We have since seen the article attributed to Bjorn Ladewig, Head of Distribution at the retirement income and life annuity specialist.

Another ‘five retirement mistakes’ piece

Just SA noted that “retirees make the same errors time and time again when it comes to important decisions about retirement income”. The following paragraphs will highlight the key outtakes from the article alongside reflections based on the writer’s experiences and comments from another useful article by Nirdev Desai, Head of Sales at PSG Wealth, titled *‘Creating financial security for your future requires discipline and time’*.

Mistake 1: Underestimating how long you will need your retirement income to last

“Longevity is an accelerating macro trend, with World Economic Forum research revealing an average life expectancy of at least 100 for those born after 2000, which is more than a decade longer than their parents’ generation and two decades longer than their grandparents,” wrote Ladewig, explaining why so many retirement savers are become more anxious as their retirement dates approach. An obvious solution is to delay retirement and to continue working part-time and / or take on other work post-retirement. Concerns over longevity should be addressed in discussion with financial advisers, regardless of where you are in the savings journey.

A financial adviser can offer peace-of-mind by assisting his or her clients with calculating how much capital they will need to retire comfortably at some future date, given prevailing longevity trends. And at retirement, the adviser can ensure that his or her client purchases a sensible combination of life and living annuities, plus makes sensible drawdown decisions, to ensure a sustainable pension income for life. The earlier this discussion takes place, the better. “The optimal way [for your client] to achieve consistent and attractive returns is to be invested through all market cycles in a time horizon appropriate to their plan; [your role as] financial planner is to explain to clients what to expect from their portfolios through different market cycles, so they can manage their behaviours when markets react unexpectedly,” wrote Desai.

Mistake 2: Putting too much value on flexibility

There are trade-offs between the flexibility of the living annuity and the risks associated with it. “Research has shown that the majority of people in and approaching retirement do not want to take risks with their retirement fund money (65%) and many cannot afford to lose any money at all (38%), yet living annuities remain the most popular choice,” writes Ladewig. This fact is confirmed by statistics published by the Association for Savings and Investments South Africa (ASISA); but it will require a mindset shift from both advisers and savers to achieve a turnaround to life annuities or hybrid life and living annuity solutions.

Mistake 3: Placing too much importance on a capital legacy

We can think of two reasons why a retirement saver might go the living annuity route. The first is because they have not saved enough to secure an adequate monthly income from a life annuity, thus opting for a living annuity that allows them to draw down up to 17,5% of their capital each year. The second is to leave a legacy for their beneficiaries. “Having an income that lasts and leaving a legacy are often opposing ideas [and] choosing the wrong annuity product so that you can provide for your dependants could mean that you end up dependent on them instead,” comments Ladewig. This concern seems of particular relevance to the first groups of South African retirement savers who were converted from defined benefits to defined contribution funds in the 1990s and 2000s. In many cases the decision to go the living annuity route has worked wonders thanks to the stellar performance of the JSE over certain timeframes; but many have suffered financial hardship due to entering the living annuity market just prior a multi-year financial market pullback.

Mistake 4: Believing it is all or nothing

The fourth mistake is linked to the comments about flexibility, and responses thereto, made under the second. The message is that your client need not go all in on either a life or living annuity. “You can mix the two with a blended annuity approach by combining retirement solutions to provide income for life, flexibility and the opportunity to leave a capital legacy,” Ladewig said.

Similar trade-offs exist in the 40-year-long retirement savings journey. According to Desai it is seldom as simple as having 40 years’ worth of steady income with which to accumulate enough to buy a sustainable lifestyle after retirement. “You and your clients must plan for unexpected events that may occur along the way, to include setbacks such as retrenchments, loss of dual income in a household or additional unplanned dependants on household income and windfalls such as bonuses, inheritance or tax rebates,” he said. “Clients can use these cash flows to bolster their holistic financial planning objectives”.

Mistake 5: Going it alone

And finally, something this writer fully agrees with: “without an accurate understanding of your current financial situation and retirement needs, it is almost impossible to set realistic and achievable financial goals”. Just SA’s research suggests that only 40% of pre-retirees and retirees use, or intend to use, the services of a professional adviser… This is not a sensible roadmap for retirement success! What is needed is a combination of holistic financial planning and the implementation and frequent review of a financial plan. We conclude with some choice words from Desai: “Holistic financial planning that may take decades to address should be the goal of those looking to achieve financial freedom … life is full of uncertainty, so financial plans need to be re-evaluated regularly to ensure they continue to be aligned with your clients’ needs, particularly if unforeseen setbacks to their plans occur”.

FA News | 26 May 2022

Enhance your retirement income planning

In a world where change is constant, we have to think differently. When people retire, they are faced with certain choices in deciding how best to use the money they accumulated in their retirement funds over their working career to provide them with a sustainable income in retirement. The available options haven't changed much in many years – people can generally choose between a life annuity and a living annuity to provide them with a regular income. Momentum Investments however believes there is a better way for people, together with their financial advisor, to plan and structure their finances so that they can blend their need for certainty and flexibility in one retirement income solution.

Join Moneyweb's Ciaran Ryan in this webinar where he, together with guests Fareeya Adam and Martin Riekert of Momentum Investments, discuss how Momentum has reimagined retirement income planning and how the latest enhancements to one's living annuity can enhance an investor's outcome or an advisors' value proposition to their clients.

This webinar will take place on Tuesday, May 31, at 11am. You can register here.

More about the guests:

Fareeya Adam

Head of retail product Solutions at Momentum Investments

Adam has been with Momentum for more than 16 years. She started as a student straight after university and has spent most of her time in product development roles, with a stint in the valuations team. She qualified as an actuary in 2005. In her current role, her team is responsible for product development and product management for discretionary and retirement solutions, traditional life annuities, structured products and the international products. Adam has a BCom Honours in Actuarial Science (University of Pretoria) and is a qualified actuary through the Institute of Actuaries (UK).

Martin Riekert

Executive head of retail investments at Momentum Investments

Riekert began in wealth product development as an actuarial analyst and started the wealth actuarial team that supported the wealth business from a technical and business intelligence perspective. He later moved to product development, focusing on the Momentum Retail savings products. Soon after the MMI (Momentum and Metropolitan) merger, he was promoted to head of the retirement solutions team, where he focused on retirement savings and preservation products, including the trustee governance function.In 2016, Riekert was promoted to head of all product development and product management activities for

Momentum Investments. He became executive head of retail investments in 2020. Riekert is a qualified actuary (Fellow of the Actuarial Society of South Africa) and has a BSc Actuarial and Financial Mathematics (UP) as well as a post-graduate diploma in Actuarial Science (UCT).

Moneyweb | 23 May 2022

Choosing between a life annuity and a living annuity for retirement

'At Momentum we think that advisors and clients should really be considering how to match a client's expenses during retirement': Fareeya Adam – Momentum Investments.

CIARAN RYAN: For many people the biggest financial decision they face when they retire is how best to use their accumulated retirement savings to provide them with a sustainable income in retirement. Now, retirement is a complex event and it can be overwhelming for many people. Making the wrong choice about retirement can literally mean the difference between living in comfort or having to continue working past retirement age. Joining us to help clarify some of the issues surrounding retirement is Fareeya Adam, head of retail product solutions at Momentum Investments.

Hi, Fareeya. Thanks for joining us. Traditionally, people have a choice between a life annuity and a living annuity, each with its own unique features and rules. So maybe just explain what these are for those of our listeners who don't know, and the benefits of each. Perhaps let's just start with the living annuity.

FAREEYA ADAM: Sure. Hello everyone. With a living annuity the main theme is flexibility. The client can choose investment components to suit their investment strategy, and they can tailor their income. Regulation requires a client to choose an income level between 2.5% and 17.5% of the investment value. But this can be adjusted every year. Now, one of the key consequences of a living annuity is that the client typically takes on all the risk. For example, if markets don't grow as expected and inflation is higher than predicted, there is a risk that the income a client can draw starts to fall in real terms. The money also needs to last for a person's lifetime.

So, if you don't strike the right balance between living and life expenses, or you are one of those people who live for a very long time, there may be a risk of running out of money to pay for even the bare necessities. Now, investment and inflation risk, and medical advances that result in people living longer, are really out of all our individual control. So clients choosing a living annuity often think that the main risk is to die earlier than expected, in which case they want to be certain that they can leave some money for their beneficiaries. This is because the remaining capital in a living annuity is paid out to the beneficiaries when a client passes on. But what people often understate is the risk of negative inheritance. So if a client lives longer than expected and runs out of money, instead of leaving an inheritance to [their] dependants, which is often highlighted as one of the main benefits of a living annuity, [they] in fact become dependent on [their] family members and this becomes a negative inheritance.

CIARAN RYAN: Okay. Let's talk about the life annuity. That's an interesting one. For people with a living annuity, living too long can result in a negative inheritance. Does the same apply with a life annuity?

FAREEYA ADAM: Not at all. The life annuity pays a guaranteed income for life, so it's really a very good match for a client's basic expenses. The client is not exposed to market volatility or the risk of living longer than expected, because the income is paid out for life. These risks are actually all born by the insurance company, and a life annuity is the purest form of protecting income because there's no risk to the client. It can be personalised to a degree by adding a level of income increases, by adding a guaranteed term, or choosing to use a joint life option. But on the other hand, it doesn't have the flexibility that we spoke about with the living annuity. Some people require this flexibility to provide for more variable living expenses. Typically there's no capital amount available on death to provide for any inheritance.

CIARAN RYAN: I guess we should not forget that every person will have somewhat different needs and different objectives. So retirement planning is a very personalised thing, and you touched on that. What we also know is that South Africans are poor savers and they often start to confront retirement savings only when they get closer to retirement age, often in their 50s. What are different needs that people should be planning for?

Register for the Reimagine your Retirement webinar taking place on Tuesday, May 31, at 11am.

FAREEYA ADAM: Definitely, as you say, a poor savings culture – together with the impact of poor investment behaviour or investment returns – is definitely a real risk to retirees. At Momentum we think that advisors and clients should really be considering how to match a client's expenses during retirement. Now, there are different categories of expenses. Firstly, there are your basic *life expenses* that include things like having a place to live, medical aid, groceries – really your regular essential spending that you cannot do without. **Full Report:** ***https://www.moneyweb.co.za/in-depth/momentum-investments/choosing-between-a-life-annuity-and-a-living-annuity-for-retirement/***

Moneyweb | 24 May 2022

Living annuities vs life annuities: The basics

It's important to be informed of your different options at retirement

Reaching retirement can be a bit of a daunting experience, especially if you aren't fully informed of your different options at retirement, as well as their respective advantages and disadvantages. At retirement, retirees can access up to one-third of their retirement savings in the form of a cash lump sum. However, they will need to invest the balance of two-thirds into an annuity, which is ultimately a financial product that provides a regular income to the product owner, during their retirement. The two types of annuities are: 1) living annuity, and 2) life annuity. These are the basics to take note of:

Living annuity:

One of the main advantages of a living annuity is that it provides flexibility. Each year the investor can choose an annual income drawdown percentage of between 2.5% and 17.5%. The drawdown selected will be paid according to the investor's preferred income frequency (which can be monthly, quarterly, twice a year, or once-off during the year). Another important consideration is that each year, the investor can adjust either the income drawdown percentage, the income frequency, or both.

Another advantage of living annuities is that they allow for having the remaining capital paid out to nominated beneficiaries when the investor dies, or to their estate in the case that no beneficiaries are nominated. However, the main disadvantage is the risk of depleting the retirement funds before the investor dies. Therefore, it is extremely important to live within your means and not withdraw too much. Performance of markets can, of course, also have an impact on the period of time that the living annuity lasts. Thus, it would be advisable to invest your living annuity wisely, with an investment professional who can assist you with reaching your retirement goals.

Life annuity:

A life annuity provides a pre-determined monthly income, for the rest of the investor's life. A life annuity is a good option for those who are anxious that their retirement savings may be depleted prematurely, or if they seek comfort by having a guaranteed income for the rest of their lives. The income provided may either be a fixed rand amount, or an amount that increases with inflation each year. One of the issues with a life annuity is that the income is fixed/pre-determined, thus there is no flexibility offered. However, the main risk is that should you pass away, the money dies with you – effectively meaning there is no remaining capital to leave to your beneficiaries or estate. Every investor has a different set of circumstances; it is, therefore, advisable to consult with an experienced, qualified advisor to make fully understand the options best suited to their personal circumstances and retirement plan.

Moneyweb | 20 May 2022

INTERNATIONAL NEWS

Russia raises pension and minimum wage as inflation hits economy

Putin admits to ‘difficulties’ but says not all are linked to the war in Ukraine

President Vladimir Putin has unveiled double-digit increases to Russia’s minimum wage and pensions as soaring inflation and western sanctions push up the cost of living. Putin admitted Russia faced “difficulties” but denied these were linked to what he referred to as the country’s “special military operation” in Ukraine and said the economy had “better dynamics than forecast by some experts”. The country had to ensure incomes remained above subsistence levels, Putin said at a state council meeting.

Prices of food and other basic items in Russia jumped in the days following Moscow’s invasion of Ukraine, when the rouble weakened substantially. While the rouble has rebounded prices have not returned to previous levels. “This year is not a simple one [but] I do not mean that all these difficulties are due to this special military operation. Because in countries that are not conducting any operations, across the ocean in the US, in Europe, the inflation is similar,” Putin said. He suggested that Russia’s minimum monthly wage be increased 10 per cent to Rbs15,278 ($273) from June 1, while pensions for non-working retirees will rise by the same amount.

“This will strengthen domestic demand . . . for local products,” he said. Putin also asked the government to increase pay for soldiers in Ukraine. Putin said he did not expect Russia’s inflation to rise above 15 per cent this year, despite the country’s central bank having earlier forecast inflation of 18-23 per cent this year and 4 per cent in 2024. He also noted that unemployment was stable at 4 per cent, despite expectations of rises. The higher social spending will cost Russia’s federal budget about Rs600bn ($10.5bn) this year and about Rs1tn roubles in 2023, finance minister Anton Siluanov said. The measures come as the rouble is trading at its highest level since 2018 despite efforts by western countries to put pressure on the Russian economy.

On Thursday, Russia's central bank is set to hold an extraordinary meeting at which it is expected to make a further cut in interest rates, which were pushed up to try to protect the economy from sanctions that followed the invasion of Ukraine in February. Central bank governor Elvira Nabiullina said last month that she would no longer seek to tame inflation "at any cost" through rate rises but has warned the economy faces a "structural transformation" after sanctions isolated Russia from global markets and disrupted supply chains. Higher rates helped stabilise price growth and slow consumer activity, she said, prompting the central bank to slash borrowing costs in the hope of stimulating growth.

Financial Times | 25 May 2022

OUT OF INTEREST NEWS

What you need to know about submitting a death claim

If your loved one was a member of a retirement fund at the time of their death, you could be entitled to receive the value of the investment paid out. During what is a very emotionally-charged time, the paperwork which nominees are required to complete can seem onerous. There are several benefits that might have been left to you with various choices to be made.

1. Retirement funds

If your loved one was a member of a retirement fund – a pension, provident or preservation fund, or a retirement annuity – you could be listed as a beneficiary or nominee on their nomination form. The Pensions Funds Act governs these funds, and in terms of Section 37C, the trustees of the funds make the final decision on who receives the benefit. The trustees will always consider a spouse or children as dependants but they do not automatically qualify for an allocation.

What you need to do

1. If the fund was set up through an employer, you should advise them of the death.
2. If you are the main contact, for example the spouse, you will need to get the death certificate so that you can send it to the relevant places to advise of the death.
3. The employer requires the people who think they are beneficiaries to complete a questionnaire so that the trustees can use this information to make their distribution decision. As it is possible that beneficiaries only come forward after a long time, legislation allows trustees up to 12 months to make their decision. Not all decisions take that long, as it will depend on the situation. If you were financially dependent on the deceased for a monthly

income and if the distribution is taking time, you can approach the trustees for an advance until the distribution is finalised.

What to do with the money you receive

If you have been allocated a portion of this benefit, you can:

• take the money in cash, after tax, or

• use it to set up a monthly income through a pension

The sum of money used to set up the income is not taxed, but you will pay tax on the income received going forward. The money taken by all the beneficiaries are taxed in the name of the deceased and not according to the beneficiaries' tax rates. All the beneficiaries share the effective tax rate equally and will receive the cash they wanted, after tax." Benefits allocated to children will be taxed and the after-tax amount placed in either a beneficiary fund or a trust, depending on the trustees' decision. These would provide an amount of money to look after the children's needs and pay out the rest when they reach 18 or the date chosen for the trust to be dissolved.

2. Insurance policies

If you are the beneficiary on a life policy, the sum of money will pay out to you directly – you don't need to go through the estate's executor. You can approach the insurance company to complete the forms to claim the benefit. There is no waiting period on this. Even though there is no executor's fee payable on this amount, the executor may request estate duty from you as insurance benefits are deemed to be assets in the estate and attract estate duty.

Get good advice

When you stand to inherit anything you should approach a financial adviser to see how best to structure the inheritance so that it benefits you the most in the long term. Professional advice will ensure that nobody takes advantage of you during a trying time and that you make good decisions to protect your inheritance into the future.

FA News | 25 May 2022

How Sars has changed tax for annuitants

The revenue service 'is trying to assist taxpayers prevent a tax shortfall which they may not have expected, or may not have budgeted for': Allan Gray tax specialist Carrie Norden.

DUDU RAMELA: Sars recently changed the way taxes are calculated for living annuities from March 1, 2022. It required annuity providers, including Allan Gray, to withhold a fixed rate higher than the rate they apply based on the personal income tax table for some clients from the 2022/23 tax year. The change aims to reduce the tax shortfall clients may face at the end of the tax year by applying fixed tax rates calculated by Sars, which considers the multiple sources of income they may receive to living annuity income. Carrie Norden is a senior tax specialist from Allan Gray, and she joins us now to discuss the rationale behind this change and the impact it may have on your annuities. Carrie, thank you so much for joining us this evening. Perhaps let's start with how the new rates are calculated.

CARRIE NORDEN: Yeah. Sars, as you mentioned, has issued fixed rates to annuity providers that apply to annuity income from March 1. These fixed rates have been calculated by Sars based on the latest available data it has from employees and annuity providers. So it has taken all the sources of employment income into account in calculating the rates. Other sources of income, such as rental income, interest income and so on weren't taken into account. The rates were based on the 2022/23 personal income tax tables, taking the annual tax-free base into account.

Additionally, Sars also considered things such as retirement fund contributions [and] medical aid tax credits. Provisional taxpayers, for example, are unlikely to be impacted or to receive fixed rates, because they have other sources of income outside of employment income. But if you earn a salary and an annuity, for example – that's two sources of employment income or one or more annuity – then you could have been impacted by this change.

DUDU RAMELA: I'd like for us to expand on that in terms of whom has been impacted, who needs to just pay attention here, and what has changed.

CARRIE NORDEN: Those who need to pay attention are people who receive more than one source of employment income. That is, for example, salary income and annuity income, or more than one annuity from different insurers, different sources.

DUDU RAMELA: Can those people then who are affected opt out, and what should they consider as they make the decision?

CARRIE NORDEN: Your annuity provider should have communicated to you whether you appeared on the Sars fixed-rate list for the current tax year. For example, Allan Gray sent communications to all taxpayers, including the actual rate you receive, per taxpayer.

It's very important to note that you are allowed to opt out of this fixed rate, and you don't have to have it applied to your annuity income – and you need to do this in writing to your annuity provider, and you are also able to do it at any point during the tax year.

DUDU RAMELA: When somebody hears the word 'tax', someone can literally have a mini heart attack, because it can be so complicated. So where can investors get some professional assistance?

CARRIE NORDEN: Yes, particularly with this issue, you want to calculate what your pay-as-you-earn tax liability might be, and whether you can afford this additional higher rate up front or not. These calculations often have very many moving parts. So if you have a financial advisor and/or tax practitioner who assists you, it's very important that you consult with them, so that they can advise you on the best course of action, taking all your individual factors into consideration. I also just wanted to point out that annuity providers don't have in-depth insight into each taxpayer, [into] how Sars has calculated the rate for that taxpayer. If there are any questions in that regard we encourage you to reach out Sars for assistance, while remembering that if you have any concerns you are allowed to opt out. Then later on, if you want a higher rate applied to your income, you are always able to contact your annuity provider to apply that higher rate at your own election later on.

But if in doubt opt out, essentially.

DUDU RAMELA: Sure. I think maybe we could just reiterate this in terms of why Sars introduced these changes in the first place.

CARRIE NORDEN: This is very important. Sars is trying to assist taxpayers here to prevent a tax shortfall on your assessment, which they may not have expected, or they may not have budgeted for, because annuity providers and employers calculate pay-as-you-earn tax only looking at the income that they administer. But if you're earning employment income from more than one source, when they are combined on assessments that could push you up into a higher tax bracket.

And because each employer is also applying the annual tax-free base, that could also mean your tax liability has not been calculated exactly correctly on each income payment that you receive. So in order to prevent taxpayers from having this unexpected surprise, Sars has tried to do this calculation for these taxpayers and then give them an option to have this higher rate applied up front – or to opt out if they don't want it to be applied.

DUDU RAMELA: Carrie, it's important to understand the impact of the Sars fixed tax rate on your cash flow, and for people to be aware of their options.

CARRIE NORDEN: Yes. Very important. So you need to look at your situation holistically, bearing in mind that you could still have a shortfall assessment. These rates are not an exact science, but were based on the latest historical data. But also, if you're planning on making, say, retirement-fund contributions, and if you're going to benefit from additional medical expenses or tax credits, for example, these will impact your overall tax liability. So try to do your calculation as best you can with the assistance of a financial advisor, if you have one. But you also need to work out if you can afford this additional liability up front to be deducted from your annuity income. Oh, I just wanted to point out that, even though salary income has been factored in in these calculations, these fixed rates have only been issued to annuity providers. So it won't impact your salary from your actual employer. It's only the annuity income that you receive.

DUDU RAMELA: Very interesting to note. Thank you very much for helping us make sense of all of that. Carrie Norden is a senior tax specialist at Allan Gray

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Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

3 Williams Road
Bedfordview
Johannesburg 2008