TUESDAY, 13 DECEMBER 2022

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Will the proposed two-pot retirement system help SA savers?

System is a positive step towards meeting short-term needs and enhancing benefits at retirement, but not a silver bullet

The proposed 'two-pot retirement system' is a plan to amend the retirement fund system in South Africa with the dual aim of creating limited access to retirement fund assets to help savers cope with short-term emergencies and improving the preservation of retirement savings. Recently Treasury announced that its implementation would be postponed from March 2023 to 2024. "There are issues in the current system that these changes aim to address. While any changes mean additional layers of complexity, the hope is that these will allow access for those who desperately need it and improve outcomes for pensioners," says Richard Carter, head of Assurance at Allan Gray.

He explains that, under the new system, it will be compulsory for all retirement funds to split contributions received between two notional 'pots' – one-third will be allocated to a 'savings pot' that will allow early access to funds, while the remaining two-thirds will be allocated to a 'retirement pot'. At retirement, whatever is left in the savings pot will be available as a cash lump sum. The portion under the retirement pot will have to be used to purchase an annuity at retirement. "Offering partial access will, over time, see the money in the system grow, and will hopefully lead to better retirement outcomes for most savers," Carter explains, noting that COVID-19 shone a spotlight on the issues in our retirement savings system.

"The COVID-19 pandemic and associated lockdowns forced many around the world into economic hardship. Several countries responded with measures to supplement incomes so that people who were out of work could continue to provide for themselves and their families. In some instances, this included allowing people some form of access to their accumulated savings in their retirement fund accounts. Importantly, in most cases, these countries did not historically allow access to these funds prior to retirement, on retrenchment or resignation. This meant that there were meaningful assets accumulated and the exceptional access could be justified." There were calls in South Africa to allow similar relief, but this didn't make sense with full access already being available to pension and provident fund members on retrenchment or resignation.

"This situation highlighted a twin problem: Retirement savings are inadequate, and access is skewed only to loss of employment; no access is available for other emergencies. The changes will be an improvement, but the test will be in how the system withstands another crisis like COVID-19," says Carter, adding that changing the rules around preservation and access to cash will not be a panacea. "The retirement fund system cannot solve many of society's pressing needs. While a robust savings pool should contribute to economic growth, it doesn't by itself solve the unemployment problem: If people don't even have jobs, they cannot be asked to save for retirement."

Changes will apply across the board

The changes will apply across the spectrum of retirement savings products, including to retirement annuities (RAs). "RAs currently provide no early access to funds. The changes contemplated will apply to RAs as well. This means that, in future, RA members will receive the same treatment as occupational fund members, including the envisaged rights of early access," says Carter. He explains that one of the main reasons people use retirement savings vehicles is the tax break available on contributions. And while there will still be tax benefits, there will be some changes. "Withdrawals from the new savings pot will be treated as income.

If a member contributes to a retirement fund and then withdraws the money again, it will be tax-neutral – the tax deduction received on the contribution will equal the tax paid on the withdrawal. This should be a fairer system," he says. Under the new system, says Carter, one of the issues still under discussion is around 'seeding'. Given that changes will only apply to contributions made from the implementation date, contributions made before such time, will remain in a 'vested pot'.

Seeding would involve allowing people to take some of the funds that have accumulated in their vested pot prior to the new system being implemented and to transfer those funds to the new two-pot system, thereby allowing some immediate access to historic funds. "While there could be merit in allowing this, if the seeding is too generous, the cost in terms of leakage from what has been saved to date could be material," he cautions, adding that these and other questions will need to be answered before 'go live'. "As things stand, we are fairly certain that implementation will not be before 1 March 2024, but even that is ambitious, given the pending decisions and approvals," he concludes.

FA News | 6 December 2022

The pros and cons of post-retirement annuities

If you are about to retire and concerned that your retirement savings won't be sufficient to draw a sustainable income, you might be weighing up whether a guaranteed life annuity or a living annuity will be best. Here are some of the main factors you should consider before deciding on which to purchase with your retirement benefit. Many South Africans find themselves facing this dilemma. A recent study found that 90% of South African retirees are unable to maintain their current standard of living when they retire.

Unfortunately, it's often only at the point of retirement when investors realise that they have insufficient capital, which also happens to be a time in the lifecycle when there are fewer options available to recover from a capital deficiency.
The choice of retirement vehicles is largely guided by an investor's income needs: should you lock in a perpetual, guaranteed income that rises with inflation (but cannot be changed) with a guaranteed life annuity, or take a chance and hope for higher returns by accepting what the markets deliver with a living annuity?

Option 1: A guaranteed life annuity
The main benefit of a guaranteed life annuity is that it offers longevity insurance. This means that when you retire you will receive a regular income that is guaranteed to continue for the rest of your life. When purchasing a guaranteed life annuity, you essentially "hand over" your retirement savings to the life insurer. In terms of disadvantages, arguably the most notable drawback is that there is no capital payable to your beneficiaries in the event of your death.

This can be mitigated by either taking out a joint-life annuity (which is payable until the death of the last joint-life) or by adding a guaranteed term to your annuity income, whereby if you die within a specific period your spouse or nominated beneficiary will receive a regular income for the remainder of that term. Adding these options increases the cost of the annuity, which is often more expensive than a living annuity in any case, and will be effectively funded by reducing your monthly income. Another disadvantage is that your income amount is fixed, which means you do not have the flexibility of changing it in the future if your financial situation changes.

Option 2: A living annuity A defining feature of a living annuity is its flexibility. You have full control in selecting the underlying assets that you invest in, and the value of your investment is directly linked to the performance of these assets. This is particularly beneficial if you're looking to grow your post-retirement capital over time. Unlike pre-retirement investments, your asset allocation is also not restricted by Regulation 28 of the Pension Funds Act, which means that

your portfolio can hold more than 75% in equities or more than 45% offshore. In terms of your income rates, you also have the flexibility to draw an income of between 2.5% – 17.5% p.a., which you can change once a year on the anniversary of your investment. In the event of your death, the balance of your remaining capital can be paid to your nominated beneficiaries – which is especially attractive for those wanting to leave behind an inheritance for their loved ones. Arguably, the main disadvantage of a living annuity is that you take full responsibility for all associated risks. Your ability to draw an income lasts for as long as you have sufficient capital (longevity risk). Because your investment is market-linked, the value could go down in periods of poor market performance (investment risk).

Deciding which option is right for you

If you're purely looking to mitigate longevity risk, you'll need to decide whether you want the security of a guaranteed income for the rest of your life, or if you're comfortable with market volatility and want to grow the value of your capital by purchasing a living annuity with sufficient exposure to growth assets, whereby you manage your own investment risks. Another option we often see involves purchasing a living annuity for the first few years of retirement, and then using the remaining benefit to purchase a guaranteed life annuity.

However, research suggests that this latter option is typically a sub-optimal strategy. Regardless of which post-retirement vehicle you choose, it's important to have a good understanding of the options available to you and the pros and cons of each. It's worth remembering that the decisions you make now will have a significant impact on the quality of your future. For this reason, we strongly encourage seeking the advice of a qualified, independent financial adviser to help you structure a sound retirement plan.

FA News | 7 December 2022

Regulatory update: Two-Pot System for retirement funds

South Africa's retirement fund legislation has undergone a series of changes since 2012 as part of government's Retirement Reform process, which is aimed at ensuring that retirees make adequate retirement provision. The most recent proposed changes were announced in December 2021, where a positioning paper was issued which set out the landscape for the reform of the retirement fund industry in South Africa. The positioning paper proposed a more extensive change to the industry and included proposals aimed at giving retirement fund members limited access to retirement fund savings before retirement. A few months later in July 2022, the proposed Revenue Laws Amendment Bill (the "Bill") was issued for public comment which, amongst others:

• Sets out proposed amendments to the Income Tax Act, allowing access to retirement fund savings before retirement (referred to as the Two-Pot System.)
• Proposes changes to the tax treatment of pre-retirement withdrawals and the applicable marginal tax rates.

Let's unpack what some of the proposed changes mean for retirement fund members and answer pertinent questions around this.

What is the purpose of retirement reform?
Retirement Reform is the process whereby the government proposes changes to the legislation to encourage retirement fund members to save towards their retirement, and ultimately, retire with adequate provision. One of the aims of Retirement Reform is to ensure that members retain retirement benefits until retirement. However, there is a growing trend of members leaving employment to gain early access to retirement funds, particularly in the current economic climate. The latest Retirement Reform proposal is set to help retirement fund members by allowing early access to ring-fenced retirement funds while still retaining a portion to meet their retirement needs.

What is the proposed Two-Pot System?
Essentially, a member's pool of retirement funding will be split into two pots: the Savings Pot and the Retirement Pot. The Bill proposes that retirement fund members be allowed to allocate one-third of their retirement fund contributions from the date of implementation to an accessible portion of those members' retirement savings (known as the "Savings Pot"). The other two-thirds will be allocated to a portion of the member's savings that will be preserved until retirement (known as the "Retirement Pot").

What is the Savings Pot?
A member will be allowed to contribute a maximum amount totalling one-third of the total monthly or annual retirement fund contribution to such members in what is termed a "Savings Pot". Amounts contributed to the Savings Pot can be accessed prior to retirement, however, members are only permitted one withdrawal from the Savings Pot during any twelve-month period and the proposed minimum withdrawal amount is currently R2 000. Withdrawals from the Savings Pot will be included in members' annual taxable income and shall be subject to their marginal income tax rate. At retirement, a member may withdraw up to the full amount of their Savings Pot as a cash lump sum, taxed at the retirement tax tables. Withdrawals from a member's Savings Pot will be subject to the specific rules of the retirement fund.

What is the Retirement Pot?

Members can allocate retirement fund contributions to their "Retirement Pot", provided that no less than two-thirds of the total contributions are allocated to their Retirement Pot. Upon retirement, the total value of a member's Retirement Pot must be paid in the form of an annuity (including a living annuity) in accordance with de minimis rule applicable to the purchase of an annuity. Any amounts contributed to the Retirement Pot cannot be accessed before their retirement date.

What is the "Vested Pot"?

The Two-Pot System will only apply to retirement contributions made after the implementation date. Therefore, a member's total retirement interest in credit immediately before the implementation date will be referred to as a "Vested Pot" and will not be subjected to the Two-Pot System. The Vested Pot shall include the total retirement fund interest in the fund and all future growth on that amount. Once the Two-Pot system is implemented, members will not be able to make any contributions to the Vested Pot. This excludes a member of a provident fund, who was 55 years of age or older on 1 March 2021 when new annuitisation rules were implemented (click here to read more on this). Retirement fund members may not withdraw from their Vested Pot before retirement.

How will a transfer to another retirement fund be implemented?

If a member wishes to transfer their retirement interest to another fund, they may do so without any tax implications, subject to the following:

- Funds from a Savings Pot can only be transferred to another Savings Pot or Retirement Pot.
- Funds from their Retirement Pot can only be transferred to another Retirement Pot.
- A retirement fund member may only transfer the available funds from their Vested Pot into another Vested Pot.

When will the Two-Pot System be implemented?

National Treasury initially indicated a proposed implementation date which has subsequently changed to 1 March 2024 following consultation with the retirement fund industry stakeholders.

Where can I get more information?

As National Treasury continues to engage with the retirement fund industry stakeholders, we recommend that retirement fund members speak to an accredited financial adviser about the implications of these proposed changes.

FA News | 9 December 2022

GERRIT SANDROCK: Certainly not for the taking

An FSCA proposal to appropriate unclaimed benefits 'for the public good' smacks of flagrant expropriation

Financial Services Conduct Authority (FSCA) commissioner Unathi Kamlana has suddenly declared that, for the first time in about 100 years of financial services regulation, "unclaimed benefits" are to become a "strategic focus". This is perhaps not so surprising: an estimated R60bn to R90bn in unclaimed benefits is spread across the fields of insurance, medical aid and pension funds. A recent paper on the subject issued by the FSCA makes 13 specific recommendations. In essence, it proposes that a Central Unclaimed Assets Fund be created, into which all unclaimed funds from a variety of financial products should be deposited. That fund will apparently be encouraged to "unlock" the money for "social, environmental and developmental initiatives".

It deigns to add that "the first preference remains to return unclaimed assets to their rightful owners, failing which they should be repurposed for public good". However, "if the customer does not maintain his current contact details with his product or service provider, thereby preventing the assets becoming unclaimed", she and her dependents will not be entitled to full restitution after the funds have been transferred to the central fund! Without bothering about the mandatory accompanying impact and cost benefit analysis, the rest of the FSCA's recommendations focus on improving record keeping and reporting, adding substantially to the mammoth cost of compliance and reporting regulations borne by SA financial service providers and their clients in an already grossly over-regulated industry.

Providers of financial services receive money (premiums or contributions) from their customers in return for a guaranteed benefit on a future occurrence. Insurers, pension funds and medical aids must therefore make provision for their future liabilities in the form of reserves. Regulators ensure that certain minimum levels of provisions or reserves are held on balance sheets to safeguard the availability of those funds. Unclaimed funds, together with all other institutional funds, are invested across the spectrum of securities for the ultimate benefit of the entire country.

They are managed across experienced investment managers, who naturally make reference to all appropriate environmental, social & governance and sustainability considerations. With such a wide variety of experts applying their minds, it would be difficult to improve on the overall wisdom of how these funds are set to work for the benefit of the country. Amounts set aside by insurers from their premium and other income belongs to them, not to the underlying

fund securing the risk. Where actuarially determined reserves are insufficient, insurers are required to make good the difference, taking funds from their shareholders through the income statement. Where the fund's reserves exceed the actuarially determined requirements, shareholders may, through the same process, move the excess to their own funds as taxable profit, awaiting any future calls thereon. Pension funds are different in that their accumulated assets belong to contributors and beneficiaries still in their system. In that case, they can apply any excess funds to reduce the level of contributions required, to increase benefits payable, or both. **Full Report:** ***https://www.businesslive.co.za/bd/opinion/2022-12-07-gerrit-sandrock-certainly-not-for-the-taking/***

Business Day | 7 December 2022

PIC and GEPF still need AYO dividends to keep pensioners in the black

In the 2021/2022 financial year, AYO contributed almost R95 million to the Government Employees Pension Fund (GEPF) in the form of dividends.

Ayo Technology Solutions (AYO), the country's single largest most transformed ICT investment company, announced its results earlier this week, and despite posting a loss made the decision to pay out dividends. This, of course, has been greeted with some scepticism by the armchair traders who are vocally outspoken on everything AYO. However, if we look beyond the obvious and remove the disparaging external chatter, there are sound reasons for the technology giant to dip into its reserves to bolster its shareholders' pockets, especially those of the pensioners whose hard-earned money it is, through the GEPF, which is managed by the Public Investment Corporation (PIC). The PIC is one of AYO's biggest investors, so why would it not want a return on this, which is, in turn, delivered to the GEPF?

The PIC is the guardian of more than 80% of the GEPF's some R2.3 trillion portfolio, R4.3 billion of which was invested in AYO in December 2017 when it listed on the JSE. AYO deploys a hybrid dividend policy, which has paid Africa's largest asset manager around R400m in dividends from 2018 to now, of which around R95m was in this financial year. In a year where the GEPF was forced to re-evaluate its actuarial factors, reducing them in line with the less-than-expected economic assumptions from November 1, 2022, a healthy dividend such as AYO's contribution, should be good news. Wallace Mgoqi, AYO's chairman, had this to say about the dividend payout: "Sometimes I feel that we just cannot win whatever we do.

AYO has been needlessly criticised in the media for all sorts, and by certain members of the PIC too, yet despite all the odds, it has continued to grow its revenue and, as a result, pay dividends. “The past three years have been tougher – economically speaking – than most since we listed on the JSE, yet we can be counted on by the market and our shareholders to come through for them. These are the sort of investments that should make a lot of sense (and cents) and should be applauded, not bedevilled.” South Africa’s economic woes will continue in the short to medium term.

A set of factors that include increases in interest rates, the ongoing and worsening situation at Eskom, which has an enormous impact on industry, and the country’s ability to dig itself out of a deep economic hole compounded by the government’s hefty loan/debt burden expected to reach R5.2trl by 2023/24 (that’s next year), contribute to difficult times ahead. Not least of all that unemployment remains at unacceptably high levels. While the GEPF, like AYO, also increased its revenue in the 2021/2022 financial year, coming off a loss, like many companies in the country, and an increasingly shrinking base of contributors paying for an increasing base of retirees and other claims, “GEPF has a mandate to grow its asset base, as does the PIC in managing this important fund.

Therefore, neither should look the proverbial gift horse in the mouth, nor should the PIC bite the hand that feeds it,” said Mgoqi. As has been reported on several occasions, the PIC has moved to reclaim the funds it invested in AYO, which seems strange given the continuing and dependable return on its investment. Much of the PIC’s alleged motivation behind this move has relied on what has now been shown to be false, wrong, and discriminatory reporting by much of South Africa’s mainstream media. AYO has joined a lawsuit that will see the report from the Mpati Commission, which looked at alleged wrongdoing at the PIC itself (not AYO), take on a formal review through the courts.

AYO has had some other mentionable wins of late too, with the Competition Tribunal and the Equality Court of South Africa agreeing there may well be a case for South Africa’s banks to answer to, in how they have treated AYO – which had contributed to the company’s constrained end-of-year results in this and the previous financial year. The bottom line: With a consistent and reliable track record of dividend paying and an asset pipeline base waiting to get going, the PIC and the GEPF need AYO dividends to keep pensioners in the black.

IOL | 2 December 2022

From twin peaks to flatline, a close look at SA's death claims statistics

The mortality statistics offered up by South Africa's largest life insurers give unique insights into the path of the COVID-19 pandemic, starkly contrasting the twin peaks of pandemic-related death claims recorded in January and July 2021, to the zero claims in August 2022. The Death Claims Dashboard is maintained by the Continuous Statistical Investigation (CSI) Committee of the Actuarial Society of South Africa (ASSA) to record death claims against fully underwritten life policies at the country's five largest life insurers. According to this dashboard, around 4 706 of the 31 520 fully underwritten death claims received by these insurers between March 2020 and August 2022 were due to confirmed COVID deaths.

Death claim definitions and disclaimers

The ASSA defines fully underwritten life policies as those "issued to policyholders who have participated in a comprehensive medical and lifestyle assessment, which enables the life insurer to determine the level of risk" presented by the insured life. As such, the dashboard does not include statistics for older policies like universal life policies and limited underwriting policies such as credit life policies and funeral policies. The society also warned that the actual number of pandemic-related deaths were likely higher than reported. According to Anja Kuys, chair of the ASSA CSI committee, the actual number of COVID deaths was difficult to confirm due to claim forms generally not specifying the disease as the cause of death. In most cases the forms only state whether the cause of death is natural or unnatural.

Pre-pandemic, the five largest insurers expected between 600 and 700 claims against fully underwritten new generation life policies each month. But this number shot up from June 2020, peaking above 2 700 in January 2021 and again in July 2021. The good news is that life insurers' mortality experiences are beginning to return to pre-pandemic levels. The dashboard shows that 617 death claims were received in August 2022, the lowest monthly total since April 2020, when 540 death claims were submitted. More importantly, the death claims for policyholders who died due to COVID started dropping to single-digit numbers from March 2022, reaching zero for the first time in August. "What is clear is that COVID-19 is no longer claiming as many lives as it did in 2020 and 2021," noted Kuys.

The twin peaks of excess deaths

A graph of insured death claims versus expected death claims revealed twin peaks of excess death in the aforementioned months, with the number of deaths gradually returning to trend during 2022. ASSA noted that over the two years of pandemic, starting March 2020, death claims against fully underwritten life policies exceeded the expected number by a significant

margin. “However, since February this year, the additional death claims over and above the expected number started stabilising at between 10% and 20%,” said Kuys, before briefly commenting on the divergence between insurers’ experiences of pandemic and that of the South African Medical Research Council (SAMRC). “Differences in insured mortality compared to overall population mortality were present in South Africa even pre-COVID, because the average age of the insured population is higher than that of the overall South African population,” she explained. “The SAMRC statistics also include children, a population group that did not experience excess deaths during the pandemic”.

ASSA was, however, surprised that the mortality rate for insured lives exceeded the expected death rate by such a large margin during the first three COVID-19 waves. The fact that the mortality rate of insureds appeared to be settling back in line with that of the general population post-pandemic was also noteworthy. The latter observation could relate to more of the insured population having received vaccines and boosters than the general population. These and other statistical anomalies highlight why it is important for life insurers to have access to credible statistics relating to the insured population, enabling them to make provisions for sufficient capital reserves and pricing.

Trend analysis and other observations

The ASSA Death Claims Dashboard was designed to track excess death claims against fully underwritten new generation individual life policies due to COVID and to help life insurers with capital reserving and pricing. The five insurers that report into the dashboard represent around 85% of South African individual life insurance premiums, with just over two million fully underwritten life policies on their combined books. According to Kuys, there is value in maintaining the dashboard post-pandemic to identify other emerging trends. Examples of such trends is the steep drop in unnatural deaths during the country’s hard lockdown as well as the correlation between public holidays and school holidays and the number of unnatural deaths. Unnatural death claims remained lower than insurer expectations during 2022.

“While this may be as a result of deaths that have not yet been reported, it could also be due to more people working from home,” said Kuys, who also observed that policyholders with fully underwritten life policies tended to fall into higher income groups with occupations that allowed for remote work. It was also possible to derive age- and gender-based statistics from the dashboard. Death claims by gender for the period March 2020 to August 2022 revealed that the two-to-one ratio between male and females was maintained during pandemic. Insurers had expected 12 600 male deaths and 6 600 female deaths going into pandemic but received 20 900 and 10 620 claims respectively over the period.

Age- and gender-based death claim ‘surprise’

“The dashboard shows that the death claims rate for males and females increased by the same percentage in line with the expectation that the death claims rate for male policyholders will be almost double that of female policyholders,” wrote the ASSA in their media release announcing the latest assessment of the death claims landscape. As for age, the conclusion appears to counter some common beliefs about the disease… According to Kuys, the impact of COVID-19 has been surprisingly similar across all age groups in that the number of claims has almost doubled for younger lives as well as for the older ages.

FA News | 9 December 2022

INTERNATIONAL NEWS

Nigeria’s Total Pension Fund Rises 1.14% to N14.59trn

Nigeria’s total pension fund assets rose by 1.14 per cent to a record high of N14.59 trillion as of the end of October 2022 compared to the N14.42 trillion recorded in the previous month.
This was contained in the monthly pension fund industry report released by the National Pension Commission (PenCom) for January and October 2022. While the fund gained N170 billion, it has increased by a whopping N1.16 trillion from the level it was in December last year.
The number of Retirement Savings Account (RSA) registrations jumped to 9.85 million in the review month, up from 9.79 million registrations recorded as of the end of the previous month.

A total of 30,973 RSA holders switched their pension fund administrators in the third quarter of 2022, representing an increase of 109 per cent compared to the 14,821 holders that switched in the previous quarter. Investments in corporate debt securities by the PFAs rose by 2.64 per cent month-on-month to stand at N1.53 trillion from N1.49 trillion recorded in the previous month. On the other hand, PFAs reduced their investments in real estate by 4.93 per cent to N218.1 billion as of October 2022 from N229.4 billion recorded as of the beginning of the month. The RSA fund II still accounted for most of the fund contribution with N6.35 trillion, representing 43.5 per cent of the total pension funds, followed by RSA Fund III with N4.05 trillion, which represents 27.8 per cent of the total assets.

Meanwhile, existing schemes accounted for 9.9 per cent of the total funds, increasing by N2.41 billion in October 2022 to stand at N1.44 trillion, while the CPFAs accounted for 10.2 per cent of the total funds, standing at N1.48 trillion as of the review period. Investments in the local stock market dropped by N40.41 billion to stand at N828.17 billion as of the end of October 2022. This happened amid a heavy inflation rate and a hike in interest rates. On the other hand,

investments in federal government debt securities continue to increase as the CBN raised the monetary policy rate to 16.5 per cent in its last MPC meeting, which translates to higher returns in the fixed-income market. Specifically, total allocation in FGN securities by the pension industry stood at N9.23 trillion as of the review month, accounting for 63.2 per cent of the total funds. Further checks showed that a sum of N8.84 trillion is being invested in federal government bonds.

The number of registered PFAs reduced from 22 to 20 as a result of some mergers and acquisitions as the PFAs tried to meet the required minimum regulatory capital of N5 billion, which was increased from N1 billion by the Nigerian Pension Commission. Additionally, the total pension fund gained N156.74 billion in Q3 2022, to stand at N14.42 trillion as of September 2022. Meanwhile, First Guarantee Pension led the list of best-performing PFAs in Q3 2022 with an average ROI of 2.38 per cent, followed by Premium Pensions and Veritas Glanvills Pensions with 2.06 per cent and 2.01 per cent average returns, respectively.

Business Post | 2 December 2022

UK proposes NHS pension plan reform in effort to stop staff quitting

Government to let nurses and doctors rejoin retirement scheme as health service contends with record waiting lists

The UK is seeking to overhaul the NHS retirement scheme in an effort to draw back thousands of retired staff and keep doctors from quitting over pension tax bills as patient waiting lists soar. The government on Monday said it aimed to make it more attractive for staff who have left the health service to “come back” by allowing them to rejoin the NHS pension plan, which offers guaranteed indexed benefits. In a push to address widespread staff shortages, a partial retirement option is to be introduced; that would give older employees the opportunity to draw down part of their pension, while staying in work and building up their pot.

In addition, it is proposing to formalise access to the NHS pension plan so that primary healthcare workers — such as GPs, general practice nurses and clinical pharmacists — can join the retirement scheme, which has more than 1mn members. Previously these groups have had to apply for time-limited access on an ad hoc basis, the government said. The government also pledged to “fix” pension scheme rules that have landed some senior clinicians and NHS staff with large tax bills because of the way the health service’s pension accounts for inflation. “The generous NHS pension scheme is one of the best in the country, but it’s not working as it should for everyone,” said Steve Barclay, the health secretary. “We need a system where our

most experienced clinicians don't feel they have to reduce their workload or take early retirement because of financial worries. I also want to make it easier for staff that want to return to work to support the NHS to be able to do so without penalties. "These proposed changes will help open up extra appointments so patients can see their GP and consultants more quickly," added Barclay. The changes come as official data found that the number of patients waiting for treatment in September had hit a record 7mn, with the British Medical Association saying the backlog would take "years to clear". However, the government did not propose any changes to the lifetime or annual pension savings allowances, which limit what can be saved or grown in a pension before tax charges can apply.

Doctors' unions had lobbied for reforms, saying members were being landed with punitive pension tax bills for breaching their allowances after working extra hours to help clear backlogs or accepting promotions. "The partial retirement option and greater flexibility for recently retired doctors returning to the workforce have potential benefits and in particular will standardise retire and return arrangements," said Vishal Sharma, chair of the BMA's pension committee. "However, this does not directly address the issues caused by the annual or lifetime allowance," he added. "Doctors will still have to consider reducing the work they do to prevent incurring large punitive tax bills and it is disingenuous of the government to suggest that this will make any meaningful difference to the huge backlogs in care."

According to a recent BMA survey, more than 40 per cent of consultants said they planned to leave the NHS in some capacity over the next 12 months. The doctors' union said the situation was "just as stark for GPs and other senior doctors" and described PCN pension reforms as "minor". NHS Providers, which represents health organisations across England, said that with more than 133,000 vacancies, the health service could not afford to lose "valued and experienced colleagues" and "desperately needed" a long-term national workforce plan. Saffron Cordery, interim chief executive, welcomed the government's proposals around pension taxation rules but said that "to have a lasting effect, these changes must be fair to the whole workforce and tackle the root of the problem". The reforms, which are subject to an eight-week consultation, are not expected to be implemented until late spring 2023, the government said.

Financial Times | 5 December 2022

OUT OF INTEREST NEWS

Savings is investing in yourself

The rising costs of living coupled with an economy in recovery has most South Africans wondering: How are we supposed to save any money? Although saving or investing can sound intimidating, Lephoi Mokgatle from Momentum Money says there are ways and means of getting it done. Martin Luther King Jnr once said that “You don’t have to see the whole staircase, just take the first step” and that holds true in the world of savings and investments. Mokgatle suggests that anyone with access to income on a fortnightly, monthly, or annual basis has an option to invest or save to build a more robust, financially stable future.

“A savings plan does not need to be a substantial monthly expense. Even the smallest amount saved over time can build into meaningful returns,” says Mokgatle. While economic recovery is evident post the rolling lockdowns of 2020/2021, many South Africans are still feeling the aftereffects. According to the latest Momentum/Unisa Consumer Financial Vulnerability Index (CFVI), savings vulnerability levels increased in the second quarter of 2022. This could mostly be attributed to a strong decline in the savings consumers had available for emergencies. It is clear that South Africans are struggling to save. Mokgatle offers four tips that can help make small but significant steps to achieving your savings goals.

Create and visualise the future you’d like to see

Write down in detail what it is you are saving or investing for. Be clear and deliberate about your objectives and set a timeline to achieve these goals. Consider and articulate the feelings and hopes that will be realised once you achieve these goals. The plan could be broken down into weekly goals or daily goals that build up to a month-on-month execution. “A financial adviser is the best option to include in your planning to help you lay down realistic and attainable goals that work with your living expenses and net income,” says Mokgatle. “Or if you feel you’d like to begin the journey on your own, start by saving what you can with a solution like Momentum Money that offers a straightforward and barrier-free access to the world of savings and investments.”

Start managing debt as you would like to manage your income

The South African spending culture is increasingly spiralling upwards at the same pace as debt since most Africans resort to loans to pay off existing debts or make ends meet in the household. Mokgatle says that it is essential that we keep a record of how much we spend and how much debt has been accumulated over x period of months. “Keeping track of this expense

in your budget will help highlight what needs to be reduced and what needs to be cut off to allow more cash flow to save or invest."

The art of passive income According to **Forbes Advisor**, passive income is money you can earn without too much effort. Passive incomes include investing, asset building, and asset sharing. "Passive income is a great way to make an extra income without working too hard," Mokgatle advises.

Explore your savings options

There are numerous savings accounts and investment options. Shop around and make sure you are choosing a saving option that is aligned with your savings plan and offers benefits. Your financial adviser will also be able to advise you on opportunities that are suitable for you. "Making yourself a priority will always be necessary. Start investing in yourself today to make your journey to success even smoother," concludes Mokgatle.

FA News | 9 December 2022

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