FRIDAY, 28 AUGUST 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Time to vote on the spectre of prescribed assets

The pending decision on prescribed assets must not be left to politicians and asset managers. The wolves must now emerge from sheep's clothing and clearly explain to the public what they think the exact percentage of pension funds is, that should be invested in social infrastructure to kick-start the economy. A clear airing of what is needed regarding prescribed assets should be followed by a plebiscite assessing all those who are interested in putting skin in the game to save the country from a deeper socio-economic crisis. Let's face it, it is fear-mongering to think that imposing a 2.5% or R200-billion prescription limit out of about R8-trillion in regulated assets would blow the house down. This is the kind of money that is easily wiped out in the equity markets in a week on the JSE.

If we are honest, investing in the equities on stock exchanges has its own dangers and all those with an appetite to spread their investment risk beyond securities must be given an option to commit their capital in social infrastructure so as to alleviate poverty and create jobs. Of course, such patriotism would have to be reciprocated with some form of incentives. With due respect to the policymakers and the asset managers, who are the professional custodians of long-term savings, it is high time that the real asset owners (the people on the ground) are listened to. Fund Trustees have been very silent in this debate. Since the dawn of democracy, the ruling African National Congress (ANC) and its alliance partners have been floating a trial balloon to gauge the tantrum potential of the financial markets before introducing legislation aimed at changing the manner in which long-term savings are invested on things such as social infrastructure.

Predictably, like a pint-sized two-year-old despot, some of the market commanders have over the past 26 years responded by pulling their faces, inflating their cheeks, banging themselves on the floor and performing the usual fit by a screaming toddler at a toy and sweets aisle. This is not the time to be analysing grumpiness. We all know that the balance sheets of the government and many JSE-listed companies are not strong enough, as in the past. You just have to look at the countless rights offers and share placements in the equity markets during Covid-19. These exceed R100-billion so far and no doubt such capital calls will be tapping into retirement savings.

Meanwhile, the state has almost maxed its credit facilities. In the absence of capital directed at alleviating social infrastructure challenges, people must be given an opportunity to decide on a portion of their retirement savings. The ANC government has been testing the waters for too long and the dilly-dallying has ignited uncertainty. A delay in kick-starting the economy risks boiling into a socio-economic crisis and societal instability that could destroy the same pensions that everyone is trying to protect. In the sixth chapter of the ANC-led Reconstruction and Development Programme (RDP) Policy Framework in 1994, the notion of prescribed assets or "socially desirable investments" was highlighted in the following manner:

"If the major financial institutions do not take up socially desirable and economically targeted investments, the democratic government should consider some form of legislative compulsion such as prescribed assets." The term prescribed assets has been taken to mean government compelling asset managers to invest a specified portion of pension funds and other long-term savings in state-owned company bonds and social infrastructure such as hospitals, schools, roads, housing and sanitation. The idea of prescribed assets in the RDP document was put forward because when the ANC was voted into power, the government did not have enough resources to fund the social infrastructure needed to eradicate the inequalities bequeathed by apartheid.

Daily Maverick | 25 August 2020

Reset your GPS to build wealth for a stable retirement

To achieve your financial goals, you first need to get your thinking right – and then stick to your plan.

We are growing accustomed to being told that the COVID-19 emergency has changed everything. That sounds a bit glib to me – many things will change but history tells us that many things will stay the same. One thing that will not change is the need to cultivate the right mindset in order to build wealth and ultimately ensure a financially stable retirement. It's worth reminding yourself that most South Africans notably do not have that mindset. Our savings rate is abysmally low and one estimate is that 89% of all South Africans will not be able to retire in financial security.

The retirement crisis is so bad that 40% of survey respondents (and 50% of Millennials) are looking to a lottery win to fund their retirement. [1] What one can say about the effect of COVID is that the investment climate has become even more complex, and more people are finding themselves in financial straits. In short, it's never been more important to have the right mental approach to investing. GCI's core belief that this is encapsulated in the acronym GPS: achieving *Growth* through a focus on *Purpose* and *Sustainability*.

Lessons from Formula-1 great, David Coulthard

No surprises that this year's GCI Wealth Tour is very much focused on this critical issue. The Wealth Tour is our annual road show round South Africa to connect with clients, investors and brokers, and bring them up to date with important trends. This year, of course, it will be virtual and our guest speaker is the renowned Formula-1 champion, David Coulthard. We chose David because his stellar career would never have been possible without a focus on intentional actions repeated over many years – and he's applied the same approach to his life after Formula-1 when he entered the business world.

Mental attitude – resetting your GPS – is the essential first step in ensuring financial security but, of course, more is required. Two key success drivers I will be looking at on the Wealth Tour webinar are the power of independent decision-making based on the very best data. Independence is critical when it comes to investing because each investor has a unique risk profile, and the advisor's main job is to identify the best possible investment vehicle. Clearly, if they are tied to a particular investment house, fulfilling that essential requirement is hamstrung. Independence is everything when it comes to giving and getting the best financial advice.

Harness the power of technology

The second part of the equation is data. Corporations have woken up to the fact that data holds the key to their ability to compete successfully, and the same is true for financial advisors. However, there is simply too much data, so sifting it to gain the vital insights and presenting them to the client in a way that makes sense is a major challenge. Technology is the cause of this flood of data and, fittingly, it also provides the solution. Today's advisors need to be well versed in technology and what it can offer across all phases of the financial advice life cycle. Financial planning has been lacking such technology. GCI co-developed a solution, which is now available as Wealthbit.

It provides advisors with a powerful tool to help their clients "see" what their current financial situation looks like, and what the impact of various investment scenarios will be. One cannot overemphasise the importance of providing clients with a way to visualise what their investment portfolio looks like, and what the effect of their decisions will be on their eventual position. Wealthbit has been carefully designed to provide this visualisation, coupled with a powerful backend which the advisor can use to input the data relevant to various scenarios.

By enabling investors not only to see what their current financial situation is but also what impact their decisions will have, Wealthbit also plays an important part in driving the all-important investment psychology we have been speaking about because it makes it easy for the client to keep track of how his or her portfolio is performing, and thus acts as a powerful incentive to stay true to the investment strategy agreed with the advisor. In the post-COVID world, right thinking and right decisions are going to be more important than ever when it comes to achieving your financial goals. Is your GPS turned on?

FA News | 25 August 2020

Unleashing the power of pension funds and debt cancellation to finance a just energy transition (Part 4)

Three international energy research organisations have worked with Eskom trade unions to compile a report – 'Eskom Transformed: Achieving a Just Energy Transition for South Africa' – released on 23 July. This is the final piece of a four-part series on the analysis contained in the report, as well as proposed strategies for SA's energy sector. The researchers argue that the future of an unbundled Eskom includes a multitude of problems. "Debt cannot be repaid, first because if we don't repay, the lenders won't die. That is for sure. But if we repay, we are going to die. That is also for sure." Those were the words of the revolutionary former president of Burkina Faso, Thomas Sankara. Taken from his speech to the OAU in 1987, months before his assassination, his words are as true now as they were then.

And especially so when locating the issue of debt in the context of the Covid-19 pandemic and the massive socioeconomic impact of the lockdown. The issue of debt must also be situated within the overarching context of the need to finance a transition from a fossil-fuel economy to a low-carbon economy in the struggle to mitigate against the deep impacts of the ecological crisis. Repaying government debts, especially debts incurred against the interest of the majority of the population, leaves less money to invest in the rollout of renewable energy and the genuine, just transition that South Africa needs.

The issue of South Africa's debt permeates throughout. The situation at state-owned enterprises (SOEs) and the government's increasing debt-to-GDP ratio is of serious concern. In response, the government, led by the Treasury, has prioritised debt-service costs at the expense of higher levels of social spending. As a result, debt-service costs are the fastest-growing budget item in the national budget. Despite prioritising debt payments, South Africa's debt-to-GDP ratio has continued to grow and is likely to exceed 80% by the end of the year, rising from the February 2020 Budget estimate of 65.6%. At the end of the first quarter of 2020, South Africa's gross external debt – what lies behind the growing debt-to-GDP ratio – stood at just over $155-billion. While an improvement since December 2019, with a decrease of $30-billion, further interrogation of SA debt is needed.

South Africa's debt problems are strongly intertwined with Eskom's growing financial woes. Eskom's debt is expected to jump from R450-billion (in 2019) to at least R500-billion by the end of 2020. Most reports link Eskom's rising debt to the increased prevalence of corruption. This is an important factor, but it is not the only factor. Other considerations include: the increasing commercialisation and corporatisation of Eskom; the original high costs of the renewable energy independent power producer procurement programme (REIPPPP) contracts and the related 20-year power-purchase agreements; as well as the rapid increase in the cost of coal. These factors are detailed in the recently launched research report, *Eskom Transformed*.

It is undeniable that corruption and wasteful expenditure are major problems. Reports indicate that the Special Investigating Unit (SIU) is investigating the theft of tens of billions of rands from Eskom. Included in this are payments to the value of R139-billion in contracts related to the building of Medupi, Kusile and/or Ingula power stations. An insider estimates that the cost of corruption in relation to Eskom's contracts could potentially be as high as R500-billion. A seemingly clear-cut example of corruption relates to the World Bank loan to Medupi in 2010. Eskom is still repaying this loan: in fact, more than R1.3-billion was paid during the months of lockdown and, based on Alternative Information and Development Centre's (*AIDC*) calculations, Eskom will only repay the debt in full by the end of the century.

That the loan was granted to build the biggest coal-fired power *(read carbon-emitting)* station in South Africa – contradicting the outcomes of the World Banks' own research that indicates climate change has negative consequences for development – coupled with the fact that the loans seem to be infested with corruption, makes this a quintessential case of odious debt. There have already been calls for this debt to be cancelled, by the South African Federation of Trade Unions (SAFTU), AIDC, Public Affairs Research Institute and *Daily Maverick's* Kevin Bloom, among others. Given the scale of corruption, a publicly disclosed forensic audit of all SOE and government debt – with the intention to repudiate the odious debt – is necessary.

This is in line with the demands made by Sankara more than three decades ago, and the more recent calls by more than 200 global organisations for debt cancellation following the outbreak of Covid-19. Such an agreed debt cancellation would immediately create much needed fiscal room for enhanced social spending and public investment. Notwithstanding the need for debt cancellation, it is important to recognise that a high government debt-to-GDP ratio is not inherently a problem. For instance, the UK (80.7%), France (98.1%), Belgium (98.6%), USA (107%), Singapore (126%) and Japan (237%), all maintain rather high government debt-to-GDP ratios.

The bigger question relates to a country's ability to service those debts: for example, an economy that is experiencing rapid levels of growth is able to service debt costs easier than a country in an economic recession. Furthermore, when GDP is growing, it also reduces the overall debt-to-GDP ratio. Therefore, rather than focusing solely on the level of debt, a good debt policy is one that borrows to invest in improving a country's productive capacity. Historically, this has proven to reduce the debt-to-GDP ratio in the medium to long term. Conversely, fiscal consolidation in order to prioritise debt-service costs has often resulted in exactly that which it was meant to avert – a higher debt-to-GDP ratio.

Break the chains of dependency

Besides borrowing to invest in improving the country's productive capacity, another aspect to consider relates to the level of domestic debt compared to debt denominated in foreign currency. Prioritising borrowing domestically should be preferential even if interest rates from foreign creditors are lower than domestic bonds, because borrowing from foreign creditors requires paying back in foreign currency. Financial inflows are needed for this purpose. This requires higher interest rates which lead to higher interest payments (and dividends) paid to non-resident bondholders, which inevitably creates a vicious cycle of dependency on export-oriented growth and high interest rates to attract further financial inflows. South Africa's dependence on financial inflows to boost the financial account, and in so doing offsetting the current account deficit in the balance-of-payments, is a significant contributor to the country's growing gross external debt. Around 70% of the $30-billion decrease in SA's gross external debt from December 2019 to March 2020 relates to falling general government liabilities to non-resident bondholders (from $78-billion to $56-billion). In other words, of the 16% decrease in the country's gross external debt, 11% pertains to fewer liabilities owed to non-resident bondholders after a considerable decline in the foreign ownership of domestic bonds (to an eight-year low). This, following the sale of close to R100-billion in domestic bonds by non-resident bondholders in the first quarter of the year. **Full Report:** ***https://www.dailymaverick.co.za/article/2020-08-24-unleashing-the-power-of-pension-funds-and-debt-cancellation-to-finance-a-just-energy-transition-part-4/***

Daily Maverick | 24 August 2020

INTERNATIONAL NEWS

Pension scammers use Covid crisis as cover to steal retirement savings

PENSION scams have surged during the lockdown with many victims losing their entire life savings to heartless fraudsters. More than £30million has been reported lost to the con artists since 2017, although the real figure is likely to be far higher. Scammers target both small and large pension pots. Some lost as little as £1,000 but one man in his 50s was tricked out of an incredible £500,000 by the crooks, the Action Fraud data found. One victim a 57-year-old woman called Viv, reported losing almost £200,000 after being persuaded to withdraw the money from two of her pension schemes. Tom Selby, senior analyst at investment platform AJ Bell, said fraudsters often use high-pressure sales tactics to dupe or coerce people into transferring their pensions into get-richquick investment schemes.

He believes Action Fraud's figure is "just the tip of the iceberg". He added: "Scams are underreported for a variety of reasons, including embarrassment. "They pray on vulnerability, which will inevitably rise during times of economic stress such as now." People who make unsolicited cold calls about people's pensions can be fined up to £500,000 but the legislation is largely ignored. Last month's Aviva Fraud Report found almost 12 million people received emails, texts or phone calls using coronavirus in a suspected financial scam. Scammers even set up fake company websites with similar sounding names, with Aviva alone reporting 27 fake domains using its brand. Its crime-risk director Peter Hazlewood said:

"It's inevitable the fraudsters' tactics will again develop beyond coronavirus. It's more important than ever that people remain vigilant." Pensions Regulator chief executive Charles Counsell said: "Scammers wreck lives and no matter how big or small your savings are, every pot is a target. Former sales executive Sue Flood lost £125,000 to a scheme described by a High Court judge as a "fraud on the trustees' powers". Her husband now works seven days a week to try to make up for the loss from their pensions. The couple, from Brentwood, Essex, fell victim to the Ark scheme in 2011, which cost nearly 500 people their retirement savings. Sue, pictured, said: “It is difficult to describe the sheer torture the last eight years has been. “It has had a terrible impact on my family, health and mental wellbeing. The sheer terror and night sweats sometimes are too overwhelming to describe.” Meanwhile Viv, 57, lost almost £200,000 after getting a phone call out of the blue from a man who convinced her to move money from her pension schemes. She also received an official-looking letter from the fraudster. She said: “He sounded convincing. These scammers are clever guys.” Viv, who said she was too embarrassed to be identified, added: “I had a lot of worries at the time, including looking after my mother. I just wish I had known more.”

Express | 26 August 2020

Pension fund hits N11.09tr

•Grows by N666b half- year

Pension Fund Administrators (PFAs) have recorded N666 billion increase on pension fund assets in six months, *The Nation* has learnt. The total pension fund hits a record high of N11.09 trillion as at June 2020 from N10.8 trillion recorded in May. Besides, the number of Retirement Savings Account (RSAs) holders' registrations grew by 23,424 contributors as at June, from 9,016,324 in May to 9,039,748 in June 2020. This was shown in a report by the National Pension Commission (PenCom) entitled: “Summary of Pension Fund Assets as at 30 June, 2020” The report revealed that the assets gained N666 billion from January to June, standing at N10.43 trillion in January and N11.09 trillion in June.

The pension regulator noted that N7.46 trillion of the assets, which is 67.25 per cent, was invested in Federal Government securities, while local money market securities got N1.62 trillion, amounting to 14.57 per cent. The Commission further revealed that N4.77 trillion of the assets was invested in RSA fund II, while N32.32 million of micro pension contributions have been invested. PenCom had said contributors under the Scheme would be able to move their pension account from their PFAs to another by the end of this year. PenCom's Acting Director-General, Hajia Aisha Dahir-Umar, said the transfer window that would enable movement of account, the RSA Transfer System (RTS) had been developed.

She stated that pension operators have been directed to participate in an industry simulation of transfer processes and simulations in September 2020. She also said the Commission has initiated the process of reviewing the Pension Reform Act (PRA) 2014, which it said the initiative was to address identified challenges and public clamour. She added that the review is with a view to reposition the Contributory Pension Scheme (CPS) and consolidate the gains of the pension reform for the benefit of Nigerians.

The Nation | 25 August 2020

OUT OF INTERESTS

Indicator of economic growth lifts for the first time in three months

Seven of the nine components improved in June

The SA Reserve Bank's composite leading business cycle indicator increased 2.7% month on month in June, rising for the first time since March. The increase in the June print was largely supported by an improvement in the number of residential building plans approved and new passenger vehicles sold, data from Bank showed on Tuesday.

Seven of the nine components increased in June. The leading indicator shows a projection of SA's economic growth cycle for the next 6-12 months. The indicator is based on a range of components including the number of approved building plans, job advertisement space, BER's business confidence index, manufacturing order volumes and passenger vehicles sold. The indicator decreased 0.7% month on month in May.

Business Day | 25 August 2020

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