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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Living Annuities at divorce – The impact of the Montanari judgement

Introduction

The treatment of living annuities (and resultant annuity income payments) at divorce has been a contentious point of law for years. A recent Supreme Court of Appeal judgement has shed new light on the treatment of an annuitant's right to future income payments for the purposes of calculating accrual. In this article we will assess the impact of this judgment on the future treatment of living annuity income payments at divorce.

The Divorce Act No. 70 of 1979

Section 7(7) of the Divorce Act No. 70 of 1979 ("the Act") provides that a "pension interest" as defined in section 1 will be deemed to be a part of the assets at divorce: *"7) a) In the determination of the patrimonial benefits to which the parties to any divorce action may be entitled, the pension interest of a party shall, subject to paragraphs (b) and (c), be deemed to be part of his assets"* (my emphasis) Section 7(8) of the Act goes on to state that: *"Notwithstanding the provisions of any other law or of the rules of any pension fund – (a) the court granting a decree of divorce in respect of a member of such a fund, may make an order that-*

(i) any part of the pension interest of that member which, by virtue of subsection (7), is due or assigned to the other party to the divorce action concerned, shall be paid by that fund to that other party when any pension benefits accrue in respect of that member;

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(i)(any part of the pension interest of that member which, by virtue of subsection (7), is due or assigned to the other party to the divorce action concerned, shall be paid by that fund to that other party when any pension benefits accrue in respect of that member;

(ii) the registrar of the court in question forthwith notify the fund concerned that an endorsement be made in the records of that fund that that part of the pension interest concerned is so payable to that other party and that the administrator of the pension fund furnish proof of such endorsement to the registrar, in writing, within one month of receipt of such notification…' (my emphasis). If one looks at the wording of section 7(7) and 7(8) it is clear that the non-member spouse is only entitled to a portion of the member spouse's notional benefit if it qualifies as "pension interest" as defined.

It is therefore important that one understands what is meant by "pension interest".
"*Pension interest*" is defined in section 1 of the Act as referring to the benefits to which such member would have been entitled in terms of the rules of the fund if his membership of the fund would have been terminated on the date of the divorce on account of his resignation from his office. Simply put: it refers to a notional benefit that would have been payable to the member spouse had his membership terminated at the date of divorce.

What this basically means is that the member spouse *must still hold a pension interest in the fund as at the date of divorce*. If a resignation benefit had already become payable to him before the divorce, he could not again be deemed to become entitled to a resignation benefit at the date of divorce. ***Full Report:*** ***https://www.fanews.co.za/article/retirement/1357/general/1358/living-annuities-at-divorce-the-impact-of-the-montanari-judgement/29051***

FA News | 13 May 2020

Lockdown learnings for retirement

Trim the fat from regular spending
A volatile financial climate has seen many South African pensioners in living annuities looking to increase their withdrawals to cover current cash shortages. However, retirement income specialist Just advises strongly against this, recommending instead that they find ways to trim their spending, or else they run the risk of their money drying up sooner. If there is one lesson that living under lockdown has taught us, it's that we are able to survive on less. Lockdown has afforded a timely opportunity to understand what regular spending can be considered essential and how this is impacted during the time of Covid-19. This is especially important for those in or approaching retirement, who must ensure that their retirement income is able to sustain them for life.

Cut back on costs

The COVID-19 pandemic has changed the world as we know it. It has sparked an even greater reliance on technology, reduced travel and increased social isolation, especially for people in higher-risk categories such as those over 60.

Here are four key areas where retirees can look to cut back on their spending.

Transport

Until a COVID-19 vaccine is approved and becomes available, ongoing self-isolation is advised for people over 60. This means a likely reduction in vehicle and petrol costs for retirees who can schedule home delivery of groceries and other essential items such as medicines, clothing and homeware. Asking a neighbour or family member to shop for two will also save on delivery costs. With vehicles sitting unused, it may be worth re-evaluating car insurance to take advantage of any premium discounts available.

Food

In addition to the lowered costs of online food shopping which eliminates spontaneous purchases, social isolation has temporarily removed all food-related social gatherings, including going to sit-in restaurants and coffee shops. Even when lockdown restrictions are relaxed, it is likely that people over 60 will choose rather to hold intimate gatherings within their homes, instead of heading out to eat and drink at restaurants or cafés.

Health and entertainment

Lockdown has seen the emergence of a plethora of virtual fitness classes and social get-togethers via video conferencing. Online bridge and group exercise sessions with friends may go on to replace some of the traditional sports and social club gatherings post-lockdown. This should bring down or completely remove the costs of monthly health or social related subscriptions. The replacement of physical entertainment (e.g. cinemas and live events) by technology can also translate to a significant cost savings.

Communication

While the rise of technology usage could be seen as an increased essential cost, lockdown has also increased corporate competition, presenting an opportunity for pensioners to shop around for the best price offerings in terms of Wi-Fi, data and smart technology.

The two pots approach to retirement income

The benefits of cutting back on regular spending now are immediate and palpable. Just's Twané Wessels reminds pensioners that once they've established their essential spending, it is important to consider retirement income in two pots: one pot for essential expenses for life and another pot for rainy days, flexible spending and capital gifts. Regardless of market conditions, she says that a pensioner's approach to retirement income should always be the same: firstly, to ensure that your essential expenses are covered with a guaranteed income for life that targets growth with inflation.

“In a blended annuity approach, a combination of retirement solutions can provide income for life, with flexibility and legacy. Lifetime income gives you sufficient peace of mind and liquidity to fund your essential expenses of day-to-day living and the living annuity assets can be invested to provide higher long-term capital growth,” says Wessels. On some living annuity platforms, it is possible to allocate a portion of your assets to a lifetime income portfolio that pays a guaranteed income into the living annuity to cover essential expenses or to diversify investments. This enables retirees to better match their lifetime income needs to their financial circumstances throughout retirement.

FA News | 13 May 2020

Why retirees should rethink their drawdown

Covid-19 has blindsided us all in some way or other. Retirees don’t only have to be extra careful not to contract the virus; they also have to face up to the serious dent that the stock market crash has made in their retirement capital. Luckily, the government is making some temporary regulatory changes to ease the pain. Retirees whose living annuities (LAs) are invested in balanced funds have seen a decline of about 15% in the value of their capital in the past two months.

And research shows that inflexible drawdown rates can compound the impact of a market crash. Retirees who are already facing cash flow problems might be tempted to increase their drawdown. Conversely, people who aren’t reliant on their LA income may wish temporarily to lower their drawdown rate to preserve capital. In normal times, a retiree may draw down between 2.5% and 17.5% of the capital value of their LA each year. This rate can be changed only once a year, on the anniversary date of the investment.

Recently, the National Treasury announced the following changes:
* The once-a-year rule will be amended to allow retirees to make changes immediately.
* The lower limit will be further reduced to 0.5% to enable those who can afford it to preserve the value of their capital.
* The upper withdrawal limit will be raised to 20% to allow retirees who are in need of urgent funds to withdraw a greater amount. The temporary change in the annuity drawdown rate can be made at any time from May 1 to August 31, regardless of the anniversary date. On September 1, the drawdown rate will revert to what it was originally.

So, should you take the gap and change your drawdown rate?
The key to survival in today’s times is flexibility and the willingness to change. How you respond depends entirely on where you find yourself financially.

* **If you’re not reliant on your LA, reduce!** If you’re in the fortunate position of not being reliant on the income from your LA, I’d strongly recommend that you reduce your drawdown to the minimum of 0.5% to

preserve the capital value of your retirement nest egg. With some luck, this rule will become permanent, because the current lower limit of 2.5% prejudices those who were forced to retire from their pension funds under the old rules. Of course, we all hope that history will repeat itself, and the market will swiftly self-correct. But realistically we could see an extended period of low returns. Permanently changing the lower limit to 0.5% seems the right and equitable thing to do.

* **If you're an early retiree, reduce!** In my previous article I wrote about "sequence of returns risk". We saw that suffering negative returns early on in your retirement is far more damaging than suffering similar returns later in your retirement. If you've just entered retirement, it is vital that you reduce your drawdown rate right away.

* **If you're struggling, don't increase!** If you're not making ends meet on your LA income, I highly recommend that you review all your expenses very carefully and cut back wherever you can. Increasing your drawdown rate should be seen as an absolute last resort. You also have the option of changing your LA into a life (or guaranteed) annuity. which gives a guaranteed income. This can sometimes work out well - but be sure to do your homework. What's more, I'd only want to be in bed with a seriously reputable life company with a strong balance sheet in this climate.

Another change to bear in mind

Previously, smaller annuities with a value of up to R50 000 (where one-third had been taken in cash) and up R75 000 (where no cash amount had been taken) could be withdrawn in full. This threshold has been increased to R125 000 across the board. This change will be permanent. Remember that the withdrawal will be subject to lump-sum taxes if you've already withdrawn more than R500 000 from retirement funds in the past.

The bottom line

If Covid-19 has taught us anything, it is that we have to learn to live with uncertainty - to be flexible and only fret about the things that are within our control. We all need to accept that there's going to be some long-lasting damage to the economy - both locally and internationally. This means coming to terms with the fact that your financial growth is probably going to slow down for the foreseeable future.

Right now, we all need to think carefully about every expense and ensure that our money really does work for us. To navigate these choppy waters, I'd strongly suggest getting advice from a Certified Financial Planner professional, who will be able to look at your situation objectively (but empathetically) and suggest the best course of action.

Personal Finance | 12 May 2020

Hedge fund that never loses bets big on South Africa

ProMeritum Investment Management allocates a fifth of its money to South African government bonds.

A London-based hedge fund that has made gains every year since it was founded, through risky bets including Ukrainian GDP warrants and sanctioned Russian bonds, is now putting its money on South Africa. ProMeritum Investment Management has allocated a fifth of its money — its biggest single holding — to South African government bonds, among the worst performers in emerging markets this year. It's betting on a 15% rally in the next three to six months in response to the South African Reserve Bank's aggressive policy easing and bond-buying in the secondary market.

ProMeritum manages $320 million, and handed investors a 9.6% return last year. Pavel Mamai and Anton Zavyalov, who together founded ProMeritum in 2015, argue that the coronavirus-induced crisis is different from typical emerging-market crises, as the risk of depression is pushing central banks to prioritise growth, while accepting currency depreciation as an inevitable release valve. Some emerging markets have not yet priced in the new reality, notably South Africa, where yields could tighten 150 basis points as bonds benefit from positive carry returns. South Africa's yield curve steepened to a record in May as investors piled into shorter-end securities after the central bank cut its policy rate to a record low.

In dollar terms, however, the bonds have been among the worst performers in emerging markets as the rand's slide to a record low against the dollar in April eroded returns. With inflation slowing and the economy set to contract as much as 6.1% this year, longer-dated debt may rally in coming months, ProMeritum's founders said. "With the National Treasury funding in the short end of the curve, we see significant value in medium to long term government bonds which trade at record steep levels," Mamai and Zavyalov said in a note to clients.

The nation's debt offers the highest yields in the developing world after Lebanon, Turkey and Nigeria, even after yields on the most-liquid 2026 securities fell to a five-year low. Investors lost about 25% this year in South Africa, the second-worst performance after Brazil, according to Bloomberg Barclays indexes. Moody's Investors Service cut South Africa's credit rating to junk in March, triggering the country's exclusion from the FTSE World Government Bond Index that is tracked by about $3 trillion of funds.
Yields on the 2026 securities climbed 8 basis points on Wednesday to 7.84%. The rand fell 0.5%, declining for a third session.

Moneyweb | 14 May 2020

INTERNATIONAL NEWS

State pension UK: Triple lock under threat as 'Treasury considers reform' due to COVID-19

STATE PENSION payments rise each year in the UK, under the triple lock. However, the future of this mechanism has been called into question, amid the coronavirus (COVID-19) crisis.

The coronavirus crisis is having a devastating effect on millions of people's personal finances. During the pandemic, 7.5 million workers have been furloughed under the Coronavirus Job Retention Scheme, and nearly two million new claims have been made to Universal Credit.
According to The Daily Telegraph, a Treasury document has estimated the UK's deficit could reach £337billion this year because of the pandemic. In comparison, the forecast in March 2020's budget came in at £55billion.

The publication said measures including Income Tax hikes, a two-year public sector pay freeze and the end of the triple lock on state pensions may be required. However, a source said the document "does not reflect Government policy". In April 2020, the UK state pension increased by 3.9 percent, with this year's rise being linked to wages growth. The basic and new state pension rise each year under the triple lock mechanism. This mechanism was introduced by the Conservative led coalition Government in 2011/12, however for around 30 years since the early 1980s, legislation has required the basic state pension to rise at least in line with prices (RPI).

This means it increases by whichever is the highest out of the average percentage growth in wages (in Great Britain), the percentage growth in prices in the UK as measured by the Consumer Prices Index (CPI), and 2.5 percent. Andrew Tully, Technical Director at Canada Life has shared his thoughts on the suggestion that the Government may reform the state pension triple lock. According to Mr Tully, some of the potential replacements for the triple lock are: A double-lock, raising state pensions by the higher of earnings or inflation Increasing state pension by a single measure such as earnings or inflation. Mr Tully said: “Recent above inflation increases to state pensions have been a very welcome boost for the many retirees who are looking to balance household budgets.

"However there has been much debate over recent years about the long-term sustainability of the triple-lock. "There is no doubt the commitment comes with a huge cost attached, and this is only going to increase as the number of over 65s in the UK increases. "According to ONS data, by mid 2043, 15.9 million people in the UK will be of pensionable age. “There is also a question of fairness, as the triple lock suggests pensioners’ income is growing faster than the rest of the population and spending on state pension has increased by more than other benefits. "But we need to also recognise the UK state pension is not particularly generous compared to other nations.

"Any changes to the triple lock need to be well thought out and preferably have cross-party support so we have a sustainable long-term policy and people are clear how the state pension remains the bedrock of their retirement income." He added: "The decision in the 1980s to only link the state pension to inflation was seen by many as an attack on pensioners and it would be a dramatic change. "A move to a double lock of inflation or earnings growth would mean state pensions wouldn't fall behind the cost of living or increases in average earnings, and would mean pensioners income should rise in line with the rest of the economy.

"However the savings for Government in moving to a double-lock are more modest compared to a more fundamental change." Steven Cameron, Pensions Director at Aegon commented: "The fall out for the nation's finances of the coronavirus will be significant, and spending priorities for the future may also be different from the past. ***Full Report*:*****https://www.express.co.uk/finance/personalfinance/1281601/state-pension-uk-triple-lock-how-much-increase-2020***

Express | 13 May 2020

Women in lower-grade jobs hit by pension change 'at greater risk of depression'

State pension age changes causing widening health gap between occupations, research finds

Women in lower-grade occupations forced to work up to six years longer because of changes to the state pension age are a third more likely to suffer debilitating, potentially permanent, depression, research has found. The changes to the state pension age (SPA) have also resulted in a widening gap in health between women from different occupations, according to a paper by academics at King's College London.

"Our research is important because we know that worsening mental health will lead to higher healthcare costs, higher use of disability benefits and greater use of health services. Worsening mental health also leads to lower economic productivity and reduced ability to participate in life," said Dr Ludovico Carrino, who co-authored the research paper with Prof Karen Glaser and Prof Mauricio Avendano, also from King's College London.

Published on Wednesday in the academic journal Health Economics, the research is the first in-depth analysis of the impact of the reform on women born after March 1950 in the UK. Carrino and Glaser used data from the UK Household Longitudinal Study to look at 3,531 women affected by the changes in specific employment sectors, comparing them with women unaffected by the changes who were born slightly earlier or slightly later and worked in the same professions.

The jobs with the worst mental health outcomes include housekeeping, restaurant services, personal care, sales, cleaning and jobs requiring the operation of machinery. "We think that our research calls for alternative interventions to help these workers and prevent them suffering these harmful consequences," Carrino said. "For example, policies that could promote flexible working in older age when people are close to SPA, might

help to facilitate transition to retirement.” Almost 4 million women born in the 1950s lost their pensions when the pension age was raised from 60 to 66 between 2010 and 2018. Many women only found out that their pension age had increased when they applied to draw it, or shortly before. The campaign group BackTo60 took the government to court last year. They lost their case but were granted the right to appeal on all grounds and will return to court in July. Michael Mansfield QC, who represented the group in court, said: “The impact on the economic, social and mental wellbeing of these women, who rightly enjoyed a perfectly legitimate expectation of satisfactory provision in retirement, has been devastating.

“The extent of individual distress and hardship is only now becoming evident. It is deeply ironic that all of this is done in the name of equalisation and equality, when the very means employed to achieve this are themselves discriminatory.” A 2018 survey of 20,704 women by BackTo60 found that 60% felt that the level of stress the changes had caused would impact on their longevity, 40% had had feelings of suicide as a direct result of changes to their pension and 12% had engage in self harm. Joanne Welch, of the group, said: “It is no surprise that many women born in the 1950s are depressed and suicidal.

These abandoned women are a subclass, whose wellbeing was sabotaged by the changes to SPA.” A Department for Work and Pensions spokesperson said: “The government decided more than 20 years ago that it was going to make the state pension age the same for men and women as a long-overdue move towards gender equality, and this has been clearly communicated. We need to raise the age at which all of us can draw a state pension so it is sustainable now and for future generations.”

The Guardian | 13 May 2020

OUT OF INTEREST

National Treasury unveils five-year strategic plan

At the end of five years, how much would have been accomplished? Time will tell.

National Treasury can’t be faulted for being under ambitious and too pessimistic when it presented the 2020/25 Strategic Plan (StratPlan) to the Standing Committee on Finance on May 5 – setting out the priorities and service-delivery focus areas for the next five years. Deputy Minister of Finance David Masondo, in the foreword to the StratPlan Report, states that government has committed itself to addressing the “twin challenges of revitalising economic growth and strengthening state institutions”.

He optimistically continues: “We will streamline the system of public procurement, reduce barriers to entry in the financial and other sectors, and incentivise labour-intensive parts of the economy.” Undaunted, he affirms that National Treasury is on track to “grow the economy and reduce unemployment, and re-emphasise Treasury’s plans to support SMMEs [small, medium and micro-sized enterprises]”. Masondo glosses over the

cost of malfeasance, fraud and corruption that has taken place at many state-owned enterprises (SOEs) with a fairly trite comment: "governance challenges will continue to be addressed through appointing the most suitable and qualified office bearers and executive managers."

The StratPlan does not include the impact of Covid-19, and forecasts GDP growth of 1.2% in 2020, 1.6% in 2021 and 1.7% in 2022. This is surprising, as on April 30 National Treasury addressed the Joint Standing Committee and Select Committee on Finance and Appropriations on the financial implications of Covid-19 on both the economy and budget. The address cites the GDP growth per the South African Reserve Bank and the International Monetary Fund (IMF), albeit on the assumption that the lockdown measures are less intense than advanced economies.

The three views:

SA GDP growth estimates

	StratPlan	Sarb	IMF
2020	1.2%	0.2%	0.2%
2021	1.6%	-6.1%	-5.8%
2022	1.7%	2.2%	4%

Structural faults

The StratPlan depicts a graph from the 1960s to 2019, showing the declining economic growth, which somewhat mutes the massive upward spike when Trevor Manuel was finance minister, and the very low point reached in the Zuma years. The "chronically low growth" is explained away by blaming "structural faults in the South African economy, low swings in commodity prices and a depressed consumer and business confidence leading to contractions in private investment and consumption demand". ***Full Report:***
https://citizen.co.za/business/business-news/2284419/national-treasury-unveils-five-year-strategic-plan/

Citizen | 5 May 2020

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