FRIDAY, 8 DECEMBER 2023

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

Two-pot retirement system to start on 1 September 2024

The new date for the implementation of the two-pot retirement system will give stakeholders more time to get their systems ready. The two-pot retirement system will now only be implemented on 1 September 2024 and not on 1 March next year, according to an agreement between the minister of finance and the portfolio committee on finance in parliament. The system will divide members' contributions into two clear categories: two-thirds will go towards mandatory retirement savings, while one-third will be designated for a savings pot, offering the option of annual withdrawals to help with unforeseen financial challenges. Government initially said in 2022 that the implementation date would be 1 March 2024. However, in the lead-up to this year's Medium Term Budget Policy Statement in October, National Treasury signalled a postponement of the implementation date to March 2025 to give the industry and South African Revenue Service (Sars) the opportunity to prepare their systems.

However, the portfolio committee voted recently to move implementation back to 1 March 2024. The industry then expressed its concerns that it would not be ready, but consumers who have been waiting eagerly to access a part of their pension savings were happy that they would not have to wait so much longer. Yesterday, a letter from finance minister Enoch Godongwana was read in parliament that the finance committee approves the implementation of the two-pot retirement system to be postponed to allow all stakeholders to get their systems in place. "To enable withdraws from the savings component at the date of implementation, funds must apply for the correct tax rate for the withholding tax. This would be done through a directive form the Sars. Sars indicated that it needs at least six months after promulgation of legislation to put such a system in place," Godongwana said in the letter.

Industry welcomes the new date for the two-pot retirement system

Michelle Acton, retirement reform executive at Old Mutual welcomed Treasury's announcement that it would move the implementation date to 1 September 2024, which is in the best interest of all stakeholders. "This new timeline offers a balanced window for all involved parties to prepare adequately. We appreciate government's attentiveness to the industry's feedback and commitment to ensure a seamless transition for the two-pot retirement system." She emphasised that the decision allowed Old Mutual, alongside essential partners like Sars, sufficient time to complete necessary system builds and procedural updates. Acton said this was particularly crucial for facilitating early withdrawal claims under the new system, a process dependent on finalising and gazetting the Draft Revenue Laws Amendment Bill and the

Pension Funds Amendment Bill. In addition, she underlined that from the time the laws were gazetted, retirement funds would need at least six months to finalise building the new system and structures required to facilitate withdrawals for members. She said collaborative efforts in this period is very important. “This extended timeframe is a testament to our collective dedication to delivering a well-prepared and efficient system. It ensures we can provide the best service to South Africans who rely on these funds.”

The Citizen | 5 December 2023

Old Mutual embraces the government’s revised timeline for Two-Pot Retirement System implementation

Old Mutual announced on Monday that it welcomed the National Treasury’s announcement that it would move the implementation date for the Two-Pot Retirement System to 1 September 2024, which is in the best interest of all stakeholders. Initially, in 2022, the government had communicated the implementation date as 1 March 2024. However, in the lead-up to this year’s Medium-Term Budget Policy Statement in October, the National Treasury signalled a postponement of the implementation date to March 2025. On 21 November, it announced it would reinstate 1 March 2024 as the implementation date. Michelle Acton, Retirement Reform Executive at Old Mutual, commended the latest positive development. “This new timeline offers a balanced window for all involved parties to prepare adequately.

We appreciate the government’s attentiveness to the industry’s feedback and commitment to ensuring a seamless transition for the Two-Pot Retirement System.” Acton emphasised that the decision allowed Old Mutual, alongside essential partners like the SA Revenue Service (SARS), sufficient time to complete necessary system builds and procedural updates. She said this was particularly crucial for facilitating early withdrawal claims under the new system, a process dependent on finalising and gazetting the Draft Revenue Laws Amendment Bill and the Pension Funds Amendment Bill. Acton underlined that from the time the laws were gazetted, retirement funds would need at least six months to finalise building the new system and structures required to facilitate withdrawals for members.

Acton further highlighted the importance of collaborative efforts in this period. “This extended timeframe is a testament to our collective dedication to delivering a well-prepared and efficient system. It ensures we can provide the best service to South Africans who rely on these funds. Old Mutual remains steadfast in our commitment to implementing the Two-Pot Retirement System effectively and responsibly,” she concluded.

FA News | 5 December 2023

Retirement in crisis: Addressing financial stress among the middle-aged population in SA

AS THE middle-aged population in South Africa faces the looming reality of retirement, the fear of financial stress casts a shadow over their golden years. The dream of a comfortable retirement is under threat for many, and addressing this issue is critical. Research insights shed light on the challenges and potential solutions, offering a path to a more secure retirement.

The current landscape

According to a study by the Association for Savings and Investments in South Africa (Asisa), only 6% of economically active South Africans will retire comfortably. Many people are at risk of not maintaining their pre-retirement standard of living during their retirement years. This alarming statistic illustrates the urgency of the retirement crisis in the country. There are several factors that contribute to financial stress among the middle-aged population:

Inadequate savings:

Several case studies indicate that many South Africans do not save enough for retirement. Contributory factors include low incomes, the informal labour market, and limited access to formal pension schemes.

High levels of debt:

What we also see is that a significant portion of the middle-aged population is burdened by debt, which can eat into their retirement savings. High levels of consumer debt, including credit cards and personal loans, make it challenging to save adequately for retirement.

Lack of financial literacy:

Research conducted by the Financial Sector Conduct Authority (FSCA) found that a lack of financial literacy is a major issue.

Many individuals are unaware of the importance of retirement planning, which results in poor decision-making regarding investments and savings. The average financial literacy score among South Africans was 52 out of 100 in 2020, a trend that raises concerns.

Economic challenges:

The economic challenges facing South Africa, including high inflation, unemployment and slow economic growth, have made it difficult for individuals to secure their financial future. These factors exacerbate financial stress.

Addressing the crisis

The road to addressing financial stress among the middle-aged population in South Africa is a complex one, but there are viable solutions:

Mandatory retirement savings:

Implementing mandatory retirement savings contributions, similar to some of the developed countries, can help bolster individuals' retirement savings. This approach ensures that all workers set aside a portion of their income for retirement. This, of course, could be explored within a South African context.

Financial education initiatives:

National campaigns to promote financial literacy and educate individuals on retirement planning are essential. These campaigns can be conducted through schools, community centres, and workplace programmes.

The companies operating in the financial services sector already have this mandate – it is just a matter of staying committed to the cause.

Debt management support:

The government and financial institutions should provide resources and programmes to help individuals manage and reduce their debt. Debt consolidation programmes and financial counselling can be effective in addressing this issue.

Access to affordable financial services:

Expanding access to low-cost financial services, including retirement savings options, can help individuals who are currently excluded from formal financial systems.

Encourage employer contributions:

Companies can play a vital role in ensuring that employees are financially prepared for retirement. Encouraging employers to contribute to their employees' retirement funds can help bridge the savings gap.

Government interventions:

The government can provide tax incentives for retirement savings, create a national pension fund, and bolster the social security net for retirees.

The retirement crisis among the middle-aged population in South Africa demands immediate attention. The statistics are alarming, and the consequences of inaction are dire.

Personal Finance | 4 December 2023 | Velmah Nzembela

Your investment and retirement questions answered

I'm looking at investing in equity shares, however, I'm unsure of how to start this journey. What are the do's and don'ts to watch out for? Any advice on where to start?

Chrisley Botha, Wealth advisor at PSG Wealth answers:

Beginning your investment journey in equities (or shares) is a great step towards wealth-building. Here are some key dos and don'ts:

Dos:

- Research: Understanding the market, types of shares, and influential factors is paramount. Self-education via reading, courses, or consultations with professionals is highly recommended.
- Diversify: Minimise risk by investing across different sectors and companies.
- Maintain a long-term focus: Successful investors focus on long-term growth, not short-term fluctuations. Be patient, growth can take time.
- Consult experts: Guidance from a financial adviser can be invaluable in achieving your financial goals.

Don'ts:

- Avoid impulse buying: Let your investment decisions be driven by research, not emotions or trends.
- Avoid psychological biases: To build an optimal portfolio, stay aware of counter biases such as loss aversion, overconfidence, and herd behaviour.
- Don't neglect risks: Over-exposure to trending stocks can be risky. Prioritising capital protection is as important as seeking high returns, and a balanced 'risk-reward' approach is essential.
- Don't expect quick profits: Investments grow over time; hasty expectations can lead to disappointment.

- Consider opening a brokerage account with a reputable firm. This allows access to online share trading. If possible, practice with virtual trading before venturing into real money investments.
- Investment journeys are unique, what works for one may not work for another. Educate yourself, start small, and grow gradually. Happy investing!
- I will be retiring within the next three years, and I've managed to save just over R3.5 million over my lifetime. With the two-pot retirement system coming into effect next year, how will this affect my contributions and pay-out?

Richus Nel, Financial Advisor at PSG Wealth, Old Oak answers:

Retirement reforms are sometimes necessary to ensure relevance and improve flexibility. The existing retirement legislation of South Africa currently provides for many things, but not for emergency access without a resignation/retrenchment, etc. Emergency access to retirement funds is earmarked for introduction by 1 March 2024 by way of the suggested “2 Pot system”. The two pots system refers to a 2/3 “retirement pot” and “1/3 savings pot” structure. Withdrawals can be made from the “savings pot” prior to retirement without having to terminate your employment. The suggested system will apply to all retirement fund contributions going forward from the implementation date. 10% of funds accrued prior to the implementation date can be transferred to the savings pot as seed capital, to a maximum amount of R25 000.

Withdrawals:

Funds accrued prior to implementation date will still be subject to the current retirement regime. This is sometimes referred to as a separate third pot. Vested and non-vested rights arising as a result of the annuitisation reform which came into effect from 1 March 2021 will be retained in this third pot which means that retirement interests in provident and provident preservation funds prior to 1 March 2021, will still be available for 100% withdrawals in lump sum at retirement, and taxed accordingly. One withdrawal a year can be made from the “savings pot”. The minimum amount that can be withdrawn is R2 000 and there is no set maximum. Withdrawal from the “savings pot” will be added to your taxable income and taxed at marginal income tax rates.

The 2/3 retirement pot is compulsory for retirement funding and must be invested to provide a retirement income in the form of an annuity (a living annuity or a guaranteed life annuity, or a combination thereof). Note that the legislation is still in the development phase and further changes are possible.

I’m going on maternity leave soon and found out that the institution I work for has a 6-month work-back policy after the maternity leave. I don’t feel comfortable with this policy and am considering resigning and relying on my pension pay-out to support me while I find other employment after our child is born. What is the best way to manage this lump sum of money during this period so that I don’t use all of it or potentially run out before I find a job again?

Alexi Coutsoudis, Wealth Adviser at PSG Wealth, Umhlanga Ridge answers:

Congratulations on your upcoming arrival! While the maternity policy may come as a surprise, it’s crucial to grasp the implications of accessing your pension fund prematurely. Withdrawing the funds will result in withdrawal tax as well as a reduction in your tax-free lump sum at retirement (currently R550 000). Experts generally advise against cashing in your retirement savings when changing jobs as it’s challenging to replenish your retirement account, which in turn can lead to a decrease in your retirement income and pension.

If you decide to withdraw the funds, it's expected that you'll utilise them within a short-term period, probably less than a year. To mitigate market risk, consider investing in a high-yielding savings account or a money-market linked collective investment scheme. This approach guarantees an interest rate linked to inflation throughout your maternity leave and until your return to work. Any remaining funds should be reinvested into your long-term retirement strategy. To ensure you don't run out of money, estimate the duration of your job search and plan accordingly. For instance, if you have R60 000 in net proceeds and anticipate a six-month job search, restrict your monthly withdrawals to R10 000. Keep in mind that accessing your pension fund has long-term consequences, so carefully evaluate your options and seek professional advice from a Certified Financial Planner® to make well-informed decisions about your financial future. It looks like winter is going to be quite a wet one in Cape Town this year and I'd just like to know whether my insurance covers me adequately for something like a water leak at my home. Can you help?

Karen Rimmer, Head: Distribution at PSG Insure answers:

The short answer is yes, your homeowners insurance will cover you for something like a sudden and accidental leak. But when it comes to leaks that could have been avoided by proper maintenance, this is where things get difficult. One of the most common mistakes that homeowners make heading into the colder seasons is failing to perform maintenance checks and duties like checking that roof tiles are secure and cleaning all gutters to allow for the free flow of water. This is one of the factors that insurers will look into when considering claims related to water damage. Failure to produce proof that you have made efforts to maintain and repair your roof when needed, may lead to your claim being repudiated. If you need any further advice on the subject, your insurance adviser can help ensure you have the cover you need.

Personal Finance | 4 December 2023

Rethink your hedge fund gameplan

The Springbok's recent win at the 2023 Rugby World Cup showed everyone that saving one's side from a sure try has just as much value as scoring one. Their valiant defensive efforts ensured that the Boks took home the trophy for the fourth time. It's much the same in investing – it's not only about what you make, but also about what you keep. In the dynamic world of investments, hedge funds have emerged as crucial players, analogous to a team's formidable defence on the rugby field. A resurgence in hedge fund interest has been sparked by factors such as increased accessibility and the uncertain equity landscape. This resurgence prompts investors to rethink their gameplan and consider incorporating hedge funds into their strategies. The strong performance and unique strategies offered by Amplify Investment Partners' hedge funds have enabled it to grow hedge fund assets from R1.4bn to R4.5bn in almost four years, head of investor relations for Amplify, Emma Pretorius says. "We strongly believe you need to blend hedge funds, as a lot of the risks associated with hedge funds can be mitigated by blending. Our funds range from cautious to aggressive, from long-short equity to fixed income and multi asset, enabling us to provide investors with a one-stop shop," she says. The funds all have different strategies, play on different parts of the yield curve and have low correlation to each other, which makes them ideal for blending. Hedge funds are providing significant protection as markets become increasingly volatile.

Most investors were expecting rampant inflation and recession in major global markets just a short while ago, only to find that they have to quickly rethink their strategies and positioning. Risk management has become increasingly challenging for fund managers as volatility only seems to increase with geopolitical events and swings in inflation, interest rates and economic growth. Hedge funds can help to smooth the ride. Adding hedge funds to a portfolio provides investors with exposure to uncorrelated returns to traditional equity or bond portfolios, and with reduced risk. With the ability to take long and short positions, and use derivatives, hedge fund managers have additional capabilities to enhance defensive play, to keep the risk low, to not lose, and to be in the position to go for the try.

Amplify's hedge fund range includes a cautious range of four fixed income funds as well as a market neutral fund with low correlation to each other as well as market indices such as the ALSI and ALBI and various Association for Savings and Investment South Africa (ASISA) categories, which would make this blend a perfect complement to a traditional portfolio. Pretorius says the cautious blend presents less risk than the ASISA MA Low Equity category, but basically double the returns. It has comfortably outperformed CPI plus 3% and plus 4% and has experienced significantly less drawdowns than low and medium equity category averages. By reducing portfolio volatility and mitigating large portfolio drawdowns, you need to work significantly less than the investor whose portfolio suffers large losses and consequently has to work exponentially harder to simply break even. To put it concisely, you are winning by not losing.

FA News | 5 December 2023

INTERNATIONAL NEWS

De-risking gains in importance for pension schemes approaching endgame

De-risking towards endgame has increased "significantly" in importance for pension schemes over the last 12 months. According to the latest findings from Russell Investments' UK Defined Benefit (DB) Market Insight study, 56% of respondents identified it as an investment priority, an increase of 11% compared to Russell Investments' first DB market study in autumn/winter 2022. Improving or maintaining funding levels (56%) and managing market risk (53%) also remain key priorities. An increased number of schemes also identify the importance of reducing pressure on their sponsors (30%) and addressing leverage and collateral issues (27%).

Schemes with more than £1bn (€1.16bn) of assets appear more focused on leverage and collateral (37%), as well as on increasing liquidity (31%) and improving diversification (29%) than their smaller peers. However, the study found that despite the improved funding positions that many DB schemes now find themselves in, 35% are still undecided on their endgame objective. For the majority who have decided on their long-term target, buyout (38%) remains the most popular option, while runoff or low dependency strategies (21%) are also being considered. Just 5% of schemes have changed this target in light of funding improvements over the past year, with much more focus on being on the timeframe to reach it. The study found that 30% of pension schemes are working towards endgame within a shorter timeframe but there are more challenges in their ability to adjust asset allocations and access to buyout solutions.

Russell Investment surveyed 107 UK DB pension schemes between September and October 2023, with respondents representing a total of over £250bn of assets under management. Around half of respondents were responsible for more than £1bn of assets. Simon Partridge, head of UK fiduciary management at Russell Investments, said: "DB schemes are having to rapidly accelerate their efforts and planning as significant improvements to funding levels over the last twelve months put many much closer to endgame than they would have previously anticipated." He added that this does bring challenges, with "legitimate questions" being raised over the capacity of providers to satisfy the increased demand for buyout solutions.

IPE | 4 December 2023

Canadian pension giant warns against UK plan to push schemes into private equity

Head of CPPIB says key to success of fund's model is 'freedom to invest wherever we see the best chance of returns'

The head of one of the world's biggest pension funds has said UK retirement plans should not be told where to invest their money, as the government sets out plans to funnel more cash into unlisted assets and early-stage companies. John Graham, president and chief executive of the Canada Pension Plan Investment Board, which has C$576bn (£337bn) in assets, told the Financial Times he was opposed to "any constraint on portfolio construction" or "any influence to invest in a specific asset class or a specific part of the market". His comments come as the UK government tries to increase returns for long-term pension savers and unlock an additional £75bn from retirement plans for investment in high-growth businesses.

In last month's Autumn Statement it announced it will revise guidance to the £360bn Local Government Pension Scheme (LGPS), setting a new goal to double its allocation to private equity to 10 per cent. The government also supported an agreement announced in July — the so-called "Mansion House" compact — between nine of the UK's largest defined contribution pension providers representing more than £400bn in assets. This committed them to allocating 5 per cent of the assets in their default funds to unlisted equities by 2030. However, some schemes said the higher costs of investing in unlisted companies could push up their own fees and deter investors. Nest, the UK government-backed workplace pension fund, said it preferred proven business models to early-stage venture capital. Huge pension funds in Canada and Australia have been held out as examples that UK schemes could follow to improve returns.

Graham said the key to the Canadian model has been its "governance, scale and a return-focused mandate that gives us the freedom to invest wherever we see the best chance of returns. "There is no asset allocation or security selection being done from outside of the organisation," he added. CPPIB — which is independent of the Canada Pension Plan, whose assets it invests — has a large in-house investment team and operates at arm's length from federal and provincial governments. Since being set up in 1999 with just C$12mn (£7mn) in assets, it has grown rapidly. While it does not publish its returns since launch, over the past decade it has delivered annualised returns of 9.6 per cent. Graham said its size had been "a tremendous advantage", adding: "Scale provides access to the world's best managers, opportunities and talent." CPPIB is one of the world's largest investors in private equity, which has been an important driver of returns.

It invests with external managers and also invests directly in private companies in North America and Europe. Among CPPIB's holdings are large investments in the funds of US firms Blackstone and Apollo among others. It is also invested in assets such as German media company Axel Springer and Merlin Entertainment, the owner of sites including Legoland and Madame Tussauds. "People invest in private markets because of returns, they don't need to be mandated if they have the right governance," said Graham. He added that the UK government needed to promote a stable environment for investors in order to encourage foreign flows into the country.

This week UK Prime Minister Rishi Sunak hosted more than 200 executives at the Global Investment Summit in London, including Blackstone boss Stephen Schwarzman, Goldman Sachs chief executive David Solomon and JPMorgan's Jamie Dimon. Sunak highlighted nearly £30bn of long-term investment pledges by international companies. Graham said: "If you want more private investment, you need stability. We like to see governments around the world creating a stable regulatory and tax regime that facilitates long-term investment."

Financial Times | **3 December 2023**