MONDAY, 2 NOVEMBER 2020

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

What to do with your 1/3 lump-sum retirement annuity payment

When you retire and your RA (Retirement Annuity) matures, you can withdraw a maximum of 1/3 of it as a lump sum. Werner Vlok, Business Development Manager at Glacier by Sanlam, discusses the options you have with this lump-sum amount to secure your finances into retirement.

Does my RA actually mature?

A common misconception is that your RA 'matures' when you turn 55, but this isn't strictly the case, as Werner explains: "An RA does not have a maximum retirement age, so you are not forced to retire from your RA. You can keep it until the day you decide to retire after the age of 55. You can even keep it after you've formally retired from your job. You don't ever have to retire from an RA if you don't want to." Naturally, there are benefits to leaving your RA to grow until you retire at, say, age 65. "It's best to keep that saved as long as possible for the capital to grow, to supply you with an income for when you decide to retire," adds Werner.

The rule of thirds

RAs are governed by the Pension Funds Act, and because you can enjoy tax breaks on your contributions, there are rules the RA adheres to. The rule most applicable when retiring from the RA is that you aren't allowed to withdraw more than 1/3 of the total amount as a cash lump-sum. For example, if your RA's total balance stands at R3 million, the maximum you're allowed to withdraw any time after age 55 is R1 million (1/3). The remaining R2 million (2/3) needs to be reinvested into a retirement income product.

What to do with your 1/3 withdrawal

You could choose to reinvest the entire sum of your RA into a retirement income product, but Werner notes that there are also advantages from a tax-savings perspective (depending on your marginal tax rate in retirement) to look at other options for where to invest your first R500 000 tax-free portion, or at least some of it. "If you invest this portion in a discretionary investment, such as a unit trust investment plan, for example, although you'll be liable for capital gains tax when selling units, you won't pay income tax on any money withdrawn from this investment," he explains.

"However, you will pay income tax on the income drawn from a retirement income product such as an annuity. "You'll be exposed to market movements in a unit trust investment, whereas the portion in the retirement income product (if you've selected a life annuity) is protected from market volatility. So, there are choices to be made, which is why we always advocate getting proper advice. A qualified adviser will look at your overall financial, as well as your tax, position and help structure your portfolio accordingly." At Glacier, retirees have the option to buy a life annuity as a voluntary purchase – in other words, take your

1/3 and buy a life annuity product with it. “This is designed with risk-averse clients in mind, and is also a tax-friendly option,” says Werner.

Options for your 2/3 reinvestment

The remaining 2/3 of your RA cannot stay in the RA and needs to be reinvested to secure your long-term income for retirement. This means there’s less flexibility than you would enjoy on your discretionary 1/3 withdrawal. You cannot touch this money, no matter your age, except for when you draw down your regular monthly income. “One usually plans for a term of 30 years,” says Werner. “Together with your financial adviser you’ll need to decide on a retirement income product - these are mostly living annuities or life annuities. A combination of these products is also a very attractive option as each product has its own strengths and weaknesses and combining them should give you a better outcome over your retirement journey.” With these, your drawdowns will be subject to tax according to the marginal tax table. “You get taxed on your monthly income as if it’s a salary,” says Werner.

Is there a middle ground?

“It’s good to have money both in retirement income products, as well as in non-retirement products,” shares Werner. Drawing from both of these means the tax burden of your retirement income product isn’t felt as harshly on your finances. “Say, for instance, you’ve invested R2 million in a living annuity, and you start drawing an income of R20 000,” suggests Werner. “That puts you in a specific tax bracket (a 26% marginal tax bracket).” If you lower your drawdown rate to as little as R12 000 and supplement that with non-taxable drawdowns from your discretionary investment, you draw less from your annuity, saving you tax:

	Living annuity drawdowns	**Discretionary investment drawdowns**
	Taxed at 26%	Taxed at 0%
Scenario 1	R20 000	R0
Scenario 2	R12 000	R8 000

Deciding what to do can be quite complex and, therefore, we always advocate to talk to a qualified financial adviser to assist you with these decisions,” he says.

FA News | 27 October 2020

Don’t make costly assumptions about who gets your assets if you die

Momentum experts clear up the confusion around what your will covers and what it doesn’t this National Wills Week

You’ve made the effort to get an executable will in place, but are you all sorted in terms of knowing who will get what? Not necessarily. Unfortunately, it’s not that clear cut. Many of us confuse how our assets will be distributed through our will, with the distribution of death benefits from our company sponsored retirement fund – often assuming that our death benefits fall within the scope of our will. But the two are treated very differently when we die. As National Wills Week kicks off on 26 October, Nashalin Portrag, Head of FundsAtWork, an umbrella retirement fund sponsored by Momentum Corporate, and Jeffrey Wiseman, CEO of Momentum Trust clear up the confusion and explain why it’s crucial – for the sake of your loved ones left behind – to understand the difference.

What happens to your retirement and death benefits?

Portrag explains that it’s not your will that determines who receives your retirement and death benefits, but rather the trustees of your retirement fund. Section 37C of the Pension Funds Act governs the distribution and payment of lump sum benefits paid on the death of a member of a pension fund, provident fund, pension and provident preservation fund and retirement annuity fund. “What this means is that you need to specifically nominate the beneficiaries and dependants you want to receive your benefits and inform your retirement fund and/or insurer of your choices.

This is usually done on a ‘beneficiary nomination form’ that your employer or retirement fund will provide, which you need to regularly review and keep up to date,” says Portrag. And even then, Portag says that the beneficiary and dependant nomination is a guideline and not necessarily how your benefits will be distributed. “Section 37C makes it the duty of the retirement fund trustees to allocate and pay the benefits in a fair and equitable manner,” says Portrag. “If the trustees cannot trace any dependants within 12 months of the member’s death, and there are no nominated non-dependant beneficiaries, the death benefit will be paid into your estate.

Unfortunately, this means it loses value because estate duty and executor’s fees will be paid on the amount,” Portag points out. He adds that if the estate has not been registered with the Master of the Court in terms of Section 9 of the Estates Act, the proceeds will be paid to the Guardian’s Fund or Unclaimed Benefits Fund. “This could have devastating consequences for the dependants of deceased members who may be unaware of the benefits and struggle financially after the main income earner passes away,” says Portrag.

It's also important to understand the differences between approved and unapproved death benefits

Portrag explains that employers provide death benefits for employees through group life cover with their retirement fund or through an insurance policy in their (the employer's) name. "If the benefit is provided through the retirement fund, it is known as an approved benefit. If the benefit is provided through a policy in the employer's name, it is known as an unapproved benefit," says Portrag. He says that approved benefits are paid out with input from the trustees, taking the member's beneficiary information and dependants into account. Unapproved benefits are paid out, according to policy conditions, based on the member's beneficiary nominations.

The trustees have no say in the distribution of unapproved benefits. These two types of benefits are also taxed differently. Portrag reiterates the importance of having an up-to-date beneficiary nomination if you are a fund member. "This is basically the list of dependants you want to share your death benefits. Nowadays the beneficiary nomination and updating process for members on top retirement funds is an easy, streamlined online process involving a few clicks, taps or swipes within a secure digital space.

From employee benefits to personal assets, don't forget about the rest of your estate

One of the most important components of a will includes a list of your assets and instruction on who those assets will be given to in the unfortunate, yet inevitable, event that you pass away. One should remember that the abovementioned retirement funds will be considered one of these assets. Yet, even though it remains important to have your beneficiary ducks in a row when it comes to your retirement funds, the rest of your assets will likely rely on your will, and your will alone, to determine what should happen with them. According to Jeffrey Wiseman, CEO of Momentum Trust, by appointing a qualified executor you can ensure that your estate ends up in the hands of your loved ones as you always intended it to.

Wiseman says that, "We tend to see issues when clients place executorship in the hands of a loved one who doesn't understand the nuances and challenges that come with this responsibility." If you don't don't have a will in place at all an executor will be appointed by the High Court. The estate will be administered in terms of the Intestate Succession Act, Act 81 of 1987, which sets out who inherits your assets. Wiseman says these heirs may be different to those you would have wanted to benefit. Your will is the other essential instrument for the distribution of your assets to your loved ones. And according to Wiseman, this requires a sound financial plan to be in place.

He says, "It's critically important, perhaps now more than ever, to ensure that you have a plan in place that ensures the wishes in terms of your will are actionable. To ensure your will is actionable, financial planning needs to be conducted with a financial adviser." If you don't have a solid plan, and your financial situation becomes insolvent, Wiseman says an insolvent estate with no provision made for settling debts upon your death will see all your assets like your house and car sold to repay your debts before your loved ones can inherit anything.

“Give your loved ones the peace of mind knowing that there will be enough money available in your estate to cover administration costs, your will is safe, and that any amount not used will boost your estate instead of being lost to fine print. Also remember to keep your beneficiaries up-to-date and tell your family about the employee benefits they should be eligible to claim should you pass away. Whenever you have doubts, know that there are financial advisers out there ready to give you the advice and direction you need to protect your legacy. ” says Jeffrey Wiseman.

FA News | 27 October 2020

Retirees: over-exposure to cash-like investments risks disappointment

The expected returns from cash, near cash and income funds will be significantly lower for the foreseeable future.

Retired investors who rely on drawing an income from their investment portfolio, but also need protection against inflation, could be setting themselves up for further disappointment if they are over-exposed to cash-like investments. Since the beginning of 2016, close to R75 billon has flowed out of multi-asset class funds with low- or medium exposure to equities. That equates to a withdrawal of about 25% of the assets invested in these more conservative balanced funds. And the pace of withdrawal has been accelerating, even during 2019 when these funds delivered good performance.

The Covid-19 lockdown shock added to risk-aversion, causing more investors to reduce the level of risk in their portfolios. Meanwhile, about R130 billions of net new money was invested in managed income and bond funds over the same four-and-a-half-year period. Another R150 billion was invested even more conservatively in money market and cash plus funds. The net outcome is that many retirees are more conservatively positioned than is justifiable when applying textbook theory. This is especially concerning given the collapse in cash yields since March this year.

Return gap prompts shift into cash-like investments

So why has there been a such a significant move out of more conservative multi-asset funds? The shift to cash-like investments is simply an understandable response to disappointing historical performance delivered by these funds. Investors expect to be rewarded for taking on additional risk, with many of the more conservative funds targeting annual returns of inflation plus 3% to 4%. This translates to a return target of around 9% over the past five years. Given the weak state of the local economy, the local equity and property markets performed poorly over the past five years, with annual returns of less than 4% per year and minus 15% per year respectively. While the more conservative multi-asset funds did better, by on average eking out positive returns of around 5% per year in the recent past, a return gap emerged.

These funds also underperformed money market and managed income funds, that on average delivered a little more than 7% per year. The return gap for conservative multi-asset funds was therefore around 4% per year when compared with target return; and 2% per year when compared with money market and managed income funds. Many investors responded to this gap by switching to managed income and even more conservative cash-like funds.

What investors should remember, however, is that an extended period with no reward for risk is unusual. While managed income funds performed better or the same as the conservative multi-asset funds in three of the past five years, this outcome is not the norm. Looking at the previous five years (2010-2014), the multi-asset funds with larger risk budgets delivered better returns than the income funds in four of the five years. Over this period, these funds returned 10% to 11% per year, more than double the recent experience, while the managed income and cash funds returned a similar 7.2% per year.

Expected returns from cash, income funds to fall

You may rightly think that we can't plan for the future by looking only in the rear-view-mirror. While we do not know whether the reward for taking additional risk over the next five years will be more like the past five years or the early 2010s, there is one datapoint that there can be no dispute on. This is where we think the biggest risk lies for many retirees, given how conservative their investment portfolios are positioned. The Covid-19 crisis this year has resulted in a dramatic and unprecedented steepening in the yield curve. Longer-dated government bonds trade at historical highs, with for example the 15-year bond yielding around 11% compared with 9.6% a year ago. At the same time, cash yields have fallen from 6.5% a year ago to 3.5% today.

The net result is that the additional annual yield paid by longer-dated bonds compared with cash has increased to around 7% now from 3% a year ago. While the higher long bond yields are attractive, they are not without risk, as it reflects the market's concerns about the sustainability of government's finances. If these concerns were to grow, yields could rise further, resulting in capital losses for existing bondholders. However, what we can say with certainty is that lower cash rates mean that the expected returns from cash, near cash and income funds will be significantly lower for the foreseeable future than the 7% plus that was realised historically. This argues strongly for the judicious introduction of riskier assets in retirement-funding portfolios. **Full Report:** ***https://www.moneyweb.co.za/mymoney/retirement/retirees-over-exposure-to-cash-like-investments-risks-disappointment/***

Moneyweb | 27 October 2020

Don’t give up on your retirement fund just yet

The tax benefits of a retirement fund could potentially compensate for any outperformance that might be enjoyed by increasing your offshore exposure in a non-retirement fund investment

As most investors now know, the last 10 years have certainly not been the decade of seeing the kind of returns we were used to from South African growth asset classes like equities and listed property. At the same time, global equities especially in rand terms have completely dominated traditional SA Regulation 28 retirement funds. If this was not bad enough the prospect of prescribed assets for retirement funds has provided even more anxiety. All this within an uncertain economic landscape. Within the context, as a financial advisor, I have been facing questions such as; “should I reduce my contributions to my retirement fund?; “Should I stop contributing completely to my retirement fund?”; “Should I try where possible to ‘cash-in’ my retirement fund, pay the tax and take the net proceeds offshore?”

These are all tricky questions to handle as most are emotionally presented because of the context mentioned at the start of the article. Before you completely capitulate, it is worth looking at some of the facts of this argument. This debate was recently aired in a webinar hosted by Ninety One where they went through the pros and cons of the different choices a client might make, but I have decided to focus on the questions as they pertain to retirement funds for this article. The cold facts behind this debate are that the tax advantages of retirement funds still make them incredibly powerful savings vehicles. They are subject to Regulation 28 of the Pension Fund Act.

This regulation is designed to protect retirements savings against imprudent exposure to having too high a weighting to riskier asset classes, including offshore assets. In particular, this offshore “protection” has frustrated local investors of late with local returns lagging offshore returns quite substantially. Research though provided by Ninety One’s deputy managing director Sangeeth Sewnath has presented that the tax benefits alone associated with a retirement fund could potentially compensate an investor for any outperformance that might be enjoyed by increasing your offshore exposure in a non-retirement fund discretionary investment.

In his research, which looked at a 30-year investment and drawdown cycle, consisting of a 15-year phase of contributions and a 15-year spending phase, converting the consequent savings into a living annuity to draw an income. His calculations demonstrated that an unrestricted discretionary investment would need to outperform a Regulation 28 compliant retirement fund portfolio by approximately **2.5% p.a.** over the full 30-year period to leave your investment better off. Consistently generating this kind of additional return is certainly a tough ask. Additionally, and often neglected, upon passing away, associated fees and taxes can have a huge negative impact on the remaining value of a discretionary portfolio compared to a retirement product which largely escapes these.

So before taking the irreversible plunge of trying cash out your retirement fund, it might be time to think through this with a cool head. If one decides as an example to withdraw 100% of your preservation fund and invest the proceeds in an offshore investment, the withdrawal tax tables can significantly reduce the net amount available for the offshore investment. Say your preservation fund has a value of R5m, the taxes lost on full withdrawal would be a staggering R1.7m. This is equivalent to starting with the new investment with a 34% loss on day one!

Moneyweb | 27 October 2020

Lockdown forced many to dip into retirement savings to make ends meet

The report also indicates that 49% of respondents have no retirement plan at all: Chris Eddy from 10X Investments

NOMPU SIZELA: Investment manager 10X released its third iteration of the Retirement Reality Report. Previous reports have highlighted the fact that the vast majority of working South Africans are not putting themselves in a position where they'll be able to retire comfortably. And this year, with the economic impact of the Covid-19 pandemic, the outlook has further worsened. Well, to tell us more I'm joined on the line by Chris Eddy. He's the head of investments at 10X. Thanks very much, Chris, for joining us. So, what were some of the key findings from this year's Retirement Reality Report?

CHRIS EDDY: Thank you very much, Nompu. I think the 2020 report additionally revealed – and just for context it's the third year that this report has been running – that the retirement crisis situation for many South Africans hasn't really evolved through time. If you look, going back all the way to 2013, about 6% of South Africans are able to retire comfortably. And, when we say "retire comfortably", we mean maintain the standard of living that they had while working, in retirement. Some of the stats were estimated by National Treasury. And what the report this year showed is that only 6% of respondents said that they had a plan that they were confident in executing which would see them to retirement.

So you can see some sort of corroboration of that statistic .I think the scary part is that 49% of respondents said, "I actually don't have any plan at all". To give you context, the survey tracked the lifestyles of about 15 million economically active South Africans whom the sample looked at. When we are talking about "economically active", we're talking about household incomes greater than R8 000, because we were tracking a large universe of South Africans. So it's quite scary to see that only 51% have some sort of plan. And, out of that, only 6% are really confident that it will get them to retirement.

NOMPU SIZELA: Not good at all. It does seem that the Covid-19 experience has really exposed South Africans in terms of not saving for a rainy day. I speak in terms of those who have means, as we know of course that there are millions of people in the country who don't.

CHRIS EDDY: Certainly. And I think that it potentially provides some sort of window into the future of being in a situation where, when you get to retirement, and you are no longer earning an income, you could find yourself without sufficient savings to get you through that period. So this could be a bit of a preview of what many South Africans may experience if they don't take active decisions today to try to change that outcome. I think one of the biggest key takeaways from the report is that there seems to be a massive disconnect between different expectations of South Africans.

To give you a bit of a bit of an insight into that, about 75% of South Africans were not sure whether they would have sufficient savings to retire on – so there is that concern about potentially not having enough money – and 77% also responded saying that they think they'll have to continue earning more money. So there's a large portion of South Africans saying: "We don't think we're going to have enough money saved up to support ourselves." But, at the same time, 68% of respondents said that they expect to maintain the same standard of living when they hit retirement.

So this is massive disconnect between understanding that potentially there's not enough provision made to support one's lifestyle, and not knowing how that feeds through into impacting their lifestyle when they are in retirement. So I think that massive disconnect is part of the concern and the problem, and it really talks to many South Africans not really being engaged with the process and thinking what the key drivers are to getting myself towards retirement..

NOMPU SIZIBA: Yes. Do we know some of the reasons why people say they they've struggled to save for retirement?

CHRIS EDDY: We looked at those people who have a plan and those people who don't have a plan. Of the people who don't have a plan, we know that [with] incomes in South Africa, many people can't afford to save. And 56% said they just can't afford to plan, because they don't have enough money left at the end of the month. Quite staggering, really, that there are about 50% that just said it's not a priority for them at this stage of their life, and another 18% said they're not planning on retiring. So if you unpack those two a little more, of those who said they're not planning on retiring, in the South African context that is probably not a great assumption to be making relative to the population of South Africa, with many people entering a working age or between 15 and 25.

And it would be quite difficult, given the population dynamic, I think, for a lot of people closing on retirement age to really defend their job relative to the population dynamics. So most people don't have that option of continuing to work through retirement. I think, from those who just said that it's not a priority at this stage of their life, a lot of us in the industry potentially may understand the impact of compounding returns over the long term. But to give you context and an understanding of that impact, let's say, for instance, an individual has a plan when they save for 40 years, and that plan replaces 60% of their final salary. If they shorten that period down, and only save for 25 years, contributing the same amount of money, investing it the same

way, they are only going to replace about 30% of their final salary. So you can see what a massive impact those first 15 years have. Alternatively, if they are looking to save for only 25 years, they're going to have to save double what they would have over 40 years, which would certainly have an impact on lifestyles that one may or may not have been accustomed to.

NOMPU SIZELA: That's right. Now, given the negative impact of the pandemic, what feedback or anecdotal evidence do you have around people having to tap into their pension savings prematurely in order to survive? That is a very tricky place to be, because natural human instinct is to think about one's immediate needs as opposed to one's long-term needs.

CHRIS EDDY: Certainly. I don't think the full effect of having to tap into pensions would have been covered within the survey, because the questions were posed to South Africans. We might see a little bit more of that in next year's edition as the impacts of the lockdown and Covid-19 really are felt by South Africans. But I think you raised a very good point in terms of when you are faced with a tricky situation and you potentially have this pension pot available, and you can see that maybe you can access it and get this lump sum of cash right now, that really is very, very attractive to most people. I think that's because retirement is often not a tangible thing – thinking about 30 years or 20 years away. It's quite difficult to really understand what impact cashing in one's pension today will have. And that does talk to not being engaged in the process, not knowing whether you're on track, and not knowing what the decisions you take today will have on your final outcome.

Moneyweb | 26 October 2020

How to leave a legacy that lasts…and lasts…and lasts…

Baby boomers in the United States are expected to hand down more than US$ 30 trillion in the next few years. This is widely being referred to as the greatest wealth transfer in history and rightly so. But what is inter-generational wealth, really, and where did it start? Well, that depends on where you are and who you ask. Typically, a wealthy family doesn't come out of nowhere. It starts with one generation that works through hardships and difficult conditions to earn a living and push the next generation forward. The second generation may have sufficient access to education to complete their schooling career and move to better jobs than their parents.

The third generation completes their tertiary education and moves on to high-earning jobs in management positions. So, historically, the legacy left by parents has been that of education. "However, South Africa has now matured to the point where the third generation has either created high net worth (HNW) families, preparing to pass down wealth to the fourth and fifth generations; or the third generation has accessed tertiary education and moved to a position of wealth creation for future generations and while this wealth will certainly include education, it also encompasses property, valued assets and significant wealth typically

handled via instruments such as testamentary trust funds," says Linda Sherlock, Executive Head: Wealth and Business Development at PPS.

What are the concerns around inter-generational wealth?

The Standard Bank 2020 research of HNW individuals confirms that leaving an inheritance to family is a priority, and concerns include:

- Choosing appropriate heirs
- Loss due to inheritance tax
- That children won't be "ready" to receive the inheritance because they are not financially savvy/responsible Sherlock explains that at PPS, the term "inter-generational wealth transfer" refers to the process of creating, managing, and preserving your wealth for your beneficiaries to assist them with support towards their desired lifestyle.

Creating wealth

When you are in the process of creating wealth, you need to start planning ahead to ensure that you are able to transfer wealth and leave the legacy that will help to create the bedrock from which future generations can build. Sherlock suggests you start by: Ensuring your heirs are emotionally ready and financially mature by the time they reach the age at which they will access their inheritance. Educating your children from an early age about money will help them to make much smarter money choices and will go a long way towards making sure that wealth is preserved from one generation to the next. Financial education can be achieved by having the right conversations at the right time.

Don't let money be a topic you shy away from. Leading by example. Do your children know what's important to you, why you're working so hard or what your purpose is? If not, you won't be able to pay it forward. "According to the Williams Group family wealth consultancy, 70% of wealthy families lost their wealth by the second generation and 90% had lost it by the third generation. This does not have to be the case. Get your children and heirs involved in what you do and include them in your decision-making process so that they learn how to make wise decisions when managing their own money.

Protecting your wealth

You've spent a lifetime building a financial legacy for your family. Protecting your wealth means you also have to take into account the taxes that fall due on your death. The last thing you want is for your assets to be sold to cover costs such as estate duty. Make sure you have sufficient risk cover to settle any outstanding debts and that you have liquidity in your estate to cover your "death taxes". "At this stage, you want to consider how to protect your wealth to ensure sustainability for your beneficiaries and future generations. Ideally, you should be talking to a trusted wealth manager who can help guide you in terms of the investment vehicles and strategies that would be suitable," Sherlock says. These are some key tips she suggests:

Reduce your tax: structure your estate in such a way that your estate is liable for the least amount of tax.

Use a testamentary trust: The most common way to do this is to create a trust, as a trust cannot pass away. This means the assets do not form part of your estate, which has the net effect of decreasing the value of your estate for estate duty purposes. “This is a great tool, especially for clients with dutiable estates larger than R30 million. The beneficiaries can be nominated in the trust and trustees can be appointed to manage the assets properly and to ensure that the beneficiaries are taken care of,” Sherlock says. She adds that the trustees can act as mentors. You can use the trust deed to dictate the age at which a beneficiary can receive their inheritance from the trust. “This will ensure that the inheritance is paid to your beneficiary when they are “ready” to manage the funds/assets properly. You can even make it a condition in the trust deed that the beneficiaries will only receive their inheritance once they have obtained tertiary education,” she says.

Preserving your wealth

You might choose to preserve your wealth via a company. Sherlock says this will ensure that the wealth is easily transferable. It is also tax efficient, in that, on your death, the shareholding can simply be transferred. The shareholder’s interest will, however, form part of your estate, attracting estate duty and capital gains tax (CGT). Ideally, you want to know that your beneficiaries are going to be able to manage the wealth they inherit long after you have passed on.

While you can start during your lifetime by arming them with financial literacy education and structuring your estate in a particular way, there is no guarantee that they won’t simply spend wildly when they do inherit. “The key here is good financial advice from a trusted wealth manager who can assist your family with preserving your wealth after you have passed away. Introduce your beneficiaries to your wealth manager during your lifetime so that it becomes a relationship between the wealth manager and your family rather than ‘your wealth manager’,” Sherlock advises.

Personal Finance | 23 October 2020

Covid-19 magnifies retirement savings crisis

This is a reality check for South Africans: only 6% will retire comfortably. The rest will either have to continue working – if they’re able – or rely on family or the state to support them in their latter years. The third annual Retirement Reality Report by investment firm 10X indicates a long-term retirement crisis, which has been magnified by the pandemic – and women are most vulnerable. The report is based on a Brand Atlas survey of the lifestyles of 15.1 million South Africans with an income of over R8 000 a month. The findings are corroborated by National Treasury figures. The company said a key issue that has cropped up “time and again” in the reports was that people felt they could not afford to save for retirement, but they “really cannot afford not to save for retirement”. Before the pandemic, many were already treating retirement savings as a “nice-to-have”. Covid-19 has magnified the crisis: in the 2020 report, which was conducted during the early part of the pandemic, almost half (49%) of respondents said they had no

retirement plan, compared with 46% in 2019. "Forty percent believe they can save for retirement in less than 25 years, but they fail to understand that the first 15 years of employment are really important in guaranteeing a successful retirement outcome," 10X's head of investments, Chris Eddy said. "People aren't saving enough. It's not just about having a plan – that alone won't solve the problem; it's about understanding the drivers."

Worse is the fact that more than 60% of South Africans cash in their pension savings when they leave a company. Eddy says the report shows that people want to preserve their lifestyle but have not thought through the implications of not saving: 75% worry they don't have enough to retire and 77% say they will need to continue working in retirement – and yet almost 70% expect to enjoy the same standard of living in retirement. "The 49% who have no plan say they don't earn enough money to save, but in fact, they are prioritising their current lifestyle at the expense of their future self.

A 5% to 10% drop in lifestyle now will make a 50% to 90% change in retirement. "Eighteen percent say they don't save because they don't plan to retire – but given South Africa's population dynamics, the flood of younger people entering the workforce – it makes it more difficult to defend that position in the long term." Mica Townsend, 10X's business development manager, says few respondents can say their plan is well thought-through and executed: 20% have a plan, but it's "a bit vague".

Women are worse off

The situation is worse for women: often their careers are interrupted by pregnancy and childcare, and the latest StatsSA data says women earn about 30% less than men (a 7% increase on last year's data). "Fifty-three percent of women have no plan, versus 45% of men. Twenty-seven percent of men have a pretty good idea of their plan, but only 22% of women (can say the same)," Townsend said. "What makes the problem worse is that those women who are saving tend to do so in cash investments. They are conservative in nature." More women identify as savers (32%) than men (28%) while 13% of women identify as investors as opposed to a much higher percentage of men (22%). "We know that simply saving your money is not enough: cash is not going to grow fast enough to give you a nest egg that you can survive on and won't keep pace with inflation," she said.

"What you really need is a high-equity or a well-balanced diversified portfolio. You simply can't just put that money in the bank. Women, typically, are not investing the assets that they need in order to grow their retirement savings." Traditionally, women leave these decisions to a partner, instead of making financial preparations for themselves. "Once that person who you delegated those decisions to is no longer around, how are you going to manage?" The pandemic, Eddy said, fast-forwarded South Africans to a potential future where they no longer have an income and little-to-no savings to fall back on. But lessons can be learnt from how a crisis can cause a dramatic lifestyle downgrade. "If there is to be a positive from our state of economic and financial disaster, perhaps it is the increased awareness of our vulnerability to life's unexpected broadsides," he said. "In giving a glimpse into the future, of what it feels like to be suddenly

living off a low income and the strain of great financial insecurity, it may finally convince people that they cannot afford to ignore planning for retirement."

Personal Finance | 26 October 2020

Estate planning considerations for Retirees

Recently, the importance of proper estate planning and specifically the importance of having a valid and up-to-date Will, has gained some attention. What is often not addressed is the unique estate planning needs of consumers at the various stages in their lives, such as retirement. During Seniors Month we took a look at our retired clients and unpacked their particular needs and concerns. The first concern often raised is around the cost of transferring assets from a deceased's estate to the beneficiaries. This is very relevant given that, in many cases, these costs have a direct impact on the livelihood of a surviving spouse. To save on executor's fees, it has become the norm for some people to rather nominate a family member as an executor.

The intention is for this family member to negotiate a reduced fee with an executor at the time when the estate needs to be administered. The issue here is that one's estate could end up in the hands of the lowest bidder and not someone you trust with the necessary care and expertise to step into your shoes. Rather discuss the fee when drafting your Will with an executor of your choice. Most practitioners would be willing to quote a fee that is based on your unique asset composition and the value of your estate. Another concern raised is around "who would take care of the financial needs of a surviving spouse".

In particular, where the surviving spouse has not been involved in the day-to-day running and management of investments or other financial products. This is also very relevant in cases where children reside abroad and can no longer assist with the day-to-day management of a parent's assets. An option to consider here is to make use of a properly structured testamentary trust, to nominate professional trustees and to bequeath assets to the trust. The sole objective of the trust would then be to look after the interests of the surviving spouse. By doing this the trust beneficiary (surviving spouse) would have professionals looking after the assets and make decisions only for the benefit of the beneficiary.

There are no costs involved in creating a testamentary trust and it is provided for in a person Will, the trust however needs to be structured correctly so as to ensure that the ongoing costs and taxes are limited. The right advice is necessary when this option Is considered. Many pensioners have joint bank accounts and we always get asked what will happen if the bank receives notification of the death of one of the joint account holders. The reality is that all banks have a responsibility to protect the interests of their deceased clients and when proof of the death of an account holder is received the bank accounts will be "frozen". This includes joint bank accounts. It is important that the surviving spouse immediately opens a new bank account and have funds available to cover immediate expenses and to be able to switch debit orders to the

new account. Considering the impact, it could have on the immediate needs of the surviving spouse or other beneficiaries, planning around this should be prioritized. Only an authorised executor will ultimately have access to the funds in a deceased's frozen bank account. There is also always the question around how the executor will know what assets will form part of an estate or whether there is a possibility that the executor might "miss" something and forget to transfer it to the beneficiaries.

Fortunately, is has become a lot easier with the availability of online registries and databases whereby an executor can check to see what local properties and investments formed part of an estate. This is however not going to be enough, especially if there are assets and investments overseas. To assist your executor and next of kin, ensure that you have an up-to-date and complete inventory which is easily accessible, detailing all assets and liabilities and other notes pertaining to your balance sheet. Lastly, it is important to review your Will and estate plan on an annual basis, unfortunately we have seen too many instances where a Will was drafted years ago and in some cases, beneficiaries or the nominated executor were no longer alive at the time of winding up the estate.

FA News | 27 October 2020

INTERNATIONAL NEWS

UK pensions regulator warns trustees over signs of employer distress

Thousands of defined benefit schemes urged to be more alert over fears members could suffer in hasty business rescues. The UK pensions regulator is to warn trustees of thousands of company final salary-style pension plans to be more alert for signs of employer distress as it fears scheme members risk getting a raw deal from any hastily arranged business rescue. The action comes as government and regulatory bodies become increasingly concerned that the winding down of taxpayer-funded coronavirus job support schemes will trigger a sharp rise in business failures.

The Pensions Regulator will over the next few weeks begin to write to trustees of all 5,500 private sector defined benefit plans, with a total of more than 10m members, advising them to watch out for profit warnings, credit downgrades or debt refinancing. Once a business with a defined benefit scheme has been declared insolvent, members of the plan are transferred to the Pension Protection Fund where they face income cuts of up to 10 per cent if they are not drawing their pensions. Charles Counsell, the regulator's chief executive, said trustees "are the first line of defence for scheme members when a sponsoring employer faces refinancing, restructuring or insolvency. "A firm's fortunes may change quickly so the earlier trustees engage with an employer, the more they will be able to do to safeguard their members," he said. Companies in trouble may approach their creditors for talks over a potential restructuring, or refinancing, to help the business stay afloat. The regulator says in its existing guidance to trustees that if this occurs, then

employers should treat the pension scheme equitably with other creditors, such as lenders, and ensure trustees can "participate and influence" these discussions at the earliest opportunity. "We expect trustees to engage as early as possible to protect members' interests in the event of an employer experiencing financial distress which could impact the pension scheme," the guidance says.

"This is because as an employer moves further into a distress situation, the options available to trustees may become more limited and thus the chance to get a favourable outcome for the scheme." The regulator's advice to the schemes will recommend trustees take steps to prepare for any business failure, such as understanding their rights and obligations as trustees, monitoring the strength of the business and seeking professional advice. The CBI, the employers' group, declined to comment. The regulator's initiative comes as analysis published this week by EY, the professional services firm, showed that in the first nine months of the year 61 per cent of listed defined benefit pension scheme sponsors issued a total of 228 profit warnings.

This comprised 44 per cent of the profit warnings by listed companies issued during the period. The warnings were concentrated in the industrial and consumer discretionary sectors, according to the analysis. In April this year, the Pensions Regulator eased its rules to give employers facing a cash crunch due to the pandemic breathing space to defer or cut their pension deficit repair contributions for up to three months. About 3- 4 per cent of schemes have applied for this easement. In subsequent guidance, the regulator said it expected trustees to subject any further requests from employers for additional payment holidays to much tougher scrutiny.

Financial Times | 27 October 2020

Online pensions dashboard delayed until 2023

Campaigners protest at hold up with system aimed at streamlining information for consumers

Retirement savers in the UK will have to wait until 2023 to access a ground-breaking online service to see all their pensions in one place — four years later than the government first indicated. In an update on Wednesday, a working group charged with developing so-called pensions dashboards will give 2023 as an indicative date from which a digital service would first be available to consumers. In 2016, the then chancellor, George Osborne, set the industry a deadline of 2019 for launching a service which would enable UK citizens for the first time to see all their retirement funds, including state, workplace and personal, in one secure online hub. But the Pensions Dashboards Programme, set up in 2019 to develop the necessary digital architecture and governance framework, says it doesn't expect there to be enough pensions data ready to populate dashboards before 2023.There are currently 52m adults in the UK who will need to be connected up to 130m pensions supplied by more than 40,000 private, public and state schemes. "While dashboards are a simple concept, the delivery of dashboards will be complex," said Chris

Curry, principal of the Pensions Dashboards Programme. “This is a really big project. There is a lot that needs to happen. There is a lot of work to move the industry forward, but also a lot of work on the government and regulatory side as well to make sure everything is aligned and delivered in the safest possible way for the consumer.

”Mr Curry said work included creating a pension finder service, rules to protect consumers using the service, a digital verification system, as well as legislation being passed to enact dashboards. “There is an awful lot that we are reliant on in terms of other parts of government, regulatory committee and the industry,” he said. A timeline, set out by the PDP on Wednesday, will see pension providers and schemes start to be compelled to hook up customer and member data to dashboards from 2023. Mr Curry cautioned that dashboards will not launch fully loaded with all pensions pots and benefits in the system. He said testing would take place to establish how loaded the dashboards needed to be for consumers to use initially without being disappointed.

“Most people would find it useful to find at least three-quarters of their pensions in the system,” said Mr Curry. Pension experts expect that the first dashboards will show simple information, similar to what is available on annual benefit statements, information requests from pension providers, and guidance for searching for old pension pots. More comprehensive services are expected to develop over time. “Pensions dashboards will revolutionise retirement saving which is why it’s vital we get them right,” said Guy Opperman, minister for pensions and financial inclusion. “I’m encouraged by the progress on the project to date, the sensible timetable for development incorporating testing, rigour and refinement, and the continued collaboration driving this forward.

”However, consumer campaigners said much quicker progress was needed on the dashboards. “It's almost five years since the government first committed to introducing the pensions dashboard,” said Gareth Shaw, head of money at which? “Dashboards have the potential to bring huge benefits for savers by bringing together all their pensions in one place — including the state pension — which should help millions of people to keep track of their savings and understand them better. “It’s up to the government, regulator and industry to ensure this happens, but we need to see progress quickly.”

Financial Times | 28 October 2020

OUT OF INTEREST

Wealth tax should not be an option

Could result in ‘tax migration.’

If Finance Minister Tito Mboweni is indeed thinking of imposing a so-called wealth tax as a way to close the government's ballooning deficit, he should reconsider. A wealth tax, which is generally defined as a tax on someone's assets, was under consideration according to a report by Bloomberg, which says that National Treasury discussed the possibility of a wealth tax earlier this year. Talk of a new tax comes as the minister is under pressure to find new tax revenue streams, as the Covid-19 crisis is expected to result in a revenue shortfall of R300 billion and see the deficit reach R761.7 billion, equating to 15.7% of GDP in 2020/21.

Citadel Fiduciary MD Hilary Dudley warns that if the state were to push ahead with some kind of wealth tax, it will see South Africa's already stretched tax base come under more pressure and lead people to examine their options. "We are at the top of the Laffer curve [a measure of the tax rate against the tax revenue collected], and taxing those who already pay the most more is not necessarily the solution. They are more mobile, have other options, and are likely to tax migrate." Independent economist Mike Schüssler echoes Dudley's concern that South Africans are carrying too much of a tax burden as it is, noting that SA already has the 10th highest personal tax rate and seventh highest corporate tax rate in the world.

The idea of a wealth tax is a much-debated and contentious issue. A working paper by Wits University's Southern Centre for Inequality Studies together with the World Inequality Lab says a wealth tax on the richest 354 000 individuals in SA could not only raise as at lease R143 billion, the revenue raised from it could be used to address income inequality in the country, which is the highest in the world. Citadel portfolio manager Mike van Der Westhuizen disputes this figure: "The R143 billion figure is not realistic over a shorter time frame. It is more realistic that it could be collected over a number of years. Assuming that the tax can be properly administered."

Difficult to administer

The matter of how to administer a new tax is also something that could lead to it underperforming, as it requires the South African Revenue Service (Sars) to come up with a very precise definition of what constitutes wealth. "It will be very challenging given that there is no certainty on basic principles such as what constitutes wealth, how to value wealth, and how this tax will be levied. It will also come at an administrative cost for both Sars and the taxpayer, as they learn how to correctly implement the new tax," says Dudley. "It would be more efficient to focus on better implementation and the collection of the existing capital taxes."

Up across the board

Even if the government pushes ahead with a wealth tax, Schüssler warns that it will not be enough to cover the tax revenue shortfall. He says he would not be surprised if the state increases the carbon and fuel taxes, as well as the Vat rate. "It's going to be a mixture." Another possible target could be tax-exempt pension funds. Dudley notes that the Davis Tax Committee (DTC), which was established under then finance minister Pravin Gordhan to assess the tax policy framework, had eyed the R2.2 trillion pension pot

as a possible tax revenue stream. "The DTC was of the view that concessions given to retirement funds, particularly the exemption from dividends tax, are possibly overgenerous in the context of the economic challenges facing the country. This is concerning for obvious reasons." She says this move looks unlikely as the DTC also said that taxing pension funds would be detrimental to low-income earners, who have a major portion of their wealth in them.

Another option

Rather than a wealth or pension tax, Dudley proposes a scheme mooted by Citadel where people can get a discount for paying capital gains tax (CGT) early. "Owners of capital assets could elect to pay some capital gains tax on their as yet unrealised gains and rebase the base cost of the asset. This would work on a voluntary basis, and would allow those who have the liquidity to do so to prepay some CGT before they actually dispose of the asset and trigger the capital gain." Allowing this would not only provide the government with revenue collection and liquidity but also give it access to revenue without having to wait for taxpayers to dispose of the asset.

Moneyweb | 26 October 2020

Rand hits seven-month high ahead of Mboweni's medium-term budget

Currency firms to best level against the US dollar since Covid-19 lockdown.

The rand strengthened further to around R16.10 in intraday trade on Tuesday (around 14:00) against the US dollar, a day before Finance Minister Tito Mboweni is set to deliver the country's Medium-Term Budget Policy Statement (MTBPS). It's the rand's best level versus the greenback in more than seven months. The currency last traded in this range on March 9-10, which was couple of weeks before South Africa went into the initial 'hard' Covid-19 lockdown on March 27. By the first week of April the rand plunged to over R19 to the dollar and some market commentators predicted that it could hit the psychological R20-mark due to the Covid-19 economic fallout and related market volatility.

However, the rand has strengthened since then and on Tuesday firmed further by around 0.75% in intraday trade (R16.10). It has gain more than 5% against the dollar since the start of October. The attention is now focused on Mboweni's MTBPS on Wednesday. The 'mini budget' could present downside risk to the rand, especially if South Africa's fiscal deficit widens more than the National Treasury's projections during the supplementary or emergency budget in June, which came in response to the Covid-19 economic fallout. In June, Mboweni revealed that the country's consolidated budget deficit is forecast to more than double to 15.7% of GDP in the 2020/21 financial year. He noted that the "narrower measure, known as the main budget deficit" is projected to be 14.6% of GDP. At the time, he also pointed out that the country's gross tax revenue collection was significantly down due to the impact of Covid-19 and restrictions both locally and

globally. He noted that government was expecting to miss its tax target by more than R300 billion for this year.

Moneyweb | 27 October 2020

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