TUESDAY, 15 MAY 2018

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

Why haven't we had this before?

Have you heard of retirement benefits counselling?

In August last year National Treasury gazetted some fundamental changes to how pension funds are going to work. Amendments to the Pensions Fund Act, which have generally become known as 'the default regulations', place a number of new requirements on fund trustees.

Two of the most important relate to how they deal with members leaving the fund. The first is that anyone who is moving to another employer must be able to preserve their current balance within the fund.

Secondly, at retirement, the fund must provide members with annuity options approved by the trustees. These needn't be provided by the fund itself, but they must be suitable and competitively priced.

In both instances, the fund is also required to ensure that members have access to 'retirement benefits counselling' before they make any decisions. No money can be transferred or withdrawn unless this has been done.

More-informed members
This is an entirely new concept introduced in the amendments. 'Retirement benefits counselling' has never existed before, and the legislation also doesn't specify exactly what it should entail.

What the act says is that it is the "disclosure and explanation, in clear and understandable language" of the risks and costs of the options the member has. How this might be done, however, remains open to interpretation.

What is clear is that this counselling is not, necessarily, advice. Whoever is providing the counselling does not have to assess the appropriateness of the options or make recommendations. They are only required to provide information about them.

The intention is quite obviously that if members have more information, they will make better choices and this will lead to better outcomes. However, how this counselling is provided will clearly have a big impact on how successful it is.

Written counselling?

Since the act does not specifically state how the counselling should be delivered, funds could come up with a number of ways of doing it. It is possible that simply providing written information would satisfy the requirements. Other possibilities would be call centres, interaction with human resources, 'robo-counselling' or meetings with independent financial planners.

These come with different levels of costs, but also effectiveness. And if the intention is truly to influence outcomes, then just offering something in writing is unlikely to have much impact.

"We have experience proving that written communication does very little," says David Gluckman, the head of special projects at Sanlam Employee Benefits. "If your aim is to comply, it ticks the box, but if you aim to really make a difference, written communication is ineffective."

There are also potential legal issues with relying on written communication. What if the member doesn't understand the language in which it is sent? Jargon and technical language can also impact on how well the message is received.

Gluckman points out that it is also worth noting that while the law doesn't specifically say that counselling can't be written, there is no other context in which the term is used in that sense. Marriage counselling, bereavement counselling or career counselling are never conducted purely on paper. They are meetings between a counsellor and whoever they are helping.

A retirement benefits counsellor?

It is possible that the amendments could therefore be creating an entirely new profession – that of a retirement benefits counsellor.

"It's very much a new service," says Viresh Maharaj, the CEO of Sanlam Employee Benefits Client Solutions. "Some players in the market are thinking of making this a business and going into this space."

Given the poor savings rate in South Africa and the tiny percentage of people who can afford to retire comfortably, this has the potential to have a real impact. There is clearly a huge need, and in such circumstances there is also usually a significant opportunity. Figures from the Sanlam Umbrella Fund show that 87.4% of members that retired in 2016 did so with amounts below R500 000. This is a demographic not usually attractive to financial adviseos, but where a huge impact can be made.

"There is a spectrum of what counselling could be, and we believe more funds should be on the side of the spectrum that is actively using this as an opportunity to improve outcomes for their members, because the status quo is proving to not be successful," Maharaj says.

Given that this is something that every pension fund in the country has to offer to every single one of its members at some point, there is huge potential to provide innovative, cost-effective solutions. As a business opportunity, it is enormous.

What the regulator says

The Financial Sector Conduct Authority (FSCA – formerly the FSB) says that at this stage it does not plan to regulate this counselling or those who provide it, since it does not see it as advice. Only if it includes advice would a licence be required.

"The regulations do not prescribe who can provide retirement benefits counselling," says Olano Makhubela, the deputy executive officer for retirement funds at the FSCA. "However, the fund is ultimately responsible and it can decide who and how to provide the counselling. What is key with the envisaged counselling, as per the regulations, is the provision of factual information on fund options."

Moneyweb
14 May 2018
By Patrick Cairns

The three phases of saving for retirement

Life expectancy within the global context has been increasing rapidly, which enhances the growing risk of outliving your retirement savings. According to the World Economic Forum, individuals born in 2017 are expected to live to the year 2117. The obvious consequence of this is that it would be necessary to have enough savings to last more than 30 years after retirement.

This is echoed by research from the United Kingdom's (UK) Department for Work and Pensions, which revealed that the number of individuals working past the age of 65 years, has more than doubled since 1995 - and this trend is expected to continue.

A common misperception is that reaching one's retirement date is the end of one's retirement savings journey, when it is in fact only the beginning of the next phase.

Planning for a comfortable retirement is split into three key phases: the accumulation phase; pre-retirement stage; and managing your post-retirement finances. While each phase is unique, these phases are inter-linked and, if managed carefully, they should collectively result in a positive outcome at retirement.

Here is a more in-depth explanation of the phases:

1. The accumulation phase

The individual's main focus during this phase should be on building adequate savings. Closely aligned to this would be choosing appropriate investment options for your investment horizon. It is advisable to choose growth assets, such as equities, during this phase particularly if you have more than 10 years to retirement. Taking a conservative approach in your investment strategy during this phase poses the risk of not allowing your savings the opportunity to grow as much as they could.

2. The pre-retirement phase

As you get closer to retirement (say 10 years away), you should start restructuring your investment portfolio with a view to de-risk. This means shifting your investment strategy to a less aggressive and a more diversified or multi-asset approach.

In preparation, start researching and carefully considering the most suitable annuity option for your next phase. For example, the PPS Living Annuity is a post-retirement solution that invests your accumulated retirement capital while providing you with a regular income. A key advantage of this solution is that you retain full flexibility to change your level of income annually, with the ability switch underlying investment options as your circumstances change without incurring any transaction charges.

3. The post-retirement phase

At this point in your retirement journey, you will reap the rewards of your savings, but be warned, this phase is not without risks.

For many, longevity risk is a major factor to consider and simply means that you face a number of risks associated with living longer. One such risk is outliving your retirement savings. On a real basis, the odds of outliving your savings are quite high and retirees will need to factor this into their post-retirement planning.

After reaching the average retirement age of 65, you may realise that you have not saved enough and may therefore either need to delay your retirement to work for a few more years, or find other ways to supplement your retirement income.

Throughout your retirement journey, it is important to consult with your financial adviser to ensure that you are still progressing towards securing retirement savings to help meet your future needs.

FA News
14 May 2018

Weighing in on tax-free savings accounts and retirement annuities

A Fin24 user wants to invest in a tax-free savings account. He writes:

"I wish to invest in a tax-free savings account. Please advise which bank has the least services charges. Can I just invest a once off amount of R30 000 in a tax-free investment or savings account and just leave it to grow until required?" asks the user.

"I am 58 years old and have seven years before retirement. Is it too late to buy a retirement annuity?"

Justine Wyatt, legal and compliance executive at Just, responds:

Tax-free savings account

You can invest R33 000 per year in a tax-free savings account and still get the tax-free benefits of this type of investment. However, you don't have to invest every year. You can invest R33 000 once off and leave it to grow.

You could also invest monthly if you wish. The amount you can invest monthly would be determined by the company that you invest with as they would have a minimum amount, normally R500 to R1 000, but you are able to invest up to R2 750 monthly tax-free.

It is not only banks that provide tax-free savings accounts. Asset management firms such as Investec, Allan Gray and Coronation, for example, also offer tax-free savings accounts where your money would be invested in unit trust funds of your choice.

Banks and asset managers would have different charges and it would also depend on whether you are just invested in cash or whether you choose to invest in unit trust funds - which could also include bonds or equities that should, over the long-term, have a higher return than by just investing in cash.

Retirement annuity

It is not too late to buy a retirement annuity. You do not have to "retire" from a retirement annuity investment when you retire from your employment. You can retire from a retirement annuity investment at any age.

However, you will only benefit from the tax deductions in relation to your contributions to a retirement annuity if you earn an income.

In simple terms, you can get a tax deduction from your income in respect of your contributions to a retirement annuity of the lesser of R350 000 or 27.5% of (the higher of) your remuneration or taxable income per year. Remuneration and taxable income have different definitions in the Income Tax Act.

The growth (interest, dividends) in the retirement annuity is not subject to tax. You can stop contributing to the retirement annuity at any time and leave it to grow.

When you retire from this investment you would be able to take one-third in cash, but you would be required to purchase a life annuity or a living annuity or a combination of the two with the other two thirds of the investment.

You can also purchase an annuity with the full amount - that is you do not have to take any cash.

Should you pass away while invested in a living annuity, this investment will not form part of your estate for estate duty purposes. You can nominate a beneficiary or beneficiaries on the investment who will receive the proceeds on your death.

The difference between a living annuity and a life annuity is that with a living annuity you may be able to leave a legacy for your loved ones, but you would be responsible for choosing your own investment funds and deciding on how much to draw every month. You take the risk of ensuring that you do not run out of money. A guaranteed annuity or a life annuity would provide you with an income for the rest of your life. The insurer takes the risk.

Annuity at retirement

If you have not saved enough to provide sufficient income in retirement (which is unfortunately the case for most South Africans) and you wish to maximise the income, you could obtain a guaranteed life annuity and be underwritten at retirement.

Should you suffer from certain medical conditions or in the event that certain lifestyle factors, like smoking, apply to you, a company that specialises in underwritten annuities may be able to offer you a higher income at retirement as they will take into account that you may not live as long as a "standard" life.

Investment products can be complex and it is difficult to navigate your way around them. It is, therefore, recommended that you speak to a financial adviser to help you make the right decisions.

Fin24 News
8 May 2018

INTERNATIONAL NEWS

Nest EGG: Three small steps towards building a retirement corpus

Post retirement, you can start systematic withdrawals from your mutual fund investment accounts. This is among the more convenient and tax efficient ways to provide regular income in retirement.

Retirement is a time that everyone dreams of when they will relax and be comfortable. Free of the strain of a busy work life and responsibilities towards children, they believe it will be a time when they can finally do all that they always wanted to do but never had the time for. However, turning this dream into reality is easier said than done; it takes a lot of planning. With no income flowing in from a salary or business, it will be your savings that will be the primary source of funds. It is only proper then that adequate time and thought is put into ensuring that your savings are sufficient to sustain you through retirement and old age.

Today there is a marked increase in the awareness of the need to prepare financially for retirement compared to a decade back. Yet, people aren't doing much to address the need. Why is this so? In our experience there are two stark reasons why folks find it challenging to build a solid retirement corpus:

Investments not linked to goals

Most people who invest, even the regular and disciplined ones, tend to invest a random amount left after monthly spends. This investment is not linked to any goal, including retirement. While you may be cognizant of the need to fund your retirement, chances are you've not given thought about whether your present level of savings is sufficient. Nor attempted to create a plan on how investments should be strategised to reach the goal in time.

Retirement takes a backseat

In the absence of a plan or strategy, goals are addressed as they come. Hence the responsibilities of providing for a house, children's education and their marriage take priority through a good part of the working years. By the time the reality of retirement dawns you have only a decade at best to invest.

Here are the important steps to follow for a systematic approach to planning for your retirement.

Work out the amount: Ask yourself at what age you would like to retire. Next think about the lifestyle you desire post retirement. A good number to start with is your current expenses, excluding those that will be absent in retirement; like children's expenses, EMIs, etc. Make the goal as specific as you can. For instance, “I want to retire on January 1, 2048 and will require a monthly income of Rs 40,000 (in today’s terms)”.

After this comes the critical part of accounting for inflation. In 30 years’ time the monthly expense of Rs 40,000 translates to Rs 3.20 lakh a month, with an inflation rate of 7% p.a. So, by the time you retire at the age 60, you’d need Rs 7 crore to provide for your spouse and yourself till 85 years of age.

Create an investment strategy: Building a corpus of Rs 7 crore by the time of retirement can seem like a monumental task. However, as retirement is 30 years away, with the power of compounding this goal can be easily achieved with modest, regular investments. This goal, along with the rest of the goals of providing for a house, children’s education, etc! Mutual funds are a very good investment option to accumulate wealth towards your retirement goal, alongside the traditional avenues of PPF, EPF and FDs.

Stay the course: Once investments are allocated to the retirement goal, resist the urge to dip into it for another goal. There’ll be plenty of temptations along the way; that unplanned holiday, a car upgrade or the home revamp. Remember that retirement is a goal which cannot be funded by loans; you must diligently provide for it out of your savings while you are earning.

Post retirement, you can start systematic withdrawals from your mutual fund investment accounts. This is among the more convenient and tax efficient ways to provide regular income in retirement. Thus, by planning for retirement early on and creating a strategy, you should be able to create the desired retirement corpus without hassles. The crucial challenge to be tackled is the lack of a planned approach.

Financial Express
14 May 2018
By Amar Pandit

A fix everyone loves to hate for the $4 trillion retirement savings gap

Saving for retirement is hard enough, but another difficult challenge is making sure the money lasts. Invest your nest egg conservatively, and you might not be able to stretch the money out, especially if you live longer than you expect. Putting more in the stock market could keep the pile growing — but once you stop adding money, a streak of bad returns could decimate your stake and leave you little chance to recover.

For years, many retirement experts have pointed to a potential solution: annuities. In its simplest form, buying an annuity involves taking part of your savings and handing it over to an insurance company. The insurer then pays out a guaranteed income for the rest of your life. In theory, putting at least part of retirement savings into an annuity can make sure you always have some income no matter what the markets do.

Even so, annuities gained a bad reputation in some circles. Many annuities are really investment products combined with insurance, with the option of creating a stream of annuity income as just one of their features.

The commission-based sales model common in the insurance industry often meant that agents and financial advisors had incentives to push higher-cost annuities. Those products sometimes locked up the money for more than a decade before an investor could withdraw funds without paying a hefty penalty. And complex rules governing how that money was invested — explained in filings running 100 pages or more — left many scratching their heads in confusion.

The insurance industry says it's gotten the message. It was prodded in part by Obama-era rules from the US Department of Labor that took aim at conflicts of interest in investment advice. In 2016 and 2017, sales of annuities dropped as advisors faced uncertainty about the impact of the new regulations.

Insurers rushed to create a flood of products redesigned to win back financial advisors and a skeptical public.

Distributors began culling the number of annuities they offered, and insurers promoted products that paid advisors through fees rather than commissions, sidestepping some conflict of interest worries.

Pathway Financial Advisors, a fee-based firm with offices in Vermont and Georgia, steered clear of annuities for years. "Historically, insurance products have been sold and not bought," says founder Scott Beaudin. Last year, he added an annuity to a client's portfolio for the first time, largely because the products have become "simpler." But the Labor Department's conflict of interest rules are in trouble. In March, a US appeals court struck them down, saying they were outside the department's authority and "unreasonable"; the Trump administration hasn't appealed.

And some think the improvements aren't enough to make annuities more appealing. "From my perspective, there haven't been any real dramatic changes in product design," says Ken Nuss, chief executive officer of Annuity Advantage, an online marketplace. The issue of retirement savings has become more pressing as a swell of baby boomers ages out of the workforce.

According to a World Economic Forum report, total individual retirement savings in the US are more than $4 trillion short of what's needed. Boomers are living longer, and many worry they'll run out of money, according to Ted Goldman, senior pension fellow at the American Academy of Actuaries.

India Economic Times

9 May 2018

By Katherine Chiglinsky & Ben Steverman

Do Annuities Belong in Your Retirement Plan?

That depends on what you'd like to use them for.

On the surface, annuities may seem like an incredibly enticing "investment" to consider as part of your retirement plan. Insurance companies dangle promises of market-like returns on the upside with no risk of loss during your accumulation years and guaranteed income during your distribution years to get you to sign up for them.

When you dig beneath that surface, you often find that the promises offered by annuities in their marketing wind up severely limited by things like caps, participation rates, and internal fund costs. Over time, those limits mean you'll very likely wind up better off investing directly in the market via index funds than investing via an annuity. As a result, while you're accumulating money for retirement, annuities generally don't belong in your retirement plan.

Do annuities ever make sense?

Still, despite the fact that annuities usually make lousy investing vehicles, they *can* provide reasonable insurance benefits in the form of guaranteed income during retirement. Simple, straightforward, single-premium immediate annuities from strong insurance companies can provide people with the peace of mind that comes with knowing they won't run out of money in retirement.

Simple annuities like that can work out for retirees who aren't comfortable managing their own money. After all, the risks of a poor withdrawal strategy from an investment portfolio could leave a retiree without income at a time when that retiree has no realistic way of earning a living through work. Still, even the best of annuities have drawbacks you should recognize before you commit to using them at all.

First, any annuity is only as good as the financial strength of its issuer. If the insurance company offering your annuity were to declare bankruptcy, you would be dependent on the limits and funding sufficiency of your state's insurance backstop program to provide you *any* income.

In addition, any option offered by the annuity company beyond the basics of a simple income stream for either a guaranteed time period or for your life will likely come at a substantial cost. Want inflation protection? That will cost you. Want to assure your heirs will get something after you pass? You're likely better off leaving that something *outside* your annuity than asking the insurance company to handle it for you.

Don't forget the biggest annuity you probably already have

In addition, if you work in the United States, chances are that you *already* have access to a retirement plan that acts very much like an annuity that offers you an inflation-protected income for life. It's called Social Security, and even in the worst-case scenario, where nothing gets done to shore up the program, it's expected to cover around three-quarters of its promised benefits for retirees.

The typical retiree or retired couple receives enough from Social Security to keep out of abject poverty. While Social Security alone won't let you live a lifestyle of the rich and famous, it's fair to ask how much *guaranteed* income you really need above Social Security. Other than health-related costs, most retirees find that their expenses actually go down when they're retired. If you don't need additional guaranteed income, you might be better off with the greater flexibility that you get outside of annuities.

Remember, too, that even Social Security's promises are expensive to provide. The combined employee and employer tax rate is 12.4% of your income up to $128,400 of income, and it takes 35 years of those taxes on your earnings to qualify for your full expected benefit. Guarantees are *not* cheap, no matter whether they come from the government or from an insurance company. The typical recipient of those guarantees will ultimately be the one paying for that guarantee. ***Full Report:***
https://www.fool.com/retirement/2018/05/08/do-annuities-belong-in-your-retirement-plan.aspx

The Motley Fool
8 May 2018
By Chuck Saletta

OUT OF INTEREST NEWS

SA's economic growth for 2018 gets off to a dire start

SA's economic growth in the first quarter of 2018 is expected to take a knock after a dire start to the year for the mining and manufacturing sectors. Data from Stats SA released on Thursday painted a gloomy picture. In the first quarter of the year manufacturing decreased by 1.6% while mining production decreased by 3.4%. Both sectors are significant contributors to GDP.

SA is estimated to have the world's fifth largest mining sector in terms of its contribution to economic growth, contributing 8% to the country's economy in 2017. Manufacturing contributed 13%, but this is significantly lower than its 24% contribution in the 1980s. Contractions in both sectors do not bode well for economic growth. Despite growth revisions upwards from the International Monetary Fund (IMF) and the World Bank in 2018, Capital Economics economist John Ashbourne said the economy seems to have stumbled in the first quarter.

He added that strong economic growth in the fourth quarter of 2017 created a high basis for comparison.

According to the IMF's world economic outlook, economic growth is expected to strengthen to 1.5% in 2018 from a previous forecast of 0.9%, and to and 1.7% in 2019, also from 0.9%. This comes after growth was revised down to below 1% in January.

The World Bank expects growth to accelerate to 1.4% in 2018 from a previous estimate of 1.1%; economic growth is expected to remain below 2% in the medium term.

Even with the bleak outlook for growth in the first quarter, Ashbourne said: "We retain the view that economic growth will accelerate over the course of 2018 as a whole."

The mining figures were partially a result of temporary maintenance-related shutdowns in the platinum sector, which cut output in February and March, said Ashbourne. Stronger global demand and firmer international commodity prices are expected to support production and exports in 2018, said the Nedbank Group Economic Unit.

The Manufacturing Circle, the voice for the sector, warned that manufacturing remains volatile. "We need to keep a close eye on how the manufacturing environment monitors and responds to such changes in circumstances in the short term."

Despite a rosier outlook for the year, the first quarter figures may come as a shock after stronger than anticipated growth in 2017.

Business Day
10 May 2018
By Sunita Menon

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