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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

The world isn't prepared for retirement

New data show people all over the globe don't understand basic concepts of investment and inflation.

Most online quizzes are relatively mindless, promising to reveal which vegetable, sandwich or rock band best represents your personality. That was not the case for a short online test given to 16,000 people in 15 countries this year. It revealed just how unprepared a good chunk of the world is for retirement.

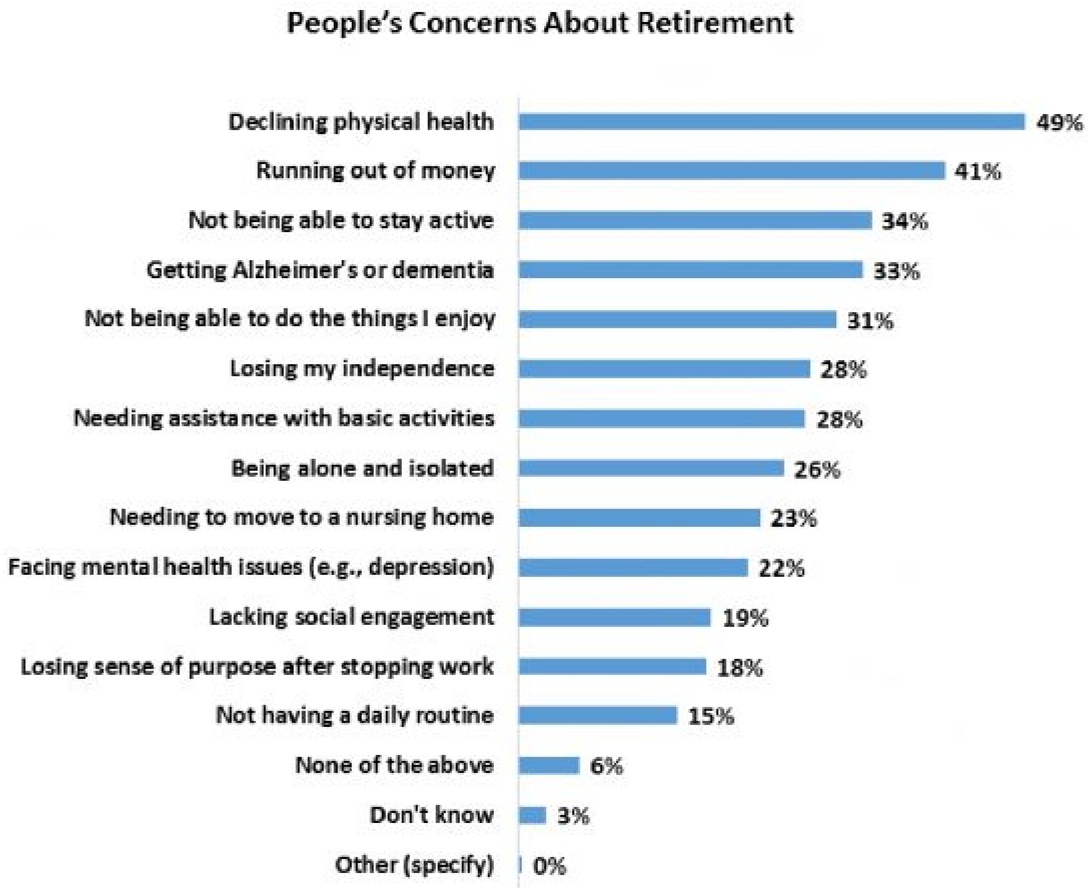
The three-question test, given as part of the Aegon Retirement Readiness Survey 2018, measured how well people understand basic financial concepts. Many of the participants failed the quiz, with big potential consequences for their future security.

Beyond the sobering lack of financial literacy, there were some rather curious data in Aegon's annual survey, published on Tuesday. For example, some 20% of workers surveyed in China envisioned spending retirement with a robot companion. But before we get to that, take a look at this question—which only 45% of people around the world got right:

The possible answers? True, false, do not know and refuse to answer.

Sixteen percent of people got it wrong. "Do not know" was chosen by 38%. In the US, 46% of workers got it right. Good for you, America—though Germany beat you handily. (The answer, in case you were wondering, is false.)

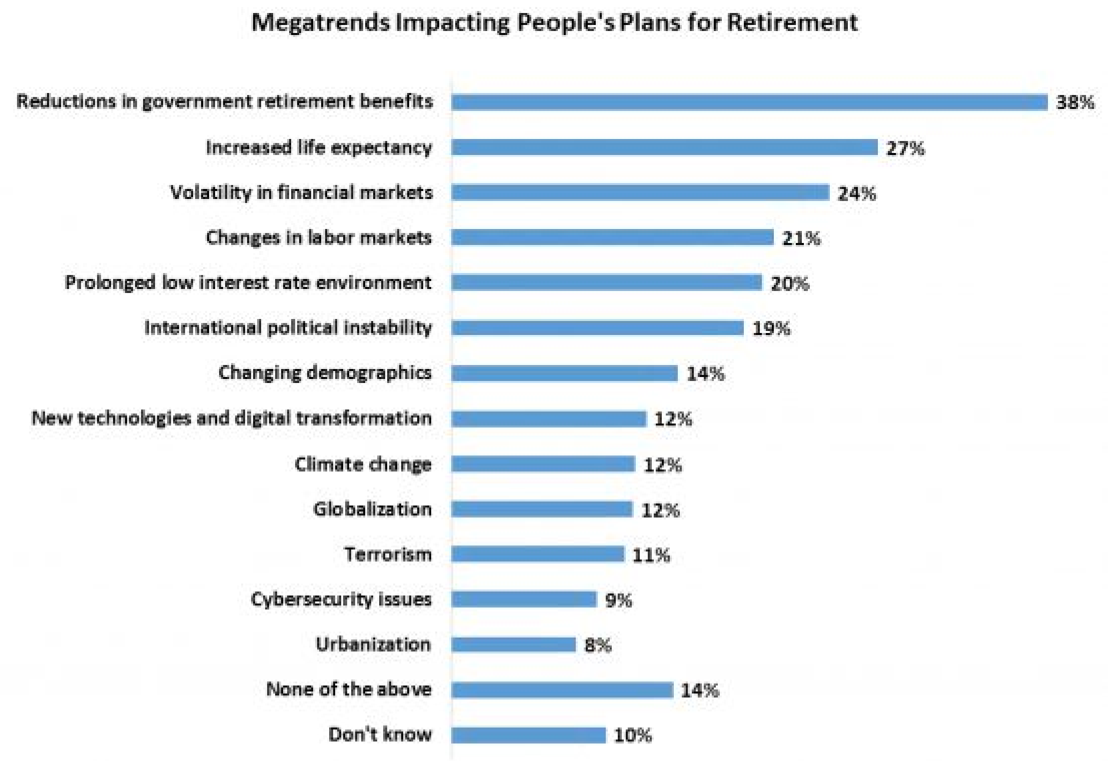
It was an inflation question that had the highest percentage of wrong answers, however. More than 20% of workers didn't grasp how higher inflation hurts their buying power. Given that declining health was the most-cited retirement worry, at 49%, and health care is an area (in the U.S., especially) with high cost inflation, well, that makes the subject something older folks should have down cold.



The survey asked workers—about 1,000 per country—what global trends would affect their retirement plans. “Reduction in government retirement benefits” was the most popular answer worldwide, chosen by 38% globally; in America it was 26%. The countries most worried about cuts to government benefits? Brazil and Hungary, at about 53%.

Concern with developing Alzheimer’s or dementia was cited by 33% globally. The highest%age of people citing it as a worry were in Spain, at 53%. In the U.S., 31% were worried about it.

Across the board, though, workers didn’t seem to recognise the huge impact that basic changes in the labor force, technology and the climate will probably have on their retirement plans, said Catherine Collinson, president of the nonprofit Transamerica Center for Retirement Studies and executive director of the Aegon Center for Longevity and Retirement.



"It makes me wonder about the extent to which people are naive about the magnitude of the disruption in our world, and the level of change that has not only occurred, but is imminent," said Collinson. "Is it that people don't see it coming, or is it so overwhelming that people are in denial?"

Many workers may well be in denial about how long they can actually work. The survey found workers generally plan to retire around age 65. "The sobering reality is that 39% of retirees globally retired sooner than planned," according to the report. "Of those, 30% stopped working earlier than they had planned for reasons of ill health, and 26% due to unemployment/job loss."

And those robots? The survey asked about "ageing friendly modifications or devices" people envisioned having in their homes. Thirty-five percent of workers in India, 34% in Turkey and 18% in the U.S. figured ageing could include video monitoring devices. Then there are the robots, which 20% of Chinese workers see coming in retirement, compared with 6% of American workers. ***Full Report:*** ***https://www.moneyweb.co.za/news-fast-news/the-world-isnt-prepared-for-retirement/***

Moneyweb & Bloomberg
30 May 2018
By Suzanne Woolley

How to make your retirement savings last: common myths debunked

There are many risks that need to be overcome to ensure that retirement savings last, says Allan Gray's Shaun Duddy, including longevity, inflation and investment risk. In the piece below Duddy debunks common myths associated with retirement savings.

Myth #1: My savings will outlive me

"The simple truth is that many people will live a lot longer than they expect," asserts Shaun Duddy, product development manager at Allan Gray. "Based on our current understanding of South African mortality statistics, around 30% of women who retire at age 65 will still be alive at the age of 90."

He adds that this is a sobering reality for investors who think that their savings will last beyond their living years.

Myth #2: I only need to account for 6% inflation in my savings plan

"Although inflation has averaged about 6% over the past ten years thanks to the inflation-targeting efforts of the Reserve Bank, there have also been times, for example in the 1980s, when inflation has spiked to 20%," Duddy says.

Even at 6%, he believes inflation can have a big impact on investors' standard of living.

"Over 30 years, the buying power of R1 000 would be eroded to the point that it only buys goods now costing less than R200, at an inflation rate of 6%."

He cautions investors who are ready to hang up their work boots to ensure that they account for inflation in their retirement planning, as inflation has a very real impact on the purchasing power of their income.

"It is my understanding that of the guaranteed annuities sold in SA today, most do not have inflation-related increases built into them; a sobering reality," he says.

Myth #3: I can draw down more than 4% of capital

A starting income of 6% of capital may not seem like a lot, but once you account for the fact that that income needs to keep up with inflation for say 30 years, the minimum real (after inflation) return required to ensure income sustainability is 5.5% per annum.

“The chances of achieving this level of return are quite a lot lower than you would think. Looking back at very long-term asset class returns doesn’t give a full perspective. While the average return that is likely to be generated by your portfolio over time is important, it is also very important to understand what your personal return experience in that portfolio is likely to be: the ordering of your returns, volatility and the timing of your withdrawals all influence your personal return outcome and therefore the sustainability of your income,” Duddy cautions.

“The reality is that if you start income drawdowns at more than 4% of your capital, the odds of sustainability are not in your favour.”

Myth #4: I can’t afford to take risks
Duddy cautions against being too conservative when it comes to investing your retirement savings.

“Our research suggests that you need a well-diversified portfolio with at least 50 to 60% invested in growth assets, such as shares,” he says. “This may mean you have to stomach some short-term volatility, but if you invest only 30% in equity, it’s unlikely that your retirement savings will last the distance.”

Duddy sums up the three requirements to help you achieve a sustainable retirement income:

1. Calculate 4% of your capital value as a maximum starting income for the year
2. Increase the resultant rand value only by inflation every year
3. Invest at least 50 to 60% of your portfolio in equities for growth

“If you follow this strategy, there is a strong likelihood that your income will last for at least 30 years,” he concludes

FA News
29 May 2018

10X launches new portal that can track your current retirement savings and compare it with where you should be

Financial services firm 10X Investments has launched a new portal that enables clients to take charge of their own retirement plans.

Customer using My10X, which has been designed as mobile-first application, have access to all information about their retirement plan and investments. They can also make adjustments – such as change a beneficiary, increase a debit order, or make an additional once-off contribution – using their phone.

The service was made available to clients on the weekend by way of a soft launch, 10X told BusinessTech.

10X Investments founder and CEO, Steven Nathan, said My10X enables clients to plan, invest and monitor their retirement savings on their mobile phone or desktop. "It gives customers the tools to make better decisions to improve their own retirement outcomes. You can barely get an up-to-date retirement fund statement online from the incumbent companies," he said.

For 10X customers who are not on track to the retirement they desire, the platform allows them to make various adjustments – such as increasing savings or pushing back their targeted retirement date – to better align the journey with the desired destination – a comfortable retirement, the group said. The ease with which retirement savers will be able to see exactly how their retirement plan is performing and what it is costing them lays down a challenge to the rest of the industry, Nathan said.

He said that traditional retirement planning companies stand accused of intentionally confusing customers with a wide and bewildering selection of options and of obscuring high fees and poor performance. "The lack of digital innovation on the client side in the investment space has exacerbated the problem," Nathan said.

By making all the available information easy to access and simple to act on, "My10X will address one of the main reasons so many South Africans are facing their own financial day zero: they do not save enough," the chief executive said. He added that the new portal also provides tips and advice on how to save a little more every year without breaking the bank to get closer to your retirement goal.

My10X enables customers to do the following:
Create a retirement plan based on their current circumstances.
See how much money they are likely to retire with and how long that money will last in their retirement years.
Get a consolidated view of all of their 10X retirement products.
Make adjustments to their plan and see how this impacts their final outcome.
Make future commitments to take action that will improve their outcomes.
Schedule reminders for future commitments.
Access advice on improving their plan or getting it back on track, one step at a time.
Allow them to share their experience with friends through a referral programme that rewards them friends they refer.

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29 May 2018

INTERNATIONAL NEWS

Government dismisses couples pension fund

The government has dismissed a proposal to create a joint pension fund for couples, as it wouldn't be consistent with the system of independent taxation. In a written answer to Parliament, Lord Bates, international development minister, said that the current system is in place since 1990, and "provides that each individual is taxed on their personal income and has their own tax-free personal allowance, and their own set of tax thresholds".

He added: "This fundamental principle provides everyone with absolute confidentiality for their personal tax affairs. For this reason, the government is not currently considering changing this policy."

He also said that individuals can make contributions of up £2,880 each year to a personal pension, self-invested personal pension, or stakeholder pension and receive basic rate income tax relief at, currently, 20 per cent or £720 on their contribution.

"Those contributions can be funded by a working partner," he added.

Lord Bates was answering Baroness Burt of Solihull, who questioned the government's assessment of the recommendations in the Centre for the Study of Financial Innovation (CSFI) report The Dependency Trap, published in January. The research recommended that working partners should be able to contribute to the pension funds of non-working partners, with the recipient also benefiting from tax relief on these contributions. Gender variations in total life-time earnings remain substantial, with men earning – on average – 80 per cent more than women. This has a knock-on effect on their respective pension prospects.

The report also concluded that raising the UK state pension age is not enough to address the challenges caused by an ageing population. The government announced in July that the state pension age increase should be brought forward to 68 between 2037 and 2039, due to increases in life expectancy. Under the current law, the state pension age is due to increase to 68 between 2044 and 2046.

Financial Times Adviser
28 May 2018
By Maria Espadinha

Pension advisers are charging high fees for cheap funds

Pension drawdown investors are being short-changed by advisers who recommend cheap tracker funds but charge higher fees typically paid for a more diversified portfolio. Provided that the risk profile of the investment matches that of the client, such advice is not technically wrong and, on the surface, appears cost-saving. But it also allows the adviser to extract more fees for less work.

Simon Williams (not his real name), 60, is one such client. The accountant wishes to remain anonymous because his pension transfer is not yet complete.

He plans to retire at the end of this year when he will have combined his retirement savings of £420,000 into a self-invested pension plan (Sipp). From this, he aims to “draw down” an annual income composed of interest and a small amount of capital.

Mr Williams’s independent financial adviser (IFA) recommended that his £420,000 pot be split between two funds: Vanguard Lifestrategy 80pc Equity and Vanguard Lifestrategy 40pc Equity. They invest exclusively in a range of Vanguard tracker funds.

Mr Williams paid £4,500 for advice and to set up the Sipp – 1pc of the Sipp valuation at the time. Ongoing fees are 1pc a year for advice, and each fund charges 0.22pc annually. *Telegraph Money* canvassed other advisers for their opinion on whether the advice given was good value. They unanimously said that it was not.

The major concern for our panel was the spread of the investments. A portfolio of that size would typically be divided between at least 20 funds – not just two, said Jon Treharne, of IFA Shore Financial Planning.

This approach doesn’t cost a great deal more. At Shore, the average charge for an actively managed portfolio of 22 to 30 funds is 0.88pc annually plus 0.75pc for advice. At Candid Money, the advice fee is 0.4pc. The advisers we asked agreed that fees for initial advice should have been about £2,000.

Mr Treharne also pointed out that the Financial Services Compensation Scheme only covered amounts placed with an investment company up to £50,000. If Vanguard failed, Mr Williams would lose £370,000.

Jason Hollands, managing director at wealth managers Tilney, said the recommended portfolio lacked diversity. The Vanguard funds invest in international shares and bonds, but there are several shared holdings, doubling up exposure in these areas.

He said: “Within a portfolio of this size you would normally have active and passive investments and also some absolute return funds, maybe gold, not just equities and bonds.”
Concerns were also raised over Mr Williams’s risk profile. He was assessed as being able to tolerate medium to high risk. Mr Treharne said the allocation to the lower-risk 40pc fund “doesn’t stack up”.

As well as his Sipp, Mr Williams will enjoy a guaranteed, index-linked annuity of £5,300 a year. He will also get the state pension of about £8,000 a year from the age of 66.

Together with the Sipp and his roughly £120,000 in savings, he was told he could achieve an income of £36,000 a year until 85, when the Sipp will run out. A £100,000 boost from downsizing his home was factored in.

Justin Modray, director at Candid Financial Advice, called this a “tall order” as the Vanguard funds yielded about 1.5pc. Mr Hollands said shares were richly valued at the moment and a correction was a real possibility. If so, tracker funds (compelled to follow an index all the way down) could suffer more than actively managed funds.

Perhaps a better reflection of what could be achieved with a £420,000 pot can be found in the annuity market. Mr Treharne calculated that the best deal, without any add-ons such as spousal benefits, would pay out £18,694 a year. This seems less attractive but would be a fixed amount for life irrespective of fluctuations in share prices. Could Mr Williams complain? While the Financial Services Ombudsman says it weighs each case on its individual circumstances, Mr Treharne is more circumspect.

He said: “If that’s the IFA’s investment process and they believe the Vanguard funds are the best choice, it’s hard to question. It’s more about suitability of the advice compared to the person’s risk profile.”

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