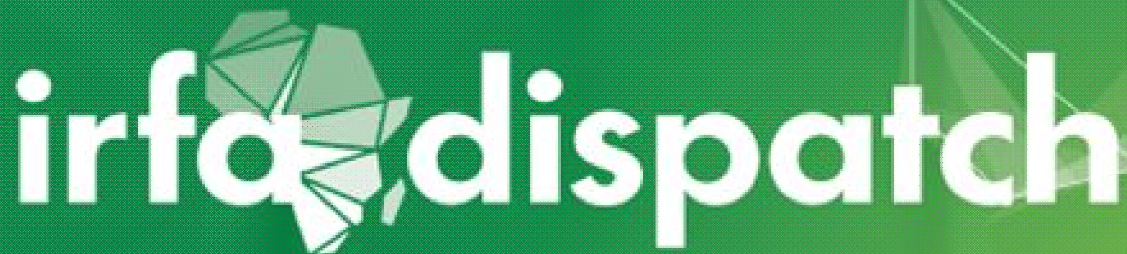
WEDNESDAY, 7 NOVEMBER 2018



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LOCAL NEWS

Your children are not your retirement plan

Wealth can cause people to become less empathetic or compassionate and the desperation of poverty can have a detrimental effect on character.

There are so many reports about how financially unprepared people are for retirement. But behind those stories are real people who struggled to save, but ended up stumbling into retirement sooner than they had planned. In many ways, retirement planning commercials with their beaming seniors walking on a beach, financially set for retirement, portray a life that so many won't experience.

Those retirees look happy. It seems they have been planning and getting all their ducks in a row forever. I applaud all who have done so, but wonder how many of us are/will be like those people? The consequences of not saving enough for retirement can play out in numerous, yet subtle, ways. The results aren't always disastrous, but they're almost always sad.
Retirement should not be a burden, but if we're being honest, we all carry a deep fear that we won't have enough money to sustain us through retirement – thus becoming a financial burden to our children.

Define your values
Money isn't the easiest subject to talk about – especially for families. But by explaining your financial situation, goals and priorities, you get everyone on the same page. Before you discuss money with your kids, you (and your spouse) may need to examine your own values about wealth. Many parents have a clear sense of the values that they'd like their kids to develop with respect to money, but may be less discerning about their own values or whether those values align with their behaviour.

Just say no
A plan can be disrupted by many things, and some parents have a hard time dealing with one expense in particular: they can't say no to their grown children. You don't have to help your adult children every time they ask for it. The first and hardest lesson and the obvious thing is you must learn to say no. At the very least, if you cannot say no, establish the proper financial boundaries.

There's nothing wrong with parents wanting to sacrifice for their children, but when you continue that mindset after your kids reach 25, 35 or even 45, it can impose a significant burden on your ability to retire. You are enabling your adult children to turn to you as a financial plan B or backup plan. That's a huge problem.

Too much financial support could even be preventing your grown children from becoming self-sufficient. Often there has been a pattern of financial entitlement, where adult children or grandchildren have not learned to live responsibly and stand on their own two feet. The parent is helping and enabling just as much as the kid is asking.

It works both ways

No matter how well you think you know your children, money can make them unrecognisable in an instant. Studies have shown that just bringing up the concept of money is enough to alter behaviours, let alone real financial situations.

Whether your children get richer or poorer is beside the point: it's possible for your children to get rich and become less empathetic or compassionate because of wealth. As for getting poorer, desperation can have a detrimental effect on character. While it's an ugly generalisation, poverty can drive some people to become more calculative and deceitful.

As your children go through the same phases of life you do (from school, to work, to the peak of their career and the various ups and downs), their financial situation will fluctuate. As a result, their personalities and beliefs will also change. However well you know them now, financial realities can turn them into completely different people. For that reason, it's never safe to assume your children will be the same generous, giving types that they are today. Hope for the best but prepare for the worst.

Moneyweb I 6 November 2018 I Mduduzi Luthuli

How employers can protect vulnerable employees' retirement savings

Given the volatile nature of local markets in recent years, smooth bonus funds have increased in popularity among cash-strapped South Africans seeking a more stable ride to retirement. This most likely shows that South Africans, especially those who are most vulnerable, are opting for all the protection from market volatility that they can get.

The results from the latest Momentum / UNISA Consumer Financial Vulnerability Index (CFVI) reveal a worsening trend across all indicators of financial vulnerability. In light of this, Pavit Ramnarain, Actuary at Momentum Corporate, believes that employers and retirement fund trustees could protect retirement fund members by offering them the best possible investment solution for their retirement savings – both in terms of capital guarantees and highly competitive fee structures.

"We believe that a combination of low financial literacy and capability levels, as well as poor consumer financial behaviour, are the core underlying reasons for financial vulnerability – a term that refers to a sense of insecurity or inability to cope financially. "However, given the increasingly volatile local market

environment, it is understandable that saving for retirement can often be pushed out as a last priority for many. It is therefore critical that all members, but especially those who are particularly vulnerable, be given the best possible chance of achieving their retirement and investment outcomes."

This belief, Ramnarain says, is very much aligned with the intentions of the new retirement fund default regulations, which are intended to steer retirement outcomes in the right direction. "By requiring trustees to offer members a default investment portfolio that is not excessively complex or unreasonably expensive, these new regulations will assist in providing cost-effective and value-for-money investment solution to fund members."

"Financially vulnerable employees tend to be more risk averse, largely as a result of financial insecurity and distrust. It is crucial that a default investment portfolio for these members provides an opportunity to generate inflation beating returns to maintain the purchasing power of their savings while at the same time offering at least a capital guarantee to protect them against adverse market movements. An investment portfolio that is able to offer both at a lower cost than other solutions will mean that more money can be channeled towards members' accumulated retirement benefit" adds Ramnarain.

Ramnarain believes that a new generation of smooth bonus portfolios is required. "The process of smoothing essentially holds back some of the returns in a reserve when markets are doing well and releases these reserves when markets are performing poorly – minimising the impact of market volatility for as long as the member is invested," he says.

However, considering the steep fees and costly guarantees that are typically associated with smooth bonus funds, a new-age product would need to be designed specifically to protect the most vulnerable employees by offering all the benefits of smoothing, a 100% guarantee, but all at the lowest cost possible.

Ramnarain says the high capital charges come down to the expensive nature of providing investors with a guarantee on the money they invest (referred to as the "capital" amount) and on part of or all future bonuses. "These guarantees, while integral to capital protection when the market is not performing, can be so expensive that they actually end up eating into returns, because the capital charges are normally deducted from your growth," he says.

Ramnarain says investors need a high capital guarantee now more than ever. "A 100% capital guarantee is essentially a shield from loss, no matter what happens in the market. This means that if an investor were to exit a smooth bonus fund at benefit payment stage when markets are at a low, they would be guaranteed to get 100% of the money that they had invested together with any guaranteed bonuses that were declared.

"Without this guarantee, the unfortunate and untimely occurrence of a benefit payment (death, disability, resignation, retirement or retrenchment) during a market slump could have a serious effect on the financial

future of both the member and their dependents.” Ramnarain says that new-age smooth bonus funds need to drastically reduce capital charges while still providing for a 100% capital guarantee. Costs should be further reduced by combining passive, smart-beta and active investment strategies. Smart beta emulates the lower costs of passive investing while still capturing some benefits of active management. However, this should not come at the cost of any benefits of smoothing.

“By reducing the capital charge and applying a combination of investment strategies, the total cost of the fund will be reduced, which means more money can be channelled towards members’ accumulated retirement benefits. The fund should also be underpinned by a proven investment track record. Although past returns are not an indication of future performance, the underlying investment portfolio should be delivering solid investment performance. A low cost, high guaranteed smooth bonus fund is exactly what the most vulnerable members need,” he says.

FA News I 5 November 2018

Is saving in a retirement fund really worth it?

The fact that a pension income is taxed has led some people to question whether saving in a retirement fund really is better than making your own retirement-savings arrangements using after-tax earnings, despite the tax benefits on contributions to retirement funds and the tax free-growth on savings within these funds. This is according to Andrew Davison, the head of advice at Old Mutual Corporate Consultants.

Davison said you need to consider a number of factors - not only tax - when evaluating your options.

“Taxation is an important factor, and it is useful to look at the full impact the various savings approaches could have on your take-home pay, as well as on your retirement benefit.”
He said one of the main ways the government encourages people to save for retirement is to offer tax deductions on savings in an approved retirement fund. Although this tax relief can be helpful when people are working and contributing to a retirement fund, the benefits they eventually receive from their retirement fund when they stop working are still taxed.

Davison said that to help South Africans make informed decisions about saving for retirement, Old Mutual Corporate Consultants conducted an investigation into how tax affects retirement outcomes.

The analysis aimed to compare how tax affected various vehicles to save for retirement, including a retirement fund, discretionary savings and a tax-free savings account (TFSA).
Davison said the analysis also considered different levels of income, because the impact of tax depends on how much a person earns. The analysis was based on the impact of taxation over a person’s full working

lifetime, as well as retirement, which meant assuming that the average person will start work at age 25, retire at 65 and live to 90. “People who earn higher salaries pay more tax, which means the different tax treatment of the savings vehicles result in more significant impacts for higher-income earners,” said Davison.

He said the three levels of pre-tax income that were compared were R20000 a month, R60000 a month and R120000 a month. Davison said the analysis showed that saving in a retirement fund results in the best outcome in terms of income after tax, both before retirement and during retirement. Based on the same level of take-home pay before retirement, a retirement fund provides an after-tax pension that is slightly more than double the income from discretionary savings.

By contrast, he said, the discretionary scenario provides the worst retirement outcome across all three income levels. “This is because the additional tax being paid on your salary, due to not benefiting from retirement contribution tax deductions, leaves relatively little money over to make a substantial post-tax contribution to discretionary retirement savings. The difference was more evident at higher income levels,” said Davison.

In the case of a person earning a gross salary of R60000 a month, a retirement fund provides an after-tax pension that is 75percent higher than discretionary savings, he said. “Introducing a TFSA does improve the outcomes of both the discretionary TFSA and the retirement plus TFSA, but they still fall short of the retirement scenario. This is because TFSAs only provide tax relief on growth and there are limits on contributions, so the benefit is limited,” said Davison.

He said that across all income levels, the retirement scenario produces a net replacement ratio of about 100percent, based on savings of 15percent of salary, a 40-year working career and 25 years in retirement.

“This demonstrates that a suitable and diligent long-term savings plan can deliver a sound retirement outcome. That said, taxation is an important factor, and it is useful to look at the full impact the various savings approaches could have on your current take-home pay, as well as on your retirement benefit one day,” said Davison.

Personal Finance I 6 November 2018 I Joseph Booysen

SA’s twisted history of pension fund plunder

Two recent cases should be cause for worry.

South Africa has a grimy history of companies raiding their pension funds, and the fear is that two recent court cases, which found in favour of the pension fund trustees, will do little to curb the practice.

The first case, involving two pensioners against the Tongaat Hulett Pension Fund, wound its way through the lower courts to the Supreme Court of Appeal (SCA), only to be defeated on what the vanquished pensioners regard as a poor understanding of the law by the judges. They were denied an opportunity for review at Constitutional Court (ConCourt).

The second case involved Rosemary Hunter, former deputy pension fund registrar at the Financial Services Board (now called the Financial Services Conduct Authority), against the FSB over its attempts to deregister funds that still had assets owing to former employees. She too lost her case in the ConCourt, principally on the basis that the court assumed the FSB had competent and responsible people running it, and had investigated a few funds (less than 20%) that had been deregistered as part of the FSB’s cancellations project.

Both cases ended up in defeat at the ConCourt, with no further avenues of legal redress available to the applicants. But the findings of the judges in favour of the pension fund trustees and regulator should be a cause for concern for employees, past and current, with claims to a share of actuarial surpluses or other assets sitting in pension funds of which they are members.

The Tongaat Hulett pensioners, in a recent missive to the 54 fellow pensioners that supported their legal fight, spell out several false or erroneous findings they believe were made by the judges who heard their case.

They claimed in their court papers that the trustees were able to deceive the courts by mislabelling R1.43 billion in contingency reserves as “excess assets”, a term not found in the Pension Funds Act. “Assets in contingency reserve accounts” – a term that *is* defined in the act – should be shared among the members when they are no longer needed to provide for contingent liabilities. It is at this point they become an actuarial surplus. The pensioners argued that by renaming these assets as something else, the trustees, who by law must balance the interests of employees and the company, were able to divert funds away from the members to the company.

The “excess assets” in the Tongaat case referred to the actuarial surplus plus reserves. The SCA was satisfied this was clear enough and “in order to ensure the continuing solvency of the fund, the employer had to carry the balance of the cost”. The decision to apportion these assets as it did was therefore reasonable, found the court. It was legal, said the court.

Letter of the law

But was it moral? Bruce Moor, one of the applicants in the case against the Tongaat Hulett Pension Fund, outlines what the loss of the case means in financial terms: of the R800 million “future actuarial surplus” in the fund at 2012 valuations, R107 million will go to the members and R693 million to the company. The pensioners had argued that a proper application of the intent of the law would probably have given them a 50:50 split, or R400 million. The actual fund rules allow for 80% of actuarial surpluses to go to members and 20% to the company, but by applying this to “excess assets”, the employer managed to grab three quarters of the actuarial surplus, says Moor.

The losers in this case must also pay legal costs of some R680 000 to the winners. The costs would have been about R500 000 higher had the pensioners’ lawyers not taken the last leg of the case on risk. In Rosemary Hunter’s case, she at least got off with no costs awarded against her, largely because she waged her fight in the public interest. However, she had to carry her own litigation costs, even though she did not stand to benefit financially from the court’s decision.

The prohibitive cost of fighting these cases against deep-pocketed adversaries will not be lost on others contemplating a similar legal challenge.

Before 2001, there was robust debate as to who owned surpluses accumulated in pension funds – the company or the beneficiaries. Many employers claimed these surpluses as their own, particularly in defined benefit or so-called balance of cost funds, since they could with some moral authority claim that they had carried all the risks. If the market went down, they still had to cover the fund’s liabilities. The law was sufficiently vague to encourage several employers to plunder their pension fund surplus assets without any legal sanction. Several billion rands worth of surpluses were snatched away from pensioners through this self-serving interpretation of the law. ***Full Report:*** ***https://www.moneyweb.co.za/news/south-africa/sas-twisted-history-of-pension-fund-plunder/***

Moneyweb I 5 November 2018 I Ciaran Ryan

The cost of dipping into savings

Most retirement fund members face living on 20% of last salary

More than half of SA's retirement fund members are retiring on a pension that is 20% or less of their last salary, the latest research from Alexander Forbes reveals. The data in Alexander Forbes's latest Member Watch is collected from the more than 2,000 retirement funds the company administers and more than 1-million members of those funds.

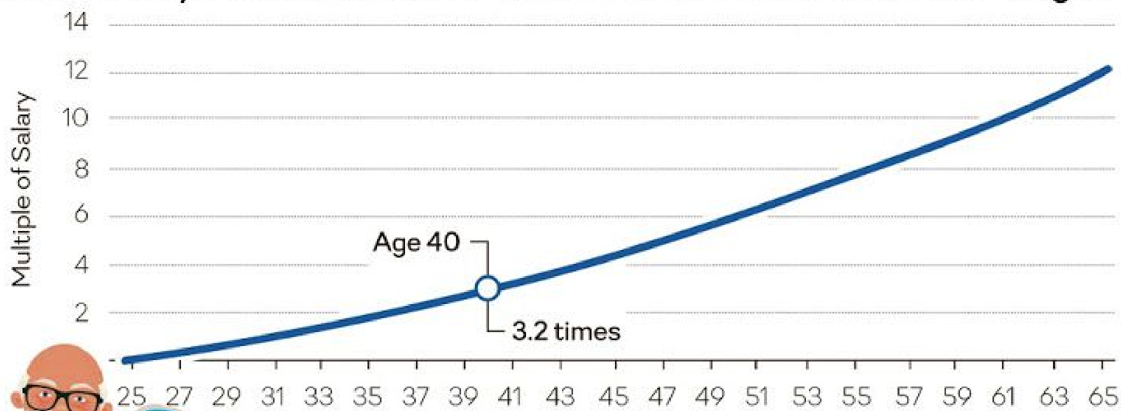
The findings tie in with those of another major survey of funds and members conducted this year by Sanlam. In its Benchmark survey, trustees canvassed were of the view that less than 16% of retirement fund members are on track to achieving their retirement goals and 85% of members will not be in a financial position to maintain their pre-retirement standard of living.

Michael Prinsloo, the managing executive of research and product development at Alexander Forbes, says while the industry norm is for South African retirement funds to target a pension in retirement of between 60% and 75% of your final salary, the analysis has found that only about 5% of retirees get to enjoy a pension income of more than 80% of their last working-year salary.

The actual average income that retirees in Alexander Forbes' survey receive is 28% of their final salary, but this average is skewed as it includes members who retire on a high percentage of their final salary, Prinsloo says. The true picture is that more than half of the members are retiring from their occupational retirement funds on pensions of less than 20% of their last working incomes, he says.

The consequences of these low pension rates are that these retirees face a restricted lifestyle and it makes them reliant on the state or their family for financial support.

How much you should have saved for retirement at different ages



Check if you are on track to retire comfortably:
This graph shows the multiple of salary that you need to have saved at various ages to ensure you are on track to get a reasonable replacement ratio (your pension as a percentage of your final salary) at retirement. For instance, at age 40 you would need to already have saved 3.2 times your annual salary to be on track to receive a 75% replacement ratio at retirement.

Source: Alexander Forbes

A key reason for the low level of pensions is that retirement fund members fail to preserve their savings when they change one job for another.

Over the past six years, about 13 out of every 100 members in the survey left their funds but only one of the 13 preserved what they had built up in retirement savings. The failure by so many South Africans to preserve their retirement savings has led to the government promulgating new regulations that take effect on March 1 next year.

In terms of the regulations, unless you specifically ask to be paid your retirement savings when you move between jobs, your savings will automatically remain in the fund until you instruct the fund to pay you or to transfer your savings to another fund, or you retire from the fund.

Prinsloo says that among the employers whose funds Alexander Forbes administers, the turnover of staff has increased by a fairly marked 2% a year. This means there are more points in members' lives to make the decision to preserve their pension savings or not. One of the most common reasons given by members for not preserving their benefits is that they are financially stressed or that their savings in the fund or fund credit are too low to warrant the trouble of preserving.

The more money members have, the more likely they are to preserve. The survey shows members with R1m and more are more likely to preserve, says Prinsloo. . ***Full Report:*** https://www.businesslive.co.za/bt/money/2018-11-04-the-cost-of-dipping-into-savings/

Business Day I 4 November 2018 I Charlene Steenkamp

Women tend to be at a disadvantage in retirement

Women live longer than men, earn less, and increasingly have to survive on their own – so what they do today really counts.

Here are some sobering statistics about women and why they need to start saving for their own retirement:
Two of every five marriages end in divorce before the 10th anniversary;
The mean age of a divorced woman is 44;
Women outlive men by 4.4 years;
Women earn 27% less than men as a result of the gender pay gap; at more senior levels, women earn 39% less;
One in every two families is headed by a single mother, and only 16% receive financial support from the father;
Working women are more likely to be caught in the sandwich generation – looking after their children as well as their parents.

This rather shocking reality places women at a serious disadvantage when it comes to retirement. They are living longer than men, earning less, and are poorly prepared for the retirement years. This in turn means they are likely to end up working well past retirement age.

Faeeza Khan, legal marketing specialist at Liberty, points out that the financial pressures on working women due to the burden of raising children and, in many cases, looking after their parents, leaves little left over for retirement saving.

"As a result, you find many women entering their 40s with absolutely no savings whatsoever," she says. "In this day and age, they are increasingly likely to be divorced, and receive no financial support from the ex-husband."

Women in the modern era are far more likely to get divorced than their parents' generation. They may have access to a portion of their ex-husband's retirement fund at the time of divorce – but according to Khan, instead of preserving these savings, many spend the funds by putting down a deposit on a house or paying off the car. From a legal point of view, the most common type of marriage contracts are in or out of community of property with accrual, meaning the wealth accrued from the date of marriage is shared equally on divorce.

Both allow the divorced woman to share equally in the wealth accrued during the marriage. Khan says it is important for women to preserve their portion of the ex-husband's retirement savings in the event of divorce, and avoid using this as a cash windfall to be spent on anything other than retirement savings.

The best option however, is to save 15% of your net salary, starting with your very first pay cheque, adds Khan, and to maintain this at 15% as your salary increases. “It’s important to never touch these savings for emergencies, which will always pop up. This is what we mean by paying yourself first. You put your 15% savings away before you pay rent, car or groceries. Once you start to do this and see your savings grow, it becomes natural and easy to do.”

What if you have no savings at all and nothing left at the end of the month to save?

“Then you are living beyond your means,” says Khan, “and have to do one of two things: bring your expenses under control, or look for an additional source of income, maybe a little side business, such as baking or catering, to supplement your income.”

The idea of ‘retirement savings’ is often looked upon with dread by women, since it conjures images of old age and decrepitude. But consulting a financial adviser is an opportunity to redefine your life’s goals, and rekindle those dreams that have been held at bay while bringing up the kids and working on a career. Perhaps you still want to climb Kilimanjaro, or attend the next Soccer World Cup in Qatar.

Moneyweb I 6 November 2018 I Ciaran Ryan

A simple way to save without really noticing it

Liberty’s Stash app rounds up your spending to the nearest R10 and stashes it for you.

South Africans are saving just 0.2% of their household income, according to the December 2017 SA Reserve Bank Quarterly Report. Believe it or not, this was an improvement on the previous year.

Meanwhile, ratings firms in India are complaining that India’s overall savings rate has dropped to 30% from nearly 35% in 2012, of which 60% comes from household savings. China has a personal savings rate of 25%.

Vimal Chagan, divisional director for Investment Propositions at Liberty, spent two years working in India. He explains the difference between South African and Asian savings ratios: “It’s a cultural thing. In SA, we are more concerned about consumption. In China, the government has an entirely different problem: they are trying to get people to spend. Savings is so embedded into the Asian DNA because, culturally, savings represents the foregoing of pleasure today for a future benefit. For many South Africans, access to credit and decent jobs is a recent thing, so there is a huge push to spend rather than to save.”

Chagan adds that South African cultural pressures also have a part to play in the low savings rate, one of these being what is known as the ‘sandwich generation’. These are people who earn decent incomes but are forced to support not only their own children, but their parents as well.

South Africans, particularly those in the 21-40 age group, find it difficult to save. For them, retirement is too far into the future. Once enculturated into spending rather than saving, this habit is difficult to break. It means many people in this age bracket will end up working well past retirement age.

Another problem for this generation is the language of the retirement savings industry. It’s a turn-off for many. The word ‘retirement’ itself does not chime with this generation, which has more immediate goals, such as buying a house, raising children, going on an overseas holiday.

Given these well documented problems, how does one foster a culture of saving?

Chagan admits that the retirement and savings industry is part of the problem. The language of saving is arcane, the products are complex and not easily understood, the costs are opaque, and the products don’t easily sell themselves. Proof of this is that it needs a network of thousands of intermediaries to sell retirement products and convince clients that they should forego current spending for a future benefit.

“Your retirement savings protect you from yourself,” says Chagan. “You see people driving around in luxury cars that they probably cannot afford. Many of them are driving around with the fuel gauge on the reserve line.” If this sounds familiar to you, Chagan says you should probably get rid of the car and reassess your finances. “Getting rid of a car you can’t afford is probably the best loss you could ever make.”

Stashing means paying yourself first

Getting your expenses down is part of living within your means. Once you have done that, Chagan suggests paying yourself first – in other words, putting a percentage of your earnings into savings. A good percentage to work with is 10%, or even more if you can afford it.

It doesn’t matter too much where that money is invested, whether a tax-free savings account, a retirement annuity or other investment vehicle. “The main thing is to start saving,” he says. “Even if it is R100 here and there, this is better than nothing.” Liberty has come up with a relatively painless way for people to encourage themselves to save with its Stash product.

The Stash app is downloadable to any smartphone, and is configured to round up the user’s spending to the nearest R10, or any other selected amount – it detects every swipe of the user’s debit, cheque or credit card, and collects the ‘spare change’ – stashing it away in a no-fee tax-free account linked to the performance of the JSE All-Share Index (which is tax-free up to R33 000 a year).

Users can also configure the app to stash money away based on how many calories they burn from physical exercise they do, with a further option to boost their Stash at the end of the month by, say, R1 000.

“For people who feel they do not have the discipline to save, Stash is a good way to go,” says Chagan. “After a while you start to realise that you have amassed quite a sum of money in little bits and pieces that you don’t notice at the time. Once you see your savings accumulate, you feel encouraged to do more. It feeds on itself.”

Once the savings culture is established, then, says Chagan, is the time to gain a better understanding of the types of savings products on the market. “I think the investment and retirement savings industry has to take some of the blame for SA’s low savings rate,” he says. “We have far too many product types and the costs are opaque. People just don’t understand them. We need a simpler, more streamlined and cost-effective product range, and my job at Liberty is to help us get there. “I think it is more important that people get into the culture of savings first, and then work on how to optimally invest those savings. People should make use of financial advisors, who have a huge role to play in building the savings industry.”

Moneyweb I 6 November 2018 I Ciaran Ryan

INTERNATIONAL NEWS

Pension funds fail to insulate against climate-change risks

Few UK schemes have specific policy covering effect of global warming on investment returns

Only 5 per cent of the UK’s biggest corporate pension funds, which collectively oversee £479bn in assets, have a policy on climate change despite growing concern about the possible effect of global warming on returns. None of the 43 funds analysed had a target for investment in low-carbon, energy-efficient or sustainable assets, while all also lacked a decarbonisation target for their investment portfolio, according to research by Pinsent Masons, the law firm.

The lack of action comes despite pressure from policymakers and investors for pension funds to factor the risks of climate change into investment decisions. This year, 14 of the UK’s biggest pension funds, including the Tesco Pension Scheme, British Airways Pensions and the BP Pension Fund, were warned by lawyers that they risk legal action if they fail to consider the effect of climate change on their portfolios. Carolyn Saunders, partner and head of pensions and long-term savings at Pinsent Masons, said many trustees, whose job it is to oversee retirement pots, were uncertain what action they should be taking.

“It has been apparent for some time that climate change issues can affect financial returns. However, in the absence of a standardised approach to climate-risk management in investments, most trustees are unsure how best to deal with the issue,” she said. In September, the UK’s Department for Work and Pensions announced rules, due to come into effect in 2019, that will force pension fund trustees who disregard the long-term financial risks from environmental, social or governance issues to justify why this does not hurt investment returns. The concern is that some companies could suffer while others benefit under measures to reduce global warning in line with the Paris Agreement, which aims to limit temperature rises.

The Pinsent Masons analysis found that none of the pension funds that were examined included or excluded companies from their investment portfolio based on certain climate-change criteria. According to the research, three-quarters of the pension funds analysed mentioned climate change or environmental, social and governance in their investment strategy statement or investment beliefs, but few had a specific policy on climate change. Peter Uhlenbruch, investment engagement officer for Asset Owners Disclosure Project, a research group, said pension funds needed to step up their responses to climate change.

“There may still be a conception among the global pension fund community that climate change is only about values, ethics or opinions, and not about investment risk,” he said. He warned that pension funds “may be facing significant exposure to unassessed climate-related transition and physical risks, putting the savings of millions of beneficiaries in jeopardy”. “The quicker pension funds learn to measure and manage these risks, the better,” Mr Uhlenbruch added.

A survey by the AODP last month found that 87 per cent of assets managed by the world’s largest public pension funds have yet to undergo a formal climate risk assessment, while only 10 per cent of the retirement pots had made a formal commitment to align their portfolios to the goals of the Paris Agreement. Andy Howard, head of sustainable research at Schroders, the UK asset manager, said many pension fund trustees recognised the potential effect on returns of climate change but were unsure how to translate that into action. Research in September from Schroders, which surveyed 650 investors with $24tn in assets globally, found a mismatch between institutions’ perceptions of the importance of ESG issues and what was happening at the coalface of the investment process.

Raj Sharma, partner at Pinsent Masons, said there was a growing focus from trustees on the risks of global warning when it came to investment returns. “Trustees will start to ask more proactive questions from their asset managers,” he said.

Financial Times News I 4 November I Attracta Mooney

Australian regulators call for more powers to police retirement funds sector

Australia's top financial regulators have called for tougher powers to police poor conduct in the country's A$2 trillion ($1.44 trillion) retirement funds market, the world's fourth largest, showed documents published by a powerful inquiry on Monday.

In submissions to a government-mandated inquiry that has criticised regulators for failures in policing the financial services sector, the Australian Prudential Regulation Authority (APRA) called for extra powers to enforce compliance with laws requiring companies to act in the best interests of savers.

The year-long inquiry, which is expected to recommend far-reaching reforms, has unearthed widespread misconduct including charging fees to the estates of dead people, fee gouging and breaching laws by failing to act in customers' best interests.

Yet, in their submissions to the Royal Commission, APRA and the Australian Securities and Investments Commission (ASIC) rejected criticism by the inquiry that they were too soft. "APRA does not accept the premise that it has not generally acted promptly on misconduct or potential misconduct," the regulator said in its submission.

"However, there are steps that could be taken to improve the ability of both APRA and ASIC to take prompt and effective action in cases of misconduct," it said. The regulator accepted it could make better use of its current ability to sue firms that breach the law, and called for more powers. "There is also a need to strengthen APRA's powers in some areas (including to regulate and enforce the best interests of members covenant and sole purpose test)," it said.

ASIC called for more regulatory intervention to manage conflicts of interest in vertically integrated financial firms such as Australia's largest-listed wealth manager, AMP Ltd , and rival IOOF Holdings Ltd, including a potential outright-ban. Vertically integrated financial firms have units that create financial products while at the same time owning businesses that buy those products on behalf of customers. "ASIC believes that legislative intervention is warranted to address the inherent conflict issues" of firms which operate on behalf of both shareholders and policy holders, the regulator said.

"Consideration should be given to prohibiting" dual-responsibility entities, it said, referring specifically to firms that create the products in which its pension units invest. Such a move would also impact some of the country's largest lenders, including Commonwealth Bank of Australia (CBA) , National Australia Bank Ltd (NAB) and Westpac Banking Corp, which also have vertically-integrated units that create conflicts of interest.

Foreseeing the higher regulatory scrutiny, CBA and NAB are in the process offloading their retirement units, while Westpac has said it remains committed to its investment in its pension business. “Nonetheless it is ASIC’s view, given the evidence ... regarding conflicted structures and the inability of (superannuation entities) to manage these in the best interests of members, that more stringent measures are required,” the regulator said.

Australia’s biggest retirement savings manager, AMP, said customers have benefited from vertical integration and competition should minimise any conflicts between parties. A forced breakup “would also introduce new (albeit different) costs into the system that would have to be borne by someone and a new set of risks that would need to be managed/mitigated,” AMP said in its submission.

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