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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Retirement saving needs to start sooner than you think

Save first, then spend.

The biggest financial mistake a young person can make is believing that planning for their retirement is something they can worry about when they are earning better salaries in the future, or that their retirement savings are being adequately taken care of via monthly deductions by their employer. "It is astonishing how many young people only save via their employers' pension or provident funds and how many have no idea how much they are saving, where that money is invested, and in what," says Jac de Wet, national head of sales at PSG Wealth.

There is often a mistaken belief that saving makes more sense once you are earning more and therefore have more disposable income to save. In reality, says De Wet: "As people are promoted and their salaries increase, so does their standard of living and their monthly expenses tend to go up in line with their increase in income."

But retiring comfortably is first and foremost about the period invested rather than the amount, he adds. The most important thing to know is that the earlier you start, the less you need to save monthly. And if you haven't, catching up is not about catching up on the amount of savings you have missed out on in the past couple of years. It is really about catching up on the compounded returns you have missed out on.

To illustrate, De Wet says that if you want to retire with R1 million at age 65 and you start saving at age 25, you'll need to save R180 a month (assuming a 10% annual return and not taking inflation into account). If you want to end up with R1 million at age 65 but only start saving at age 45, you will need to save almost R1 400 a month, so the longer you postpone saving, the more you need to save.

This is equally important for people working for themselves who need to fund their own retirement. Many tend to pump any money they make back into the business without making formal provision for retirement – but this provision is even more crucial for the self-employed as there is no employer making automatic retirement savings on their behalf. "The moment you formalise your retirement savings plan, and don't deviate, the better the outcome at retirement."

According to PSG Wealth, apart from starting as early as possible, to be part of the 6% of South Africans who are able to retire comfortably, you can actively plan and maximise your saving by following a few steps:

Save more by cutting back on expenses and dropping your standard of living. According to PSG Wealth, an additional R1 million at retirement today buys you an extra R4 100 a month (based on an annuity rate of 5%). Allocate a higher percentage to growth assets like equities. De Wet says a rough rule of thumb is to deduct your current age from 100 (the age to which you could live), and the result is the percentage exposure you should have to equities. So, at age 40, you should have 60% in equities and at age 60, you should have 40% in equities.

Preserve your retirement funds. Never take the option to cash out your pension benefits when you change jobs or get retrenched, and don't be tempted to use your retirement savings for anything other than retirement.

Make use of all the tax benefits available. All contributions to retirement annuities, pension funds or provident funds are tax-deductible up to 27.5% of your taxable income, up to a maximum of R350 000 a year. This is particularly important for those who are self-employed, De Wet says, and retirement annuities are an ideal vehicle for saving and making use of tax benefits.

Work for longer, even if it is part-time after formal retirement.

Get financial advice.
Given that the local equity market has not given positive returns recently, it has become increasingly difficult to convince people to invest for their retirement. But markets are so cheap at the moment. "People who start saving and investing now are doing so at the lower end of the cycle and the upside is much bigger than the downside," De Wet says. ***Full Report:*** ***https://www.moneyweb.co.za/in-depth/features/retirement-saving-needs-to-start-sooner-than-you-think/***

Moneyweb | 30 January 2019 | Marcia Klein

What it takes to retire at 45

The Stig of financial blogging unpacks his journey towards financial independence.

The FIRE (Financial Independence, Retire Early) movement encourages its followers to save a substantial amount of their income and accumulate assets capable of generating enough passive income for them to be able to retire in their thirties or forties.

FIRE has its critics, but at its heart is a realisation that a frugal and debt-free lifestyle gives individuals more freedom around how they spend their time. The movement is not about not working, but about placing yourself in a position where you can choose when and how you work. As such, some of the principles can be useful, even for those who will probably work from nine to five for most of their lives.

One of South Africa's most well-known FIRE followers is a blogger called Stealthy Wealth. Below, the Stig of financial blogging answers a few questions about his journey towards financial independence.

Your blog, Stealthy Wealth, tells the story of your journey towards financial independence. You aim to retire in 2030 at age 45. What made you decide to go on this journey?

Towards the end of 2015, beginning 2016, a few things happened. The first was that my wife and I found out we were expecting our first child. There is nothing quite like the imminent arrival of a baby to really make you look at life and your priorities. Secondly, we were about to make the last payment on my wife's car. That was going to be the last instalment on our short-term debt.

I was thinking I really want the bit of extra money to make a difference in our lives and not just get absorbed in month-to-month expenses. Then around the same time I stumbled across a blog called Mr Money Mustache and that blog details a 30-something year old who retired at the age of just over 30. I really liked the idea of buying back your time by becoming financially independent and that is where it all began.

How did you calculate how much money you need to retire?

I used a concept known as the 4% rule. The long and short of it is that you can draw 4% of your capital to cover your living expenses in the first year of your retirement. Now the math is a little bit complicated but if you rearrange it a little bit it boils down to 300 times your monthly expenses in retirement is the lump sum you would need and then you pretty much have an excellent shot of never running out of money before you kick the bucket.

What percentage of your income do you currently save?

At the moment it is around a third. It does vary a little bit month to month depending on certain expenses that may come up, but I generally try to save and invest as much as I can. It is a little bit on the low side compared to some of the other FIRE people out there, but my wife is currently a stay-at-home mom, so when she returns to work I hope to up that percentage a little more.

What were the main changes you had to make regarding your finances and lifestyle?

I think the two big things that is enabling this goal of mine is the fact that we only have one car. It is a very cheap-to-run, cheap-to-maintain hatchback and it is paid off, and we don't plan on taking on more car debt for the foreseeable future. We'll drive that car until it is no longer drivable and then the other big thing is I stay fairly close to my work, so my commuting cost is very minimal compared to what the average South African spends on getting to and from work.

You have been on this journey for a few years. If your investments have largely been in South Africa, chances are returns have disappointed. What does your progress look like at this point?
Like most South Africans who are working I have a pension fund through my company, which, through Regulation 28, does have quite a bit of South African exposure. So the returns over the last four years have been extremely disappointing – but, you know, investing is a long-term game. It is not three to five years, it is 10-years plus in my view. At the moment, I am about 30% behind where I hope to be, but I'm optimistic that going forward and over the remaining years until 2030 that the market will catch up some of the gains that we've all been craving and I should hopefully get back on track. ***Full Report: https://www.moneyweb.co.za/mymoney/retirement/what-it-takes-to-retire-at-45/***

Moneyweb 29 January 2019 Ingé Lamprecht

The importance of the 5-15-75 rule for your retirement funds

To mathematicians the numbers 5, 15 and 75 may have no fascinating correlation or geometric relationship. They are not the Golden Ratio, nor did they help solve Fermat's Last Theorem. But to retirement specialists, they provide the starting point for calculating how much you really need in your retirement.

The "5" relates to the generally accepted "safe" percentage SA retirees can draw down from their retirement capital on an annual basis to receive a sustainable, inflation-adjusted retirement income for life. The "15" refers to the percentage of salary it is recommended you should save for retirement each month. It is also the number by which your current annual income is multiplied to give the required amount of capital needed at retirement. Lastly, "75" is the percentage of your salary that should be received in retirement to maintain your standard of living.

No-one really knew how much you needed for retirement until 1994 when American financial planner William Bengen crunched the numbers and came up with 4% as the "safe withdrawal rate". That meant, by US standards you could withdraw 4% from your retirement portfolio every year over an estimated 30-year period, without seeing a decline in living standards late in retirement.

In SA the number is higher, at 5%, mostly because of an historically higher interest rate environment and the positive effects higher interest rates have on retirement portfolios. But even the 5% withdrawal rate should be used as a guideline.

Bengen acknowledged in his study that volatility in asset returns during retirement would cause the safe withdrawal rate to fall. So it is advisable to be somewhat flexible. This is especially relevant for recent retirees, given how disappointing returns have been in the recent past. Older retirees have shorter time horizons and can therefore justify higher withdrawal rates.

Much like the safe withdrawal rate for retirees, there is also a “safe savings rate”, expressed as a percentage of the income earned while still working. US academic Wade Pfau believes you will be better prepared if you start your working life thinking in terms of a safe savings rate rather than waiting for retirement to set a safe withdrawal rate. But even that is not fail-safe. Eventual outcomes will vary based on assumptions about asset allocation, market returns, lifestyle needs and the expected duration of the accumulation (while working) and decumulation (while retired) phases.

What stands out most is the importance of starting to save early. In SA it is generally accepted that 15% of a monthly income should be saved for retirement, though that will increase the later you start saving. Currently, up to 27.5% of your annual taxable income can be saved tax free.

The replacement ratio (the percentage of your final salary required at retirement) is generally considered to be around 75% in SA. This ratio is based on the actuarially calculated amount that defined benefit pension funds paid out when they were still applicable to most people’s pension funds.

Unless you are a government employee, you are much more likely to be invested in a defined contribution pension fund today, where the retiree needs to take responsibility for having adequate retirement capital to fund their future income needs. The rationale for replacing only 75% of your final salary is that retirees will need less than 100% of their annual salary in retirement.

As a start, you will no longer be saving 15% of your salary for retirement. Other costs (such as debt servicing, transport, children’s education and housing) may reduce too. Predictably, the highest cost, particularly in the latter years of retirement, is medical costs, making continued membership of a quality medical aid very important.

Based on a withdrawal rate of 5% and the replacement ratio of 75% of annual salary, the amount that is required at retirement is 15 times your final annual salary.

However, if the numbers were fail-safe and the process was risk-free, retirement would not be the complicated process it has become. Like an obstacle course, numerous hazards lie in your way:
Even if retirees do all the right things, they may still fall victim to retiring at the wrong time. The sequence of returns is a risk that affects retirees, depending on the order in which returns on their retirement investment occur. If a higher proportion of negative returns takes place at the beginning of retirement it will have a lasting negative effect and reduce the amount of income you can withdraw over your lifetime. To avoid crystallising big losses, you need a portfolio that limits large losses. Most people in their early 60s can expect to live another 20 to 30 years. But of course, no-one can predict when they will die. It is therefore considered prudent to plan for a longer lifespan of at least 30 years. Even this is not always fail-safe, but

you can manage this risk through insurance by using some of your capital to buy a guaranteed income for life.

And there is always inflation. If the rate of inflation exceeds returns, capital and therefore retirement income will be eroded, so the aim of all retirement funding portfolios should be to achieve real returns of at least 3% to 4% over time. Growth assets such as equities and property provide the best protection against inflation over time; moderate growth exposure is therefore an essential element in the fight against inflation. Most people in SA do not plan sufficiently for retirement and leave saving for it too late. However, the numbers, 5, 15 and 75 may provide some guidance on how to plan as efficiently as possible and not be caught unawares. It is always advisable to know how much is enough.

Business Day | 28 Januarys 2019

Preserving wealth across generations

In fact, this aversion to the loss of money is so significant it has become the subject of a substantial number of studies. The "pain" that is felt when people lose money is stronger than the "joy" of a gain. And it is even more pronounced when a person has worked hard to build their capital base, often through diligent behaviour and determination, over many years – possibly even a lifetime.

However, it is in families, where a parent has built a legacy for his or her children that the potential for loss particularly comes to the fore – many wealthy families seldom see the transition of their wealth beyond the second and third generations. As a result, the successful transfer of wealth should entail more than just tax planning and careful investing.

One of the most effective ways to preserve such assets is to have governance structures in place to protect them, and there are three elements to this:

1. **A succession plan**

   Once the capital has been established it needs to be managed, and a plan must be put in place to ensure that this continues. A set of people need to be mandated to continue with managing the assets, for an indefinite period of time.

   These need not be the family members, as there can often be issues amongst siblings regarding its future management while some family members may also be reluctant, unprepared, or even unable to take this role. But, more importantly, future generations will not even be known, so it would be impossible to predict their level of interest in or aptitude for managing the assets. It might also be easier for non-family members to act impartially in all circumstances.

2. **A suitable investment policy**

   Once the capital has been built, it needs to be managed appropriately and if an investment policy is laid out in advance, then its supervision and control will be better organised. An investment policy establishes the goals and boundaries within which decisions will be made, leading to clearer and more rational decisions. This means that investment decisions will be more objective even during periods of market disruption when an emotional response might be more likely. In this way, a family can aim to protect its wealth and ensure that it is attended to prudently.

   An investment policy also establishes accountability and serves as an overarching strategic guide for planning and implementing the investment programme. It allows for aspects such as asset allocation, risk monitoring and management as well as reporting.

3. **A suitable distribution policy**

   A key element of preserving wealth is determining when and how proceeds are distributed. It is important to stipulate upfront how the proceeds generated by and the future sale of the assets will be distributed, to whom and when this will take place. Not only will this manage the expectations of future generations, but it will also guide and control the ongoing preservation of the assets.

   You can decide how much discretion should be afforded the decision makers and under what circumstances such discretion is allowed. Pay-outs are often linked to certain ages for future generations, with 25, 30 and 35 years having been quite common, although experts caution that 25 is almost certainly too young to properly manage large sums of money. Sometimes pay-outs are provided on an as-needed basis, and sometimes they can be stipulated.

   Ultimately, the key is that this should be the culmination of a carefully thought-through process with deliberate decisions having been taken and nothing left to chance.

   By putting a governance structure in place, families will be able to protect their assets and overcome the potential risk of future generations not being good stewards of the wealth.
   It is equally important that the plans to preserve wealth are communicated to family members to manage their expectations, as well as providing them with the opportunity to discuss their investment values and precepts. It also affords families the occasion to educate and provide tools to prepare each generation to successfully handle the wealth.

FA News | 28 Januarys 2019

What you need to know about retirement saving

Retirement funds offer tax-free growth and tax-deductible contributions, making them the most efficient way to save for retirement and ensure you can retire financially secure. These include pension funds, provident funds and retirement annuities (RAs).

Government has been trying to standardise the treatment of all retirement funds over the past few years, and as a result the differences have gradually been eroded.

Retirement annuities vs pension and provident funds – what's in a name?

A pension or provident fund is offered by an employer to help its employees save for retirement. Many employers make it compulsory to join its retirement fund, but employees can usually decide what percentage of their salary to contribute, which is generally between 5% and 15%. An employer may also decide to contribute a percentage towards the employee's retirement fund. These funds help to ensure regular saving, as the contribution is deducted from the employee's salary every month before it is paid.

Not all employers offer access to a company retirement fund. Retirement annuities (RAs) allow individuals to save for retirement on their own and are ideal for individuals who cannot join an employer's retirement scheme, are self-employed, or who want to save more than what they are already contributing.

Tax benefits to saving

March 2016 saw an increase in the percentage of allowable tax-deductible contributions (personal income tax) from 15% to 27.5% of taxable income, whichever is the greater, up to an annual limit of R350 000. This applies regardless of the type of retirement fund you contribute to.

Tax-efficient growth

Retirement funds are exempt from tax on dividends and interest, and you won't have to pay capital gains tax on the growth earned on your investment. When you retire from the fund, your lump sum benefits taken will be taxed according to the prevailing tax tables, while the income you take will be taxed at your prevailing marginal tax rate.

If you were to die before retirement, your retirement fund benefit would not be subject to estate duty, potentially saving between 20% and 25% in estate duty at death. Make sure that you list all your dependants and/or beneficiaries on your retirement investment application, or if you didn't do so on your original application, contact your adviser to establish the requirements to have them listed.

Your underlying investment options depend on your employer or provider

If you're a member of your employer's retirement fund, your employer along with the Board of Trustees of the fund will make a number of decisions on your behalf. These could include, among others, the available funds and minimum contribution levels. However, as long as you comply with Regulation 28 of the Pension Funds Act, you can usually structure your savings to meet your preferences.

Options to access your savings on retirement or resignation

Retirement funds differ slightly in terms of how you can access your funds when you leave work – for example, when resigning or retiring. While some decision is usually required when you leave your employer, a retirement annuity can effectively be "for life".

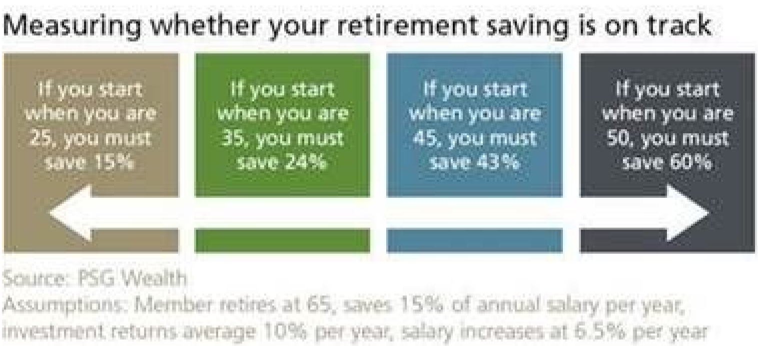
Avoid the temptation to withdraw

It can be tempting to take your retirement fund pay out as a lump sum when you change jobs, but not preserving your retirement savings is one of the biggest pitfalls that leads to many South Africans not being able to *retire with financial security*.

Because RAs do not allow you to redeem your retirement savings along the way, they are a good option for those who feel they may not be able to resist the temptation to withdraw their savings before retirement.

Plan holistically and be sure to get the full picture

While saving 15% of your income is a starting principle, the reality is that every time you don't preserve your retirement funds when switching jobs, you reset your savings clock. It also means that if you start later (for example, if you studied longer or worked overseas) you will need to save more. The 'saving 15%' guideline assumes a 75% replacement ratio is sufficient, but that is *not necessarily the case*. A simple rule thumb is that every R1 million you have at retirement can sustainably generate just over R4 000 p.m. income over your lifetime without eating into the capital.



A qualified financial adviser can help you understand all the factors that shape your unique retirement reality and help you achieve your retirement goals through formulating a holistic retirement plan.

FA News | 25 January 2019

Checklist: How to retire with enough

Six steps to reaching 6% status.

To be part of the 6% of South Africans able to retire comfortably, you need to actively plan for a better retirement. Apart from starting as early as possible, Jac de Wet, National Head of Sales at PSG Wealth says there are six steps you can follow to maximise your retirement savings, giving you a better chance of ending up on the right side of the statistics.

Save more

Cutting back on expenses by making small adjustments to your standard of living could allow you to add more to your retirement each month. “Increase your retirement annuity by R1 000 per month by means of a debit order to make it easier,” de Wet says. “An extra R1 000 into your retirement annuity will go a long way over time.”

Use your age as a guide to growth assets

Allocating a higher percentage to growth assets (like equities) is a great long-term strategy, but how do you know how much exposure you should have? “A rough rule of thumb is taking 100 as the age to which you will live and deducting your current age from it. The result is the percentage of exposure you should have to equities,” de Wet says. “So, at age 40, you should have 60% in equities; at age 60, you should have 40% in equities, and so on.” This method helps to manage risk as you can’t really afford a 20% market crash at the age of 70, but at age 45 you have time to recover more easily.

Consult a professional financial planner or wealth adviser

You don’t want to make any uninformed decisions on such an important part of your financial planning. “An adviser helps to take the emotion out of investing, which can be tough in volatile markets, and can help keep you on track towards your saving goals, following a financial plan tailored to your unique circumstances,” de Wet adds.

Preserve your retirement funds consistently

Never take the option to cash out your pension benefits when you change jobs or get retrenched. “Don’t be tempted to use your retirement savings for anything other than retirement. You can’t get back the years you will have accumulated saving already, which means losing out on compound interest’s magic.”

Be tax savvy

All contributions to retirement annuities, pension funds or provident funds are tax deductible up to 27.5% of your taxable income, up to a maximum of R350 000 a year, and de Wet advises you make the most of this.

Work for longer

“Because we are living for longer, it makes sense to continue working for longer – even if it is part-time after ‘formal’ retirement.” It is becoming common practice for people to continue working into their seventies. Even if we will be working for longer, it makes sense to save more money than what we need, rather than to have too little to live on.

Following these steps consistently can really help you achieve the goal of a comfortable retirement, joining the 6% who already get there, or increasing the odds. “Consistency and truly making the most of time can ensure your savings will go the distance,” de Wet concludes.

Personal Finance | 28 January 2019

How can I access part of my annuity?

Q:

I was retrenched in August 2015 and need to buy a property with some money left in my RA.

I was retrenched in August 2015 and opted to take a third of the money to pay debts and invest the remaining money, which I get some percentage of on a monthly basis. I need to buy a property with some money left in my retirement annuity (RA). How can I access it or part of it?

The response below is a general view and does not constitute advice for your specific needs. However, it may be used as a guideline to assist you in your financial decision.

With the harsh realities of our economy, retrenchments have become a tragic reality for many families. Firstly, I commend you on using some of your payout to settle some outstanding debt, and hope that you can remain debt-free.

While you refer to a RA, the fact that you are getting a monthly income based as a percentage of the invested lump sum leads me to believe that in fact your funds are invested in a living annuity. One can’t receive a regular monthly income from their RA.

A retirement annuity

Assuming the funds are in an RA, it should be noted that you can only withdraw from a RA if:

Your current fund balance is less than R7 000

You emigrate, or

You become permanently disabled.

Outside of the above conditions, you would need to wait until minimum age 55 before having any access to the funds.

Or a living annuity?

As indicated above, you mention receiving a percentage of the invested capital as a regular income. This has the characteristic of a post-retirement product. Additionally, your referral to involuntary retrenchment and opting to take one-third of your money as cash also leads me to believe that your funds are invested in a post-retirement product.

The rules of pension, RA or preservation funds regulate that you can take up to one third of the funds in cash, but the other two thirds must be invested into a living annuity or life annuity that will provide you with a monthly retirement income.

An involuntary retrenchment from your employer's retirement fund may be treated as early retirement, thus evoking the one-third/two-third rule and should be taxed per the retirement lump sum tax table, subject to the cumulative value of any previous retirement fund withdrawals made.

I'm assuming it is a living annuity, but it could also be a life annuity that you're earning an income from. For the purposes of keeping this response a reasonable length, I will assume the former and proceed as such.

What is a living annuity?

Simply put, a living annuity is where your income is generated from the point at which you retire. In this case, it would be early retirement due to involuntary retrenchment. When you have the option to retire from your pension, provident, preservation fund or RA, you can invest the amount that you cannot access in cash (two thirds or the whole amount) into a living annuity (or life annuity).

A living annuity gives the investor the freedom to adapt their income level (within the legal limits) and the frequency at which they receive their income once a year, which means you can adapt your cash flow to meet your changing needs. You can also choose the underlying investments to ensure they match the level of risk you feel comfortable with and, when you die, the available money is transferred to your beneficiaries, enabling you to leave a legacy.

Full Report: ***https://www.moneyweb.co.za/investing/property/how-can-i-access-part-of-my-retirement-annuity/***

Moneyweb | 28 January 2019 | Mduduzi Luthuli

INTERNATIONAL NEWS

52% of U.K. pension professionals think multiemployer superfunds will be commonplace – survey

Consolidating defined benefit funds into multiemployer arrangements, known as superfunds, will become a commonplace solution for some U.K. plan sponsors, according to 52% of respondents to a survey by specialist advisory firm Lincoln Pensions, a subsidiary of Cardano Group.

However, in a separate question, even though 46% recognized consolidation as a potential endgame for funds that they might consider in the future, just 11% of the 140 respondents, which included 66 pension trustees, are currently considering this option. The other 74 respondents are defined broadly as pension professionals.

The survey, in its first year, also found that any future U.K. superfund legislation should focus on the covenant — the plan sponsor's obligation to deliver pension benefits. The U.K. government is currently consulting the retirement industry about how it should facilitate a consolidation of corporate defined benefit funds in the legislation.

Some 60% of the surveyed pension professionals said superfund legislation should focus on ensuring that the superfund covenant is stronger than the employer covenant available to the transferring pension fund. Only 14% of respondents appear to support the regulatory approach proposed by the U.K. government, which is based on targeting a 99% probability of meeting full benefits.

Some 21% stated that all superfunds should target the same minimum level of covenant strength, which is defined as the capital in excess of the insurance buyout cost. According to three-quarters of respondents, plan sponsors receiving covenant advice from external regulated providers should also be mandatory. "Any new regulatory regime must focus on ensuring that 'superfund' (or similar transactions) deliver genuine covenant improvement," said Darren Redmayne, CEO of Lincoln Pensions, in a news release.

Pension Investments | 28 January 2019 | By Paulina Pielichata

Benefits rule changes could cost pensioners in UK thousands a year

From 15 May, new pensioners with partners under 65 can no longer claim pension credit

Thousands of poorer UK pensioners who have partners of working age could lose up to £7,000 a year in top-ups as a result of imminent rule changes that will require them to claim universal credit as a couple. Changes slipped out on Monday night by the Department for Work and Pensions mean that from 15 May, new pensioners whose partners are younger than the state retirement age of 65 can no longer claim a means-tested top-up called pension credit.

Instead they will be forced to claim the much less generous universal credit alongside their younger partners. The couple rate of universal credit is £114.81 a week compared with £255.25 for a couple receiving pension credit. This amounts to a potential loss of £7,320 a year. Age UK described the change as a "substantial stealth cut" and said it could have a devastating effect on the health and wellbeing of some older people and increase the numbers of pensioners in poverty.

Caroline Abrahams, charity director, said: "It is by no means unusual for one partner to be slightly older than the other within relationships and the bigger the age gap between them, the more long-lasting the adverse impact on them will be because of this proposed change. "That's why this government policy has been dubbed 'the toy boy tax' by some – but that's not to trivialise the really serious impact it is likely to have on anyone unlucky enough to be subjected to it. For some, the impact will be truly devastating. The government should think again."

The scale of the potential losses faced by couples could put pressure on existing relationships, say experts, and may persuade them that they cannot afford to marry or move in together. The average age gap for mixed-age couples is 2.6 years, meaning the cash loss incurred before the younger partner becomes old enough to claim pension credit could be £19,000. Where the gap is greater the potential total lost will be more.

Age UK said pensioners may find themselves in the "absurd position" of being financially better off if they split up and live apart from their partner. A single person who claims the top-up is eligible for £167.25 a week in pension credit, meaning that in theory a pensioner will be better off staying "solo" for benefit purposes rather than claiming with a partner.

Gareth Morgan, a benefits expert, said a single person getting pension credit who forms a relationship with a person of working age would lose their entitlement to that benefit and would have to claim universal credit as a couple. However, if they were to separate again, even if they remained living in the same home but as separate households, their total incomes would increase substantially. This is because a single person's pension credit combined with a single person's universal credit amounts to more than a couple's universal credit payment. ***Full Report:*** [***https://www.theguardian.com/society/2019/jan/15/benefit-rule-changes-could-cost-pensioners-in-uk-thousands-a-year-pension-credit***](https://www.theguardian.com/society/2019/jan/15/benefit-rule-changes-could-cost-pensioners-in-uk-thousands-a-year-pension-credit)

The Guardian | 5 January 2019 | Patrick Butler

OUT OF INTEREST NEWS

Investors forecast returns of 9.9% – millennials expect more

A major global study conducted by Schroders has found investors expect their portfolios to return nearly 10% annually over the next five years. Investors expect annual returns of 9.9% over the next five years, according to a major new global study. Regionally, returns expectations were highest in Asia, at 11.8%. In the Americas, investors expected 10.2% and the figure was lowest in Europe at 8.6%.

The returns, based on the average expectation of more than 22,000 investors, include growth in their money as well as any income paid out in the form of dividends and interest from a variety of investments including cash, bonds, property funds and equities. The expectations were tempered slightly from the 2017 study when the forecast was for 10.2% a year. The findings were part of the Schroders Global Investor Study (GIS) 2018, which measured the views of investors in 30 countries.
Investors' expectations follow a particularly strong spell for equities in particular and echo returns achieved by global stock markets in the past five years. The MSCI World Index, for instance, has returned 12.2% a year since 2013. The historic performance of markets does not offer a guide to future returns.

At a country level, investors in Indonesia on average expect the highest returns, at 16.8% a year. Expectations in other emerging countries were also high, with investors in Brazil, China, Thailand and India all looking for average annual returns in excess of 13% between now and 2023. South Africa was not far behind with expectations of 12.8%.

US investors expect annual returns of 8.5% over the next five years. In Europe, Russian investors expect the most at 13.0%. However, the region as a whole expects a much lower return, with an expectation of 7.0% in Belgium being the lowest (regionally and worldwide).

A full list of countries and their average expected annual investment returns over the next five years, compared to returns just for stock markets over the last five years can be found at schroders.co.za.
We have focused on equities because of the higher risk and potentially higher returns. Doing so underlines the level of optimism among investors, given their expectations are based on a portfolio of mixed investments and savings, which may deliver lower returns. The average investor holds 33% in equities, 18% in bonds, 25% in cash, 12% in property funds and 11% in alternative investments.

Investors' overall return expectations easily exceed even the buoyant stock market returns achieved in most countries over the past five years.

'Expert' investors expect even higher returns

Investors who judged their level of investment knowledge to be "advanced/expert" expect returns of 10.9% a year, over the next five years. Investors who consider their level of investment knowledge to be beginner/rudimentary expect a more modest 8.8%. "Intermediate" investors expect 9.7%.

How age affects expectations

Younger generations had bolder expectations for their investments. Millennials, defined in this study as those aged between 18 and 36, believed they would get an annual return of 11.0% over the next five years. The expectations stepped down with each generation: Generation X (age 37 to 50) expected 10.0%; Baby Boomers (age 51 to 70) expected 8.8%; those aged 71 and over were expecting annual returns of 7.1%.

What do analysts predict for future returns?

Returns are notoriously difficult to predict but Schroders Multi-Asset investment team forecasts suggest a 5.6% return for global equites over the next 10 years. Forecasts, of course, should not be relied on for financial planning. In fact, the high return expectations may raise concerns among financial planners. The study also showed that the top reason for saving was to have a comfortable life during retirement. Those plans could unravel if returns are lower than expected.

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