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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Proof that it pays to top up your retirement annuity
- Three retirement savings myths debunked
- I have an RA – do I really need a TFSA?
- RA vs Pension fund: Here are the pros and cons of your retirement plan
- Still time to benefit from retirement tax breaks
- MONEY CLINIC: Is the penalty for moving my retirement savings too high?
- DA to fight ANC's attempt to nationalise private pensions

INTERNATIONAL NEWS

- Greenest pension schemes belong to large UK banks
- UK set to introduce collective DC pension schemes

LOCAL NEWS

Proof that it pays to top up your retirement annuity

Investing for retirement through a retirement annuity (RA) is probably the most effective and rewarding way to save for retirement because of the unique benefits offered. "The most significant benefit is the fact that you can enjoy unparalleled tax savings which you can use to boost your retirement savings," explains Tandisizwe Mahlutshana, Marketing Executive at PPS Investments.

To get these great savings you can top-up your RA to the limits set by SARS before the end of each tax year. The current tax year ends on 28 February 2019. You can contribute up to 27.5% of your annual taxable income in a RA, subject to a maximum tax deduction limit of R350 000 per annum. Furthermore, SARS will not penalise you for contributions that exceed the allowable limits. Instead, you will be allowed to add the excess onto the following year's tax returns.

The proof is in the pudding

As an example, twins, Thabo and Thando earn annual salaries of R500 000. Both contribute 7.5% of taxable income into their respective retirement annuities. They earn an annual bonus of R100 000 each. Thabo goes on a spending spree. Instead of splurging her entire bonus, Thando takes a portion of her bonus to top-up her RA. After 15 years, Thando has 80% more in retirement savings than Thabo.

Thabo (does not top up RA)	30%	Thando (Takes 30% of annual bonus to top-up her RA.)
R0	RA top up from the annual bonus	R30 000
R36 207	Tax on bonus	R25 200
R37 500	Total RA contributions per annum	R67 500
R750 884.54	Total RA savings over 15 years	R1 351 592
Thando saved 80% more than Thabo after 15 years.		
The investments grow at an average of CPI+4% while the earnings are adjusted for inflation.		

"Making a decision not to top-up your retirement annuity in favour of having more disposable income can be tempting but in the long run the benefits of topping up your retirement annuity far outweigh the decision not to," says Mahlutshana.

To get an idea of the maximum top up contribution allowed on your retirement annuity and the tax you could get back, use the PPS Retirement Savings Tax Calculator on our website **www.ppsinvestments.co.za**

FA News | 12 February 2019

Three retirement savings myths debunked

Retirement is often painted as a harbinger of doom, with naysayers sounding endless warnings that you will likely need to cut out all of life's pleasures if you're to survive your retirement years. But the reality is that with careful planning, retirement shouldn't be an event that signifies any changes in your financial behaviour. All that changes is that you don't go to work – everything else should be taken care of.

A rule of thumb states that if you can live on 5 percent of your assets each year and if they are managed properly, your savings should last you forever. Put differently, if you multiply your annual expenses by 20 times, you will roughly know what capital you need to retire comfortably.

However, recent studies suggest that just 8% of South Africans are saving enough to replace at least 75 percent of their final salary as their income in retirement – the goal-post for ensuring your financial security and comfort.

The most common themes underlying retirees' lack of savings include saving too little, cashing in savings at resignation or retrenchment, investing too conservatively, and continuing to provide for children and parents.

Personal Finance | 11 February 2019

I have an RA – do I really need a TFSA?

TFSAs can be a good investment choice for many individuals, because they are flexible and accessible and allow you to choose a variety of underlying investment options. The benefits really add up in the long-run though, so using these with a short-term view (withdrawing too soon) can mean you are not maximising the actual long-term benefit, which is way more powerful than the tax savings when viewed on an annual basis.

These are some of the questions most frequently asked about TSFAs.

If I have an RA, why would I need a TFSA?

You can normally only access a Retirement Annuity when you retire. TFSAs are completely flexible investments and you access these at your discretion. That said, there are benefits to remaining invested for the long-term. Moreover, because your investment income in a TFSA is not taxed, they also offer a tax advantage and are a good supplement to your retirement income.

What happens to my TFSA when I reach the maximum allowable life-time contribution?

Contributions above the limits will be taxed at 40%. Therefore, it does not make sense to continue contributing when the maximum level is reached.

Is it likely that the maximum allowable contribution, monthly and annual, will change?

Government reviews the limits from time to time and the maximum has already been increased once since these products were introduced in 2015. So yes, the limits may be amended from time to time.

What investment risk-profile would be best for a TFSA (conservative, moderate, high-risk)?

This would depend on your risk profile and investment objective, and the answer would vary from one investor to the next. Those who have a longer investment horizon, should therefore consider investments into growth assets like equities, even though these are considered to carry more short-term risk.

Does it matter which TFSA provider I choose?

Government regulations ensure the basic features of TFSAs across providers are similar. That said, you should invest with a reputable company who can provide access to underlying investments that suit your investment preferences and that can offer you a holistic investment experience. As of March last year, you are also allowed to switch your TFSA between providers, so if you're not happy you can make a change.

Are there 'better' investment vehicles available for discretionary savings?

People often get caught-up in what the "best" choice is – but the answer will depend on what other provisions you have made, why you are saving, and when you want to access the investment. But remember that you would be wasting much of the real benefit if you use a TFSA as a bank account or for short-term goals. Also, remember the "vehicle" (the TFSA) is only one part of the savings decision. You should also consider the fund (underlying investment) you invest in.

TFSAs provide an important tax-based incentive for people to save in the long-term. They can definitely help investors to achieve better outcomes as part of their overall investment portfolios. It should be noted, however, that the overall lifetime limit means this cannot be the only component of your savings toolkit. It should be part of a well-considered investment plan.

FA News | 12 February 2019

RA vs Pension fund: Here are the pros and cons of your retirement plan

No one wants to think about retirement –unless it's guaranteed to mean lounging on a beach on some island, with a cocktail in your hand, far away from your cold, hard desk. Whatever retirement means to you, it's something we all have to think about. However, it's not always clear how to plan for it in the most effective way.

February is the end of the tax year – did you know you can get tax incentives by choosing to contribute more money towards your retirement? Head of retail distribution at Sanlam Investments Gielie de Swardt gave us these points to explain the advantages and disadvantages of retirement annuities and employee funds.

Retirement annuity

Retirement annuities are private retirement funds that anyone can purchase in order to save for their retirement.

Pros

You can choose how much you want to contribute with a retirement annuity, raising and lowering the amount you contribute according to what you can afford. By contributing to an RA, you will be able to reduce your tax bill annually when you submit your tax returns. You can still contribute to your RA before the end of February to get some tax relief and, hopefully, get a hefty refund.

Cons

The tax incentive will only show once you have submitted a tax return, so the relief won't be immediate, and you will eventually be taxed in your monthly retirement income. No withdrawals are allowed, except in the case of an early retirement due to ill-health or if you officially emigrate.

At retirement, you can only access one-third of the value of your savings in cash (R500 000 across all your retirement products can be taken tax free) and with the remaining two-thirds you need to buy an annuity income, which is taxable.

Employee fund

You contribute to an employee fund through your employer deducting the amount from your salary. An employee retirement fund can either be a pension fund or a provident fund.

Pros

The retirement contribution is deducted before you get your salary, so you save without feeling like you are depriving yourself. An employee fund will help you invest in your future, even if you lack the discipline to save on your own.

Your employer might even match your retirement savings. This means if you save 10% of your salary and your employer matches it, you will invest an extra 10% of your salary for your retirement - and it's not even your own money. Take advantage of this opportunity, because it's basically free money, and maximise it if you can.

Contributing more into your retirement fund immediately reduces your tax bill by, for example, putting you in a lower tax bracket - you don't need to wait for a tax refund later in the year. Your payroll administrator will recalculate your taxable income and you'll see a lower tax amount on your payslip.

Cons

Your options for a pension fund or provident fund are offered by your employer, so investment options might be limited.

You normally need to commit to an increased contribution for a year and many companies will only allow you to change the amount on a fixed date every year. You don't have the flexibility to simply top up or reduce your contribution to your employer's fund.

A pension fund works the same way as an RA at retirement but with a provident fund, for now, you will be able to get all your money at retirement. However, the Treasury wants to change this about provident funds to put them in line with pension funds and retirement annuities.

Sowetan | 13 February 2019 | Zola Zingithwa

Still time to benefit from retirement tax breaks

Move quickly to top up your savings before end of the tax year

MONEY CLINIC: Is the penalty for moving my retirement savings too high?

Have a money problem that needs solving? Fin24 can help! This month our focus is on savings and how to better manage your budget. Send your question to editor@fin24.com or find the Money Clinic box on the right of our homepage.

QUESTION: I have a retirement annuity fund investment with a group catering specifically for graduate professionals. I have been contributing religiously since university for about 15 years already. It has had a growing, albeit small, monthly contribution (based on what I could afford when I was a student).

This is not my main retirement savings nest egg and I want to simplify and reduce my number of investments. The market value of my retirement annuity fund is now about R65 000.

To access the funds sooner, I had to pay a penalty of R8 774 and now upon wanting to transfer this investment in terms of section 14 of the Pension Funds Act to another fund (with lower fees and more investment flexibility), I'm told the total penalty will be R11 860. Surely this can't be right? A penalty equal to 18% of my investment value... can I take this up with anyone to assess the fairness of the penalty levied? What is your advice?

ANSWER: Lorna Harrington and Carel Basson of Alexander Forbes gave the following guidelines: Each investment contract concluded with any investment company, will be unique and it will therefore be necessary to first make sure of the contents of the specific agreement. Unfortunately we cannot speculate without having insight into such an agreement. There are various Ombudsman offices (usually statutory bodies) that look at disputes between providers of financial services and their clients. Their services are free. It seems that the Fais Ombudsman or the Pension Fund Adjudicator might be the relevant ones to contact with this query. If unsure which Ombud to contact, you can phone the Financial Ombudsman call centre at 0860 662 837 and they will direct you to the relevant Ombudsman Office.

Fin24 News | 13 February 2019

DA to fight ANC's attempt to nationalise private pensions

The Democratic Alliance (DA) on Sunday accused the African National Congress (ANC) government of resorting to exactly the same "desperate tactics" used by the apartheid regime when they could not raise capital in the international markets. "Reports indicate that the African National Congress is still intent on gunning for South Africans' hard-earned pensions and retirement funds by imposing prescribed assets," DA spokesman Alf Lees said.

ANC treasurer general Paul Mashatile was quoted on Sunday as having said the ANC "will investigate the introduction of prescribed assets on financial institutions' funds to unlock resources for investments in social and economic development".

"Due to their failures in government, the ANC is now set on forcing the Government Employees Pension Fund (GEPF) and private pension funds, through legislation, to free up capital for bankrupt state-owned entities by using South Africans' pensions and investments," Lees said.

"This is exactly the desperate tactics used by the apartheid regime when they could not raise capital in the international markets. The failing ANC's 24 years of corruption, mismanagement, and their lack of political will has resulted in the public coffer running empty and investment drying up," he said. The United States, the United Kingdom, Germany, the Netherlands, and Switzerland's memorandum sent to the presidency recently raising concerns over corruption was proof of this. Even foreign investors recognised South Africa had an "ANC problem".

Prescribing how financial institutions and pension funds must invest the life savings of pensioners was not the solution to the country's economic woes. It would only give the ANC another bite at the corruption cherry. "The failing ANC government poses a great threat to South Africans' pension funds and the Democratic Alliance will explore every avenue to fight for the protection of pensioners," Lees said.

IOL News | **10 February 2019**

INTERNATIONAL NEWS

Greenest pension schemes belong to large UK banks

Responsible investment pressure group says not enough UK companies are investing workers' savings in line with their environmental pledges

Large UK banks have been singled out as having the greenest pension funds, new research shows, but not enough UK companies are investing workers' savings in line with their environmental pledges. ShareAction, the responsible investment campaign group, looked at 25 FTSE 100 companies managing around £17.5bn in pension savings. It picked HSBC as having the greenest retirement fund, with Aviva, Barclays and Royal Bank of Scotland also praised for implementing reforms.

ShareAction is keeping up the pressure on companies to make climate-friendly pension investments, following calls from MPs on the UK parliament's environment committee last March. Mary Creagh, the Labour MP who chairs the committee, endorsed ShareAction's campaign: "This report shows too many [pension funds] are lagging behind and failing to take these risks seriously."

National Grid, the UK infrastructure group, was criticised for running a "business-as-usual" investment strategy in its pension fund, at odds with green moves by its parent company. ShareAction said: "National Grid has set ambitious public targets to reduce the company's carbon footprint by 80% by 2050. However, the pensions savings of National Grid employees working to implement this commitment remain stuck in a business-as-usual investment fund that does little to manage the financial risks of climate change."

National Grid was contacted for comment.

Of the schemes ShareAction examined, all defined contribution plans, HSBC and RBS were praised for having the only two that have reduced high-polluting investments in the pension's default investment fund. Typically, about 90% of pension members invest through the default option.

HSBC has reinvested its default fund in Legal & General Investment Management's Future World fund, which invests in companies with 30% lower CO2 emissions than the mainstream stock-market index. HSBC's passive global equities fund, which hedges the majority of its overseas currency exposure, lost 6.2% during 2018, according to scheme documents, while the mainstream pound-hedged FTSE All-World index dropped by 9.6%, according to figures from FE Analytics.

RBS is also currently implementing a "tilt" to its index-tracking equity investments, which will aim to reduce exposure to carbon. Climate change is predicted to have significant implications for investors, markets and economies over the medium to long term.

A report from Eurofound, the EU agency, on February 12 said full implementation of the 2015 Paris accords — the pledge by world governments to limit global warming to 2 degrees Celsius — could boost EU GDP by 1.1% by 2030. That is because, among other things, the region is presently a net importer of fossil fuels.

Paul Britton, research officer at ShareAction and lead author of its report, said: "These schemes will pay pensions deep into the 21st century. By more actively managing climate risks in their staff schemes, employers can protect employees for the long term while demonstrating joined-up thinking on corporate sustainability commitments."

Financial News | 12 February 2019 | Mark Cobley

UK set to introduce collective DC pension schemes

Some organisations have already started working with the government to roll out CDCs

After years of speculation, the UK's minister for pensions and financial institutions has revealed that the government is to release details about setting up collective defined benefit (CDC) pension schemes. The announcement follows an inquiry in November 2017 and a consultation in October 2018 about this type of pension scheme.

What is it?

CDC pensions are different from defined contribution schemes because, as the word suggest, they do not provide individual pension pots. It is the company that sets up a collective pension pot that would provide income to its members.

A CDC is different from defined benefit, as the latter guarantees an income stream in retirement, which a collective DC does not. Instead, the former has a target amount members have to pay, based on long-term plan with mixed risk investments. The government was forced to act fast on this issue since UK's post provider, Royal Mail and the Communication Workers Union have already been in talks with the Department for Work and Pensions enquiring about the changes needed to implement CDC pension schemes.

"CDCs are not new. I believe they have the potential to get good outcomes for employers and employees when they work together," said pensions minister Guy Opperman in a speech at the Trade Union Congress earlier this month. "We want CDC schemes that are designed, set up and governed appropriately, so that members are not exposed to unreasonable risks. We also want CDC schemes that operate in a clear transparent way, building understanding and confidence in this new type of pension. "CDC has the potential to open up new avenues for employers and their workforces to develop the best pension arrangement for their individual circumstances."

Security issue consideration

Steven Cameron, pensions director at Aegon said: "It was never in doubt that the government would proceed with the legislation needed to allow the Royal Mail and the Communication Workers Union to proceed with its proposed scheme.

"We hope that the consultation responses will have proved helpful in identifying the many issues that need addressed to protect members of this scheme and of any others set up in future. This will require full consideration of security issues, how to address fairness across cohorts of members and how to frame communications so that members including auto-enrolees understand the specific features of CDC."

UK International Advertiser | 12 February 2019 | Cristian Angeloni

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