THURSDAY, 8 AUGUST 2019

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

Should you be able to opt out of Regulation 28?

If investors have different needs, they should surely have choice.

In 2017 Richard Thaler was awarded the Nobel Prize for economics. He was a controversial choice. Many mainstream economists believe he isn’t even a proper economist.

Thaler’s failing in their eyes is that he believes people are not the rational actors that economics has largely assumed they are for most of the past century. Humans, Thaler argues, are often irrational, and often make decisions that are to their own detriment.

As he noted in the book Nudge, which he co-authored with Cass R Sunstein:
“The false assumption is that almost all people, almost all of the time, make choices that are in their best interest or at the very least are better than the choices that would be made by someone else. We claim that this assumption is false – indeed, obviously false. In fact, we do not believe anyone believes it on reflection.”

Smoke and mirrors
One of the most obvious demonstrations of this is that many people continue to smoke, even though the harmful side-effects of tobacco have been established and widely-known for more than half a century. Even in countries where health warnings are emblazoned on cigarette packaging, many people still smoke.

Another is that obesity has nearly tripled since 1975, according to the World Health Organisation. Everybody knows that exercising and eating properly is good for their health, but many people live unhealthy lives regardless. Thaler’s contribution to economics is not that he identified this irrational behaviour. Others had written comprehensively about this before him. His success was that he proposed ways in which this could be countered – how people could be aided in making better choices in everyday situations that could have real impacts on important aspects of their lives.

The way to do this is simply to reframe the way choices are presented. One of the most famous examples quoted in Nudge is that in Germany, where people have to *opt-in* to being organ donors, only 12% of the population signs up. In neighbouring Austria, where people are required to *opt-out* of being organ donors, 99% of the population give their consent.

Financing your future

One of the most important areas Thaler has influenced is finance, and particularly saving for retirement. Some apparently simple ideas that he has put forward have dramatically improved how much people save.

For instance, when you join a new employer, how are your options for joining the company's pension plan presented to you? Is there a default that you have to opt-out of, or are you given complete freedom of choice?

Will your monthly payment automatically be increased every year to account for inflation? Or do you have to select a specific option for that to happen?

Making the best choice simple

The best way to frame these choices, according to Thaler, is not to force anyone to do anything, but to make it as easy as possible for them to do what is right, or to make the choice that is best for most people. Of course, the simplest course of action is to do nothing, and sometimes that can be a very effective approach.

Consider your taxes. What is the best way to make sure that people comply with paying and filing their taxes? The South African Revenue Service (Sars) has found the answer: it is to make the system work so that most people don't have to file a tax return at all.

These days, you can register for tax through your employer's eFiling, your employer will submit your IRP5 directly to Sars, and if you earn less than R500 000 from a single source, Sars doesn't even need to hear from you. You are fully tax compliant, and you haven't had to do a thing.

Recent changes to pension fund regulation in South Africa have also borrowed from Thaler's approach. In the past, if you changed employers, you had free choice about what to do with the money in your retirement fund. Most people opted to withdraw it, which can be extremely detrimental to their long-term savings. From March 1 this year, however, the default option will be that your retirement savings will be kept in the fund. You have to specifically request to either move or withdraw them.

Opting out

These are very simple changes, but they should have material benefits to savers in South Africa. Importantly, the new structure also doesn't force anyone to do anything. Everyone still has the right to choose something else. That is not, however, the case with Regulation 28.

This sets the limit for how pension funds, and importantly individuals in products like retirement annuities (RAs) can invest. For instance, they can only have 30% of their portfolio offshore, and 75% in stocks.

This is a pretty good default. It is a good balance for most people and ensures that portfolios are diversified. However, that doesn't mean these limits are right for everybody. A rigid approach where everyone is forced into a particular asset allocation means that some people will be forced into something that is inappropriate for their needs. A better way to do it would be to set Regulation 28 as the default, but allow people to opt-out if they believe something else would be better. This opting out would require some effort, which would act as a natural deterrent.

It would, however, ensure that while most South Africans would still be protected by the default, investors would nonetheless have a choice. That would potentially not only encourage more people to save but also improve their potential outcomes.

Moneyweb | 6 August 2019 | Patrick Cairns

Is it time to switch your RA?

It's a well-established truth that constantly switching portfolios will harm your long-term investment outcomes. But what if your retirement annuity (RA) has underperformed for the past five or even ten years? Roanleigh Thambiran, Head of Business Development at Cannon Asset Managers, notes that one of your primary concerns in deciding whether to move your RA should be to examine the impact that high fees might be having on your investment results.

"Fund performance is usually reported net of fees, and often when your funds appear to have performed badly, it might be the result of excessive fees eating into returns rather than a reflection of the performance or growth of the portfolio's underlying assets," she says.

"It stands to reason that a portfolio that utilises the same investment benchmark and is invested in similar asset classes, but charges lower fees, has a far greater chance of achieving the targeted returns and has a higher likelihood of helping you to reach your investment goals – even if you pay penalty fees or early termination charges to move from a higher-cost solution to a lower-cost solution."

To demonstrate the benefit of lower fees on investment outcomes, Thambiran offers an example drawn from a real-world scenario of a 45-year old investor who currently holds R550,000 in their retirement annuity, and is choosing whether to switch portfolios. The investor's current portfolio, the Old School Portfolio, targets average returns of 10% per annum before fees, and charges investment fees totalling 6% per annum (yes, really). The alternative investment, the New School Portfolio, also targets 10% per annum, but only charges 1.2% in fees.

If the investor moves their funds to the New School Portfolio, they would pay a penalty of R40,000 from their R550,0000 retirement capital, which would leave them with an initial lump-sum of just R510,000 instead. If both portfolios achieve their performance targets, the 4.8% reduction in annual investment fees means that despite having paid the penalty charges, the New School Portfolio would outgrow the Old School Portfolio by over R38,000 within three years.

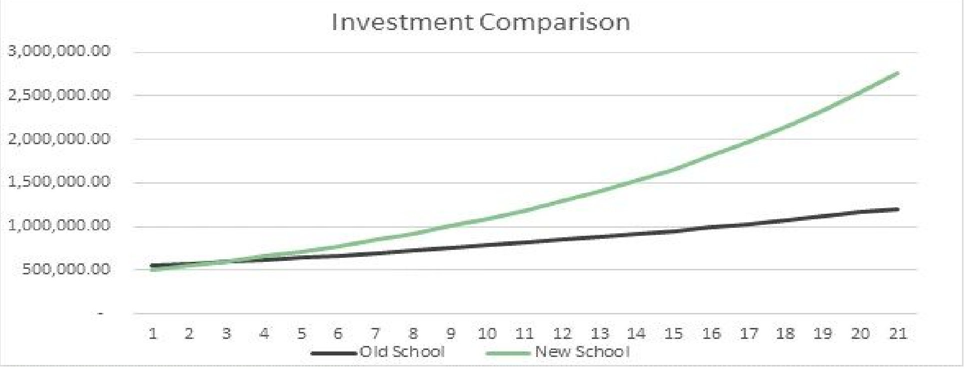
In ten years, the New School Portfolio would have outperformed the Old School Portfolio by more than R371,000. And by the time of the investor's retirement at 65 years, the New School Portfolio would be worth R2.75 million – more than double the result of the Old School Portfolio, which would have achieved just R1.2 million.

Table: Old School vs New School portfolio

Years	Old School	New School	Difference
0	550,000.00	510,000.00	(40,000.00)
1	572,000.00	554,880.00	(17,120.00)
2	594,880.00	603,709.44	8,829.44
3	618,675.20	656,835.87	38,160.67
4	643,422.21	714,637.43	71,215.22
5	669,159.10	777,525.52	108,366.42
10	814,134.36	1,185,384.19	371,249.83
15	990,518.93	1,807,189.13	816,670.21
20	1,205,117.73	2,755,167.99	1,550,050.26

Source: Cannon Asset Managers (2019)

Graph: Old School vs New School investment comparison



Source: Cannon Asset Managers (2019)

"Many investors are so afraid of the impact of penalty charges that they leave their savings in expensive underperforming portfolios, without realising just how powerful the benefit of a reduction in fees can be over time," notes Thambiran.

"It can prove valuable for investors to shop around and ask questions about their fee structures and charges. And if you need any help in comparing different portfolios or understanding what the effects of different fees would be on your investment outlook, feel free to ask a professional financial advisor for their assistance."

Other key points before you switch

Before you switch, however, there are a few other key points you need to factor in before making your decision, namely:

• **Investment objectives:** If your investment objectives have changed since you first invested, you should carefully consider whether a new investment portfolio is aligned with your current investment needs and goals. For example, your time horizon and risk appetite might have changed.

• **Past performance:** While past performance is not a guarantee of future returns, you need to examine the historical performance of any new portfolios before deciding to invest, and weigh this against the potential investment fees.

• **Guarantees and benefits:** Traditional RA policies sold by life insurance companies may carry additional benefits such as investment guarantees, or life or disability cover that may be cancelled if you switch portfolios.

• **Flexibility:** New-generation RAs usually offer the benefit of greater flexibility than traditional RAs, allowing you to adjust your underlying investments, and pause or change your contributions as you may need. ***Full Report:*** ***https://www.fanews.co.za/article/retirement/1357/general/1358/is-it-time-to-switch-your-ra/27284***

FA News | 6 August 2019 | Patrick Cairns

How should employers decide what benefits to offer their members?

When we think about employee benefits (EB), we tend to single out our retirement fund, but a typical EB offering is made up of much more than this. In addition to a retirement fund benefit, it may also include risk benefits like group life, capital and income disability cover. EB offerings can also have a fundamental impact on the financial security of your staff, and the quality of life that they, and their extended families, are able to achieve. While many of us take our packages as employees for granted, arriving at the right set of benefits for a company is a complex process that involves carefully weighing up a variety of factors. EB consultants, who are experts at evaluating the different product offerings and options, can offer invaluable insights to ensure that the most appropriate basket of benefits is established.

This is not as easy as it may seem

While it seems obvious that employers would aim to structure EB benefits that meet the needs of their staff, the most recent Sanlam Benchmark Survey highlighted the complexity of decisions with which trustees and employers are often faced. Employers were asked to assign a ranking to different priorities for both lower and higher-income members.

The list of priorities that resulted was radically different for higher and lower-income employees. While retirement savings are the primary concern of higher-income earners, funeral cover ranked as the most important priority for low-income earners. This divergence highlights how difficult it can be to meet the needs of a group of employees who can often be very diverse and can have different educational and income levels.

Priorities	Lower income importance	Higher income importance
Funeral cover	1st	7th
Meeting short-term debt obligations	2nd	6th
Insurance: Life and disability	3rd	2nd
Meeting long-term debt obligations	4th	5th
Retirement savings	5th	1st
Medical aid	6th	3rd
Tax-free savings	7th	4th
Loyalty/rewards programme	8th	8th

Source: Sanlam Benchmark Survey

The factors consultants consider

EB consultants are knowledgeable about the different providers and product options available in the market. They will consider how well positioned these various providers are in terms of both the unique attributes of your staff complement as well as the basket of benefits you would like to offer. They conduct an extensive initial investigation, considering a wide range of factors that could include those listed below.

For risk products:

• the average age of your employees
• industry
• risk factors specific to your environment

- male vs. female split
- average income
- number of employees
- medical claims experience
- pricing

For retirement products:
- number of members
- average number of years to retirement
- number of resignations and retirements during the previous year
- the number of claims in progress, including death claims
- default portfolio options
- fund choice/flexibility
- investment fees

For selecting administrators for your scheme:
- the benefits you want to offer
- administration capability
- employer preference
- additional benefits on offer
- service support
- servicing turn-arounds
- reporting (at both the employer and employee level)

Ultimately, it is how these factors combine, and how cost-effectively the desired offering can be provided, that will inform the final choice. Your EB consultant is also well positioned to help you evaluate the importance of managing costs versus offering more choice to your more affluent groups. Much as with a personal financial review for individuals, when it comes to EB the right answer will be highly unique and tailored to the specific needs and objectives identified.

Frequent reviews are a must, especially given ongoing innovation
Your staff members and their needs change over time, as do the products and providers in the industry. Typically, EB consultants meet with their clients twice a year, and one of these sessions will involve them presenting a full overview of your current benefits. Should discussions highlight the need for a change, they can begin the process of sourcing an appropriate solution that addresses this need.

They can also help you to evaluate the merits of adding newer product innovations to your offering. For example, primary-care insurance was introduced in the last two years and can help you meet the needs of lower-income earners. It allows employees access to GPs, medicine, basic blood tests and X-rays in the private sector, avoiding the time-consuming and inefficient clinics and state hospitals for these services. This offering limits the risk of hospitalisation and chronic disease and is therefore an excellent choice for members who would otherwise not be able to afford a medical aid.

When it comes to selecting the most appropriate basket of benefits to help you attract and retain staff, the right answer will be highly unique and tailored to the specific needs identified. The advice and guidance of a seasoned EB professional can be invaluable to ensure your EB offering does indeed stack up.

FA News | 8 August 2019

Marriott Solutions for Retirement

The last five years have been particularly difficult for retired investors in South Africa as both Equity and Balanced Funds have delivered below average returns. This has meant many investors drawing an income have seen their capital values decrease. Given the recent negative GDP growth figures and the uncertain outlook for South Africa, retired investors are becoming more concerned about their capital and whether it will last for their entire retirement.

The table below highlights the low sector average returns from both South African General Equity and Balanced (Multi Asset High Equity Sector) Funds since 2015.

	Average SA Equity Fund Returns	Average SA Balanced Fund Returns
2015	1.5%	7.4%
2016	2.7%	1.4%
2017	12.7%	9.9%
2018	-9.0%	-3.7%
2019*	0%	3.4%
Annualised Returns	**1.5%**	**4.0%**
Source: Profile Data, * refers to year to date returns as at 31 May 2019		

Traditionally retired investors have relied on market returns to fund their income. However, with future returns being uncertain and expected to be below average, investors are looking for different approaches to solve their income needs in retirement.

Marriott offers an alternative approach to retirement planning where investors spend the income produced by their investment and not the capital to ensure a successful retirement. By drawing only the income produced investors can be assured that their capital will last. To implement this approach and to ensure a growing income level in retirement, it is critical for your investments to be able to distribute a reliable and growing income stream over time. Clicks forms part of the Marriott investable universe due to its proven dividend track record as illustrated below.

Marriott restricts its investable universe to quality companies that are able to produce sustainable and growing dividends. These companies are responsible for generating the income for our investors into perpetuity, and therefore investing in quality businesses is paramount. Over the long-term companies of this nature tend to produce solid income and capital returns. The table below highlights the income characteristics (income yield & income growth) of some of the holdings in the Marriott portfolios, across asset classes.

Asset Class	Companies	Income Yield*	Growth in Income**
Equities	Clicks	2.4%	12%
	Spar	4.6%	9%
	Sanlam	4.6%	7%

	Standard Bank	5.7%	12%
	Netcare	6.1%	10%
Property	Growthpoint	9.1%	3%
	Vukile	9.2%	3%
	Investec Property	9.6%	5%
Bonds	Long Term Government Bond (R2035)	9.6%	0%
Cash	Money Market Type investments	7.0%	Fluctuates with interest rates
Source: IRESS & Marriott * refers to forward yield (income expected over the next 12 months) **refers to income growth after year 1			

Equities tend to pay out a lower level of income but have higher income growth over time when compared to property and bonds. Bonds and Property on the other hand provides investors with a relatively high level of income to start with but the trade-off is lower income growth over time. Marriott uses these asset classes to construct portfolios optimizing the income yield and income growth investors are able to draw throughout retirement.

Solutions for Retirement:

At Marriott, we suggest that investors examine their situation carefully before using their capital to supplement income. Instead we encourage investors to 'spend the income not the capital' for a more certain retirement outcome. Marriott's Solutions for Retirement enables investors to follow this philosophy by matching the income drawn to the income produced by the portfolio. The table below highlights the targeted investment outcomes and unique income characteristics of the four Marriott funds that underpin our solutions. ***Full Report:*** ***https://www.fanews.co.za/article/retirement/1357***

FA News | **8 August 2019**

How would retrenchment affect your financial well-being?

The South African economy is struggling somewhat and the impact of slow growth is now being felt by some companies who have begun retrenching or talking about retrenching employees.
It is therefore important to educate yourself about the impact of retrenchment on your financial well-being and what to do if you lose your job. While this is a scary thought, it is always better to hope for the best but plan for the worst.

If you are retrenched, you will be entitled to a severance package, of at least one week's pay for every completed year of continuous employment with your employer.

Retirement fund implications

Because retrenchment means leaving your employer, you also have to decide what to do with your retirement savings in the employer's retirement fund. You can preserve your savings by:

leaving your retirement savings invested in that fund
moving all your retirement savings to:
your new employer's fund
a preservation fund
a retirement annuity fund

You can also take all or a part of your retirement savings in cash, but then you won't be able to earn the income you need when you retire. Any cash taken out will also be taxed.

According to the 2018 Alexander Forbes Member Watch™ analysis, on average around 9 percent of employees who leave their employers kept their retirement savings invested in their existing fund, their new employer's fund or a preservation fund. In addition, over the last three years, 89 percent of members who were retrenched from their employers cashed in their retirement savings.

The analysis revealed that retirees replaced on average around 30 percent of their pensionable income when they retired. Not keeping retirement savings invested when moving from one job to another (for whatever reason) is one of the biggest contributors to poor retirement outcomes in South Africa.

A misconception of preservation is that the money is simply kept without earning investment returns and won't grow – this is not true. A lump sum transferred to a preservation fund or left in a former employer's fund will grow with investment returns. Unfortunately, you can no longer contribute to the fund. You may make one withdrawal during the lifetime of the preservation fund, bearing in mind the tax consequences. This provides flexibility should you genuinely require the money.

South Africans in general don't save adequately for their long-term needs. This is attributed mainly to the high unemployment rate, breaks in employment, lack of education, distrust of financial institutions, money mindsets [1] and prioritising short-term, high-priority needs. In most cases, any person who has the option to take their retirement savings in cash when they leave their employer will instinctively do so. It may even be considered the "easy" option but even though saving your money now does not serve you immediately, it will definitely benefit you later to meet future needs to preserve it. Ideally emergency savings should be in place to avoid dipping into retirement funds at these exit points.

Tax implications

Everyone is given once-in-a-lifetime tax relief of R500 000 on their retirement lump sum. Note that a retrenchment severance package is considered and taxed as a retirement lump-sum benefit. Therefore, if you are retrenched and receive a severance package, the first R500 000 (of the combined severance and any retirement fund benefit paid out) will be taxed at 0 percent (so, it's in effect tax free). Any further cash balance taken is taxed at the retirement tax table rates. However, this tax benefit will be exhausted and cannot be used again at retirement, as SARS applies an aggregate of lump-sums principle to retirement benefits.

Tips:

Get counselling - Retrenchment is a financially and emotionally stressful experience. Consider counselling before making any major financial decisions. Many financial decisions will be made, and budgeting and cutting costs are unavoidable. However, it's important to put thought and consideration into these decisions.

Keep paying medical aid contributions and insurance premiums- These are essential and can prevent further financial distress should something else unexpected happen. Ensure you and your family are on a medical aid option that meets your needs. Rather reconsider any luxury goods and services or cut back on wasteful expenses.

Save for emergencies - Consider contributing towards an emergency savings pot. Aim to save at least three times your monthly salary as a financial buffer. This will help take some of the pressure off if you are ever retrenched.

Get advice - Because personal circumstances differ between individuals, seeking financial advice from an accredited adviser could prove beneficial in limiting expenses and managing your money so that it can stretch further and meet your specific needs. Also consider your fund's retirement benefit counselling options, which may assist you in the financial decisions related to your retirement savings.

Keep learning and growing - With global economic activity evolving, the fourth industrial revolution looming and retrenchments on the rise, it is crucial that we have a competitive edge as individuals. In an era where technology is advancing inevitably, individuals must constantly educate and upskill themselves to remain relevant in the market.

Full Report: [***https://www.iol.co.za/business-report/economy/watch-how-would-retrenchment-affect-your-financial-well-being-30365873***](https://www.iol.co.za/business-report/economy/watch-how-would-retrenchment-affect-your-financial-well-being-30365873)

Personal Finance | 6 August 2019 | Vickie Lange

HARRY JOFFE: How to inherit retirement fund benefits tax efficiently

Let's look at the different scenarios and options

Dependants of retirement funds and/or beneficiaries of living annuities have a very difficult decision to make when the member or annuitant dies. Do they take a lump sum, an annuity, or a combination? The wrong decision can have serious tax consequences.

Let's look at the different scenarios and options.

Scenario 1: Death of a member in a retirement fund
Mr A dies as a member of a retirement annuity (RA) with a fund value of R1m. He has three dependants (remember that the trustees of the fund have the power to determine who are dependants, and this overrules any beneficiary nominations). What are their choices, and what are the tax consequences?

Option 1: Take the lump sum
If the dependants decide to take the lump sum, the tax is payable in Mr A's deceased estate. This tax is calculated using the retirement fund lump-sum tax tables. That means that if Mr A had not yet retired and therefore not used up his tax-free amounts, the deceased estate would qualify for these.

In terms of the retirement tables, the first R0-R500,000 of any lump sum is tax free, from R500,001-R700,000 is taxed at 18%, from R700,001-R1,050,000 is taxed at 27%, and only a lump sum of over R1,050,000 is taxed at 36%. Note that these concessions are only available once over a lifetime.

That means that in this case and assuming Mr A had not previously retired or used the concessions, it would make sense for the dependants to take the lump sum.

Option 2: They take an annuity.
If the dependants decide to take an annuity, they will pay the tax on the monthly annuity at their marginal rates, as the tax concessions on the lump sum table fall away. The dependants do have a third option: a combination of the two. To the extent they take a lump sum, it will be taxed as per Option 1, and to the extent they draw an annuity it will be taxed as per Option 2.

When a member dies while still in a retirement fund, there is a good chance they have not used their lump sum retirement concessions. The dependants should make sure to take at least a part of their payout as a lump sum, to make use of the retirement concessions. If the lump sum is very large, they should consider taking only a part as a lump sum and the balance as an annuity, as any lump sum taken above R1,050,000 will be taxed at 36% on the tables.

Dependants should seek professional advice before deciding based on the facts of their case. However, they should consider taking a lump sum (or part thereof) to the extent that any lump sum retirement concessions are still available. In addition, even if the lump sum they draw will be partly taxed at 36%, this may still be lower than the marginal rate of the dependants, and the rate they will therefore pay on any annuity they draw.

Scenario 2: Death of a member in a living annuity

Mr A dies as a member of a living annuity. He has three beneficiaries, who are, unlike in a retirement fund, binding and the fund value is R1m. What are their choices, and what are the tax consequences?

The tax consequences are the same as for the retirement annuity. However, seeing as Mr A has already retired, it can be assumed that he has drawn a lump sum, and the tax-free concessions are no longer available. This means that the beneficiaries should consider drawing an annuity. However, things are not that simple.

First, Mr A might not have used up his entire tax-free or lower tax concessions on the lump sum tables. There might be some available to utilise by drawing a lump sum. Second, if the beneficiaries are already at the top marginal rate of 45%, any annuity they draw will be taxed at

45%. It might then be better for them to draw a lump sum, even at a tax rate of 36%, and have full use of the money.

Note that if Mr A had made any tax deductions contributions to his fund that exceeded the deductions allowed, on his death these can only be set off against any lump sum taken, and thereby increase the amount of the lump sum that is tax-free. The nondeductible contributions cannot be used against any annuity drawn by the dependants/beneficiaries.

Dependants or beneficiaries of retirement funds, RAs or living annuities should make decisions only after seeking professional advice that includes checking all the details of the deceased's affairs to ascertain any available tax concessions.

Business Day | 6 August 2019 | Harry Joffe

How your group life cover and personal insurance work together

It's important to determine whether your group life cover is approved or unapproved as tax may affect the quantum of the final payout.

If you are a member of your employer's retirement fund, it is likely that you have group life cover in place. Many employees make the dangerous assumption that this cover is sufficient for their needs and adequately protects them in the event of death or disability. The reality, however, is that group life cover is very often insufficient for a person's needs and should be considered as part of a broader personal financial plan.

Case study

As a case study, we have taken the situation of Sandra who is a 41-year old single mother of a son (age 12). She is employed by ABC (Pty) Ltd and earns an income of R80 000 per month. In terms of debt, she has a home loan of R2 000 000 towards which she pays R20 000 per month. She also owes R200 000 on her Audi.

As part of ABC's umbrella retirement fund, Sandra has group life cover equal to double her annual salary i.e. R1 920 000 and has accumulated R750 000 as a retirement fund credit. She also has an income protection benefit which will pay out 75% of her current income should she become disabled. As the group life cover is provided as part of a tax-approved retirement fund, it is considered an approved benefit, which means that the death benefit – together with her accumulated retirement savings within the fund – will be subject to tax.

This means that on payout, should Sandra's estate receive the full payout in cash, it would receive an after-tax death benefit of R1 956 300, which is calculated as follows:

Fund credit: R750 000

Life Insurance: R1 920 000

Total benefit: R2 670 000

Taxed on retirement table: R130 500 + (36% x R1 620 000) = R713 700 tax liability

Therefore: R2 670 000 – R713 700 = R1 956 300

Approved and unapproved death benefits

Sandra's group life cover is provided under a tax-approved retirement fund and is referred to as approved cover. The policy is held by the retirement fund for Sandra's benefit. Sandra's contribution to her retirement fund is tax-deductible up to 27.5% of her income. However, in the event of her death, her death benefit would be subject to tax and it is important that her financial advisor takes this income into account when determining her needs.

Benefits from an approved retirement fund are exempt from estate duty.

It is also important to note that approved benefits are subject to Section 37C of the Pension Fund Act. This means payments from the life insurance and retirement benefits will not necessarily be paid to the member's nominated beneficiaries, nor paid in the proportions they have nominated. The trustees of the umbrella fund have a legal obligation to determine who was financially dependent on the deceased member.

As such, the trustees have the ultimate say when allocating these funds to the deceased member's dependants.

If the cover was provided by a separate group life policy, which is separate from the retirement fund, it would be referred to as unapproved cover. Unapproved cover is held by the employer on the lives of its members and is not subject to Section 37C of the Pension Funds Act. In essence, contributions towards unapproved cover are not tax deductible and, as a result, the death benefit is tax-free. However, the lump sum benefit will be subject to estate duty. It is therefore essential to know whether your group life cover is approved or unapproved before calculating any potential shortfalls that exist in your risk cover portfolio. ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/how-your-group-life-cover-and-personal-insurance-work-together/***

Moneyweb | 5 August 2019 | Gareth Collier

INTERNATIONAL NEWS

Canadian pension fund plans to set up a credit arm in India

CPPIB to boost its emerging-market strategy by entering capital-starved sector

The Canada Pension Plan Investment Board, one of the world's largest retirement funds, plans to start a credit arm in India, seizing on a moment when the country's troubled financial system is starved of capital. CPPIB is putting together a credit strategy for India, international investment head Alain Carrier told the Financial Times, which could see the C$392bn ($297bn) fund build on its Indian real estate and infrastructure investments by partnering with non-bank providers to offer debt or enter the market directly.

"This is something we've had a very close look at," Mr Carrier said. "There is a study of the market that has been under way, and we think there are a number of opportunities for us — there are a few areas that we can play." Analysts say India suffers from a chronic shortage of credit, with banks unwilling to provide funding for long-term projects such as infrastructure. Amar Ambani, president of brokerage Yes Securities, said that is where a long-term minded investor could excel. Vikram Gandhi of VSG Capital Advisors, an adviser to CPPIB in India, added:

"There is massive growth that is required, it is a huge priority from a policy standpoint. Creating more jobs is a huge priority from a policy standpoint, but there is no investment happening. "That is where we see [the opportunity] for funds like us and others with the ability to structure interesting transactions to provide credit." CPPIB has become an important foreign investor in India since opening a Mumbai office in 2015, part of a global strategy to focus on emerging markets where it hopes to enjoy higher rewards than its home base of North America. The fund has invested almost C$9bn, roughly 2 per cent of its total assets, in India and intends to increase that share, Mr Carrier said. A net return of more than 13 per cent on its Indian investments in the year ended March beat its overall returns of 9 per cent.

Among its key local investments so far, CPPIB has committed US$500m into a joint venture with real estate developer Indospace, invested more than US$300m into infrastructure conglomerate Larsen & Toubro and spent US$300m on a stake in troubled telecom operator Bharti Airtel's infrastructure unit. It also owns 6 per cent of private bank Kotak Mahindra after C$1.15bn of investment. In December, CPPIB made an eye-catching foray into India's booming tech scene when it joined Naspers in a $540m funding round for Byju's, a fast-growing educational-tech business. Mr Carrier said the fund plans to become a more active investor in India's digital sector. "We have a few more investments in the pipeline," he said.

Entering Indian credit would mark an ambitious turn into a troubled sector. Mounting piles of bad loans at domestic banks have restricted their ability to lend. The rise of non-bank financial companies, which became a crucial source of credit as a result, was halted by the high-profile default of infrastructure lender IL&FS in September 2018. Lending from NBFCs fell 30 per cent in the year ended March, according to the Finance Industry Development Council. Mr Carrier declined to give further details on project, but CPPIB is an established provider of liquid and illiquid debt in North America, Europe and Asia, with assets of C$36.6bn. It deals in everything from residential mortgages to non-performing loan portfolios.

Financial Times | 5 August 2019 | Benjamin Parkin

Japanese pension funds put record amounts into alternatives

Allocation to domestic government bonds falls to 18.3%

Allocations to alternative investments among Japanese pension funds have overtaken their exposures to domestic bonds for the first time in a shift driven by Tokyo's radical measures to stimulate growth and inflation. Historically regarded as some of the world's most conservative investors, Japan's pension funds are pursuing an aggressive search for returns that is being replicated by many other retirement schemes globally. Japanese corporate pension funds allocated a record 21.3 per cent of their assets to alternatives in March, up from 12.8 per cent five years ago, according to a JPMorgan Asset Management report. It surveyed 116 Japanese corporate pension funds and found that exposure to domestic government bonds had dropped to 18.3 per cent, the lowest since the survey started in 2008. Holdings of government bonds were as high as 60 per cent of corporate pension fund assets in the early 1980s. "Allocations to alternatives by corporate pension funds are now huge. Other institutional investors, such as insurers and banks, only hold low single-digit exposures," said Akira Kunikyo, an investment specialist at JPMorgan AM's Japan institutional business. With returns from equities and bonds expected to be lower over the next decade than those achieved historically, just under four in 10 of the pension funds said they planned to allocate more to alternatives.

Only one in 10 planned to reduce their alternatives exposures. "Corporate defined-benefit pensions are increasingly allocating to illiquid alternatives such as real estate and infrastructure to obtain stable returns or to suppress the impact of a future market downturn," said Mr Kunikyo. Masaaki Sakakibara, wealth business country leader Japan at Mercer, the investment consultant, said

Japanese pension plans were struggling with the low interest rate environment. Japan's central bank has spent hundreds of billions of dollars buying bonds and stocks in an attempt to revive its economy through quantitative easing, dating back to 2001. QE has driven down interest rates, dragging Japan's 10-year government bond yield into negative territory since the start of 2016. The 10-year JGB yields minus 0.13 per cent. "Market conditions are forcing Japanese pensions to seek bond-like stable income flows from alternatives," said Mr Sakakibara.

Financial Times | 5 August 2019 | Chris Flood