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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Retirement funding: what retirees regret most

A huge regret by many is not having preserved their retirement funds when changing jobs or moving between employers.

Hindsight may not be a perfect science, but many retirees agree that if they had the chance to do their retirement planning all over again, they would do a lot differently. In fact, according to 10X's Retirement Reality Report 2018, 50% of retirees said they would change their retirement planning if they could start over. Besides simply not having saved enough money, here's what retirees regret the most:

1. Not seeking professional advice earlier

The most basic mistake that many retirees attest to is not having sought professional advice earlier. Many assumed that the contributions to their workplace retirement fund were sufficient to secure a comfortable retirement and, as such, didn't feel that professional advice was necessary. Some retirees admit to feeling embarrassed that they hadn't saved enough and didn't feel that an advisor could do much to help them. A common feeling among those who have already retired is that they should have found an independent financial advisor long before they actually went on retirement. Many admit to wishing they had employed an adviser who could help structure their investments, determine whether they were able to retire, assist with their estate planning and minimise their tax burden.

2. Procrastinating

A lot of retirees regret that they didn't start investing with their first pay cheque. Getting married, buying a house and having children meant that retirement funding was always put on the back-burner. According to 10X's retirement report, 46% of respondents only began planning for retirement after settling down and having children and, as a result, missed out on years of compound growth.

3. Not taking advantage of tax-efficient retirement vehicles

Old-school insurance retirement annuities lacked transparency and penalised investors heavily for termination or early cancellation and many retirees avoided using these vehicles to fund their retirement.

Despite changes in legislation and the advent of cost-effective unit trust retirement annuities, many retirees admit to having shied away from these investment vehicles despite the tax incentives provided. With the benefit of hindsight, retirees wish they had used the opportunity to effectively invest with before-tax money.

4. Not preserving capital

A huge regret by many is not having preserved their retirement funds when changing jobs or moving between employers, thereby interrupting the effects of compounding. While they thought the money could be put to better use, such as paying off vehicles or financing a family vacation, looking back many retirees regret the unwise decision to access their accumulated retirement funds.

5. Delaying joining a medical aid

While young and healthy, many people choose not to join a medical scheme and to 'take a chance', as it were, by paying personally for their healthcare expenses and hoping not to end up in hospital. However, the purpose of a medical scheme is to provide cross-subsidisation between the young and old, and the sick and the healthy. With age comes ill-health. Many retirees attest to having joined a medical scheme too late and now having to contend with late-joiner penalties. Depending on your age and the number of years you haven't belonged to a medical aid, your premium can be loaded by between 25% and 75% – and this loading remains in place for life. With medical aid premiums increasing around 10% every year, late-joiner penalties can be an enormous financial burden for a retiree.

6. Underestimating healthcare expenditure in retirement

Despite comprehensive medical aid and gap cover, many retirees admit to hopelessly underestimating their retirement healthcare expenses. Besides medical aid shortfalls and co-payments, the costs of frail care, private nursing and assisted living are enormous and very difficult to quantify. ***Full Report:*** ***https://www.moneyweb.co.za/financial-advisor-views/what-retirees-regret-most-about-their-retirement-funding-journeys/***

Moneyweb | 19 August 2019

Give gov't your pension funds or have the country turn to the IMF? No need for either, says DA

The ANC should work towards reforms that will avoid seeing the introduction of asset prescription or seeking money from the International Monetary Fund (IMF), the DA urged on Sunday.

As the ANC eyes the asset management industry with R6-trillion to help save state-owned entities (SOEs), the party's economic policy head Enoch Godongwana has suggested borrowing from domestic markets instead of seeking money from the International Monetary Fund (IMF) or World Bank.

Speaking to the **Sunday Times**, Godongwana stated that borrowing from domestic markets would be a separate process from the investigation to prescribed assets, which would force fund managers to invest in government-approved instruments.
DA spokesperson on finance Geordin Hill-Lewis said in a statement on Sunday that the ANC's prescribed assets policy proposal is "irresponsible and unacceptable".

"It should be rejected by every South African who has their life savings in their pension funds, and whose future financial security depends on the responsible management of those funds. The Democratic Alliance will oppose any effort by the ANC to impose prescribed assets. We will act to protect the pension savings of hard-working South Africans."

Hill-Lewis said the term “prescribed assets” is a euphemism for forcing pension funds, banks and insurance companies to lend money to bankrupt state entities like Eskom and SAA.

"These financial institutions hold the private savings of millions of ordinary South Africans, and for many (if not most) of these people, their pension savings are their only life savings. That is why there is a duty to ensure their money is managed with the utmost care and responsibility, and that nothing is done that actively harms their long term financial interests."

Hill-Lewis said the ANC and Godongwana should consider what reforms are necessary to avoid a situation where either asset prescription or an IMF bailout programme are ever needed.

"That the ANC is not doing this is an admission of defeat and failure."

South African pension funds are already subject to some prescription under Regulation 28 of the Pension Fund Act which limits the extent to which retirement funds may be invested in particular categories of assets.

The Public Servants Association (PSA), whose members contribute most to the funds overseen by South Africa's state pension manager, already indicated that it wants the institution to stop investing in the debt of Eskom, **Bloomberg** reported in June.

The 240 000-strong PSA said by buying Eskom's bonds, the Public Investment Corporation (PIC) is exposing pensioners to excessive risk as the state-owned power company is not selling enough electricity to cover its costs and has had to be bailed out by the government.

The Government Employees Pension Fund (GEPF), managed by the PIC, holds R54.8bn of Eskom bonds, or 16.8% of all the debt outstanding, more than five times the next-biggest holder, according to data compiled by Bloomberg. The PIC owns an additional R8.5bn of Eskom bonds on behalf of other clients.

A risky move

Although there's uncertainty around prescribed assets, it is risky, said Brenthurst Wealth Management's Magnus Heystek in a sponsored post published on Fin24.

"The risks to investors in pension funds, would be that they would have to increase their contributions and possibly work and contribute longer due to the poor performance of their investments," he explained.

"Prescribed assets will unfortunately place even further financial pressure on an already overburdened population, and the government should rather work on restructuring the management and current debt levels from SOE's," Heystek suggested.

Meanwhile, the IMF doesn't see a balance-of-payments problem in South Africa, which means there's no need for IMF support, said Montfort Mlachila, who is the IMF's senior resident representative in South Africa at a conference hosted by the Bureau for Economic Research in Johannesburg on Thursday.

Fin24 | 18 August 2019

Divorce and the negotiation for pension benefits

No couple believes on their wedding day that their newly minted union will end in divorce. The stark reality is however that just under half of marriages in South Africa do not last 10 years. And many of us have little to no understanding of how our various assets will be split up if it happens or how this will impact our journey to a successful retirement.

This is according to Nashalin Portrag, Head of FundsAtWork at Momentum Corporate, who points to the latest statistics from Statistics South Africa (Stats SA), which notes that there are more than 25,000 divorces annually in South Africa.

“Divorce can be a painful and traumatic experience for everyone involved. The financial implications can also be devastating and often result in both partners having to significantly lower their standards of living post-divorce. This is highlighted by the results of the Momentum/Unisa Consumer Financial Vulnerability Index (CFVI) Q1 2019 survey, where 47.7% of respondents stated that they struggle to adapt to changing financial conditions which could include divorce,” says Portrag.

During the turmoil of negotiating the splitting of assets, maintenance and the custody of children enjoy priority, Portrag cautions that an area which is often neglected is the negotiation to claim a portion of your former spouse’s retirement savings. “In terms of the Divorce Act, your retirement benefit forms part of your assets and must be considered when dividing your marital assets. This is especially important for a spouse who has put their career on hold to take care of the children, and in doing so has not built up sufficient savings for their retirement,” says Portrag.

However, if couples are living together as “husband and wife” and not married under a legal Act of Parliament such as; the Marriages Act, Recognition of Customary Marriages Act and the Civil Union Act, there cannot be a pension interest transfer. Under these circumstances, there is no marriage capable of dissolution in terms of the Divorce Act, which enables the transfer of a pension interest benefit. The Pension Funds Act, which regulates all private funds, was amended to allow for a pension interest transfer on the dissolution of an Islamic marriage by an order of court.

“The legal terms of a marriage will determine the guidelines for financially exiting the union. In terms of the law, if you are married in community of property or out of community of property, with the accrual system, you may be entitled to a portion of your former spouse’s pension interest. In a pension or provident fund, “Pension interest” is the amount of money that a spouse would have received if they resigned on the date of the divorce.

“This does not mean that the retirement fund member needs to split their pension interest in half to pay their former spouse. They have the choice to pay the amount that the former spouse would have received from the retirement fund, from the other assets in the estate,” says Portrag. ***Full Report:*** ***https://www.fanews.co.za/article/retirement/1357***

FA News | 13 August 2019

Prescribed asset requirements and what it could mean for your hard-earned pension fund

South Africa has been sitting on gold for years – and it’s about to be mined. At the end of 2016, the total value of retirement funds in South Africa was over **R4 trillion**, which was close to the **GDP** of that same year, and the government has seized an opportunity to access this gold mine.

Experts say South Africa has the highest amount of pension assets in emerging markets over China, Russia and Brazil. As a reflection of South Africans conscious choice to prepare for retirement and put their hard-earned salaries to good use, this mountain of a collective fund is something to be proud of.

But a recent proposal to investigate prescribe asset requirements could mean that it could become government policy to invest pension funds, not where you will get the highest returns, but where the government sees it fit.

What’s this talk about prescribed assets?

South African pension funds are already subject to some prescription under **Regulation 28 of the Pension Fund Act** which limits the extent to which retirement funds may be invested in particular categories of assets. The most important limits to date are:

Equity 75%

Listed Property 25%

Offshore Assets 30%

Hedge funds 10%

But more recently, the ANC started the buzz around prescribed asset requirements after a proposal in their **2019 election** manifesto. The ANC stated that they will "investigate the introduction of prescribed assets on financial institutions' funds to mobilise funds within a regulatory framework."
In other words, prescribe asset requirements would force all fund managers to invest in government-approved instruments, regardless of the underlying economic circumstances of these institutions.

What could it mean for investors?

Magnus L. Heystek, a certified financial planner and the Head of Brenthurst Wealth Management's Johannesburg office, says that there's still a lot of uncertainty around prescribed assets but they are, in essence, risky. "The risks to investors in pension funds, would be that they would have to increase their contributions and possibly work and contribute longer due to the poor performance of their investments," Heystek explains.

The ANC stated in their manifesto that they hope to mobilise funds through prescribed assets for socially productive investments and job creation while considering the risk profiles of the affected entities. But the debilitating performance of South Africa's most notable SOE's is no state secret and therefore it's normal for investors to feel alarmed by the notion of governmentally guided investments.

So, what are your options going forward?

As it stands now, the plan for prescribed assets have been proposed - but not yet formalised. It will, however, only be a regulation and not an Act of Parliament so it could be realised sooner than later.

"Prescribed assets will unfortunately place even further financial pressure on an already overburdened population, and the government should rather work on restructuring the management and current debt levels from SOE's," Heystek suggests. It's therefore important for investors to get a full understanding of the implications that prescribed assets might have on their pension funds.

Seeking advice and guidance from a financial advisor or planner will help you find the best ways to buffer your pension from low returns, by diversify your portfolio, offshore investing and other options.

Fin24 | 14 August 2019

OPINION: For most South Africans, retirement is not leisure time

For many South Africans, retirement is not the life of leisure and financial freedom that it's made out to be. In fact, most retirees rely heavily on income from some form of work, because their pension is insufficient to support them.

This is the startling result from the 2019 Old Mutual Savings and Investment Monitor, which has included this audience in its research for the first time.

This annual study, now in its 11th year, tracks shifts in the financial attitudes and behaviour of South Africa's working metropolitan population. Criteria for inclusion of retirees into the study was that they receive a monthly income in some form of at least R15000.

Including this demographic in our study reveals how many households suffer because they are financially underprepared for retirement.

While one's sunset years are supposed to be a time to kick back and enjoy the pleasures that life has to offer, this does not appear to be the case for many of those we surveyed. What our study shows is that as many as 92% continue to work because they are dependent on additional income to make ends meet.

The monthly contribution from a pension for nearly 80% of people makes up only 27% of their income, with other investments or savings contributing only 7%.

This highlights the importance of proper financial planning in your productive years. For many, a company pension fund is proving insufficient to support them in retirement. It is therefore essential to speak to a professional financial adviser who is able to help you navigate a path that reduces this financial pressure later in life.

The survey results show that half of working retirees are working for an employer, 36% have started a business post-retirement, while 13% have continued to be self-employed or have taken up a position as a consultant.

An important context to the results is that 53% of retirees are still supporting dependent children and/or grandchildren, of which 41% are supporting dependants under the age of 12. Furthermore, 9% of respondents are supporting parents or even grandparents, with those most under pressure being classified as the Sandwich Generation, because they are squeezed between supporting older and younger generations.

It is no surprise then that retirees are cutting down their expenses in order to cope financially.

Those polled are tightening their belts by spending less on clothing and shoes (45%), holiday and travel (41%), eating out and entertainment (39%), electricity and water (38%), entertaining at home (37%) and cellphone airtime (36%). ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement/opinion-for-most-south-africans-retirement-is-not-leisure-time-30971167***

Personal Finance | 20 August 2019

INTERNATIONAL NEWS

WORK TILL YOU DROP State pension age should rise to 75 from 68, report says – raising fears some workers will NEVER retire

The state pension age should rise to 70 by 2028 and to 75 by 2035 in a bid to boost the UK economy, according to a new report.

Currently, the state pension age is set to increase to 67 by 2028 and to 68 between 2044 and 2046.

The state pension age could rise under new plans.

The government announced plans in 2017 to up the state pension age even faster to 68 between 2037 and 2039, although this hasn't been written into law yet.

But the Centre for Social Justice (CSJ) think-tank, headed by former Tory leader and ex-secretary of state for work and pensions, Iain Duncan-Smith, says the UK isn't responding to the potential of an ageing workforce.

It says hundreds of thousands of people aged 50 to 64 are deemed "economically inactive".

To combat this, it recommends helping older people "access the benefits of work" by providing support to them and employers, such as increased access to flexible working and training opportunities.

The think tank says this would also reduce the costs of benefits and boost the UK's gross domestic product.

But the government says the number of over-50s in work is already at a record high of more than 10.6million.

In its report, "Ageing Confidently: Supporting an ageing workforce", the think-tank stated: "Removing barriers for older people to remain in work has the potential to contribute greatly to the health of individuals and the affordability of public services.

"Therefore, this paper argues for significant improvements in the support for older workers.

"This includes improved healthcare support, increased access to flexible working, better opportunities for training, an employer-led mid-life MOT and the implementation of an 'Age Confident' scheme.

"As we prepare for the future, we must prioritise increasing the opportunity to work for this demographic to reduce involuntary worklessness.

"For the vulnerable and marginalised, a job offers the first step away from state dependence, social marginalisation and personal destitution."

The report added that if these measures comes into force, then the state pension age should rise too. ***Full Report: https://www.thesun.co.uk/money/9749972/state-pension-age-rise-boost-economy/***

The Sun | 19 August 2019

UK elderly suffer worst poverty rate in Western Europe

Britain's low basic pension, combined with means-tested supplements, puts thousands of older people at risk.

The proportion of elderly people living in severe poverty in the UK is five times what it was in 1986, the largest increase among western European countries, according to a new study.

The rise, from 0.9% of the elderly population to around 5%, is attributable to Britain's state pension system and its "low basic payments and means-tested supplements", says the author of the report, Pension Reforms and Old Age Inequalities in Europe.

Professor Bernhard Ebbinghaus, of the University of Oxford, will tell a European Sociological Association conference this week that the UK is one of five countries out of 16 that he has studied where there has been an increase in people aged 65 and over who are living in "severe poverty", which is defined as having an income of 40% or less of the median average.

"The United Kingdom is a good example of the Beveridge-lite systems that have historically failed to combat old-age poverty," Ebbinghaus said. "These have rather ungenerous basic pensions with means-tested supplements, and this reproduces relatively high severe poverty rates among the elderly. British basic pensions are particularly low, 16% of average earnings, and require a long contribution period. Income-tested or means-tested targeted benefits are needed to supplement basic pensions and to lift them out of severe poverty – every sixth British pensioner receives such additional benefits."

Using data from the Luxembourg Income Study, which spans several decades, Ebbinghaus found that:

- In the mid-1980s about 1% of those aged 65 and over in the UK were living in severe poverty, putting it equal-lowest in poverty rates of 16 western European countries. In France it was 12% and in Germany 6%.

- By 2008, the proportion had risen to 6%, making the UK fourth-equal highest. Only Switzerland, Ireland and Spain were higher.

- Over the following eight years, the proportion dipped slightly but remained at just under 5%.

Ebbinghaus said the UK compared unfavourably with many other countries: “The lowest poverty rates among older people are found in the relatively generous Dutch basic pensions and Nordic welfare states, while the UK, but also Ireland and Switzerland, with basic old-age security, had the highest poverty rates.”

Even when private pensions were taken into account, the UK continued to fare poorly, Ebbinghaus said: “The public-private mix puts many elderly at risk as they lack sufficient supplementary earnings-related pensions.” ***Full Report: https://www.theguardian.com/society/2019/aug/18/elderly-poverty-risen-fivefold-since-80s-pensions***

The Guardian | 18 August 2019