MONDAY, 9 SEPTEMBER 2019

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

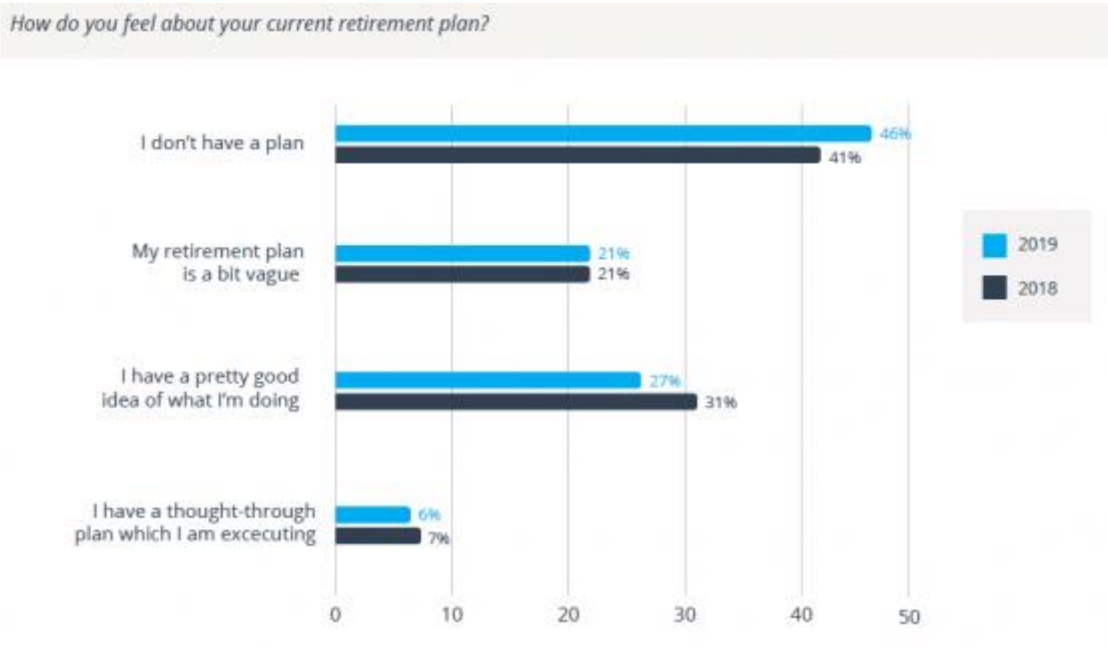
LOCAL NEWS

Too little, too late

South Africans are failing themselves when it comes to retirement planning.

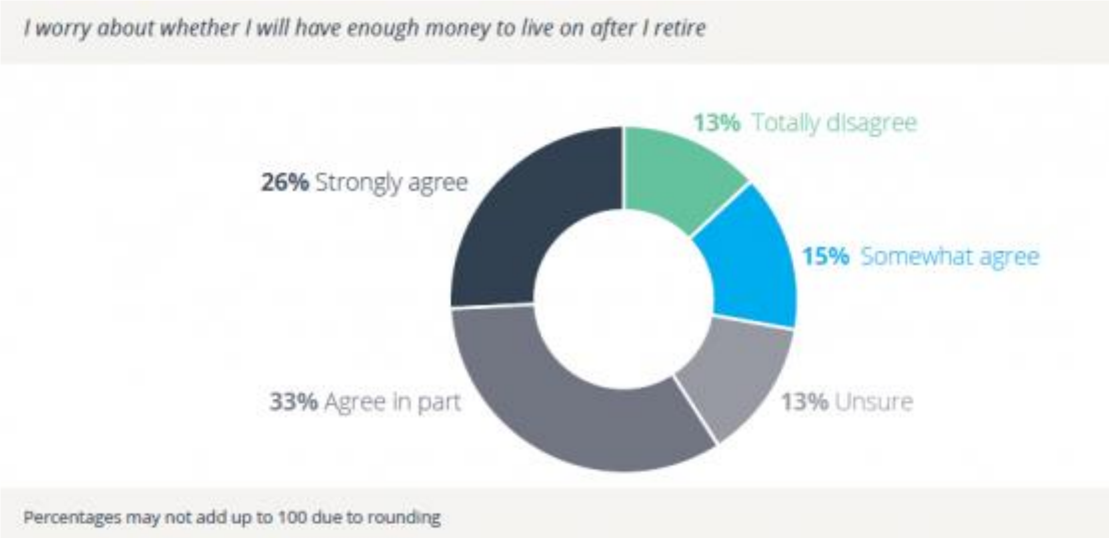
Research shows that many South Africans are prioritising their current lifestyle – at great expense to their future selves.

Only 6% of economically active South Africans have a thought-through plan for their retirement. A further 27% have a 'pretty good idea' of what they are doing. The vast majority, however, have no plan at all, or a vague plan at best.



Source: 10X South African Retirement Reality Report

This statistic from the 2019 10X South African Retirement Reality Report, which is put together by sampling the universe of 15.1 million economically active South Africans, illustrates the scale of the retirement problem the country is facing. And it is made even more concerning when one considers that 72% of those who said they have some sort of retirement plan still feel unsure whether they will have enough when they retire.



Source: 10X South African Retirement Reality Report

Full Report: ***https://www.moneyweb.co.za/mymoney/retirement/too-little-too-late/***

Moneyweb | 9 September 2019

Don't be in the dark about retirement

More than a third of members of employer-sponsored retirement funds say they know "little" about their fund but want to know more, according to the latest "Retirement Reality Report" by 10X Investments.

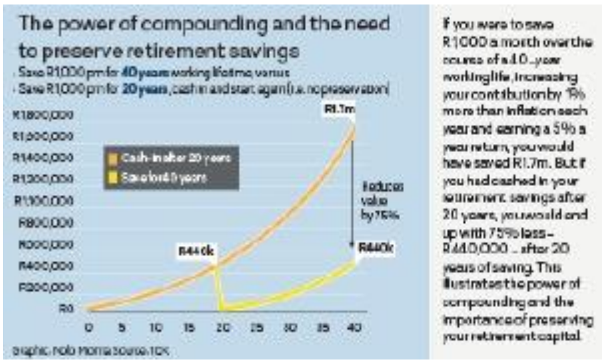
A high 40% of respondents, including many earning more than R50,000 a month, say they have a "good understanding" of their retirement scheme, but this could reflect our tendency to be overconfident, says Hilan Berger, the head of institutional business development at 10X.

Michael Prinsloo, managing executive: research & product development at Alexander Forbes, says research shows that even though people say they understand their fund, they don't. "They don't understand the mechanics or the tax or what they can do with retirement money. Understanding is short-lived, too," he says.

Berger says most fund members, including the CFOs of companies and even trustees, are very poorly informed. Many trustees can't say how much they're paying in fees, where their fund's money is invested, and if it has performed in line with the market, he says.

The report by 10X, in collaboration with Brand Atlas, is based on online surveys among 10,780 economically active South Africans with a monthly income in excess of R7,600.

According to the survey, 43% of people earning less than R20,000 admitted they know little about their fund. As many as 48% of respondents aged between 25 and 34, and 38% of those aged between 35 and 49 said they know little about their fund.



Whether you're in your first job or have only 15 years left to save for retirement, what are the key questions you should be asking?

What income will my savings give me in retirement?

You may have some idea how much is in your retirement fund but knowing what's in the pot isn't very helpful. You need an estimate of the income your savings will provide in retirement if you keep saving at your current rate and investing in the same portfolio.

Some funds provide this information, others show your "replacement ratio" - your expected pension income expressed as a percentage of your monthly income immediately before retirement. On average the actual replacement ratio of retirees was 28.81%, according to Alexander Forbes' 2018 Member Watch Survey, which means most people will find they have saved too little. Your replacement ratio is affected by the percentage of your salary you contribute, the returns you earn, the costs you pay and the period for which you remain invested. Alexander Forbes says that retiring at 65 rather than 55 can almost double your replacement ratio. ***Full Report:*** ***https://www.businesslive.co.za/bt/money/2019-09-08-dont-be-in-the-dark-about-retirement/***

Business Live | 8 September 2019

Beneficiaries, bullets and R17 billion in unpaid claims

Is the life insurance industry in SA really the scam we're all afraid it is?

When Durban widow Denise Ganas was denied payout and asked to repay a R50 000 cash benefit in 2017, following her husband being shot in a hijacking attempt, most of South Africa was up in arms – perhaps with the exception of a few hardened industry experts that had seen this type of thing before.

'Can life insurers ethically refuse to help a client in dire need, whether or not the client is legally entitled?' was the question asked by such high-profile tweeters and Thuli Mandosela supported by thousands of others.

The questions that circulated included 'is this life insurance thing just a scam? With so many Ts&Cs, how do you know if you're really covered, until it's too late? Do morality and ethics now trump the law and how is it possible that these do not always align?'

Insurers in South Africa know that the problems stem from far more than this case. Insurance, has for years been viewed as a grudge purchase and is frequently near the bottom of the consumer trust index – 2019 again saw financial services as the 'least trusted sector' globally for the respected Edelman Trust Barometer.

"It's time for transparency, authenticity and honesty," says MiWayLife CEO Craig Baker. "The truth is that many more claims are being paid out than most people are aware of and a staggering number of legitimate claims are waiting to be paid out but haven't been, due to the policyholder. People either don't know this or simply don't care - hard to believe, considering so many people's livelihoods and even lives are involved. It's time to break the silence."

According to the 2018 figures from the Association for Savings and Investment South Africa (Asisa), life insurers paid back more than R67 billion in claims during 2018 (2019 figures are not yet available) which amounts to 99.3 percent of all claims received. In fact, MiWayLife parent company Sanlam paid out nearly R4 billion in claims last year.

However, a staggering sum of R17 billion in approved claims are waiting to be paid out by the industry and haven't been due to policyholders, not insurers. "Life insurers actually have a very real and pressing motive for paying out as many legitimate claims as possible," says Baker. "Not only do the insurers have to keep these funds available, but they also incur the cost of trying to trace beneficiaries and managing the assets."

MiWayLife currently has approximately 55,000 lives on cover at an average coverage amount of nearly R1,000,000, this adds up to approximately R55 billion in cover that is protecting lives of South Africans. “We have that money on the line for every policyholder – we assume that every policy will be a claim. That is why we are in business,” says Baker. ***Full Report: https://www.fanews.co.za/article/life-insurance/9/general/1202/beneficiaries-bullets-and-r17-billion-in-unpaid-claims/27473***

FA News | 6 September 2019

This is how much SA unit trusts have struggled

Few have managed to beat inflation plus 3% target.

Investing in 'safer' assets like bonds and cash may be tempting right now, but the comfort comes at the risk of missing out on the long term benefits of equities.

At the start of 2013 over 70% of unit trusts in the South Africa equity general, multi-asset high equity, multi-asset medium equity and multi-asset low equity categories had outperformed a benchmark of consumer price inflation (CPI) plus 3% over the previous three years. At the end of June 2019, that number had fallen to below 5%. This highlights just how difficult it has been to find returns in the local market over the last few years. The illustration in this video from Corion Capital puts the current conditions in stark perspective.

It shows how three-year rolling returns for investors had been strong across all of these unit trust categories through 2013, 2014 and most of 2015. However, they started to decline, and by 2017 had fallen dramatically. These low returns have now persisted for three years, to the extent that many local unit trusts have struggled to even beat inflation.

For the five years to the end of August, the average five-year annualised return from funds in the South Africa general equity category was just 1.7%. According to David Bacher, chief investment officer at Corion Capital, this is the lowest nominal five-year annualised return on record, based on data going back to the 1970s.

Record weakness

“On a real return basis, the past five years provided an average return of 3.2 % below inflation,” says Bacher. “This is the lowest five-year annualised real return since May 2003.” On an average basis, multi-asset funds in the high equity, medium equity and low equity categories have also delivered their lowest five-year annualised returns on record. "Approximately 94% of the South African funds that contain some equity content have now not delivered an annualised real return of greater than 3% for over six years – since September 2013," Bacher notes.

It is understandable for investors to feel uneasy in this environment. When a lack of growth has persisted for this long, it starts to feel like it may never return.

Longer term picture

It is, however, important to maintain some perspective. An investor saving for retirement should be more concerned about returns over 30 or 40 years than they are about what has happened in the past half a decade. "In the context of a long-term savings plan, five years is still a relatively short period," says Bacher. "Should one look back over longer periods, the experience is much more uplifting." ***Full Report:*** ***https://www.moneyweb.co.za/investing/this-is-how-much-sa-unit-trusts-have-struggled/***

Fin24 | 5 September 2019

INTERNATIONAL NEWS

Government branded immoral over pensions of UK citizens in EU

Failure to guarantee link to state pension increases for life condemned by campaigners

The government will not give a lifetime guarantee to index-link the pensions of British nationals who have retired in the EU if there is a no-deal Brexit, a decision that has been described as "immoral" by campaigners.

The government currently continually increases the payout of the basic state pension by either 2.5%, average wage growth or by the consumer price index, whichever is higher, on a reciprocal basis under EU regulations, a practice known as uprating. The government has resisted calls for an indefinite continuous uprating for the 222,000 Britons living in EU member states after Brexit, despite the financial hit they have already taken. Since the referendum, the value of the pension, worth up to £130 a week, has decreased by up to 20% because of the collapse in the value of sterling.

The decision will also affect around 240,000 EU citizens who have worked in the UK and are entitled to a British state pension. Under a no-deal Brexit, all pension increases for British nationals in the EU were due to have stopped in March but the government has now said it will continue with the rises, in line with those given to retirees living in the UK, for the next three years. Campaigners for UK citizens resident in the EU have welcomed the three-year stay but say they are disappointed pensioners will be used for negotiations again three years down the line.

“This commitment will come as a vital temporary relief to all pensioners living in the EU. We have been pressing for this step all year as, until today, those pensioners faced having their pensions frozen next April, on top of their pensions having lost over a fifth of their value because of the fall in the pound since before the referendum. But it does not go far enough,” said Jeremy Morgan, a retired barrister living in Italy and vice-chair of the British in Europe Brexit campaign group.

The work and pensions secretary, Amber Rudd, said the government was working hard to ensure Britain was “leaving in a way that protects the interests of citizens here and in EU member states”. She said: “This guarantee will provide reassurance to the hundreds of thousands of people living in the EU who receive a UK state pension that their pensions will continue to rise significantly each year, however we leave.”

Morgan said the UK is “almost unique in the EU in distinguishing between pensioners who are living in the country and those that are not. “If you have worked all your life in the UK, it should be a basic entitlement and up to the individual to decide where they want to live without being penalised,” he added. The government has previously expressed a desire to offer a lifetime guarantee on uprating, but only “subject to reciprocity”, a policy British in Europe has said is irrational.

“These people paid their contributions and taxes to the UK, and then retired to the EU on the basis that their pension, already the lowest in the OECD countries, would at least be increased for inflation,” said Morgan. “To move the goalposts for this vulnerable group when it is too late for them to do anything about it is simply immoral.”

He called on the government to review the decision urgently and offer the lifetime guarantee for their own citizens who had the “legitimate expectation” of an uprated pension when they moved to an EU country.
British in Europe says some pensioners in rural France and in Spain are already struggling to make ends meet with the decrease in their pension seen since Brexit.

The Guardian | 1 September 2019

OUT OF INTEREST NEWS

Tough times for investors, but there's reason for hope

Delivering exceptional investment performance in the current market conditions is no simple task, given that uncertainty and unemployment remain critically high, while economic growth, liquidity and interest rates remain stubbornly low, says Samantha Steyn, the chief investment officer at Cannon Asset Managers.

The market has been tough, and given the fact that the FTSE/JSE All Share Index delivered average annual returns of just 5.6percent over the past three years, many investors would have been better off with cash in the bank, says Steyn. This said, there is some good news ahead for resilient investors. Shares are no longer trading at elevated multiples and dividend yields have become extremely attractive, says Steyn.
Valuations are one of the most powerful indicators of long-term returns and while short-term risks are elevated, the longer-term investment case has notably improved as the dejected environment has given rise to several great investment opportunities, says Steyn.

She says these include:
* Master Drilling, a technology solution-driven company, focused on raise bore drilling services. It operates across a number of countries, with predominantly local currency costs and hard currency revenue, says Steyn.
Essentially, a margin of safety and a strong balance sheet are key and arguably even more so during tough times. Master Drilling offers both, and more. It trades on an undemanding earnings multiple of 7.2 times and a 2.5percent dividend yield, says Steyn.
The company has a gearing ratio of only 16.2percent, enabling the company to withstand economic downturns. With a healthy order book, disruptive technologies in pilot phase and a strong management team, we believe this business will be able to deliver good results in the future, says Steyn.
* Investec Limited. While the banks are likely to provide modest asset growth, they remain well capitalised, with their primary focus on costs, says Steyn.
Investec is on track with the proposed de-merger and separate listing of Investec Asset Management, which should enhance the long-term prospects of both businesses.
The group trades on an undemanding multiple of 8 times, with an attractive dividend yield of 6percent. Investec has a high level of foreign earnings, which provides great diversification for local investors. At

current levels it is trading about 1.0 times price to book value, with a return on equity of 11.7percent - highly attractive for this bank.

* Santova. The mid- and small-cap universe has underperformed over the past three years, says Steyn. “We have seen shares de-rate from a nine times earnings multiple to extreme lows of around five times. Santova is one of these companies, and while the local environment remains challenging, for long term investors, these levels are attractive entry points into great businesses that are well run,” she says.

Santova is a multinational global trade solutions business, which we believe is deeply undervalued. Currently, just under half the group's profit comes from South Africa, which has translated into hard yards.

“We expect the offshore earnings component to grow significantly over the next three years, buoyed by strong franchises in the Netherlands, Hong Kong and the UK,” says Steyn.

Personal Finance | 9 September 2019