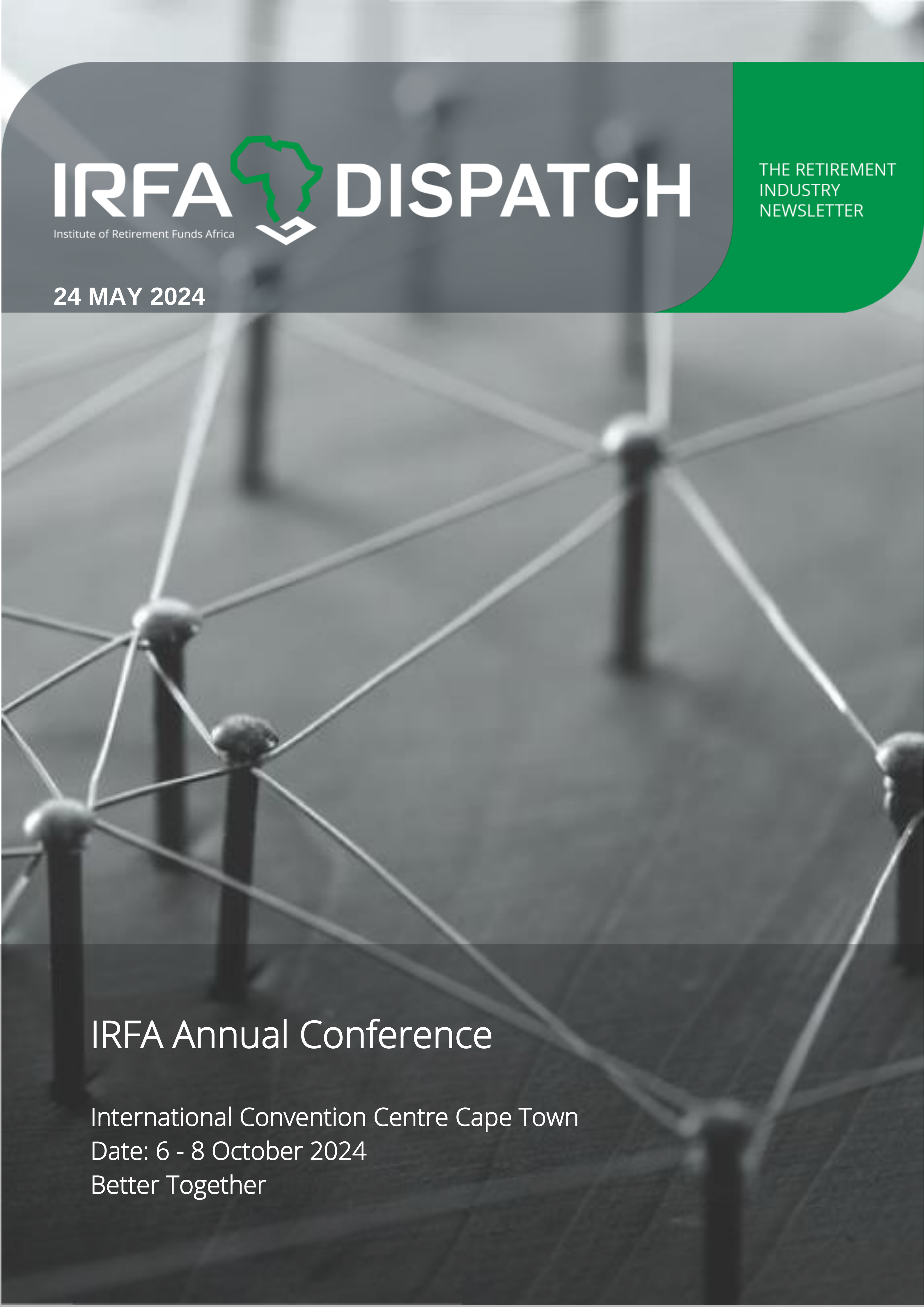


IRFA DISPATCH

Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

24 MAY 2024

IRFA Annual Conference

International Convention Centre Cape Town
Date: 6 - 8 October 2024
Better Together

Table of Content

Two-pot reform: Resist the urge to access your RA savings

Understand that any withdrawal is a costly advance on your ultimate retirement benefit

South African investors with personal pension plans, called retirement annuities (RAs), have historically been unable to dip into their savings before retirement. Currently, these investors must wait until age 55 unless particular circumstances apply. However, for the first time, RA investors will have early access through an annual withdrawal option when the two-pot retirement system comes into effect in September this year. While the catalyst for allowing early access to one's retirement savings was the economic hardship caused by the Covid-era lockdowns, utilising this option will be costly. It should ideally be reserved for periods of genuine financial hardship. We urge investors to ensure they understand the implications of early access, as we detail below.

RAs have technically been a two-pot system already

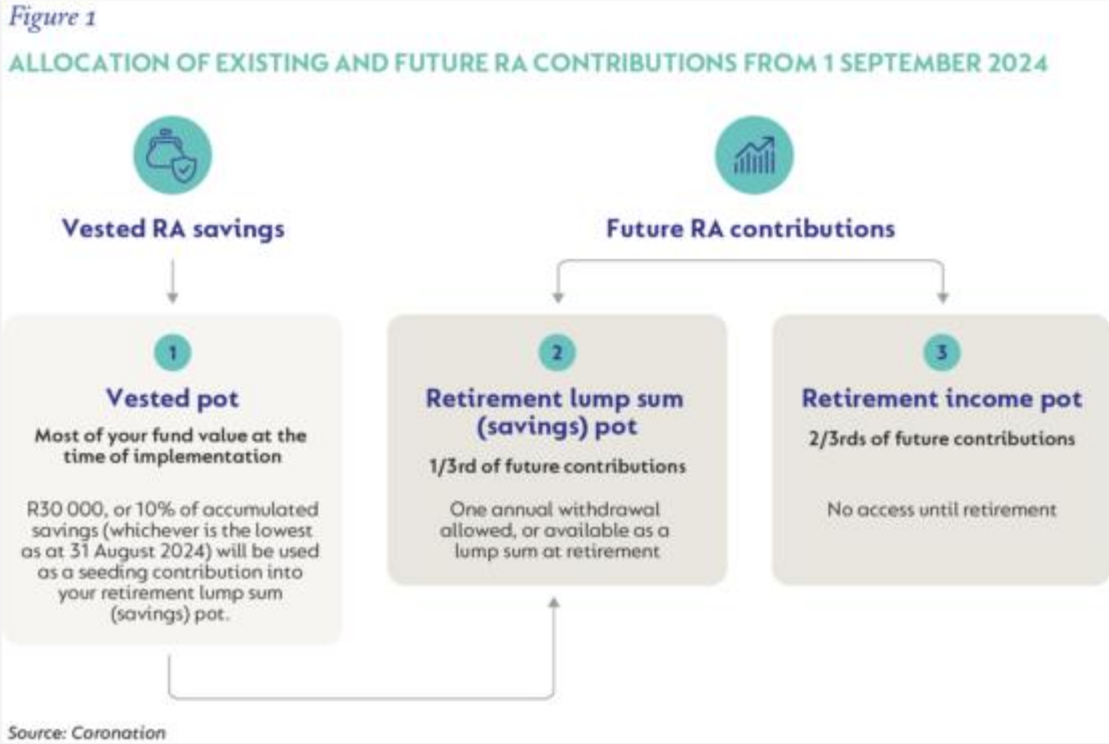
Investors retiring from their RAs have technically become accustomed to two separate pots in their retirement plans already. This is because when you retire from your RA (at the age of 55 or later), you have the option to take one-third of your accumulated savings in cash (think of it as your lump-sum pot), while the remaining two-thirds must be used to buy a regular retirement income such as a guaranteed or living annuity (your retirement income pot).

What changes for RA investors under the two-pot system?

The two-pot reform that comes into effect on 1 September formalises this 'split' of your retirement plan into separate pots by somewhat confusingly introducing *three* formal components into RA investors' accounts:

- A vested pot (representing most of your RA fund value at the time of implementation);
- A retirement lump sum pot; and
- A retirement income pot.

The most significant change under the new system is that you will be allowed one annual early withdrawal from your retirement lump sum pot (or savings pot as it is called in the legislation). The value in your savings pot will initially be seeded by R30 000 or 10% of your fund value at implementation (whichever is the lowest), transferred from your vested pot. One-third of your future contributions (from 1 September) will also be allocated to this savings pot. The following table shows the allocation of vested savings and future contributions from 1 September 2024.



Source: Coronation

An option but not an obligation

Once every year, you will be able to access the entire balance available in the savings pot – but you don't have to exercise this option. The significant change is that, in future, you will have the option, but not the obligation, to make one annual withdrawal from the entire balance in your savings pot. It's vital to understand that this new liquidity option comes with an important health warning. Early access is costly and can seriously reduce your standard of living in retirement. You are effectively borrowing money from your future self over a fixed term, and you will essentially lose the tax benefits you received from the government when you contributed towards your RA. Let's unpack this a bit further.

Exercising your access option is tax-disadvantaged

If you wait until retirement (or any time after 55 for RA investors) before withdrawing your money, the preferential retirement lump sum tax tables will apply. However, if you withdraw early, the more punitive marginal tax rates will be deducted from your withdrawal. This can significantly impact your retirement. Let's assume your annual taxable income is R240 000. Whatever withdrawal you make from your savings pot will be taxed at a rate of at least 26% or more than a quarter of the money you access. This compares to zero tax on the first R550 000 lump sum withdrawn at retirement age.

The principle also holds at the higher end of the income scale.

For a R10 million lump sum withdrawal at retirement, your effective tax rate will be 33% compared to the early withdrawal rate of 45%, assuming you earn more than R1.8 million in that tax year. This is a 12-percentage point difference in tax payable.

Figure 2

ALL THE TAX BENEFITS CLAWED BACK ON EARLY WITHDRAWAL

	Early access Marginal income tax rates apply: 26% - 45%	Access at retirement Preferential retirement lump sum tax rates apply: 0%-36%
Annual Taxable Income		
R240 000	At least 26%	No tax on first R550 000 lump sum withdrawn
>R1.8 million	45%	33% on a tax lump sum of R10 million

Source: Coronation, based on 2024/2025 income and retirement lump sum tax tables

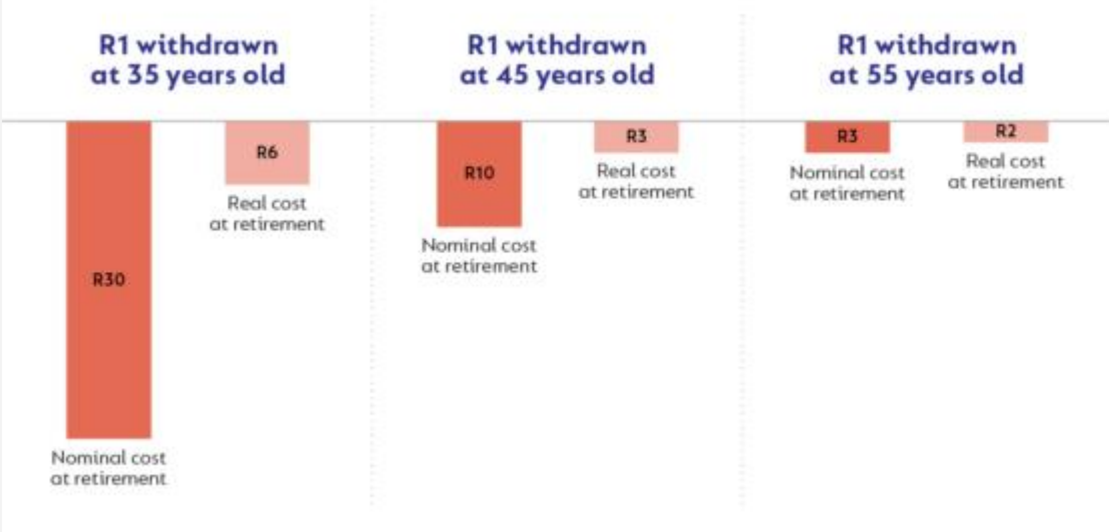
Source: Coronation

Early access is borrowing from your future self

Withdrawing early effectively means that you are borrowing from your future self over a fixed term at your expected rate of return on your RA investment. To illustrate this, let's assume you are 35 years old and intend to retire at age 65. Any R1 accessed through an early withdrawal may cost you R30 in lost retirement benefits at the time of retirement. In other words, by resisting the urge to access your savings early, your money could have multiplied by a factor of 30 over the three decades until retirement. While the numbers become less dramatic when you shorten the period between early access and retirement, they remain retirement-defining. Even for an individual making an early withdrawal 10 years before their intended retirement date, it would still cost them R3 in lost retirement benefits for every R1 taken out early.

Figure 3

THE COST OF BORROWING FROM YOUR FUTURE SELF



Assumes a retirement age of 65 and a balanced fund return of 12% per annum and inflation of 6% per annum.
Source: Coronation

Source: Coronation

The bottom line

A single decade of missed compounding means that you have effectively halved the purchasing power of the money taken out as part of your early withdrawal. The bottom line is that to avoid a significantly reduced standard of living in retirement, you must resist the temptation to make regular early withdrawals to fund discretionary spending today. By not accessing your retirement savings early, you allow the powerful effect of compound growth to work to your full advantage.

A reminder of what the two-pot system aims to remedy

Introducing the two-pot retirement system aims to address a fundamental weakness in the employer-sponsored part of the South African retirement system: the accidental early access to your retirement savings when changing jobs. More than 10% of all contributing members of workplace retirement funds utilise this accidental access opportunity each year to cash in their full pension pots. According to National Treasury, the net result of this leakage is that more than 60% of retirement fund members had accumulated pension pots of less than R50 000 in 2020. Put another way, the average fund member resets their retirement savings balance to zero every eight years in a system that enables compound growth to do its magic over three or four decades.

Moneyweb | 15 May 2024

Dispelling the six leading misperceptions of South Africa's Two-Pot Retirement System

South Africa is poised to embrace the Two-Pot Retirement System, the most extensive changes in retirement legislation since the annuitisation of provident funds in 2017 known as T-Day, according to Blessing Utete, Managing Executive of Old Mutual Corporate Consultants. Feedback gathered by Old Mutual Corporate from attendees of various conferences revealed that many had the same questions or concerns about the practical implementation of the retirement reforms. Specific issues highlighted include the rules governing withdrawals, potential for fraud, and tax implications associated with the two-pot system. “These concerns should not overshadow the significant benefits of the system, which include bolstering long-term financial well-being and providing more flexibility,” he says.

He adds that this will be achieved by mandating the preservation of two-thirds of retirement savings for future income, while permitting limited access to one-third for urgent financial needs. “The importance of thorough preparation and targeted member education is absolutely critical for its success, as seen by the road to retirement reforms in 2017,” he says. T-Day reforms in South Africa, also aimed at improving retirement security, were delayed in order to address concerns over implementation. “We need to confront several misconceptions head-on and significantly ramp up employee financial literacy initiatives around retirement reforms specifically to facilitate a successful integration of the system,” says Utete.

Misperception 1: The transition to the Two-Pot system affects all members' savings and future contributions in the same way.

Reality: For the majority of South Africans, the transition is designed to be automatic for all eligible retirement fund members, requiring no action on the part of most members. Pre-existing savings as of the effective date will automatically be allocated to the vested pot, with up to 10% of these savings, capped at R30,000, seamlessly transferred to the savings pot. Members of provident funds who were over 55 years old as of 1 September 2024 will be the exception. Because they're eligible for retirement, they will by default remain in their existing pension and provident fund. They will instead be given a choice to structure their savings according to the Two-Pot System and will have 12 months to make the selection.

Misperception 2: The Two-Pot Retirement System will enable individuals to access their retirement funds beginning on 1 September 2024.

Reality: Although the legislation will be in effect from 1 September, disbursements won't commence immediately. Significant system preparations and a series of processes—such as deployment, seeding calculations, and verifications—must occur first, likely taking at least five working days before a payout. Funds will need to communicate to members about the claims process and when they will be ready to start processing claims. A seeding calculation involves determining the initial amounts to be allocated to different "pots" or accounts based on existing retirement savings. This calculation depends on the current amount of savings in each member's retirement account and their market value. This means that this could take several working days to weeks, depending on the rules set by the fund.

Misperception 3: Access to retirement savings under the new system must occur immediately on 1 September 2024, or members will forfeit their entitlements.

Reality: Members are not required to make any immediate decisions on whether to withdraw as of 1 September 2024. Instead, they maintain full control over their funds, with the flexibility to access their savings pot at any future point when it becomes necessary. In fact, it's more beneficial for members to allow their savings to remain invested, thereby potentially increasing their value.

Misperception 4: The Two-Pot Retirement System will lead to underperformance of assets, reducing the long-term value of savings.

Reality: The structure of the Two-Pot System—comprising a 'retirement pot' for long-term growth and a 'savings pot' for short-term needs—is an 'accounting exercise,' not an asset allocation or investment strategy change. The adjustment of the Two-Pot System—dividing funds into a 'retirement pot' for long-term growth and a 'savings pot' for short-term needs—is primarily a matter of organising and categorising funds within existing financial structures. Regulation 28, which governs asset allocation, will continue to ensure diversified portfolios, mitigating risks and supporting consistent returns.

Misperception 5: The Two-Pot Retirement System introduces tax complexity.

Reality: The Two-Pot System maintains the existing taxation framework, providing straightforward guidelines to help businesses and members manage their contributions effectively. Withdrawals from the savings pot before retirement are taxed as part of the individual's annual taxable income, calculated using their marginal tax rate. Total contributions to retirement funds still receive the significant tax-deductible status they have always received.

Misperception 6: The Two-Pot Retirement System invites fraud and corruption.

Reality: Retirement funds already employ robust measures to protect against fraud and ensure the security of members' savings and personal data. Most funds in South Africa feature advanced security protocols, including encryption and multi-factor authentication, to prevent such risks. As with any new capability, creating a new transaction capability, as introduced by the Two-Pot legislation, does mean that it will open funds to increased fraud risk. However, it is how this risk is managed and the security measures put in place that are crucial.

It is essential for members to stay vigilant and informed about potential threats, especially criminals posing as representatives of their retirement fund. We encourage members to regularly update their security settings, verify communications from their fund administration before agreeing to withdraw any savings, and report any suspicious activities. These proactive steps can significantly enhance their security and peace of mind. Utete urges business owners and HR managers to actively engage with the reform process and educate their workforce about the benefits of the Two-Pot System. "Preparation is essential to fully leverage the advantages of the Two-Pot System," he concludes.

FA News | 22 May 2024

The two pots have now reached boiling point, but, there are still 'pot-holes' that require attention

Following extensive consultation and engagement, the Revenue Laws Amendment Bill, 2023 has been passed by both houses of Parliament and now awaits the President's signature. The Pension Funds Amendment Bill, 2024 (**PFAB**) was passed by the National Assembly on 16 May 2024, and will be sent to the President for his assent. These Bills give effect to the establishment and the implementation of the two-pot retirement system that will come into effect on 1 September 2024. Come this Spring Day, all retirement funds (public and private sector funds) must be ready to implement the two-pot retirement system. Essentially, what this means is that a member's (and/or the employer's) monthly contribution will no longer be in one 'pot', instead there will be three 'pots', the Savings Pot, the Retirement Pot, and the Vested Pot.

With effect from 1 September 2024, retirement fund contributions will be split between two-pots. One-third of the retirement fund contribution will be allocated to the Savings Pot and the balance (two-thirds) will be allocated to the Retirement Pot. A 'savings withdrawal benefit' may be withdrawn from the Savings Pot once every tax year without the need to terminate service. Savings accumulated in the Retirement Pot will be preserved until a member's retirement. A member's accumulated savings up to 31 August 2024 will vest in the Vested Pot. Despite the Bills having been passed, there are still a few 'pot-holes' that require fixing or clarification, in particular, when it comes to divorce proceedings. As an example, the PFAB provides that a fund *may not*, *without the consent of a non-member spouse*, *permit a member access to his or her savings withdrawal benefit* if the fund received written notification from the member or the non-member spouse with proof that divorce proceedings have been initiated as defined in the Divorce Act, 70 of 1979, or if an application has been made for a court order in respect of the division of assets of a marriage in accordance with the tenets of any religion.

It is assumed that the reason behind the provision is to prevent a member from reducing the available patrimonial benefits (vis-à-vis the available 'pension interest') that may potentially be distributed to the non-member spouse. In terms of section 7(7)(a) of the Divorce Act, however, in the determination of the patrimonial benefits to which the parties to any divorce action may be entitled, the 'pension interest' of a party shall be deemed to be part of his or her assets. The automatic deeming provision, however, does not apply to a divorce action in respect of a marriage *out of community of property* entered into on or after 1 November 1984 in terms of an antenuptial contract by which community of property, community of profit and loss and the accrual system are excluded.

In light of the above, why would a non-member spouse who (i) is married out of community of property and specifically contracted to exclude community of property, community of profit and loss and to accrual system; and (ii) is a party to divorce proceedings, have any 'say' over a member's right to access his or her savings withdrawal benefit, let alone consent to the access. Or, does a party's chosen marital regime no longer matter because, in terms of the proposed PFAB, the provisions of the Pension Funds Act, the Post and Telecommunications-related Matters Act, the Transnet Pension Fund Act, and the Government Employees Pension Law, will *override* the provisions of the Divorce Act in the event of a conflict. Does this then have the effect that a party's pension interest automatically forms part of the non-member spouse's assets – regardless of the party's chosen and contracted marital regime? Another matter that requires clarification is whether the consent of a non-member spouse is required only in respect of divorce proceedings initiated on or after 1 September 2024, or whether consent will be required in respect of any pending divorce proceedings.

How the two-pot system will practically be implemented is to be seen.

FA News | 21 May 2024

PFA orders fund to rework death benefit allocation

The major children of a deceased member of a pension fund complained to the Pension Funds Adjudicator that they were allocated only one percent each from the death benefit of R1 869 076.45 although they were financially dependent on him. The deceased's wife and two minor children were allocated 96% of the death benefit. The four complainants submitted that the deceased was paying maintenance for two of them and sent money to the other two. They indicated that they were all unemployed, experiencing financial hardship and were left destitute by the death of deceased. Pension Funds Adjudicator Muvhango Lukhaimane held a hearing where it emerged that the four complainants were dependent on the deceased and thus deserved a better deal. She ordered the Sanlam Umbrella Pension Fund to set aside its allocation and decide on a more equitable allocation of the death benefit.

The complainants stated that they also noticed that the information on the schedule of potential dependants and nominees was incorrect. They all objected to the fund's allocation of 1%. The complainants requested confirmation that an amount of R1 902 639.84 was paid to an FNB estate account. They said (part of) this amount should have been allocated among them. The complainants averred that the spouse had stated in her claim form that she is a beneficiary of four different funeral policies plus she also solely benefited from his Unemployment Insurance Fund. The complainants submitted that they visited the Master's Office after they were told to report fraudulent activities committed against the deceased estate and its beneficiaries by the spouse. It has been over a year since Sanlam Life deposited an unapproved group life benefit of R1 902 639.84 in the late estate account and she had no excuse as to why she had not reported it.

The Master's Office issued a summons to be sent to her and asked them to deliver it by hand at her residence. In its response, the fund said it had identified the spouse and six children as beneficiaries, including the complainants. The fund submitted that letters were sent to the beneficiaries on 24 July 2022 informing them about the board's decision and welcomed any objections. Two of the complainants responded, rejecting the one percent allocated to each of them. The fund submitted that upon receipt of the objections, it requested the spouse to provide contact details of the executor of the estate so that the fund could ascertain how much of the estate was going to devolve to the spouse and each of the children. The spouse responded stating that she was nominated as the Master's representative. She stated that she was informed by the Master's office that there was no need to appoint an executor as the estate amounted to less than R250 000.

The fund submitted that it subsequently enquired from Sanlam Life to whom the unapproved group life benefit of R1 902 640 was paid. The insurer confirmed that the full amount was paid to the spouse. The spouse was informed that in terms of the Laws of Intestate Succession, the unapproved group life benefit of R1 902 640.00 should have been allocated equally between herself and the six children of the deceased. She was requested to provide information regarding how much each child had received, how the amounts were calculated, and when the payments were paid. The fund said the complainants have been adamant that they have not received any inheritance and, therefore, it would appear that the spouse has not paid over the share of the estate to each of the children. The fund submitted that it is very important that the board is aware of what happened to the money because this would give the board a greater understanding of the financial status of the spouse and the children which would have a significant impact on the allocation decision. The spouse had not been forthcoming with the requested information. Ms Lukhaimane arranged a hearing of all parties to expedite the matter as the fund had insufficient information to arrive at the decision it did; the spouse had not been forthcoming with information to substantiate her financial position; and the major children were going through financial hardship owing to the prolonged finalisation of the matter. Ms Lukhaimane indicated at the hearing that the fund had failed to establish the spouse's financial position, her qualifications, and her prospects of earning an income, considering her age.

The fund had also ignored that the major children required funds to sustain themselves or to place themselves in a position where they would be able to earn a living following the death of their father. The spouse gave a breakdown how R902 640.00 of the unapproved group life benefit had been spent and said the remainder of the funds were in the process of being transferred to the estate account opened by the executor. In her determination, Ms Lukhaimane said Section 37C of the Act serves a social purpose and intends to protect people who were dependent on the deceased during his lifetime and to ensure that they continue to be provided for. The deceased was legally married to the spouse at the time of his death. She was living with the deceased and was fully financially dependent on him. Therefore, she qualified as a legal dependant. The deceased had six children and they all qualified as legal dependants.

Ms Lukhaimane said complainant "L" submitted that he was unemployed and did not live with the deceased. He was a student at Boston College and had student debt. He did not provide any amount with which the deceased supported him, nor did he provide any proof that the deceased was supporting him financially. He further submitted that he was in the process of claiming maintenance against the deceased. Complainant "N" was unemployed and was not living with the deceased. She initially mentioned that she was a student at the University of Free State, but subsequently indicated that she was registered with UNISA. She stated on her claim form that she was partially dependent on the deceased and was receiving R710 per month from the deceased through a maintenance order. However, she subsequently submitted that she was fully dependent on the deceased and that the amount of R710 that she received from the deceased was not sufficient to meet her needs. Complainant "M" was unemployed and was not living with the deceased.

She initially submitted that she was employed part-time. However, she subsequently submitted that she was not employed at all and was receiving R350 from the COVID-19 social relief grant. She was receiving R800 per month from the deceased through a maintenance order. She submitted that she also depended on her grandmother's grant income and living in a household of seven people. Therefore, her financial dependency on the deceased was over and above the maintenance order. Complainant "S" was not living with the deceased and initially submitted that he was partially dependent on the deceased. He was employed as a casual employee and earned R5 000 per month. He submitted that he was unable to pay for his studies. He also subsequently submitted that he was no longer employed and was dependent on his mother for financial assistance. He submitted his bank statement as proof of his financial position.

Ms Lukhaimane said: “During the hearing, the spouse submitted that the group life benefit was paid to her. Following the hearing she submitted information regarding how she used the group life benefit. She provided the deceased’s bank statement but failed to provide both the fixed deposit bank account statements and her own current account statements. She utilised the group life benefit on aspects that cannot be classified as necessities and, therefore, does not appear to be short of money. “Should the fund be inclined to consider her for a portion of the death benefit, a detailed consideration must be provided to the rest of the beneficiaries as to the reasons. The complainants’ submissions indicate that they are all unemployed, experiencing financial hardship and were left destitute by the death of deceased.”

Ms Lukhaimane added that the spouse was employed and had used the group life benefit and continued to earn interest from the same benefit without considering the position of the complainants. There were cash-send transactions on the deceased’s bank statements to one of the telephone numbers belonging to the complainants. Therefore, the deceased was financially providing for the complainants. “It should be noted that dependency is a critical point to consider in the allocation of the death benefit. The fund received further submissions after the board initially decided on the allocation of the death benefit and further submissions following the hearing. “In light of the above, the board's decision is hereby set aside. The fund should be allowed to re-exercise its discretion by considering the new evidence placed before it to decide on an equitable allocation of the death benefit in terms of section 37C of the Act,” Ms Lukhaimane ordered.

FA News | 21 May 2024

The impact of SA’s Pension Funds Amendment Bill

The unveiling of the Pension Funds Amendment Bill in South Africa signifies a notable stride in the adoption of the Two-Pot Retirement System. This bill proposes alterations to the Pension Funds Act to facilitate the implementation of this new system, geared towards bolstering retirement savings. It delineates the suggested modifications and the legislative journey towards the anticipated rollout. Furthermore, it delves into proactive measures retirement fund providers can adopt to ready themselves for this transition, encompassing training initiatives, rule amendments, and adjustments to operational procedures. FAnews spoke to Michelle Acton, Retirement Reform Executive at Old Mutual and Prabashani Naidoo, Chief Legal Specialist, at Liberty Corporate Benefits about how they anticipate the implementation of the system will impact retirement fund providers and their members, the challenges they foresee in aligning existing processes and systems with the requirements of the system and more.

The impact on providers and members

According to Acton, the implementation of the Two-Pot Retirement System will fundamentally alter the landscape for retirement fund providers and their members. “We believe it will, in the long-term, bolster financial security for members by granting limited pre-retirement access to funds while securing the principal sum for retirement,” she said. “For providers, this means adapting to new administrative processes and ensuring systems are in place to manage the Two Pots efficiently," she added. Naidoo added that retirement fund administrators have to ensure that by 1 September 2024, they are ready to be able to process claims and facilitate payments from the savings pot, which may require the development of new digital claims solutions and streamlined processes to deal with higher claims volumes. "Additionally, work is required in a number of other areas, such as ensuring statements and reports are amended to reflect the three new pots and their balances, ensuring resource capacity is sufficient to assist members, as well as assisting with the education for all stakeholders involved." "Technology will play a crucial role in facilitating the transition to the Two-Pot Retirement System. Some providers are already investing in IT system enhancements and digital solutions to manage the complexities of the new system efficiently, including the significant increase in expected volumes, improving customer experience, and ensuring accurate tracking and reporting of the Two Pots for each member," said Acton.

"Old Mutual, for example, is updating its administration systems, implementing new claims processes, updating existing processes, and commencing with a far-reaching change management plan. This includes member communication and intermediary education for all our impacted retirement funds," she continued. Naidoo also mentioned that "the Two-Pot retirement system is complex, and so it is vital that we help ensure that retirement fund members, employers and financial advisers have a good understanding of what the changes entails and the impact on members. There has, therefore, been significant focus on driving communications, education and training for all stakeholders involved and impacted." "Additionally, we are working towards simple digital solutions that will help members make savings pot claims easily and efficiently. This involves planning, IT development and collaboration across numerous internal teams to ensure that the implementation thereof is successful," Naidoo continued.

Three major challenges

With a change as transformative as the Two-Pot Retirement System, Acton said there will be significant challenges. She highlighted three major ones:

- New, unfinalised legislation - "Providers are implementing changes based on legislation that is not yet finalised, which introduces a significant amount of uncertainty. However, with the deadline of 1 September 2024 approaching, providers cannot wait for the legislation to be finalised. At this stage, we are building on what we know, understanding that until everything is gazetted and the fund rules are approved, it could change," she said.
- A brand new claim type - "The introduction of the Two-Pot Retirement System results in a transaction capability providers have never had to cater for before. So, providers should build new digital, member-initiated claims capabilities to manage this," she continued.
- Member education and awareness – "Correcting misconceptions due to mixed messages and information in the public about the Two-Pot Retirement System is a challenge. Providers, however, are rolling out massive member education and communication campaigns, with supporting tools to help members understand the details, including tax implications," she added.

Naidoo added that “the new two-pot retirement system requires a significant amount of work to ensure that as an administrator, we are ready for it on 1 September 2024. The biggest challenge that we foresee is members being unable to claim due to having incomplete or outdated member details on record, impacting the verification stage of the claims process. We have therefore been communicating with members, employers and financial advisers on the importance of keeping these member records that are shared with us complete and up to date.”

Ensuring a smooth transition

In navigating these changes, Acton said some providers are currently ensuring that advisers are well-informed and equipped to guide customers through these changes. “We, for example, are focusing on customer education to ensure all members fully understand the new system and can make informed decisions regarding their retirement savings.” “Providers, however, are monitoring the legislative developments closely and taking steps to ensure that all necessary systems and processes are in place by the proposed effective date of 1 September 2024. The greatest risk, I believe, is the rule amendments, as providers will not be able to pay claims until all the Two-Pot Fund rules are amended with the changes. Providers cannot submit the rule amendments until the legislation is gazetted. If rules are not approved by 1 September, providers will not be in a position to pay claims until the Financial Sector Conduct Authority (FSCA) has approved the rules,” stated Acton.

Acton concluded by saying collaboration with regulatory bodies, industry associations, and other stakeholders is essential for a smooth transition to the Two-Pot Retirement System. “Some providers are engaging in discussions and working groups to address potential challenges, seek clarity on legislative requirements, and share best practices to ensure that the industry is prepared for the changes, now and into the future post the implementation date for other reforms in the retirement industry,” she said. Naidoo said, “We anticipate a large number of savings pot claims just after 1 September 2024, so we are investing in improved technology and the use of digital solutions and process enhancements in ensuring that these claims are processed smoothly and efficiently, while ensuring it offers members a good client experience.”

“Whilst we are waiting for final legislation, we continue to engage with the relevant authorities, industry bodies and other stakeholders and understand the key aspects of the regulation and the intent behind the changes and are proactively preparing to be able to assist members with their claims on 01 September 2024. This collaboration has been on-going throughout the entire consultation process and the continuous discussions with the various parties have allowed us to provide feedback and input on the draft legislation at different stages and to ensure alignment in the industry and consistency in approach come 01 September 2024. We will continue to do so, as relevant,” concluded Naidoo.

FA News | 21 May 2024

Stakeholders Resolute To Have Informal Sector Workers Register For Pension Schemes

Kenyans in the informal sector have been urged to join pension schemes and commence saving for retirement to secure a good future once they exit their jobs. According to statistics by the Retirement Benefits Authority (RBA) despite the total assets under management amounting to over Sh1.7 trillion as of December 2023, only 26 percent of the labour force is actively saving for retirement. Speaking during the official opening of the five-day Huduma clinic in Mombasa meant to educate residents on the critical importance of saving for retirement, RBA Chief Executive Officer (CEO) Charles Machira said that the public needs to be informed that formal employment is not a prerequisite for pension scheme enrollment and there is importance in saving and planning for retirement.

Machira also urged stakeholders in the pension industry, including the media, to reverse the trend of poor saving for retirement by enlightening Kenyans on the importance of retirement savings and the various options available. He noted that sensitization through the Huduma clinic plays a profound significance particularly when considering the alarming statistics indicating that approximately 7 out of 10 Kenyans face the risk of falling into poverty upon retirement due to inadequate savings. “The initiative targets informal sector workers, with the goal of enlightening them on the various avenues available for retirement savings. Additionally, for those already engaged in the sector, we continue to provide free retirement preparation training for scheme members nationwide,” he said. He added that RBA is closely collaborating with other stakeholders, such as the individual pension plans represented, to raise awareness among all Kenyans regarding the importance of retirement savings.

He said instances of retirees encountering challenges in accessing their pension benefits have been noted over the years and promised to do a follow up and ensure every retiree gets their benefits 30 days after the day of retirement, as prescribed by the law. Huduma Centre Chief Executive Officer Mugambi Njeru said Huduma Centres were ready to partner with RBA and bring services closer to the people, ensuring accessibility and inclusivity for all. Mombasa Deputy County Commissioner Ronald Mwiwawi said the initiative will offer a prime opportunity for local residents to learn on how to start saving and secure their future. Mwiwawi said the government is steadfast towards ensuring citizens do not retire into poverty and is promoting a culture of saving for retirement as a crucial step in achieving the goal. He commended the Huduma clinic initiative for serving as a one-stop shop for all pension related matters, streamlining processes, and enhancing efficiency for the benefit of all stakeholders.

“It’s crucial to note that anyone earning an income can enrol in an individual pension scheme today and start saving for retirement. We urge all Mombasa residents to seize this opportunity to educate themselves and make informed decisions about securing their retirement,” he said. He commended the Huduma clinic initiative for serving as a one-stop shop for all pension related matters, streamlining processes, and enhancing efficiency for the benefit of all stakeholders. “It’s crucial to note that anyone earning an income can enrol in an individual pension scheme today and start saving for retirement. We urge all Mombasa residents to seize this opportunity to educate themselves and make informed decisions about securing their retirement,” he said.

Kenya News Agency | 22 May 2024

UK state pension top-ups: paying now could pay dividends later

Until next April people under new system can fill gaps in their NI records going back to 2006-07

UK state pensions: are older retirees getting a bad deal?

It may not sound very exciting, but for many people in their 40s, 50s and 60s topping up your state pension can generate a better return than almost any other way of using your savings cash. In very simple terms, if you invest about £800-£900 now and end up living well into retirement, you could get back £6,500-plus. Live to a very ripe old age and it could be £10,000 or more. Under the new state pension system, if your national insurance (NI) record started before April 2016 you will need at least 35 years of NI contributions or credits to qualify for the full payment of £221.20 a week. If there are gaps in your NI record – perhaps for periods while you were bringing up your children – you can usually only pay voluntary contributions going back six years. However, until 5 April 2025, the opportunity is extended back to the 2006-07 tax year.

This concession only applies to those who come under the new state pension system: that is, men born on or after 6 April 1951, and women born on or after 6 April 1953. Most people will need to pay voluntary “class 3” NI contributions to top up their state pension. The rate you pay depends on which year you are buying. For example, the cost of class 3 contributions for each full tax year between 2006-2007 and 2019-2020 inclusive is £824.20 (£15.85 a week). The cost to fill in a gap in your NI record for the 2023-24 tax year is £907.40 (£17.45 a week). This one-off payment can add up to 1/35th of the full rate to your eventual state pension. As the full new state pension is now £221.20 a week, this boost is worth £6.32 a week, or £328.64 a year. Let’s say someone decides to top up 10 missing years of contributions, from 2006-07 to 2015-16 inclusive. They would pay £8,242. In return for that payment, they would – based on current figures – enjoy a £3,286 annual state pension boost.

That would add up to just over £65,000 (before tax) over the course of a 20-year retirement. Over a 30-year retirement it would add up to just under £100,000. As things stand, that income will be protected by the pensions triple lock, so the total gain could end up being quite a lot more than the above figures. But there are caveats. For a start, the younger you are, the more likely it is that you will over time build up your NI contribution record in the normal way – which means that buying extra years now could be a waste of money. Meanwhile, Webb – now a partner at the actuarial business LCP – says it is unlikely to be worth increasing your state pension if you expect to be on benefits in retirement. If you have not yet reached state pension age, the first thing to do is to check your individual state pension forecast online: go to gov.uk/check-state-pension.

This web address is home to a new digital service that will tell you how much state pension you are on course to receive, how much more you could get, and the voluntary NI contributions you would need to pay to achieve this. If your predicted figure is already over the full new state pension amount, any years added to your NI record before reaching state pension age don't add anything to what you will get. Anyone with NI gaps in some of their tax years that could, if filled, increase their eventual state pension can use the service to choose which years they would like to pay to fill. They can then pay securely through the service.

The Guardian | **15 May 2024**

PFA slates fund for placing employer's interests before member

A retirement fund has been reprimanded by the Deputy Pension Funds Adjudicator for withholding payment of a withdrawal benefit without affording the member an opportunity to make representations to it as to why the benefit should not be withheld. Naheem Essop said Fedex Express South Africa Retirement Fund had acted in breach of its fiduciary duties when it failed to comply with basic procedural requirements before exercising its discretion to withhold payment. The complainant had been employed by Fedex Express South Africa (Pty) Ltd from 3 April 2007 10 October 2022. On 28 October 2022, the fund took a decision to withhold the withdrawal benefit of about R358 317.53 at the instance of the employer. The complainant submitted that he was arrested as a result of allegations levelled against him by the employer. He stated the case against him has been finalised and that he was, therefore, entitled to his withdrawal benefit.

The fund's administrator submitted a response on behalf of the fund, the employer and itself. It stated that the complainant was a member until his resignation following internal investigations into allegations of fraud against him and other employees. The fund's administrator stated that the complainant's employment duties included clearing of consignment that came into the country from abroad. It stated that as a result of fraudulent conduct on the part of the complainant, there was an underpayment of duties and VAT to the SA Revenue Service. The employer was subsequently fined and penalised. The employer had laid criminal charges against the complainant and others as a result of it suffering financial loss of approximately R4 million. Two cases of fraud were opened. The fund's administrator also stated that the employer was unable to provide the specific amount that the complainant was liable for as investigations were on-going. Thus, the fund was requested to withhold his full withdrawal benefit.

On 7 March 2024, the fund's administrator submitted that a criminal case was instituted against the complainant and two others and provided a copy of the charge sheet as proof. It stated that it was advised by the employer that it was in the process of starting civil proceedings against the complainant. In his determination, Essop said as a general principle of law, pension benefits are not reducible, transferable or executable save for certain exceptions as outlined in sections 37A and 37D of the Act which provides for a fund to withhold a benefit where the member is liable for theft, fraud or misconduct against the employer. Essop said that the courts have held that the duty placed on a fund in terms of section 7C envisages careful scrutiny of claims made against benefits by employers, and a weighing of the competing interests of the parties after affording the member an opportunity to place his case properly before the fund.

He said it was further held that the mere satisfaction by the board that the employer has placed allegations before it which, if true, would show damages arising from dishonest conduct by the employee, would not on its own be sufficient. Where a benefit has accrued, the member enjoys full ownership of the pension benefit. Thus, any claim that would have the effect of depriving such a member of the use and enjoyment of this asset must be carefully scrutinised. This is also to ensure that a fund does not abuse the system or merely rubber-stamp the employer's request to withhold a member's benefit without any investigation into the merits of the allegations or the financial prejudice a member may suffer. Essop said it was clear that the fund failed to allow the complainant an opportunity to make representations to it before the decision to withhold was taken. "The conduct of the board is a dereliction of its statutory and fiduciary duties and to act with due care, diligence, and good faith.

"The fund stated on 7 March 2024 that only then had the employer been in the process of starting civil proceedings. In other words, civil proceedings had not been instituted yet. The submissions indicate the employer relied solely on pending criminal proceedings in respect of the withholding." Essop said in matters concerning the withholding of benefits, funds are required to act in a manner whereby its impartiality cannot be doubted. This is because the fund owes a fiduciary duty towards both the member and the employer. "It is, therefore, of concern that the fund's administrator submits a response on behalf of both the fund and the employer. The immediate perception created is that the fund's impartiality has been compromised. Such perception is exacerbated when the fund decides to withhold in the absence of evidence submitted to it in support of the strength of the employer's case against its member. "The fund was ordered to pay the complainant's withdrawal benefit inclusive of interest earned from 10 October 2022.

FA News | 17 May 2024

Switchboard : 011 450 1670 / 081 445 8722
Fax : 011 450 1579
Email : reception@irfa.org.za
Website : www.irf.org.za

3 William Road
Bedfordview
Johannesburg 2008