TUESDAY, 25 APRIL 2023

# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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## Maximising retirement income: How to choose the right investment strategy

Your retirement plan should be tailored to your specific circumstances.

Planning for retirement is one of the most important financial endeavours of one's life. It is also a rather complicated one with a great deal of information to consider, options to weigh up and decisions to make. From the outset, it's crucial to recognise that there is no one-size-fits-all solution. You need to assess your situation carefully and understand the available options, so you can choose one that best fits your specific circumstances. This article outlines the different annuities and hybrid combinations thereof, along with their implications for your money. An annuity can be understood as an investment vehicle from which you regularly withdraw or receive an income. First, it's important to understand the distinction between voluntary and compulsory annuities, and between non-guaranteed and guaranteed annuities.

**Voluntary vs compulsory annuities** Voluntary and compulsory annuities are essentially differentiated by the origin of the funds you invest in them. Voluntary money is that which is in the form of, among others, cash or unit trust, with few restrictions on liquidity or the asset classes in which it may be invested. Thus, no money already invested in a retirement structure, including the one-third cash portion you may withdraw upon retirement, may be considered voluntary money. However, voluntary investments can supplement your retirement income, of course. Compulsory money is invested in a retirement structure, which carries clearly defined restrictions around liquidity, income and underlying investments. Upon retirement, if you convert two-thirds of your retirement benefit to an income-providing annuity, it becomes a compulsory investment. Voluntary money can be used to purchase a life annuity, but not to invest in a living annuity, which must be funded by the compulsory portion of your retirement fund or retirement annuity.

**Non-guaranteed annuity** In a non-guaranteed annuity (also known as a living annuity), the asset remains your property but there is no guarantee of capital or income. As it is investment-linked, the capital depends on investment growth and volatility. Income can be 2.5–17.5% (adjustable once a year) of the investment value, paid out annually, biannually, quarterly or monthly. In order to make your investment last, you'll likely start on a lower income than a life annuity. The advantages of a living annuity include retaining ownership of your assets, which enables you to pass them on to a beneficiary of your choice upon your death; greater flexibility in terms of the underlying investment; and the fact that it can be converted to a guaranteed annuity at any time.

The primary risk is that you may outlive your capital, especially if you draw too much too quickly. Moreover, if the funds are mismanaged, your investment could lose value.

**Guaranteed annuity** On the other hand, a guaranteed annuity (also known as a life annuity) pays a regular monthly income, which may or may not increase annually, for a set period or until you die. It's important to note that the capital is not yours, although a percentage of your monthly retirement income may be paid to your spouse upon your death. Once they pass away, however, the capital is forfeited. You may start on a higher income than a living annuity, although this depends on your age when you take out the annuity – the older you are, the fewer years your capital amount will be divided into (based on the life expectancy as taken from the mortality tables of the Actuarial Society of South Africa). For this reason, it can make sense to take out a life annuity later, especially given that a living annuity can be converted a life annuity, but the reverse is prohibited.

The obvious advantage of this is the security of receiving a guaranteed income for the rest of your life. There is no chance you will outlive your capital. On the other hand, being unable to amend your income is a disadvantage, as are the fact that capital falls away after death and a life annuity can't be transferred to a living annuity. One further risk that isn't often discussed when considering a life annuity, is the risk of depending on one life insurance company to provide you with a life-long income. Just as when you invest all or a large portion of your money in one bank, or in one company's shares, with a life annuity you take that same risk – if the insurer defaults, you may run into trouble. Although something like this should hardly ever happen, it is a risk an investor should be aware of. Companies providing a guaranteed income should also have insurance against such circumstances, protecting the guarantees they offer their annuitants.

**Combined or hybrid options** It's clear that living and life annuities have their respective pros and cons. The good news is you can strike a balance between the two. The first option is to buy two separate annuities, with basic expenses covered by the life annuity, and others by the living annuity income. The second and increasingly popular option is to buy a hybrid of the two. In this instance, you can partially create a life annuity within your living annuity, transferring additional money into the former as needed. Ideally, non-negotiable expenses are covered by the life annuity, with variable expenses coming out of the living annuity. Combined or hybrid annuities make provision for the inherent truth that everyone's retirement situation is different. You need to consider your variables, such as adding a spouse as an additional life assured on your policy, taking a guarantee period, increasing your income or keeping it steady, and so forth. If you're ready to start asking yourself these questions, please get in touch with us so we can partner with you on your journey to a financially stable retirement.

**FA News | 17 April 2023**

## Ensuring the sustainability of retirement funds

South Africa's retirement funds industry has experienced significant regulatory changes in recent years, with the proposed two-pot retirement system being one of the biggest recent changes. With increased regulations comes increased costs that could potentially impact the sustainability of many retirement funds. Based on the results of PwC South Africa's seventh Retirement Funds Survey publication, it is evident that the sustainability of current funds is crucial and should be a key focus area for the board of funds (the board) and the Financial Sector Conduct Authority as the primary regulator.

**Julanie Basson, PwC South Africa Retirement Funds Lead**, says: "Sustainability in this regard requires a knowledgeable and well-equipped board, supporting sub-committees and service providers that best suit the needs of the fund. It is important for the board to stay abreast of changes in the industry, while at the same time addressing the needs and well-being of their members. Service providers play an important role in a fund's operations, and it's important for boards to remember that when outsourcing services to service providers, it does not eliminate the board's responsibility regarding proper internal control systems being in place." In our publication, we outline the latest findings based on the responses from 60 funds, 25% of which have assets greater than R10bn, 68% have assets greater than R50m but less than R10bn, and the remainder have assets less than R50m. They focus on:

- fund officials' activities, their remuneration, and work arrangements.
- management of investments; and
- cybersecurity.

Key highlights from the report:

We found that the average number of board members and independent board members decreased from nine to eight, and three to two respectively, compared to the 2020 survey. **Verwey Wiese, PwC South Africa Retirement Funds Partner**, says: "What is clear is that proper governance comes at a price. In line with the previous survey findings, specialised funds all remunerate their boards, but compared to previous surveys (47% in 2020), 74% of respondents in this year's survey said their board members are now being remunerated. The average annual retainer for a board chairperson is R375,550, while the average retainer for independent/professional board members is R301,046. A principal officer's average retainer is much higher, coming in at an average of R730,904." For 51% of the funds surveyed, the level of remuneration for board members is set by the participating employer or sponsor. The remaining 49% said this decision is taken by the board or board sub-committee. Although we observed a steady increase in the average remuneration paid to board members and principal officers since our 2020 survey, the three-year rate increase was surprisingly below inflation, with only principal officers and chairpersons of specialist funds keeping in trend with inflation. The average rate per hour for a board chairperson has increased by 8.1% for stand-alone funds and 13.3% for specialist funds. The average rate per hour for independent/professional board members has increased by 5.9% for stand-alone funds and 5.5% for specialist funds. Similarly, the average rate per hour for the principal officer has increased by 15.7% for stand-alone funds and 27.1% for specialist funds. On the management of funds, more than 32% of respondents said the fund's investments are managed by more than 20 asset managers, and more than 95% are administered by a professional service provider. Only 25% of funds surveyed indicated that they have less than ten asset managers.

**Nolwazi Radebe, PwC South Africa Retirement Funds Associate Director**, says: "The challenge to boards would be to decide on the optimal number of asset managers to employ, given the costs and governance efforts required, weighted against the investment diversification that can actually be achieved. One of the board's responsibilities is to ensure that proper internal control systems are employed by or on behalf of the fund. This could be performed through the review and monitoring of the underlying asset managers' International Standard on Assurance Engagements 3402 reports (ISAE 3402 reports) and/or internal audit report." Another prominent challenge in fund administration is cybersecurity which remains a pressing concern and key business risk in today's modern business operating environment.

Across all industries, we have seen that these types of attacks are on the rise, and the retirement funds industry is not exempt. Eleven percent of survey participants said their fund and/or service provider had a cybersecurity threat and/or attack during the most recent financial year of the fund, while 11% did not know. "Some survey respondents have included this cover in their fidelity insurance policy, with the maximum cover amounting to R5m, however 34% of funds remain without any form of cybersecurity cover, which means these remain unmitigated risks," Basson says. "It is therefore evident that the need to have cybersecurity or some form of data protection cover is crucial."

**FA News** | **12 April 2023**

## Why you should always name your beneficiaries

The payment of these benefits is subject to Section 37C of 9 distribution.

A valid nomination of beneficiary form completed by a member is non-negotiable to ensure the speedy payment of death benefits to the intended beneficiaries. Without an up to-date form, determining who is entitled to the benefits could take much longer and some beneficiaries could even end up being excluded. The nomination form is relevant to both group life assurance policies and group funeral policies, with some important distinctions. Members of retirement funds are typically covered for death benefits through a group life assurance policy. If this policy is owned by the retirement fund, it is referred to as an “approved” benefit policy; if it us owned by an employer, it is known as an “unapproved” benefit policy. In the case of an “approved” policy, the deceased member’s accumulated savings, plus the death benefit, are paid to the member’s beneficiaries as a fund death benefit.

Section 37C

The payment of these benefits is subject to Section 37C of 9 distribution – for example, a child born out of wedlock.Section 37C of the PFA does not apply to “unapproved” policy benefits, except where the deceased member also has savings accumulated in the fund. In such cases, the death benefit due from the policy is dealt with slightly differently to the fund death benefit. For a benefit payable under an employer-owned group life policy, a member may nominate anyone whom they wish, including nondependents, and payment will be made accordingly, strictly per the details in the completed nomination form. But if there is no valid nomination form, the insurer is required to pay the “unapproved” policy benefits to the deceased’s estate, or according to the the Pension Fund Act (PFA), which requires the fund trustees to determine who the beneficiaries are.

The trustees will then distribute the benefit in an equitable manner, with the financial dependency of the beneficiary one of the main factors considered. A completed form assists the fund trustees in identifying the member’s beneficiaries. However, the ultimate decision on who to distribute the death benefit to, and in what proportion, lies with the trustees. If there is no valid nomination form, the trustees will conduct their investigation without any consideration for the deceased’s wishes. This can delay both the investigation process and the payment of the death benefit. In the worst case, a dependant may be omitted from the written instruction by a person authorised by the Master of the High Court.

Payment is timeously

For both approved and unapproved policies, having a valid beneficiary form makes it easier for death benefits to be paid timeously. When the main member of an employer-owned funeral benefit policy dies, the benefit is also paid out as instructed in the signed nomination form. If absent, the payment will be made to the deceased's estate. Payment of the benefit cannot be made to the employer or any other person with control over the deceased's affairs. When preparing for unforeseen circumstances such as death, the main priority is that retirement fund members can care for their families and ease the financial burden on them. Having members complete the nomination of beneficiary form (and keep them updated) is the best way to ensure members can take care for their loved ones. Group life assurance and group funeral policyholders must make sure that their nomination forms are to prevent their intended beneficiaries from facing financial hardship upon the policyholder's death.

**The Citizen | 18 April April 2023**

## Your decision to take a lump sum withdrawal should be a strategic one

A look at the factors that need to be considered holistically.

Upon retiring from a retirement fund, you have the option to take a lump sum withdrawal of one-third of the value of the fund in the case of pension funds and retirement annuities, and potentially more in the case of provident funds depending on when your funds vested. As announced in the latest budget speech, the tax tables for lump sum withdrawals from retirement funds have been amended for the 2023/2024 tax year (see table below) – with a notable change being that the tax-free withdrawal amount has increased from R500 000 to R550 000. While this is good news for those approaching retirement, our advice is to ensure that any cash commutations are carefully considered as part of your broader financial plan.

Here are some factors to consider:

**Previous lump sum withdrawals**

What is important to keep in mind when it comes to the tax-free lump sum withdrawal is that tax is applied as an aggregate across all retirement funds and not per withdrawal. This means that if you have made previous cash withdrawals – including those made in respect of severance benefits – keep in mind that tax will be calculated on the cumulative amounts. As such, if you have made previous withdrawals, it is important to take these into account when making a decision to make another withdrawal. Further, if you have withdrawn your R500 000 tax-free portion prior to 1 March 2023, note that you will now have an additional R50 000 available to withdraw tax-free – assuming you have other retirement funds in place. Remember, it is important to take a long-term view when it comes to reducing your tax liability. While withdrawing a lump sum at a tax rate of 18%, 27% or even 36% may seem favourable in contrast to one's income being taxed at a marginal rate of 45%, keep in mind that the marginal income tax payable on living annuity income is deferred to when the income is drawn. To be absolutely sure of the tax implications of making a lumpsum withdrawal, our advice is to request a tax simulation from your retirement fund service provider – keeping in mind that you may have forgotten about previous withdrawals or severance benefits.

**Capital needs in retirement**

Before retiring, it is important to carefully assess your capital needs – both at the point of retirement and into the future. Remember, you are not permitted to make lump sum withdrawals from a life annuity or living annuity, so consider carefully whether you may need access to lumpsum capital – especially when it comes to high-cost items such as overseas travel, home renovations or modification, large medical appliances not covered by medical aid, or wedding costs. Your debt is another factor that should be taken into account when deciding on a lumpsum withdrawal. Before retiring, it is advisable to ensure that all debt is settled as it does not make sense to use your retirement income to service debt.

**The composition of your investment portfolio**

The composition of your overall investment portfolio is a significant factor in determining the level at which to withdraw from your fund, in particular the proportional split between compulsory and discretionary money. If the majority of your portfolio is housed in compulsory retirement funding investments, you may want to consider withdrawing a lump sum to invest in a discretionary portfolio so as to diversify across investment types, provide drawdown flexibility, allow for access to emergency capital, and provide for cashflow needs later in retirement. In the absence of any discretionary funds, having all your capital housed in either a life or living annuity, or a combination of both, can limit your access to funds going forward.

**Nature of your annuity income**

The type of annuity that you intend to put in place will also have bearing on your decision to make a lump sum withdrawal upon formal retirement. While living annuities provide some drawdown flexibility, life annuities are fairly inflexible in that the policyholder will receive a pre-determined income for the remainder of their life subject to the annual escalation increases (if any) agreed to when taking out the policy. This means that if the income from your life annuity does not keep pace with inflation and/or the purchasing power of your income loses value over time, you may need access to discretionary funds to supplement your retirement income. If you're going to draw your retirement income from a living annuity, you have some flexibility in that you are permitted to draw down between 2.5% and 17.5% of the residual value of the investment per year. Where your drawdown rate is such that it erodes the value of your investment over time, you will eventually be drawing down from a diminishing pool of money, and you may need to supplement your income by drawing down from a discretionary pool of money.

**Estate planning**

Your decision to make a lump sum withdrawal should not be considered separate from your estate planning needs, particularly when it comes to estate liquidity. Remember, a life annuity dies with the policyholder meaning that there will be no asset left to provide for the liquidity needs of the estate. As such, when considering whether to make a cash commutation, be sure to calculate the liquidity in your estate, keeping in mind that if any shortfalls exist you may want to consider employing a lump sum for these purposes.

**Other retirement funds**

Another factor to consider is whether you will have any future opportunities to take a lump sum withdrawal if the need arises. If you are retiring from a fund and have no other retirement funds in place, keep in mind that there will be no other opportunity to withdraw a large amount of capital and you will need to provide accordingly. However, if you have other retirement funds from which you intend to retire at a later date, bear in mind that there will be other opportunities to take a cash commutation.

**Investment risk**

If you choose to invest your lump sum withdrawal, keep in mind that those funds will be subject to investment risk which, in turn, may affect the income you are able to draw from the investment. On the other, if you choose to use the full fund value to purchase a life annuity, all investment risk is passed to the insurer, and you will be guaranteed an income for life regardless of what happens to the markets.

**Tax**

Should you choose to invest your lump sum cash amount into a discretionary investment to supplement your retirement income later on, be sure to understand the tax implications of drawing down from this investment, taking into account all other sources of income that you may have – including, but not limited to, annuity, rental and interest income. That said, be careful of drawing too little from your compulsory investments in an attempt to reduce your tax liability as this may result in you depleting your discretionary reserves prematurely. While this strategy may result in short-term tax savings, it may unintentionally result in you having to draw all your retirement income from your compulsory funds later in retirement which, in turn, could result in you paying higher taxes over the longer term. The above article is intended to create awareness of the multi-faceted and technical nature of planning for retirement, and the many factors that need to be considered holistically when making decisions such as commuting a portion of one's retirement fund.

***Retirement withdrawal tax tables applicable 1 March 2023***

| Taxable income (R) | Rate of tax |
|---|---|
| 1 – 550 000 | 0% of taxable income |
| 550 001 – 770 000 | 18% of taxable income above 550 000 |
| 770 001 – 1 155 000 | 39 600 + 27% of taxable income above 770 000 |
| 1 155 001 and above | 143 550 + 36% of taxable income above 1 155 000 |

**Moneyweb | 18 April 2023**

## Retirement funds paying their trustees more in a time of tougher regulation

Remuneration paid by retirement funds to their boards has escalated steadily but has kept within the three-year inflation average, the latest PwC South Africa's Seventh Retirement Funds Survey publication said.

The survey showed 74% of the retirement fund respondents in this year's survey said their board members were now being remunerated, which is substantially higher than the 47% who said this during the 2020 survey - specialised funds all remunerated their boards. "What is clear is that proper governance comes at a price," said PwC South Africa Retirement Funds Associate Director Nolwazi Radebe in a statement yesterday, The findings in the latest report were based on responses from 60 funds, 25% of which had assets greater than R10 billion, 68% had assets greater than R50m, but less than R10 billion, and the remainder had assets less than R50 million, The average rate per hour for a board chairperson increased by 8.1% for stand-alone funds and 13.3% for specialist funds.

The average rate for independent/professional board members increased 5.9% for stand-alone funds and 5.5% for specialist funds. The average rate per hour for the principal officer rose 15.7% for stand-alone funds and 27.1% for specialist funds. Meanwhile, the average annual retainer for a board chairperson is R375 550, while the average retainer for independent or professional board members is R301 046. A principal officer's average retainer comes in at an average R730 904, the report showed. The participating employer or sponsor set the level of remuneration of board members for 51% of the funds surveyed, while the remaining 49% said this decision was taken by the board or a board sub-committee. “Although we observed a steady increase in the average remuneration paid to board members and principal officers since our 2020 survey, the three-year rate increase was surprisingly below inflation, with only principal officers and chairpersons of specialist funds keeping in trend with inflation,” Radebe said. The average number of board members and independent board members fell from nine to eight, and three to two, respectively. “We found the average number of board members and independent board members decreased from nine to eight, and three to two, respectively, compared to the 2020 survey,” he said, Verwey Wiese, PwC South Africa Retirement Funds Partner, said that on the management of funds, more than 32% of respondents said the fund’s investments were managed by more than 20 asset managers, more than 95% were administered by a professional service provider.

Only 25% of funds surveyed indicated they had less than ten asset managers. “The challenge to boards would be to decide on the optimal number of asset managers to employ, given the costs and governance efforts required, weighted against the investment diversification that can actually be achieved,” said Wiese. Another board responsibility is to ensure proper internal control systems are employed at the fund, including regulatory changes such as the proposed two-pot retirement system. “With increased regulations comes increased costs that could potentially impact the sustainability of many retirement funds. Based on the results of PwC South Africa’s seventh Retirement Funds Survey publication, it is evident that the sustainability of current funds is crucial and should be a key focus area for the board of funds and the Financial Sector Conduct Authority as the primary regulator,” PwC said.

**Business Report | 13 April 2023**

## The evolution of the savings and retirement industry

Unpacking some of the key changes that have taken place in the industry over the last few years. The savings and retirement industry has had many positive changes over the years that have led to better retirement outcomes for South Africans. Over time, PPS has been able to adapt its offering to incorporate the changes. Let’s unpack some of the key changes that have taken place in the industry over the last few years.

**Clean pricing:**

The industry moved from ‘all in priced’ funds to transparent clean priced collective investments. This removed the unnecessarily complex rebate system that was replaced with the much easier priced method. A welcome relief for many.

**Retail distribution review (RDR):**

A term that was debated quite extensively and had many in fear was Retail Distribution Review, commonly referred to as RDR. RDR was introduced in an effort for financial institutions to treat customers fairly. A key focus was the move from commission-based to fee-based charging. There was a huge emphasis to professionalise the industry to ensure people are receiving sound advice at fair prices from credible professionals. In addition, we saw the arrival of Discretionary Fund Managers (DFM) with Category II licenses, who would build model portfolios for advisors who were previously only focused on risk products. This further ensures clients are placed in appropriate portfolios matching their risk profile. The DFM's have also entrenched themselves by offering more than just model portfolios, but a few also offer practice management courses and additional systems that help better equip advisory practices.

**Twin peaks was implemented:**

South Africa was one of the first few countries to implement Twin Peaks regulation within our financial sector. Two regulators were set up under twin peaks. One is responsible for maintaining the stability of the financial system – also known as Prudential Authority. The other, the Financial Sector Conduct Authority(FSCA) is responsible for market conduct and consumer protection or what's known as the 'good conduct' peak. The Prudential Authority is a subsidiary of the South African Reserve Bank. The market conduct and consumer protection or 'good conduct' peak which is called the FSCA was previously known as the Financial Services Board (FSB).

**Two pot system (possibly pressing ahead):**

National Treasury is trying to find a balance between maximising retirement savings, minimising early withdrawals, and allowing for early access to retirement funds for unexpected events. The two pot system is looking to introduce a system where two thirds of contributions will go to the retirement pot and one third will go to the savings pot. The retirement pot cannot be touched until retirement – even if you lose or change jobs – and must be annuitised at retirement. A member can withdraw from the savings pot every 12 months, provided they have a minimum of R2000 in savings. One of the key objectives of the RDR was that accountable institutions, such as listed companies, insurance companies, insurance intermediaries, and unit trust management companies, must be good/responsible custodians.

This saw a move from a rules based to a risk based approach. This was a step away from merely requesting static documents towards looking at an individual's level of risk based on the position they hold, family relations, political exposure and so on. PPS Investments has implemented this measure as a risk management counter. The PPS platform has been able to adapt to all the changes faced over the years and continues to be a pioneer in the types of products we offer. Many of these changes have led to cost effective product offerings for clients. Some highlights include being the first company to offer family pricing which aggregates fees at a family level and being the only platform/linked investment service provider that offers Profit Share for qualifying members who invest in PPS unit trusts. All these measures are a reflection of our commitment to providing better retirement outcomes for our clients.

*PPS Investments does not in any way guarantee the illustrated benefits shown. The illustrations shown are based on information provided by you/your financial adviser regarding your financial situation. PPS Investments offers these illustrations in order to assist you with understanding your financial planning. The calculations, illustrations and all information provided is of a general nature with no regard to the specific investment objectives, financial situation, or needs of any investor. PPS Investments, its subsidiaries, or its affiliates do not warrant or accept responsibility for the correctness or accuracy of any information and/or illustrations generated by this calculator/tool and shall not be held responsible for any claim for losses or damages which may arise out of the use of, or any reliance placed on, the information or illustrations contained herein. The actual future value of your investments will depend on the actual amounts that you invest and the associated investment performance, fees, and taxes of your selected underlying Investment option(s).*

**Moneyweb | 15 April 2023**

## Annuities to dividend stocks: Guaranteeing a comfortable retirement

Suzean Haumann of Brenthurst Wealth discusses strategies for generating income and offers tips on how to ensure your money lasts throughout your retirement years.

**BOITUMELO NTSOKO:** Retirement planning can be a daunting task, but the key is a well-structured plan. In this episode, we discuss different strategies for generating income in retirement – including annuities, dividend stocks and working in retirement. Joining us to share valuable insights on these strategies is Suzean Haumann, who is a certified financial planner at Brenthurst Wealth. Welcome, Suzean.

**SUZEAN HAUMANN:** Hello, Tumi. Thank you for having me.

**BOITUMELO NTSOKO:** Suzean, could you please tell us some of the most important things people need to consider when planning for retirement?

**SUZEAN HAUMANN:** For me, and what we see in our industry, it's the age that you retire. A lot of South Africans still have the idea of retiring at the age of 55. They don't realise or take into consideration that most of them only started working at the age of 25. So you now have a 30-year period that you save towards your retirement. The longevity that we are seeing in people now is that people live for 45, 50 years post-retirement. So basically they are going into retirement with only 30 years of savings, but they want to live off the 30 years' savings for another 45 years.

The ratio between your working life and your post working life needs to be considered. So for me, it's that post-retirement phase, the length that you need to take into consideration when you plan for retirement.

**BOITUMELO NTSOKO:** Annuities can provide a guaranteed income stream in retirement, but there are many different types of annuities available. Can you maybe explain the different types and the pros and cons?

**SUZEAN HAUMANN:** The best known one is the investment linked life annuity, also known as the 'living annuity'. The second one we look at is the guaranteed or 'life annuity'. And then the last one, which is fairly new in the industry, is the 'hybrid annuity'. With the *living annuity,* you have the option to take an income of between 2.5% and 17.5% per annum, and you have the option to take it on a monthly, quarterly, half-yearly or annual basis. There, the annuitant has the freedom to almost play around with the income. So you might have the option to take 3% in one year, but you know that next year you want to go and travel a bit. So you increase your annuity income for the next year a little, which is a pro.

And then also, if the annuitant passes away, the life annuity proceeds – the balance remaining – can go to either his spouse or children, so he can nominate beneficiaries. A guaranteed annuity has the pro that you are guaranteed an income for the remainder of your life and if you have a second life assured, which may be your spouse, you then know that they will also be covered with an income until they pass away. The con of a guaranteed annuity is that once both annuitants pass away the balance of the life annuity falls away. It goes to the insurer, say for instance, to Sanlam. That whole portion falls away, so there's nothing that you can leave to your beneficiary. The *hybrid annuity* is a combination of the two, basically.

**BOITUMELO NTSOKO:** Can you tell us more about how hybrid annuities work?

**SUZEAN HAUMANN:** With hybrid annuities, you have the option to play around with the portion that you want to put in a guaranteed annuity, and then the balance will go into a life annuity. So in the hybrid annuity … insurers give the client the option to choose unit trust funds within these portfolios. In the past, it was only a life fund, which would generally underperform, but now you can actually choose a unit trust fund of well-known fund managers within the hybrid space and in the guaranteed space, which will guarantee you a certain part of your income. That guaranteed income is paid back into the living annuity part. And then from there, you can draw your income. So what we see in many instances is that [from] the guaranteed part you almost cover the necessities of the investors, the monthly need to pay the rental or the medical aid, and food. **Full Report:** ***https://www.moneyweb.co.za/moneyweb-podcasts/money-rules/from-annuities-to-dividend-stocks-guaranteeing-a-comfortable-retirement/***

**Moneyweb | 14 April 2023**

# INTERNATIONAL NEWS

## UK pensions: how much do you need to retire as the cost of living soars?

As inflation bites into pension pots, we find out what it takes to keep up your standard of living

**How to make sure you get the best income in retirement**

**T**he cost of living crisis is turning into a cost of retirement crisis as rising food and energy prices mean the amount of money you need to retire at a minimum living standard has increased by almost £2,000 in the last year.In 2022 the minimum required to survive as a single pensioner jumped by 18% to £12,800 a year. Meanwhile, a retired couple now need a minimum of £19,900 a year – up £3,200, an even bigger rise of 19%, according to a study funded by the Pensions and Lifetime Savings Association (PLSA) at Loughborough University.While this month the full new state pension rose from £9,627 a year to £10,600, the figures from the research suggest that millions of people will not have enough money to cover their day-to-day living costs.

Don't despair (well, not completely), however. There are a number of steps you can take now, even if you are in your 50s, to avoid poverty in retirement.First, let's establish how much money you will need in your retirement, then work out how to get there (and the extra you will need if you want to retire early). Researchers say the minimum standard of income you currently need as a single person is £12,800, or £19,900 for a couple Researchers at Loughborough's Centre for Research in Social Policy have created a set of "retirement living standards" that have swiftly become the industry benchmark for what pensioners really need in retirement.Its researchers say that the minimum standard of income you currently need as a single person is £12,800, or £19,900 for a couple, according to the 2022 figures published at the start of this year.

This figure is the same as the Joseph Rowntree Foundation's minimum income standard and reflects what the public thinks is required to cover a retiree's needs, not only to survive but to live with dignity, including social and cultural participation. However, this is a minimum, and it is far from generous. It leaves a pensioner only £54 a week for food, no car, enough money for a short break in the UK every year and £580 a year for clothing and footwear. This assumes the person works until 67 and has a full national insurance record. Crucially, these figures assume you have paid off your mortgage. If not, your costs in retirement could be substantially higher. Next up is a moderate lifestyle in retirement: this means £74 a week on food, a secondhand car that can be replaced every 10 years, a two-week holiday in Europe every year and £791 for clothing and footwear. For a single pensioner that will mean he or she needs £23,300 a year, and for a couple it is £34,000 a year (or £41,400 if you are in London). Maybe you aspire to something more luxurious. Loughborough and the PLSA reckon that someone wanting a "comfortable" lifestyle in retirement will need to find £37,300 a year as a single person, or £54,500 a year as a couple. Live in London and the relative cost goes up to £40,900 and £56,500 respectively. But this is the cruise ship end of the retirement market – the figures assume our lucky pensioner holidays in Europe three weeks a year, spends £1,500 on clothing a year and £144 a week on food. And drives a fairly nice motor.

How many Britons are matching up to these standards already?
Perhaps not surprisingly, relatively few pensioners are in the £50,000-a-year bracket. The bad news is that the researchers at Loughborough estimate that only 72% of the total population are on track to reach at least the minimum standard of living in retirement. About a fifth of the population are on track to hit the moderate income level in retirement, while 8% will be in the comfortable bracket. However, these figures predate last year's big rise in inflation.

How much you need to save?
If the thought of living on little more than £1,000 a month in retirement alarms you, then there's only one thing you can do – save more now, before you stop working. But how much do you need to save? We asked the Loughborough University and PLSA researchers how much extra an individual or couple would need to save to reach the respective minimum, moderate and comfortable brackets if they retire at age 67, even if they have the full new state pension. The sums ranged from zero to £530,000. The good news in that little table is the £0 figure: if a couple both pick up the full £10,600 state pension, then that's just over the £19,900 needed for a minimum income in retirement. The bad news is that a single person seeking a comfortable retirement needs to save a cool £500,000 by the age of 67, while paying off the mortgage or rent and coping with the soaring cost of living.

The annual income you will need in retirement
**Living standard** Single **Couple**
**Minimum** £12,800 **£19,900**
**Moderate** £23,300 **£34,000**
**Comfortable** £37,300 **£54,500**

**The Guardian | 15 April 2023**

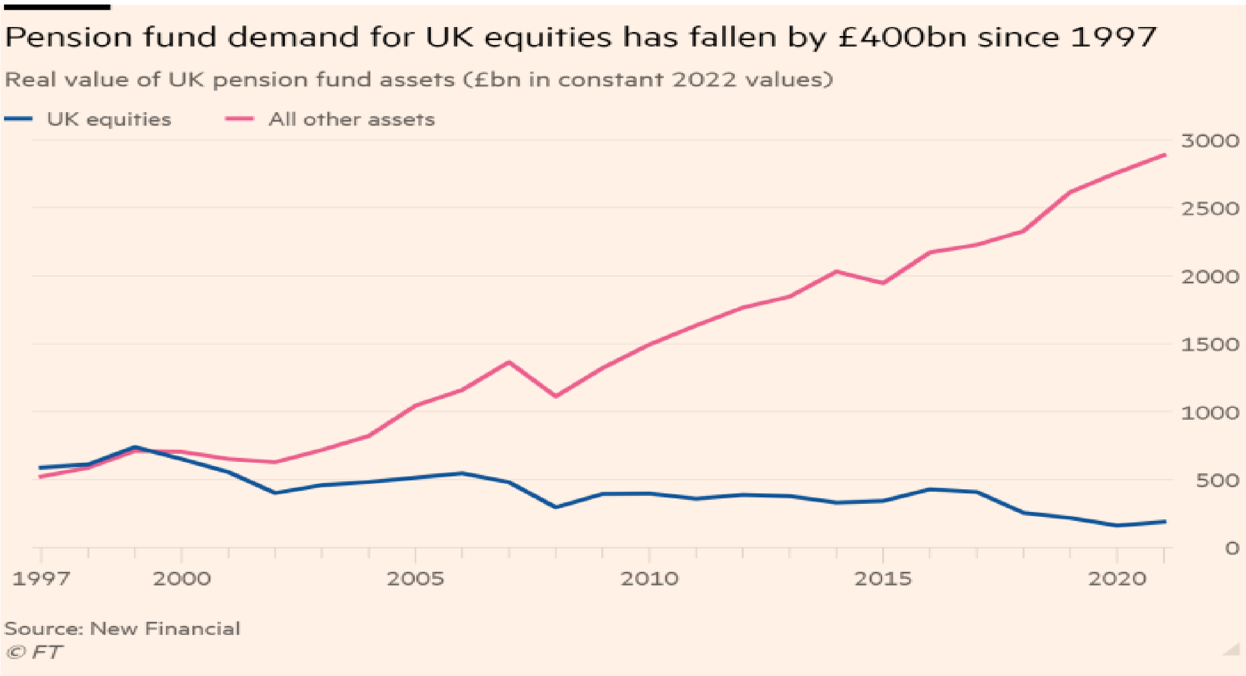
## Britain's 'capitalism without capital': the pension funds that shun risk

The first part of a series on the crisis in European equities explores how a rush into safer assets has left the UK listing market moribund and is driving companies overseas

Immunocore is a success story for the UK's ambitions in biotechnology. Spun out of Oxford university in 1999, it is pioneering a new generation of medicines to treat cancers, viral infections and autoimmune diseases from the leafy market town of Abingdon-on-Thames. But for Sir John Bell, the Canadian-British chair of the company and one of the world's leading immunologists, its story stands out for a less distinguished reason. "Immunocore is, I fear, a classic example of what the UK has been losing," he says. In its early days, Immunocore attracted some backing from domestic investors. But three later funding rounds failed to secure any more UK money.

When it grew large enough to list on the stock market in 2021, it shunned London in favour of Nasdaq, where its market capitalisation now stands at $2.6bn. "We have a massive upfront commitment to the sciences in the UK, then all the commercial benefits go to investors elsewhere," says Bell, who is also regius professor of medicine at Oxford. "There wasn't really any access to long-term scale-up capital in the UK ecosystem," he recalls. "UK venture capitalists didn't have pockets deep enough" and domestic pension plans "had no interest" because they are "too conservative to invest in the growth sector".

The result, as he puts it, is that "the most successful British biotech company is now really plugged into the American capital markets". Pension schemes and sovereign wealth funds across Canada, Australia and Asia have more leeway from regulators to invest in early-stage companies, listed companies and other asset classes. Partly as a result, British energy, infrastructure, defence and technology assets have fallen into foreign ownership. "When one of our companies becomes successful, it's not a UK pensioner who benefits, it's a teacher in Ontario or someone riding the Singapore metro system," says Saul Klein, co-founder of LocalGlobe, a London-based early-stage venture capitalist group.




He and Bell are among growing numbers across business, finance and politics who worry about a wider British malaise, where a risk-averse pension system and a moribund market for new equity issues are driving growth and prosperity elsewhere. “At the moment we’re trying to do capitalism without any capital, an unwillingness to take any risk and a slightly begrudging attitude to people who make money,” says Bell. “We’ve basically put a bomb under the whole concept of this being a capitalist country.” In the first quarter there were just four London listings, raising only £81mn, according to Dealogic, the sixth-worst quarter for initial public offerings in the UK capital since 1995. Instead, companies are following Immunocore to the US. Arm Holdings, one the UK’s few tech success stories, is set to float in New York, not London. Irish building materials group CRH is planning to shift its listing to the US. And Keith Barr, chief executive of Holiday Inn owner InterContinental Hotels, recently opined that the UK stock market is “not a very attractive place”.
**Full Report:** ***https://www.ft.com/content/03280cd7-8013-4212-a98e-e0c35194d009***

**The Financial Times | 28 March 2023**

# OUT OF INTEREST NEWS

## Mid-April market report

The rand has given up gains made in March, losing ground against all three majors.

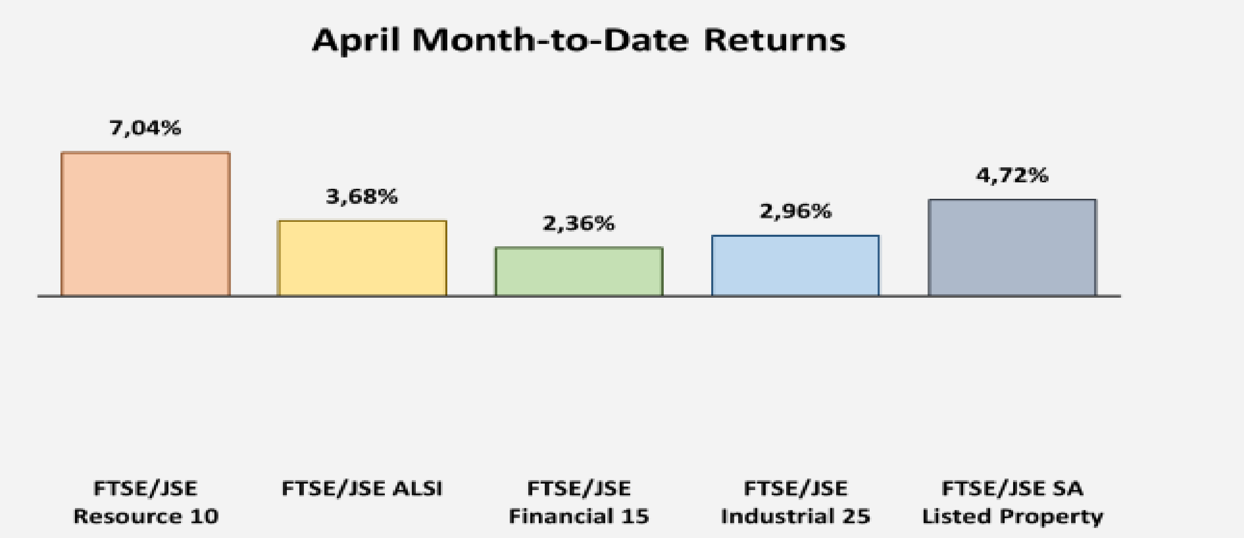
Equity markets have started April on the front foot as investors take comfort from a slowdown in inflationary pressures in many major economies. The data on the economic front is also pointing to recessionary pressures building globally, which many believe will be enough to force central banks to halt interest rate increases and even cut rates come year's end. Falling inflation and the prospect of lower rates seem to be lifting markets for the time being, however, economic data will need to be watched closely to evaluate the severity of the slowdown to come. As things stand, the MSCI All Country World Index is up 1.2% month-to-date. Both emerging and developed markets are in the green, with the MSCI Emerging Markets Index up 1.0% and the MSCI World Index up 1.2%.

Market sentiment in the US hit lows in March after the collapse of two major banks sent ripples through the economy. Confidence has since been restored to some degree following the introduction of the Bank Term Funding Program (BTFP), which was created to make funding available to banks in times when there are large depositor withdrawals. With many coming to understand that the collapses of SVB and Signature Bank were largely liquidity events, not credit events, the release of the BTFP has shored up confidence for the time being. The US CPI report for March showed that headline inflation fell more than expected to 5.0% from 6.0% the month before. It appears the Federal Reserve's relentless hiking cycle is beginning to have its desired effect on the economy, as even the resilient labour market is beginning to show signs of cracks.

With the labour market easing off, investors have raised bets of a pause by the Federal Reserve following their final 25 basis point hike in the upcoming meeting, with futures even pricing in 50 basis points of rate cuts by year's end. Wall Street seems to be a bit lost for direction at the moment and will likely be volatile as more data on the health of the economy gets released in the weeks to come. All three major indices are currently mixed, with the S&P 500, Dow Jones Industrial Average, and Nasdaq Composite returning 0.7%, 1.8%, and -0.8% month-to-date, respectively. China's economic recovery following the abandonment of its Covid Zero policy continues to show signs of unequalness. Services activity remains robust as consumers take advantage of their renewed freedom to fill restaurants and malls, which lifted the services PMI to 57.8 in March. Business confidence, however, is taking longer to rebound, with the manufacturing PMI falling to 50.0 in March from 51.6 the month before.

The mixed data has pushed Chinese equities lower in April, with the MSCI China index currently down 1.4%. A rebound in key commodity prices as well as a resilient consumer has pushed UK equities higher in April. The FTSE 100, the UK's blue-chip index, is up 3.7% month-to-date and has been the beneficiary of the strong performance in their mining and oil majors. While optimism has improved, consumer strength will likely come under pressure as the knock-on effects of higher interest rates continue to seep into the economy. This, coupled with the ongoing pressures in the manufacturing and industrial sectors, will lead to a tough trading environment for the UK in the second half of the year.

Locally, the rand has given up gains made in March, losing ground against all three majors. The rand is currently down 2.0% against the greenback and trading at R18.14 despite a weaker dollar as the dire South African economic outlook takes centre stage. The rand has also lost 3.3% and 2.6% against the euro and pound, respectively, which have both rebounded off lows seen in March. South African equities have performed well thus far as the local bourse is being supported by a sharp rebound in commodities, particularly gold and platinum prices, which have lifted the JSE All Share index up 3.7% month-to-date. As expected, resources have been the outperformer, returning 7.0%, followed by industrials and financials with 3.0% and 2.4%, respectively.




*Source: Investing.com*

*Disclaimer: All returns data are in the respective currency of the region mentioned. All YTD and MTD returns are as at time of writing.*

**Moneyweb | 17 April 2023**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