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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

How a salary cut or reduced income could affect your retirement fund

Many South Africans have lost their jobs in 2020 and more still fortunate enough to be employed, face salary cuts or reduced hours of work, as companies and organisations try to survive a profoundly challenging economic year.

However, a reduced retirement fund contribution is better than none at all.

Less really is better than none

A reduction in your salary probably means that you will reduce your monthly contributions to your retirement fund. This is not the end of the world, says Dinash. Continuing to make any contribution will only help to strengthen your financial position when you retire. It's also helpful to remember that the reduction may not be permanent, so when your salary increases again, your contribution can increase.

We know that the financial knock-on effect of a salary cut is far-reaching in the medium term, but what of the long term? Your retirement fund is meant to be an income during your retirement, so what happens when you reduce your contributions?

Let's look closely at three employees – Linda, Vuyo and Sumesh – and how reduced contributions would impact their employee retirement savings.

	Age now	Contributing since	Risk profile	Assumed growth rate	Monthly contributions to their retirement fund until May 2020	Size of retirement fund at the end of May 2020	Reduced monthly contributions following 10% salary cut	Size of retirement fund if retiring at 60	Size of retirement fund if retiring at 65
Linda	48	2010	Moderate Aggressive	10%	R 2 000	R 437 385	R 1 800	R 1 942 554	R 3 335 488
Vuyo	55	2015	Moderate Aggressive	10%	R 2 000	R 171 594	R 1 800	R 421 713	R 833 234
Sumesh	59	2000	Moderate Aggressive	10%	R 2 000	R 1 595 210	R 1 800	R 1 784 867	R 3 076 045

• We're all in the same storm but in different boats – while we may be facing the same crisis, every person is unique with their own set of financial circumstances.
• In each of the scenarios, staying invested, even with a reduced monthly contribution, has significant positive financial outcomes in the medium and long term.
• Any adjustment to your retirement savings – negative or positive – has an impact on your financial future.

What to do if you're facing a salary cut

1. Get help from a financial adviser

This truly is the best time to talk to your financial adviser. There are some big, important financial decisions to be made, and your qualified financial adviser can help you make them with confidence. This could include revisiting your budget, your debt repayments and your retirement plan in light of your reduced income.

2. Cut your household budget

Bills will continue to reach you, while your income will have reduced in size. Now is the time to go through your monthly household budget with a fine-tooth comb. You need to be strict and clinical about the expenses that are unavoidable (e.g. your bond repayment or kids' school fees) and those that are luxuries and can be eliminated – at least for a while.

3. Contribute to your retirement fund for as long as possible

Your retirement savings is your money, but not for today. Early retirement may be tempting, especially if you're nearing retirement age. However, if you are able to continue to work – and contribute to your retirement fund, even with a reduced salary – that would be first prize.

4. Speak up

Don't be embarrassed to ask for better interest rates, reduced instalments on your accounts or even payment holidays if you are feeling the pinch of a reduced income. Whatever you do, don't ignore your debt obligations. If you are struggling to keep up your debt payments, a conversation with the credit manager at your bank or a debt counsellor will go a long way in preventing judgements and blacklisting.

5. Early retirement

While it's wise to work for as many years as you can and, in so doing, contribute to your retirement fund for as long as possible, the reality is that many employers are offering early retirement to their employees. If you have decided to take up this option, there are a few decisions you would need to make regarding the funds that you have worked so hard to accumulate over the years. Don't make these decisions alone – a financial adviser can help. Together, you can decide how the money will be invested to ensure that you have the best financial outcome during your retirement.

FA News | 20 November 2020

Employee vs employer: Who decides the retirement date?

The question of when an employee is obliged to retire has become topical and much discussed.

As many people are now forced to work for longer, the question of when an employee is obliged to retire has become topical and much discussed. The obligation to retire depends on a number of factors which include the industry of the particular employee and, more particularly, the rules and policies of their employer in relation to prescribing a retirement age. A retirement age is often prescribed in an employee's contract of employment or may well be imposed by virtue of an employer's retirement policy.

In most instances, employees are aware of when they would be obliged to retire and thus make provision for this so that they have sufficient financial resources to cover their expenses after they have stopped working. It is important for employers to have certainty and to create consistent policies so that there can be no ambiguities or confusion as to when employees will need to retire.

Unfair discrimination

However, what is the position where an employer does not consent to the change of his employee's retirement age? And does this constitute an automatically unfair dismissal on account of age discrimination? This issue was considered in the Labour Appeal Court in the matter between BMW South Africa and the National Union of Metalworkers of South Africa on behalf of Karl Deppe. Without going into lengthy detail about the factual background to the dispute, Deppe's age of retirement was changed from 65 to 60. However, Deppe had not consented to the change in as much as he did not receive the relevant election form to indicate whether he was prepared to retire at age 65 or 60 as the case may be.

Deppe's case contending for an automatically unfair dismissal was brought in terms of Section 187(1)(f) of the Labour Relations Act ("the LRA"). He argued that BMW unfairly discriminated against him on the grounds of his age by forcing him to retire at 60 years when he believed that his agreed retirement age was 65. In the trial Court, BMW bore the onus to prove that the reason for Deppe's dismissal did not constitute unfair discrimination on the basis of age. BMW relied on the provisions of Section 187(2)(b) of the LRA and suggested that they did not dismiss Deppe on account of his age but rather as he had reached the normal retirement age in the industry. The Labour Appeal Court, however, confirmed that, in fact, Deppe's dismissal was automatically unfair.

The effects of Covid-19 on retirement

As a practitioner, one is often faced with clients seeking advice on whether they could fairly terminate an employee's contract on the basis that such employee had reached retirement age. This is particularly in vogue now with the advent of the Covid-19 pandemic which has caused wide scale restructuring amongst many organisations and, in many instances, employees who the employer believed had reached retirement may not legally have their contracts of employment terminated on that basis.

An automatically unfair dismissal based on a discriminatory ground including age could well result in the Labour Court awarding up to a maximum of 24 months' remuneration as compensation to an employee who was dismissed where the employer contended that the employee had reached an agreed or normal retirement age, which argument was not accepted by the trial court.

Employer's considerations

Employers are therefore urged to include very clear provisions in employee's contracts of employment to regulate the specific retirement age of the employee as they, particularly in these trying economic times, do not want to face uncertain and unnecessary litigation. What is furthermore noteworthy from the BMW judgment is that where employers seek to amend or alter the date of a retirement age of an employee, it must be done with the appropriate degree of care and the employer must have documentary evidence/records of any amendment made.

Moneyweb | 21 November 2020

Stretching the retirement cents further

It's well-known that medical advancements, together with healthier diets and lifestyles, mean people are living longer, which brings an increased risk of clients outliving their retirement savings. There's also the added complication that investment markets, traditionally a safe haven for the retirement pot, are becoming more volatile. Liberty has redesigned and updated its offerings to cope with these trends in investment markets and changes in retirement lifestyles.

"Today's economic climate is more challenging than ever due to its effect on the investment markets and the cost of living. The idea is that we can now offer the features and benefits clients find the most valuable and offer them as stand-alone add-ons," says Henk Appelo, Liberty Investment Product Developer. The Liberty Living Annuity, formerly known as the Liberty Bold Living Annuity, has been redesigned with the core idea being to offer more choice to clients, while simplifying existing ones. One of the features is its Income Enhancer Benefit. This is designed to provide an additional layer of security against the client running out of money. "Clients have the option to commit a percentage of their investment to a bonus pool when they pass away. In exchange, they will receive a bonus pay out when other contributors pass away. In essence this benefit enables individuals to get bonuses as they grow older to help offset living longer than expected and potentially running out of money," says Appelo.

"This means that if they have two or more qualifying Liberty investments, we will group their combined investment values to reduce the overall platform fee. The higher the combined value of their investments, the lower the aggregated platform fee," explains Appelo. The Living Annuity maintains its High Water-Mark Guarantee optional feature which lets clients invest more aggressively with the aim of enjoying higher potential returns, whilst keeping downside risk at bay. "A High-Water Mark Guarantee protects your investment from falling by no more than 20% of the highest value reached at the end of every three months.

It is based on the value of your investment at the end of every quarter. If at this point your investment has reached a new high, your guarantee increases to take this into account. So you can lock in your growth and protect against drops. Even if the markets go down, your investment is protected, thus creating a safety net during market downturns," says Appelo. "Financial Advisers and Fund Managers are always looking for fresh strategies to accommodate the retirement realities of clients. With the Income Enhancer Benefit and High-Water Mark Guarantee options, you can tailor a policy in a number of ways to ensure that your client can benefit from growth and the full value of their investments in the long-term," he says.

FA News | 24 November 2020

State pension fund revives plan for offshore diversification

South Africa's sluggish economy has forced the Government Employees' Pension Fund to consider diversifying further into offshore markets to grow its investment returns. This is bad news for the JSE, where its investment in listed companies is worth R763-billion.

First appeared in ***DM168***

The Government Employees' Pension Fund (GEPF), which manages the pension savings of 1.7 million retired and current public servants, might pose a big risk to South Africa's economic growth prospects and the JSE. The local stock exchange not only has to deal with the spate of company delistings and ructions in financial markets caused by the Covid-19 pandemic, but also the GEPF looking to diversify its investments in offshore markets.

The GEPF has revived a long-standing plan to reduce its dependency on the SA economy and the JSE for financial returns by reviewing its asset allocation strategy, which mandates the way it invests its R1.87-trillion in assets. This review might prompt the GEPF to move some of its assets from the JSE to offshore markets. Africa's largest pension fund told *DM168* that it has concluded talks with Finance Minister Tito Mboweni, who oversees its governance issues, on the review, paving the way for the GEPF to start making changes to how it invests.

It is now up to the GEPF board to determine how it can invest funds in local and offshore assets. "Therefore, [the] GEPF will over a period begin to align its strategic asset allocation to match its liability profile [risks to its trillion-rand assets]." The GEPF didn't elaborate on the exact changes that would be made to its asset allocation strategy – especially when it comes to taking more funds offshore and timelines for this decision.

Small offshore exposure

The GEPF is the largest investor on the JSE, with investments in corporate giants such as MTN, Naspers, Sasol and Shoprite that are managed by the Public Investment Corporation (PIC). The PIC uses the pension savings of public servants to invest in these companies to generate financial returns, helping the GEPF to pay out pension and living benefits to retired public servants and their families. Since it was founded in 1996, the GEPF has largely invested in SA's economy through assets including company shares, fixed income instruments (government debt, bonds of state-owned entities and companies) and property.

Only 10% of the GEPF's assets is allowed for offshore investments, disadvantaging public servants from exposure to rand hedge returns. By the end of March 2020, the GEPF had an 8% exposure to offshore investments in company shares and bonds – a relatively small amount compared with the allocations of other private sector retirement funds, which can invest up to 30% of their portfolios offshore. If the GEPF retreats from the JSE to increase its offshore investment allocations – even by 2% – it will spark a major outflow of funds on the local exchange, given the pension fund's enormous scale. (Its investment in JSE-listed companies is worth R763-billion.)

JSE and SA Inc impact

SA's perennial poor economic climate, which has eroded investment returns on the JSE, has prompted the GEPF to embrace offshore markets. Over the past five years, the JSE all share index has recorded annualized returns of about 1.7%. The Covid-19 pandemic has worsened JSE returns, which fell by more than 12% in March alone, but have since recovered, as returns are down 0.3% so far this year. Underscoring the impact of Covid-19 on financial markets is that the GEPF saw the value of its assets fall by R243-billion to R1.64-trillion at the end of March 2020. The subsequent recovery of markets saw the GEPF's asset value increase to

R1.89-trillion by June. The government's proposal of a three-year wage freeze for public servants and possible workforce reductions to reduce the wage bill might push the GEPF to expedite its offshore diversification. The GEPF said it saw the wage freeze and possible workforce reductions as a risk; it means fewer public servants would make monthly contributions to its pension scheme and put pressure on it to pay out early pension claims to future jobless public servants. It is already facing a bit of pressure because, since 2013, the value of pension payouts to public servants (running into billions of rands) has exceeded the inflow of contributions into the GEPF. **DM168/BM**

Business Maverick | **22 November 2020**

Will I be able to draw all the cash from my pension preservation fund after March 2021?

The scheduled tax legislation change relates specifically to provident preservation funds

I have an Allan Gray pension preservation fund and I'm feeling very nervous about the new tax laws to be implemented March 2021. I have very little financial know-how so wanted advice on what route to take. There is a strong possibility I will need to access the whole amount within the next year before I turn 55 (I'm now 52).

If I cash it in this tax year my tax liability will be approximately R152 000 but if I wait until the next tax year it will be R63 000 – a huge difference. How will the changes in the new tax laws affect my needs outlined above? Will I even still be permitted to do a 100% cash withdrawal after March 2021?

Thank you very much for sending in your question. In order to provide an answer, I have made some assumptions about your financial situation, but hopefully the explanations of the rules and regulations pertaining to preservation funds will help answer your questions and alleviate your concerns. In the first instance, we have assumed that your concern regarding the change in legislation is in relation to provident preservation funds.

Currently, the legislation states that when you retire from a *provident* preservation fund, you are permitted to access 100% of the funds subject to the retirement tax tables. On the other hand, if you have a *pension* preservation fund in place, you are only able to access one third of the investment as a cash withdrawal while the rest must be used to purchase an annuity.

The scheduled legislation change relates specifically to *provident* preservation funds and provides for the following:

From March 1, 2021, when retiring from a provident preservation fund, the proceeds from the fund will be subject to annuitisation, where you will be required to use two thirds of the proceeds to purchase either a living annuity or a life annuity, which would in turn provide an annuity income. If you are age 55 or older on March 1, 2021 and have not yet retired from the provident preservation fund you are entitled to 100% of the benefit as a cash lump sum, including any fund returns.

If you have not reached age 55 by that date, the compulsory annuitisation will only apply to funds vested after March 1, 2021 – and you will be able to take the full lump sum amount that was invested prior to this date, taxable at the retirement lump sum tax tables. Assuming you are currently invested in a pension preservation fund, the above legislation will not apply to you.

Should you wait until retirement age to access the funds, and you retire from the fund, you will only be able to access one third of the fund as a cash lump sum and the remaining two thirds will need to be used to purchase an annuity. For reference, please see the tax tables below, applicable to the cash withdrawal portion of the fund when retiring from the fund:

Retirement tax table

Taxable income (R)	**Rate of tax**
1 – 500 000	0% of taxable income
500 001 – 700 000	18% of taxable income above R500 000
700 001 – 1 050 000	R36 000 + 27% of taxable income above R700 000
1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

In your question, you mentioned that you would most probably need to access the funds before you turn 55. If this is the case, bear in mind that you will only be able to access these funds by making a withdrawal from the preservation fund.

It is important to remember that you are only allowed to make one full or partial withdrawal from a preservation fund prior to the age of 55. This means that if you have previously made a withdrawal from a preservation fund, you will not be able to access your current funds before age 55.

Assuming that you haven't withdrawn from the fund before, the tax tables applicable to the withdrawal will be as follows:

Withdrawal tax table

Taxable income (R)	**Rate of tax**
1 – 25 000	0%
25 001 – 660 000	18% of taxable income above R25 000
660 001 – 990 000	R114 300 + 27% of taxable income above R660 000
990 001 and above	R203 400 + 36% of taxable income above R990 000

You further mentioned differing tax liabilities in this year compared to 2021. Kindly note that the income you earn in a tax year does not affect the tax you pay on a preservation fund withdrawal as it is a separate tax liability that is subject only the amount you are withdrawing. For example, if you have R1 million in your pension preservation fund and, assuming you have made no previous withdrawals, you would pay R207 000 in tax and have a net amount of R793 000 available to you.

Moneyweb | **17 November 2020**

INTERNATIONAL NEWS

The myth of the 'poor pensioner' helps shield the City

When the finance industry gets into trouble, it pleads that it is funding ordinary people's retirements. It isn't true

Pensioners are a useful defence in the City's fight to preserve its privileges. Unwittingly they are wheeled out as human shields by the finance industry, and increasingly major corporations, to serve and protect probably the most powerful interests in the UK. The over-65s – or in many cases the over-55s, given the extent of early retirement – function as a high wall against accusations of tax avoidance, financial plundering and executive enrichment, because the world's pension funds are benefiting.

So it was last week, when the former Conservative minister Esther McVey told the UK's biggest supermarkets to hand back about £1.9bn in business rates relief given as a financial cushion in the pandemic. The controversy centres on the dividend payments to shareholders made by Tesco, Sainsbury's, Asda and Morrisons, which McVey said should only have been paid once the companies were free of subsidy. Sainsbury's disclosed business rates relief worth £230m in the first half of its financial year, while paying £231m in dividends, and in October, Tesco announced a £315m dividend despite receiving £585m in relief.

There is no way executives can justify sky-high personal rewards unless they can declare their businesses fit and able to pay dividends. If much of the money has come in taxpayer subsidy, no matter. One analyst, Clive Black at stockbroker Shore Capital, spoke for the City when he told the *Times* it was "absolutely right" for Sainsbury's to look after "its retail and pension fund shareholders". Meanwhile, Telecom Plus – a FTSE 250 utility company – paid a dividend for the same period as it claimed furlough funds from the government. In a response that mimicked Black's comment, it said: "We ensured those shareholders who are reliant on the dividends would retain this important source of income."

Asked if the shareholders it had in mind were pensioners, the company said yes. And what is good for British corporates also works for global investment funds. BlackRock manages more than $7 trillion (£5.3tn) of funds and makes it clear that lobbyists for the organisation represent the interests of hardworking pension savers. There is no reason to single out BlackRock, other than it is the world's largest private investment company and the boss of its research arm is touted as a possible Treasury secretary in Joe Biden's White House. Would the appointment mean the new president leaves the fund management industry alone?

In the UK, BlackRock has recruited former Tory insiders, such as former chancellor George Osborne, presumably in order to stay in touch with the plans, such as they are in the Covid era, being hatched by City regulators and Rishi Sunak's Treasury department. In Brussels, BlackRock has a huge team that aims to make the voice of the investor heard inside the EU. Separately, a report last week by the Tax Justice Network estimated that £427bn is lost annually in corporate tax avoidance, mostly by companies shifting profits to low- or zero-tax jurisdictions, and by wealthy individuals using those same havens to evade local taxation.

This money is channelled through the major financial centres into stocks and shares, property and government debt – all with the acquiescence of a finance industry that wants the public to think of its clients only as pension savers. Any government considering a clampdown will be told that it risks increasing the costs of administering financial transactions. Profit margins are sacrosanct, so investors will need to pay this extra bill.

It doesn't seem to matter that the ageing and poor pensioner is largely a myth, at least in the arena of private investing. The latest figures published by the Office for National Statistics show that individual shareholders own just 13.5% of the London stock market.

UK pension funds own 2.4% and insurance companies, which could be said to be investing on behalf of pension savers, account for a further 4%. Collectively, that is less than a fifth of the market. The largest slice is held by overseas investors, who own 55%. So what was true in 1981, when individuals owned 28.2% and overseas investors 4% of the London market, is no longer the case. Without the spectre of the individual saver – one that relies on a dividend payment to make ends meet – ministers have more leeway to tackle the likes of Sainsbury's over its Covid-related tax breaks. They could also pressurise global fund managers to participate in far-reaching reforms of the City. It is an opportunity they should grab.

The Guardian | 15 November 2020

State Pension UK: Millions missing out due to simple errors - check now

However, recent research by Lane, Clark, Peacock (LCP) has shown as many as seven million people could be making mistakes which could slash their state pension entitlement. The reductions are likely to vary, but in some instances could leave Britons with nothing at all in the form of state pension. The key issue to bear in mind is the failure to claim the National Insurance credits to which a person is entitled. Each credit proves to be worth £250 per year in retirement, with Britons needing at least 10 to receive any form of payout from the DWP.

Indeed, to receive the full state pension, some 35 years of contributions are required. But the study by LCP showed Britons are missing out, due to the fact they are unaware they can claim National Insurance credits. Fortunately, this is an issue which can be rectified, however, not without action - and it is therefore vital to pay attention. Work is not the only way for Britons to be able to claim National Insurance credits, and in fact, the system is there to support people elsewhere. Credits, though, must be claimed, and so many people could be missing out due to lack of awareness.

It is important to also note that claims for certain credits can be backdated, and so Britons should not write off making a claim for previous years. There are several areas where people tend to be missing out in the most prevalence. Each year, many couples choose to forego Child benefit in order to avoid the tax charge which comes with it for high earners. However, continuing to fill out the form is vital, as it will allow families to continue to claim National Insurance credits, even without receiving the sum.

New claims can only be backdated for three months though, so urgent action is necessary if a household is in this circumstance. In a similar vein, as Child Benefit can only be claimed by one person, many cases involve a higher earning parent claiming the sum. However this could mean the lower or non-earning parent is missing out on valuable National Insurance credits towards their state pension entitlement. HMRC has therefore urged couples to review their circumstances to ensure the right parent is not missing out as a result.

A final important area where Britons could stand to lose on National Insurance credits is through Carer's Allowance. Caring for 35 hours a week is a major responsibility, but many are failing to claim the benefit to which they are entitled. Those who care for another person for this amount of time, and claim Carer's Allowance can automatically receive credits. However, many fail to do so with the DWP estimating only 10,000 to 15,000 are claiming at any one time, out of the potential 100,000 estimated people such credits could benefit.

Sir Steve Webb, LCP partner and former pensions minister, commented on the matter, stating: "The system of National Insurance credits is vital in helping millions of people to protect their state pension at times when they are not in well paid work. But far too many people - women in particular - are missing out on the credits that are there to help them." Sir Steve has urged the government to take further action to highlight National Insurance credits, and how many people could stand to make a claim. For those who are unsure if they have enough credits for their state pension entitlement, the government's forecast tool is likely to provide assistance. Using the tool online, Britons can determine when they are set to be able to claim, and how much they are currently estimated to be in receipt of when reaching an eligible age.

Express | 23 November 2020

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