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THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Two- pot retirement plan to ease burden

Times are tough for consumers. And the National Treasury is worried that rising financial pressure could see people increasingly resigning from jobs to access a portion of their precious pension or provident fund savings.To combat this, the nation's purse keeper has released a set of draft reforms for comment around introducing a "two-pot" system for retirement savings that will grant members of retirement funds access to one-third of their pension savings once a year, in an emergency, while preserving the other two-thirds for retirement.

If all goes according to plan, as of March 1 2023, members of retirement funds in South Africa will be able to withdraw a portion of the money they have saved in their fund should they need that money for any reason. FNB said only about 10% of retirement fund members preserve their retirement savings when they change employers. Most choose to access and spend some or all of these vital retirement funds instead, and this has been a significant contributing factor to the troubling statistic that less than 10% of people in this country are in a position to retire comfortably.

Samukelo Zwane, the head of product development at FNB Wealth and Investments, said the proposed two-pot retirement saving system balances flexibility with preservation. "The new two-pot system will effectively ring-fence two thirds of the money you have saved for retirement and ensure that you leave those savings intact when you change jobs or leave your fund. The money placed into your retirement pot can only be used to purchase an annuity that will pay you an income in retirement, which means that this retirement reform will put far more retirement fund members on a path to a better retirement."

He added that the need for this type of flexibility to be built into retirement funds was highlighted during Covid-19, when the lockdowns put many people in a difficult financial situation. "Many of those who were struggling to make ends meet actually had money saved in their retirement funds, but couldn't access it, which led to the untenable situation in which we saw a lot of people making the poor long-term decision to resign from their jobs, just to access a short-term financial solution by withdrawing their retirement savings."
Ronald King, the head of public policy and regulatory affairs at PSG Wealth, said while this may seem like a good way to access much-needed cash in a dire situation, if these

regulations came into effect, he would advise people to think very carefully about the longer-term impact of tapping into precious retirement savings. He said it was important to note that the one third pot that you can access will only be created in March next year and will effectively be empty. “You will therefore only have access to one third of your future savings. It is also important to note that any withdrawals from the one third pot will be taxed at your marginal (highest) tax rate and the ins and outs of how this will impact the sum that you have when you eventually retire is a worthwhile discussion to have with your financial adviser before making any decisions.

“The number of South Africans who can afford to retire comfortably is already worryingly low and any withdrawal from these savings could impact this further,” said King. However, he concedes that an emergency is an emergency. “This is where the value of a good financial plan comes in – working with an adviser to make sure that you have emergency funds available when you need them but with as little impact on your longer-term savings as possible.”

Personal Finance | 1**2 September 2022**

The dirty little secret behind SA’s R50bn in unclaimed pension benefits

Poor admin going back decades and a lack of enthusiasm from some administrators in tracking down the beneficiaries may help explain … Speaker after speaker at the People’s Hearing on Unpaid Pensions on Constitution Hill in Johannesburg on Tuesday detailed their Kafkaesque efforts to lay hands on unclaimed pension benefits accumulated over decades of toil. Just when you think you are getting somewhere with your claim, a new administrator is appointed and the paperwork starts all over again. One speaker waited seven months to be told by the fund administrator that there was no pension for him.

Andrew Zwane, a member of the Unclaimed Benefits Committee (UPC), which is assisting pension beneficiaries to track down unclaimed pensions, spoke about his frustration in tracking down his pension benefits earned after decades working for companies like African Cables, Fidelity Guards and XPS Services. “I’ve lodged claims, but nothing has come to fruition. No one is coming forward to explain the way forward.” While the years and decades roll by, beneficiaries pass on and leave the battle to claim any benefits to their families. Another speaker, Johannes Moloi (58) from Sharpeville, was a former SA Post Office worker before parts of his operation were swallowed up by Telkom. He was retrenched in 2003 and given a payout of around R280 000, which included the pension fund he had been paying into for decades. None of this made any sense to him – then or now. “I have three children to look after, and I got a retrenchment package of R50 000,” Moloi told Moneyweb. “I’m also here to fight for the unclaimed benefits of my father, who was an army chef before moving onto SA Rail [later part of Transnet]. He was paying R45 a month into his pension for decades, yet received nothing when he retired. He has passed on now. I think that money is sitting in one of these dormant pension funds, and the administrators are trying to steal it.”

Bruce Kapi of the UPC says millions of South Africans are going around in circles trying to claim benefits they are legally entitled to, but despite assurances from the Financial Sector Conduct Authority (FSCA) that it is doing all it can to track down beneficiaries, the evidence suggests not all administrators share its enthusiasm. That there is an estimated R50 billion in unclaimed benefits is not in dispute, though UPC members say the figure is likely much higher.
That’s the figure estimated by investigative and advocacy group Open Secrets, which has taken on the issue of unclaimed benefits as one of its campaigns.

Solving the riddle

How unclaimed benefits accumulated to a staggering R50 billion is a little more opaque, and appears to be a uniquely South African riddle. Poor corporate admin is partly to blame, but a far bigger problem was the number of migrant workers travelling to the mines from Malawi, Mozambique, Lesotho and elsewhere. Unable to pronounce or spell these workers’ names, administrators gave them more comprehensible names like John or Johannes, names that did not match whatever passed for IDs back in the 1950s and 1960s. Personal circumstances forced workers to return to their rural homes, often forgetting that they had unclaimed pension benefits.

Companies went bust, merged or went through periodic bouts of retrenchment. Pension fund administration passed from one company to another. There was a shift from defined benefit to defined contribution funds, and a further shift from standalone to umbrella funds. One of the biggest corporate scams, well known to MBA students, was the buyout of companies almost exclusively to get their hands on workers’ pension funds. The courts have been criticised for siding against pensioners in two of the most prominent cases of recent years: that of two pensioners against the Tongaat Hulett Pension Fund; and that of former Financial Services Board (now FSCA) deputy pension fund registrar Rosemary Hunter against the FSB over its attempts to deregister funds that still had assets owing to former employees. ***Full Report:*** ***https://www.moneyweb.co.za/mymoney/retirement/the-dirty-little-secret-behind-sas-r50bn-in-unclaimed-pension-benefits/***

Moneyweb | 14 September 2022

LETTER: State abuses pension funds

There is a new form of state capture that thrives and is freely accepted, this while government leaders supposedly commit themselves to oppose any form of state capture. The giant public service pension fund, amounting to R2.3-trillion, is managed by the Public Investment Corporation (PIC) on behalf of the Government Employees Pension Fund (GEPF). The GEPF is not regulated and protected by the Pension Funds Act like other private retirement funds. It is not allowed to use an investment broker other than the PIC. The PIC has already shifted 5% of its investments to unlisted companies.

It is a poor economic decision because losses skyrocket. Some of the unlisted companies are bankrupt or have had to be liquidated. However, the PIC has decided to expand its investments in unlisted companies to 35%. The justification for it is that it pursues essential social goals. The state as employer is essentially in control of the PIC's assets. Investments are captured under the banner of essential social welfare for citizens. Thus the government abuses pension funds to try to save its faltering social wealth creation programme. This is done with pensioners' money and without a hitch. Pensioners don't burn tyres or block roads over it. They seem to accept it with resignation.

Business Day | **12 September 2022**

Make yourself traceable by retirement funds that may owe you money

Retirement fund actuaries are urging South Africans to make themselves traceable by retirement funds trying to unite former members and beneficiaries with billions in unclaimed retirement fund benefits. By the end of last year, unclaimed benefits worth R47.3 billion were sitting in retirement funds, according to the Financial Sector Conduct Authority (FSCA). Jeanine Astrup, a consulting actuary and member of the Actuarial Society of South Africa (ASSA) Retirement Matters Committee, points out that most retirement funds and their administrators are already working with tracing agents in an effort to whittle down the unclaimed assets. This comes at a significant cost for retirement funds, she adds.

"The more specialised and intense the search for beneficiaries of unclaimed retirement benefits, the higher the cost implications. Cases where ID numbers, dates of birth, or surnames differ, require further investigation by potentially the employer, fund, and administrator. This has time and cost implications." Astrup believes that retirement fund trustees and administrators could probably do more to unite former members and beneficiaries with their unclaimed benefits but points out that individuals also have an obligation to ensure that they are traceable. "While it may seem incomprehensible that retirement fund members could simply 'forget' about their benefits, the size of the unclaimed benefits pot shows that this is not uncommon," she adds. According to Astrup, there are several steps that former retirement fund members and their beneficiaries can take to make it easier for retirement funds to unite unclaimed benefits with their rightful owners.

1. Members of defined benefit funds pre-2004

Astrup explains that a portion of unclaimed retirement fund benefits was generated by defined benefit funds that at some point declared a surplus in terms of Surplus Apportionment legislation to members who left these funds after 1980, but where trustees were unable to trace former employees entitled to a share of the surplus. "Many unclaimed surplus benefits date back to the years preceding the digital age. Old payroll systems, some of which were not even electronic, did not capture ID numbers, seldom had first and second names, and rarely recorded gender. Even where information was captured, there was no such thing as system verifications, and information was often captured incorrectly or not at all." Astrup says former members of defined benefit funds should contact their previous employers if all of the following apply:

• You withdrew from a defined benefit fund before 2005 (the last surplus apportionment date was 30 November 2004)
• You have not been paid an additional surplus benefit; and
• You have not already confirmed that your former fund did not undertake a surplus allocation.

If you are a beneficiary of a former member of a defined benefit fund who has died, and you believe that the above apply, you should take up the cause, says Astrup.

2. Learn to differentiate between legitimate approaches and scams

"With all the scams out there, it is no surprise that members are sceptical when out of the blue they receive a phone call or email advising them that the employer they left five, 10 or even 20 years ago would like to pay them money," says Astrup. She adds, however, that simply dismissing legitimate approaches by tracing agents makes it very difficult for retirement funds to unite people with their benefits. She therefore urges consumers to do their homework before simply dismissing an approach from a tracing agent. (*For tips on how to verify that a tracing agent is legitimate, please see Editor's Notes.*)

Astrup explains that tracing agents have to request personal information such as ID and bank account details in order to facilitate the payment of your benefits. "If you are worried that the request may be a scam, ask for the administrator's email address so that you can send your documents to the administrator directly. Again, make sure that the email address looks legitimate and is not a free web-based service like Gmail or Hotmail." She stresses that a tracing agent will never need your bank account login details or any pins from your bank.

3. Understand why you may have become untraceable

Astrup explains that "desktop" tracing is often successful for former retirement fund members who are still employed and living in the country. "However, these 'first-level' traces become less useful for former members who have left the country, no longer work and rely on their children for financial support, or who have since remarried and changed their surname once or possibly twice. Even more complicated is tracing former members who passed away after having left South Africa."

Astrup says people often believe that if they were owed money by a retirement fund that they would have been contacted and informed of their windfall. "This is not a given and if there is any doubt there is no harm in making contact with your former employer or with the principal officer of the retirement fund in question." The FSCA has created an **unclaimed benefit search engine** for individuals who did not receive a benefit payout when they left employment. Astrup encourages members of the public to use this search engine and to use different variations of their personal details that may have been on record at the time. ***Full Report: https://www.fanews.co.za/article/retirement/1357/general/1358/make-yourself-traceable-by-retirement-funds-that-may-owe-you-money/35425***

FA News | 12 September 2022

Regulators take steps to encourage ESG in the financial services industry

The FSCA is taking a number of steps, beyond introducing amendments to Regulation 28, to encourage pension funds to invest in green and other ESG investments

The South African Financial Sector Conduct Authority (FSCA) may be credited with being an "early adopter" in recognising the influence that ESG (Environmental, Social and Governmental) considerations should be having on financial services sector regulation. At a recent event hosted by the South African Sustainable Finance Intensive (SASFI), Mr Olano Makhubela, Divisional Executive: Retirement Funds Supervision of the FSCA noted that Regulation 28 of the Pension Funds Act, 1956 (Regulation 28) was introduced into law as early as 2011. At the time, it was novel in many respects. It specifically promotes responsible investing of pension fund assets, based on a sustainable, long-term, risk-aligned, and liabilitydriven investment philosophy. It establishes a solid foundation for sustainable investment by pension funds that is aligned with ESG objectives. Given the estimated ZAR 4 trillion of assets currently under the management of South African pension funds, this industry is well placed to play a leading role in ESG investment by the financial services sector. Recently, the FSCA published Guidance Note 1 of 2019, entitled: "Sustainability of investments and assets in the context of a retirement fund's investment policy statement". It provided further guidance to pension funds on the FSCA's expectations of pension funds on ESG reporting and disclosure.

In 2021, the FSCA, in partnership with the IFC, released the Sustainable Finance Practices in South African Retirement Funds Survey brief (the Brief) which provided an overview of the progress on sustainable investing by South African retirement funds, as well as barriers and opportunities to unlock the significant potential for green investment. According to a FSCA press release, the Brief indicates that "South African retirement funds, despite various known constraints and challenges, are nevertheless well-positioned to take advantage of new trends in sustainable investing." Fast-forwarding to 2022, Mr Makhubela referred to the proposed amendments to Regulation 28 which introduce "infrastructure" as a distinct and separate new asset class into which pension funds may invest.

He said this amendment was not intended to force pension funds to invest in infrastructure but to telegraph the FSCA's support for infrastructure investments. Since infrastructure investment can play an important role in facilitating the achievement of ESG-related goals, it is reasonable to expect that the introduction of "infrastructure" as a distinct asset class will encourage pension funds to become more active ESG investors. Mr Makhubela also contextualised the increased investment allowance that the proposed amendments to Regulation 28 introduce for pension funds' investment in private equity.

He said the private equity industry plays an important role in funding renewable energy projects. In future, the FSCA is likely to consider ESG considerations in the toolkit that it produces to guide pension fund trustees in their decision-making. It will issue guidance notes (as opposed to directives), allowing it to develop and fine-tune its approach through learning from and engaging with the industry. Mr Makhubela expressed the FSCA's ongoing support for creating an enabling environment for green and other ESG investments.

FA News | 13 September 2022

Saving for your autumn years: why you can't ignore it

There are many reasons why you need to start saving for retirement sooner rather than later. The obvious one is that you have enough time to build a large-enough nest egg on which you can retire comfortably without having to depend on either your children or the government for a living. But another is that you can take advantage of the government's tax breaks on retirement savings for that much longer.

Research by Liberty shows that many working South Africans only start to think about saving for retirement once they are over the age of 40, and are therefore not benefiting from the tax advantages that will help them build a substantial nest egg for their retirement. Contributing to a retirement fund allows you to save a large chunk of your earnings tax-free every year. You are entitled to claim a tax deduction for your contributions (subject to specified limits) and your money will grow tax-free in the retirement fund itself – in other words, it is not subject to normal taxes on an investment: tax on interest earned, capital gains tax and dividends tax. As an example of how much you save in tax on your contributions, if you have taxable income of R500 000 a year and contribute R100 000 to a retirement fund, you're taxed only on R400 000.

Using the current tax tables, assuming no other deductions, you would pay tax of R119 830 on R500 000 and R88 265 on R400 000, so you save R31 565 in tax. Or, looked at another way, of the R100 000 you save, only R68 435 comes out of your pocket. When you retire, you are allowed to take one-third of your savings in cash - the other two-thirds must be used to "buy" a pension. On your cash lump sum, the first R500 000 is tax-free, with the balance taxed at a preferential rate. Then, your pension from the remaining two-thirds will be taxed as income, but you will be paying lower income tax for a number of reasons: you're likely to be earning less than when you were working; you have higher rebates from age 65; and you can claim more for medical expenses from 65.

Retirement savings vehicles

If you are not contributing to a retirement fund linked to your employer – or even if you are – you may consider saving in a retirement annuity fund (RA). These are attractive because they are portable (not tied to an employer), have no contribution limits, and your retirement benefits can be accessed from the age of 55. Although RAs remain one of the popular options, Liberty's research found that at least 59% of South Africans perceive RAs as expensive. "Having a comfortable retirement or being in a position to live life the way you want at a certain age should rate as an important life goal. But somehow many South Africans are not 'getting' this until they are older," says Nosipho Nhleko, lead specialist, investment propositions at Liberty.

Only 31% of people between 30 and 35 have established a proper retirement savings plan, according to Liberty's research findings conducted in an effort to understand retirement trends from an insurer perspective. By the ages of 45-49 this figure jumps from 31% to 63%. So South Africans become financially wiser as they get older, but it also indicates that too many South Africans are setting up their savings plan too late. "The fact is, the earlier you start saving, the easier it is and the more you can put away for a comfortable retirement. Every circumstance is different, and partnering with a financial adviser is the best way to plan your personal financial journey. The sooner you start, the better. You may well be saving yourself quite a bit of money in the long-term if you start early, while securing the life to which you aspire," says Nhleko.

IOL | 9 September 2022

NMG, INfund to provide independent retirement benefit counselling

Employee benefits firm **NMG Benefits** has launched a partnership with **INfund Solutions**, the largest independent provider of retirement benefit counselling (RBC) in South Africa, to provide objective and unbiased counselling to fund members. INfund and NMG will work with retirement funds to structure annuity and preservation options (both within the fund and out-of-fund) to ensure that these are priced at institutional rates, and in the best interest of members, says INfund managing director, Siyabongi Maki. RBC will then be provided to educate members on their choices.

Since March 2019, retirement funds in South Africa have been required to provide RBC to retiring or exiting members on the various choices available to them. Funds must also provide default preservation and annuity options, which can be with an external product provider or within the fund itself. Although these rules were designed with good intent, the reality has seen many funds choose to receive RBC from large financial institutions at no cost, says NMG's Head of Platforms, Siphamandla Buthelezi. As a result, exiting members are often encouraged to purchase retail annuity products carrying high fees or commissions and not selecting the fund's more cost-effective annuity option.

Early intervention has been shown to result in more members making better informed decisions when leaving the fund. "Our partnership with INfund will address this issue effectively by providing independent advice, and securing wholesale asset management and other charges for the individual members," said Buthelezi. INfund MD Maki said the partnership would benefit thousands of retirees by providing a wider range of options at a lower cost. "We've seen how even small differences in fees can have a significant erosion effect on a member's retirement capital. We look forward to working with NMG to build and implement default products with much lower fees to members," he said. NMG Benefits focuses on employee benefits such as healthcare consulting, retirement fund consulting, retirement fund administration, investment consulting and actuarial consulting. It has more than R150 billion in assets under management for more than 250 000 pension fund members in Southern Africa. Both NMG and INfund are Level 1 B-BBEE contributors.

FA News | 13 September 2022

INTERNATIONAL NEWS

US Falls to 18th Place in Global Retirement Ranking

Inflation, market volatility and an aging population make 2022 "one of the worst years to retire." Americans are losing ground against residents of other countries in what's shaping up globally to be "one of the worst years to retire in recent memory," according to a new retirement ranking. The US fell to 18th on the Natixis Investment Managers Annual Global Retirement Index, down one spot from last year. Income equality — where the US had the seventh-lowest ranking among the 44 countries in the index — was one of the reasons for the country's low score, along with government debt and tax pressure.

Norway was the best-positioned country on the list, rising from third last year, thanks in part to its five-year average for interest rates turning positive in 2022. It was followed by Switzerland, Iceland, Ireland and Australia in the the top five. The UK ranked 19th, down one spot from the prior year.

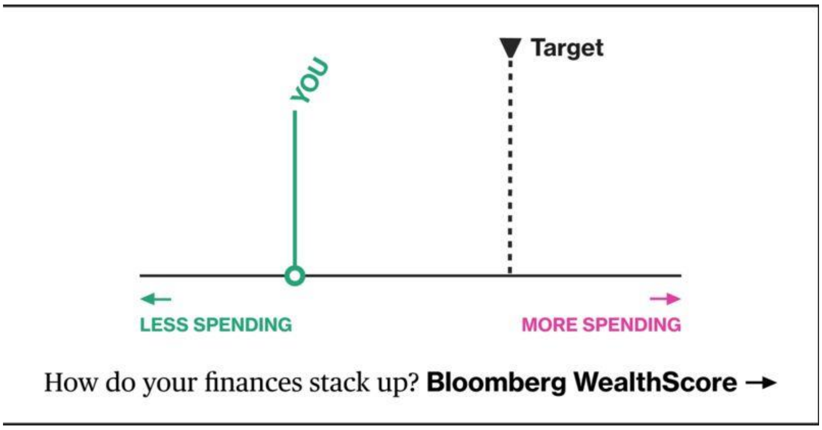
Leaders in Retirement Security

	Top 20 Countries for 2022
1	Norway
2	Switzerland
3	Iceland
4	Ireland
5	Australia
6	New Zealand

	Top 20 Countries for 2022
7	Luxembourg
8	Netherlands
9	Denmark
10	Czech Republic
11	Germany
12	Finland
13	Sweden
14	Austria
15	Canada
16	Israel
17	South Korea
18	United States
19	United Kingdom
20	Belgium

It's becoming more difficult to retire almost anywhere, as high inflation, volatility in financial markets, rising interest rates and aging populations add to financial stress on pension plans and government benefits.

Pay-as-you-go systems like Social Security in the US rely on a balance between the number of younger workers paying into the system and the retiree population drawing benefits. But the older population is swelling and skewing that balance. People over 65 made up about 14% of the population in 1950, 28.4% in 2020 and will make up a projected 40.4% by 2050, according to the report. Natixis worked with CoreData Research to rank countries on 18 metrics that cover finances in retirement, material wellbeing, health and quality of life.



Bloomberg | 13 September 2022

Swiss voters set to approve pension reform – poll

ZURICH, Sept 14 (Reuters) - Swiss voters were poised to approve a pension reform package that includes raising women's retirement age by a year to 65 and increasing value-added tax (VAT) to shore up the state pension system, a poll for broadcaster SRF suggested on Wednesday. The GFS Bern survey found 59% of respondents were in favour of making women's pension age the same as men's, and 63% agreed with increasing VAT to help fund the system as the population ages. Voters in 2017 rejected raising women's retirement age to 65 as a wave of Baby Boomers stops working.

The poll of around 8,640 people had a margin of error of 2.7 percentage points, SRF said. The pension measures in the Sept. 25 binding referendums under the Swiss system of direct democracy could still fail should they not carry a majority of individual cantons as well. In other votes that day, proponents of banning factory farming were narrowly ahead but opponents were gaining ground, arguing that Switzerland already had strict rules that did not need tightening, the poll found. A vote on a government plan to make Switzerland a more attractive financial centre for issuing debt by ending a 35% withholding tax on interest from bond issues was too close to call, it showed.

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