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THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

LOCAL NEWS

- Regulatory aspects and challenges of the two-pot system
- The evolution of the savings and retirement industry
- Women can close the pension gap. Here’s how
- Resigning on the eve of divorce to ‘protect’ pension benefits
- What taxpayers can do to save a little more, and earn more in retirement
- Is my retirement basket sufficient?

INTERNATIONAL NEWS

- Bank of England urges pension funds to be ready for bigger gilt market shocks
- India's pension fund body recommends marginal hike in interest rate on deposits

LOCAL NEWS

Regulatory aspects and challenges of the two-pot system

The devil is always in the detail.

One of the biggest issues we face is that the legislation still has not been finalised. The Budget review referred to the forthcoming draft legislation and the issues that this will address. Without this draft legislation, there is considerable uncertainty regarding implementation. We understand the broad strokes of the expected changes, but the devil is always in the detail: Administrators need to amend systems based on precise requirements, funds need to process rule amendments based on finalised legislation, and the Financial Sector Conduct Authority needs to process all those amendments prior to implementation. Members and their advisors also need to receive clear and accurate communication about how the changes will affect them.

None of this can be done until the uncertainty is resolved. The industry has repeatedly said that the expected length of time it will need to implement the changes once legislation is promulgated is 12 to 18 months. It is not surprising that it is taking a while to get the legislation right – the reforms involve major changes to a system with serious issues that need to be addressed. The intention is that the new two-pot system will allow access to those who desperately need it, while at the same time improving the preservation of retirement savings. Offering partial access will, over time, see the amount of money in the system grow, and lead to better retirement outcomes for most savers.

Under the new system, it will be compulsory for all retirement funds to split contributions received between two notional portions – one-third will be allocated to a 'savings portion' that will allow early access to funds, while the remaining two-thirds will be allocated to a 'retirement portion'. At retirement, whatever is left in the savings portion will be available as a cash lump sum. The retirement portion will have to be used to purchase an annuity. Any money saved up before the implementation of the new system will remain in a 'vested portion', subject to the treatment that currently applies, meaning it will have 'vested rights'.

What is still to be finalised?

In the Budget review, the National Treasury set out four areas that require additional work following the extensive public consultation on the reforms. One of the more contentious issues relates to 'seeding'. Given that changes will only apply to contributions made from the implementation date, the vested portion will represent the biggest portion of retirement savings

for many members for some time. Seeding would involve allowing members to transfer some of the funds that have accumulated in their vested portion (prior to the new system being implemented) to the new two-pot system, thereby allowing some immediate access to historic funds. While there could be merit in allowing this, if the seeding is too generous, the cost in terms of leakage from what has been saved to date could be material. The next area relates to the legislative mechanisms to include defined benefit funds in an equitable manner. There seems to be agreement that defined benefit funds should be included in the new system, but that is easier said than done. Defined benefit funds work differently – it is not a simple matter to split contributions into two portions, given that the rights and benefits of members are not defined in terms of contributions, but rather in terms of a formula often based on factors such as salary and years of service. These benefits must be adjusted fairly whenever a withdrawal is paid out.

The third area is that of legacy retirement annuity funds. While these funds might not make up the lion's share of retirement savings, there are technical challenges to incorporating them in the new system. Again, there is broad agreement that they should fall within the new system, but this needs to be done with care given that the product design and supporting systems do not easily lend themselves to the flexibility envisaged with the new savings portion. The final area is the treatment of the retirement portion on retrenchment. One of the concerns that were raised during the public consultation process is that members who are retrenched with no alternative source of income, and who have depleted their savings, might need some access to the funds in their retirement portion.

This is a contested area.

The point of the savings portion is to provide some relief when members fall on hardship, and to pay out funds from the retirement portion before retirement will undermine the secondary aim of improving outcomes at retirement. The first three of these areas will be addressed in the draft legislation that we are waiting for, while the last one will be deferred until the two-pot system is operational. It is important to remember that in the early years post implementation, the vast majority of savings (and hence benefits) will sit in the vested portion, all of which will be available on retrenchment in an occupational fund. A full analysis of the regulatory aspects and challenges of the two-pot system can only be properly undertaken once the final legislative amendments have been published. There is still considerable uncertainty regarding what has to be implemented by the retirement funding industry at large and we eagerly await the revised draft legislation.

Moneyweb | 21 March 2023

The evolution of the savings and retirement industry

The savings and retirement industry has had many positive changes over the years which 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 rebate system which was unnecessarily complex for a much easier-priced method. A welcomed 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 professionalize the industry in order to ensure people are receiving sound advice at fair prices and from credible professionals. Further to that, we saw the arrival of Discretionary fund managers (DFM), who had Category II licenses and would build model portfolios for advisers who were previously only focused on risk products, further assisting in ensuring clients are placed in appropriate portfolios that match their risk profile. The DFM's have also entrenched themselves by offering more than just model portfolios, but a few also offered practice management courses and additional systems that helped better equip advisory practices.

Then 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 maximizing retirement savings and minimizing 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 annuitized at retirement. A member can withdraw from the savings pot every 12 months, provided they have a minimum of R2000.00 in savings. One of the key objectives of the RDR was that accountable institutions (i.e. listed companies, all insurance companies, insurance intermediaries, and unit trust management companies) need to be good/responsible custodians. This saw a move from a Rules-based to a Risk-Based approach, a move away from merely requesting static documents but looking at an individual's level of risk based on the position they hold, family relations, political exposure, etc.

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 the 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/LISP that offers Profit Share for qualifying members who invest in the PPS unit trusts. All these measures are a reflection of our commitment to providing better retirement outcomes for our clients.

FA News | 28 March 2023

Women can close the pension gap. Here's how.

Studies show that in South Africa and internationally there is a gender pay gap that sees women paid up to 35% less than their male counterparts. Globally there is also a **massive gender retirement gap**, where women are significantly worse off than men when it comes to their retirement savings incomes. According to the South African Treasury, only 6 out of every 100 South Africans will be able to retire comfortably. A **recent poll** shows more than a third (35%) of middle-class South Africans aren't putting any money at all away for their retirement. Craigh Chidrawi, Executive Head of Retirement and COO at employee benefits advisory firm NMG Benefits, says there are several steps that women can take to improve their retirement outcomes.

Plan for the long term

Ideally, building your retirement fund is a lifelong task. The earlier you start saving for retirement, the more time your money has to grow. And while it's tough to make ends meet right now, it's critical that you make retirement saving and planning a non-negotiable part of your monthly budget, says Chidrawi.

Increase your retirement fund contributions

One of the biggest reasons why people don't have enough money to retire on is that they simply don't save enough. The more money you are able to put away while you are earning, the bigger the nest egg you will have to provide financial security in your retirement years. Work through your budget carefully, and see where you can make extra savings to put into your retirement fund.

Assess your expenses

Assessing your expenses to find additional income is key. By identifying areas where you can cut back on spending, you can potentially increase your savings for retirement. "By taking a closer look at your monthly expenses, you may discover that you are overspending in certain areas or paying for services you don't need. This can free up extra money that can be used towards your retirement savings", says Chidrawi.

Get involved in the family finances

Often, women tend to leave financial matters up their spouses or partners. That's not good enough. "Women must get more involved in all aspects of their family's financial planning. They must know how much money is being spent and saved, and the current state of their retirement funds," said Chidrawi.

Talk to a financial planner

Many women are putting aside money for retirement. That's a good start, but it's important to talk to a financial planner. They'll be able to help you review your financial needs and goals, help you make the right investments to ensure you have enough money for your retirement, and that your resources will be handled in a safe and predictable way.

Beat the tax burden

One of the biggest benefits of retirement planning is to structure your retirement funds in a tax-efficient manner. The more control you have over your income sources in retirement, the more likely you are to be able to reduce your tax burden. Because future tax regulations are difficult to predict, diversifying your income sources in retirement could save you a lot of money in the long term. "Most people see retirement as a time to relax and take it easy. For women, especially, the reality is often quite different. Retirement can cause severe financial stress, especially if you have left your job before your planned retirement age or must care for an elderly or sick spouse. That's why it's even more important for them to ensure they have a comprehensive retirement plan in place, which allows for enough savings for long term use and reduce the likelihood of having to depend on your friends or relatives to fill the gaps," said Chidrawi.

FA News | 27 March 2023

Resigning on the eve of divorce to 'protect' pension benefits

Legislature must urgently review the current legal framework to ensure non-member spouses' rights are adequately protected.

Marriages **in community of property** create joint estates where all patrimonial assets of spouses that are individually or collectively acquired before and during such marriages will be held. Both spouses 'should' have equal access to such assets which they co-own in undivided shares. They also share in each other's debts. For spouses who are married **out of community of property** with the application of the accrual system, there is no joint estate that is created. Spouses retain their respective estates and do not collectively own assets that they acquired before or during the marriage. Spouses do not share in each other's debts but the net increase in the value of their respective estates, only when the value of estate of one of them during divorce is greater than the value of the estate other.

The spouse whose estate has shown a smaller growth will only have a right to share in the estate of the other spouse if such estate has shown greater growth at the time the court dissolves the marriage. In most instances, retirement benefits increase the value of the joint estate in marriages in community of property or the member spouse's estate where parties are married in accordance with the accrual system. During divorce, one spouse may wish to claim a portion of the member spouse's retirement benefits. However, the member spouse may want to prevent the sharing of such benefits. Irrespective of the marital regime applicable to the parties marriage, one of the most effective way to prevent the non-spouse spouse from claiming a portion of the member spouse's pension benefits is to request the court to grant a forfeiture order in terms of section 9(1) of the Divorce Act 70 of 1979.

To succeed with the forfeiture remedy, the member spouse must provide circumstances that gave rise to the breakdown of the marriage that are attributable to the non-member spouse, prove that the non-member spouse committed substantial misconduct or that the marriage was of a short duration (Marumoagae 'The regime of forfeiture of patrimonial benefits in South Africa and a critical analysis of the concept of unduly benefited' (2014) 47 De Jure 93). The Supreme Court of Appeal in Wijker v Wijker 1993 (4) SA 597 held that there is no need to prove all these elements at the same time to succeed with this remedy. Any one or more of these factors can lead to the spouse who is not a member of a pension fund being ordered to forfeit the portion of the member spouse's pension benefits that he or she would ordinarily be entitled to claim. In most divorces, member spouses do not use the forfeiture remedy, or at times, elements of this remedy cannot be successfully established.

Some of the member spouses, after being served with divorce summons, resign from their employment with a view to prevent their non-member spouses from being allocated portions of the available pension benefits. This seriously prejudices member spouses' claims from the joint estates if parties are married in community of property or member spouses' personal estates which would have been increased by these pension benefits. Most worryingly, after their resignation, some of these member spouses do not receive the amounts of these benefits in their bank accounts. They purchase living annuities which are insurance products that do not form part of either their joint estates or personal estates, and thus, cannot be taken into account during divorce (CM v EM 2020 (5) SA 49 (SCA) para 22).

According to the South African Law Reform Commission in its issue paper 41 titled 'Review of aspects of matrimonial property law' Project 100E (6 September 2021) 9.21 'Another issue which has a serious impact on financially weaker spouses, who are generally women, is that the law currently allows retirement fund members to hide retirement benefits and take them out of reach of non-member spouses by converting pension benefits to living annuities'. The law as it stands allows retirement fund members to lawfully prevent their spouses from claiming parts of their retirement benefits. The first problem with the law is what these benefits are referred to when spouses are divorcing. In terms of section 1 of the Divorce Act, these benefits are referred to as 'pension interests' which are benefits that member spouses would have been entitled to receive had their pension fund membership been terminated on the date of divorce.

This means that in order for non-member spouses to have a claim to these benefits, the member spouses must be active members of their pension funds and divorce should be a trigger event that would lead to the release of these benefits. In other words, should member spouses exit their retirement funds through resignation, retirement, dismissal or retrenchment there will not be any pension interest to claim. These benefits would be regarded as accrued pension benefits which non-member spouses will not be able to claim even if such benefits, at the time the court dissolves their marriage, are still held by member spouses' pension funds. This is because retirement benefits are not ordinarily part of member spouses' estates but in terms of section 7(7) of the Divorce Act are deemed to be part of their estates only for the purposes of allowing non-member spouses to share thereon upon divorce.

Only pension interest as defined in section 1 of the Divorce Act can be shared and not accrued pension benefits as a result of divorce. This is an effective legislative gap that has empowered member spouses to prevent their non-member spouses from claiming portions of their pension benefits by resigning from their employment upon being notified of divorce proceedings against them. By so doing, the exit event from their pension funds becomes something else other than divorce which would have entitled non-member spouses to claim their entitled portions of these benefits (see Ndaba v Ndaba 2017 (1) SA 342 (SCA) para 25). Given the historical disparities in

marital income, this issue is gendered by its very nature. Member spouses' resignations on the eve of divorce with a view to divert pension benefits impact financially weaker spouses, most of whom are women in practice. First, this conduct perpetuates non-member spouses' economic discrimination in direct violation of section 9(3) of the Constitution. Secondly, this conduct arbitrarily deprives them of property in the form of the money that they ordinarily should receive by virtue of their marital regime in direct violation of section 25(1) of the Constitution (see Marumoagae 'Deprivation of Retirement Benefits on Divorce through Living Annuities in South Africa' (2021) 66 Journal of African Law 167). In conclusion, there is an urgent need for the legislature to review the current legal framework with a view to ensuring that non-member spouses' rights are adequately protected.

This can be done by inserting a provision in the Divorce Act that makes retirement benefits automatically part of member spouses' estates and empower pension funds to withhold these benefits when members are embroiled in Divorce proceedings. This will empower pension funds' boards to wait for the finalisation of these proceedings with a view to allocate to the non-member spouse amounts that the court would have allocated to them in terms of section 7(8) of the Divorce Act. Failure to legislative attend to this conundrum will lead to the perpetual prejudice of financially weaker spouses during divorce who would need to approach courts to challenge the law. However, most of them do not have the financial resources to do so.

Moneyweb | 25 March 2023

What taxpayers can do to save a little more, and earn more in retirement

Stian de Witt from NMG Benefits shares tax deduction tips, how tax-free savings accounts differ from tax-free investments, and more.

SIMON BROWN: I'm chatting now with Stian de Witt, executive head of financial planning at NMG Benefits. Stian, I appreciate the time. The budget last month: a lot of folks said there was not much happening (in it) and there were bits: certainly we saw slight increases to personal tax thresholds, some changes to tax, to medical tax credits, which benefited people. But there are other bits and pieces that we as savers, as investors, can do to benefit and take a little bit home, save a little bit more and earn a little bit more in our retirement.

STIAN DE WITT: Yes. Thank you, Simon. One of the things (where) it has been a while since that was promulgated in law is the tax-free savings account, the tax-free savings investments that people can utilise. But one thing that's important to understand is that there's a difference between a tax-free savings account and a tax-free savings investment. The one invests into

normal savings. With savings you'll probably get your money-market rates or even just a fixed-deposit rate. With the other one, through a unit trust fund manager you can go into investments offshore [or] local, which will give you a higher return, obviously with some volatility in it. But that's R36 000 per annum to a total of R500 000 over your lifetime that you can invest into those vehicles where you don't pay any capital gains tax, no dividends or any interest on any of those instruments.

However, it's important that to note that the payment into the fund is not tax deductible. You only get the tax-free portion. And therefore it's also important to make sure you utilise your other tax rebates on your interest and your capital gains tax; you can go up to R500 000 in a unit trust portfolio before accessing those thresholds where you are going to start paying tax. So that's one of the things that the consumer can do.

SIMON BROWN: And that's a good distinction as well between the tax-free saving – and I like your point around the account versus the investment – the tax-free and the retirement annuities. [With the] retirement annuities the tax deduction happens in the year of the deposit, whereas [with] the tax-free savings that benefit is actually when you withdraw the money.

STIAN DE WITT: Yes. So on your retirement annuities the same … your (contributions to) retirement annuities, your pension, your provident funds all combine; you can save a total of 27.5% (of taxable income) per year towards that (or) have a full tax deduction to a maximum of R350 000 a year (whichever is lower). Now, one of the practical ways in which you can do it – if you do a monthly contribution – is you can either do it monthly or [in] once-off lump sums. You go to your HR [human resources department] and say, would you mind, here is my certificate, or here is my policy schedule, would you mind just utilising this now and doing a tax deduction out of the month that I'm contributing, so that I get that deduction now. Someone used to tell me that money in my pocket is always better than in someone else's pocket.

SIMON BROWN: So you get that saving monthly, rather than claiming it back (via a tax return).

STIAN DE WITT: Yes. And then the other thing that's important that I say to people is to keep in mind that you can [put] up to R2 million into your retirement fund and then, when you retire, if you have a proper financial planner that helps you in the process, you can get that R2 million tax-free out of that investment over your lifetime. So on that contribution you get the full tax reduction, but on the income you don't want to pay tax.

SIMON BROWN: I've got you… It's also around if you put excess in, say I hit my R350 [000] limit – If I put more in I can actually claim that in subsequent years.

STIAN DE WITT: Absolutely.

And then what's important, as with the tax-free investment, remember on the growth of that investment there's no tax and it also falls outside of your estate. So it helps with the estate planning process as well.

SIMON BROWN: And another [thing]. The solar panels (rooftop solar tax incentive) – there was some criticism that it was fairly small and fairly niche, but it's not. Again, these are small amounts perhaps in some places, but they're worth doing, because they start to add up. It's 25% of the cost of the panels only, not batteries and installation, up to a maximum of R15 000. But you've got to move fast because this is only for this year.
STIAN DE WITT: Yes. There is a lot of criticism about it but, you know what, that's a maximum of R15 000. Remember, that R15 000 is a direct bottom-line saving on your tax. So it's not like on an RA where you only get a portion of it, say. So if you have R80 000 to spend or R60 000 to spend on solar panels, that 25% that you get as a rebate, that R15 000, is a direct saving on your tax bill at the end of the year.
SIMON BROWN: What about endowments? These were a huge rage many, many years ago. They seem to be coming back. They certainly are. My understanding is for those who are in a higher tax bracket there are benefits to endowments as well.
STIAN DE WITT: Yes. For endowments, obviously on an individual capacity there is a 30% tax that you pay inside the endowment. [On] the contribution you don't get any tax reduction. And the moment the money is withdrawn or matures, you obviously don't pay any tax. But I think it's very important that to utilise an endowment you must first utilise your other tax benefits regarding your interest and your capital gains tax exemptions in your unit trust portfolios and stuff like that, because a lot of people say they use it for their children's education or something like that. But the fees and the tax involved in those portfolios are higher than you would get in another scenario. So [for] someone with a 40%/45% tax bracket who has utilised all the other exemptions, yes, it makes absolute sense. But before [that] don't even go into an endowment.
SIMON BROWN: I take your point. You use up everything else first and you need to be in that higher tax bracket. The numbers simply don't add up.

We'll leave it there. Stian de Witt, executive head of financial planning and NMG Benefits, I appreciate the early morning.

Moneyweb | 27 March 2023

Is my retirement basket sufficient?

This is extremely subjective and is not a simple 'one size fits all'.

South Africa has a population of approximately 60 million people. Approximately 10% are in the age bracket of 60 years and older, while almost 6% of this 10% bracket is older than 65 years. Life expectancy has steadily increased from an age profile in the mid-40s during the 1950s decade, to an average of approximately 64 years currently. The fairer sex is still outliving their

counterparts by an average of five years so when structuring a combined retirement strategy it is important to keep this factor in mind as well. People are definitely living longer and because of this fact careful retirement planning needs to become a very urgent and focused topic for households. The scary fact is that less than 6% of retirees are currently able to maintain the lifestyles they were accustomed to prior to retirement. Recent events like the very poor market performance experienced in 2018, the Covid pandemic of 2020 and the recent and ongoing tensions in Ukraine, as well as the uncertainty surrounding China's political aspirations, have further highlighted the fact that most retirement savings are simply not sufficient to not only supply basic income needs but are also not buffered against these external factors.

According to a recent Financial Sector Conduct Authority (FSCA) survey, approximately 92% of public sector employees do have some sort of retirement structure in place, but when the private sector was analysed then this number dropped to an astonishing 50% only. If one considers that South Africa's retirees are set to double by 2050, then it is almost impossible to fathom why planning for this life phase is still being neglected. There are still way too many people taking sole comfort from their employers' goodwill and intentions in providing a retirement pool of sorts. Even here we are still noticing that members continue to contribute only the absolute bare minimum thus leaving their own retirement nest egg solely at the mercy of the scheme's potential to continue to earn enough compounded growth over time.

This is simply not prudent as the bulk of these schemes are managed in a very conservative fashion mainly to protect the capital and simply do not take into consideration every individual's retirement goals or needs. So how big does the eventual pool of retirement funds have to be? This is extremely subjective and is not a simple "one size fits all". Lifestyle requirements are personal, but then there is also the question of how much buffer to be built in as well to protect against adverse market movements and even changes in income requirements that may be forced through illness and even family responsibilities. One only needs to revert to the 2020 pandemic where livelihoods and businesses were decimated and where young families were even forced to move back to their elderly parents in order to simply survive, to highlight the importance of proper retirement planning.

To try and quantify a number, some "rules" have been developed over time. The first rule is rather popular and seems to be preferred by some larger corporate schemes and their advisors. The idea here is to have an honest look at an existing budget and to calculate approximately 75-80% of this number and that this will then be the target income your eventual retirement pool should sustain. If for example, you are currently spending R25 000 per month to maintain your lifestyle, then your eventual retirement pool should be able to offer you a regular income between R18 000 to R20 000 per month and hopefully, this will continue for the rest of your natural life. The question that one might ask is why not 100%? The rationale behind this argument is that at

retirement certain expenses that your current budget may include will hopefully by then have either reduced or fallen away. Transport costs may be reduced as you are not travelling to a place of work anymore, housing debt may have been settled and then there may also be a cost saving from not having to pay for any educational needs for children. A strong argument to rather keep the 100% existing budget is that in most cases retirees find that medical aid costs skyrocket and that it becomes one of the biggest drains on income eventually. If we assume that an inflation rate of 6% is applied as the annuity rate, then a person with a current budget of R25 000 will require at least R4 million at retirement if the income is to cover only 80% of the existing budget.

When the target is to keep the expected income budget the same, then the eventual retirement target amount now increases to R5 million. Another approach is the 5% rule and in most cases an inflation rule. This merely assumes that stock markets have consistently been able to generate wealth exceeding inflation over time and if you then draw from your eventual retirement pool at these levels, the possibility of eroding your capital greatly reduces and your portfolio may just outlive you. Assuming our retiree has accumulated R4 million or R5 million then the monthly annuity amount should be set at no more than R16 700 and R20 833 respectively if we apply the 5% rule.

If the stock market and thus the underlying investment strategies achieve more than these rates then there is the possibility of achieving some capital growth as well, which may leave room for future income increases, but without having to drastically increase the original set income percentage rate. Another favourite rule is the 15x or 300x rule. In simple terms, this means that you take your gross annual earnings and multiply this by 15 and this should be the target of your eventual retirement pool. A tweak to this rule is to take your existing monthly budget and multiply it by 300. If we again assume a monthly income or budget of R25 000, which equates to R300 000 as gross annual earnings, then this means you will require at least R4.5 million at retirement. If we apply the 300x rule on a supposed monthly budget or income of R25 000 then this number jumps to a rather hefty target of R7.5 million.

This may look rather absurd, but then there has never been a complaint that someone has too much in their retirement pool. It is also much easier to maintain the livelihood of a retirement portfolio if the annuity rate is reasonable so the bigger the pool you can draw from the lower the actual target rate may have to be. A bigger pool may also buffer your portfolio better against sudden and unexpected market corrections and when those little gremlins in life do visit, then again there may be some emergency reserves as well. All these supposed rules or planning techniques have flaws and the biggest drawback is that investors are simply hoping and expecting that even after retirement has taken place and the pool is not being supplemented anymore, it will continue to deliver outcomes that are sufficient to maintain livelihoods and lifestyles.

Most retirees are currently bleeding their retirement portfolios with hefty annuity rates to maintain their lifestyles or to cover their basic budget requirements as their final pools are simply not sufficient. Retirement planning does not start when your employer has stated such and should be implemented from literally the very first source of income received and preferably as soon as possible in your lifetime. Remember, it is not at what age you eventually retire but rather at what income level and not having any plan or strategy will guarantee failure.

Moneyweb | 24 March 2023

INTERNATIONAL NEWS

Bank of England urges pension funds to be ready for bigger gilt market shocks

Central bank recommends setting liquidity requirement at more than double stress test level after 2022 turmoil

The Bank of England is pushing pension funds to prepare for a bond market shock more than twice as severe as what they were previously tested against in an effort to avoid a repeat of last year's gilt market turmoil. The recommendation for how to mitigate the risk of future blow-ups was included in the BoE's quarterly financial stability update from the Financial Policy Committee, released on Wednesday. The FPC urged pension funds to permanently hold liquidity to deal with future instability. It concluded that the UK banking sector "remains resilient" and the outlook for household indebtedness was better than expected, while warning of potential issues in global private credit markets. It also reiterated the need for "urgent action" to address risks in financial institutions beyond the perimeter of traditional banking.

While the failures of Silicon Valley Bank and Credit Suisse have dominated recent headlines, UK pension funds have been in the FPC's crosshairs since last September's market turmoil. Pension funds' liability-driven investment (LDI) strategy of using government bonds to manage risk backfired after former prime minister Liz Truss's tax-cutting Budget triggered an unprecedented rise in UK borrowing costs. The LDI funds, which did not have any fixed requirements on liquidity management but had been stress-tested by the BoE against their capacity to withstand a 100-basis-points move in bond yields, were forced to fire-sell government debt, leading to a price spiral. The BoE has now recommended the Pensions Regulator act "as soon as possible" to require LDI funds to hold liquidity buffers that would allow them to cope with a 250bp move in

interest rates without having to sell assets. The jump in September was about 160bp. Simeon Willis, chief investment officer at XPS, the pension consultants, said the 250bp threshold won't surprise the sector. "The minimum level of resilience is lower than most pension schemes have been working to and as such this shouldn't cause any issues for schemes whose funds were already in alignment with guidance." Reducing the threat of instability in pension funds is part of the BoE's wider work on containing the risks in non-bank financial institutions, which includes hedge funds, private credit, asset managers and crypto. In its update, the FPC pointed to risks in the fast-growing global private credit market, where higher interest rates, combined with the fact that borrowers are typically small and do not have credit ratings, mean loans are "more vulnerable to a deteriorating macro environment".

"Signs of stress in these markets could cause a rapid reassessment of risk by investors potentially resulting in sharp revaluations," the FPC said. The FPC also gave further detail of previously announced plans for stress-testing the wider financial system, an exercise it said would "investigate the behaviours of banks and non-bank financial institutions following a severe but plausible stress to financial markets". Unlike the annual banking stress tests, the exercise will not make findings on specific firms, rather it will assess the vulnerabilities of the system.

The FPC reiterated its call for "urgent" global work on the resilience of non-bank financial markets, warning there were "vulnerabilities" in parts of that ecosystem that "could crystallise should there be further volatility or sharp movements in assets prices". In the UK, the FPC opted not to allow banks to release a crisis-time capital buffer, known as the "counter cyclical buffer", to shore up lending but said it would "continue to monitor the situation closely". It added that it would be ready to adjust the buffer "in line with the evolution of economic and financial conditions". The FPC said they had seen only limited evidence of banks cutting back on lending, and that this appeared to be linked to poorer health of some borrowers.

Charles Counsell, chief executive of the Pensions Regulator, said: "We note the recommendations from the BoE's Financial Policy Committee on LDI. "The committee has clearly set out its expectations relating to the minimum level of resilience it wants trustees and fund managers to adhere to when using LDI, and I am pleased this builds on the guidance that we, and the National Competent Authorities (NCAs), put in place in November. "We will be issuing updated guidance on LDI in April." Separately, the FPC has also recommended the pensions regulator take on a financial stability remit. Experts believe this would result in the watchdog revisiting a major shake up of funding rules for thousands of defined benefit schemes.

Financial Times | 29 March 2023

India's pension fund body recommends marginal hike in interest rate on deposits

NEW DELHI, March 28 (Reuters) - India's pension fund body on Tuesday recommended marginally increasing the interest rate on deposits with it to 8.15% for the current financial year from 8.1% in the previous year, the labour ministry said in a statement on Tuesday.

Last year's interest rate was the lowest in nearly 25 years. The interest rate would be officially notified in the government gazette after the finance ministry's approval. The rate for the 2022/23 year ending March 31 was recommended after a meeting between the labour ministry and the central board of trustees of the Employees' Provident Fund Organisation (EPFO). "The recommended rate of interest of 8.15% safeguards the surplus as well as guarantees increased income to members," the labour ministry said. The EPFO, which has a fund corpus of nearly 17 trillion rupees ($206.85 billion), saw a year-on-year income growth of more than 16%, it said.
($1 = 82.1850 Indian rupees)

Reuters | 28 March 2023

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

3 Williams Road
Bedfordview
Johannesburg 2008

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