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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Envisioning the future

If Heraclitus coined the phrase “the only constant is change” in 500 BC, one can only imagine what he would be saying today. But in a world of ongoing uncertainty and change at a pace that is difficult to comprehend in reality, it is hard to imagine what the future holds in six months, let alone in say twenty years. What if we did nothing and “rolled with the punches” so to speak? The learnings from the last three years have taught us to expect and be ready for anything.

Future-proofing retirement funds

Megatrends – like pandemics and artificial intelligence – are shaping our future and are likely to drive change at pace. Corporate failure rates are closely linked to the rate of disruptive change, which then has a ripple effect on employees, their retirement savings, their families and the communities at large. While it is, inevitably, easy to think of self-preservation in the moment, we do need to consider how we future-proof retirement funds, and what legacy we leave future generations. What we do now has a great impact in guiding future generations, uplifting communities, alleviating poverty, ensuring gender equality and preserving natural resources to name but a few examples.

Retirement funds play a significant role in facilitating the investment and growth of retirement savings over the lifetime of a member. By pooling individuals’ savings in a retirement fund, financial inclusion is provided at scale and those savings can be mobilised to ensure sustainable long-term returns for members whilst making a positive real-world impact. In order to make this a reality, it is important for employers, service providers and fund members to become future-fit.

Investment styles and ESG factors

Setting a broader sustainability commitment means that we need to consider how fund benefits are designed and structured. In particular, the investment strategy of a fund should be structured to deliver a reasonable income to members in retirement, whilst making a real-world impact along the way. Members should also be supported throughout their lifetime to make good decisions to ensure a sustainable income. By incorporating environmental, social and governance aspects into a fund’s investment strategy in the right way, an improved risk and return profile can be achieved, whilst at the same time making a positive real-world impact. This does not mean sacrificing returns – rather it is about ensuring sufficient returns are achieved and that these are achieved in a responsible manner Based on the above, we believe that asset owners play an essential role in creating a sustainable and resilient fund.

Retirement reforms

In considering sustainability, we cannot ignore the South African retirement landscape and the extensive legislative and regulatory framework, which has resulted in increased governance and compliance requirements. Key themes in the SA landscape include the migration from defined benefit to defined contribution, shifting the liability of member outcomes from the employer to the member. More recently, significant changes to the defined contribution environment have focused on improving member outcomes. Retirement reforms from 2016 onwards have promoted harmonisation, consolidation, simplification and shifting the focus from the needs of the average member to the individual experience and personal circumstances, underpinned by TCF (treating customers fairly).

The expectation is that the last piece of this puzzle will be the introduction of the proposed two-pot system on 1 March 2024. With the added complexity, increasing governance requirements and the expectation of the regulator to continue to further encourage the reduction in the number of overall retirement funds, we have seen a shift to:

• finding more simplistic solutions to ensure members are engaged and empowered to make good decisions
• more standalone administered funds converting to umbrella funds so that experienced individuals can take on the required regulatory commitment

It's all about the member

The emphasis is a more strategic focus to improve members' outcomes. Reforms are also driving harmonisation between different types of retirement funds – tax treatment and access to savings will be the same across all funds. Harmonisation efforts help to simplify the retirement landscape into the future. Envision the fund and the future outcomes you want to provide to your members – consider how you connect the design to the envisaged outcomes and ultimately how you elect the appropriate team to work with you to deliver YOUR fund of the future.

FA News | 24 May 2023

CFA Society South Africa outlines the country's mediocre ranking on the global pension scale

Johannesburg - The Chartered Financial Analyst (CFA) Society South Africa's board director and investment team head at NMG Benefits, Raazia Ganie, has outlined the country's ranking on the global pension scale.

Ganie was speaking at the 2nd Annual Retirement Reform Workshop, a collaborative initiative between the CFA Society South Africa and the Institute of Retirement Funds Africa. She said that South Africa has unique circumstances that require positive ways to deal with and improve so we can compete globally. South Africa ranked 34th out of 44 countries on the collaborative 2022 Mercer and CFA Institute Global Pensions Index. The index is an annual study based on the World Bank Model, whose primary objective is to ensure older citizens maintain a decent standard of living, and delivers a comprehensive review of global pension systems. Ganie drew attention to the critical dimensions of the study, those of adequacy, sustainability and integrity.

"In other words, what do you get on retirement, and how much will it be relative to your current salary (adequacy); can your pension keep delivering (sustainability); and what are the regulations surrounding your pensions and the costs pertaining thereto (integrity)," said Ganie. According to the Society, on adequacy, South Africa scored 44.2 (out of a potential 100), translating to a D rating. The highest-ranking countries for adequacy are Iceland (85.8), Portugal (84.9), and the Netherlands (84.9). The countries with the lowest rankings on this scale are Indonesia and India. Contributing variables are the minimum (or base) pension, net replacement rate (weighted), system design features, household savings and debt, and level of growth (assets).

"Contributing variables to sustainability are coverage of funded pension plans, level of pension assets as a percentage of GDP, demographic variables, mandatory contributions with funding, labour force participation at older ages, public pension costs/net government debt, and real economic growth. South Africa's score rose by 3.4 points to 49.7 on this dimension in 2022. Ganie says that only 16 of the 44 systems considered in the study have coverage rates above 64%," added the Society. South Africa had a high score regarding integrity, which focuses on the regulation of private pension plans as well as governance requirements, protection of member benefits, communication to members, and costs of the system. This is an area where South Africa has a high score of 78.4.

Ganie said that this was due to sound regulations and sound governance. South Africa's overall rating was a C (the scale runs from A to E). Ganie says that the local retirement sector and regulators need to look at improvements to adequacy and sustainability as defined by the study,

where improvement is indicated. "We can make significant improvements on our scores with the right focus," said Ganie. "To this end, and working with detailed findings from the Mercer study, participating delegates at the CFA Society South Africa forum (the second of its kind), composed of industry thought leaders, industry representatives and policymakers have worked on ideas and potential solutions. “These are currently being compiled into an executive report to be made available in the public domain shortly," said the society.

The Star | 24 May 2023

Pension Plain: How should I invest my R550 000 lump sum retirement benefit?

All South African retirement fund members received some good news in February 2023, when the tax-free portion of the lump sum retirement benefit was increased from R500 000 to R550 000. After the excitement of the increased payment died down, the reality of what to do with the “extra money” kicked in. By Brett Ladouce

We feel like the dog chasing the bus (trying to save enough for retirement), who finally catches the bus (reach retirement age) and must now learn how to drive the bus (manage our retirement savings effectively to ensure that all our financial needs are met for the rest of our lives). Before deciding on how to invest your R550 000, or whatever amount you decide to take as a lump sum retirement benefit, you must first determine your short-, medium- and long-term financial goals after retirement. The best way forward would be to split your money between various investments (asset classes) according to your goals and when you will need access to your money. Short-term goals are those for which you will need immediate access to the money in the next 12 months.

This will be, for example, the money you would need to pay for that planned holiday you want to take to celebrate your retirement or for unplanned or unforeseen medical or household expenses. Bank deposits and money market funds offer almost instant access to your money and almost zero chance of capital losses over the investment period, but the investment returns that you can earn on these investments can be relatively low compared to the investment returns you can obtain from other asset classes. In the balancing act between access to your money when needed, capital protection and investment return, investment performance takes a back seat against access and capital protection. Medium-term goals are those for which you will need access to your money in the next two to five years, for example, for the purchase of a new car or minor renovations to your house.

Low equity unit trusts and government retail savings bonds are good investment options for your medium-term goals because there is relatively low probability of suffering capital losses over the investment period of two to five years. Long-term goals are those for which you would need access to your funds in the next five to 10 years. The goals will include, for example, your future medical expenses or major maintenance expenses at your house. High equity unit trusts or other equity market-related investments such as shares in companies might provide the best investment returns over longer investment periods. However, you must keep in mind that the prospect of higher long-term investment returns might come at the cost of short-term losses or investment under-performance over the short term.

The relatively long investment period will give you the opportunity to maximise your investment growth and make up for any short-term losses you might suffer. Your investment options and terms should match your financial needs and money should be available and accessible when you need it in future. It does not make sense to invest the full lump sum retirement benefit in an investment vehicle where you can only access your money five years from now if you want to spoil yourself with an overseas holiday in the first six months after your retirement date.

The future availability of money must be balanced with the need to obtain the highest possible (after inflation) investment return by taking the appropriate level of investment risk. The best results will be achieved by seeking advice from a financial adviser who will be able to guide you in the right direction to select the most appropriate investment products for your specific future needs. The table below provides an example of the potential investment returns that you can achieve if you allocate about 20% of your lump sum benefit to your short-term investment goals, 30% to medium-term investment goals and about 50% to long-term investment goals:

Personal Finance | 23 May 2023

Lump sum investing vs phased-in approach

Weighing the pros and cons of each option.

For many years investors have been contemplating between investing a lump sum amount once off or phasing it in over a period, especially during difficult and volatile market conditions like we have been experiencing in 2022. It becomes more pressing to make the correct decision. A lump sum investment is when you invest a large amount of money all at once. This is done in a single transaction, but the key is that you invest the entire amount at once. Phased in is where you take the lump sum and invest it over a period of time, i.e., three or six months. There are several advantages to phased-in investing.

Phasing investment

Phasing in your investment allows you to take advantage of rand-cost averaging. A strategy of investing a fixed amount of money on a regular basis, regardless of the market price. This helps to smooth out your investment costs and reduce the risk of buying high and selling low. Second, a phased investment can be less expensive than lump sum investing. If you invest through a broker, you may be able to get discounts on commissions if you invest a smaller amount of money each month. However, there are also some disadvantages to phasing investment. First, it can take longer to reach your investment goals. This is because you are investing less money each month. Second, phasing investment can be more complicated than lump sum investing. You need to keep track of how much money you are investing and when you are investing it.

Lump-sum investment

On the other side, a once-off lump sum investment can give you a better return on your investment. This is because you are investing your money when the market is down and immediately getting into the market. When the market is down, stocks are typically cheaper, so you can buy more shares for your money. This can lead to higher returns in the long run. A disadvantage to lump sum investing is that it can be riskier. You could lose money if the market goes down after you invest your money. Second, lump sum investing can be expensive. If you invest through a broker, you may have to pay commissions.

Which option is best?

So, which option is best for you? It depends on your individual circumstances and risk tolerance. If you are comfortable with risk and want to potentially get a higher return on your investment, then lump sum investing may be the best option for you. However, if you are risk-averse and want to reduce your risk, then phasing investment may be the best option. Ultimately, the best way to decide which option is best for you is to talk to a financial advisor. They can help you

assess your individual circumstances and risk tolerance and make a recommendation that is right for you.

Here are additional factors to consider when making your decision:

- **Your investment goals:** What are you hoping to achieve with your investment? Are you saving for retirement, a down payment on a house, or something else?
- **Your time horizon:** How long do you have until you need to access your money? If you need the money in the short term, then you may want to avoid lump sum investing as well as a high allocation to the equity market.
- **Your risk tolerance:** How comfortable are you with risk? If you are risk-averse, then you may want to consider gradually investing your lump sum.
- **Your financial situation:** How much money do you have to invest? If you have a large amount of money to invest, lump sum investing may be the best option. However, phasing investment may be a better option if you only have a small amount of money to invest.

It is important to weigh all of these factors carefully before deciding which investment strategy is right for you.

Moneyweb | 24 May 2023

INTERNATIONAL NEWS

Uganda: Government withdraws new Pensions Bill

Government has withdrawn a new pension Bill that was recently tabled in Parliament.

The Public Service Pensions Fund Bill,2023 introduced on 14 March 2023 aimed at implementing a mandatory contribution system for public servants' pensions. However, the bill underwent significant changes during the committee review, prompting the decision to withdraw it. Under the proposed legislation, every public servant would be required to contribute five per cent of their gross salary to the pension fund each month, while the government's contribution would be reduced to 10 per cent of the employee's gross salary. This would mark a departure from the current system in which the government contributes 100 per cent to the pension fund.

The Deputy Speaker, Thomas Tayebwa while presiding over plenary on Tuesday, 23 May 2023 said that over 60 per cent of the bill had been modified by the Committee on Public Service and Local Government. “I have noted that the proposed amendments are numerous and substantially change the content and subject matter of the bill thereby changing the bill that was published and introduced by the government for first reading,” Tayebwa said. Attorney General Kiryowa Kiwanuka, upon request, officially withdrew the bill, expressing no objections. He acknowledged the financial implications of the amendments and commended the committee's work.

He said the executive will scrutinize the bill thoroughly and promised its reintroduction at an appropriate time. Tayebwa emphasized the importance of the bill and urged the Executive to expedite its review. The committee's report had outlined several key recommendations, including the prohibition of borrowing by the pension fund's board to avoid high interest rates and borrowing risks. The committee had also proposed changing the date for monthly contributions to the 15th of the following month to prevent delays in salary disbursement. The proposed Public Service Pension Fund would operate similarly to the private sector's National Social Security Fund (NSSF).

ZAWYA | Africa Press Release | 23 May 2023

Zambia uses pension funds to shore up debt-stressed economy

In Zambia, contributors to the fund seek to claim up to 20% of their total pension payout early, in a move hoped to stimulate the economy.

Facing the brutal effects of prolonged debt restructuring – which has depressed liquidity and increased the economic burden for its citizens – Zambia will, for the first time, allow eligible contributors of a government-owned pension fund to partially access pension savings before retirement in an effort to boost the economy.

The Africa Report | 23 May 2023

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