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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

The Protection of Personal Information Act – new responsibilities for insurers

Insurance companies have until 30 June 2021 to ensure that their business operations comply with the Protection of Personal Information Act, 2013 (POPI Act), or they could face penalties by the Information Regulator. The Act gives effect to the Constitutional right to privacy. It safeguards the personal information of individuals or companies (data subjects) that is processed by public and private bodies (responsible parties). As a matter of priority, insurance companies must appoint an Information Officer who must register with the Information Regulator by 30 June 2021.

The Information Officer must deal with requests made to the company under the Act and will generally be responsible for the company's compliance. The function of Information Officer can be delegated to anyone in a company, such as a compliance or legal officer. As responsible parties, insurers would need to obtain the consent of the insured to use their personal information at contract or policy entering stage. Personal information is wide and varied and includes the race, gender, sex, marital status, national, ethnic or social origin and age of the insured. It also includes information relating to the insured’s physical or mental health, for example when the insurer is providing medical and personal injury cover.

For business policies, personal information includes the financial information and claims history of commercial policyholders. Notably, consent to use of an insured's personal information is not required at claims processing stage, since the insurer will have the right to use that information to implement the policy. This is because the Act allows the insurer to process information necessary for the performance of a policy, or necessary to pursue the legitimate interests of the insurer or of the insured. Where information is collected for any use that requires consent, responsible parties must take steps to ensure that data subjects are made aware of the identity of the insurer as the responsible party, what information is being collected, what the information is being used for and who the recipients will be.

Insurers are already complying with some of these requirements under the relevant disclosure obligations of the Financial Advisory Intermediary Services provisions. The insurer, as the responsible party, must grant authority to its third party service providers, such as binder holders, loss adjusters or brokers, to process the personal information of the insured parties. The biggest exposure under the POPI Act is the required security safeguarding of personal information. The Act requires businesses to take reasonable measures to prevent the loss of or damage to or the unauthorised destruction of personal information that is in their possession. Insurance companies must ensure that they, and any third party who processes personal information on their behalf, establish and maintain the security measures required by the Act. Insurers must consider their own security risks and assess whether any service providers who process information on their behalf have considered and implemented good security safeguard measures, including having secure, modern, and protected data protection systems in place.

Those who engage in direct marketing in advertising and selling their insurance products will have to comply with the direct marketing provisions of the Act. Direct marketing is prohibited unless the data subject has given consent. A data subject must be given the opportunity to object to the use of their contact details for direct marketing purposes and may request that marketing communications cease. This is in line with the direct marketing provisions of the Consumer Protection Act, 2008. Restrictions are placed on the cross-border transfer of personal information out of and into South Africa. Cross-border transfers of information are subject to various conditions, including the requirement of consent or contractual necessity. **Full Report:** ***https://www.fanews.co.za/article/compliance-regulatory/2/general/1082/the-protection-of-personal-information-act-new-responsibilities-for-insurers/31457***

FA News | 17 March 2021

How to ensure that you don't outlive your savings

Five steps that will help you plan towards a safe, secure retirement.

Did you know that it's possible that you could live for another 30 years after you retire. How do you ensure that you will live out your golden years without having to worry about finances? The earlier you start planning for your retirement, the better. It's a scary thought for any 22-year-old that their retirement may be almost as long as the number of years that they will be working! But whether you are just starting out or you are close to retirement, you need to have a plan for what comes next.

There are five steps that everyone should take to build a solid retirement plan.

1. Understand your time horizon

Your current age and expected retirement age create the groundwork for an effective retirement plan. The longer the time between today and your retirement, the higher the level of risk your portfolio can withstand. If you're young, you should probably have the majority of your retirement assets in higher risk investments. The older you are, the more your portfolio should start to focus on income and the preservation of capital. Your financial advisor will tailor this plan for you and review it regularly to keep you on track.

2. The power of compounding

Saving is like an acorn. It starts out small but with time, it will turn into an oak tree. You may think saving a little extra in your 20s won't mean much, but the power of compounding will make it worth considerably more by the time you need it. If you move jobs, no matter how tempting, reinvest your company pension or provident fund benefit. Your financial advisor will action this for you and incorporates it into your overall retirement plan.

3. Overlap your retirement planning with an investment strategy

You should break up your investment planning into multiple components. For example, let's say you want to retire to Hermanus in 10 years but you also need to fund your child's university education. To deliver both you can overlap your retirement plan with an investment strategy. This would be divided into three periods: 10 years until retirement (contributions are still being made to your plan); saving and paying for university; and living in Hermanus (with regular withdrawals for living expenses). Your financial advisor will develop a multi-stage retirement plan that integrates these time horizons with the corresponding liquidity needs.

4. Balancing the longevity of your retirement portfolio

A key factor in the longevity of your retirement portfolio is your withdrawal rate so it's critical that you have an accurate estimate of your expenses in retirement. Though most people need about 70% of their pre-retirement spend, this is unique to individuals and their circumstances. Understate your expenses and you will likely outlive your portfolio. Overstate your expenses and you can risk not living the lifestyle you want. Accurate retirement goals help as more spending in the future requires additional savings today.

5. Know what you have and what it gets you

Everyone needs to know what assets and liabilities they have, how these are likely to change and how each contributes to the achievement of your goals. If you have never taken stock of where you are with your post-retirement lifestyle, it's time to meet with a financial advisor to develop a road map for financial success. This will create realistic expectations about your post-retirement lifestyle and your current savings behaviour. One of the most challenging aspects of creating a sustainable retirement plan is striking a balance between realistic return expectations and a desired standard of living. The best solution is to work with a financial advisor to develop a flexible, personalised plan that evolves with your changing life circumstances but remains focused on your retirement objectives.

Moneyweb | 14 March 2021

Old-gen vs new-gen RAs, and why it matters

An old-generation retirement annuity fund (RA), which is policy based, is vastly different from a new-generation unit-trust based RA. Abdallah Moosa, a planner and actuary at Cape Town-based wealth management company Fiscal Private Client Services, says RAs fall under the category of retirement funds (including pension and provident funds). “They are essentially a ‘personal retirement fund’, and contributions are typically ad-hoc. The contributions are tax-deductible up to a prescribed limit. In addition, investment growth on fund assets within an RA is tax exempt.”

He says there are two broad types of RAs: policy-based RAs, which are underwritten by a life insurance company and unit-trust, based RAs, which are typically offered by an asset management company or investment service provider. “It is vital for investors to understand the differences between the two, regardless of whether a financial adviser is in the mix,” Moosa says.

What you need to know about an old-generation RA

- With a policy-based RA, you enter a long-term contract with the insurer, detailing the frequency and amounts that need to be invested over the policy term.
- A penalty is typically payable should you change the premium amount, or a termination fee is levied should you wish to stop any further payments.
- The minimum policy term is typically five years, which means that you need to be sure that they will be able to make all payments, along with agreed annual increases for the full term, before signing a contract. “This is a significant commitment for most people and should be considered carefully,” Moosa says. Typically, this RA has a built-in commission structure to remunerate the person selling the product. This adds to the cost of the RA along with other distribution-related expenses, such as marketing.
- These expenses are recovered from the RA investment over time and, for this reason, on termination or lapse of the policy, the provider typically recovers these expenses using the termination penalty.

Moosa says: “Many old-generation RA products incorporate a loyalty bonus structure, which is added to the benefit payable when the investment matures. This incentivises you to continue contributing until the end of the policy term. Some providers will withdraw the bonus should you decrease or stop making payments. This, along with the termination penalty, acts as a disincentive for stopping prematurely.” An examination of the product literature and fee structures for a number of insurers have shown that investors may be funding their own “bonuses” through higher fees, which are typically shown under the “Other” line item of the effective annual cost (EAC) table. An EAC report details all the fees and costs throughout the investment term and can be requested from any provider. There are some insurers whose bonuses give investors back much more value, leading to negative fees in the EAC table. These clients would end up paying less fees, leaving them with more investment growth. This is typically achieved where the insurer uses a shared-value model, through a rewards programme for members

What you need to know about a new-generation RA

- New-generation unit-trust based policies are a lot more flexible, cost-efficient, and straightforward.
- There are no contracts or any commitments.
- You can make once-off or regular investments, as long as the amounts meet the provider's minimum investment requirements.
- Contributions can be amended, paused, or stopped at any time. This is especially important if your circumstances change, such as being retrenched. All fees, charges or commissions are typically paid on an as-and-when basis only, meaning there are no termination or other penalties.
- You can also switch providers at any time without any penalties.

"An examination of the EAC tables for a number of new-generation RA providers show them to be far cheaper than policy-based RAs. These providers tend to operate with very low administration costs, and therefore the bulk of the on-going cost will typically come from investment manager costs," says Moosa. In conclusion, he says: "Since your RA will typically have a long investment term, especially if you start contributing at a young age, it's important to have a good understanding of your ongoing costs. It is also vital to understand how and who will be managing the underlying investments, as ultimately this will impact how much money you will eventually have at retirement."

Personal Finance| 12 March 2021

Risks in retirement are increasing

An increasing risk in retirement is that you will outlive your savings. More retirees feel less confident now that their savings will last, highlighted by a 10% year-on-year drop in confidence reported by retirees in Just SA’s latest Retirement Insights study. A less obvious risk, perhaps, is that of under-consumption in retirement. This could be due to you being in the wrong type of vehicle, says CEO Deane Moore. You may feel compelled to hold back on spending due to the fear of outliving your savings, unless your vehicle gives you the certainty of a stable, secure income.

Given the volatile investment markets, there is also concern about the adverse effects that significant market movements may have on your pension pot. Speaking at a recent holistic wellness webinar hosted by 50 Plus-Skills, Moore said that when people get a fright, they often do the wrong thing when it comes to their financial wellbeing. “As with last year’s investment market crash, it is clear that many retirees bore the brunt of the fall but then missed the recovery when it came, due to moving out of markets too soon.”

While managing your retirement income to last as long as you do is critical, 50 Plus-Skills CEO Lynda Smith says it is equally important to reign in your fear and stress levels in retirement, as they both have a major impact on your mental and physical health. This in turn can negatively impact your ability to enjoy a higher quality of life for longer. These retirement risks are not new but may have been exacerbated with the COVID-19 pandemic and its effect on lifestyles. Yet there are some practical steps that you can take to best achieve health and wealth in retirement, regardless of market conditions.

Choose the best retirement income to suit your needs

Historically, says Moore, retirement income products were limited to an insurance product or an investment product, namely a life annuity or a living annuity. Thankfully, the South African retirement market has evolved to meet the shortcomings in the annuity market and an option is available that combines the security and comfort of a guaranteed life annuity with the flexibility of a living annuity. Moore believes that this blended option is a better solution for retirees as it allows you to choose where to position yourself on the risk spectrum between your needs and wants, because you are able to ‘dial up’ the guarantee to where you feel comfortable.

The life annuity component mitigates the risk of running out of money, while the living annuity component enables you to maximise long-term investment growth to meet flexible financial needs or to leave to beneficiaries. The key differentiator of a blended annuity is that it is managed as a single retirement product.

Engage with the next generation

Just's latest research revealed that two thirds of pre-retirees and retirees were financially affected by the effects of COVID-19. Of these, half had to source alternative means of income or make special arrangements to meet payments. When asked who they would turn to for financial assistance if they run out of money in retirement, respondents said that children and grandchildren remained the first port of call. According to Moore, these findings demonstrate the importance of creating an open communication flow between you and your children.

"If the next generation are the ones you'll turn to for help, it makes more sense for them to play a proactive role in your retirement planning from the start, rather than being caught on the back foot later on," he says. They may also have less antiquated views on financial planning, which could serve to alleviate any fear or stress surrounding new-generation annuity products. This may lead you to make better retirement choices, and therefore reduce your risk of running out of money.

FA News | 9 March 2021

INTERNATIONAL NEWS

Too much, or not enough: the risks of drawdown

Taking your pension flexibly has pros and cons

For many people approaching retirement, there is a sense of dread when it comes to navigating the rules about accessing their pensions. Pension drawdown has grown in popularity since 2015. It enables savers to take a tax-free lump sum from their defined contribution pension, but keep the remainder of the money invested to provide an income during retirement. Currently, three times the number of savers is opting for drawdown plans than those who are buying annuities, according to the Financial Conduct Authority. However, it is vital that retirees understand the risks.

A few wrong moves and over-55s could be left with next to no income in later retirement — or it could be that they are too cautious and surrender having a comfortable later life when they do not need to. According to Tom Selby, senior analyst at AJ Bell, there are risks associated with all retirement income routes, but drawdown is a particularly complicated system to navigate due to the variety of risks and the flexibility that is on offer. "Arguably the biggest danger in drawdown is to people who plough on regardless of any investment hits and just hope for the best," Selby says. "You need to be flexible and prepared to adjust your income in order to ensure your strategy remains sustainable." So what exactly do savers need to look out for when accessing their pots? Risky business one of the biggest risks with drawdown is running out of money. Savers can exhaust their pot more quickly than expected if they take income at an unsustainable rate, have insufficient growth from their assets or experience "sequence of return" risk — where market falls and heavy withdrawals early in a person's retirement limits the longevity of their funds. But the list does not end there.

Some people will be too cautious managing their investments and take too little income, meaning they leave a massive pot behind. There is also longevity risk, which occurs from people underestimating their life expectancy, and the risk of incurring a hefty tax bill by taking too much income, or being snared by the money purchase annual allowance (MPAA) if they take pension benefits, then continue to add to their pot. According to John Waldie, managing director at Atkins Ferrie Wealth Management, stock market crashes have been the biggest issue for his clients.

"If we take the Covid crash in March last year, clients' assets could have fallen by 20 per cent quite quickly and taken until October to recover," he explains. "Continuing to draw income in this environment would have required proportionately 20 per cent more assets to be sold to produce the same income." He ensured his clients held a minimum emergency cash reserve, separate from their pension, and recommended they stop drawing from their pot until markets recovered. "When things recovered later in the year, we then advised [clients] to restart their income and to top up their cash reserve by an additional withdrawal, if they felt the need," Waldie says.

Going it alone As drawdown is an invested solution it must be managed regularly, but it is this flexibility and control over the income stream which appeals to most. However, unless an individual is an experienced investor and knows exactly what they are doing it is recommended that they seek help from an adviser. It is important that a withdrawal strategy is decided on and reviewed regularly to ensure enough money is left in the pot at all times.

Financial Times | 3 March 2021

OUT OF INTEREST

Understanding your options is the first step to tax-free saving and investment success

The first of March 2021 ushered in a new tax year for South Africans, which means it's a good time to invest some time and thought into how you put in place a well-considered money management plan for the coming 12 months. According to Aneesa Razack, CEO of Share Investing at FNB Wealth and Investment, a tax-free account can, and should, be one of the cornerstones of any such balanced financial plan. In fact, a tax free savings account, unit trust or shares account can be an excellent way to grow your money through inflation-beating returns, or even to start a child on their own journey to financial independence by opening, and contributing to, a tax-free savings account in their name (which won't affect your own maximum saving threshold).

However, she says that since these accounts were introduced by the SA Treasury in 2015, few South Africans have taken full advantage of them. She argues that the reason for this is that many of us still don't fully understand how they work, or which options will work best for us. A tax-free investment account allows you to invest in unit trusts, or you can open a tax-free share account, which invests your money in a portfolio made up of companies listed on the stock exchange. "This means that the growth potential of your money is enhanced because it is exposed to good performance by the investment markets," Razack says, "but there is also a risk that the markets do badly and your money grows very little, or not at all, over certain periods."

But Razack explains that while most people have a basic understanding of how a tax-free account works, they don't know whether they should be using a tax-free savings account or tax-free shares account as an investment vehicle. And while the differences between these options are subtle, understanding the structure and benefits of each is important to ensure you choose the right tax-free account for your purposes. As with any savings and investment vehicles, the main difference between a tax-free savings account, tax-free investment account and a tax-free shares account is the way each grows your money.

A tax-free savings account offers a set interest growth rate, which is usually linked to the prime rate," she explains," and while this can be lower than the growth you may achieve in an investment account, the trade-off is that your earnings are usually guaranteed irrespective of what's happening in the markets, and if you use a reputable institution, your capital is generally

100% safe.” A tax-free investment account allows you to invest in a range of unit trusts like the FNB Horizon series which are designed to meet your goals over different time horizons. While a tax-free shares account invests your money in a portfolio made up of companies listed on the stock exchange.

An example of this is the FNB Tax-Free Shares Account, which invests your capital in the top 100 companies listed on the JSE. “This means that the growth potential of your money is enhanced because it is exposed to good performance by the investment markets,” Razack says, “but there is also a risk that the markets do badly and your money grows very little, or not at all, over certain periods.” Irrespective of which type of tax-free account you choose – and recognising that you could even use a combination of the two - Razack recommends being very aware of what she calls the three golden rules of tax-free saving or investing.

The first of these is to make sure that you don’t contribute too much to the account. “If you put more than the permitted R36 000 into tax free accounts in one year, any interest or investment growth that you make on that extra amount will be taxed at 40% from then on by Sars,” she explains, “irrespective of what you tax bracket is.” Razack’s second rule of tax-free saving is to never give into the temptation of using it as an emergency account. “A tax-free account should be seen as a long-term investment because the R500 000 lifetime contribution limit doesn’t reset if you make a withdrawal,” she explains, “so if you withdraw R50 000 you can’t simply replace it at a later stage, so your eventual tax free capital amount will be R450 000 because of that withdrawal, and that is the amount that you will earn your future tax free growth on.”

Lastly, Razack emphasises the importance of choosing the right tax-free vehicle, and provider, to meet your needs. There are a host of tax-free account options on the market, all making different promises, about costs and returns, but the ultimate decisions of where to put your money rests with you,” she says, “and that means you need to be very sure of what you want to achieve, what the best type of account is by which to achieve it, and which financial institution you can trust 100% to help you do so.”

Personal Finance | 12 March 2021

SA economy could take four years to recover from Covid-19

It only needed 15 months to get over the 2008 global financial crisis

The South African economy will take three to four years to get back to where it was before the Covid-19 pandemic, according to Absa chief economist and head of research Jeff Gable. This is a very different outlook to the global financial crisis in 2008/09, when it took the economy only five quarters to get back to where it was before that crisis – although it took half a decade to recover the jobs lost, he said. Gable was speaking at a Ford SA industry update breakfast on Tuesday at which the motor manufacturer reaffirmed its commitment to supporting the national government's Covid-19 initiatives, by donating R2.5 million to help fund the enhancement of the national Occupational Health Surveillance System (OHSS).

The OHSS, a programme implemented by the National Institute for Occupational Health (NIOH), monitors workers in the public and private sectors using data supplied by employers on Covid-19 infections in the workplace under the direction of the Department of Employment and Labour. This data, which is used to inform appropriate interventions and mitigate the spread of the virus, helps to identify industries and occupational groups at risk of infection and analyses the impact on industries and occupational groups.

Jobs

Gable said only a few jobs were created in the South African economy in 2019, but 600 000 to 700 000 jobs were destroyed in the second quarter of 2020 and very few of those jobs have come back, with many sectors of the economy "really suffering". Gable said the hospitality, transport and construction sectors are more than 20% smaller than they were before the Covid-19 pandemic and "all those sectors are likely to rebuild very slowly going forward". He added that Absa Research is worried about the low level of business and consumer confidence, saying that the job destruction in the economy is real and will take a long time to recover. Plus South Africa has an infrastructure shortfall, including Eskom, which makes it more difficult for some of the types of investment that will pull the economy out of recession to be made.

Load shedding

"Despite the economy being so much smaller today than it was a year and a half or two years ago, we are facing load shedding again," he said. "It's an inconvenience at home but tragic in parts of the economy where it is really expensive to be able to offset their grid being out. "Even in this very difficult economic environment, we still don't have reliable electricity supply and that is not going to fix itself for several years," he said.

The one thing that should worry everyone

Turning to the recent national budget, Gable said Finance Minister Tito Mboweni delivered "a very brave budget with some difficult messages". Gable said this was driven by the dramatic increase in South Africa's debt, adding that what really worries Treasury and the markets – and should worry everyone – is that R1 out of every R4 collected in tax is simply used to pay the interest on government debt rather than to pay for new infrastructure, teachers, nurses, doctors or police officers. "That number 10 years ago was eight cents or nine cents out of every R1," he said. **Full Report:** ***https://www.moneyweb.co.za/news/economy/sa-economy-could-take-four-years-to-recover-from-covid-19/***

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