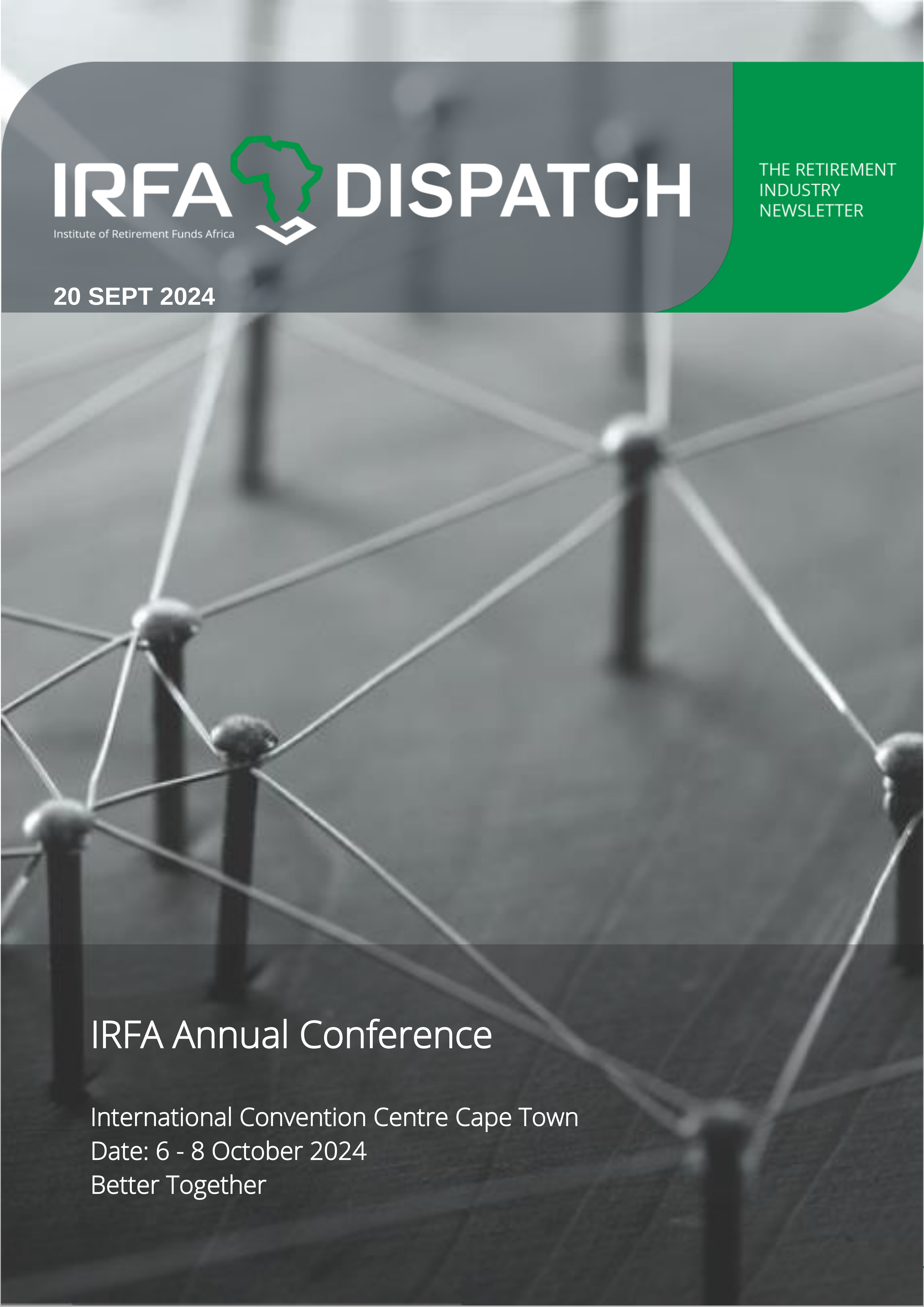

IRFA DISPATCH

Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

20 SEPT 2024

IRFA Annual Conference

International Convention Centre Cape Town
Date: 6 - 8 October 2024
Better Together

Table of Content

AI's impact on long-term retirement savings

FAnews recently attended the Allan Gray Retirement Benefits Conference, a key event that brought together experts to discuss the evolving landscape of retirement savings.

A highlight of the conference was the keynote address by Mo Gawdat, the former Chief Business Officer of Google X and Author of the critically acclaimed book *Scary Smart: The Future of Artificial Intelligence*.Gawdat delivered a thought-provoking speech that delved into the transformative potential of Artificial Intelligence (AI) and its implications for the future of retirement savings.

The promise and perils of AI

Opening his keynote, Gawdat remarked, “AI is not just the future - it is the present. We are living in a world where machines can learn, adapt, and even predict our needs before we know them ourselves.” This statement set the tone for a deep exploration of how AI is already influencing various industries and how it could reshape the retirement fund sector in particular. Gawdat emphasised that AI holds immense promise for enhancing investment strategies, improving risk assessment, and offering personalised financial advice. “Imagine a world where your retirement fund is managed by AI that has access to every market trend, every economic shift, and every piece of financial data in real-time,” Gawdat said. “This is not science fiction - this is where we're headed.”

Disruptive innovations in the retirement industry

Gawdat discussed how AI is poised to disrupt traditional retirement savings models, highlighting specific areas where AI-driven innovations are already making an impact. He cited examples of AI-powered portfolio management systems that can execute trades faster and more efficiently than any human could. “These systems are not just reactive - they are predictive. They can anticipate market movements and adjust portfolios, accordingly, potentially leading to better outcomes for investors,” Gawdat explained. Another significant innovation he discussed was the rise of predictive analytics in the retirement fund industry. “AI's ability to analyse vast amounts of data and identify patterns that humans might miss is a game-changer,” Gawdat noted. “This technology allows fund managers to assess risks more accurately and make decisions that could safeguard and grow retirement savings more effectively.” Gawdat also touched on the growing role of AI in providing personalised financial advice. “The days of one-size-fits-all financial advice are over. AI can analyse your financial situation, your goals, and your risk tolerance to offer advice that is tailor-made for you. This level of personalisation was once only available to the wealthy - now, it's becoming accessible to everyone.”

The big breakthroughs and their implications

Looking forward, Gawdat identified several major breakthroughs in AI that are likely to have a profound impact on the retirement fund industry. He spoke about advancements in machine learning, which are enabling AI systems to become more accurate and reliable over time. “Machine learning is like the brain of AI - it's what allows these systems to learn from past data and improve their predictions and decisions,” he explained. Natural language processing (NLP) was another area Gawdat highlighted. “NLP is what allows machines to understand and interact with us in our own language. This technology is already being used in customer service, but its potential goes far beyond that. Imagine an AI that can not only understand your financial queries but can also provide expert advice on the spot,” he said. Quantum computing, though still in its early stages, was also on Gawdat’s radar. He noted, “Quantum computers could solve problems that are currently beyond the capabilities of even the most advanced classical computers. In the context of retirement savings, this could mean more accurate risk assessments, better portfolio optimization, and, ultimately, more secure and prosperous retirements.”

Balancing benefits and detriments

Despite the excitement surrounding these advancements, Gawdat was careful to emphasise the importance of managing the risks associated with AI. “AI is a powerful tool, but like all powerful tools, it can be used for good or for ill. It is up to us - regulators, technologists, and industry leaders - to ensure that AI is used in ways that benefit everyone,” he said. He expressed concern about the ethical implications of AI, particularly the potential for bias in AI systems. “AI learns from data, and if that data is biased, the AI will be biased too. This is a serious issue, especially in areas like financial services, where biased decisions could have life-altering consequences for individuals,” Gawdat warned.

Gawdat also spoke about the potential for AI to exacerbate inequalities. “We must ensure that the benefits of AI are distributed equitably. If we’re not careful, we could end up in a world where the rich get richer because they have access to the best AI, while everyone else gets left behind,” he cautioned.

Looking ahead: the role of human judgment

In his closing remarks, Gawdat reiterated the importance of maintaining human oversight in the deployment of AI. “AI is incredibly powerful, but it is not infallible. Human judgment is still crucial, particularly when it comes to making decisions that affect people’s lives,” he said. He advocated for a collaborative approach, where AI is used to augment human decision-making rather than replace it. “The best outcomes will come from a partnership between humans and machines. We need to harness the strengths of both to navigate the complex challenges ahead,” Gawdat concluded. As Gawdat aptly put it, “The future is not something that just happens to us - we shape it with the decisions we make today.”

FA News | 18 September 2024

A timely reminder for ex-employers on requirements to be satisfied for withholding ex-employees pension fund benefits

Introduction:

When employees are dismissed or abscond following suspected theft or misappropriation of funds, ex-employers often attempt to recover the lost funds from the ex-employee's pension benefits. In such cases, time is of the essence, as ex-employees may try to withdraw their pension benefits quickly. To have a chance of recovering the lost monies, an ex-employer must promptly apply for an interdict. However, for an interdict application to succeed, there are stringent requirements that the applicant must meet. In mid-August 2024, the Johannesburg High Court handed down a judgment against an ex-employer who sought to interdict an ex-employee from accessing her pension benefits. The facts of the case and the reasons for its failure are discussed below, serving as a timely reminder for ex-employers of the requirements needed to succeed in such applications.

Brief facts:

The ex-employer filed an application against the Municipal Gratuity Fund (registered under the Pension Funds Act) and an ex-employee. The relief sought was to prevent the Gratuity Fund from releasing the pension benefits to the ex-employee. The ex-employee had been dismissed following a disciplinary hearing where she was found guilty of, among other things, gross misconduct, fraudulent misrepresentation, and breach of trust. The ex-employee's challenge to the dismissal is still pending before the relevant forum.

Requirements for interdict application: The court laid out the following trite requirements that the applicant must prove for an interdict:

(a) A *prima facie* right;

(b) A reasonable apprehension of irreparable and imminent harm to the right if the interdict is refused;

(c) That the balance of convenience favours the granting of the interdict; and

(d) That the applicant has no other legal remedy.

The first hurdle for the ex-employer was to prove prima facie (first impression) right to the ex-employee's pension benefits, a hurdle at which the ex-employer failed. It relied on Section 37D of the Pension Funds Act, which allows for the withholding of an employee's pension benefits pending potential liability to the ex-employer. Therefore, the ex-employer had to show, on a *prima facie* basis, that it had reasonable prospects of success in obtaining a decision in its favour against the ex-employee, entitling it to the pension benefits. Based on the ex-employer's affidavit, the court believed the applicant was relying on a claim for fraud and theft. However, the court did not find reasonable prospects of success for the ex-employer, as the affidavit did not establish grounds on which the two causes of action could be sustained. The court held that the applicant's affidavit had not satisfactorily demonstrated grounds to be entitled to the ex-employee's pension benefits. The applicant was essentially inviting the court to draw inferences where there were no primary facts upon which reasonable inferences about the misappropriation of funds by the ex-employee could be made.

The court, relying on established principles, explained how inferences (secondary facts) should be drawn and applied. In this case, such inferences could not be drawn. In summary, the applicant failed to provide sufficient evidence to establish a *prima facie* case linking the ex-employee to the misappropriation of funds.

Key takeaways:

As mentioned earlier, these applications are gaining prominence. It is submitted that they serve a crucial purpose by protecting employers' interests against the actions of untrustworthy employees. Therefore, it is essential for employers to understand what facts they need to present to the court to have a chance of recovering funds in such cases. Firstly, there must be sufficient evidence of the ex-employee's wrongdoing on which a prima facie case can be based. It is clear that mere speculation and baseless inferences will not support the employer's case. Proper drafting of affidavits is key, as the applicant's case "stands or falls on the strength of its affidavit." Additionally, the timing of the interdict application is important. In the present case, the application was brought while there were still pending internal processes. As a result, the interdict relief sought, which is supposed to be interim, effectively became final relief.

FA News | 17 September 2024

Old Mutual brings forward phase 2 of Two-Pot withdrawal process

Old Mutual confirms that customers are now able to submit withdrawal applications via the Old Mutual Channel on WhatsApp. This follows a decision by Old Mutual to move the date earlier than the 23 September that was previously communicated. Michelle Acton, Retirement Reform Executive at Old Mutual, says the phased approach was adopted to help ensure the system could handle the expected 600 000 withdrawal applications. Phase 1 enabled customers to check their personal details and savings balances via the Old Mutual channel on WhatsApp. Importantly, it also gave them the time and opportunity to get their tax affairs in order before submitting a withdrawal application. "It's critical for all our retirement fund members to check that we have their up-to-date personal details, as any mismatch between the details provided and the details on record with Old Mutual will result in a withdrawal request being declined or delayed," Acton explains.

"These measures are in place as a security precaution to prevent fraud and protect customers." The extensive publicity around the new Two-Pot Retirement System has created a sense of urgency for many. "We would like to remind members that there is no rush to access your Savings Pot," says Acton. "There is no deadline. Members can apply for a single withdrawal from their Savings Pot at any time during every tax year, but the more money you leave in your pot, and the longer you leave it, the more it will grow." Acton advises retirement fund members to have all necessary documents ready, including a valid ID number, bank details, annual income and tax number, to ensure smooth processing. "Members who submit a valid withdrawal application can expect processing times of up to 30 days, depending on volumes and turnaround times from SARS," she says.

FA News | 19 September 2024

Tax implications and rules under South Africa's Two-Pot retirement system

South Africa's Two-Pot Retirement System, introduced on September 1, fundamentally changes how retirement savings can be accessed and taxed. This system divides retirement contributions into two pots: a "Retirement Pot" (two-thirds) for long-term savings and a "Savings Pot" (one-third) for more flexible access. The Two-Pot Retirement System, introduced by Sars, is a significant step towards addressing the dual needs of long-term retirement savings and short-term financial flexibility. This system ensures that a portion of retirement contributions remains preserved for retirement while allowing limited access to funds before retirement.

It is a balanced approach that encourages sufficient savings for retirement and provides individuals with access to funds during financial emergencies, reducing the likelihood of eroding long-term savings through early withdrawals. Although the Two-Pot Retirement System is mandatory for all new retirement contributions made after September 1, as, existing savings in retirement funds remain in the original system and are not subject to the new rules unless a member elect to transfer some of their savings to the new system. The mandatory nature of the new system means that for all future contributions, the split between the Retirement Pot and the Savings Pot will automatically apply.

It is important to consider the tax implications of the new system and its withdrawal allowances.

One of the most attractive aspects of any RA is the tax deductions they bring during the tax year. Contributions to a retirement annuity or other qualifying retirement products are tax-deductible up to 27.5% of the greater of your taxable income or remuneration, capped at R350 000 per annum. This allows individuals to reduce their taxable income significantly, encouraging retirement savings. However, when you withdraw funds from your Savings Pot, the amount is added to your taxable income for the year and taxed according to your marginal tax rate which is significantly higher than the previous tax rate applicable to early retirement fund withdrawals. The withdrawal could also push you into a higher tax bracket, affecting your overall tax liability for the year.

You can withdraw funds from the Savings Pot before retirement, but withdrawals from the Retirement Pot are only allowed from age 55 unless you retire early due to ill health. The Retirement Pot is designed to provide an income during retirement and is subject to more stringent access rules to protect long-term savings. Retirement fund payouts are typically calculated based on the accumulated value of the retirement savings at the time of retirement, considering factors like the total contributions, investment returns, and the annuity type chosen. Upon retirement, the Retirement Pot is used to purchase an annuity, which provides regular income over a set period or for life. The payout amount depends on the annuity type, chosen payment period, and interest rates and is subject to income tax. Withdrawals from the Savings Pot before retirement are subject to ordinary income tax. In contrast, withdrawals from the Retirement Pot after retirement are subject to retirement fund lump sum tax rates, which are generally lower. It is crucial to carefully consider the tax implications before making withdrawals and to work with your financial advisor to ensure all aspects are clearly understood and planned for. Your financial advisor and/or tax planner should be able to plan and present examples of the various tax scenarios regarding the potential tax obligations in accordance with your larger tax plan.

Personal Finance | 11 September 2024

Stop the two-pot hypocrisy!

Permission to speak freely … thank you.

I am astounded at the hypocrisy on show by parts of the financial services sector. The media is littered with articles on the statistics of retirement fund members making two-pot withdrawals. Many of the articles go on to warn would-be withdrawers of the dangers of withdrawing funds from their savings pot and the negative impact this will have on their retirement. In some instances, they claim that members could lose up to 10 times the value of their withdrawal by retirement age. They show calculations over long periods of time (20-30 years) to back up their claims. While the associated math adds up, the reality is that retirement fund members with 20-30 years to retirement are the ones who stand to benefit the most from the two-pot system. While the withdrawals will obviously result in members retiring with less capital, members will retire with more capital than those who had 20-30 years under the old retirement system. The forced preservation of two thirds of contributions going forward will result in more members retiring with more capital over time. That capital can only be used to buy income at retirement, which is good – and an improvement on the previous system.

Perspective

Two-pot as a policy is a significant improvement that will lead to better retirement outcomes over time. Policy development is a challenging balancing act at the best of times. National Treasury certainly struck the right balance with two-pot and developed good policy. Good policy has a bit of flexibility and some proverbial give and take. The fact that members can access funds from their retirement savings while keeping their jobs is a huge step forward. Perhaps the industry should spend more time and energy educating members on how to be strategic around their savings pot instead? What grates my onion about the preachy warnings against withdrawing from the savings pot by many is the hypocrisy around caring about members' retirement well-being.

Many of these firms have developed calculators that show members just how much they will lose at retirement if they withdraw from their savings pot today. These self-same firms, on the other hand, are pushing hideously expensive retirement annuities in the market. Why have they not developed calculators to show members the punitive impact of these fees on their retirement savings? If they really gave a damn, surely, they would be out there highlighting all of the issues that retirement fund members should be aware of? Surely, they would be more transparent about the fees they charge on retirement annuities in particular? Surely their products wouldn't penalise investors who run into financial difficulty by levying steep penalties against them for stopping their contributions?

A plea

What we are seeing now is the storm before the calm. Traffic going to a big rugby match is always better than the traffic after the game. Why? Because we arrive at different times before the match, but after the match there is this intensity with everyone leaving the stadium at the same time. Same with the introduction of two-pot. There is a burst of intensity around withdrawals that will settle down. Patterns will emerge over time around withdrawals and the industry will likely pick up on these and modify messaging and education to members. During this time, stop the preaching and judging. The financial sector needs to up its collective game when it comes to giving clients a fair deal. This is not another active-versus-passive [investing] article. Rather it is a reminder to the industry that we need to ensure that we act in our clients' interests *at all times* and not only when it benefits us as an industry.

Moneyweb | 18 September 2024

UK state pension is anticipated to rise 4% in April 2025

The UK state pension is expected to rise by 4% in April 2025, meaning pensioners will receive an additional £460 next year.

How is the state pension changing?

The full new state pension is worth £221.20 per week (£11,502 a year), and this is expected to rise to £230 a week (£11,962), while the basic state pension (£8,814 a year) will rise to £9,167. Under 'triple lock' rules, the state pension must increase by the higher of inflation, average earnings growth, or 2.5%. As inflation was 2.2% in July and is expected to reach 2.75% in the second half of this year, it's unlikely to exceed average earnings growth, including bonuses, which is 4% in the three months to July.

Why millions of pensioners could lose up to £300

While the increase in the state pension is welcome news, the cut in the winter fuel payment for those not claiming pension credit means over nine million pensioners could lose up to £300. The new state pension would also not be far off the personal allowance (£12,570), which is frozen until 2028, so pensioners are more likely to pay tax on any additional income. "Although the increase to the state pension should help meet next year's bills, it doesn't help those who will be living close to the edge of their means this winter," says Rachel Vahey, head of public policy at AJ Bell. "The triple lock guarantee has worked well in the favour of pensioners over the recent past, boosting the state pension by 28% over the last four years. "But with the state pension edging ever closer to the frozen personal allowance of £12,570 and the concept of universal payment coming under increasing scrutiny, the government will have to take the bull by the horns at some point to address who should get the state pension, at what age, and how much," Vahey added.

Need help with retirement planning?

While the state pension can offer some income in retirement, it's usually not enough to live off alone, and should instead be seen as a boost to your income. That's why it's important to have workplace or private pension pots you can use to ensure you have enough money in retirement. Retirement planning can be daunting, but a qualified financial adviser can look at your circumstances and future plans and help ensure you have enough money for your golden years. Unbiased can quickly match you to a financial adviser who is regulated by the Financial Conduct Authority (FCA).

Unbiased | 17 September 2024

Two-pot retirement system - what impact will it have on your tax bracket?

Since the two-pot retirement system came into effect on September 1, 2024, many South Africans have made applications to withdraw money from their savings pot - but are they aware of the tax implications?

According to John-Paul Fraser, tax attorney, Tax Consulting SA, making a withdrawal from the savings pot can push taxpayers into a new higher tax bracket. “It is definitely the case that withdrawals from a savings pot can push a taxpayer into a new tax bracket. This is the case as the withdrawals from your savings pot are seen as income in the same light as that of remuneration income,” Fraser said. Paul Menge, Actuarial Specialist at Momentum Investor said that the tax rate that South Africans normally pay, the so-called marginal rate, is based on an income bracket or range. If your current income is close to the top level of the bracket, your investment income from your two-pot retirement system withdrawal can push you over that level into a higher tax bracket, according to Menge.

Another way that you can be pushed into a higher tax bracket is if your salary is increased or you receive a financial windfall at any time during the tax year. Sometimes, the combination of the two-pot retirement withdrawal along with the increase in salary can push you into a higher tax bracket. Menge said that when the time comes for your annual tax assessment towards July, the South African Revenue Service (Sars) will look at your total yearly income, determine your tax bracket, and claim tax from you, based on the full picture. You will have to pay more tax on the amount in the higher tax bracket based on you two-pot withdrawal and the rise in your income. “The concern regarding this is that if you didn’t pay the higher tax when the withdrawal was made, you will have to repay this when you submit your annual tax assessment,” Menge said.

IOL | 19 September 2024

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

3 William Road
Bedfordview
Johannesburg 2008