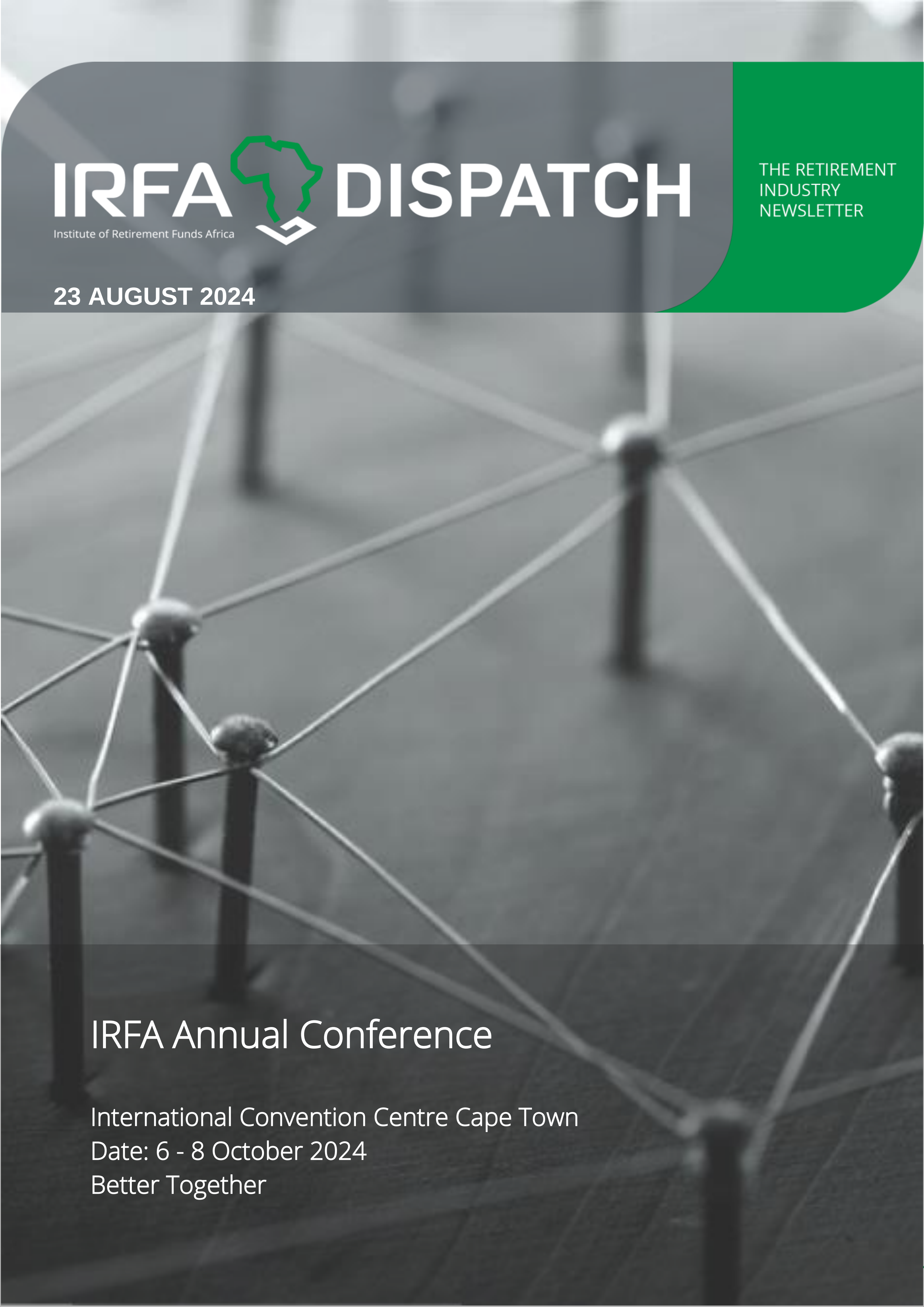

IRFA DISPATCH

Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

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Better Together

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Pension fund members must get to grips with two-pot system

Members are advised to contact their pension funds to enquire about their benefits from 1 September 2024, writes Yolande van Tonder, Senior Assistant Adjudicator.

Members of pension funds are urged to seek clarification from their funds regarding their benefits under the two-pot retirement system in order to safeguard their benefit entitlement. Pension fund rules and administrative systems will have to be amended to fall in line with the two-pot retirement system. The Pension Funds Amendment Bill has been signed into law, clearing the way for the implementation of the two-pot retirement system which provides for a vested component, savings component, and a retirement component. Generally, members' contributions from 1 September 2024, will be split between the savings component and the retirement component. The vested component will consist of the member's contributions in the fund up to 31 August 2024. From this component, 10% or R30 000, whichever is lower, will be utilised as a once-off seed capital amount in the savings component, which can be claimed from 1 September 2024.

The vested component will be subject to existing retirement laws, allowing a member to claim a withdrawal benefit from this component when they resign from employment. The savings component will consist of the once-off seed capital amount and one-third of the member's contributions in the fund from 1 September 2024, which can be accessed once every tax year by the member. The retirement component will consist of two-thirds of the member's contributions from the implementation date and can only be accessed at retirement.

The role of the Office of the Pension Funds Adjudicator (OPFA), a statutory body, is to investigate and determine complaints relating *inter alia* to the improper application of fund rules, maladministration, disputes of fact or law, and employer dereliction of duty in respect of pension funds. The two-pot retirement system requires pension funds to amend their rules and adjust their administrative systems to allow pension fund members to access a portion of their retirement benefits from 1 September 2024.

The role of the OPFA in any complaint relating to the two-pot system is to apply the fund rules and ensure that funds comply with their administrative process in this regard. If the rules of a fund do not afford a fund the legal power or capacity to do something, then such purported act by the fund is *ultra vires* and accordingly null and void. Therefore, if a fund fails to amend its rules to provide for the two-pot retirement system, then the OPFA cannot grant relief in this regard. There is a fiduciary duty on funds to act in the best interest of their members and provide them with relevant and adequate information. Thus, funds should ensure that they amend their rules and embark on a communication exercise to inform members of their benefits and the implications of the two-pot retirement system.

There is a corollary duty on members to seek information from their funds regarding their benefits entitlement relating to the two-pot system in order to exercise and protect their rights and benefit entitlement. In view of our Refer to Fund (RTF) process of adjudicating complaints, we encourage funds and members to resolve these types of complaints at an early stage by sharing information regarding what is payable in terms of the fund rules, turnaround times and any challenges that a fund may be experiencing in implementing the two-pot system. This will minimize unnecessary complaints before the OPFA which could have been resolved quicker and earlier if there was clear communication.

Further, the OPFA expects funds to resolve complaints relating to claims for payment to be resolved at an early stage if members do not qualify to access the once-off seed capital amount in the savings component in terms of the fund rules. Thus, members are encouraged to contact their funds to enquire about their benefits from 1 September 2024. The OPFA will monitor complaints trends in this regard and alert the industry of any shortcomings in relation to the implementation of the two-pot system. Continuous engagements with stakeholders will be strengthened in this regard to minimise unnecessary complaints.

FA News | 18 August 2024

Top considerations if you're thinking about withdrawing your savings pot

From 1 September 2024, the two-pot system will provide a balanced solution by addressing retirement fund members' needs for longer-term financial security and short-term financial relief.

We estimate that the two-pot system will likely improve new members' retirement outcomes by 2 to 2.5 times compared to those under the current system, given the requirement to preserve their retirement pots fully before retirement. This change is important because the main reason for members not being able to afford to retire is because only 1 in 10 members preserve their retirement savings when changing jobs. However, unexpectedly members may need access to cash for financial relief due to emergencies or unplanned expenses, such as medical costs or education fees. The changes will provide members with the option to take limited cash withdrawals (if they have more than R2 000 in their savings pot) before retirement without resigning from an employer. Members need to be aware of the tax consequences, as this can be significant.

Tax implications

The two-pot system provides:

• tax incentives to keep savings in the retirement fund until the date of retirement

• tax disincentives for taking savings out of the retirement fund before retirement

If an amount is withdrawn from the savings pot before retirement, an individual's marginal tax rate will apply to the amount withdrawn. If a member waits until retirement to withdraw from the savings pot, then the retirement tax table applies and the first R550 000 is taxed at 0% making it tax-free. This is subject to previous amounts withdrawn before September 2024 or from the vested pot. For most members, it is only worthwhile to withdraw from their savings pot in the event of an emergency and if they don't have access to savings elsewhere. Let's take a look at the tax consequences of withdrawing from your savings pot before retirement.

Marginal tax rates for the tax year ending 28 February 2025:

18%	for taxable income below R237 100
26%	for taxable income above R237 100
31%	for taxable income above R370 500
36%	for taxable income above R512 800
39%	for taxable income above R673 000
41%	for taxable income above R857 900
45%	for taxable income above R1 817 000

Illustrative examples:

Mpho's scenario		Thandi's scenario	
• Mpho earns taxable income of R250 000 per year • His marginal tax rate is 26% • He has R5 000 in his savings pot on 2 September 2024 • He decides to withdraw R4 000 • His administrator charges a processing fee of R210 • He has zero outstanding taxes owing to SARS		• Thandi earns taxable income of R675 000 per year • Her marginal tax rate is 39% • She has R20 000 in her savings pot on 2 September 2024 • She decides to withdraw R16 000 • Her administrator charges a processing fee of R380 • She has R2 300 outstanding taxes owing to SARS	
The impact for Mpho:		The impact for Thandi:	
Initial claim amount	R4 000	Initial claim amount	R16 000
Less processing fee	R210	Less processing fee	R380
Less tax [(R4 000 – R210) * 26%]	R985	Less tax [(R16 000 – R380) * 39%]	R6 092
Less outstanding tax owing to SARS (IT88)	R0	Less outstanding tax owing to SARS (IT88)	R2 300
Amount Mpho will receive after deductions	R2 805	Amount Thandi will receive after deductions	R7 228

Above amounts are rounded to the closest Rand.

As seen from these scenarios, the tax payment can significantly erode the amount paid to the members. Had Mpho and Thandi kept their savings invested in their retirement funds and only withdrawn them at retirement, no tax would have been payable on the withdrawal amounts up to R550 000. This is assuming they had not taken any lump sum withdrawals previously from their retirement funds before September 2024 or from the vested pot. It's important to be aware of the tax that would be payable before withdrawing from your retirement fund. If you need help, speak to a financial advisor or tax consultant. Other possible deductions Fees related to the two-pot system, including savings pot withdrawals, may apply and will differ per administrator.

There is no right or wrong way for the fees to apply. What's important is that the fee is fair, transparent, equitable and ensures that quality administration services are provided on a safe and sustainable basis. In certain circumstances, you might have restricted access to your savings pot in part or in full due to amounts owed by you to third parties which is secured or payable by the fund. These may include housing loans, employer judgments or pending judgements, divorce and maintenance orders. Funds are obliged to restrict access to the savings pot if it could leave insufficient funds to pay these amounts owed to third parties. Details of the above can be obtained from your fund administrator.

We suggest that members save for emergencies separately instead of relying on their savings pot, which should only be used as a last resort. Members are likely to need cash lumpsums at retirement to meet their needs, such as moving to a new house, paying off debt or putting money aside for medical costs during retirement. So, it's important not to deplete or use most of their savings' pot before retirement. Members should seek financial advice from an authorised adviser to make sure that their decisions suit their needs. The retirement system is complex, and members will be able to make decisions confidently once they understand the consequences of their different options. This ultimately leads to better financial outcomes.

FA News | 20 August 2024

Two-pot system: employers need to consider women

With the implementation of the two-pot retirement system in September 2024, experts are urging employers to apply a gender-sensitive lens to their employee engagement strategies to ensure equitable outcomes for all employees. "Treating all people equally doesn't necessarily result in equal outcomes. Traditional gender roles and societal expectations can exacerbate the pressure on women to prioritise family needs over their own financial security," says Samantha Jagdessi, head of advice and best practice at Old Mutual Corporate Consultants. "Employers have a key responsibility to educate women employees on the new system and to understand the social nuances and potential implications for women." Reports suggest that women are more likely than men to use their retirement savings to support their families in emergencies. During the Covid-19 pandemic, for example, Australian women were found to withdraw a greater proportion of their retirement savings than men, which has now resulted in a more significant gender gap in retirement savings. Michelle

Acton, retirement reform executive at Old Mutual, says the introduction of the two-pot system is expected to help improve retirement outcomes for men and women. The system introduces partial compulsory preservation while also allowing some flexibility for fund members to access their retirement savings before retirement. Data-driven analysis by Old Mutual suggests that the system could enable workers who start saving at age 25 and continue to work for 40 years to amass retirement savings two to three times greater, on average, than those accumulated under the old system. However, Lindiwe Sebesho, managing director of Remchannel, notes that women often start at a disadvantage due to the gender pay gap and career breaks due to caregiving responsibilities, which requires employers to apply a gender lens to their current employee value proposition.

“Remchannel remuneration trends indicate that although female representation has increased, female pay in South Africa generally lags behind male pay by 18% in the top decile and 25% in the bottom decile. Furthermore, the 2023 Remchannel Employee Benefits survey indicated that only 59% of companies pay employees who are on maternity leave their full salary and benefits. “Many women in South Africa still take a significant pay cut during maternity leave. Their only guaranteed income during this period is through the Unemployment Insurance Fund, which is not nearly enough to address their needs at this time,” Sebesho says. She says societal pressures and traditional conditioning could lead to greater expectations for women to access the savings portion of their two-pot savings now, when they have children and in times of emergency. Frequent or substantial withdrawals from the savings pot will substantially diminish their accumulated savings at retirement.

Sebosho believes employers can help mitigate these disadvantages by providing employee benefits solutions tailored to women’s needs and creating alternative, less expensive liquidity options than to withdraw from their retirement savings. These can include early access to salaries, “soft” loans with reasonable interest rates and flexible repayment schedules, and a more flexible approach to retirement fund contributions. Paradoxically, research by Old Mutual Corporate reveals that 40% of members will consider increasing their allocations to their retirement fund under the two-pot system after September. “This suggests that the perceived opportunity cost of investing in a retirement fund is now reduced, and members see the value of investing more, as they can access this money in an emergency,” says Jagdessi.

She says retirement funds could allow women to make flexible contributions based on their changing income levels and career trajectories. “This could involve reducing contribution rates or making catch-up contributions after career breaks or maternity leave,” Jagdessi says. Jagdessi, Acton, and Sebesho says employers should also consider: Paying women equitably. Robust implementation of fair and responsible pay policies, ensuring equal pay for equal work, can help bridge the ability to contribute to retirement savings between men and women. Offering investment strategies that address women’s needs. Given women’s longer life expectancy, trustees should focus on long-term investment strategies that ensure stability and sustainable income. Boosting financial education for all, especially women. Employers must provide financial planning with a gender lens. Providing financial education that addresses these concerns can help women build confidence in managing their retirement savings.

“The implementation of the two-pot retirement system in South Africa represents a significant shift in retirement planning,” Jagdessi says. “Applying a gendered lens to this and other retirement policies is crucial for addressing the financial disparities faced by women. By recognising the unique challenges and implementing specific employee value creation strategies, South Africa can move towards a more equitable and inclusive retirement system.”

Personal Finance | 16 August 2024

Women as financial breadwinners are not saving enough for retirement

Meet Jane Brown, an administrative clerk at a law firm, with two young children, who recently divorced her husband after 20 years of marriage.

She is now faced with high levels of debt and retirement is a far-flung dream. Living a fairly comfortable life in Johannesburg, she never saved enough money for retirement and has no investment fund; having completely relied financially on her husband. Now forced to start her life over, and having to become financially independent, she still has to save a portion of her salary towards retirement and look after her children with very limited financial support from her ex-husband. This is a typical scenario of a middle-class South African woman who’s struggling to make ends meet, never mind saving for future retirement on the horizon. Women have consistently been rated lower than men in most metrics concerning financial wellbeing and continue to fall behind men when it comes to preparing for retirement.

According to the 10X Retirement Reality Report 2023/2024, fewer than six percent of people are on track to retire comfortably. Half (49%) of all female respondents to the survey indicated that they do not have a retirement plan, compared with 43% of men. More than double (11% versus 5%) the number of men than women said they were diligently following a well-conceived retirement plan. Caroline Naylor-Renn, 10X Investments COO, says: “We are increasingly seeing the rise of women holding positions as financial breadwinners in South African households; shifting the financial power dynamics within families, yet more often than not, retirement planning falls at the bottom of their list of priorities.”

Gender wage gap

Women have different financial goals, priorities and challenges compared to their male counterparts; and are often faced with higher family and health expenses. According to a 2022 Women’s Report, sponsored by the Stellenbosch Business School, women’s careers are typically 30% shorter than those of men – because they have taken time out to be caregivers for their children and elderly parents. Furthermore, more than 50% of South African mothers are likely to be the sole breadwinners of their families raising their children alone, with only around 20% receiving regular support from the father. In South Africa, women made 78 cents for every rand that men made in 2021, down from 89 cents in 2008, according to a study on the SA-TIED program. This is a loss for gender equality, a trend that should urgently be addressed.

Changing life trajectory

Women make up 47% of the formally employed in South Africa and women continue to encounter more obstacles to securing formal employment compared to men, according to a Stats SA Report. This is often worsened in poorer socio-economic conditions; thousands of women every day continue to face financial struggles amid a cost-of-living crisis as financial breadwinners. This is further compounded by certain life trajectory changes, such as divorce, which can impact retirement savings including pension interest. For many women in South Africa, divorce is a reality and is not only an emotionally challenging experience, but a financially taxing one as well. Where there previously was one household, suddenly there are two separate households with financial implications including retirement savings. Pension interest allows divorcing spouses to share in each other's retirement benefits at the date of divorce without having to wait for formal retirement to receive their share of the assets. The manner in which pension interest is calculated depends on the type of retirement fund the individuals have in place.

Women need to approach investing differently

According to the 10X Retirement Reality Report, women are more conservative and tend to save more than men (30% of women versus 26% of men), while men tend to invest more (24% of men versus 14% of women). Naylor-Renn says that while women tend to value safety and security over exercising high-risk investments for potentially larger return; there is benefit in investing aggressively at the start of a career and then more conservatively later in life. According to Naylor-Renn, it's never too late to start working on a retirement plan and working towards your retirement goals. Contact a financial advisor to help you develop a financial plan and to regularly monitor your investment strategy.

Pay off debts early and invest in diversified asset classes. Building a well-diversified investment portfolio that's aligned to your retirement plan is key to making informed decisions. "Although a prudent, cautious approach to investing is admirable, it may ultimately be to women's detriment, as higher-risk investments, such as listed equities, can deliver inflation-beating growth over the long-term," says Naylor-Renn. "Ultimately, women need to be thinking about financial wellbeing and retirement savings differently. To understand that there are multiple factors and considerations when putting together a financial plan. Financially planning requires long-term strategic thinking not only around current financial status but also to plan for those unforeseeable events," adds Naylor-Renn.

FA News | 20 August 2024

UK government launches first phase of pensions review

The UK government last week launched the first phase of its planned pensions review, led by pensions minister Emma Reynolds.

The review was announced by the chancellor of the exchequer, Rachel Reeves, last month as part of the government's mission to "boost growth and make every part of Britain better off". The review will focus on developing policy in four areas. This includes driving scale and consolidation of defined contribution (DC) workplace schemes and tackling fragmentation and inefficiency in the Local Government Pension Scheme (LGPS) through consolidation and improved governance. The review will also focus on the structure of the pensions ecosystem and achieving greater focus on value to deliver better outcomes for future pensioners, rather than costs, as well as encouraging further pension investment into UK assets to boost growth in the economy. The government said that in developing its recommendations, the review will have regard for boosting the returns for pension savers and improving the affordability and sustainability of LGPS funds in the interest of members, employers and local taxpayers.

The review will consider the role of pension funds in capital and financial markets to boost returns and UK growth and any implications for wider government financial stability policy objectives such as concerning the Gilts market. Fiscal impacts, which will need to be considered in the context of public finances, will also be taken into account when developing the recommendations as will the progress already made on in-train policy initiatives such as the Value for Money Framework and other live reform programmes. In order to develop the recommendations, the review will also take into account a "wide range" of external viewpoints, including employers, trade unions, the pensions industry, financial services, local government and consumer voices.

The first phase of the review will focus on investment and report initial findings later this year and ahead of the introduction of the Pension Schemes Bill, the government noted. It added that the second phase will start later this year and alongside investment will consider further steps to improve pension outcomes, including assessing retirement adequacy. Patrick Luthi, chief executive officer of NOW: Pensions, said there is an "urgent need" for a strategic and consensus-driven approach to tackling some of the problems in the UK pension system. He said that it is important that the government's commitment to consulting widely and to the co-creation of policy with industry comes to fruition, pointing out that it will be "essential" that the full range of pension schemes and segments of the market are part of this process to ensure solutions work for the benefit of all members.

“It will be key for member outcomes to remain front and centre of initiatives, both in terms of investment policy, and also the delivery of initiatives such as Value for Money. Maintaining the primacy of fiduciary duty will help ensure that focus,” he noted. “Creating a sustainable future for members must also remain a fundamental priority, and we are keen to see the integration of this imperative in any new investment policy developments,” Luthi continued. He added that it is crucial that the outcomes from the Pensions Review provide “Flong-term solutions which tackle the key challenges that the pension system is facing now and also those which will impact over the next decade, including adequacy”. Paul Waters, head of DC markets at Hymans Robertson, added that there are “significant opportunities” for the government to help the industry improve outcomes for DC pension savers.

“For example, building on the success of auto-enrolment to raise pension saving rates, leveraging the increasing scale of today’s DC schemes to access new investment opportunities, and enabling more sophisticated default retirement propositions to be introduced,” he explained. He said that Hymans Robertson has worked with the LGPS since its inception. “Given the undeniable success of the LGPS delivering in alignment with local government, we’re disappointed in the premise of the pensions review in tackling ‘fragmentation and inefficiency’,” Waters said. “The LGPS has a long history of continuous improvement and a ready enthusiasm to adopt best practice. We look forward to supporting the LGPS to leverage the review, and increased government attention, to continue to develop the scheme,” he said.

IPE | 19 August 2024

Financial needs analysis for retirement (with worksheet)

This analysis provides a detailed assessment of your financial health, helping you make informed decisions about your retirement.

Retirement planning is a critical aspect of financial management that ensures a secure and comfortable life post-employment. The best way to calculate how much you need for retirement and determine the appropriate retirement age is through a comprehensive financial needs analysis conducted by a qualified financial planner. This process provides a clear picture of your financial health and helps you make informed decisions about your retirement.

What is a financial needs analysis (FNA)?
A FNA, also known as a fact find, is an in-depth assessment of your financial situation. This process evaluates various aspects of your finances to ensure you are on track to meet your retirement and other financial goals.

A FNA:

- Identifies how much you need for retirement and other financial goals;
- Determines whether you can afford to retire and when you should retire;
- Assess your dependants' needs if you can no longer provide for them;
- Structures your medium- to long-term financial plans;
- Clarifies what you can afford and what you cannot;
- Defines your retirement lifestyle goals; and
- Provides a reality check, often serving as a wake-up call.

The importance of continuous financial review
A financial needs analysis is not a one-time event. It requires regular updates and reviews to adapt to changing circumstances. According to the 2022 Just SA retirement survey, while 80% of pensioners believe setting retirement objectives is important, only 52% are actively planning, a significant drop from 72% in 2020. Moreover, only 30% of pensioners use a financial advisor to stay on track, and a third have not done any retirement calculations.

Stages of retirement planning
Early stages

In the early stages of saving, the focus is on building a substantial retirement fund. At this point, you aim to hit the larger target area.

Pre-retirement (around age 50)

By the time you reach about 50, or at least 10 years before retirement, you should fine-tune your retirement targets. Most people in this age group have fewer financial obligations, such as children's education, allowing them to allocate more money towards retirement savings. This is an ideal time for a detailed financial needs analysis to set accurate retirement goals and determine any necessary top-ups to your savings.

Late stages

If you haven't saved adequately for retirement, high-risk investment decisions in hopes of improving your financial situation are not advisable. Instead, consider:

- Extending your retirement date: Working an extra five years from age 60 can increase your pension by up to 80% due to compounding returns and reduced tax payments.
- Taking on a post-retirement job: Earning additional income post-retirement can help cover expenses.
- Starting a new business: Ensure you have a well-considered business plan and necessary skills and avoid using all your retirement savings.
- Living frugally: Dramatically changing your lifestyle to reduce expenses.

Personalised retirement planning

No two individuals have the same financial needs for retirement. Decisions must be tailored to your specific needs and financial capacity. Planning is crucial – if you don't know your destination, you will never reach it.

Simple lifestyle retirement income worksheet

A useful tool for planning is a retirement income worksheet, which helps you estimate your monthly income needs and anticipated shortfall or surplus.

Monthly income required	Amount (R)
Savings	
Debt repayment	
Housing costs	
Utilities (electricity, etc.)	
Medical	
Groceries	
Clothing	
Entertainment	
Travel	

Total A	
Less:	
Anticipated pension at retirement	
Anticipated income from other investments	
Total B	
Anticipated shortfall/surplus (Total B less Total A)	

Conclusion

A financial needs analysis is essential for effective retirement planning. It provides a detailed assessment of your financial health, helping you make informed decisions about your retirement. Regularly revisiting your financial strategy ensures that you stay on track to meet your goals. For more detailed guidance and personalised advice, consider consulting a professional qualified financial advisor – search for a certified financial planner (CFP).

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