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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Why it's important to monitor your pension fund deductions

A recent case to come before the Pension Funds Adjudicator (PFA) highlights the importance of making sure that the money deducted from your salary for retirement fund contributions is going where it is meant to be going. For this it's helpful to go back to Retirement Funds 101.

If you are a salaried employee, you are probably contributing to an employer-linked pension or provident fund. The fund may specifically serve your organisation or it may be an umbrella fund operated by a financial services company, which houses many employers under one "umbrella". There are essentially three parties involved: you, your employer and the retirement fund. (A fourth party, in the form of an administration company, appointed by the retirement fund, takes care of the day-to-day administration of the fund.) Your employer deducts your contribution from your remuneration and pays it over to the fund.

Most of the money goes towards your retirement savings, which builds up over your years with the company. A small portion (10% or so) goes towards an insurance premium that covers you for death or disability, known as group risk cover. While the premium is quite low compared with private life cover, the benefit can be substantial: the life benefit would be a lump sum of three or four times your annual salary, and the disability benefit would typically pay you 70-75% of your salary until retirement age.

Finally, the fund takes an administration fee, which may be in the region of 2.5%.
For the system to work properly, each party has certain obligations:

1. You as a fund member need to ensure that your contributions are being deducted and are going to the fund. You need to ensure that the group risk cover is in place and to monitor your savings balance in the fund.
2. Your employer must ensure that the full contribution amount is paid over each month to the fund. If the fund doesn't receive the money, not only will it affect your retirement savings, but importantly, it will affect your group risk cover. If the insurer providing the cover does not receive the premiums, you lose your cover, just as you would on a personal insurance policy.
3. The retirement fund must ensure that the contributions are received from the employer and the money is allocated correctly. It is also obliged to communicate regularly with you on the state of your savings and your risk cover.

The most common thing to go wrong along the chain is that the employer deducts the amount from your salary, but owing either to pure negligence or to a cash-flow problem, does not forward the money to the fund. As an employee, you wouldn't immediately know this, because you would still see the deduction on your salary slip each month. It's only if you received a statement from the fund itself, and studied it closely, that you would realise something was wrong. In instances where employers fall into arrears in paying over their employees' contributions, funds are required to take steps to get the money and to report the employer to the Registrar of Pension Funds and, ultimately, to the Attorney-General. The fund is also obliged to report the non-payment of contributions to the affected members.

PFA determination

The issue of non-payment of contributions by employers has become a major headache for the PFA, Muvhango Lukhaimane, as she explains further on. The case to come before her was, in fact, two separate cases, but they involved a single employer, the Maluti-A-Phofung Municipality (a municipality in the Free State), and a single family: a father, mother and their two children, a brother and sister. Both parents worked for the municipality and both died in service within months of each other: the mother died on January 1, 2018 and the father died on September 14 of the same year.

They had been working at the municipality for some years, though the determinations give only the date they registered as retirement fund members, which was September 1, 2012. The municipality originally had its own pension and provident funds, but in March 2014 these were incorporated into the Sanlam Pension and Provident Umbrella Funds. In June 2017, for some reason, the municipality stopped paying the contributions of its employees into the Sanlam funds. The funds lodged complaints with the PFA on February 26, 2018 and decided to terminate the municipality's participation backdated to October 1, 2017.

The funds informed the employer and members that the group risk benefits were no longer in force and that, should a claim arise during the period of non-payment, the claim would not be paid out. It was made clear that members and their dependants would have to approach the employer to recover any damages suffered as a result of the employer's failure to pay over the contributions. The municipality succeeded in not having its participation terminated and two months later it cleared the arrears and resumed paying contributions. However, it was unable to resume the group risk cover, which had lapsed in October 2017. **Full Report:** ***https://www.persfin.co.za/personal-finance/retirement/why-its-important-to-monitor-your-pension-fund-deductions-8348e0ab-98bc-4a27-a86f-fa58b899a3c3***

Personal Finance | 7 March 2022

GEPF pensioners to get a 5.5% increase

The Government Employees Pension Fund (GEPF) has announced that its pensioners will receive an annual pension increase of 5.5% as of 1 April 2022.

This pension increase is based on the 5.5% inflation rate for the 12 months ending November 30, 2021 thus making the increase equal to 100% of the Consumer Price Index (CPI) and higher than the 75% of Consumer Price Index (CPI) provided in terms of GEPF rules. Pensioners who retired on or before 1 April 2021 are to receive the full increase of 5.5 % as of 1 April 2022.

Pensioners who retired after 1 April 2021 are to receive a proportionate increase based on the number of months they have received pension by 31 March 2022. In a press release, the GEPF says it has granted this increase to enable pensioners to keep up with rises in inflation. These increases are based on the affordability of the fund at the given time. An affordable increase can be granted without placing a strain on the sustainability of the fund including current needs and future financial health of the fund to continue paying benefits that are promised to our members.

The GEPF says that, when setting the pension increase, it considers:

- The investment returns earned over the year,
- The level of inflation over the same period,
- How both relate to the assumptions adopted in the statutory valuations and more importantly,
- How the increase will impact the financial position of the fund.

It must be noted that increases that are above what is provided for in the GEPF law and rules is granted at the discretion of the board taking into account the fund's investment performance as well as GEPF law requirements. Pensioners will receive individual letters illustrating the new values of their pensions as of 1 April 2022.

Personal Finance | 8 March 2022

Retirement: Women still at a disadvantage

Here’s how women can improve their financial position in retirement.

Women at work are still at a disadvantage in terms of promotions and earnings, creating a long-term negative impact on their retirement. One reason for this is that women, statistically, simply live longer and must save more during their working lives. Added to this, women often do not contribute enough money to their retirement funds owing to less pay or being denied promotion, having to take a break in their career to raise a family or simply being a single parent with limited financial support.

The current Covid-19 pandemic led to several women losing their jobs, leading to yet another break in their savings. To make matters worse, women continuously experience a variety of related threats to their general well-being as they comprise roughly 70% of healthcare staff globally and experience an increase in domestic, sexual and gender-based violence at the same time. A relevant question to emerge is how women can improve their financial position in retirement. The first and most important rule that can improve women’s income in retirement is signing up for a retirement fund as soon as they can. If you can do it from your very first paycheque, so much the better.

Build an emergency savings fund of more than six months’ income in addition to your retirement savings. To do this is tough, but if you can stick to it and save an amount equal to all your spending for a year on necessities such as food, housing, transport, and insurance, you should be able to handle tough times as proven by Covid-19. Your employment-based retirement fund will most likely not give you the required income to replace your normal salary at retirement. This fact is largely ignored by most, but did you know you may increase your contributions to any employment-sponsored retirement fund or to a retirement annuity fund in order to achieve a more effective income at retirement (replacement ratio)?

Take advantage of tax benefits. You can contribute up to 27.5% of your taxable income (up to a maximum of R350 000 annually) and deduct this from your taxable income. A big mistake is using your retirement funds as a backup for a family business. Don’t do it. Just don’t. And never cash in your savings and transfer the money to the ownership of a partner. When you take time off to raise a family, get your husband or partner to make contributions to your retirement fund. This will improve your retirement years and will be a lifesaver if you should get divorced. If this should happen, make sure you get your rightful share of your partner’s *retirement savings*.
Try to continue working for as long as possible before retiring.

Don't wait too long. Start by investing your retirement savings in an appropriate and diversified growth strategy when you are young. Avoid get-rich-quick investments offerings and seek professional advice from a certified financial planner *who is a member of the Financial Planning Institute of South Africa (FPI)*. Once you are retired, structure your income so that it will meet your financial needs on a sustainable and ongoing basis. It is not always all about the income, but also about managing your expenses in retirement. Keep your spending in line by sticking to a budget within your means.

"The greatest risk in investments is your own behaviour" – Warren Buffet.

Moneyweb | 9 March 2022

Six things to consider before retiring

It's important to keep in mind the potentially extensive retirement period you will need to fund for, and the multitude of eventualities you could be faced with. Many people aim to retire at the age of 60 in the hopes that they'll still be fit and healthy enough to enjoy an active retirement. While there's a lot to be said for retiring early, it's important to keep in mind the potentially extensive retirement period you will need to fund for, and the multitude of eventualities you could be faced with over what could well be a period of 40 years.

Here are six things to consider before retiring.

1. Your post-retirement income

When it comes to determining an appropriate retirement income, our advice is to avoid using rules of thumb. Every retiree faces a unique set of circumstances that need to be closely examined before arriving at a retirement income that is best aligned with their needs. While many expenses, such as bond repayments and retirement funding contributions, fall away at retirement, it is important to consider in careful detail the additional expenses you could be faced with in your retirement years. The rising costs of healthcare as one ages are well-documented.

There are other important factors that can drive up your post-retirement expenditure. For instance, if you have adult children living abroad, the costs of international travel would need to be factored into your budget, keeping in mind that such expenditure would be of a capital nature and will likely not be funded from your annuity income. Further, assuming that an active retirement is important to you, you will need to budget for the costs of the interests, hobbies and sports you plan to engage in, as there's no point realising after retirement that you don't have enough money for these things.

2. Your sources of retirement income

The next consideration is to take stock of the investments you have earmarked for retirement and to fully understand their mechanics. In doing so, you should take into account when you are able to access the funds, how much you can withdraw in cash, the specific rules relating to each investment, your options at retirement, and how you will be taxed. The pension fund industry is highly regulated and complex, and there are a number of critical decisions that need to be taken expeditiously and in the right sequence in order to avoid making costly mistakes. Understanding where and how you are invested in the year leading up to retirement is critical to ensuring that your investment strategy supports your retirement timeline, keeping in mind that you may need to make adjustments to your investment strategy in order to meet your stated objectives.

Most pre-retirees have a blend of retirement funds and discretionary investments in place at retirement, and understanding how these investments will be taxed is key to developing a workable strategy. Remember, many of the decisions you will make at retirement are once-in-a-lifetime, irreversible decisions that you simply cannot afford to get wrong. No single investment should be considered in isolation from another, so find an advisor who is able to take a holistic view of your entire portfolio with a view to providing retirement, tax and estate planning advice that wholly supports your goals.

3. Investment risk

The transition from earning an income to drawing an income requires a massive psychological shift and, while you may be tempted to take a more conservative investment approach with a view to preserving your capital, beware of investing too conservatively for your timeline – bearing in mind that you have a potential 40-year timeline which by investment standards is considered long-term. Exposing your retirement nest egg to higher risk investments will increase the probability that the value of your wealth in real terms will keep pace with – and ideally outstrip – inflation, meaning that your invested capital will continue to grow over time even though you are drawing from it.

If your capital is too heavily weighted towards cash and bonds, you may struggle to achieve sufficient investment returns to keep pace with the costs of living which, in turn, can result in liquidity problems later on in retirement. While short-term market fluctuations can cause some discomfort and unease, don't lose sight of your timeline and the long-term nature of your overall plan.

4. Whether you can afford to retire

Once you've determined an appropriate retirement income, the next step is to figure out if you have sufficient investment capital to provide for this income. This process – ideally navigated together with an independent retirement advisor – should involve the development of a number of retirement scenarios using a stress-tested set of assumptions, including assumptions relating to your life expectancy, investment returns, inflation, medical inflation, and potential capital outlays. Understanding the potential expenses you may be faced with at various stages during your retirement is key to developing realistic scenarios.

For example, one could reasonably expect to spend more on travel during the first decade of your retirement with these costs reducing as you grow older and lose mobility; while on the other hand, your healthcare care costs are likely to escalate more quickly in the last decade of your life. This means that it is not only important to get your drawdown levels right but also to plan for the possibility of capital outlays during retirement, such as paying for a wedding, purchasing a life rights unit, or funding the costs of home renovations or modifications.

5. Boredom

While early retirement may sound idyllic, give careful thought as to how you will fill your day, every day, potentially for the next 40 years. Switching from a busy, purpose-driven schedule to a blank diary may sound appealing, but the reality of finding enough to keep you busy all day, every day can be daunting. Further, a lack of purpose may not only lead to boredom, but can also affect one's self-worth and identity.

Depending on your experience, qualifications and industry, you may find it difficult to re-enter the workforce after having retired, so you need to be absolutely sure that a life with no work commitments is exactly what you want. If you've been gainfully employed up until retirement, your professional persona will be an integral part of who you are, and many retirees struggle with the loss of their professional identity, not to mention the engagement with their peers and workplace comradery.

6. Retirement accommodation

If you're retiring at a relatively young age, it's possible that the family home is still adequate for your needs and that you are physically able to attend to its maintenance and upkeep. Realistically, however, your retirement accommodation needs are likely to change as you transition through the various stages of your retirement. With the high cost of decent retirement accommodation – coupled with long waiting lists – it is advisable to begin thinking about your future retirement accommodation sooner rather than later. Retirement villages – many structured on the basis of life rights – have gained massively in popularity over the past few years, largely because of their convenience and favourable cost structures. With high crime rates, many retirees find comfort in the safety and security offered by such developments – and naturally, access to assisted living and frail care remains a major drawcard, although these facilities come at a price which, if not budgeted for in the pre-retirement planning phase are likely to be unaffordable to the average retiree. Most retirees fear becoming a financial or physical burden to their adult children, but the reality is that if you haven't budgeted for a realistic long-term healthcare plan, living with and/or being cared for by your adult children may be your only option.

If the equity (or part thereof) in your primary residence is required for your retirement funding, the timing of the sale of the asset is another important decision to get right. As with investment markets, property markets fluctuate over time and will to a large extent determine the value you can extract from the asset. Many retirees make the mistake of holding onto their family home longer than is necessary for sentimental reasons which can result in a poorly-timed sale and a reduced retirement nest egg. As is evident from the above, retirement planning is multi-faceted and all-encompassing and should be undertaken with the guidance of a retirement planning expert to ensure that decisions are made timeously, sequentially and appropriately.

Moneyweb | 8 March 2022

INTERNATIONAL NEWS

UK pension funds increasingly look into impact investing

UK pension schemes seem to be taking impact investing increasingly into consideration, more specifically social infrastructure and affordable housing. According to a survey conducted by Pensions for Purpose and sponsored by Big Society Capital researching UK pension funds with total assets under management of around £150bn (€180bn), more than 50% of schemes hold some form of impact investment which focuses on positive social or environmental outcomes as well as financial returns. It also shows that 90% of respondents are looking to make impact investments in the UK.

Of the schemes already making impact investments, these account for almost 5% of their total assets under management. Social infrastructure – such as hospitals and schools – and social and affordable housing are the most popular social impact investments for these investors, with 78% and 44% investing in these areas, respectively, the research disclosed. But when asked which of the UN's Sustainable Development Goals the funds were targeting, those relating to the environment were the most commonly cited with 100% intent on to targeting climate action, it said. The survey also concluded that more education is welcomed by scheme managers and trustees to improve their awareness of social issues and suitable impact investment products that help provide solutions to those issues. Charlotte O'Leary, chief executive officer of Pensions for Purpose, said: "UK pension funds represent £2.2trn in assets (according to the 2019 ONS survey) and that is only going to grow with auto-enrolment. This represents a significant pool of capital that can be allocated to not just mitigate the risks associated with climate change and social inequity but also to invest in the solutions to those systemic risks."

She added that impact investing provides the perfect opportunity to revisit allocations to private markets, recognising that opportunities in social impact investment do exist and are being made by pension funds around the UK. Katie Fulford-Smith, investor relationships director at Big Society Capital, said: "Our investments must help society level up to enable the green transition – and with pension funds now being worth a total of £2.2trn, they have considerable power to help achieve this." The social impact investment market, she added, is growing considerably, having rocketed nearly eight-fold from £833m in 2011 to £6.4bn in 2020. "To meet this demand, we are working to increase the number of investment options in social impact and improve understanding of the vast benefits to the investor and investee," Fulford-Smith said.

IPE Magazine | 8 March 2022

OUT OF INTEREST NEWS

Practical guide to offshore investments: Part 1

A look at options available to investors, how South Africans can access these and the impact product choice can have on offshore portfolios.

The world is becoming more interconnected every day – technological disruption, urbanisation and climate change are redefining the investment landscape, creating new opportunities for wealth generation. However, with more freedom of choice, also comes more confusion as investors seek to navigate this expanding investment landscape. In this series on offshore investments, we will focus on which options are available to investors, how South Africans can access such offshore investment opportunities and the impact product choice can have on offshore portfolios. GraySwan anticipates global trends to identify the right opportunities to grow powerful investments.

It is the freedom to shape the future.

Most South African investors are familiar with the local investment options available to us with regards to unit trust funds, index-tracking funds and stockbroking portfolios. So how does this compare to what is available internationally?

Offshore unit trust

An offshore unit trust works the same as a local unit trust, where investors pool their funds together and purchase units in a portfolio consisting of a single or various underlying asset classes. The unit trusts you choose can either be actively / passively managed and the cost thereof varies.

Offshore exchange-traded funds

Similar to unit trusts are exchange-traded funds (commonly known as “ETFs”). The main difference is that ETFs are bought and sold via a stock exchange like a share. However, unlike a share, which focuses on one company, an ETF tracks a basket of shares, or an index, or a specific asset class and usually does so at a low cost.

Offshore exchange-traded notes

Exchange-traded notes (commonly known as “ETNs”) are exchange-traded debt instruments. The investor lends money to the issuer of the ETN (usually a bank) and then receives a return based on the movements in a specific benchmark. ETNs are also bought and sold via a stock exchange like a share but unlike ETFs, ETNs do not provide investors ownership of the securities in the index they track, ETNs merely provide the return that the index produces. That is why it is extremely important that the price of the ETN tracks the index closely to mitigate the possibility of tracking errors.

Offshore share portfolio

An offshore share portfolio works the same as a local share portfolio but instead of only having access to shares listed on the JSE, investors now have access to the full spectrum of globally listed companies. Important to note, is that from a taxation and estate planning point of view, the above investment options can be expensive and/or ineffective if accessed directly. In part two of our offshore investment series, we will look at the impact that product selection can make on your portfolio. Should you wish to gain more insight into the offshore investment possibilities available, we encourage you to engage with our team of experts in structuring your own offshore investment.

Moneyweb | 9 March 2022

SA’s economic rebound back on track

The fourth quarter 2021 real GDP growth, at 1.2% (q-on-q, seasonally adjusted) and 4.9% for the year, was in line with consensus expectations and so should have limited implications for the market. Rather, the Russia/Ukraine crisis remains the dominant factor for risk assets at the moment. The underlying data showed dispersion rather than a broad-based rebound off the weak third quarter 2021 base.

The good

Agriculture posted a strong performance, as expected, while the trade and manufacturing rebound following the July unrest made notable contributions to the overall expansion. The reopening of the economy and easing of lockdown restrictions were evident in a solid recovery in household consumption expenditure, which was biased towards discretionary spend such as restaurants and hotels, household furnishings, and clothing and footwear. Another positive was the expansion in fixed investment, led by machinery and equipment. The rebound in imports, while detracting from overall growth, points to ongoing normalisation in domestic demand and should be viewed as a positive.

The bad

A negative surprise was the decline in financial, real estate, and business services, which is usually a component with low volatility.

And the ugly

Mining was particularly weak, but the outcome was not a surprise in light of the high-frequency monthly data giving a preview. Construction continues to be hampered by weak infrastructure investment and a subdued residential housing market.

But the recovery remains on track

It is important to note that this data is almost three months old and has less bearing on the outlook for the balance of 2022 than do global developments. Growth should be underpinned by the robust terms of trade, but the consumer faces a tougher environment due to rising fuel costs, upside risk to food prices, as well as from tightening monetary policy. We do not think this release will have a meaningful impact on the South African Reserve Bank’s Monetary Policy Meeting in two weeks’ time, as the Bank is likely to focus more on the inflation outlook and attendant upside risk stemming from the Russia/Ukraine crisis.

And could normalise sooner than expected

The economy is set to reach pre-pandemic levels (first quarter 2020) over the course of the second quarter this year and is likely to be back at the pre-pandemic trend by the December quarter. Both these time estimates are sooner than was originally estimated at the height of the Covid pandemic and strictest lockdowns. The expectation is that the growth levers in 2022 will be the ongoing consumer recovery, upside from foreign tourism, and the government starting the infrastructure roll-out.

Additional impetus could come from sustained high commodity prices and mining capex. That said, the risk is biased to the downside from current geopolitics. The Russia/Ukraine crisis remains fluid and highly uncertain and it is not possible to determine the impact that it will ultimately have on both global and local economies.

Investors should remain diversified and cautious

Local fixed income is offering significant value, but volatility is expected to remain elevated. South Africa equities have rand-hedge properties and have a positive beta to high commodity prices. A diversified portfolio but with a cautious bias is prudent in the current environment.

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