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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

A focus on the regulatory aspects and challenges of the two-pot system

During the recent Budget speech, the Minister of Finance confirmed the intended launch date of 1 March 2024 for the two-pot retirement system. With 12 months to go, it is important to understand the regulatory aspects and potential challenges.

One of the biggest issues we face is that the legislation still has not been finalised. The **Budget** review referred to forthcoming draft legislation and the issues that this will address. Without this draft legislation, there is considerable uncertainty regarding implementation. We understand the broad strokes of the expected changes, but the devil is always in the detail: Administrators need to amend systems based on precise requirements, funds need to process rule amendments based on finalised legislation, and the FSCA needs to process all those amendments prior to implementation. Members and their advisers also need to receive clear and accurate communication about how the changes will affect them. None of this can be done until the uncertainty is resolved. The industry has repeatedly said that the expected length of time it will need to implement the changes once legislation is promulgated is 12 to 18 months.

It is not surprising that it is taking a while to get the legislation right – the reforms involve major changes to a system with serious issues that need to be addressed. The intention is that the new two-pot system will allow access to those who desperately need it, while at the same time improving the preservation of retirement savings. Offering partial access will, over time, see the amount of money in the system grow, and lead to better retirement outcomes for most savers.

Under **the new system**, it will be compulsory for all retirement funds to split contributions received between two notional portions – one-third will be allocated to a "savings portion" that will allow early access to funds, while the remaining two-thirds will be allocated to a "retirement portion". At retirement, whatever is left in the savings portion will be available as a cash lump sum. The retirement portion will have to be used to purchase an annuity. Any money saved up before implementation of the new system will remain in a "vested portion", subject to the treatment that currently applies, meaning it will have "vested rights".

What is still to be finalised?

In the Budget review, the National Treasury set out four areas that require additional work following the extensive public consultation on the reforms. One of the more contentious issues relates to "seeding". Given that changes will only apply to contributions made from the implementation date, the vested portion will represent the biggest portion of retirement savings for many members for some time. Seeding would involve allowing members to transfer some of the funds that have accumulated in their vested portion (prior to the new system being implemented) to the new two-pot system, thereby allowing some immediate access to historic funds. While there could be merit in allowing this, if the seeding is too generous, the cost in terms of leakage from what has been saved to date could be material.

The next area relates to the legislative mechanisms to include defined benefit funds in an equitable manner. There seems to be agreement that defined benefit funds should be included in the new system, but that is easier said than done. Defined benefit funds work differently – it is not a simple matter to split contributions into two portions, given that the rights and benefits of members are not defined in terms of contributions, but rather in terms of a formula often based on factors such as salary and years of service. These benefits must be adjusted fairly whenever a withdrawal is paid out. The third area is that of legacy retirement annuity funds. While these funds might not make up the lion's share of retirement savings, there are technical challenges to incorporating them in the new system.

Again, there is broad agreement that they should fall within the new system, but this needs to be done with care given that the product design and supporting systems do not easily lend themselves to the flexibility envisaged with the new savings portion. The final area is the treatment of the retirement portion on retrenchment. One of the concerns that were raised during the public consultation process is that members who are retrenched with no alternative source of income, and who have depleted their savings, might need some access to the funds in their retirement portion. This is a contested area. The point of the savings portion is to provide some relief when members fall on hardship, and to pay out funds from the retirement portion before retirement will undermine the secondary aim of improving outcomes at retirement.

The first three of these areas will be addressed in the draft legislation that we are waiting for, while the last one will be deferred until the two-pot system is operational. It is important to remember that in the early years post implementation, the vast majority of savings (and hence benefits) will sit in the vested portion, all of which will be available on retrenchment in an occupational fund. A full analysis of the regulatory aspects and challenges of the two-pot system can only be properly undertaken once the final legislative amendments have been

published. There is still considerable uncertainty regarding what has to be implemented by the retirement funding industry at large and we eagerly await the revised draft legislation.

FA News | 15 March 2023

Ensuring living annuity income longevity

ASISA (The Association for Savings & Investment South Africa) has certain suggested income drawdown levels for investors in living annuities, which are based on age and gender. These guidelines are advantageous, but they don't necessarily include different risk scenarios. In this article, I present some easy-to-follow ideas which benefit the client and intermediary alike.

A simplified guideline

The following is a simplified guideline and investors should remember that the living annuity income level is not guaranteed, as the underlying investments are dependent on market conditions. The examples presented in this article attempt to find a good balance between income level, risk taken and income longevity.

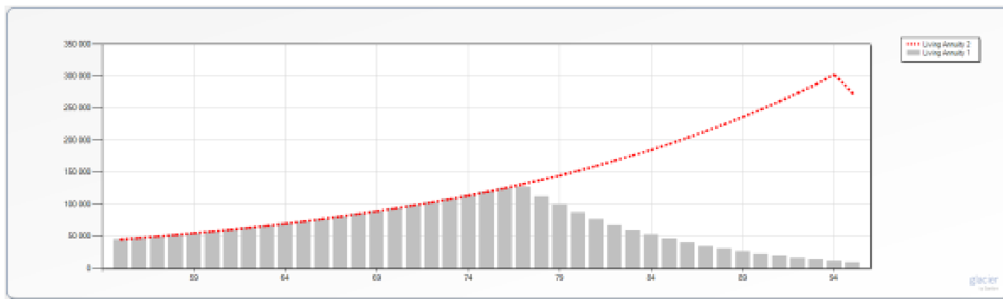
The examples all use the following standard principles:

1. The age of the client is used as a decimal figure. For example, age 55 becomes 5.5%, age 62 becomes 6.2% etc.
2. I then deduct a factor of 1% to determine a suggested starting income level.
3. The projections are then made with an annual income escalation of 5%.
4. Inflation is selected at 5% (considered to be an accepted level for the long term, for as long as the SARB aims to keep the inflation band between 3% and 6%).
5. I then compare the projections of a cautious portfolio (real plus 3% growth) with a moderate aggressive portfolio (real plus 5%) to note the different return profiles of a risk-adjusted portfolio.

These two risk profiles are selected as many clients want the typical balanced fund return profile but don't want the volatility and sequence risk (the risk of a market drawdown just before, or just after, retirement). Many clients therefore prefer to select a cautious portfolio with its more acceptable volatility level, but which might not provide enough exposure to growth assets over the long term. Thereafter, I also attempt to provide a possible solution to this risk-return dilemma. The following graphs show these comparisons at ages, 55, 62, 68 and 73. I propose that these selected ages should be sufficient to make deductions that will cover most clients in a living annuity.

Age 55, income 4.5%

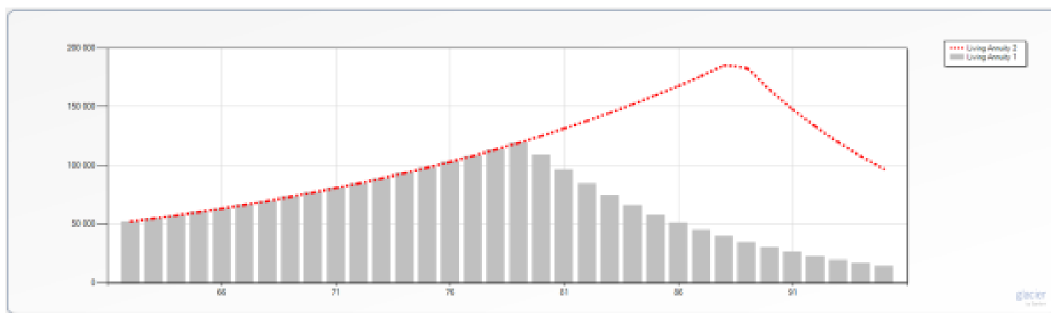
1. The cautious portfolio will allow for an income growth until roughly age 77, after which the income will start to decline.
2. In the moderate aggressive portfolio, however, the capital is sufficient to provide this same level of income until after the age of 90.
3. This formula is therefore appropriate for younger clients, as long as they take on more risk.



Source: Glacier ICE

Age 62, income 5.2%

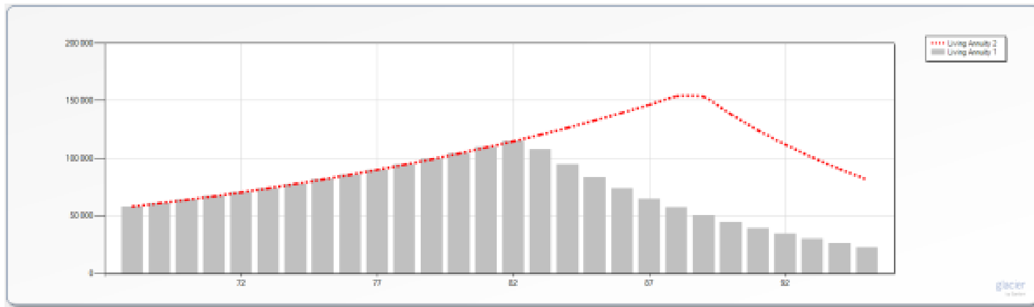
1. The cautious portfolio again sustains the income need until roughly age 78, but thereafter the income starts to decline.
2. The moderate aggressive portfolio is projected to supply an escalating income until roughly age 88, which suggests that a client at this age, who uses the age as decimal less 1% factor to determine the initial income, should have enough income.



Source: Glacier ICE

Age 68, income 5.8%

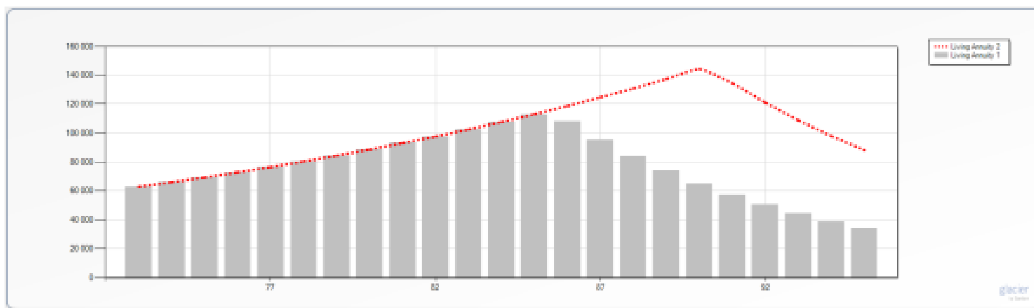
1. The same pattern is evident, which again suggests that the higher risk portfolio should offer the better outcome over the longer term.



Source: Glacier ICE

Age73, income 6.3%

1. The risk taken in a cautious portfolio seems to be sufficient for an older client, as the income is sustainable until roughly age 85. However, it again seems to be better if one can take on more risk as this extends the age at which the income starts to decline, to roughly 90.



Source: Glacier ICE

Points for consideration

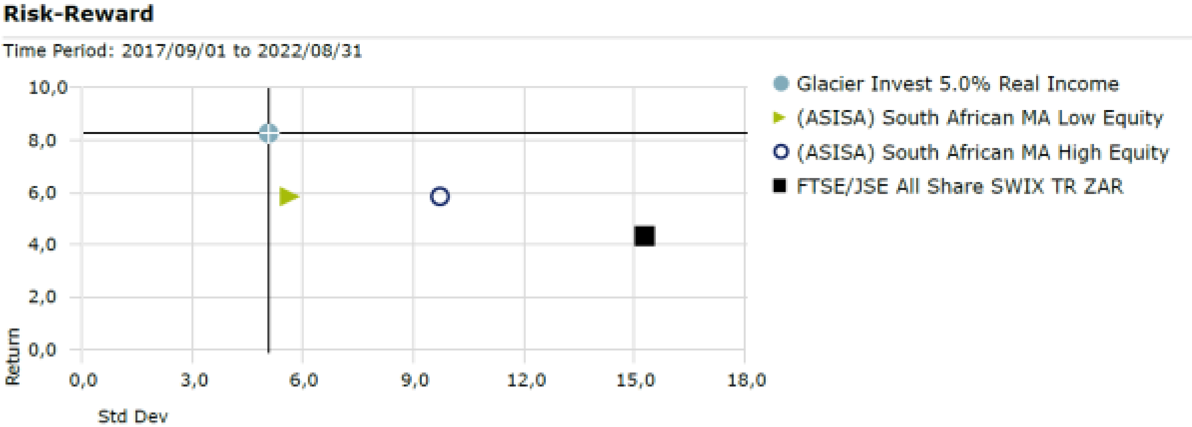
1. Changing the age to a decimal, and then subtracting 1% to determine the starting income level, seems to be a relatively accurate way of ensuring an escalating income of 5% per annum, until roughly age 80.
2. However, roughly 10% of the South African population do live beyond age 80, and where people have access to better medical care, this percentage is a lot higher.
3. By taking on more risk, income longevity becomes less of a concern for the broader population as very few people do live up to the age of 90.
4. For clients taking on a moderate aggressive risk, in line with most balanced funds, this is a suitable formula to determine the starting income.
5. However, the volatility of a moderate aggressive portfolio not only makes the investment journey less comfortable for the client – due to the ups and downs of market movements – but also holds real risk over extended periods when markets are down, and this manifests in the sequence risk of the portfolio.

Therefore, if one uses this simplified formula to determine the initial income level, it is imperative to find a solution where a return of inflation plus 5% is possible, but at a volatility level similar to a cautious portfolio. This will allow for extra growth while protecting the client against sharp drawdowns, and, over time, sequence risk. It is not possible to build a portfolio which offers these characteristics by using only normal collective investments, even if the portfolio is properly diversified. Once the portfolio has exposure to sufficient growth assets, the volatility and accompanying risks will follow. One therefore needs to consider alternative types of funds that have different return profiles, such as hedge funds (which can give a positive return during a crisis) as well as funds with underlying guarantees that smooth out the volatility. By combining funds such as these, clients have the opportunity to achieve a real return plus 5%, however, the volatility and sequence risk is lowered to that of a cautious portfolio.

What is the ideal solution?

A portfolio that does this is the Glacier Invest 5% Real Income Solution. This portfolio uses hedge funds, smoothing portfolios (both local and offshore) as well as multi strategy alternatives which include, amongst others, private equity, and real assets.

Portfolios which guard against the downside risk tend to lag balanced funds during bull markets but manage to reduce downside and the sequence risk during adverse periods. The following table illustrates the return and risk profile of this portfolio when compared to the average cautious (low equity) and moderate aggressive (high equity funds) over the last five years (until end August 2022). Not only did this portfolio outperform the average high equity fund over this period, but it also achieved this at a slightly lower risk than an average cautious fund (low equity).



Source: Glacier Invest fund fact sheet

Conclusion

1. The formula where one uses the age of a client, changing it to a decimal and then subtracting 1% from it to determine the starting income of the client, does allow for an escalating income until roughly the age of 80, regardless the age of the client.

2. However, if a client needs to reduce volatility and decides to rather opt for a cautious portfolio, income longevity remains an issue for those who live beyond age 80.
3. By increasing the growth to a level of inflation plus 5%, via a moderate aggressive portfolio, one reduces the impact of longevity risk sharply, but the volatility and sequence risk will increase.
4. By using the Glacier Invest 5% Real Income Solution, which incorporates alternative strategies and fund types, one can achieve the inflation plus 5% return, but at the volatility of a typical cautious portfolio.
5. The formula to determine the initial income, as outlined above, can be achieved by using the Glacier Invest 5% Real Income Solution.

FA News | 9 March 2023

Would your kids get your retirement fund money if you pass away?

If you're saving for retirement in a retirement annuity or in your employer's retirement fund, you may wonder what would happen to this hard-earned pot of savings if you passed away. Giving your options some consideration is important to ensure your wishes are respected

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What happens when your retirement fund matures: a refresher

"When you retire, you are allowed to take up to one third of your retirement savings as a lump sum," says Waldette Stoffberg, a Business Development Manager at Glacier by Sanlam. "With the remaining two thirds, you need to buy an annuity that will provide you with a regular retirement income." There are some exceptions to this rule which your financial adviser can outline. But what happens if you pass away on or before retirement? Do your family or dependants automatically receive your retirement savings?

How beneficiary nomination works

With private retirement funds, you need to nominate beneficiaries whom you'd like your retirement benefit to be paid to if you were to pass away. Every retirement fund has a board of trustees that manages it, and it's on your death that they would get involved. Waldette explains: "It is the duty of the trustees of the fund to determine who was dependent on the investor at the time of their death, and then make an equitable distribution of the benefits. Once this has been determined, and the allocations have been approved by the trustees, the beneficiaries receiving the benefit have the option to take that amount in cash, buy an annuity, or a combination of both."

How an annuity is treated on your death

On retirement, you can choose either a life annuity or a living annuity from which to receive your income. Your choice will have implications for your dependants though. If you choose a living annuity, for example, whatever capital is left when you pass away can be inherited by your beneficiaries. Life annuities, whether single or joint annuities, work slightly differently. "If you as a retiree choose a single or joint life annuity, a term certain of up to 20 years can be added. "For a single life annuity, this means that if you as an investor pass away within the first 20 years (if this is the term chosen), the remainder of the term's income is available for your beneficiaries," explains Waldette.

In the case of a joint life annuity, after both you and whoever was the joint life have passed away and it is within the first 20 years (if that is the chosen term), the remainder of the term's income will be available for the beneficiaries. If a capital retention type of life annuity is chosen, after death (for single life after the death of the investor and for joint life after the death of both the investor and the joint life) a capital amount that is chosen at inception by the investor to the maximum of the initial investment amount is paid to their beneficiaries. All of these investment solutions are available via Glacier. Our investment platform allows investors to access a wide range of funds to suit their retirement savings and retirement income needs. With the help of your financial adviser, you can customise your fund selection for ultimate personalisation, mixing and matching leading local and international funds for a portfolio perfectly suited to you.

How to ensure your wishes are respected

To have the peace of mind that your retirement benefit goes to the right beneficiaries when you pass away, review and update your beneficiary nominations regularly. With the help of a financial adviser, and using the functionality of Glacier's investment platform, you can ensure your beneficiaries are well taken care of when you pass away. "We have always had a strong focus on investors who are retiring and offering them the best possible solutions to fulfil their needs," says Waldette. "Glacier is a fully intermediated investment platform, and we believe that by working together with your financial adviser, you as an investor can find the best possible solution for your needs. We have put solutions together to enable investors to make provision for their beneficiaries if required," she concludes.

FA News | 14 March 2023

Retiring from your fund: The sequence of events to follow

The process of formally retiring from your retirement funds should be approached strategically. Retiring from employment or occupation generally marks a shift from saving towards your retirement funds to drawing down from those investments. However, the process is seldom a simple one and invariably involves a set of carefully considered steps, the sequence of which is fairly important to the overall success of your retirement plan. Let's explore. Firstly, the process of formally retiring from your retirement funds should be approached strategically, with the type of fund you are invested in being an important factor in the decision-making process. If you are a member of an occupational retirement fund such as a provident or pension fund, the fund rules will stipulate the age at which you must retire from the fund. On the other hand, if you are invested in a retirement annuity or preservation fund, you can choose to retire any time from age 55 onwards with no upper age limit.

(i) Retiring from a retirement annuity

With the earliest retirement age being 55, retirement annuity investors are free to formally retire from the fund at any time with no maximum age limit. However, given the important role that a retirement annuity plays in one's overall portfolio, it is advisable to be tactical in one's approach to retirement. With retirement annuities being highly flexible investment structures, you have the option of keeping your funds housed in an RA structure without making further contributions towards it, which may be an option if you want to delay drawing down from your investment. Remember, when retiring from an RA, you have the option of commuting a maximum of one-third of the fund value and using the remaining two-thirds to purchase an annuity income from which you must draw a retirement income, although keep in mind the tax implications when making a cash withdrawal.

This is because, while the first R550 000 withdrawn from a retirement fund on retirement is tax-free, any more than this is taxed as per the retirement lump sum tax tables. Individuals often tend to forget that the retirement lump sum tax tables are aggregated per individual and not applied to each separate fund they retire from. This means that once you have previously taken a cash commutation from a retirement fund, or if you are commuting many funds all at once, careful consideration will need to be taken on the tax you might be liable for.
When deciding whether or not to retire from your RA, consider the following:

- The impact of Regulation 28 on your asset allocation, portfolio diversification, and investment returns bearing in mind that this piece of legislation limits, amongst other things, the offshore exposure that you can build into your portfolio.

- Whether or not you need to make a lump sum cash withdrawal to assist with large capital outflows and/or liquidity in retirement such as vehicle upgrades, wedding costs, overseas travel, or home renovations.
- Depending on the value of the withdrawal and whether you have made previous withdrawals from a retirement fund, the tax implications of such a withdrawal.
- Your tax threshold in the current tax year and the impact on any annuity income you plan to withdraw in the current year.
- The impact of Section37C of the Pension Funds Act on your estate plan should you elect not to retire from your retirement, keeping in mind that the distribution of retirement fund death benefits remains at the discretion of the fund trustees.

(ii) Retiring from a pension fund

If you are a member of an occupational pension fund, the formal retirement date will be stipulated in the fund rules. As in the case of retirement annuities, you have the option of taking one-third in cash while using the balance to purchase an annuity income – or using the full amount to purchase an annuity. That said, if you are not ready (for whatever reason) to start drawing down from your retirement nest egg, you have the option of deferring your pension benefit by leaving the money invested in your employer’s fund. If you elect to defer your pension benefits, note that you will not be able to make any additional contributions to the fund after you formally retire and any group risk cover attached to the fund will fall away.

In addition, keep in mind that you will need to remain in the current investment strategy or alternative strategies that the pension fund provider makes available. If you are not ready to start drawing down from your retirement funds but don’t wish to defer your pension benefit, you may want to consider transferring the funds on a tax-neutral basis to either a retirement annuity or a preservation fund, depending on your specific circumstances. If you intend to retire from the fund and begin drawing down from your investments, keep in mind that your options are essentially the same as when retiring from a retirement annuity in that you have the option to commute one-third of the fund value as cash (which is taxable), or use the full fund value to purchase a pension income for your retirement years.

When contemplating retirement from a pension fund, consider the following:

- When retiring from an occupational fund, your group risk cover falls away and it is important to understand how this impacts your portfolio.
- While deferment is an option, be sure to consider how this will impact your ability to structure an investment portfolio that is tailor-made to your needs.
- If you elect to transfer your funds into a preservation fund, keep in mind that you will not be permitted to make any additional contributions towards the investment. On the other hand, if

you transfer the funds into a retirement annuity structure, you can set up a regular debit order for additional contributions to be made toward the fund.

(iii) Retiring from a provident fund

While recent retirement fund harmonisation legislation, which came into effect on 1 March 2021, aims to streamline the treatment of retirement funds going forward, there are a number of legacy complexities that provident fund investors should be aware of. In essence, from 1 March 2021 onwards, provident funds will be subject to the same rules at retirement as pension funds and retirement annuities, except where a provident fund member was age 55 or older on 1 March 2021 and remains a member of the same provident fund. In such circumstances, the provident fund member has the option to withdraw 100% of their investment when retiring from the fund. If the investor was under the age of 55 on 1 March 2021, any contributions made before this date will be vested and, at retirement, you can withdraw up to the full amount.

Any contributions which accrued to the fund after 1 March 2021 will not be vested and, at retirement, you will only be able to withdraw one-third of the value of the non-vested benefits as a cash lump sum. The only exception to this is where your fund value is less than R247 500 in which case you can withdraw the full amount. For existing provident fund members, all accumulated member interests plus any future growth on those benefits as at 28 February 2021 will be given 'vested rights' and will not be impacted by these legislative changes. This means that, at retirement, a member will still be entitled to commute up to 100% of these 'vested benefits'.

Factors to consider when retiring from your provident fund include:

- If you were over the age of 55 on 1 March 2021 and belong to the same provident fund, you have the option to withdraw the full value of your fund, although it is important to first understand the tax implications of doing so. You can request a tax simulation from your provident fund service provider if necessary.
- If you were under the age of 55 on 1 March 2021, you will only be able to withdraw the full value of your vested benefits. Any non-vested benefits will be subject to the same one-third, two-thirds rule as in the case of pension and retirement annuity funds.
- Again, understanding your cash flow needs is important when making decisions about commuting a portion of your investment as cash.

(iv) Retiring from a preservation fund

As in the case of retirement annuities, you are permitted to retire from a preservation fund any time from age 55 onwards although, once again, your decision to retire should form part of your overall retirement plan. When retiring from a pension preservation fund, you have the option of using the full amount to purchase a life or living annuity or withdrawing one-third of the fund

value in cash. Remember, in the case of a provident preservation fund, you only have the option to withdraw all or part of the vested portion of your benefit as a lump sum while you are restricted to a maximum of one-third lump sum withdrawal in respect of your non-vested benefits.Once again, where the pre-tax value of your unvested portion is less than R247 500 at the date of retirement, you are permitted to access the full amount in cash subject to tax. As is evident from the above, there are multiple factors to be considered when retiring from your various retirement funding investments including cashflow considerations, tax, previous withdrawals, the type of retirement fund, the impact of Regulation 28, and your capital needs after retirement, to name just a few. As such, avoid making retirement decisions in isolation but rather ensure that all decisions are made as part of a broader retirement strategy.

Moneyweb | 13 March 2023

Annuities: your questions answered

Retirees may find themselves both spoilt for choice and overwhelmed by the available options. When retiring from a retirement fund, one of the most important decisions that retirees face is what type of annuity to purchase. With the option to choose between a life annuity or a living annuity, and with regard to the permanent nature of many retirement decisions, retirees may find themselves both spoilt for choice and overwhelmed by the available options. In this article, we answer some of the most frequently asked questions pertaining to annuities.

What is an annuity?

Colloquially known as a pension, an annuity is a broad term used for a financial product purchased or set up at retirement that provides a regular retirement income. Upon retiring from a pension, provident, preservation or retirement annuity fund, a retiree is obliged to use at least two-thirds* of the capital to purchase an annuity, following which your retirement savings product will cease to exist. As such, this marks the stage at which one generally stops saving towards retirement and starts drawing down from one's nest egg. But the manner in which the income is received or drawn depends on the type of annuity selected.

How does a life annuity differ from a living annuity?

The key difference between these two vehicles is that a life annuity is an insurance policy while a living annuity is an investment held in the name of the investor. What does this mean? A life annuity is a contract entered into with an insurance company where the policyholder agrees to swap capital lump sum in exchange for a pre-determined, guaranteed income for the rest of their life. On the other hand, a living annuity is an individual investment – usually housed on a

LISP platform – owned by the retiree who retains full control of their investment, the underlying portfolio, and its construction.

Are there different types of life annuities available to choose from?

Yes, most insurers offer an array of life annuities that cater for the specific needs and/or affordability of the retiree. Broadly speaking, retirees have the option of choosing a level life annuity which provides a set income for life with no inflationary increases attached to it, or an inflation-linked life annuity which increases annually in line with CPI. There is also the option to purchase a fixed-escalation life annuity whereby your annuity income increases by a pre-agreed percentage each year.

What are the advantages of a life annuity?

A significant advantage of a life annuity is that the policyholder is guaranteed an income for the rest of their life and will therefore never run out of money, regardless of what happens to investment markets or how long they live.

Are there any drawbacks to purchasing a life annuity?

Yes, there are some disadvantages which retirees should be aware of before committing to this type of annuity. Firstly, it is important to note that the life annuity policy dies with the policyholder and there will be no asset available to pass on to one's heirs. Secondly, once you have selected your annuity income, there is no way of changing your income if and when your circumstances change. Further, even if your annuity is linked to inflation, there is no guarantee that your annuity income will keep pace with pensioner inflation which is largely driven by medical inflation.

What affects the price of a life annuity?

Factors such as your age and the type of annuity that you choose can impact the price of your annuity i.e. the level of income you get in exchange for your capital. For instance, the earlier you purchase your annuity, the lower your guaranteed income is likely to be as a result of your extended life expectancy. A level annuity, which does not increase annually in line with inflation, is more cost-effective than an inflation-linked annuity which increases every year to protect the policyholder against inflation.

What are the advantages of a living annuity?

As the investor remains the owner of the living annuity, they retain full control over how the funds are invested and how the portfolio is constructed, with the ability to revise and rebalance the portfolio as and when circumstances dictate. In the event of their passing, the residual capital in the living annuity is paid to the nominated beneficiaries of the deceased. Importantly, living annuities are highly effective estate planning tools as the proceeds where nominated to

beneficiaries do not fall into the deceased's estate and are therefore not estate dutiable. They can therefore play an important role in reducing costs in the estate and leaving a financial legacy for one's beneficiaries.

What income does a living annuity provide?

In terms of legislation, the annuitant must draw down between 2.5% and 17.5% of the residual capital in the investment per year, and this income can be drawn monthly, quarterly or annually depending on the retiree's needs. Every year on the anniversary of the investment, the retiree can change the level at which they draw down from the living annuity depending on their needs.

What risks are involved in taking out a living annuity?

The biggest risk facing living annuity investors is that of running out of capital, which is why it is so important to draw down from the investment at a sustainable rate while making robust assumptions regarding life expectancy. Inflationary risk, which is the risk that your investment returns don't keep pace with inflation, is something which must be mitigated by annuitants to ensure that they retain the purchasing power of their money over time. As such, it is important to seek independent investment advice and to review your portfolio regularly.

What happens to my annuity income when I die?

Except in the case of a joint life annuity or a life annuity with a minimum payment term, the policy dies with the policyholder. A joint life annuity, which provides a guaranteed income for spouses, continues to pay out until the death of the second-dying spouse. Where there is a minimum payment period attached to a life annuity e.g. 10 years, the policy will continue to pay the annuity income for the duration of that period, even if the policyholder pre-deceases that period. On the other hand, a living annuity continues to exist after the death of the annuitant, and the residual funds will be distributed in accordance with the beneficiary nomination on the investment.

What happens if I am not satisfied with my annuity provider?

As the owner of a living annuity, if you are not satisfied with the service or investment performance of your service provider, you are free to transfer your investment to another administration platform or investment provider at no additional cost. On the other hand, if you have a life annuity in place, you are not able to transfer your policy or make any changes to its terms and conditions.

How is annuity income taxed?

All annuity income, whether in the form of a guaranteed income or living annuity drawdown, is taxed as per the investor's marginal tax rate.

How do I know which type of annuity is best for me?

There are multiple factors that need to be considered when choosing an annuity that is most appropriate for your needs. Some retirees prefer the income guarantees that come with a life annuity as it gives them peace of mind that they will never 'run out of money'. On the other hand, some prefer the flexibility afforded by living annuities particularly when it comes to adjusting drawdown rates and tailor-making their own investment strategy. Some retirees opt to implement a combination of both types of annuities, using a life annuity to cover their fixed monthly expenses and a living annuity to cover extraneous or luxury expenses such as travel, entertainment and leisure. As is evident from the above, many such decisions are permanent in nature and cannot be reversed, and our advice is always to seek guidance from an independent retirement advisor.

Moneyweb | 16 March 2023

Live better in retirement

The secret is to save, in a suitable product, at low cost.

Repeating the stark statistics of how few people can retire comfortably – less than 7% – and even seeing the elderly struggling to afford necessities seems to do little to motivate people to save and invest for retirement. Or they do it half-heartedly, without thinking carefully about what they need and without a proper plan to get there. "For most young people, retirement is a vague concept too far in the future to worry about today," says Kelin Pottier, product development specialist at 10X Investments. "Others are too busy trying to make ends meet from day-to-day to save for retirement. Even those who do contribute to a retirement fund tend to do so without considering if it is enough.

"In addition, most people are too focused on daily news and worry about things they have little control over. Angst and stress about things such as the interest rates in the US, greylisting or the rand will achieve nothing. "The retirement industry has thousands of options, but too few solutions," says Pottier. "Yet saving for retirement is actually quite simple." He says 10X Investments believes in keeping things simple and focusing on what matters most. "Invest 15% of your salary for 40 years, in a high growth fund and keep fees low. "Anybody can benefit from this winning strategy and can retire with enough money. We've back-tested it over more than 100 years and anyone who had followed it, at any time since 1900, would have retired with enough money," says Pottier.

Attitude

For the last five years, 10X Investments has done research to see how South Africans prepare for their retirement. The research is published each year in the 10X Investments Retirement Reality Report. Unfortunately, the figures show that the vast majority of people don't have a retirement plan at all. "The consistency of outcomes gives more credence that the numbers are as bad as surveys suggest," says Pottier. "The bottom line from the most recent report [last year's], is that 68% of people surveyed say they have no retirement savings plan at all, or just a vague idea of one.

"That translates into a lot of people who will probably be forced to rely on family and friends, or to try to eke out a living on South Africa's old age grant [state pension] of only R1 980 per month. "Reports have shown that the outlook is worsening by most measures as South Africans focus their attention on overcoming more immediate financial pressures, brought on by the pandemic containment measures, rising prices and interest rates, and a precarious job market. "People focus only on their near-term circumstances, which are largely outside their control, and are ignoring the long term – where minor changes can deliver huge returns down the line."

A minor change that's important

One minor, very important change would be to look at the fees and other costs when saving for retirement. A major problem in the investment industry is that people face layers of fees. Advisor and platform fees, administration fees and fund management fees are charged at different levels, which could add up to exorbitant fees of 3% to 4% per annum on the value of the investment. "People should look at fees, ask the right questions and negotiate. Saving just 1% in fees over the long term can add 30% to the capital at the end of the 40 years," says Pottier. Once in retirement and living off the returns from your capital, every saving in fees makes a meaningful difference to your income. "In the example of a retiree drawing 5% from their capital, saving 1% in fees makes a 20% difference to [their] monthly income.

It could mean the difference between a carefree retirement and outliving your capital." 10X Investments says people need to think about retirement and calculate how much income they would need in retirement and determine how much they need in retirement savings to provide the income every month. The firm recommends that people should have enough capital to replace 60% to 75% of the income they receive while working. Pottier says the correct replacement ratio figure varies by personal circumstances but is based on the assumption that people should have lower monthly expenses when retiring. "In most cases, people would have little debt at that stage of their lives. The house and car should be paid off, and hopefully other debts too. The cost of children's education may no longer be a factor. You also don't have the costs of commuting to work every day and the associated costs of going to work every day. "A

big part of the lower monthly expenditure is that you stop saving for retirement – the 15% of your monthly income that you were putting away every month. Now your retirement savings start paying you back," says Pottier. A financial calculator on the 10X Investments website shows that a person earning pre-tax income of R30 000 per month should have approximately R4 million in retirement savings to be able to replace 75% of their monthly salary in retirement. "People should realise that saving for retirement is a long-term endeavour. The secret is to invest in a suitable high-yielding investment, paying low fees. Retirement itself is also a long-term game of 20 or 30 years, and the same principles of choosing the right investment portfolio for your time horizon, setting a sustainable income drawdown and keeping fees low apply. "It is very important that people take control of their finances, plan and save for retirement and check their progress and fees annually," says Pottier.

Moneyweb | 10 March 2023

INTERNATIONAL NEWS

UK abolishes tax threshold on pension allowance to encourage people to work longer

LONDON, March 15 (Reuters) - British finance minister Jeremy Hunt on Wednesday said he would abolish the tax thresholds high earners face when they invest in pensions, in a bid to encourage them to keep working and reduce the number of people taking early retirement. Hunt said in his annual budget that he would scrap the so-called lifetime allowance, which had meant that people faced a 25% levy if they saved around 1.1 million pounds ($1.33 million)in their pension pots.

The capped amount of money that can put in their pensions in one year without paying tax will also rise to 60,000 pounds from 40,000 pounds, he said.The move is designed to stop people, particularly doctors and other professionals, quitting the workforce or reducing the hours they work when their pensions surpass the tax thresholds. "I do not want any doctor to retire early because of the way pension taxes work," Hunt said. Hunt has said he wants to increase the size of the labour force which has shrunk after the COVID-19 pandemic and, unlike other countries, has yet to return to its pre-coronavirus level.
($1 = 0.8279 pounds)

Reuters | 15 March 2023

U.K. regulator warns of criminal prosecution for misusing pension plan funds

Trustees and company directors will be criminally prosecuted if they borrow plan assets or if don't follow restrictions on investing plan assets in the company, the Pensions Regulator in the U.K. warned. Following recent cases of some U.K. trustees and business owners breaching rules on employer-related investments, the regulator published guidance Tuesday on how plan assets could only be used by plan sponsors.

The guidance clarifies that no more than 5% of the current market value of plan assets may be invested in employer-related investments — such as shares or property, which is used for employer business operations — and plan assets can't be borrowed by the employer. In recent cases, TPR **prosecuted** the former owner of Norton Motorcycles, who in March last year received a prison sentence for illegally investing plan assets in the company.

Also, in November last year, two former trustees and directors of textile supplier Eastman **Staples** received suspended prison sentences for making illegal loans from plan assets to the company, which amounted to £236,000 ($284,050). "Trustees should be in no doubt that where we see savers' funds being illegally invested, we will take firm action, which could result in a prison term," Erica Carroll, director of enforcement at the regulator said in a Tuesday news release. "To continue to educate trustees about their ERI (employer related investments) duties, our new guidance clearly sets out the restrictions and the responsibilities that apply and so I urge all those involved in running pension schemes to read it, understand it and apply it," she added.

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