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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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Life Annuity Sales Soar Amid Lockdown Losses

Amid the market instability brought on by COVID-19, retirement income specialist Just has reported record demand for life annuity solutions from South African pensioners looking to lock in an income for life. Sales for life annuities have doubled relative to 2019 since the COVID-19 market crash in mid-March 2020. CEO Deane Moore attributes this growth to attractive annuity rates and pensioners seeking to de-risk their retirement income in an unpredictable financial climate.

“Despite current uncertainty, COVID-19 is not all bad news for South African pensioners,” says Moore. “While investment assets may have taken a knock, the cost of purchasing income has also come down and represents a reduction that offsets the decline in market values. This means that pensioners may still be able to restore the sustainability of income for life, even though the market value of their investments may have declined.”

In basic terms, if a pensioner had R1 million invested before the crash, it may only be worth R950k in the current market. But, as the cost of purchasing income is now cheaper, a typical married couple in their mid-60’s may still be able to buy R75k per annum of retirement income with just R950k. A similar income to what they could have bought with R1 million back in January.

“While we aren’t sure when markets will recover, we do know that guarantees are the cheapest they have been in decades. And it is now possible to secure these guarantees inside certain living annuities. In this fallen market, the sustainability of living annuities has reduced by three to four years, but by moving away from an old-style living annuity and into a blended annuity, pensioners can restore this sustainability with less risk now and in years to come.”

Advisers show resilience

A further takeaway from the recent sales numbers is how it reflects the resilience of the South African advisory market. The practicalities of lockdown have presented significant challenges to financial advisers, whose relationships with clients traditionally depend on a more personalised, face-to-face management style. Moore believes that many advisers are successfully reinventing themselves to be able to create and develop meaningful client relationships despite an isolated working environment.

“The growth in annuity sales demonstrates that advisers are in tune with their clients’ need for peace of mind, and a sustainable retirement income in these volatile and uncertain times.” While Moore acknowledges that the sales numbers are exciting, he reiterates that his driving force is the firm’s innovation to enable a blended living annuity solution, which meets a critical need for pensioners: “A secure and sustainable income for life, rather than a promise that may lose its conviction in a failing market. It’s a great time to be offering guarantees when there is so much uncertainty in the world.”

FA News | 20 May 2020

How safe is your money? The questions you need to ask when you invest

Wealth managers throughout the financial industry are often asked: “Is my money safe with you?” The answer has to be “yes”, and not just because the advisor says so. This assurance of safety must genuinely be the case. As an investor, there are ways of ensuring that you are dealing with a reputable professional who operates according to the rules and with an ethical stance. This article addresses two of the most commonly asked questions and how you can establish whether your money is truly safe.

Question 1: Can my advisor or someone who works at the company run off with my money?
Legislation requires advisors to make disclosures up front regarding whether professional indemnity insurance is held by the company for which the advisor works. This indemnity cover is critical since it protects you if the advisor makes a mistake with the advice that they give you. Similarly, fidelity insurance protects you if a staff member steals your money.

In both cases, the cover ensures that the company has the ability to pay you in the event that something goes wrong. Given that this disclosure has to be made up front, you will immediately be able to ascertain if this insurance is in place, or not. Another important point is that companies operating in the collective investment space, the life office or the South African banking environment are highly regulated. In this extremely controlled space, the risk of a staff member ever being able to lay their hands on your money is minimal.

Question 2: What will happen to my money if your company goes bust?
To answer this question, it’s useful to start by distinguishing between market risk and institutional risk. If markets go down, you may risk losing a percentage of your investment. But
given enough time you will make it back, and more. If, however, the institution with whom you invest goes bust and, as a consequence of that you lose your money, there is little to no chance of recovering that loss. This is institutional risk.

In order to establish the extent of the institutional risk to which your money is exposed you need to know on which balance sheet your investment money sits. This tells you which institution would have to fall down in order for your money to be lost. On whose balance sheet(s) your money sits is determined by the investment vehicles that are used in your wealth management solution. There are three broad categories of investment vehicles which use different legal structures, and it is these structures that determine which balance sheet reflects your funds.

1. Unit trust structure (investment plan, tax free savings plan)

This is a discretionary vehicle where your money is held by a nominee company on your behalf, and the money sits on your balance sheet and no-one else's. There are strict regulations which govern the nominee companies that hold the funds. For example, the majority of board directors must be independent; the company may only hold assets, it may do nothing else with them; the company may not incur debt; it cannot transact; it can only act on instructions; and it has to be audited. So there is no risk there. In this instance, you would personally have to go bankrupt in order for the money to be lost.

2. Life wrapper (endowment policy, living annuity)

In these structures your money sits on the balance sheet of the life office you are using. Theoretically, if the life insurance company fails, then you could lose your money. The likelihood of the life insurance company going under, or of your money being contaminated by the financial risks to which the life insurance company is exposed, increases if the company underwrites risk (insurance) products and offers guarantees on their investments.

In these instances your money could be at risk if, for example, an unforeseen or unanticipated event occurs and the company has to pay up. A slightly safer option is to use the life wrappers of pure investment companies that do not underwrite any insurance risk or investment guarantees, and whose assets match their liabilities at all times. ***Full Report: https://www.iol.co.za/personal-finance/investments/how-safe-is-your-money-the-questions-you-need-to-ask-when-you-invest-48299766***

IOL | 21 May 2020

Was the tax calculation on my pension withdrawal correct?

You need to determine whether you've made any previous withdrawals that would have impacted how you've been taxed.

I was recently retrenched and wanted to purchase a property. I need your advice: my pension holdings were R2 752 000, I also had a retirement annuity amounting to R281 000 of which I took R94 000, the third. I requested R900 000 of my pension fund to purchase the property. I received R1 281 000. Please advise what the tax implications should have been. The remaining difference of my pension fund is invested in a parking preservation fund.

After reflecting on the taxable part of my pension, I feel that I have been taxed more than what is stipulated. Please see below if it is correct and what the tax implications are. If we take the R286 000 retrenchment package minus the R500 000 which is a tax-free portion. I was left with R124 000 still tax-free, minus R94 000 and my request for R900 000 cash withdrawal of which I received R901 000, tax of R381 997 is this correct? According to the tax law, any amount over [R1 050 001] gets taxed at 36%. Please advise how they got to this amount. I feel I paid R104 677 extra.

Tax Table

Pension: R2 752 000

Severance retrench package: R286 000

Cash withdrawal request: R900 000

Retirement annuity: R94 000

Total cash: R1 281 000

R1 281 000 minus R500 000 tax free portion

Total R781 x 36 % = R277 320

Tax should have been R287 320 and not R381 997. That is a difference of R104 000 extra

Please advise if this is correct.

"In order to ensure that we have understood your situation correctly, we have assumed that you received total pay-outs next of tax in the amount of R1 281 000. We have further assumed that Sars withheld tax in the amount of R381 997. It, therefore, follows that the pre-tax benefits would have been the sum of the two amounts, in other words, R1 662 997. Using the tax tables applicable to severance benefits and lump sum benefits on retirement, your tax would have been as follows:

- The first R500 000 is tax-free
- R500 001 – R700 000 is taxed at 18%
- R700 000 to R1 050 000 is taxed at 27%
- R1 050 001 and above is taxed at 36%

Taking these tax tables into account, the tax on the first R1 050 000 is R130 500. You should, therefore, be taxed R130 500 on the first R1 050 000, and 36% on the balance (being R1 662 997). The total tax payable should, therefore, equate to R130 500 plus R220 678, bringing your total tax liability to R351 178. You have indicated that you were taxed in the amount of R381 997 which, as you have pointed out, is R104 677 more than the calculation above.

The only explanation for having been taxed more is that you may have previously cashed in part of a retirement fund at some point prior to receiving a severance package and retirement lump sum. When calculating the tax on severance and retirement benefits, it is important to note that these tax tables apply on a cumulative basis.

This means that any previous withdrawals, while not necessarily having been taxed at the time, may have had the effect of using up part of your tax-free portion. Our advice is to check through your records to determine whether you have made any previous withdrawals that would have impacted on how you have been taxed."

Moneyweb | 21 May 2020

The benefits of special trusts

Special trusts help protect the assets of minor children or beneficiaries with special needs.
Special trusts can be effective estate planning tools for the safe custody of assets intended for minor children or beneficiaries with special needs. Whether set up as an inter vivos or testamentary trust depends on the intention of the trust founder and the circumstances of beneficiaries whose assets he seeks to protect.

What are trusts?

A trust is a legal entity which is created to hold assets for the benefit of certain persons, such as your minor children or children with special needs. Assets can be transferred into a trust by sale, donation or on death in terms of your will. The rules of trusts in our country are a blend of English, Roman-Dutch and South African law and are governed by the Trust Property Control Act 1988. Although not a juristic person, there are certain instances where trusts are regarded as having a separate legal entity, such as in terms of the Income Tax Act.

How are trusts formed?

The person setting up a trust, known as the founder, must use a trust instrument to set up his trust. If the founder chooses to set up the trust during his lifetime, he will use a trust deed as the instrument to form an inter vivos (living) trust. If the founder intends for the trust to be formed on his death, he will use his will as the trust instrument to set up a testamentary trust. The trust instrument – whether a trust deed or will – must set out the aims and objectives of the trust, the names of the beneficiaries, the rights, obligations and powers of the trustees, and the duration and procedure for termination of the trust.

What are special trusts?

Special trusts are those which are created for people with special needs, for example, individuals with serious mental or physical disability and who are unable to provide for themselves financially. This type of trust referred to by Sars as a Special Trust Type A. Special trusts can also be used to house assets bequeathed to minor children or beneficiaries in terms of one’s will, and this is known as a Special Trust Type B.

What is a Special Trust Type A used for?

A Type A trust is created to provide financially for a person (or persons) with special needs such as a severe mental or physical disability. These trusts can be either testamentary or inter-vivos trusts, depending on the objectives of the trust founder, and are an excellent way of safeguarding assets and ensuring that your beneficiary is not taken advantage of – especially when you are no longer around. A Type A trust is set up in terms of Section 6B (1) of the Income Tax Act and enjoys special tax benefits that are not available to ordinary trusts.

To qualify as a special person in terms of Type A trust, the beneficiary must have a disability which limits his or her ability to function or perform daily activities and can include physical, sensory, communicative, intellectual or mental impairment. To qualify, the beneficiary must have been diagnosed by a registered medical practitioner and must have had the impairment for at least 12 months. Further, the impairment must be permanent and the condition must not be reversible. If there is more than one beneficiary that qualifies as a special person, bear in mind that they should be related.

It is important to bear in mind that this form of special trust must be set up solely for the benefit of the disabled person, and there can be no benefit in it for the trustees. The trust must be registered with Sars as a Type A trust to enjoy the tax benefits afforded to such vehicles. While ordinary trusts pay income tax at the highest tax rate of 45%, tax rates applicable to natural persons ranging from 18% to 45% apply to Type A trusts.

In addition, the annual CGT exclusion of R40 000 is available to this trust, as well as the primary residence exclusion of R2 million of the capital gain on disposal for CGT purposes. In terms of managing the trust, at least three trustees should be appointed, one of whom must be independent. Generally speaking, this type of trust ceases to exist from the beginning of the year of assessment in which the last beneficiary dies.

What is a Special Trust Type B used for?

A Type B trust, which can only be set up in terms of a will, is used to house assets bequeathed to the testator's minor children or relatives. This type of trust is ideal for those who have minor children and want to avoid their children's inheritance being administered by the Guardian's Fund in the event of their death. The youngest of the testator's relatives should be under the age of 18 at the time of his death for the testamentary trust to be formed.

It is important to note that if for any reason, the testator's will is declared invalid, no testamentary trust will come into effect. The income tax rates for Type B trusts are the same as those applicable to natural persons ranging from 18% to 45%, although this type of trust does not enjoy the same tax benefits as Type A trusts in the annual CGT exclusions and the primary residence exclusions. In general, the testator will stipulate that the trust will terminate at a pre-determined event, such as when the youngest beneficiary reaches a particular age, or on the death of an income beneficiary.

In general, this type of trust will cease to be a Type B trust from the beginning of the year of assessment in which the youngest of its beneficiaries turns 18. Special trusts can be effective estate planning tools if employed and set up correctly and for the right purposes. Setting up a special trust for mentally disabled or incapacitated beneficiaries can ensure the safe custody of assets while at the same time enjoying special dispensation in respect of income tax and capital gains tax.

Full Report :https://www.moneyweb.co.za/financial-advisor-views/the-benefits-of-special-trusts/

Moneyweb | 20 May 2020

INTERNATIONAL NEWS

UK local pension funds warn businesses to stay on the ball

Forum says sustainable practices and good governance must not slide during recession.

The UK's £300bn local authority pension scheme has warned companies they will be punished if they lose focus on sustainability and high governance standards even as the global economy is in recession. The Local Authority Pension Fund Forum, whose members collectively own £300bn of assets, added its voice to a growing number of investors calling for overhaul of traditional businesses practices in response to pandemic, saying now was the time to "double down" and ensure companies focus on sustainability.

Doug McMurdo, chair of LAPFF, said that investors needed to be sensitive to the backdrop that companies find themselves in, but added businesses could not be given a free pass. "It is time now to double down to protect sustainable business practices and long-term shareholder returns in the downturn and lay the foundations for their growth in the recovery," he added. Companies across the world have turned to governments and investors for support as revenues evaporated during the pandemic, forcing businesses to furlough staff, cut executive pay and slash dividends.

The global recession has sparked questions about whether investors would maintain their focus on environmental, social and governance issues, which have carried increasing weight for asset managers and pension funds in recent years. As part of its effort, the LAPFF has increased the number of so-called voting alerts, on everything from executive pay to climate change, it issues to members ahead of annual shareholder meetings. The forum has sent 18 alerts, which advice members how to vote at annual meetings, so far this year, compared to 17 for all of 2019.

This included urging local authority pension schemes to oppose pay at pharmaceutical company AstraZeneca and cruise company Carnival and back climate change proposals at companies from Barclays Bank to Woodside Petroleum. The LAPFF's move is the latest sign that the investment industry's sustainability push has continued despite Covid-19, echoing other investors. BlackRock, the world's largest asset manager, said in March that it would continue to push boards on issues from executive pay to managing environmental risk this year, while others have urged companies not to backtrack on climate change promises and to treat employees well as they tackle the fallout of Covid-19.

Investors have also called on company bosses to ensure they share the pain of the crisis, by not saddling employees with too much of the burden, especially if senior managers continue to enjoy high pay. Next week, it will issue a voting alert for Facebook, recommending its members back a shareholder proposal calling for the nomination of a board member with expertise in human rights, as well as backing calls for an independent chair and equal voting rights for shareholders.

The LAPFF said it was “critical companies have the best leaders and governance structures to take the right decision” as the pandemic wreaks havoc on industries around the world. “Some [businesses] will make significant losses; others will be fighting for their survival. Each company has its own unique set of risks and ensuring long-term value is only possible if a company survives in the short-term, but we must not negate our obligations as responsible investors,” it added.

Financial Times | 21 May 2020

Retirement services provider Human Interest extends funding round to $50 million

(Reuters) - Human Interest, which helps small and medium-sized businesses set up 401K plans for employees, said on Wednesday it had extended its Series C funding round to $50 million due to more demand during the coronavirus crisis. The San Francisco-based startup said the additional funding of $10 million was led by investment firm Glynn Capital, bringing the total funding till date to $81.7 million. “In the past two months, we’ve continued to add customers and grow assets, which is part of what prompted us to raise the additional capital.

We are seeing some of the strongest sales months in the company’s history,” Chief Executive Officer Jeff Schneble said in a statement. The company, which was founded in 2015, had raised $40 million in Series C funding round led by financial services firm Oberndorf Enterprises LLC in March.
Human Interest would utilise the new capital to accelerate hiring across the board, with a focus on engineering, sales and marketing, the company said.

Reuters | 20 May 2020

More than 50,000 RBS staff to work from home until at least September

Bank memo also outlines new Covid-19 safety rules for 400 employees returning in June

More than three-quarters of Royal Bank of Scotland’s 65,000 staff will continue working from home until at least the end of September, the lender has announced. The decision to keep more than 50,000 staff at home was revealed in a memo sent by the chief executive, Alison Rose, to all RBS employees on Thursday morning. However, about 400 workers whose jobs include handling sensitive data have been asked to return to offices and call centres next month. Since the lockdown started, approximately 10,000 RBS employees have continued to work in some offices and in branches, albeit with reduced hours. About 95% of branches have remained open.

However, their numbers are to be bolstered by a further 400 staff “whose jobs cannot be done from home for operational reasons”. These are people working in what the bank described as regulated roles, often handling confidential client data, who could not continue to operate away from the office for prolonged periods. They will be asked to return in June to work in the bank’s offices and call centres.

However, RBS said strict physical distancing and others safety measures would be in place to protect staff. “These include limits of two people per lift, thermal imaging and temperature checks at building entrances, and one-way corridors. Hot desking has been temporarily banned, and there will be at least one empty desk in between persons to ensure social distancing,” the memo states. In areas where distancing is not possible, screens have been put up.

RBS, which includes the NatWest brand, also revealed data that showed how being at home had changed how people work. It said on 15 May there were nearly 5.5m video conferencing minutes racked up across more than 40,000 meetings. Remote-working levels peaked this week, with 52,000 people logged in remotely on 20 May. Rose said: “We are now thinking about the most effective way to operate in the medium term.”

The Guardian | 21 May 2020

OUT OF INTEREST

Why – and how – Companies need to meet insurance needs for their employees

Many South African employees rely on group insurance benefits through their employer to meet their household’s financial needs in the event of death, disability or critical illness. And in most cases it could be likely the only or the majority of the insurance benefits these employees have. This is according to Rudi van Rooyen, Head of Specialised Pricing in Group Insurance at Momentum Corporate who says that we tend to take a raincoat for granted, except when we’re caught in the middle of a rain storm. “And the same applies to group insurance.

The current times are a sharp reminder of the tremendous value that group insurance benefits offer employees,” says van Rooyen. He continues that despite the financial pressures experienced by many employers due to the Covid-19 pandemic, it is important that employers do everything possible to continue providing this high-value, cost-efficient employee benefit,” says. The Financial Sector Conduct Authority (FSCA) and insurers across the industry have made similar appeals, highlighting how failure to pay group insurance premiums could have a devastating effect on the many families who may need to claim during this period.

But, Van Rooyen understands that many South African employers are battling to keep the lights on and the doors open. "StatsSA recently reported in a Covid-19 related survey that over 85% of participating businesses reported turnover below the normal range and 46% indicated temporary closure or paused trading due to Covid-19 and the lockdown. According to Van Rooyen, if cash flow pressures are severe, a business could consider suspending retirement funding contributions for a couple of months, but as far as possible try to continue paying group insurance premiums during these challenging times.

Many progressive retirement funds are already offering employers with cash flow pressures the flexibility of putting contributions on hold, he explains. And what about insurers. "Unfortunately, it's simply not viable for insurers to allow companies to enjoy the same level of group insurance cover for their employees if premiums are not paid, even for a short period. The vast majority of premiums received are used to pay claims, so offering distressed businesses a premium holiday could impact on an insurer's ability to pay the valid claims of other premium-paying businesses," explains Van Rooyen.

In order to avoid unnecessary lapses in cover, the FSCA has recommended that insurers consider a grace period where premiums not paid on the due date can be brought up to date. Van Rooyen says that the way premiums for Momentum Corporate group policies are paid creates financial flexibility, which effectively provides a longer than normal grace period in which to pay premiums. ***Full Report: https://www.iol.co.za/personal-finance/insurance/why-and-how-companies-need-to-meet-insurance-needs-for-their-employees-48297730***

IOL | 21 May 2020

Submitted correctly, UIF is paid out in 24 hours – Fund Commissioner

How to calculate the UIF-Ters for employees.

The government-initiated Temporary Employer-Employee Relief Scheme (Ters) is now paying out a day or two later after a successful claim. Ters provides emergency relief for employers to claim benefits on behalf of their employees during the Covid-19 lockdown. This is to avoid employees losing income or being placed on annual leave as a result of the temporary closure of their employer's operations.

The rules of the scheme stipulate:

- Rule 1: The benefit will be de-linked from the UIF's normal benefits and therefore the normal rule that for every 4 days worked, the employee accumulates a 1 day credit will not apply. The benefit will only pay for the cost of salaries of the employees for the duration of the temporary closure.

- Rule 2: The maximum salary benefits to be taken into account in calculating the benefits will be capped at a maximum amount of R17 712 per month per employee and the benefit payable to an employee will be calculated using the income replacement sliding scale (38%-60%) under the UIF. In other words the maximum salary benefit is R6 638.40 per month per employee.

- Rule 3: If an employee's income is determined by using the scale falls below R3 500, the employee will be entitled to a benefit amounting to R3 500. In other words, the minimum salary benefit will be R3 500 per month per employee.

- Rule 4: If the employee is being paid in full by the employer during the period of closure, the employee is not entitled to benefit under TERS. However, the employer is permitted to pay TERS benefits to employees in advance and then retain those amounts once the UIF makes payment of the TERS benefits to the employer.

- Rule 5: An employee may only receive TERS benefits on condition that the total benefit together with any additional payment (ie top up) by the employer is not more than the normal remuneration that the employee would have received for working during that period.

However, the main frustration for employers claiming benefits under the scheme relates to the constant changes to the system, system errors and only some employees getting paid despite their companies having gone through the same application process and submitted the same documents for their employees. Unemployment Insurance Fund (UIF) Commissioner Teboho Maruping says although several issues with the application and processing of Ters have been resolved, many challenges remain.

"Our commitment is to improve all the time and to pay back the trust that has been placed in us as a public insurance fund," Maruping says. He says so far, the Department of Employment and Labour has paid 2 551 236 workers, bringing the total value disbursed since April 16 to over R14 billion. "We are now more confident in saying that we are on track to achieve our vision of a caring, accessible and customer-centric UIF that contributes towards poverty alleviation," Maruping says.

Challenges

Shane Johnson, a professional support lawyer at Webber Wentzel, says that it has found that there is an administrative challenge for many of the foreign nationals working in restaurants. "What we have picked up is that Zimbabwean-born employees who have applied for the UIF-Ters benefit seem to get rejected. There seems to a system error," Johnson says. He says that should an employer be unsuccessful in its Ters application, [due to a system error] individual employees may apply for the reduced work time benefit under the UIF.

The UIF has also made a special illness benefit available to employees who are quarantined due to Covid-19. "Ters benefit can assist an employer for a maximum period of three months," Johnson says. He says that should an employer be unsuccessful in its Ters application, [due to a system error] individual employees may apply for the reduced work time benefit under the UIF. The UIF has also made a special illness benefit available to employees who are quarantined due to Covid-19. “Ters benefit can assist an employer for a maximum period of three months,” Johnson says.

Treatment of Ters benefit payments

When considering the tax treatment of Ters benefit payments, it’s important to note that it’s the employee who is entitled to the Ters benefits and not the employer, Johnson says. “Although the employer receives the payment of Ters benefits from the UIF, the employer is merely responsible for processing the payment on behalf of the UIF.” The payment of Ters benefits should ideally be communicated separately to employees and not included in payslips. He adds that Ters benefits do not constitute remuneration paid by the employer.

Full Report: ***https://www.moneyweb.co.za/news/south-africa/uif-is-now-paid-out-in-24-hours/***

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

2nd Floor Leppan House
No 1 Skeen Boulevard
Bedfordview 2008