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THE RETIREMENT INDUSTRY NEWSLETTER



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LOCAL NEWS

Regulator takes a hard line on retirement funds costs

Authorities will crack the whip over funds that have significantly higher costs than the industry average, which are eating into savings.

The country's top financial services watchdog says it is going to crack the whip to ensure pension funds accelerate efforts to drive down costs that eat into people's retirement savings.

Speaking at the Financial Sector Conduct Authority's (FSCA) retirement industry conference on Thursday, the regulator's divisional executive of retirement funds supervision Olano Makhubela said they will soon be looking at retirement funds statements to see how their average costs compare against the industry average. Funds whose costs deviate significantly will have to explain themselves. Makhubela said the regulator will be looking at everything, from administration costs to asset management, consulting and litigation fees, which he said are on the rise, eating further into member's savings.

"We have to adder ss this issue of costs differently and urgently because it is a real problem," said Makhubela.

He said the FSCA will conduct research to get a sense of industry averages. It will be looking at large umbrella funds as these have the economies of scale that the FCSA and National Treasury want to see all funds achieve.

"We'll need to design a model to see what the optimal number of members is that yields the economies of scale we need to bring down costs and then we will address the outliers," said Makhubela.

He said the regulator is, however, cognisant that some investments, such as private equity and alternatives that allow pension funds to invest in development projects, do not come cheap. He added that the drive to have funds whose costs exhibit economies of scale will undoubtedly lead to more consolidation in the industry.

The FSCA said there are more than 1,500 active retirement funds in the country. Makhubela said the ideal situation is to have a few large umbrella funds, large union-driven funds, and some standalone ones, such as the Eskom Pension Fund given their large size.

Business Live | 12 September 2019

Regulator wants fewer pension funds

The Financial Sector Conduct Authority says the roughly 1,500 funds won't achieve the economies of scale they need to reduce administration costs.

SA's top financial services watchdog says it is working with the Treasury to drive more consolidation among retirement funds because there are too many of them to achieve lower costs. The Financial Sector Conduct Authority (FSCA) said there are just under 1,500 active funds in the country and even though this is much lower than the 13,000 that existed 10 years ago, the regulator said this was still "too much" to achieve the economies of scale they need to reduce administration costs.

"The question is how do we go about it because there are some sensitivities there," said Olano Makhubela, the FSCA's divisional executive of retirement funds supervision, during the authority's retirement industry conference on Thursday.

A study done by the FSCA and the Treasury showed that large funds provide more value for each rand of members' money spent on administration and other costs, he said.

Makhubela acknowledged that some commercial umbrella funds were sometimes more expensive, but believed that if they could get smaller players into their stable that would bring down costs.

However, labour federation Cosatu has raised concerns that the consolidation drive would increase concentration in the sector, giving more assets to big administrators already receiving most of SA's savings pie.

Jan Mahlangu, retirement funds co-ordinator for Cosatu, said one-stop-shop corporate umbrella funds would be a barrier to entry for black-managed funds at a time when the country should be encouraging competition to drive down escalating retirement funds costs. Mahlangu said if the drive for consolidation was happening in a transformed industry, Cosatu would not have a problem.

"I want to iterate that we are not opposing consolidation, but it's how consolidation is done. It's clear that it is consolidation to save ourselves and to make sure that no-one else gets into this space," he said.

Makhubela said consolidation would benefit workers as Treasury studies have shown that bigger funds have economies of scale.

The FSCA's specialist analyst in the retirement funds supervision division, Naheem Essop, said it would also ensure that the regulator is not spread too thinly among thousands of funds. ***Full Report:*** ***https://www.businesslive.co.za/bd/companies/financial-services/2019-09-12-regulator-wants-fewer-pension-funds/***

Business Live | 12 September 2019

Most retirees regret not having saved more - PSG Wealth

The market hasn't shown any real growth over the past five years and even the most optimistic investors are starting to panic, particularly those who have retired, says Schalk Louw, a portfolio manager at PSG Wealth.

With the cost of living rising rapidly, many pensioners are forced to increase their withdrawal rates to well above the recommended levels, in an environment that hasn't provided sufficient growth to sustain such high withdrawal rates, says Louw.

"Aside from comments from the retirees I work with daily, enough research has been done over the years to determine what retirees would have done differently, given the opportunity to start over. It will come as no surprise that most of them claimed that they would have saved more and would have obtained proper advice well before retirement, if they got a second chance.

"Despite these observations, I still get the impression that most people don't realise how important it is to save as much as possible before retirement, even when times are tough," says Louw.

He has the following advice:

* Control your expenses. Many individuals who find it difficult to make ends meet on their current income take on extra work to earn an additional income. Yet these individuals still struggle to save, even with a higher income, says Louw. The key is to find out exactly what you are spending your money on, and the only way you're going to do that is by drafting a strict budget to monitor your expenses. Once you know what you're spending your money on, you can control your expenses, says Louw.

One of the biggest reasons South Africans are struggling to save is because they live above their means. You need to buy cheaper and smarter, says Louw. If you cannot afford a TV package, downgrade or cancel your subscription. Also, avoid any additional debt that may obstruct your road to financial freedom.

* Make saving non-negotiable. Make saving a non-negotiable part of your routine, rather than a decision you have to opt into every time, says Louw. Set up a monthly debit order for a fixed deposit, unit trust or an endowment policy, and make sure the debit goes off right after pay day. This will leave less money available to spend, forcing you to live more frugally.

* Claim your taxes. Many people make the mistake of overlooking the tax benefits offered by some savings products, says Louw.

Make sure that, if you invest in a retirement product, you include those certificates with your tax submissions every year. You can deduct up to 27.5 percent (up to R350 000) of the greater of your taxable income or remuneration per year by saving in a retirement product.

Also, use any tax returns paid back to you to contribute to your savings, whether it comes from your retirement annuity or unpaid medical claims.

* Consider the future. If you need a reminder about why saving is critical, ask yourself whether you'd be able to live on R1780 a month. That's the government pension grant for people over 60, which goes up by R20 for those over age of 75. "Learn from the mistakes of those who came before you. Don't give away your power by living above your means. Challenge yourself by saving as much as you can to ensure that you can have a more comfortable and financially sound retirement," says Louw.

Personal Finance | 15 September 2019

SA's retirement-savings crisis 'is deepening'

The state of private retirement savings in South Africa is worsening, with a report showing that 67 percent of people have no retirement plan at all or only a vague one. The report, commissioned by 10X Investments, also found a lack of understanding among clients of the retirement-savings industry on what they have actually saved and what they will need to have saved to preserve their lifestyle in retirement.

In the poll, 72 percent of those with a retirement plan are concerned that they will not have saved enough money to live on after they retire, while 77 percent of those who do have some sort of a plan accept that they will need to continue earning an income after they retire. The report says 72 percent of women across all demographics either have no retirement-savings plan at all or have only a vague plan.

"South Africa's retirement time bomb is ticking ever louder," 10X Investments founder and chief executive Steven Nathan says. "We all need to urgently confront this reality, to prevent an even greater proportion of

South Africans slipping into poverty at retirement." Households remain under tremendous pressure financially, with a negative impact on retirement-savings behaviour.

The crisis is hitting women particularly hard, with more than 70 percent of female respondents admitting to doing badly financially or feeling unsure about their financial predicament. "Women in South Africa are following the global trend of saving less for retirement and investing their savings less aggressively, which can only mean that discrepancies between genders will be magnified in retirement," said Mica Townsend, business development manager at 10X Investments.

"The situation is dire even before you take into account the fact that women have a longer life expectancy than men."

Personal Finance | 10 September 2019

Sustainable investing is becoming the new normal

Corporate SA is ahead of the curve when it comes to impact investments.

When it comes to taking sustainable investing seriously, South African businesses have a lead on their global counterparts, says Johnny Ohgrøn Hansen, investment director at Investpire.

Speaking at the Alexander Forbes Investment Indaba in Johannesburg on Wednesday, Hansen said local firms have this edge because the developmental aspects that comes with doing business in South Africa mean they are more attuned to the sensitivities that come with operating in some communities.

Hansen, who was previously a regional director at the Danish state-owned Investment Fund for Developing Countries, has put together a ranking system that measures a company's efforts regarding sustainability. He dubs those that make no effort 'Dinosaurs' and those that excel 'Tree Huggers'.

He says there has been a remarkable change in how large corporations have embraced sustainability and impact investing. When he started out, only a handful of companies took corporate social responsibility (CSR) seriously. Nowadays it's very different. "Tree huggers are not who you think they are; 90% of blue-chip companies are investing in CSR."

This can be seen with 80% of investee companies in Africa now having sustainability and ethical considerations as part of their investment processes.

False choice myth

Despite their commitment to sustainability, local companies could be making even more progress if they were not stuck in the belief that there is a choice between making a sustainable or a financial investment. “They actually go hand in hand,” says Hansen.

This view was somewhat echoed by Gyongyi King, chief investment officer at Alexander Forbes, who said: **“You can’t plan for the long-term if you don’t believe in climate change.”** ***Full Report: https://www.moneyweb.co.za/investing/sustainable-investing-is-becoming-the-new-normal/***

Moneyweb | 12 September 2019

Hedge funds delivered positive performances in 2018, despite headwinds

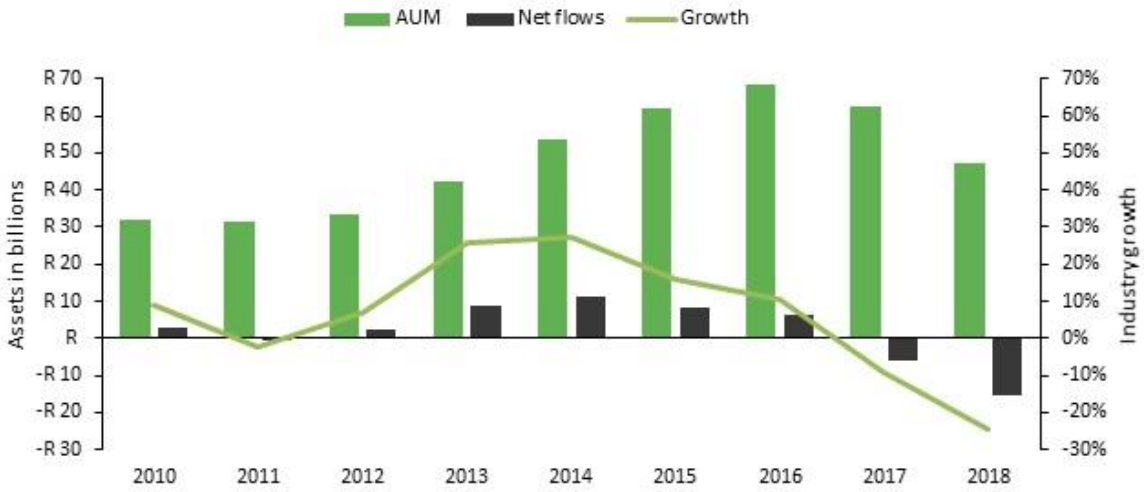
But total net outflows rose as hedge fund assets declined to R47 billion.

In a year when local equities lost 8.53% on a total return basis, all size categories of hedge funds delivered positive average returns for the 12-month period ending 31 December 2018 – highlighting the diversification benefits this asset class brings to investment portfolios.

The 15th annual Novare Hedge Funds Survey shares findings related to asset size, performance and fees for the year ending December 2018. Through the newly introduced industry thermometer, the survey gathered further insight into how hedge fund managers feel about the industry and what they envisage for its future

“Overall, hedge funds performed well relative to the market, despite a notable wider dispersion of returns. Hedge fund managers highlighted that the absence of high volatility in capital markets, coupled with regulatory changes, were key challenges faced by the industry during the period,” said Kagiso Mathole, Portfolio Manager at Novare.

Hedge fund assets by size



Total net outflows for the industry in 2018 were R15 billion as hedge fund assets declined to R47 billion.

The industry continued to be dominated by large hedge funds with assets over R2 billion. They represented 42% of total hedge fund assets after growing by a further 4% since Novare's review of the industry in 2017.

However, funds with assets between R500 million to R1 billion, and R1 billion to R2 billion, lost industry share, with the latter category dropping from 25% to 14% of total hedge fund assets. Consequently, this led to increased market share for funds with assets below R500 million and those with assets over R2 billion.

Small net inflows were observed in only two areas - R1.87 billion in the categories of hedge funds with assets between R100 million and R200 million as well, as R1.69 billion in funds managing less than R100 million. Outflows were experienced in all categories of funds with assets under management (AUM) between R500 million and R2 billion, with the largest asset losses in the R1 billion to R2 billion category. The least net outflows (R1.5 billion) were observed in funds with an AUM of between R200 million and R500 million.

"In the past, the proliferation of South African hedge fund assets happened without significant inflows to the industry. This infers that growth, in terms of assets, was mostly driven by good returns," said Mathole. ***Full Report:*** ***https://www.fanews.co.za/article/investments/8/general/1133/hedge-funds-delivered-positive-performances-in-2018-despite-headwinds/27517***

FA News | 13 September 2019

OPINION: Is it time to switch your RA?

It's a well-established truth that constantly switching portfolios will harm your long-term investment outcomes. But what if your retirement annuity (RA) has underperformed for the past five or even 10 years?

One of your primary concerns in deciding whether to move your RA should be to examine the impact that high fees might be having on your investment results. Fund performance is usually reported net of fees, and often when your funds appear to have performed badly, it might be the result of excessive fees eating into returns rather than a reflection of the performance or growth of the portfolio's underlying assets.

It stands to reason that a portfolio that utilises the same investment benchmark and is invested in similar asset classes, but charges lower fees, has a far greater chance of achieving the targeted returns and has a higher likelihood of helping you to reach your investment goals - even if you pay penalty fees or early termination charges to move from a higher-cost solution to a lower-cost solution.

To demonstrate the benefit of lower fees on investment outcomes, let's use the example of a 45-year-old investor who currently holds R550 000 in an RA, and is deciding whether to switch portfolios.

The investor's current portfolio, the Old School Portfolio, targets average returns of 10% a year before fees, and charges investment fees totalling 6% per year (yes, really). The alternative investment, the New School Portfolio, also targets 10% a year, but only charges 1.2% in fees.

If the investor moves his funds to the New School Portfolio, he would pay a penalty of R40 000 from his R550 000 retirement capital, which would leave him with an initial lump sum of R510 000. If both portfolios achieve their performance targets, the 4.8% reduction in annual investment fees means that, despite having paid the penalty charges, the New School Portfolio would outgrow the Old School Portfolio by more than R38000 within three years.

In 10 years, the New School Portfolio would have outperformed the Old School Portfolio by more than R371000. And by the time of the investor's retirement at 65 years, the New School Portfolio would be worth R2.75million - more than double the result of the Old School Portfolio, which would have achieved just R1.2m.

Many investors are so afraid of the impact of penalty charges that they leave their savings in expensive underperforming portfolios, without realising just how powerful the benefit of a reduction in fees can be over time.

It can prove valuable for investors to shop around and ask questions about their fee structures and charges. And if you need any help in comparing different portfolios or understanding what the effects of different fees would be on your investment outlook, ask a professional financial adviser for assistance. ***Full Report:*** ***https://www.iol.co.za/personal-finance/retirement/opinion-is-it-time-to-switch-your-ra-32798363***

Personal Finance | 13 September 2019

INTERNATIONAL NEWS

UK pension annuities under threat as rates plummet

They turn savings into an income for life – but demand has fallen sharply

This week pension annuities collapsed to an all-time low. So are they now a pointless purchase?

It is a product that turns your pension savings into an income for life, but demand has fallen off a cliff since the government introduced a range of "pension freedoms" in 2015 that meant people no longer had to take one out. Rates have fallen sharply as a result of increased life expectancy and low interest rates. In 1995, a 65-year-old man buying a standard "level" annuity with a £10,000 pension pot would have received a typical annual payout of £1,110.

In September 2010 the figure stood at £606, but by the start of this year it had fallen to £468.

On Tuesday this week that figure had shrivelled to just £410, according to financial data provider Moneyfacts.co.uk. Intriguingly, however, there was a glimmer of hope later in the week that rates might start to get a little better after gilt yields – the interest rate on UK government bonds, which only last week slumped to a record low – rose to a six-week high on Wednesday.

Once you buy an annuity you can't normally change your mind, so you may want to seek some advice. And there are lots of different sorts.

For example, do you want your annuity income to stay the same or increase each year? Do you want a "single life" annuity or one that pays a beneficiary after you die? If you have a medical condition, are overweight or smoke, you might be able to get a higher income by opting for an "enhanced" or "impaired life" annuity.

With rates so low, and all the choices at people's disposal, signing up for an annuity might look like a bit of a mug's game – yet many experts argue that they still have a place in the "retirement arsenal".

As Moneyfacts head of pensions Richard Eagling says: "It is still the only product capable of turning defined-contribution pension savings into a guaranteed income for life."

What an annuity is good at doing is providing a "baseline income" that can be used to cover monthly living costs. So you might use part of your pension pot to buy one, and leave the rest invested in drawdown to be used flexibly as and when required, says life insurer Aegon. With pension drawdown, you choose where to invest your pension money and how much income you want to take – but this is a riskier option than an annuity.

Nathan Long, a senior analyst at investment firm Hargreaves Lansdown, agrees that when you finally retire permanently, "a combination of secure income to cover the essentials and drawdown for the nice-to-haves is a solid approach". Using "tranches" of your pension to buy several smaller annuities as you get older is less risky then using all your money to buy one annuity at one point in time, he adds.

"You can benefit as annuities generally pay more as you get older, and any health conditions that develop can be factored in, which can also boost the payouts," says Long.

The Guardian | 14 September 2019

OUT OF INTEREST NEWS

Pace of SA economic reform is dangerously slow, but all is not lost for the SA investor

As weak economic growth, social unrest and political upheaval continue to cripple the South African economy, the slow pace of reform is reaching critical levels. However, the mounting bad news for the country could mean good news for local investors as opportunities are being created as the bad news is priced into the market.

This was the message at Old Mutual Investment Group's latest investment update, where Chief Economist, Johann Els, outlined the current state of the economy, joined by Old Mutual Investment Group's Head of Equities, Siboniso Nxumalo, who pointed to the investment silver lining.

Els painted a fairly dismal picture of the current economic scenario in the country, with an increase in perceived negative news causing general depression about SA's outlook. "We saw a much worse than expected Q1 GDP result, although there was a strong rebound in the Q2 data. That said, the significantly slower-than-hoped for policy reform is leading to intensifying anxiety and frustration across the country," he said. "Perceived bad news such as the National Health Insurance (NHI) proposal and the associated costs this will bring, the debt relief bill and talk of prescribed assets is only serving to take us backwards in terms of policy reform.

"Additional Eskom support will also raise our fiscal risk at a time when we already have a significantly higher fiscal deficit, due to Eskom's debt and a weak economy," he explains. "We are therefore facing increased risk of a credit downgrade, despite Treasury's new Economic Plan."

He adds that the global economy has also been less supportive recently, further escalating the urgency of local policy change. "Globally, we've seen mostly negative news recently, with a sharp escalation of the US/China trade war threatening Emerging Markets, as well as heightened risk of a global recession. However, on the upside, global central banks have turned a lot more dovish recently," he highlights.

Nxumalo, echoing this concern over the global environment, adds that while the local economy has its problems and investors should certainly look to diversify, offshore investing has its own set of risks currently that can't be ignored. "Increased uncertainty around the Brexit deal has deterred economic growth in the affected regions and has negatively impacted the UK exchange rate. There is no clear outcome on the issue and this has both positive and negative risks," he explains. "The global trade war is also having a negative impact on global trade and, consequently, on international equities. These timelines are also uncertain, which isn't promising for markets."

He points to the many South Africans currently looking to take their investments offshore. "Going offshore during crises can destroy value. Just consider the many SA companies that have struggled to invest successfully offshore. This is despite having access to strategic planning and the best investment bankers' funding that money can buy. Most of these deals have eroded value in the companies," he says. "In contrast, SA Equity during crises – especially when bought at attractively low valuations – has historically been shown to generate positive returns, even throughout the tough Zuma years.

"It is wise to consider the risks before going offshore in times of fear and panic."

Els believes that considering the global backdrop and the fact that it is difficult for SA to do well when the global economy is suffering, the next few months are going to be crucial for SA. “If the Eskom plan to be announced later this month is half decent, but a more transparent plan is still needed. We need firm assurances,” he warns. “The same can be said for the Medium-term Budget. Despite a dismal deficit picture, a confirmed expenditure cutting plan will be a positive move for the economy. If the Eskom and Medium-term Budget issues can be properly addressed, combined with the generally positively received Economic plan from Treasury, then we might escape a Moody’s downgrade for now.”

But when it comes to investing, bad news can often be good news. While SA equities are currently at crisis levels (excluding the global duel listed names), having reached a 16 year low, Nxumalo points out that this creates price opportunities. “SA equities are effectively on sale,” he says. “All of the bad news we’re seeing currently is already in the price of local equities, with low valuations creating plenty of buying opportunities.

“If you look at the 2008 financial crisis, this year was one of the worst years on record for our local market, falling 30.4% at its lowest point; but the recovery produced some of the strongest performance on record too,” he explains. “Crises and uncertainty have always created opportunity and the current environment should be no different,” he says.

FA News | 12 September 2019

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