

ALLAN GRAY

LONG-TERM INVESTING

# Legal review: Contextualising retirement reform in SA

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3 March 2022





# Agenda

Introduction to the papers

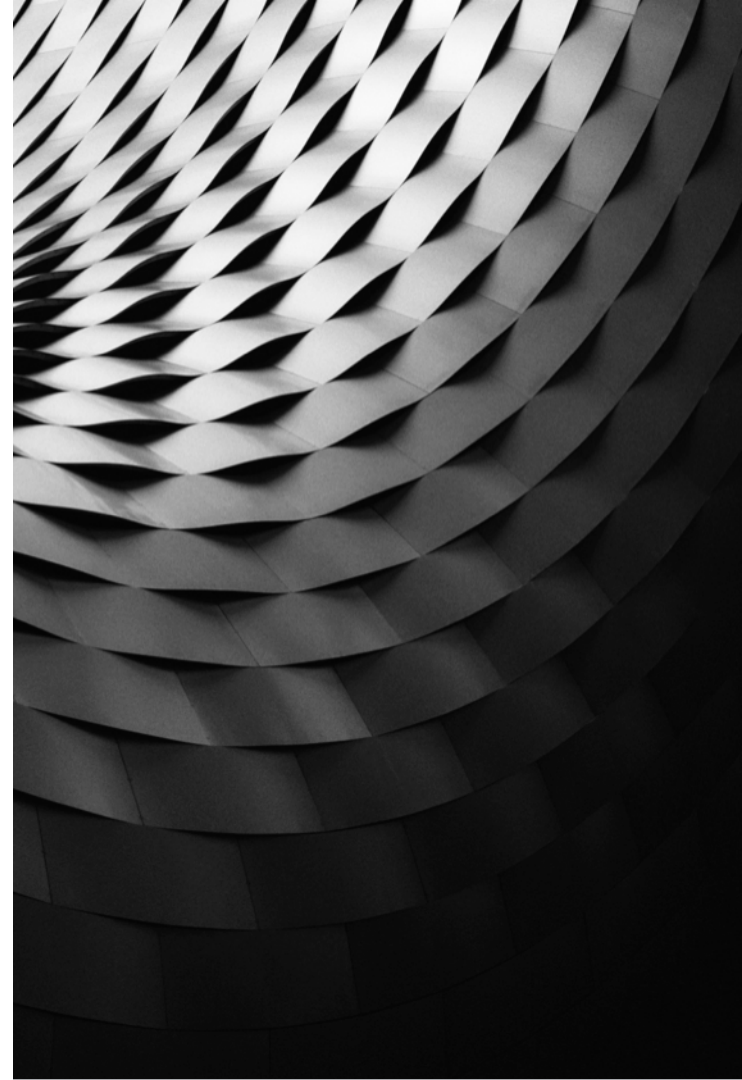
National context

“Two-pot” system

Taxation proposals

Governance of umbrella funds

Offshore investment limits



## Publication of the papers

14 December 2021

National Treasury published two papers for public comment by 31 January 2022:

**Encouraging  
South African  
households to save  
more for retirement  
("Two-pot" system)**

[http://www.treasury.gov.za/comm\\_media/press/2021/2021121401%20Two-pot%20system%20retirement%20proposal%20and%20auto%20enrolment.pdf](http://www.treasury.gov.za/comm_media/press/2021/2021121401%20Two-pot%20system%20retirement%20proposal%20and%20auto%20enrolment.pdf)

**Governance of  
umbrella funds**

[http://www.treasury.gov.za/comm\\_media/press/2021/2021121401%20Commercial%20Umbrella%20Funds.pdf](http://www.treasury.gov.za/comm_media/press/2021/2021121401%20Commercial%20Umbrella%20Funds.pdf)



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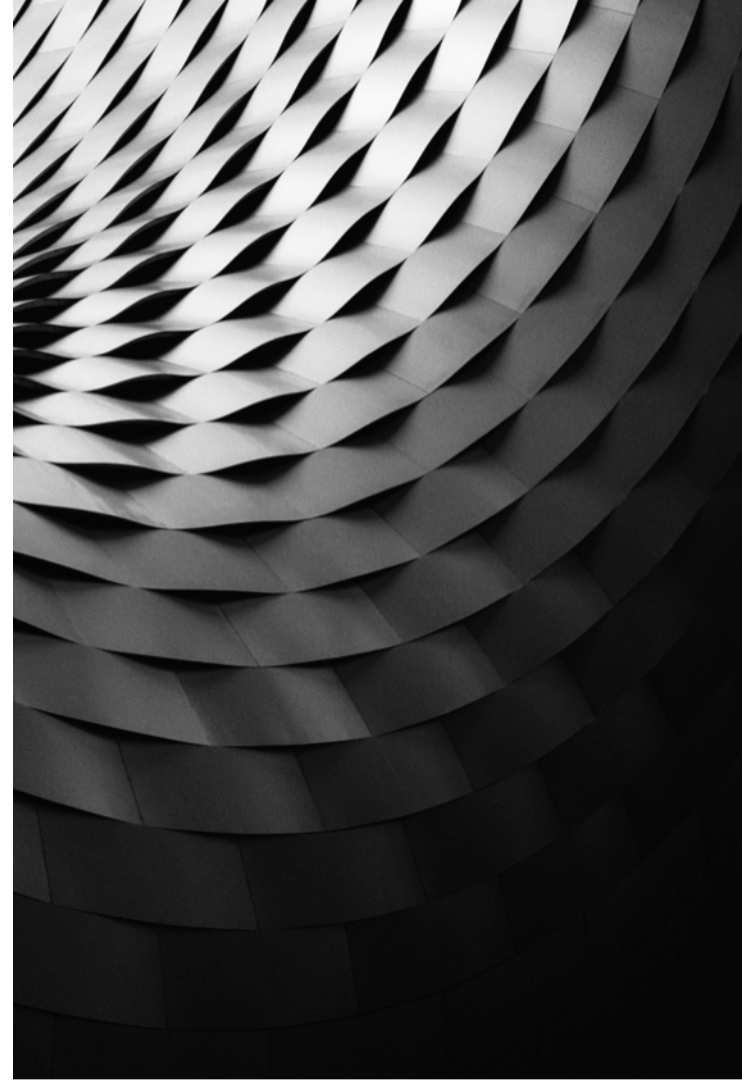
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## National Context

Why has National Treasury published these papers?

- Government has been progressively reforming and restructuring the retirement savings framework since 2012
- South African households do not save sufficiently for retirement or short-term needs
- Average household savings are just above 2% of GDP p.a. (consisting mostly of contractual savings in retirement funds)
- Replacement values are low: average of 25-30%
- Leakage from retirement funds is one of the contributing factors to the situation

## National Context

Why has National Treasury published these papers?

- Discretionary savings are low, and many South Africans are financially stressed
- The COVID-19 pandemic exposed the fragile state of our personal finances
- Government wants to promote a better savings culture by:
  - Encouraging increased retirement savings and preservation until retirement
  - Ensuring that retirement funds are well governed and efficiently managed to promote good outcomes for members
- Government also wants to give people access to their savings at times when they need them most

## National Context

### Outstanding reforms to the retirement system

#### Coverage

Significant categories of workers are still not participating in any retirement scheme.

#### Preservation

Few members preserve savings and tend to cash out when they change jobs.

#### Costs

Most cost structures of retirement funds relate to the size of the fund, which is not economical.\*



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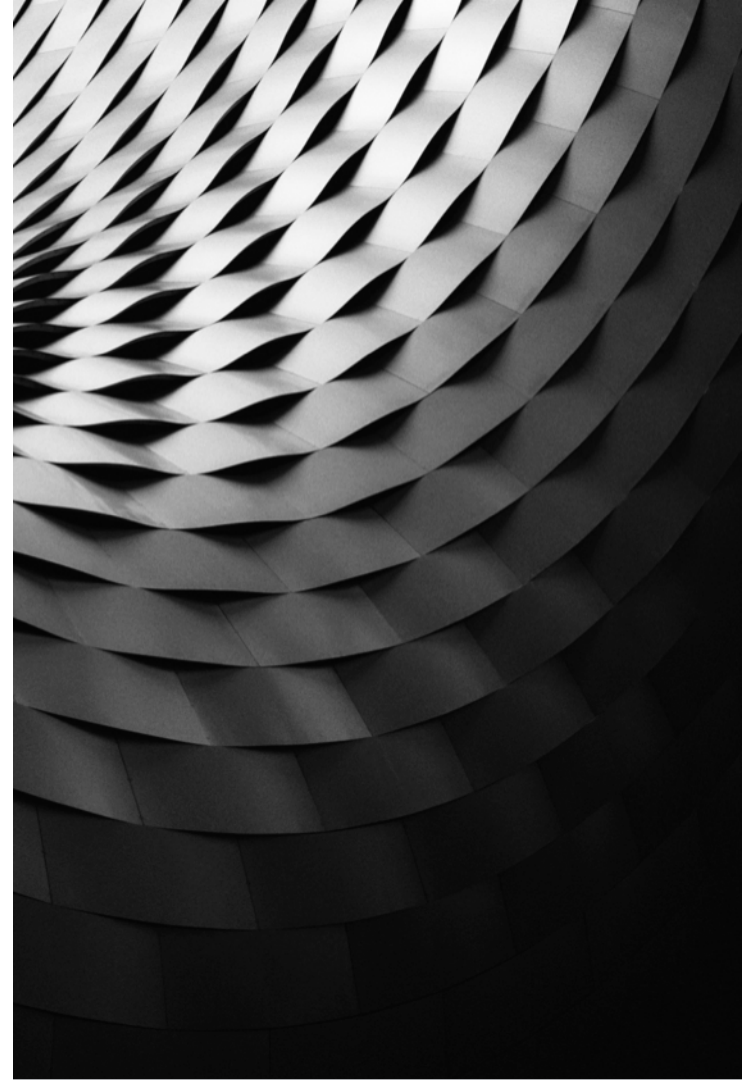
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## Problems identified by National Treasury

Two main concerns with the current system:

1. There is insufficient preservation of retirement fund savings before retirement.
2. Individuals in financial distress can currently only access their retirement savings by resignation or retiring.

*“Any reform should strive to find the right balance to solve both problems, one that promotes preservation but allows for some flexibility that works in members’ long-term interests.”*



## Policy proposal

The “two-pot” system



## For members of provident funds (under 55 on 1 March 2021)

Vested provident fund benefit

**Unvested provident  
fund benefit**

Contributions from 1 March 2021  
to implementation of  
“two-pot” system

**Accessible before retirement**  
Contributions from implementation  
of “two-pot” system

**Preserved until  
Retirement**  
Contributions from implementation  
of “two-pot” system

## How this might work in practice

	Vested pot in pension fund	Vested pot in provident fund	Accessible / savings pot	Retirement/ preserved pot
Contributions	All contributions made before implementation	All contributions made before implementation	1/3 net* contributions made from implementation	2/3 net* contributions made from implementation
Investment growth	Positive or negative growth added	Positive or negative growth added	Positive or negative growth added	Positive or negative growth added
Pre-retirement withdrawals	Can only access on termination of employment	Can only access on termination of employment	Can access at any time (limited to one per year)	None - inaccessible
Retirement	Must annuitise at least 2/3 (subj to <i>de minimus</i> and vested provident fund rights)	Must annuitise at least 2/3 (subj to <i>de minimus</i> and vested provident fund rights)	Can access any remaining balance in cash	Must annuitise full benefit (subj to <i>de minimus</i> )

\*net of risk premiums and administration charges

## Policy proposal

### Additional elements of the “two-pot” system proposal

- The rules would be applicable to all funds, including retirement annuity funds and preservation funds
- Immediate access



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## Taxation of contributions and withdrawals

### Concerns with current tax treatment

- Can benefit those with higher incomes to a greater degree
- Potential tax arbitrage

## Taxation proposal: Options for adjustment to tax treatment

1

Adding withdrawals from accessible pot to taxable income in year of withdrawal.

2

Remove deduction for contributions to accessible pot. Benefit remains tax-free (while invested and on withdrawal). Effectively, the same as a TFI.

3

Flat deduction percentage for all contributions. Tax on withdrawals either the same flat rate or added to taxable income.

4

Maintain current tax treatment.





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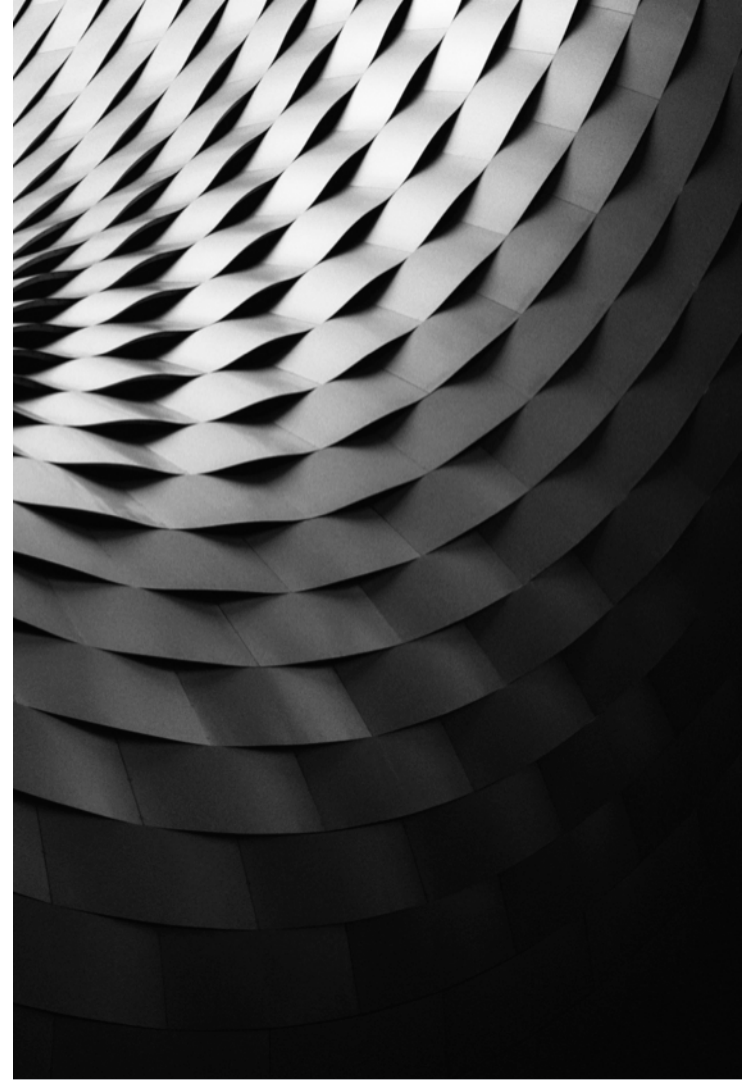
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# Governance of Umbrella Funds

## Overview

- National Treasury is concerned about the poor governance of some umbrella funds.
- The paper focuses on lack of member representation, lock-in provisions, opaque charges and the reluctance of funds to take action against delinquent employers.
- In many instances, the paper fails to consider the current regulatory framework and existing legislation. This already provides for good governance.



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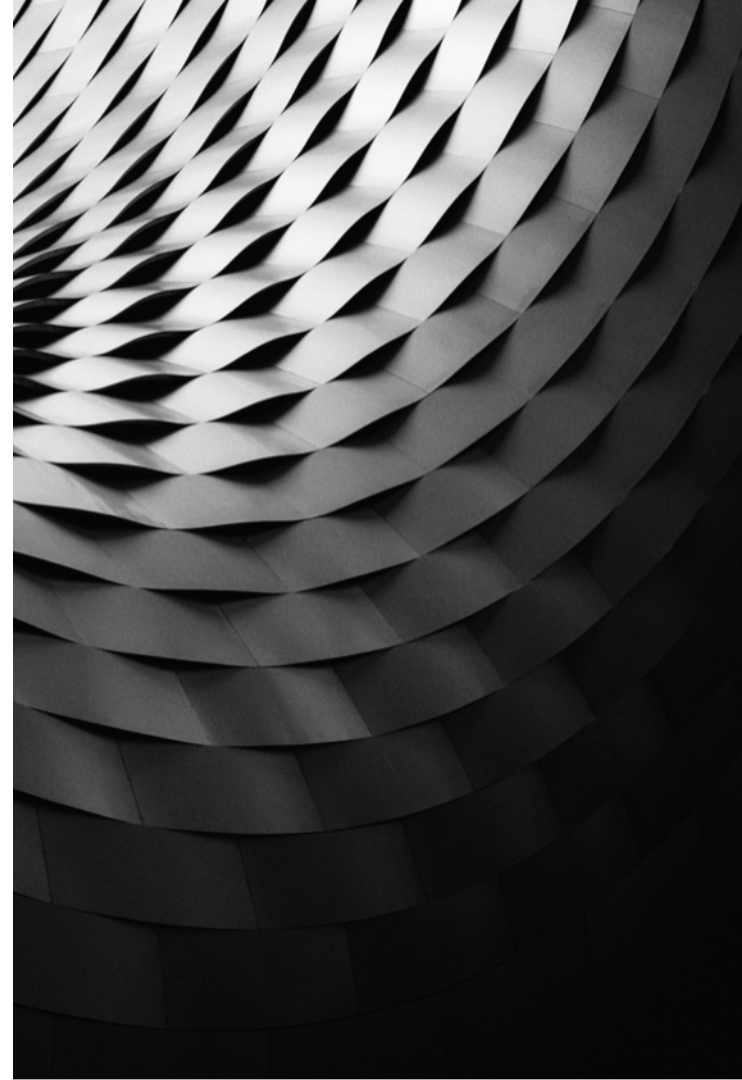
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## Increase of offshore investment limits to 45%

	Before 23 Feb 2022	From 23 Feb 2022
Regulation 28	30% Offshore 10% Africa ex-SA	45% Offshore (includes Africa)
Institutional investors (CIS, life companies, retirement funds)	40% Offshore 10% Africa ex-SA	45% Offshore (includes Africa)

## What does this mean for clients?

- **Retirement funds:** All investors can now invest up to 45% offshore (anywhere outside SA).
- **Unit trusts:** UT managers can invest up to 45% of their retail assets under management offshore.
- **Life companies:** Life companies can invest up to 45% of their retail assets under management offshore.
- **Please note:** The current offshore restrictions applicable to the Allan Gray Living Annuity, Endowment and Tax-free Investment products will not be adjusted immediately.

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**Thank you**





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# Important information

## Benchmarks

### **FTSE/JSE All Share Index and FTSE/JSE All Bond Index**

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# Important information

## **Understanding the funds**

Investors must make sure that they understand the nature of their choice of funds and that their investment objectives are aligned with those of the Fund/s they select.

The Allan Gray Equity, Balanced, Stable and rand-denominated offshore funds may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder fund or funds of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to the applicable ASISA Standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens withdrawals may be ring-fenced and managed over a period of time.

## **Total expense ratio (TER) and transaction costs**

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one- and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and transaction costs is shown as the total investment charge.

## **Additional information for retirement fund members and investors in the tax-free investment account, living annuity and endowment**

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