

The legal, practical and professional implications of giving in-service members access to their retirement fund savings



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Zoom Meeting

Audio only

With video



♡ 14 11:43 AM - Mar 29, 2020

[See White Mystery's other Tweets](#)

[boredpanda.com](#)

MissAlexWhite

Report

WITH MANY OFFERING TO PAY MORE FOR THE FREE
ZOOM FEATURE OF MEETINGS ENDING AFTER 45
MINUTES

AND THE REALLY GREAT ZOOM WEBINAR FEATURE OF
HAVING TO LAUGH AT YOUR OWN JOKES

Zoom meeting schedule

13:00 – 13:05 waiting for everyone to appear
(same person always late) to see who is brave
enough to put their video on

13:05 – 13:10 seascapes appear as someone
discovers their virtual backgrounds

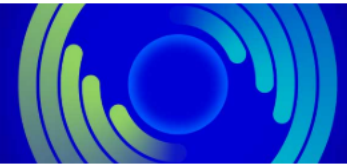
13.10 -13:15 people disappear and reappear and
ask for repeats of what has been said

13:15- 13:20 extreme close up of someone eating
breakfast with background orchestra of dogs
barking

13:20 – 13:30 everyone moves their laptops
around to show their dogs, cats and guinea pigs

13.30 – 13-40 meeting agenda takes place with
simultaneous child minding

13:40-13:45 – goodbyes to go supervise school
work



OECD Policy Responses to Coronavirus (COVID-19)

Retirement savings in the time of COVID-19

Figure 1. **Main policy responses that affect retirement savings**

✓ Limit the materialisation of investment losses (e.g. communicating the consequences of switches and withdrawals)	• Australia, Canada, Colombia, Chile, Germany, Hungary, Latvia, Mexico, New Zealand, United Kingdom, United States
✓ Secure the solvency of retirement plans and the business of providers (e.g. lengthening recovery periods of DB plans failing to meet funding requirements)	• 29 OECD countries + Croatia, Kazakhstan, Kenya, Mauritius
✓ Subsidise contributions (e.g. providing wage subsidies covering pension contributions)	• Iceland, Netherlands, New Zealand, North Macedonia, Slovak Rep., Sweden, Switzerland, United Kingdom
✓ Address operational disruptions (e.g. improving online procedures)	• Most OECD countries
✓ Protect from scams and cyber attacks (e.g. warning plan members and giving them tips to avoid them)	• Australia, Austria, Luxembourg, Mauritius, New Zealand, Slovenia, Sweden, United Kingdom
✗ Provide short-term relief with potential long-term risks (e.g. facilitating early access to retirement savings)	• Australia, Belgium, Canada, Colombia, Denmark, Estonia, Finland, France, Iceland, Peru, Portugal, Slovak Rep., Spain, United Kingdom, United States

THE INTERNATIONAL RESPONSE

Retirement savings in the time of COVID

SOUTH AFRICAN CONTEXT

Extremely emotive topic – many varying views – balancing payments today with tomorrow's needs

What can we do now in terms of current legislation, without exemptions?

1. Section 19(4) loans by fund to employer - “in the best interest of the fund”
2. Surplus accounts with a positive balance:
 - (a) employer contribution holiday
 - (b) to avoid retrenchments
3. Preservation funds – one withdrawal
4. Real situations of changes in work contracts (employee to contractor)
5. Retrenchments and terminations of employment

With exemptions – housing loans

Notes

Housing loans – possible abuse

Pension monies can be attached once paid out of funds (*Moreau* SCA recent case)



CALLS TO TREASURY

Not really a legal issue, as much as lawyers like to think it is 😊
Where there is a will there is a legal way!
Is there a political will?
Publically – very little to go on but doesn't seem to be

- Trade unions and others
- Alleviate tax
- Loans to members
- Paying out benefits (e.g. covid benefit)
- Almost all need changes to legislation or exemptions
- But is there political will? It has to come from Government first (Regulator will follow – in my view whether legislative or exemptions)



Can take specified amount out

OR
You can take a (larger) loan

If you are an affected saver

Against your fund credit

But have to pay the tax

US CARES EXAMPLE

(severely paraphrased and simplified)

Subject to limitations

Three years to pay it back

If you default its treated like it was
paid out and taxed

Sometimes have to take a loan before
a payout

IF THERE IS POLITICAL WILL... BENEFIT PAYMENT

Subject to criteria (e.g. unemployment, reduced work, reduced income, etc - like Australia's early release scheme or US Cares Act)

Do we require it of all funds? Mandatory to amend rules or allow payments e.g. as Australia did (less risky for boards) OR

Do we leave it up to funds and their boards to decide? You can do it if you decide to (more risky for boards)

Similar to boards being left to decide which employers and employees are in financial distress (contributions)

To tax or not to tax?

Liquidity of assets (how much is expected to leave funds?)

And how much warning do funds need?



Sanlam statistics

Pointed to Statistics SA – 51,7% of people who reported income reduction have looked at accessing retirement savings

16% of members have requested access to their retirement savings

50% of members have fund values that are less than R50 000

95% of members – retirement savings are their only savings

2/3rds not saved enough to cover 6 months of salary

Liquidity needs of superannuation funds

IMPACT OF THE EARLY RELEASE OF SUPER

All liquidity plans were unsettled by the recent legislation to allow members to withdraw up to \$10,000 tax free before 1 July and then again before 1 October. This Coronavirus event could lead to @25 to \$50 billion of unforeseen withdrawals over the next four months (as most of the second instalment will take place early in July).

The media and government have taken the view that funds should have allowed for this in their LMP's. this is harsh as the legislation is new and very little notice of payment was given. These calls are essentially berating Trustee Boards for not having provided for the sovereign risk of the Government requiring cash withdrawals well outside their own enunciated (but not let legislated) Objective of Superannuation.

IF THERE IS POLITICAL WILL... BENEFIT PAYMENT

- Fixed Rand amount or percentage of fund credit
- Lump sum (India), tranches (Australia) or regular payments for a period (Malaysia)
- Include spouse in criteria? Decision making process
- Reversing and increasing contributions post pandemic – how likely is it?
- Costs are more of an issue than ever now for funds (returns down). Administrative systems – cost implication. Covid benefits or loans on top of retrenchments

Once funds have
been told/or
decided – who
monitors the
meeting of the
criteria and how far
do you go?

And who monitors the criteria and whether access is necessary?

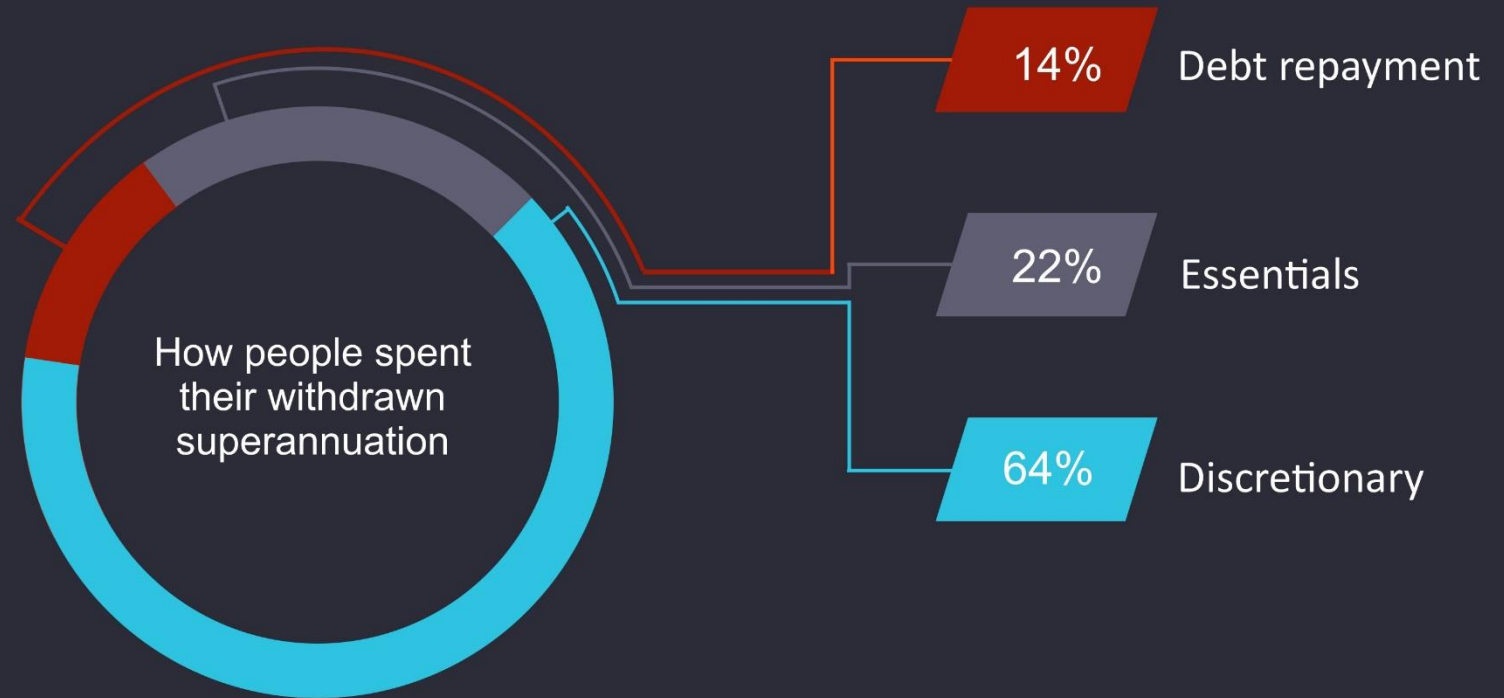
Digital solutions available...'

After the first tranche of payments in Australia...'

The Sydney Morning Herald

- The analysis by credit bureau Illion and consultancy AlphaBeta, a part of Accenture, is based on the bank transactions of 13,000 people who have withdrawn superannuation since the coronavirus outbreak.
- It showed those withdrawing super used it to increase, not just maintain, their spending. Their purchases nearly tripled, on average, in the fortnight after the money was received compared to an average fortnight before the money was received.

New spending data shows 40% of those accessing their super experienced no drop in income during the pandemic, or their loss was fully offset by government Payments, raising questions about whether they really needed the money.

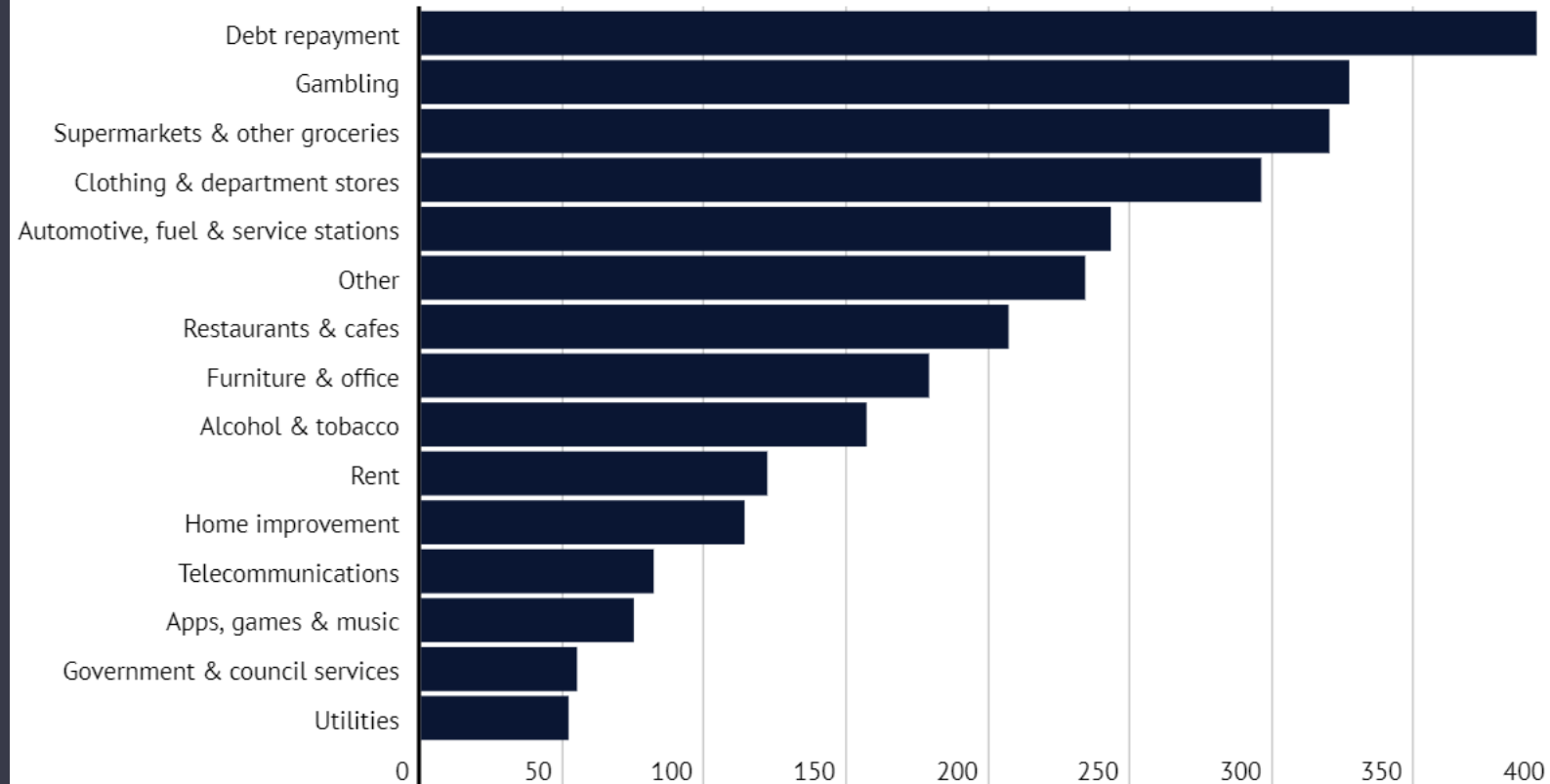


How much spending increase in each category in the fortnight after receiving the superannuation withdrawal compared to the average fortnight in the two months prior

Note: Based on a sample of 13,000 people who withdrew superannuation
Source: Illion and AlphaBeta (part of Accenture)

Breakdown of superannuation withdrawal spending

How much spending increased in each category in the fortnight after receiving the superannuation withdrawal compared to the average fortnight in the two months prior



Note: Based on a sample of 13,000 people who withdrew superannuation.

Source: illion and AlphaBeta (part of Accenture)

The Sydney Morning Herald

“While this policy was aimed as a lifeline, what we can see is a strong likelihood of people accessing their super, who really could have kept it working away until their retirement.”

Loans

- Direct or guaranteed loans – some work done on this by industry
- Section 19 loans – would need exemptions from the PFA (possibly quicker)
- Subject to restrictions as to use, amount, repayment periods, etc
- Still subject to interest (interest vs return)
- Must be in best interest of the fund
- Administrative issues and costs
- Biggest problem is default (guaranteed loans – money would leave the fund)

Consumer default – highest in 5 years



A Look at the New Normal

Experian Quarter 1 2020 | Consumer Default Index

January 2020 to April 2020 – so excluding the effects of June and July 2020

Highest level over 5 years

Overall index: April 2019 4.11% to April 2020 4.94%

Overview of Index – What does it measure?

The Experian Consumer Default Index (CDI) is designed to measure rolling default behaviour of South African consumers with Home Loan, Vehicle Loan, Personal Loan, Credit Card and Retail Loan accounts.

24.5m consumers with Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan accounts.

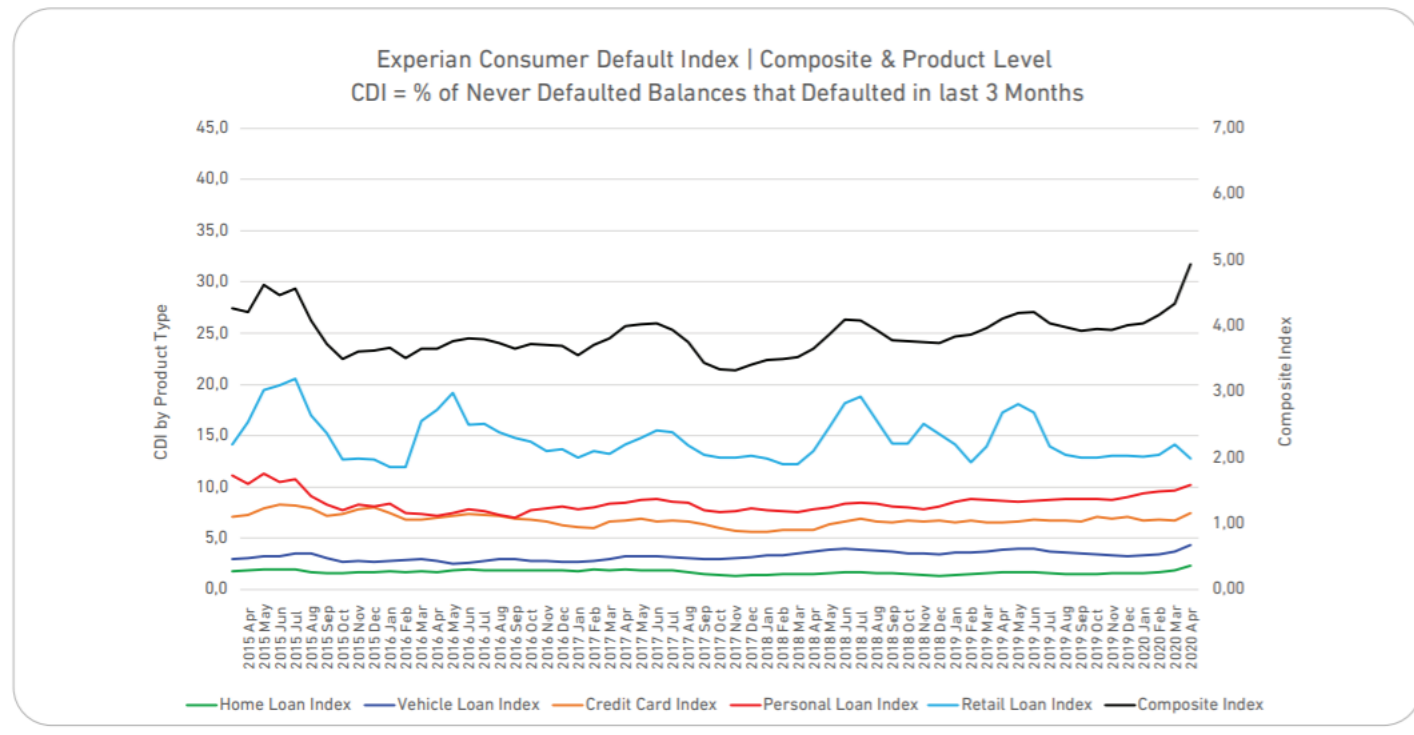
30.4m active accounts across Credit Card, Personal Loan, Vehicle Loan, Home Loan and/or Retail Loan Products.

R1.50 trillion in outstanding debt.

Consumer default – highest in 5 years



Composite Consumer Default Index



	Index	CDI April 2020	CDI April 2019
■	Composite	4.94	4.11
■	Home Loan	2.32	1.68
■	Vehicle Loan	4.34	3.88
■	Credit Card	7.47	6.56
■	Personal Loan	10.19	8.61
■	Retail Loan	12.75	17.29
■	Home Loan + Vehicle Loan + Credit Card	3.52	2.78
■	Retail Loan + Personal Loan	10.57	9.80



Most significant deterioration is in high-income groups

- When looking at the detailed impact of the significant deterioration in the composite CDI at the macro-FAS level, it is not surprising that the segments with the highest exposure to secured lending and other banking products are most affected.

New trend –
significant increase
in first time
defaulters

4.94%
of balances on an
annualised basis
defaulted for the first
time over the period
Feb 2020 to Apr 2020.

R 20.73 bn
in value defaulted for
the first time over the
period Feb 2020 to
Apr 2020.

Pension-backed loans

So, if trend continues there may be large scale defaulting (for how long?)

Thus pension-backed guaranteed loans more a postponement of the problem of money leaving funds – but maybe the lesser of the 2 evils, depending on other assumptions like interest rates, etc

CRYSTAL BALLING: POST PANDEMIC PENSION FUNDS

- After other economic upheavals– will we see new consequences resulting from this one?
- As we already bought the T-shirt– very few DB funds left, flexibility about when can take annuities and take money out of market, investment glide-paths
- Definitely did not get the T-shirt when it comes to allowing access to retirement fund monies on leaving employment
- The cracks in overall social security are easier to see – healthcare, food distribution, unemployment funding
- More focus on unemployment/hardship funds and less on retirement savings (especially where Government can't afford proper unemployment and other social protections)
- Untying employment from retirement funds ((1) when employers go out of business and employees are more mobile (2) when members should access their retirement benefits, not automatic access when leave an employer)

- Centralised data-base to track pensions across jobs/employers
- Focusing on the right metrics and goals (and the tools to do that easily)
- Communication and financial education more important
- Accelerated auto-enrolment (starting low) as a reaction to employers cutting funds or going out of business



CRYSTAL BALLING: POST PANDEMIC PENSION FUNDS

- Another nail in the coffin of DB funds worldwide (less of a SA issue)
- More international diversification of investments?
- More digital solutions (certain costs de-linked from number of members)
- Finding more cost effective options (e.g. robo-advice that works)



CRYSTAL BALLING: POST PANDEMIC PENSION FUNDS

- Changes in investment strategies? Some international studies showing more risk averse behavior of members after quarantine than before
- Does fear change how investors think after a market crash?
 - Conflicting studies (example)
 - Difference between developing and developed countries?

Federal Reserve Bank of New York
Staff Reports

**Risk Preferences at the Time of COVID-19:
An Experiment with
Professional Traders and Students**

Marco Angrisani
Marco Cipriani
Antonio Guarino
Ryan Kendall
Julen Ortiz de Zarate Pina

Staff Report No. 927
May 2020

Conclusion

At the time of this research (April 2020), many countries around the world are under lockdown because of the COVID-19. The economic decisions that consumers and investors are taking during the lockdown and those that they will take when lockdown is over and economic activity fully resumes crucially depend, amongst other things, on their willingness to take risk. Can we expect people to be less or more risk averse than before COVID-19? Our experimental study indicates that the shock to social and economic life due to the pandemic has not significantly affected risk preferences. ... preference for risk are a stable characteristics of individual behaviour.

CRYSTAL BALLING: POST PANDEMIC PENSION FUNDS

Speed up of “use” of fund assets as part of economic recovery?



Govt

Last month, when Finance Minister Tito Mboweni told Parliament’s finance and appropriations committees meeting about the supplementary budget, he said that if regulation 28 of the Pension Funds Act was slightly amended, it would allow investment

All agree: Use pension funds

Thando Maeko 16 Jul 2020

Business

Kingston says there is a need to fund the state’s infrastructure projects and the effective use of retirement funds and savings could help close the gap.

ANC wants pension funds to finance infrastructure build

Thando Maeko 10 Jul 2020

ANC

Speaking at a virtual media briefing on Friday, Godongwana said the ANC is not proposing that the state implements a policy of prescribed assets but that the party is proposing a “relook” into Regulation 28. “if properly packaged there is no reason why pension funds should not invest in infrastructure directly instead of using third parties in the form of asset managers.”

USE OF PENSION ASSETS

not just in SA

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Bloomberg

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Politics

Australia's Morrison Wants Pensions to Fund Company Bailouts

By [Matthew Burgess](#)

April 16, 2020, 3:37 PM GMT+2

In an interview with the Australian Broadcasting Corporation's 7:30 program Thursday night, Morrison said the nation's A\$2.95 trillion (\$1.9 trillion) pension pot should be used to bail out companies as the government "is not the only economic actor in this event."

"I'd like to see the industry and broader superannuation funds playing a more active role in dealing with the economic issues that we're dealing with at the moment," he said.

Pension fund investments to aid economic recovery

- So as regards pension funds, the focus is not on allowing access (however that is structured) but on how pension funds should be invested to aid in economic development/recovery
- Not a new conversation, but gained momentum
- Investment in infrastructure
- “Not prescribed assets”
- Not about investing in failed SOE’s (litigation)
- Amending Regulation 28 (no specific infrastructure provision) to allow direct investment in infrastructure (not through asset managers) – already allows it but can be more explicit
- Concerns around govt policy not implemented well and mismanagement
- Development of new infrastructure investments

ANNUAL SURVEY OF LARGE PENSION FUNDS AND PUBLIC PENSION RESERVE FUNDS

REPORT ON PENSION FUNDS' LONG-TERM INVESTMENTS

2019



The survey reviews the trends in assets and asset allocation of 125 large pension funds (LPFs) and public pension reserve funds (PPRFs), 6 which in total managed USD 12.4 trillion in assets in 2017, approximately one third of the total worldwide assets held by this class of institutional investor.

Ninety-three retirement schemes comprise the section on LPFs, consisting of a mix of defined benefit (DB) and defined contribution (DC) pension plans (mainly public sector funds, but also corporate funds) that together total USD 4.9 trillion in assets under management.

PART B – INFRASTRUCTURE INVESTMENT Table 13. Detailed infrastructure investment of selected LPFs and PPRFs, 2017 As a percentage of total assets

Country head office	Name of the fund or institution	Total investments in 2017 (in USD m.)	Infrastructure investment (as a % of total investments)		
			Unlisted equity	Listed equity	Debt
LPFs					
Australia	AustralianSuper	101,162	9.9	..	0.6
Australia	CBUS	33,910	8.9	0.4	..
Australia	Hostplus Superannuation fund	22,640	10.0	..	..
Australia	Unisuper	48,694	3.5	..	..
Brazil	Banesprev	4,993	0.3	..	..
Brazil	FAPES - BNDES	3,232	0.8	..	3.6
Brazil	FORLUZ	4,558	1.6	0.2	..
Brazil	Fundação Petrobras	21,681	3.0	..	..
Brazil	Fundação Sistel	5,111	0.3	..	..
Brazil	Previ	56,687	5.1	..	..
Brazil	Real Grandeza	4,565	1.3	..	..
Brazil	Valia	6,701	0.3	..	1.1
Canada	Alberta Investment Management Company (AIMCo)	82,613	7.6	..	..
Canada	Local Authorities Pension Plan	34,019	8.4	..	..
Canada	OTPP	147,750	10.1	..	..
Denmark	PensionDanmark	34,354	9.7	..	..
Denmark	PFA Pension	76,949	1.2	..	..
Finland	Keva	62,209	0.8	0.2	0.3
Finland	Varma Mutual Pension Insurance Company	54,347	0.6	..	..
Germany	BASF Pensionskasse	11,408	4.7	..	2.6
Iceland	Gildi Pension fund	4,923	0.4	..	..
Iceland	Lifeyrissjóður Starfsmanna Ríkisins	7,869	0.2	0.6	1.8
Iceland	Pension Fund of Commerce	6,366	0.8	3.7	2.6
Ireland	Bank of Ireland	6,320	1.0	6.0	..
Ireland	ESB	4,542	4.8	..	..
Japan	Pension Fund Association	109,053	0.5	..	..
Netherlands	PFZW	236,479	3.8	..	..
Netherlands	PMT	83,377	0.7	..	..
Netherlands	Stichting Pensioenfonds ABP	545,464	2.4	..	..
Netherlands	Stichting Pensioenfonds van de Metalektro (PME)	55,887	0.8	..	2.2
Portugal	CGD Pensões (1)	3,179	1.7	2.0	..
Romania	Azt Viitorul Tau	2,216	..	10.7	..
South Africa	GEPF	152,812	1.2	..	..
Spain	Endesa	2,092	0.3	5.8	6.1
Spain	Fonditel (2)	3,931	0.7	..	..

Switzerland	Pensionskasse Post	17,361	2.5	..	..
Switzerland	Publica	40,427	..	..	0.9
United Kingdom	USS (3)	87,060	8.7	0.4	1.7
	Eurocontrol	1,888	5.2	..	..
PPRFs					
Argentina	Sustainability Guarantee Fund	64,655	..	..	7.8
Canada	Canada Pension Plan Investment Board	268,763	7.5	..	..
Canada	Quebec Pension Plan	55,227	5.5	..	..
Chile	Pension Reserve Fund	10,858	..	3.0	4.4
Finland	Valtion Eläkerahasto	23,479	1.2	..	..
France	FRR	43,724	0.1	..	..
New Zealand	New Zealand Superannuation Fund	26,837	1.7	0.7	..
Sweden	AP1	40,511	1.4	..	..
Sweden	AP3	42,055	3.3	0.7	..
Sweden	AP4	43,453	..	4.7	..

CRYSTAL BALLING: POST PANDEMIC PENSION FUNDS

- More focus on those people not traditionally covered (including as more people work from home/part-time/share jobs/etc)
- Delaying retirement to work longer and affect on jobs
- Or retiring early to access funds (lowering benefits)
- How population sub-groups (e.g. the poor, women) have been differentially affected – global conversation – effect on fund structures/advice?
- Many regulators world-wide will have to accept the reality of lower levies – affect on reforms and supervision



ACTUARIAL PROFESSIONS – PART OF THE RESPONSE



- Lots of decision-making to be done at every level from Government, Regulators, Boards, Employers, Members, etc
- Increased decision-making = increased risk and possibly liability
- Thus, increased need for expert advice to base decisions on

INCREASED BOARD DECISION-MAKING AND WITH THAT LIABILITY

Godongwana says the proposal will be an incentive for pension fund trustees to “make appropriate decisions” with regard to risk and returns on their investments.

Mail & Guardian
AFRICA'S BEST READ



Decisions based on evidence, solid research, facts and analysis



Actuarial Resources for COVID-19



Statement by IAA President, Tonya Manning

With the now world-wide spread of the Coronavirus and its far-reaching implications, confusion and disinformation can spread as quickly as the virus itself, leaving a vacuum needing to be filled with facts and clarity. As actuaries, we seek to be reliable sources of research, information, analysis and advice to the stakeholders of our work. Throughout the challenging days ahead we must strive to uphold our profession's high level of standards so we can continue to be trusted partners that individuals, employers, insurers and governments can count on.

Many of the actuarial associations around the world are producing and updating reports and data to help inform decisions in this very chaotic time. The IAA has created a webpage that consolidates links to much of this information. We plan to continually update the site and links, given the rapid pace of change, so you can have an extended source of information you can trust, and thus be better equipped to maneuver through these uncharted waters.

AND SOME PRACTICAL / actions

By ACTUARIES INSTITUTE | Posted 1 May 2020



**Actuarial
Institute**
Australia



**Super
Consumers**
Australia

Information Sheet Early access to your super

Background

The government is allowing individuals affected by COVID-19 to access up to \$10,000 of their superannuation in 2019–20 and a further \$10,000 in 2020–21.

Further information, including eligibility rules, is available from the [Australian Tax Office](#) and [ASIC's Moneysmart](#).

The purpose of this Information Sheet is to provide you with some basic information to help you decide whether to access your super.

In the superannuation area of the working group, we will be issuing check list/consideration documents for actuaries advising super funds, information notes and insights sessions.

Questions, comments and discussion

Thank you



Standard



Policies



transparency



Re



Law



Guideline

Terms
Conditions



Audit

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