Publication: Citizen (Johannesburg Edition), Business
Date: Monday, October 21, 2019

Combating pensions grab

Brian Butchart

While speculation abounds and scare tactics surface every now and then, details are scant about the state's plan to prescribe SA's pension funds.

There are, however, options each investor should consider.

Anyone 55 and older could potentially retire from their retirement annuities, preservation, provident or pension fund (depending on the rules of the fund), draw a lump sum and convert a portion to a living annuity. In so doing, an investor can protect his/her savings by converting pre-retirement products governed by Regulation 28 to a post-retirement living annuity.

Once that is done the investor has full flexibility with regards to asset allocation without any government interference. This allows the investor the freedom to invest their tax-free and or after-tax lump sum wherever they choose, without being subject to prescription or Regulation 28.

But how high is the probability of prescription?

The ruling party's 2019 manifesto refers to prescribed assets – the proportion of financial institutions' resources that would be assigned to socially productive assets – as a key priority.

The easiest way to do this is to change Regulation 28, currently governing all pre-retirement products such as pension, provident, preservation funds and retirement annuities.

If pushed ahead, Regulation 28 will be altered, forcing asset managers with Regulation 28-compliant mandates across retirement assets to buy a certain amount of government institutional bonds.

The fact that this will be at higher yields, could soften the blow, and most pension funds have some exposure to government bonds anyway.

But constant bailouts of these government-run institutions, and state capture revelations have created much uncertainty.

Regulation 28 was imposed to protect retirement benefits from excessive risk. Prescribed assets as proposed go against this legislation and the requirements of retirement fund trustees. Trustees have a fiduciary duty to act in members' best interests and prescribed assets will limit the extent to which they can 'safeguard and grow member benefits.'

Regulation 28 is only applicable to pre-retirement funds – so any changes would not give government access to discretionary assets or post-retirement products such as living annuities.

Be proactive and seek advice from your financial advisor.

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