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THE END OF PENSION FUNDS FOR YOUNG ADULTS?

By Johan Burger, CFP® and head of Brenthurst Wealth Pretoria

Here is a thought that's less radical than it initially sounds: pension funds are less relevant to a growing number of young South Africans.

This has nothing to do with the youth unemployment crisis and everything to do with changing viewpoints and priorities of younger investors.

Recent financial crises have caused many of the younger generations to question long-held beliefs and attitudes towards money. Throw cryptocurrencies into this mix and it feels like everything we've known about financial markets is no longer relevant.

Traditional financial planning staples like the pension fund are therefore viewed with far greater skepticism, especially in the wake of financial crises over the past 15 years.

These changes in attitude, I believe, will be even more stark in young South Africans who have a whole set of different priorities and concerns about their future.

HERE ARE FOUR KEY INFLUENCES THAT I BELIEVE WILL SHAPE THEIR THINKING

1. THE WORLD IS MUCH SMALLER NOW

The relative ease with which one can move around the globe allows families to pursue their dreams and passions wherever they wish. While the restrictions on travel in view of the Covid-19 pandemic are still in place, many countries have begun opening their borders again and people may start to travel once more in the months ahead. This is especially appealing to young South African families who face an increasingly uncertain future.

IN THIS ISSUE

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However, this freedom of movement doesn't always extend to South African pension fund investors. Illiquid investments and various pension fund restrictions make it difficult for them to easily uproot themselves.

Which is why my suggestion to young adults is to invest in more liquid investments that can help them achieve their long-term goals. There's no shortage of funds and instruments they can use in planning for their future, especially once offshore markets are included.

2. RISK CONCENTRATION

Continuing on the theme of a more globalised view, it's no secret that South African listed shares make up a tiny fraction of what is globally on offer.

So, even though Regulation 28 allows South African pension funds to have up to 30% invested in offshore assets, this is still too restrictive. To my mind, there is too much risk concentration when 70% of your portfolio is exposed to a single market and currency.

Furthermore, you also have to consider that a 30% exposure to growth stocks compared to 100% in liquid assets will make a massive difference over 20 or 30 years.

Regulation 28 is well-intentioned, but young adults have the luxury of time on their side that allows them to get early exposure to high growth investments. As long they stay invested for the long term they can recover from market corrections over the life of their investment.

3. LITTLE TAX BENEFIT

A much-praised benefit of contributing to a pension fund is the tax deduction based on your monthly contributions. However, starting salaries for young adults are still quite modest. This means that their tax obligations aren't yet significant, making tax deductions in their early years less of a benefit.

My suggestion to clients in this position is to rather keep their investments liquid, especially since that allows them the freedom to invest in any currency and any asset class of their liking.

4. FLEXIBILITY AMIDST UNCERTAINTY

A more flexible approach to pension saving is especially appealing to South African families who are unsure where they'll find themselves in the future.

I suggest that families in this position make an even greater effort to discuss their future and where they see themselves in the near to long term. A big benefit of this approach is that they can develop an investment plan that matches that future.

If emigrating is on the cards, it makes sense to have your assets in an instrument or jurisdiction that makes relocating easy. That's not currently the case for South African families moving abroad who face an onerous and costly tax experience to move their funds offshore.

Any decisions about your future obviously have to be carefully considered and must meet your objectives. Circumstances will differ from one family to the next, but my preference is for liquidity and investments with higher growth opportunities.

And, in reality, that means looking beyond domestic markets to find value and growth opportunities. Offshore investing has grown in popularity due to few local opportunities, which are also struggling because of difficult political and economic circumstances.

Investing offshore isn't nearly as complicated as many people think, although it does pay to partner with expert wealth managers like [Brenthurst] to navigate this journey. We're able to manage the process of setting up and funding an offshore bank account to facilitate your offshore investments.

I'd like to argue that my suggestion to ditch the pension fund sounds less radical when we acknowledge that change is constant. Lifestyle habits and priorities are always changing, and we need to recognise that this will influence long-term planning.

I look forward to a time in which investment planners encourage investors to consider new approaches to preparing for their future. Investing for the future must remain a priority, however, younger investors need to review the options available to them beyond the traditional retirement investment products.

Read more about **investment planning.**

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