SESHEGO
BENEFIT CONSULTING

Legal Insights

YOUR RETIREMENT FUND AND THE COVID-19 VIRUS (CORONA VIRUS)

The exponential spread of the COVID-19 virus globally since the beginning of the year (and in South Africa in the past few weeks), has raised questions about the impact on retirement funds. At the time of writing this communiqué there are 169,719 confirmed cases worldwide, and 61 in South Africa.

GROUP LIFE ASSURANCE (GLA)

In general, GLA policies only have a "civil commotion and riot" exclusion, and this risk is intended to be covered by the SASRIA.

We are concerned that insurers may try to invoke a *force majeure* exclusion, and we are approaching the insurers to specifically comment on each client's policy and whether your employees are covered for COVID-19 virus related deaths.

FUND INVESTMENTS

Whilst fears around the investment impact from the virus (i.e. a dramatic slowdown in trade, impacting on company profits, and in turn investment returns), the fundamentals remain unchanged during this period of increased uncertainty.

Actuarial models demonstrate that to grow retirement fund contributions sufficiently by retirement age, funds need to invest in "growth" assets. Growth assets are broadly the share (equities) and property asset classes. Put differently, if a retirement fund investor is to invest only in fixed interest / money market types of investment, the growth will be a little above inflation and this will mean the contributions will only grow at roughly the inflation rate. If retirement fund contributions are not being "grown" but merely keeping pace with inflation, retirement fund investors will not have sufficient capital to maintain their standard of living in retirement – even if they save diligently for their whole working life.

So, conservative or money market portfolios are suitable for investors with short-term time horizons. Portfolios with "growth" assets are where retirement fund investors need to be, unless there is a specific reason they cannot tolerate market volatility in the short-term e.g. they are imminently about to buy a life annuity at retirement. The volatility associated with "growth" portfolios is something that has diminishing relevance over the long-term (as per the graph below), and retirement fund investing is a long-term strategy. Shares (equity) have noticeably given the best return above inflation over the long-term, and the volatile growth (i.e. the jagged lines) gives way to the long-term trend lines.

IMPORTANT NOTE:

Whilst the decline in shares in the short-term can be dramatic, the recovery (e.g. after the 2008 global financial crisis) can be even more dramatic. If an investor sells their "growth" assets during a market decline, they then capitalize the loss and will lose out on any recovery in the markets.

These perspectives are from Markowitz' Modern Portfolio Theory developed in the 1950s, so this investment theory has stood the test of time. The above is not advice as contemplated under the Financial Advisory & Intermediaries Act, and is a statement of investment principles that investors need to consider.

SESHEGO RESPONSE TO THE STATE PRESIDENT'S ANNOUNCEMENT ON 15 MARCH 2020

Seshego has been monitoring the situation and making contingency plans for the past several weeks.

Our business is able to fully function even if our staff are working from home. Through the Microsoft 365 suite of applications and protected online information storage, Seshego is able to continue to function close to "normally" without face to face engagements. Our fibre-linked switchboard is able to transfer telephone calls to our staff offsite, so our telephone numbers will remain (011) 802-8011 or 0860 SESHEGO (737434).

Our consultants will be liaising with each client to agree the most suitable way of addressing the upcoming meetings and commitments.