



THE POWER
OF INDEPENDENT ADVICE

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**BRENTHURST AWARDED
TOP WEALTH MANAGER
IN SOUTH AFRICA, 2020**

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RETIREMENT ANNUITIES NOT THE PERFECT FIT FOR ALL

By Maria Smit, Certified Financial Planner® Brenthurst Wealth Management

Saving for retirement – from the day an income is earned – is one aspect of an overall financial plan that is strongly advised by most advisors, especially as report after report highlight SA’s poor savings culture and underfunded retirement capital.

The smart investors who include a retirement plan in an overall financial plan, typically select a Retirement Annuity as the vehicle of choice. But is this suitable for younger investors? What are the issues to consider? Brenthurst Wealth Financial Planner, Maria Smit, elaborates.

With all the talk about prescribed assets and the low growth forecast for SA one must ask the question does the tax saving you receive justify saving in a retirement annuity vehicle.

YOU DO NOT HAVE ANY ACCESS TO IT NO MATTER HOW BIG YOUR EMERGENCY IS:

Many South Africans were faced with a financial dilemma when COVID-19 lockdowns hit. Using savings during times of financial strain are advisable, as opposed to getting into debt to cover living expenses when regular income is lower than before – or in some instances almost down to zero. Those who committed all savings to a retirement annuity will have no option but the debt route as funds in RA’s cannot be accessed before age 55.

IF YOU ARE THINKING OF EMIGRATING:

Emigration among younger adults has been on the rise. So, if you are thinking of emigrating to another country, it is not wise to save in a retirement annuity now because you can only access the funds at retirement. And that might mean you reach retirement age in another country. Would it then make sense to receive income from a rand-based retirement annuity? It is also not easy to access the funds when you emigrate.

When officially emigrating, you may withdraw the full capital amount, but it will be taxed. To take your Retirement Annuity savings abroad, you need to emigrate formally, and you need to do so before you reach your fund's specified retirement age.

Formal emigration requires you to sign off with SARS, which triggers capital gains tax on all your capital assets (other than on your fixed property located in South Africa). Once all your tax affairs are in order, you will receive a tax clearance certificate that will entitle you to withdraw from your RA. The proceeds will be taxed according to the withdrawal lump sum tax table. If you are invested in a life company RA, you may also incur 'termination penalties' for withdrawing early (depending on the contracted investment term and fund rules).

2021 TAX YEAR (1 March 2020 - 28 February 2021) - no changes from last year

| TAXABLE INCOME (R) | RATES OF TAX (R) |
|---------------------|---|
| 1 – 205 900 | 18% of taxable income |
| 205 901 – 321 600 | 37 062 + 26% of taxable income above 205 900 |
| 321 601 – 445 100 | 67 144 + 31% of taxable income above 321 600 |
| 445 101 – 584 200 | 105 429 + 36% of taxable income above 445 100 |
| 584 201 – 744 800 | 155 505 + 39% of taxable income above 584 200 |
| 744 801 – 1 577 300 | 218 139 + 41% of taxable income above 744 800 |
| 1 577 301 and above | 559 464 + 45% of taxable income above 1 577 300 |

GROWTH OF A RETIREMENT ANNUITY IS LIMITED:

- INVESTORS CANNOT SELECT THE ASSET ALLOCATION.

THE BASIC UNDERLYING LIMITS IMPOSED UNDER REGULATION 28 THE PENSION FUNDS ACT:

- 75% in equities
- 25% in property either local or international
- 30% in foreign investments excluding Africa and
- 10% in Africa, not counting South Africa

If you are a young South African with a time horizon of 10 -15 years before retirement it makes sense to take on more risk in the form of equities.

So, in the long term a fund with just 75% equity exposure, your portfolio will underperform compared to a 100% equity fund. You are also forced to not invest more than 30% in offshore equities.

YOU CAN ONLY DIVERSIFY 30% OF YOUR PORTFOLIO TO SHARES OUTSIDE OF SA.

THE REST OF YOUR PORTFOLIO IS STUCK IN LESS THAN 1% OF THE WORLD ECONOMY.

AVERAGE RETURN OF THE TOP SOUTH AFRICAN BALANCED FUND THAT IS REGULATION 28 COMPLIANT:

IF AN ANNUALISED RETURN OF 6% IS REALISED OVER 5 YEAR PERIOD

| FUND | 1 Month (%) | 3 Month (%) | 1 Year (%) | 3 Year (%) | 3 Year annualize (%) | 5 Year (%) | 5 Year annualize (%) |
|---|-------------|-------------|--------------|--------------|----------------------|--------------|----------------------|
| Element Islamic Balanced Sanlam Collective Investments Fund - A | 2.48 | 5.71 | 7.57 | 17.87 | 5.64 | 46.18 | 7.90 |
| Aylett Balanced Prescient Fund -A1 | 6.54 | 10.74 | 0.93 | 14.08 | 4.49 | 38.37 | 6.72 |
| Element Balanced Sanlam Collective Investments Fund - A | 2.64 | 3.68 | 0.58 | 4.67 | 1.53 | 36.62 | 6.45 |
| Kagiso Islamic Balanced Fund - B | 1.47 | 7.76 | 3.15 | 13.65 | 4.36 | 32.74 | 5.83 |
| Sygnia Skeleton Balanced 70 Fund -A | 2.86 | 8.55 | 9.05 | 19.39 | 6.09 | 31.66 | 5.66 |
| Kagiso Balanced Fund - B | 0.15 | 7.18 | -0.91 | 8.32 | 2.70 | 32.18 | 5.74 |
| Prescient Balanced Fund - A2 | 1.97 | 8.70 | 5.76 | 15.04 | 4.78 | 30.78 | 5.52 |
| Prescient Wealth Balanced Fund of Funds - A1 | 4.31 | 9.65 | 11.39 | 16.23 | 5.15 | 31.15 | 5.58 |
| Nedgroup Investments Balanced Fund - A | 3.27 | 6.37 | 14.50 | 19.95 | 6.26 | 30.23 | 5.43 |
| Kagiso Islamic Balanced Fund - A | 2.13 | 8.37 | 3.39 | 12.88 | 4.13 | 30.64 | 5.50 |

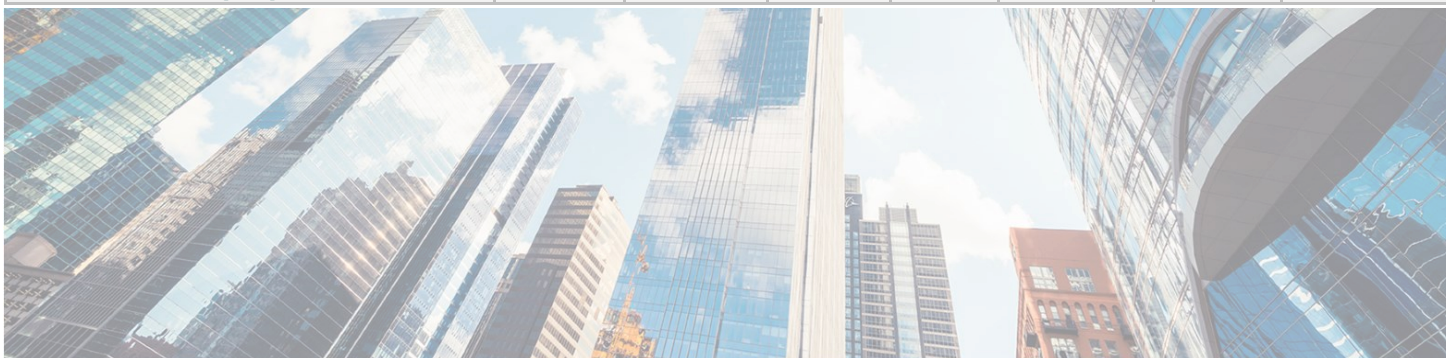
Source Allan Gray Fund Research tool

AVERAGE PERFORMANCE OF THE TOP OFFSHORE FEEDER FUNDS:

IF AN ANNUALISED RETURN OF 11% IS REALISED OVER 5 YEAR PERIOD

| FUND | 1 Month (%) | 3 Month (%) | 1 Year (%) | 3 Year (%) | 3 Year annualised (%) | 5 Year (%) | 5 Year annualised (%) |
|--|-------------|-------------|------------|------------|-----------------------|------------|-----------------------|
| BlueAlpha BCI Global Equity Fund- A | 4.95 | 8.82 | 36.35 | 82.97 | 22.33 | 121.72 | 17.28 |
| Ninety One Global Franchise Feeder Fund- H | 5.35 | 7.50 | 33.25 | 77.14 | 21.02 | 118.17 | 16.91 |
| PSG Wealth Global Creator Feeder Fund- D | 7.56 | 9.97 | 31.91 | 73.83 | 20.26 | 110.18 | 16.04 |
| MI-PLAN IP Global Macro Fund- B5 | 7.81 | 9.91 | 31.75 | 75.10 | 20.55 | 109.94 | 16.01 |
| STANLIB Global Equity Feeder Fund- A | 5.57 | 8.79 | 32.55 | 73.49 | 20.18 | 104.90 | 15.45 |
| Autus Prime Global Equity Feeder Fund- A | 5.92 | 14.18 | 40.77 | 82.81 | 22.30 | 108.24 | 15.82 |
| Global IP Opportunity Fund - B5 | 8.45 | 10.01 | 31.43 | 73.45 | 20.17 | 103.94 | 15.34 |
| Nedgroup Investments Global Equity Feeder Fund- B2 | 6.63 | 5.32 | 26.91 | 60.25 | 17.04 | 101.03 | 15.01 |
| Coronation Global Emerging Markets Flexible [ZAR] Fund - P | 7.55 | 17.12 | 30.80 | 44.63 | 13.10 | 98.28 | 14.69 |

Source Allan Gray Fund Research tool



WHAT ABOUT THE TAX AT RETIREMENT?

IT IS ADVISABLE TO SAVE 15% TOWARDS YOUR RETIREMENT

| | 15% contribution to a discretionary investment | 15% contribution to an RA |
|----------------------------------|--|---------------------------|
| Total Annual Income | R500 000 | R500 000 |
| RA Contribution | R0 | R75 000 |
| Taxable Income | R500 000 | R425 000 |
| Tax | R125 193 | R99 198 |
| Tax Saving | R0 | R25 995 |
| Tax Saving after 15 years | | R389 925 |

WHILE RA'S GIVE YOU A VERY NICE UPFRONT TAX BENEFIT YOU GIVE SOME OF THAT TAX BACK LATER:

| | SAVING IN A DISCRETIONARY INVESTMENT WITH 100% OFFSHORE EXPOSURE INSTEAD OF AN RA. | SAVING IN AN RA WITH REGULATION 28 LIMITATIONS |
|--|---|--|
| Past growth in the portfolio | 11% | 6% |
| Saving 15% (R75 000) of your income for 15 years | R2 580 401 | R1 745 697 |
| Income Tax saving after 15 years | R0 | R389 925 |
| Deducting savings not made. | R2 190 476 after deducting tax not saved. You would still be better off. | R1 745 697 |
| Accessibility | <p>100% available to withdraw subject to capital gains tax and interest is taxed as this was invested in offshore share only Capital gains tax is applied:</p> <ul style="list-style-type: none"> • Base Cost: R1 125 000 • Market V: R2 580 401 • R1 455 401 Gain • R203 817 Capital Gains Tax <p>R2 376 584 AVAILABLE - TO USE AS YOU PLEASE</p> | <p>Can only withdraw 1/3: R581 899 to use as you please. Taxed according to tables: R14 741 tax payable so you have R567 157 to use as you please and the other 2/3 must buy an annuity. The income you receive will be taxed according to tables. R1 163 798</p> |



For South Africans in higher tax brackets there is no arguing the annual tax saving they receive. But with the governing party proposing changing regulation 28 of the Pension Funds Act to boost the funding of infrastructure projects spearheaded by state development finance institutions (DFIs) using private capital, after the billions of taxpayer money already mismanaged to developing SOE's it makes one want to take control of your finances into your own hands.

And with the accessibility of quality offshore funds why would you give up better returns in the long term for short term savings. There are also ways of saving on Tax in discretionary investments. Like investing in a Tax-Free saving account. Where you can also invest 100% in offshore feeder funds.

The personal circumstances of every individual investor are unique and a strategy suitable for one may be completely inappropriate for another. To navigate the vast universe of investment options it is advisable to consult with a qualified, experienced financial advisor.
Read more about retirement planning. [retirement planning](#).

BRENTHURST AWARDED **TOP WEALTH MANAGER IN SA** **BRENTHURST WEALTH WAS VOTED TOP BOUTIQUE WEALTH MANAGER IN THE COUNTRY IN THE 2020 INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS SURVEY, AND RANKED IN THE TOP 5 IN 5 OTHER CATEGORIES.** [Brenthurst-voted-Top-Wealth-Manager-in-SA](#)

For a comprehensive financial planning strategy including asset allocation, risk planning, estate planning, tax planning, offshore investment **READ MORE >> [WEALTH MANAGERS](#)**

BRENTHURST SERVICE OFFERING:

| | | |
|--|---|---|
| INVESTMENT PLANNING RETIREMENT PLANNING OFFSHORE INVESTMENTS | WILLS & ESTATE PLANNING TAX PLANNING FOREX SERVICES | LIFE / BUSINESS INSURANCE EMPLOYEE BENEFITS GLOBAL PROPERTY |
|--|---|---|

➔ **ADVISORS PROFILE: MARIA SMIT, CERTIFIED FINANCIAL PLANNER®**



MARIA joined Brenthurst Wealth in 2019 as a Junior Financial Planner in the Pretoria branch. She has been in the financial services industry since 2015 working as a liaison between Financial Advisers and clients assisting in all financial planning related duties. She obtained a B.Com Economics degree from the North West University Potchefstroom Campus, and obtained her Postgraduate Diploma in Financial Planning from the University of the Free State in 2019. Maria is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all investment matters.

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BRENTHURST WEALTH RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2020, 2017 AND RUNNER-UP IN 2018 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

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