



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

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BEWARE OF GREY AREAS WITH YOUR RETIREMENT

By Rocco van Zyl, Financial Advisor at Brenthurst Wealth Fourways Office

Anyone who has some life experience will tell you that life is not black and white, but rather different shades of grey. This concept is just as true when it comes to investing, with all the different variables and risks that investors need to consider with their respective investments.

It is especially relevant to your retirement planning. The majority of South Africans are aware of the importance of having some sort of provision for when they stop working. However, the more gut-wrenching fact is that less than 10% of South Africans have enough provision to retire comfortably, without having to rely on other sources of income (such as from the state, friends, family, etc.).

In recent years, the restrictions that [Regulation 28 of the Pension Fund Act](#) stipulate for retirement annuities have worsened retirement savings' outcomes.

The main reason is because there is an offshore exposure limit of 30% for these investment vehicles, thus leaving the returns of investors and to-be retirees vulnerable and exposed to the lacklustre performance of the local market – the JSE. A possible solution is to break the shackles of Regulation 28 and gain more control over retirement investments and retire out of a retirement annuity and purchase a living annuity, an investment vehicle with fewer restrictions on retirement savings.

Below is a table comparing the returns of the past 15 years from the JSE Index with the returns of that of the MSCI World Index and the S&P 500 Index. The differences are sobering to say the very least.

RETURNS OF THE PAST 15 YEARS: JSE INDEX VS MSCI WORLD INDEX VS S&P 500 INDEX

15 YEARS:	
Start Date	30-Apr-06
End Date	30-Apr-21
Initial Investment	R 100,000
Index	Ending Investment Value
FTSE/JSE All Share Total Return (ZAR)	R 492,245.17
MSCI World Total Return (ZAR)	R 694,761.72
S&P 500 Total Return (ZAR)	R 1,046,795.56

	FTSE/JSE All Share Total Return (ZAR)	MSCI World Total Return (ZAR)	S&P 500 Total Return (ZAR)	USD-ZAR X-RATE
Current Investment Value	R 492,245.17	R 694,761.72	R 1,046,795.56	R 241,382.18
Annual Returns in ZAR	11.21%	13.79%	16.95%	6.05%
Standard Deviation of Returns	15.16%	14.50%	15.35%	16.32%

Source: Brenthurst Wealth Investment Committee

WHEN IT COMES TO RETIREMENT PLANNING, THE TWO MAIN STAGES ARE ‘PRE-RETIREMENT’ AND ‘POST-RETIREMENT’. THE GREY AREA IS IN THE MIDDLE, WHICH IS OFTEN OVERLOOKED.

The majority of South Africans view their retirement annuity as strictly ‘pre-retirement’, and their living annuity as strictly ‘post-retirement’. Thus, they assume that they must first retire from their employment or work in general, and only at the age of 60/65, then once these two conditions are both met, they can retire out of their [retirement annuity](#) and purchase a [living annuity](#). *Simply, it does not have to be this way.*

The grey area lies in what is defined as the retirement age in South Africa – that number is 55.

Once an investor has reached 55 years of age, regardless of whether the investor is employed or not, or whether he/she is intending to retire in the short-term or not, the investor is eligible to retire out of a retirement annuity and use the proceeds to invest in a living annuity.

The main advantage of living annuities is that they are not governed by [Regulation 28](#) and thus have fewer restrictions, in particular, the option to invest up to 100% offshore.

However, with regards to retirement annuities, their biggest advantage is that contributions are tax-deductible, at least up to certain limits, whilst earning an income. Thus, the grey area allows you to have your cake and eat it. **You can retire out of a current retirement annuity at 55, and use the proceeds to purchase a living annuity.**

At the same time, you can open a new, ‘smaller’ retirement annuity to contribute to until age 65 and take advantage of the tax cuts offered by retirement annuities whilst still working post-55. Once you officially retire, say at 65, you can once again retire out of your second, smaller retirement annuity, and add the additional proceeds to your existing living annuity.

The flexibility offered in the so-called “grey area” is a very important point to consider, especially for those who want more control over their retirement savings, greater access to other markets, and more freedom in deciding on where to invest their hard-earned money.

As with all investment decisions or financial planning strategies, it is advisable to navigate this area with the assistance of a qualified and experienced advisor, who can offer the appropriate financial advice best suited to your personal circumstances.

Read more about [planning for retirement](#).

ADVISORS PROFILE: ROCCO VAN ZYL, FINANCIAL ADVISOR AT BRENTHURST WEALTH FOURWAYS



Rocco joined Brenthurst Wealth in August 2020 as a Junior Financial Advisor / Para Planner under direct supervision of Magnus Heystek in our Fourways branch.

Rocco is driven and passionate about the financial services industry. He obtained a B.COM (Management Sciences) degree through Stellenbosch University, and most recently his Post Graduate Diploma in Financial Planning through University of the Free State.

Rocco has successfully completed his First Level Regulatory Examination for Representatives, which enables him to furnish advice to clients on all investment-related matters.

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