

Beware of the grey areas with your retirement

Brought to you by Brenthurst Wealth

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 Funds 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



Rocco van Zyl is a financial advisor at Brenthurst Wealth Fourways

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.

When it comes to retirement planning, the

two main stages are 'Pre-retirement' and 'Post-retirement'. The grey area is in the middle. Yes, there is a grey area, and yes- it 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.

[See the full article here](#)