INVESTMENT REPORT

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INVESTING 101

By Mags Heystek, CFP® and head of the Brenthurst Wealth Sandton office

We have all been in those situations where we need advice, be it from a doctor, attorney, mechanic, or an electrician. Many times, we require solutions to problems that we are not capable of dealing with, and we rely on the expertise from the person or company we have sought help from. We have identified a problem, and we rely on that person to provide advice as well as a solution.

Financial advisors could be identified as these types of professionals, that provide advice for a problem or need. But when it comes to understanding the solution, often times investors do not really understand what is being recommended, and sometimes have to ask the professional to provide an explanation in simple English. To be more specific, it's kind of like going to the doctor with a headache, and only to be told you have Nasopharyngitis. It's only when you ask for a simplified explanation that the doctor tells you that you have the common cold. *(I apologise to any Medical Professionals cringing at my writing, but I am exaggerating here).*

As an advisor, I feel that at times I am guilty of this. As I deal with elements of investing and investment structures daily, I can get carried away and assume that investors understand what I am saying and can be guilty of running away with industry jargon.

This article aims to simplify the investment characteristics, as well as investment options in all spheres of investments, and other elements and options of investing that many investors simply might not have been aware of. This article focuses on specifics regards to **Pre-Retirement Investments.**

In my daily conversations with my father, Magnus Heystek (Sr.), I always get a lot of insight from conversations he has had with clients, and something that really stuck out recently was when he was discussing a client interaction of his, and with his client mentioning to him that "I didn't know that I could do that."

To simplify the conversation, Magnus' client was unaware of his options with regards to moving an investment from one company to another, and my focus for this article is regarding **Retirement Savings**. Education is as important as client service as the more investors know, the better.

Retirement Savings, to generalize, are split into two categories: pre-retirement and post retirement.

➲ **PRE-RETIREMENT SAVINGS consist of pension funds, provident funds, and retirement annuities (RAs). Also included in this category are preservation funds.**

➲ **POST-RETIREMENT INVESTMENTS are also split into two categories: GUARANTEED LIFE ANNUITIES, AND MARKET LINKED LIVING ANNUITIES (LAS).**

To simplify the different elements of retirement savings, I will summarize them below. For ease of reference, any mention of retirement indicates the retirement age of 55 (many people do not need or want to retire at 55, however, but do have the option).

PRE-RETIREMENT INVESTMENTS IN A NUTSHELL

Based on current legislation, a maximum of 27.5% of remuneration or taxable income (whichever is higher), and no more than R350 000, is tax deductible in a tax year.

PENSION FUND: A pension fund is a retirement plan where an employee adds money to that fund and can include contributions from an employer. All of the growth in a pension is tax free, and contributions to the pension are tax deductible. A pension fund is restricted at retirement, in the sense that only 1/3 of the value of the pension fund, at the current legislated retirement age of 55, can be withdrawn in cash (subject to tax). The balance of this pension fund has to be moved to either a guaranteed LA or market-linked LA.

PROVIDENT FUND: A provident fund is exactly the same as a pension fund, with regards to employee/employer contribution, but the rules at retirement as set out above, are slightly different. Provident funds allow the investor to withdraw the full value of the investment in cash (also subject to retirement withdrawal tax tables).

Traditionally, pension/provident funds are very restricted in terms of fund allocation, and advisors cannot manage these investments as the investors' companies' provide the fund allocation options. As of 1 March 2021, all provident fund contributions are now being made to pension funds. Investors with any investments in provident funds will retain their provident funds, but can no longer contribute, due to legislative changes.

PRESERVATION FUND: A preservation fund, as the name suggests, preserves the nature of the pension/provident fund until retirement. This is done for tax purposes, and preservation funds are usually the result of retrenchment or resignation. Investors are allowed one withdrawal, up to the full value, at any time. The tax on this type of withdrawal differs from the retirement withdrawal tables, and tax implications are usually much higher. Preservation funds do not allow for any further contributions, as these need to be allocated to either a retirement annuity, or new pension/provident fund.

RETIREMENT ANNUITY (RA): RAs are self-funded retirement investments and are identical to pension funds with regards to options at retirement. RAs generally have much more flexibility than pension funds, as the fund allocation can be more specific. Investors can contribute via a monthly debit order, or lump sum. If your RA happens to be less than R247 500, this can be withdrawn in full at retirement. All withdrawals are aggregated with SARS in terms of tax payable, so do take note of this. The de minimus amount also applies per platform, meaning you cannot withdraw in full if you have two or three RAs with a single platform (such as Ninety One or Sygnia, for example) totaling more than R247 500.

SECTION 14 TRANSFERS: This is a term that I think a few advisors are guilty of using in their conversations with clients, but it is quite simple. Current legislation allows for investors to transfer their preservation funds as well as RAs, from one platform to another. Company pension and provident funds cannot be transferred, as the employee needs to remain a member of said company's fund during the course of their employment (if they have a pension/provident fund). Section 14 transfers are not complicated, but investors could incur penalties, and Section 14 transfer can take some time. It is always advised to consult the implications with your advisor before any decisions are made. **At Brenthurst, we favour platforms that do not have any penalties for transfer or stopping debit orders (referred to as being paid up).**

REGULATION 28 OF THE PENSIONS FUND ACT

Regulation 28 is issued under the Pension Fund Act. It limits the extent to which retirement funds may invest in particular assets or in particular asset classes. The main purpose is to protect the members' retirement provision from the effects of poorly diversified investment portfolios. It applies to pension funds, provident funds, as well as retirement annuities.

Regulation 28 has a long list of restrictions, but the most important limitations are as follow:

- **30% Exposure to Offshore Assets**
- **75% Exposure to Equity**
- **25% Exposure to Listed Property**

The offshore exposure includes equity exposure, so if a portfolio already has 75% local equity exposure, then an investor cannot add any offshore equities to the portfolio.

TAX TABLES

WITHDRAWAL BENEFIT

2022 TAX YEAR (1 MARCH 2021 - 28 FEBRUARY 2022) No changes from last year

TAXABLE INCOME (R)	RATE OF TAX (R)
1 - 25 000	0% of taxable income
25 001 - 660 000	18% of taxable income above 25 000
660 001 - 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

(Also referred to as the pre-retirement tax table)

RETIREMENT & DEATH BENEFITS OR SEVERANCE BENEFITS

2022 TAX YEAR (1 MARCH 2021 - 28 FEBRUARY 2022) No changes from last year

TAXABLE INCOME (R)	RATE OF TAX (R)
1 - 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 - 1050 000	36 000 + 27% of taxable income above 700 000
1050 001 and above	130 500 + 36% of taxable income above 1050 000

(Also referred to as the retirement withdrawal tax table)

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TAX PLANNING
FOREX SERVICES

LIFE / BUSINESS INSURANCE
EMPLOYEE BENEFITS
GLOBAL PROPERTY

ADVISORS PROFILE: MAGS HEYSTEK, CERTIFIED FINANCIAL PLANNER®

MAGS is the head of the Sandton office, and also serves as the Key Individual for Johannesburg.

Mags has been in the financial services industry for over seven years and qualified as a CERTIFIED FINANCIAL PLANNER® Professional in November 2012. Mags also acts as a representative and key individual for Brenthurst Capital (Pty) Ltd and a member of the investment committee dealing with investment and asset allocation decisions.

Mags 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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