INVESTMENT REPORT

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BRENTHURST
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THE POWER OF INDEPENDENT ADVICE

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"You can also use local and offshore unit trusts, direct share portfolios and endowments to supplement your traditional retirement funds."

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RETIREMENT ANNUITIES ARE NOT THE ONLY OPTION

By Andre Basson, Financial Planner at Brenthurst Wealth Management

Many contributors to a single pension or retirement annuity (RA) fund are under the impression that options are limited to just that. This is not the case: you can use alternative vehicles to contribute towards building wealth for retirement.

A lot of focus is put on where to find growth (which equities… offshore vs local etc.), but it is equally important to know how this growth in wealth is administered in the structure you use.

Traditional vehicles such as RAs are highly marketed for tax benefits (and as an easy selling tool). In my opinion it's a good idea not to follow the 'cookie cutter' approach, but rather to investigate and understand different structures available for you. When you understand the benefits and limitations of each vehicle, you can make an informed decision to use the combination of structures you are comfortable with.

TRADITIONAL VEHICLES

RAs essentially allow you to invest your money for retirement savings – pre-tax and subject to certain limits. Like your contributions, the growth in your investment is also not subject to tax. You would therefore only pay tax when you ultimately receive your benefits. Not only do you postpone your tax bill, you also pay less tax because your income will most likely be lower at retirement than while you're working. With an RA, you can invest tax-free contributions up to 27.5%, of your annual income, capped at R350 000 per annum.

A **tax-free savings account** (TFSA) allows you to invest your after–tax money, which is also subject to limits. Unlike your contributions, you do not pay tax on the growth of your funds or when you withdraw your savings at a later stage. TFSAs, on the other hand, only allow you to contribute up to R33 000 per year and R500 000 in a lifetime.

However, because with a TSFA you do not defer your tax payment and you end up paying more tax than you would through a RA, the latter seems the better option from a tax perspective. But the two products were never designed to compete, but be supplementary. The TSFA offers liquidity and is not subject to Regulation 28 – which limits your investment choices. The latter point is of importance for those investors who want higher offshore exposure.

ALTERNATIVE OPTIONS

You can use local and offshore unit trusts, direct share portfolios and endowments to supplement your traditional retirement funds. Some of these don't have the restrictions of an RA and might be a supplementary fit for your portfolio.

You can easily invest directly into **unit trusts**, or you can invest in unit trusts via an RA. An RA gives you tax savings and a measure of protection against creditors and falls outside your estate. But your funds must stay there until you retire. The benefits of going into a unit trust directly is that the money is liquid, and you have more investment options (up to 100% offshore, versus being limited to 30% in an RA).

If you want to take a more 'tailor-made' or cheaper approach, you can invest in an **ETF or a direct share portfolio**. Be aware that you will pay capital gains tax (CGT) if you sell a share in your direct share portfolio, while a share being sold within a unit trust has no CGT. Unit trusts are therefore often more active, and have a bigger team managing the underlying funds.

One can also **take money directly offshore in foreign currency** (US dollars, sterling or euros) via international unit trusts, ETFs or direct share portfolios. Investors should just remain aware of exchange control, legislation of a new jurisdiction and if an offshore will may be required for these investments. Once you get the money in hard currency offshore, you don't need to bring it back to SA. Structured correctly, this can continue for your beneficiaries after your death.

The correct endowment can provide significant benefits for offshore portfolios from an estate duty perspective and continuation of ownership outside SA.

Endowments are also an option to go the global route. If you have a beneficiary on your endowment, the executor need not get involved and therefore will not attract executors fees. The asset will however form part of your dutiable estate, but nominating your spouse as beneficiary qualifies for a section 4q deduction, and you'd thereby avert estate duty.

On the downside, endowments lock you in for five years. One should make sure you understand the nitty gritty of the array of endowments wrappers being punted out there. The word 'endowment' has a negative connotation with SA investors, as it was used in certain cases (on local investments) to earn high commissions.

Check with your advisor if the product suggested is fee-based, or commission-based. This can make a big difference in fees, and eventual performance.

The correct endowment can provide significant benefits for offshore portfolios from an estate duty perspective and continuation of ownership outside South Africa.

It is a clear case of different strokes for different folks, where not everything is necessarily suited to your specific situation, but incentives and diversification are great reasons to get involved in more retirement-savings avenues.

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ANDRE BASSON is based in Brenthurst Stellenbosch and Tygervalley office.
He attained a B.Com from the University of Stellenbosch, finishing top of his Financial planning class. His postgraduate studies include a B.Com Honours degree and a Postgrad Diploma in Financial Planning from Stellenbosch University.

Andre also completed his Advanced Postgrad Diploma in Financial Planning (Cum Laude) from the University of the Free State. Previous experience includes practicing as a financial planner at Sanlam. He has a passion to help clients take ownership of their financial affairs, generate solutions and grow long term wealth.

Andre is accredited at the FPI and can assist clients in matters pertaining to risk cover, investments, retirement and estate planning. andre@brenthurstwealth.co.za

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