INVESTMENT REPORT

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BRENTHURST
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WHERE TO INVEST SAVINGS FOR OPTIMAL GROWTH & TAX EFFICIENCY

By Danine van Zyl, Financial Planner Brenthurst Wealth Fourways

Where to invest for retirement remains the top priority for most investors when they seek professional financial planning advice. The majority select a retirement annuity as the most logical option for their needs. However, this might not always be their best or only option.

Saving for retirement through retirement annuities and preservation funds has always been widely recommended due to the tax benefits available. Investors are entitled to a tax deduction on their contributions of up to 27,5% of their taxable income or remuneration but limited to a maximum of R350 000. Growth on the investment is further free of any capital gains or dividend withholding tax implications – the objective being to encourage investors to save towards their retirement to avoid them from ultimately becoming dependent on government support. Controversial legislation, designed to protect investors, has however resulted in poor performance over many years and as an unintended consequence made the assets held by investors in these products vulnerable to governmental decision making.

Regulation 28 of the Pension Funds Act prescribes and limits pension monies to 75% equity exposure, listed property to 25% and offshore exposure to 30%.

This composition is generally reflected in balanced unit trust funds and has been a popular choice for pension monies where the asset manager ensures compliance with Regulation 28. Most of these funds hold around 40% in South African equities. The returns from the JSE have, however, been extremely poor by global comparison.

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FOR MORE INFO CONTACT US
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BRENTHURST RANKED TOP BOUTIQUE WEALTH MANAGER IN SA 2020 INTELLIDEX PRIVATE BANK AND WEALTH MANAGER AWARD

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JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
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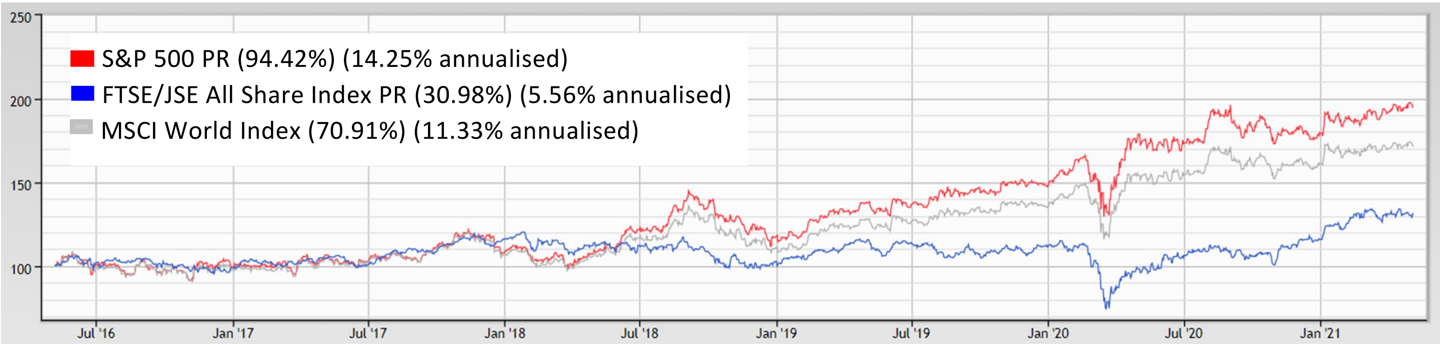
The JSE All Share Index delivered 5.56% over the past 5 years which explains the poor average performance of Regulation 28 compliant balanced funds of only 6% over the same period. In strong contrast the S&P 500 and the MSCI World Index has delivered **14.25%** and **11.33%** respectively.



The downside to investing in a product such as a Discretionary Investment which is not subject to Regulation 28 of the Pension Funds Act, is the liability towards interest, dividend and capital gains tax earned on the investment.

LET US COMPARE THE FOLLOWING SCENARIO OF A YOUNGER INVESTOR:

Investor 25 years of age wanting to retire at the age of 50 (25 years to retirement).

INVESTMENT AMOUNT	R100 000
Retirement Annuity growth rate	6%
Discretionary investment growth rate	12.79% (11.33% + 14.25%/2 as per paragraph 3 above)
Salary	R450 000 (Marginal tax rate of 31%)
Inflation	4%

Capital at the **end** of the term:

	RETIREMENT ANNUITY	DISCRETIONARY INVESTMENT
Initial amount invested	R100 000	R100 000
Amount at 50	R429 187	R2 026 585
Growth	R329 187	R1 926 585
Tax saving	R31 001	
CGT payable		R339 585
Capital at the age of 50 with tax break	**R360 188**	
Capital at 50 after CGT		**R1 687 000**

The difference between investing in a Discretionary Investment, which is not subject to Regulation 28 of the Pension Funds Act and investing in a Retirement Annuity is **R1 326 812.**

LET US COMPARE THE FOLLOWING SCENARIO FOR AN OLDER INVESTOR:

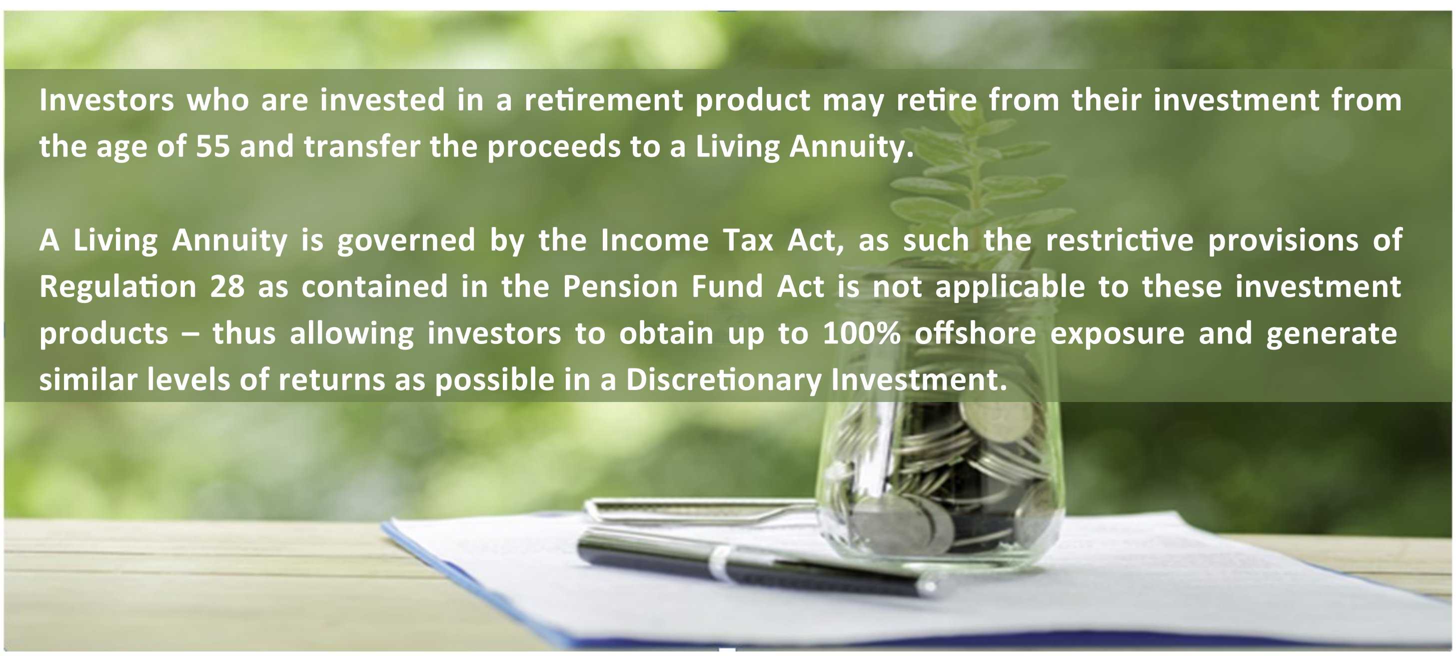
Client 54 years of age wanting to retire at the age of 55 (1 years to retirement).

INVESTMENT AMOUNT	R220 000 (27.50% x R800 000)
Retirement Annuity growth rate	6%
Discretionary investment growth rate	12.79% (11.33% + 14.25%/2)
Salary	R800 000 (Marginal tax rate of 41%)
Inflation	4%

Capital at the **end** of the term:

	RETIREMENT ANNUITY	DISCRETIONARY INVESTMENT
Initial amount invested	R220 000	R220 000
Amount at 55	R233 200	R248 138
Growth	R13 200	R28 138
Tax saving	R85 148	
CGT payable		R0 (R5064 before R40 000 annual exclusion per individual)
Capital at 55 with tax break	**R318 348**	
Capital at 55 after CGT	**N/A**	**R248 138**

The difference between investing in a Retirement Annuity at an older age and investing in a Discretionary Investment is **R70 210** – making a Retirement Annuity the more attractive alternative.



Investors who are invested in a retirement product may retire from their investment from the age of 55 and transfer the proceeds to a Living Annuity.

A Living Annuity is governed by the Income Tax Act, as such the restrictive provisions of Regulation 28 as contained in the Pension Fund Act is not applicable to these investment products – thus allowing investors to obtain up to 100% offshore exposure and generate similar levels of returns as possible in a Discretionary Investment.

CONCLUSION:

Younger investors who invested in a Discretionary Investment would have received significant larger returns as compared to investors who invested in a Retirement Annuity for purposes of benefiting from the tax friendly nature and deductions on offer.

An **older** investor who invested in a Retirement Annuity to receive the tax benefits on offer would have been better off as compared to an investor who invested in a Discretionary investment for the 1-year period. However, should the capital remain invested, the investor who invested in a Retirement Annuity will be able to retire from their Retirement product and transfer the capital to a Living Annuity to obtain similar levels of growth as compared to a Discretionary Investment.

It should be noted that each investor has different needs, objectives, and risk profiles and as such the same advice will not always apply to everyone. It is advisable to always consult an accredited, qualified financial planner to devise a plan best suited to the investor's personal circumstances and financial goals.
Read more about retirement planning.

ADVISORS PROFILE: DANINE VAN ZYL | FINANCIAL PLANNER AT BRENTHURST WEALTH

DANINE joined Brenthurst Wealth in 2015 and currently holds the position as a Financial Advisor at the Fourways Office.

She completed her Post-graduate Diploma in Financial Planning from the University of the Free State and also obtained a B.A. degree in Industrial Psychology, a Certificate in Labour Relations Management and Income Tax.

Danine has also successfully completed the First Level Regulatory Examination for Representatives.

She is a member of the Financial Planning Institute of SA and is fully qualified to advise on all investment matters.

Email: danine@brenthurstwealth.co.za | Phone: + 27 11 799 8100 | Mobile: +27 71 442 0939

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY READ >> **BRENTHURST INVESTMENT PLANNERS**

BRENTHURST RANKED AS THE TOP BOUTIQUE WEALTH MANAGER IN SA 2020 AND 2017, RUNNER UP IN 2018 AND IN THE TOP 4 IN THE 2019 INTELLIDEX PRIVATE BANK & WEALTH MANAGER AWARD.

BRENTHURST OFFICES:

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