Publication: Herald, Your Business

Date: Wednesday, January 26, 2022

Page: 9

Are RAs still a viable investment platform?

Knowledge into Wealth

MARCO VAN ZYL

A slew of media reports in recent months focused on encouraging investors to disinvest from retirement products and move funds offshore.

However, while there are risks associated to retirement annuities, these need to be weighed up against the benefits.

The first risk is a limited choice regarding asset allocation. According to Regulation 28, retirement funds may not invest more than 30% offshore.

Ironically, Regulation 28 was introduced to protect investors from losing money due to overexposure to offshore assets.

However, since the regulation came into effect in 2011, offshore investments have significantly outperformed local investments.

The second risk is that of government intervention, particularly in the form of prescribed assets.

The government is busy paving the way for fund managers to invest in infrastructure projects.

The fear is that this requirement is just a small step away from compelling fund managers to invest in projects that ultimately lose money for their clients.

It would be unwise to diminish these fears.

However, investors can mitigate their risks and move funds offshore without losing out on the benefits of retirement funds.

The risk is that investors blindly follow media advice and cash in retirement products and move funds offshore.

To follow this trend now means that funds are placed in offshore markets when they are at near all-time highs.

There is no question that there are benefits to retirement funds.

Contributions are tax-deductible up to a maximum of the lesser of R350,000, or 27.5%, of taxable income.

It could be argued that, if not for Regulation 28, investors could have 100% of the fund asset allocation offshore.

Though typically the MSCI World Index significantly outperforms the JSE on a pre-deduction basis, once the tax deductions have been factored in, the perspective of performance is widely different.

From 2000 to 2010, the JSE All Share Index delivered growth margins of 18.2% a year while the MSCI World Index delivered -0.9% a year in rands.

Admittedly, SA has its problems, but so does the rest of the world and the JSE may very well outperform the MSCI yet again.

We need to be aware of post-retirement tax implications or those arising from the fund's conversion to a living annuity.

If this were the full picture you would still be better off due to the enhanced capital value of no tax being paid on interest, dividends and capital growth.

The investors, however, are required to withdraw a fully taxable income.

I often hear the argument that this simply means that whatever you received as a deduction on the way in is now paid as income tax on the way out.

However, careful financial planning will delay the withdrawal from the RA and instead use investments held in tax-free savings accounts and endowments.

Sound financial planning will ensure that any income withdrawals from the living annuity are taxed at a rate substantially lower than the tax deduction received on investing.

Instead of a generic push to encourage investors to withdraw their retirement funds and transfer them offshore, investors should undergo a comprehensive financial planning exercise that takes their specific requirements into account.

● *Marco van Zyl, senior executive at NFB Private Wealth Management*

This material has been copied under a Tiso Blackstar licence and is not for resale or retransmission.