CREATING A FULFILLING RETIREMENT

EQUITY | EDITION 1 | 2017

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It's never a bad time to assess your retirement planning. Reflecting on whether you are on track financially to retire comfortably is just one part of it. Giving consideration to the life changes that will come with retirement is also important. In this edition we look at ways to ensure that your retirement is fulfilling, both financially and personally.

We also announce the winner of the unit trust, break down the changes in legislation that affect the taxing of international pensions and provide you with our economic commentary that covers local and global headline events.

To contact a registered financial adviser, please call the Alexander Forbes Individual Advice Centre on **0860 100 444** or **email iac@aforbes.co.za**.

WIN

Answer the question at the end of this newsletter to stand a chance of winning a **R2 500 unit trust prize**. Congratulations to Brian Karidza for winning the last draw. All the best with your investment.

ALEXANDERFORBES
Securing your financial well-being

Ensure a fulfilling retirement

Contributing to a pension fund that is invested smartly will provide for you and your family financially in your golden years. It will also go some way in helping you maintain the quality of life you enjoy now. But achieving this takes planning, preparation and action. The sad reality is that many pensioners in South Africa today have not done enough to secure their financial well-being in retirement.

Recent studies undertaken in the industry estimate that only six per cent of South Africans have enough savings for a comfortable retirement. Just as in much of the rest of the world, South Africans are living longer. This means they also need to put more away towards their retirement savings so that they can maintain their current living standard into retirement. When all these facts are considered, it becomes clear that there is an undisputable need for South Africans to do more about saving for their retirement.

There's also a significant difference in the way that men and women each save for retirement. Women have mostly adopted the role of homemaker and childminder and have not actively pursued careers that provide an income. But there has been a shift, and women are more proactively planning for their own retirement. This can be attributed to their greater involvement in the labour force.

This said, we cannot forget that retirement is about so much more than just finances. Before retirement, many people work close to 40 hours a week, which takes up a substantial chunk of their lives. As soon as you stop working and go into retirement, you have fewer daily activities to occupy your time with. It's often the case that you go from having very little free time to having more time than you know what to do with.

Adding to the stress of finding things to fill your time with is the fact that, all of a sudden, you share every minute of every day with your spouse. Rewind thirty years to your honeymoon days and this may seem like a great idea. But after thirty years together, it may seem like work. Part of retiring includes addressing what you're going to do with all your new free time.

Below are our suggested steps to ensure a fulfilling retirement.

1

Women should save for their retirement, separately to their spouse, to ensure an income in retirement. Women who don't have their own retirement plan in place are encouraged to speak to an accredited Alexander Forbes financial adviser for the best advice on how to start saving for retirement.

2

Make sure you have a plan for your free time. Think about what hobbies, sport and recreation and leisure pursuits you would enjoy doing during your spare time.

3

Take time to invest in friendships and relationships. Be they with your spouse, children, grandchildren or friends, having people around you will make the adjustment easier and more fulfilling.

Preparation for old age should begin not later than one's teens. A life which is empty of purpose until 65 will not suddenly become filled on retirement. – Dwight L Moody

The free things in life you love most

"Watching my children grow and learn.
Anonymous

The sun, sea and beautiful earth.
Fatima

Fresh air, the sun on my face, nature in all its fullness, clean water and a smile."
Esmé

Taking my three doggies for a walk, enjoying the early morning stillness and sunrise, getting home and enjoying breakfast with my family, just relaxing and laughing. At those moments I am thankful and happy.
Mariaan

That pleasant surprise when you receive a free gift just for being loyal to a particular store or brand.
Qasim

Smiles, Wi-Fi, sleep, happiness, friends, memories, family, love, thinking, sharing, talking, laughing and walking."
Andries

Industry update

Tax on pension and annuity income of South African residents

President Zuma signed the *Taxation Laws Amendment Act 2016* (the TLAA) and it is now law.

The act has been amended and the foreign service tax exemption enjoyed by South African residents who worked abroad is being revoked from 1 March 2017. From 1 March 2017, South African residents who are members of South African registered

- pension funds
- pension preservation funds
- provident funds
- provident preservation funds
- retirement annuity funds

who rendered services outside South Africa but continued to contribute to a South African fund, will no longer qualify for any tax exemption on those amounts received from outside South Africa when they withdraw or retire from a South African fund.

In addition, they will no longer qualify for any tax exemption on pensions and annuities already in payment from a South African fund. This means that any services rendered by a resident outside South Africa during a member's membership of a South African fund will not provide any tax relief from 1 March 2017. Administrators will be obliged to deduct PAYE on the whole of the annuity payment at PAYE tax rates. The removal of the exemption will mean that people who receive pensions and annuities who qualified for an exemption will now receive a lower net income from 1 March 2017.

Important: this change in legislation only affects South African resident taxpayers.

The Income Tax Act provides that non-residents will be taxed on any lump-sum, pension or annuity income payable by a pension, pension preservation, provident or provident preservation fund if the services were rendered in South Africa. This section specifically excludes retirement annuity funds because the contributions to retirement annuity funds are not linked to employment and should not be associated with any type of services provided within, or outside, South Africa. If the services were partly rendered in South Africa, and partly in a foreign country, South African tax will be applied to the South African portion only.

Double taxation agreements (DTAs)

Most countries impose tax on the worldwide income earned by their residents. It is therefore possible for residents to be double-taxed because they can be taxed in the country of residence as well as in the country where they earned their income.

As such, South Africa has DTAs with most countries to prevent double taxation. Usually, these agreements provide either that a certain type of income:

(1) will be taxed only in one of the two countries, or
(2) may be taxed in both countries and the country of residence will allow a credit for the tax which has been imposed by the source country.

Whenever a non-resident is entitled to a pension, retirement fund lump sum or annuity from South Africa, one needs to look at whether a DTA exists between South Africa and the foreign country and which country is entitled to tax the income. It is therefore important to look at the DTA to see whether (1) or (2) above applies.

- If (1) applies, no tax should be withheld in South Africa but tax is likely to be applied in the country of residence in line with their domestic law.
- If (2) applies, tax on the portion attributed to services performed in South Africa will be withheld in South Africa but the country of residence will provide a credit against their domestic taxes for the tax withheld in South Africa.

It is important to note the change in legislation only affects South African resident taxpayers. If you need any advice on this change, please speak to one of our accredited Alexander Forbes financial advisers at the Alexander Forbes Individual Advice Centre on 0860 100 444 or email iac@aforbes.co.za.

Economic commentary

Politics was the primary theme for the fourth quarter and for 2016. Trump's surprise victory in the United States election was the main driver of market movements over the quarter. However, uncertainty over the timing and process regarding the UK's exit from the European Union (EU) and the US Federal Reserve raising interest rates also influenced market movements over the quarter.

The global outlook

- **Trump's acceptance speech:** Trump pledged to implement expansionary fiscal policies such as tax cuts and a one trillion dollar boost in infrastructure spending.
- **The US Federal Reserve hikes interest rates by 0.25%:** This was as a result of labour and inflation conditions improving during 2016.
- **The European Central Bank (ECB) extended its quantitative easing programme** to December 2017 but reduced the monthly bond purchases amount from €80 billion to €60 billion.
- **Opec and non-Opec members reach an agreement:** Together they plan to cut production by 1.8 million barrels a day for six months from January 2017. The oil price recovered in 2016, gaining 52% over the year.
- **Brexit taken to court:** The High Court of the United Kingdom ruled that its parliament must give consent before any Brexit negotiations can begin. The ruling was subsequently appealed and taken to the Supreme Court in December with a decision expected in January.

Our local outlook

- **South Africa avoided a credit downgrade by all three credit agencies:** Political instability, low growth and unemployment were highlighted as downgrade concerns by the credit agencies.
- **South Africa's unemployment rate rose to 27.1% in the third quarter:** Inflation accelerated to 6.8% in December from November's 6.6%.

Market performance

Despite a turbulent year, global equity and bond markets were up for 2016 relative to 2015, returning 8.5% (MSCI ACWI) and 1.6% (Citi WGBI) (both in US dollars). Emerging markets (MSCI EM) returned 11.6% to outperform their developed counterparts over the year (in US dollars).

In the local market, bonds were the best performing asset class for 2016, delivering a total return of 15.5%, on the back of improving political developments and stabilisation of local inflation expectations. Local equity returns were muted over the year, returning 2.6%. Resources was the best performing local sector, returning 34.2% for the year, boosted by the recovery in commodity prices and relative stability in production and labour environment. Financials, up 5.4% for the year, benefited from the rand's appreciation against the major currencies and South Africa avoiding a credit downgrade over the year. Industrials (-6.6%) lagged behind because of large-cap rand hedge stocks that have been negatively affected by the rand's appreciation against the major currencies. The rand experienced strong appreciation against the US dollar (11.5%), the euro (14.0%) and the sterling (26.0%) over the year.

WIN A R2 500
UNIT TRUST PRIZE

Question: What is the estimated percentage of South Africans who have enough for a comfortable retirement?

Send your answer with your name, surname and email address to equity@aforbes.co.za before 31 May 2017. If you don't want your answer to be published, please let us know.

Alexander Forbes Communications
Photos: Gallo Images

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