

Independent Model Portfolios



Boost Your Retirement Savings by Avoiding Common Mistakes

We hear many reasons why people put off saving for retirement. Apart from simply procrastination, because retirement seems so far away, recurring themes are 'I'll save more when I earn more' and 'I'm planning to move overseas'

With the high cost of living in South Africa it's no wonder that people find it difficult to start saving for retirement. So, here are some tips for saving money without having to earn more.

Make sure you contribute to a pension fund or retirement annuity

All too aware of the plight facing many pensioners, the government encourages and incentivises us to be better savers through tax allowances. Contributions to specific retirement products are tax deductible - whatever you put towards a retirement annuity or pension fund reduces your tax liability. So, simplistically, if you earn R500,000 a year and contribute R50,000 to your retirement fund, you're only taxed on R450,000. (in reality your tax calculation will likely have other deductions as well, such as medical aid etc.)

Put differently, if your tax rate is 30%, then every R1000 you save in a Retirement Annuity only actually costs you R700.

Contributions of 27,5% of gross remuneration or taxable income (whichever the higher) are **tax deductible** subject to an annual limit of R350 000. All investment growth in the retirement annuity or pension fund is also free of tax.

For those of us who are thinking of emigrating, the South African government has passed legislation that allows you to access the full amount of your retirement annuity or pension preservation fund, if you have left the country and have been tax emigrated for three years or more. The withdrawal will be subject to tax as per the withdrawal benefit table.

This is a meaningful development, as all too often we hear that investors don't want a pension product because they are planning to leave South Africa and then the years go by and they never get around to leaving. Meanwhile they have lost out on many years of savings together with the respective tax incentives.

Avoid cashing in your pension fund if you change job

To realise the full potential of a retirement fund, you need to stay invested as long as possible so, tempting as it may be, it's never a good idea to cash in your retirement fund when changing jobs. You should always aim to preserve your retirement fund in a preservation fund, because withdrawing will destroy a great deal of the growth gained during the years your savings spent compounding.

Buying USD and investing off-shore does not guarantee wealth

This may sound unlikely, but it is all too true – many South African investors rush to buy US dollars when the SA Rand tumbles and sentiment is low. They feel compelled to get money out of South Africa as quickly as possible, without first seeking professional advice and formulating a comprehensive investment plan. Emotional, panicky decisions and lack of sound financial planning results in poor returns on their offshore investments and the erosion of hard earned savings.

Rand strength can surprise – In 2001 you would need R12 to buy one US\$, but 10 years later that same US\$ would cost only R6

If we look back over the past 20 years, we can easily identify periods of Rand strength and weakness.



Investing overseas is not as straight forward as it might seem

Some of the most common adverse scenarios that South Africans encounter when investing offshore include the fact that many overseas financial markets are not as well-regulated as those in South Africa, and costs are often higher overseas. Also, interest rates on bank deposits are usually low in most developed countries and barely cover the costs of the bank account.

The JSE is the best performing world market in real terms over the long term

South African balanced funds usually comply with Regulation 28 and are allowed a maximum of 40% overseas assets, which combined with the fact that the bulk of JSE company earnings are derived from outside the country means that investors in South African funds can easily get access to a good degree of foreign exposure without taking money offshore.

The JSE offers foreign earnings without you taking the exchange rate risk

Our top tips for retirement savings are start investing in a retirement fund as early as possible to gain maximum benefit from the tax allowances and the years of compounding; stay invested when changing jobs and don't rush to move your investments offshore.

For more information on retirement funding, please contact your financial adviser or Rutherford Asset management directly and we will gladly point you in the right direction

www.rutherfordam.co.za or 021 879 5665.