Welcome changes in the Retirement Planning world

Towards the end of July, changes to the tax law brought about some welcome developments to areas of the Retirement Planning arena which were frustrating to clients and their Financial Planners alike. To be fair, these changes regularise and rationalise financial solutions which were developed by a very innovative industry to meet clients' requirements. These solutions have sometimes pushed existing laws to the limit and carefully considered legislation was required to set parameters and to iron out inconsistencies.

Retirement Annuities

- In a world where second careers and a longer working life is now commonplace it is becoming increasingly difficult to talk about a "retirement date" let alone force a mid-career executive to commit to a retirement age in a savings contract. It is therefore welcome to see the response from the Regulators in removing the previous maximum age of 70 on Retirement Annuity contracts. This means that a member can retire at any age after 55. It also means that if the funds are not required the fund can be rolled forward for as long as income is not required.

- One of the major objections from clients, against implementing a Retirement Annuity is that in this shrinking world where career opportunities present themselves in many countries, the Retirement Annuity was locked into the client's South African asset base in perpetuity, even forcing him to invest in a South African based annuity. Although the advent of a vast range of Rand based offshore funds took the investment sting out of this constraint many clients became extremely frustrated with this often tiny pocket of assets held in South Africa. Two developments will encourage globally mobile people to commence saving for their retirement regardless of where they ultimately will end their career. Firstly, Retirement Annuities may be withdrawn in full at any age on emigration. Although this will still be subject to the appropriate income tax on the amount drawn, it means clients are free to continue their global planning without the artificial legal constraint. Secondly the living annuity commutation is available (see below).

- A minor change is that small paid up RA's (currently under R7,000) can now be cashed in at any time even prior to retirement, again, of course, subject to the applicable tax on the amount drawn.

Preservation Funds

Bearing in mind that Preservation Funds were "invented" by the Financial Services Industry in conjunction with the Revenue authorities in the late 80's, of necessity, some short cuts were taken to achieve a desirable outcome for clients. All parties recognise the critical role that Preservation Funds play in securing meaningful retirement benefits for concerned clients. The new changes iron out some of the inconsistencies and unforeseen barriers to achieving this outcome.

- There is now no need for there to be a "participating employer" backing an application for a Preservation Fund. This means that every individual changing careers, with advice from his own financial planner, can choose any Preservation Fund.

- Now a person can join and move the Preservation Fund regardless of his current employment status. Previously if a person joined an employer who itself did not have a Retirement Fund, or was unemployed, he could not participate in or move a Preservation Fund. Sadly, this often

applied to people who had decided to go into business for themselves and they were then not easily able to preserve their benefits at a time when it was most important to do exactly that.

- Benefits now accruing to non-member spouses in terms of a divorce order can also be placed in a Preservation Fund.

Living Annuities

Living annuities are another investment "invented" by the Financial Services Industry and Revenue Services to meet a very clear need. These too were not properly recognised on the statute books which gave rise to ongoing challenges.

- There is now an allowance to commute small Living annuities for a cash lump sum which will of course be taxable but help clients who are receiving tiny annuities from often a declining asset base.
- A second welcome step is that on the death of an annuitant, whereas previously, the beneficiaries were only able to continue to receive an annuity, now they can elect to receive the value left in the living annuity in the form of a taxable lump sum.

These new provisions increase the flexibility in planning available to clients but of course they dramatically increase the risk of making a mistake which often has permanent consequences. It is vital that clients should speak to their Financial Planners when considering these and other planning opportunities.

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