Trust, and your financial advisor

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For many, seeing a financial advisor for the first time is much like a dentist's appointment: they expect discomfort.

Within minutes of meeting an advisor you might be asked to divulge how much you earn, what assets you own, how much you've saved, and what's in your will.

This creates immediate tension between the two people. As former certified financial planner and The Financial Caddie founder Brian Foster notes, it expects a lot of a client to place this much trust in a stranger.

"We have this stand-off where the client doesn't really want to divulge everything because they don't feel like they're in a safe place yet, and the advisor can't really add a lot of value until they have all the information."

The relationship can't progress effectively unless trust is truly established.

Unfortunately, almost all the onus to do this is on the client.

Is my pension plan wise?

PAY UP A BOND: CONVERT THE EXTRA CASH TO A LIFE ANNUITY

→ If you don't require income drawn from a living annuity while working, consider investing it in a unit trust.

A Moneyweb reader asks:

I'm considering taking out my pension (R900 000) to pay my outstanding bond (R200 000) with the one-third portion and investing the other two thirds in a living annuity with a 2.5% drawdown rate.

I'm 62 and working on contract until end 2019. I'll then save the bond payments possibly in a tax-free savings account (TFSAs) – then, when retired fully, I'll have some savings for a rainy day. I want to invest my two-thirds into a living annuity with the lowest drawdown rate (2.5%) while working. I'll convert it into an income for life once retired. Are there costs to transfer it?

Global & Local Investment Advisors founder Michael Haldane answers:

I'd agree with settling your bond. It's important not to have any debt worries when you retire.

There are a few considerations:

1. Retirement age

If you're retiring from a company pension or provident fund, company fund rules will advise what the employee retirement age is. If the product you're retiring from is a retirement annuity or preservation fund, you can retire from 55, then convert these investments into a life or living annuity to draw an income.

2. One-third cash portion

The maximum allowable cash portion to withdraw is one-third; the remaining two-thirds must go into a life or living annuity. The cash portion withdrawn is taxable, but up to R500 000 is drawn tax-free. Any previous retirement withdrawals will affect the tax-free portion amount at retirement. On notification of the withdrawal, taxes owed to Sars are deducted from the cash portion before it's paid over.

3. Living vs life annuity

Regarding converting your living annuity to a life annuity, there are important differences to consider.

Living annuity

You can draw 2.5% to 17.5% income per annum. You can nominate beneficiaries so upon your death this is paid to them and doesn't form part of your estate.

You can select which funds to be invested in and can have offshore exposure, as there are no regulation limits.

Life annuity

The investment company determines your income. You're unable to select beneficiaries. No changes can be actioned in a life annuity once initiated.

You can add guarantees to these investments, potentially at an extra cost, which may decrease your income.

Life annuities have changed, with certain benefits added on. So should you still wish to convert it's advisable to discuss this with an advisor.

4. TFSAs

Investing your bond payments into a TFSA is a great idea. Just be aware of contribution limits:

- R33 000 maximum annual contribution
- R2 750 maximum monthly debit order
- R500 000 lifetime limit

Should you not require the income you're drawing from your living annuity while working, consider investing it in a well-managed unit trust. If you require additional funds once retired, you'll be able to make a regular withdrawal or even withdraw the full value.

Contact a financial advisor to compile a proper analysis.

– *Moneyweb*