

Can South Africans Contribute To An Offshore Annuity?



A few weeks ago we received the following question from a Moneyweb reader:

Q: I am wary to continue contributions to my current retirement annuity because

of Regulation 28 restrictions (too limited offshore exposure), weakening rand, political threat of more control over annuity funds and where the money should be invested in a well as very poor returns the past five years (actually losing money). What option are available for SA citizens to rather contribute to an offshore annuity fund?

We responded as follows:

Yes, there are some offshore options available. We will provide a bit more detail below, but as always there will be more to it than we are able to mention in this response. We recommend that you engage with a qualified financial adviser on a one-on-one basis to select an option that is most suitable to your personal financial situation. There may be several discretionary options available to you that may not come with the complexity of a foreign pension structure.

The foreign pension industry is filled with acronyms, from SIPPS to QNUPS to RATS and more. Luckily, the international retirement industry is not that different from ours. It is often a matter of finding the jurisdiction that is most tax effective and least restrictive. Below is a summary of some of the main differences between the offshore options and your local retirement funds:

LOCAL VS. FOREIGN RETIREMENT PRODUCTS		
	Retirement Annuity (SA)	International Retirement Plans
Tax deductibility of contributions	Yes, up to certain limits	No
Tax-free growth	Yes	If domiciled in a no-tax jurisdiction
Minimum retirement age	55	From 50 in some cases
Investment Restrictions	Yes, Regulation 28	No
Restricted Benefits	Yes. Only 1/3 may be taken as a cash lump-sum when you retire. No withdrawals prior to 55, except for individuals who no longer reside in SA.	No
Taxation	Tax applies on withdrawal and retirement, with a portion (up to R500 000) exempt from tax.	Capital Gains Tax
Inclusion in your estate	No (contributions)	No

Source: Personal Finance (IOL)

Below are 2 of the more popular options that South Africans have available to them:

40(ee) Retirement Schemes (Guernsey)/Retirement Annuity Trust Schemes (RATS)

Section 40(ee) of the Guernsey Tax Law of 1975, allows a Guernsey based Retirement Annuity Scheme to make payments to non-Guernsey residents without any deduction

of tax at source. The structure is quite flexible allowing for a combination of lump sum payments and regular income draws once you've reached age 50. They work similar to our local personal Retirement Annuities with the member having flexible investment options. Unfortunately you will not enjoy a tax deduction on your contributions and Capital Gains Tax will apply on the withdrawals.

Self-Invested Personal Pensions (SIPPs)

SIPPs are UK domiciled retirement plans, but they are also available to non-UK residents. Similar to the Section 40(ee) schemes, they offer flexible investment options, giving the member control over their investment and risk profile. You may access your funds from age 55, but unlike the S.40(ee) product, you may only take 25% as a lump-sum. You may take a phased retirement approach.

In both cases your investment is protected from creditors and does not form a part of your estate.

One major difference between the above two products is that the SIPP allows for transfers in from other UK pension schemes, so it is a nice option for anyone who has previously worked in the UK, whereas the Section 40(ee) product does not allow "UK tax relieved funds" (i.e. existing pension benefits) to be transferred into the product.

With no up-front tax deductibility of contributions in these products, you may want to consider more flexible discretionary offshore investments. While there are estate duty implications, proper planning can keep that to a minimum and the flexibility of full access to your funds as and when you need it remains an attractive feature of discretionary investments.

As the world gets smaller, South Africans have access to an ever-growing range of offshore investments. Speak to your adviser to find the product best suited to your personal financial situation before eliminating any options.

Should you wish to find out more contact us on 011 486 2500 or email info@globallocal.co.za