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Page: 12

business

READERS WRITE

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your money your lifestyle

This month, we received several questions about retirement, highlighting the importance of understanding your benefits and how they will be treated before you reach retirement age so that you can plan accordingly

Sell property, or cash in pension to pay DEBTS?

OSWALD WRITES:

I am 60 years old and will be retiring at the age of 65. My concern is that I have mounting short-term debt, which is worsening as the interest rate increases, and I have started to miss repayments. Should I cash in my pension to settle the debt, or sell a secondary home where rentals have dried up? There is a bond of R500 000 on the property, which is worth about R1.2 million. I also need to consider that I will need income in my retirement from these investments.

LIZL BUDHRAM,
HEAD OF ADVICE AT OLD MUTUAL, REPLIES:

A financial planner would require further information to provide a definitive answer, but there are some important considerations that Oswald needs to consider.

If early retirement is taken to access cash to pay off debt, what will happen to the balance of the retirement capital after settling the debt?

It will most likely need to be invested in an annuity, which will generate taxable income. Even if the post-tax income is reinvested, the additional income tax and cost implications will reduce the viability of this option.

If the second property is not generating rental income, the interest on the bond is not presenting any tax benefit because there is no rental income against which the interest expense can be set off. By selling the property and settling the R500 000 bond, further interest on the bond is avoided. The balance of the property's selling price can then hopefully be used to settle all or most of the other mounting debt.

Any capital still available after settling the debt could be invested to supplement the rest of the retirement capital. Such an investment will be a discretionary investment (not subject to retirement tax and regulations) and can be used to provide a tax-friendly supplementary income after retirement.

If rental income has dried up on the property and there is no sign of it improving, don't rely on the property itself to provide an income in retirement, but rather rely on the capital value. You need to look at the best risk-versus-return investment you could achieve - taking into account your attitude to risk as well as the most tax-friendly approach.

What are the rights of a beneficiary of a will?

MIA WRITES:

A family member is having a problem with the winding-up of an estate. She and her husband had a will held by the bank and when he died two years ago, the bank, as the executor, appointed its lawyers to wind up the estate.

He owned a flourishing business and had two adult children from his previous marriage. The bank's lawyers seem to be colluding with the son from his previous marriage and are dragging their feet in concluding the process. The family member concerned lives in Pretoria. Where should she go to finalise the estate?

SIPHO WRITES:

I believe that I have been named as a beneficiary in a will, but the family is not allowing me to see it. What recourse do I have?

RONEL WILLIAM,
CHAIRPERSON OF THE FIDUCIARY INSTITUTE OF SOUTHERN AFRICA, REPLIES:

1 With regard to the woman whose husband died, we would suggest that she write a letter with her concerns to the executor and ask for a written response. If she is not happy with the response, she can approach the master of the high court and request an investigation. The Pretoria office should have jurisdiction if she lived there at the time of her husband's death.

If the master's investigation reveals that the executor is not performing his or her duties, the master can take steps against the bank, including removing the executor from office.

It must be stressed, though, that the woman must try to gather as much information as possible about the executor's actions and failure to finalise the estate, because the master will need something concrete before acting. The letter she wrote to the executor/attorneys and their response will help her make her case.

2 A person wanting to view the will of a deceased individual can approach the master's office where the estate has been reported. The will is a public document and may be viewed by anyone.

Generally speaking, the estate will be reported at the master's office in whose area of jurisdiction a person lived at the time of his/her death. Readers can refer to the master's website for a list of the relevant offices – justice.gov.za/master/contacts.htm.

For further information, contact the Fiduciary Institute of Southern Africa through its website, fisa.net.za.

How do I reinvest an education fund for best returns?

JOSHUA WRITES:

I have an education policy plan that has matured for my son, who is currently in Grade 9. I am planning to use the money for him when he attends university. Where can I reinvest the funds for the best returns?

CITY PRESS REPLIES:

Your first consideration is your time period. As you will need to access the funds within the next two to three years, you cannot afford to take any market risk, so investing in a unit trust or exchange-traded fund with underlying investments in the stock market, for example, would not be appropriate.

You need to find a low-risk, cash-like investment. A good example would be an RSA Retail Savings Bond, which is offering an 8.75% per annum return for a two-year fixed deposit and 9% for a three-year fixed deposit.

This is the best investment return for cash currently available on the market at almost no risk.

You can purchase your RSA Retail Savings Bond from National Treasury (012 315 5888), at an SA Post Office branch or at any Pick n Pay store.

You can also go to the website, secure.rsaretailbonds.gov.za.

Will my retirement annuity affect my pension?

GOMI WRITES:

I work for the department of education. I have a retirement annuity with Old Mutual, which I can claim at the age of 55. Is this a wise move and how will it affect my Government Employees' Pension Fund?

LIZL BUDHRAM,
HEAD OF ADVICE AT OLD MUTUAL, REPLIES:

There are several points to consider, and it would be best to speak to a financial adviser about the following:

You can only take one-third of your retirement annuity (RA) as cash; the remaining two-thirds needs to be invested, which creates additional taxable income. If you do not require the income or lump sum at this stage, it would be better to postpone retiring on the annuity and rather continue to make contributions. If you continue to contribute, you will receive a tax deduction on the contributions to the RA.

There is an exception, however. From March 1, the "de minimus" amount in a retirement fund was increased to R247 500. What this means is that if your retirement benefit is below this amount, you can take the full amount as a lump sum without purchasing annuity income, provided it has not been used previously.

It is important to note that any withdrawal from the RA on retirement will affect the taxation rate of your Government Employees' Pension Fund.

At retirement, reduced income tax rates are applicable to certain fixed parts of your retirement fund lump sum, but this is a once-off amount. For example, currently you can take R500 000 tax-free on retirement, but if you use this for the RA, it will not be available when you retire from the Government Employees' Pension Fund.

How do I invest to generate a future income?

DANIEL WRITES:

I am 46 years old and I have R1 million that I need to invest to generate an income. This is the only income I have.

CITY PRESS REPLIES:

There are two things to consider. Firstly, providing a reasonable income and, secondly, making sure the income increases each year with inflation. The second part is important when deciding where to invest the money.

If you just invested the money in cash and draw down the full interest earned, within a few years the value of that money would have fallen in terms of its purchasing power. For example, if you invested in a fixed deposit, you could earn about 8.35% a year, or R6 958 a month.

At an inflation rate of 6% a year, within five years, you would need to earn about R9 500 a month to have the same lifestyle that R6 958 will provide today. As you can see, you cannot afford to take the maximum interest – you have to leave money to grow.

Speak to a financial adviser about the best option. These are some to consider:

- Only draw down 5% a year, or R4 000 a month, and reinvest the rest of the interest to grow the capital.
- Buy a property that can generate an income for you, but you need to do your homework carefully and understand the potential income and full running costs of a rental property before investing.
- Invest in an income portfolio. There are many funds that aim to pay an income while growing your capital. For example, the Marriott Income Fund has managed to provide about 6% income return, which would provide about R5 000 a month.