YOUR LETTERS

HOW TO INVEST FOR RETIREMENT

I am 65 years of age and recently retired, with no mortgage and minimum monthly expenses. I returned to South Africa in 2014 after working for 10 years abroad (Australia). Hence, my local pension value is only R700 000 and currently kept in a preservation fund.

I have fixed-term deposits to the value of R3.5 million, to be released soon.

I built up a substantial pension with Australian Super ($290 000). This amount can be withdrawn at any time with no tax implications.

Could you please advise what options are available to best invest the discretional money, taking tax implications into account? Will the overseas pension amount be subject to tax in South Africa? – *Name withheld*

Marius Cornelissen, financial adviser at PSG Wealth Menlyn, responds:

Generally, as investors get older, their appetite for risk decreases. If they are retired, they usually depend on the income and capital growth of their investments and could easily start eroding their capital base if their returns are less than their annual withdrawals. This means that a well-defined investment strategy is crucial for long-term success.

In the past few years, your strategy of having the bulk of your local assets invested in fixed-term deposits has largely been to your benefit. The JSE has performed poorly, although the weakening of the rand and strong US markets have resulted in most offshore investments performing well. The disadvantage of having a large investment in fixed interest is that you get taxed heavily by SARS, even taking your interest rebate into account. Taking inflation into account, parking your funds mainly in a fixed-income investment is not a viable long-term strategy.

You need a good combination of different asset classes and funds – each designed to fulfil a particular need. You need exposure to fixed-interest, money-market and income funds to fund withdrawals in the short term, to provide a smooth income stream and to ensure that you do not draw on growth assets in bad times.

Thereafter, allocation can be done to unit-trust funds that focus on wealth preservation (moderately conservative) and growth (balanced and equity). The growth assets should perform well enough over time to be able to supplement the income-generating assets, with the added benefit that they should be more tax efficient as capital gains are taxed at a lower rate than interest income. A qualified and registered financial adviser will be able to assist you with a viable long-term strategy.

The rule of thumb is that any portion of a pension relating to services rendered outside of South Africa will not be subject to tax in South Africa. It is best to consult with a tax practitioner regarding the practical implications of ensuring that this rule is applicable to your pension.

Generally, after reaching the age of 60, you can withdraw your total Australian Superannuation without paying any tax, as the earnings of the fund have already been taxed in the fund itself.

Once they are withdrawn (and tax, if any, paid), the funds will be a discretionary lump sum that you will be entitled to invest as you see fit. Once invested, typically, the capital invested will not be taxable; however, any realised gains, interest and dividends would be taxable, depending on the type of investment instruments chosen.

ESTATE CHARGES

What does the Master of the High Court charge when a deceased estate is wound up? I want to accurately work out my estate situation in the event of my demise. – *Name withheld*

Louis van Vuren, chief executive of the Fiduciary Institute of Southern Africa, replies:

A Master's fees are payable in all estates where an executor is appointed and where the estate has a gross value of R250 000 or more.

If the deceased was married in community of property, a Master's fees are payable in respect of the joint estate, since the joint estate must be administered as a whole.

The tariff for the calculation of a Master's fees is as follows:

- Estate between R250 000 and R400 000: a fee of R600.
- Estate of R400 000 or more, for each complete R100 000 with which it exceeds R400 000: a further R200, subject to a maximum of R7 000.

For a useful document on other costs related to death, please visit *www.fisa.net.za* and click on the "Estates" section under "Public Helpdesk".