Securing your future

As a South African expatriate living and working abroad, it's likely that you are able to earn more than you would at home. This could put you in a very strong position when it comes to financial planning and securing your future. In particular, when and how you retire.

Our research has found that being able to retire at a time of their own choosing and maintain a high standard of living is the top priority financial goal for South African expatriates.[1] This research also suggests that many expatriates have the means to achieve this goal as they typically earn at least three times the income of senior level professionals in South Africa.

However, many people significantly underestimate both how long they will live in retirement and how much money they will need to maintain their chosen lifestyle.

While the life expectancy figures for men and women born in South Africa remain among the lowest in the world,[2] South African expatriates can expect to live to ages comparable with the other citizens of their new countries of residence. Life expectancy has increased to the high 70s for men and the low 80s for women in countries that South African expatriates typically settle in, such as the UK, Australia, US and Canada.[3]

As a result, your retirement fund needs to last longer too. If you are planning to retire at 50, the statistics suggest that over one third of your life could still lie ahead of you.

Giving up work might seem like a long way off. However, the longer you delay making contributions into a retirement fund, the more it will cost you in the long run.

How much will you need?

Working out how much money you are going to need to fund your retirement isn't easy.

You will need to consider:

1. **The annual cost of maintaining your desired standard of living in your country of retirement.**
2. **Your existing South African pension savings, provident fund or retirement annuity fund savings or overseas pension savings.**
3. **Other funds you have set aside for your retirement.**
4. **The effect that inflation will have on your savings.**
5. **Your appetite for investment risk.**

In 2017, a couple wanting to live a luxurious retirement in the UK would have needed savings of around **ZAR1.69 million** (GBP1 million) to fund annual expenditure of **ZAR660,660** (GBP39,000) after tax in retirement through an annuity.[4]

Creating your retirement fund

If you wait too long, you may find the cost of securing a comfortable retirement becomes prohibitive.

By making appropriate provision early on, you could take control of exactly when you finish working and maintain a high standard of living in your retirement.

As an expatriate, your retirement planning is likely to involve building a portfolio of assets such as pensions, savings and property investments, rather than relying on a single pension plan, which could all provide you with capital and income to fund your retirement. Given the potential tax and exchange rate environment in South Africa, it is likely that you will want to structure your retirement planning to ensure that the majority of your assets are kept outside the country and denominated in a strong currency.

You are also likely to have been building up retirement savings when you lived in South Africa, potentially through a combination of pension funds, provident funds and retirement annuity funds. Being non-resident in South Africa for tax purposes affects how you might continue to pay into any of these schemes, and the attractiveness of doing so.

Your existing South African retirement savings

South African expatriates who have formally emigrated can withdraw the value of their pension fund, provident fund or retirement annuity fund before they reach the retirement age of 55 (subject to tax and if scheme rules allow). Once these funds are recovered and taxed, they can be transferred abroad.

This has been possible since a change to South African tax legislation in 2008. The process is complicated and involves the pension provider and/or life insurance company, the South African Revenue Service (SARS), the Reserve Bank and a high street bank.

You could consider transferring your South African retirement savings abroad to be able to access the full after-tax cash value and then invest in a major international currency. This could allow you to effectively hedge against South African investment and currency risk and volatility.

Once you have transferred your retirement savings from South Africa, you could continue to invest in a tax efficient way by taking out a pension in your country of residence. Depending upon where you live, the value of the tax relief on your pension contributions may be greater than the tax paid to SARS during the transfer process.

Having established a pension in another country such as the UK, if you choose to move back to South Africa, you could benefit from this pension fund being held outside South Africa while living in South Africa, with an income paid in a major international currency.

Should you leave your pension fund, provident fund or retirement annuity fund in South Africa and you reach retirement age while still an expatriate, you may need to take action to prevent paying tax on your pension income in both South Africa and in your country of residence.

You should be eligible for tax relief if you are resident in one of the approximately 80 countries with which South Africa has a Double Taxation Agreement (DTA) to eliminate double taxation. To qualify for the tax relief in South Africa, you will need to submit a special application to SARS.[5]

If you are living in a country that doesn't have a DTA with South Africa, you may wish to apply to SARS for a refund of any double taxation paid and to stop your pension provider in South Africa deducting tax at source. Depending on the tax system in your country of residence, you may benefit by paying less tax.

Dual citizenship

Obtaining a passport which allows them to settle in their country of choice is an important part of many South African expatriates' retirement planning. South African passport holders are prevented from living in desirable countries such as the UK and other EU states, Australia, US and Canada, as they require a visa to visit.

South Africans who cannot secure a more powerful passport through proven ancestral ties are able to acquire citizenship or residence in several countries through investment. These give the opportunity to obtain a full passport after a number of years residence, providing the ability to live and work anywhere in the European Union while also allowing visa-free travel to many more countries around the world.

Flexibility for expatriates

If you do not intend to return to South Africa for some time, continuing to contribute to a South African pension fund or any other domestic retirement scheme can be unattractive as these arrangements are likely to be restricted in their portability, taxation and benefits.

You may find that the tax-efficient investment growth offered by international life insurance products makes them an attractive alternative to local pension plans.

Through a regular savings plan, for example, you can make contributions towards retirement in a tax-efficient manner. You would have flexibility in how you make contributions and how you take the benefits at the end of the savings term. You could choose to pay on a monthly, quarterly, half-yearly or annual basis and could make additional top-up payments, for instance when you receive bonuses or dividends. The multi-currency options of these plans can be a particularly useful feature for expatriates.

If you have accumulated a lump sum already, you could consider investing in a single premium bond. By setting funds aside now and investing wisely, your investment could generate an income that would enable you to enjoy the lifestyle you choose throughout your retirement.

Your investment in an international insurance savings plan or single premium bond will be tax efficient even if you return to South Africa. On your return to South Africa, it will most likely continue to grow free of tax. Income tax will be payable on gains made, but only when you actually receive these gains and not while the growth is accumulating in the policy. An inclusion rate of 40% applies to capital gains which are added to your taxable income in the year of assessment. This means that if you pay the highest marginal income tax rate of 45%, an effective rate of 18% will be payable on gains arising from policies issued by a foreign insurance company.

If you retire overseas and have used an international life insurance bond to build a retirement fund, there will be no South African tax liability on the proceeds as long as they are taken after you are not tax resident in South Africa. However, there could be a tax liability in the country in which you become tax resident.

Currency	Exchange rate
GBP1	ZAR16.94

The cost of delaying your retirement planning

Let's assume you want to give up work at 50 and retire to the United Kingdom on a monthly income of **ZAR62,678** (GBP3,700).[6]

By the time you retire in the next 20 years, the value of this amount and hence your retirement income due to an assumed inflation of 3% will be equivalent to **ZAR113,203** (GBP6,683) per month.

The average life expectancy of a South African is 65 years.[7] However because you are an expatriate with access to better quality of living and medical facilities than your counterparts in South Africa, let's assume you live to the age of 75, and your investment grows by 3% a year post retirement. You would need an overall retirement fund of **ZAR24,037,392** (GBP1,418,972) to support your current standard of living (excluding product charges).

To reach this retirement fund, you would need to save **ZAR52,755** (GBP3,114) every month from today (assuming a 6% growth rate and excluding any product charges).

However, if you were to delay saving for your retirement by just 5 years, you would need to save an additional **ZAR30,619** (GBP1,808) every month, to achieve the same monthly income of **ZAR113,203** (GBP6,683).

In other words, a 5 year delay means that you would have to invest an extra **ZAR5,511,476** (GBP325,353)!

By starting to save for your future now, you could give your retirement plans the time they need to flourish, and yourself the best chance of achieving the retirement you deserve.

Flexibility for expatriates

Unfortunately, not everyone enjoys lifelong good health or lives long enough to reach retirement. That's why it's vital to plan ahead and consider the financial implications for your family if you were to die without having built up a retirement fund.

By putting a protection plan in place early, you could help to give your spouse, children and perhaps even your grandchildren and extended family, the financial security they need for their future, should you suffer a serious injury, a critical illness or die prematurely.

Incorporating life cover, critical illness cover, and/or total and permanent disability benefit, into your overall retirement plans should help you to focus on living life to the full without worrying about your family's financial future.

www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak to your financial adviser today to see how we could help you plan for your future.

About Friends Provident International

We are a leading financial services provider, with a reputation of trust, commitment and integrity, offering financial solutions to customers throughout their lives.

Friends Provident International has over 35 years of international experience and our heritage dates back over 180 years.

All currency conversions correct at August 2017.

Sources:

1 Independent research conducted by Insight Discovery in the United Arab Emirates on behalf of Friends Provident International, March 2016

2 https://businesstech.co.za/news/general/118214/south-africa-has-the-lowest-life-expectancy-in-the-world/

3 World Health Organisation Global Health Observatory data

4 http://www.which.co.uk/money/pensions-and-retirement/starting-to-plan-your-retirement/guides/how-much-will-you-need-to-retire

5 http://www.sars.gov.za/Legal/International-Treaties-Agreements/DTA-Protocols/Pages/default.aspx

6 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearendingmarch2016#total-spending-remained-unchanged-when-compared-with-a-year-ago

7 https://www.brandsouthafrica.com/governance/ndp/south-african-life-expectancy-rise

Friends Provident International does not condone tax evasion. The company's products and services may not be used to evade taxes.

This document is for information only. It does not constitute investment or tax advice or an offer to provide any product or service by Friends Provident International.

Please seek professional advice, taking into account your personal circumstances, before making investment or other life insurance decisions. We cannot accept liability for a loss of any kind incurred as a result of reliance on the information or opinions provided in this document.

SA_RETMT 02.18 (12432)