Vickers & Peters
LIFESTYLE AND ASSET PLANNING

"Around the Table with Vickers & Peters Financial Planning"

Issue 09 – Jan 2009 **Quarterly Publication** *Compiled by Graeme Holt*

Tax amendments affecting retirement funds

The Taxation Laws Amendment Act No. 3 was published last year which brought about a number of changes affecting retirement benefits and will no doubt have some far reaching implications on retirement planning going forward. I have summarized below the most important changes brought about by the Act.

Definition of normal retirement age and the removal of the upper limit age of 70

Earliest age for retirement for a member of a Retirement Annuity or Preservations Fund is age 55. For Pension and Provident Funds it is the date the employee is entitled to retire from employment in terms of the funds rules.

*A member can elect to retire before the age of 55 from a retirement fund if he/she is permanently disabled.

There is no longer a rule which prescribes that a person must retire from a Retirement Annuity fund or a Preservation fund prior to age 70. For Pension and Provident Funds it is the date the employee is entitled to retire from employment in terms of the funds rules.

On the Table this quarter…

Commutation of Retirement Annuities on emigration

Members of Retirement Annuities who emigrate can now withdraw the full benefit and do not have to wait until their retirement date to access their benefit. In order to proceed with the withdrawal, the member must be able to prove formal emigration ie: the emigration must be recognised by the South Africa Reserve Bank for the purposes of exchange control. The full benefit is taxable and will form part of the emigration capital.

Living Annuities

- **Commutation of Living Annuities**

If the value used to purchase a Living Annuity is below R75 000.00 the member can elect to have the full benefit paid out as a lump sum. It must however be proven that no previous commutations had taken place. Where any previous amount had been commuted the value is R50 000.00.

The commutation will be applied at a client level and not at an individual contract level. The commutation of the annuity will therefore be applied at an aggregate level. The tax applied to the commutation will be treated as a bonus payment i.e. it will be added to the member's taxable income and taxed at his/her marginal rate.

- **Options available to beneficiaries on the death of the annuitant**

  The beneficiary can now choose to receive the death benefit as an annuity (elect to continue with the annuity) or full lump sum payment.

  If no beneficiary has been nominated, the death benefit can be paid as a lump sum into the deceased's estate. This also applies to Living Annuities where the source is a Retirement Annuity. Previously beneficiaries of Living Annuities, where the source was a Retirement Annuity, could only receive 1/3 as a lump sum payment. Beneficiaries can now elect to take the full lump sum. Depending on the amount the lump sum may be taxable.

Preservation Funds

- **Consolidation of Preservation Funds**

  Prior to the promulgation of the new Act, Preservation funds could not be consolidated due to the fact that each Preservation fund would in practice have had a different participating employer. Now that the participating employer requirement has been done away with, Preservation funds of the same type (i.e. Preservation Pension as one type and Preservation Provident as another type) can be consolidated. In addition, the transferring member does not have to be a contributing member of his/her employer's fund.

- **Options available to beneficiaries on the death of the member**

  The beneficiary can now choose to receive the death benefit as an annuity (elect to continue with the annuity) or full lump sum payment.

  If no beneficiary has been nominated, the death benefit can be paid as a lump sum into the deceased's estate.

- **Transfers of divorce benefits to preservation funds**

  A non-member spouse is now able to transfer the pension interest allocated to him/her in terms of a divorce order to a Preservation fund of his/her choice.

*Proposed changes for 2009**

*Please note that these changes have not yet been promulgated and could therefore be subject to change pending final legislation. Further clarity should be provided in the 2009/2010 budget speech. This information could however assist clients where decisions need to be made but time permits. It could be worthwhile to wait and see!

Changes to Estate Duty Act

The Draft Revenue Law Amendment Act contains some interesting changes regarding estate duty. The most important change that can have a huge influence on estate duty is the exclusion of the proceeds of any life insurance policy on the life of the deceased for estate duty purposes. In the past, life insurance policies on the life of the deceased was a deemed asset for estate duty purposes and subject to estate duty, as was the lump sum payment of any annuity on the life of the deceased. The new draft legislation deletes Sections 3(3)(a) and 3(3)(a)(bis) of the Estate Duty Act, effectively ensuring that the proceeds of life insurance policies as well as the lump sum payment by any Pension Fund or Retirement Annuity will in future no longer be subject to estate duty.

For estate planning purposes this makes it easier for the planner as life assurance products become more attractive as a solution for succession planning.

Changes to the taxation on the withdrawal of retirement benefits (before retirement age)

Currently the first R1 800.00 of retirement benefits taken as a cash withdrawal are exempt in terms of paragraph 6 of the 2nd Schedule with the balance taxable at the highest average rate over the last two years assessed income.

As from 01 March 2009* the first R22 500 of a cash withdrawal will be exempt with the balance taxable as illustrated in the table below:

R0 - R22 500 - to be taxed at 0%
R22 501 - R600 000 - to be taxed at 18% of the amount above R22 501
R600 001 - R900 000 - to be taxed at R103 950 + 27% of the amount above R600 001
R900 001 and above - to be taxed at R184 950 + 36% of the amount above R900 001

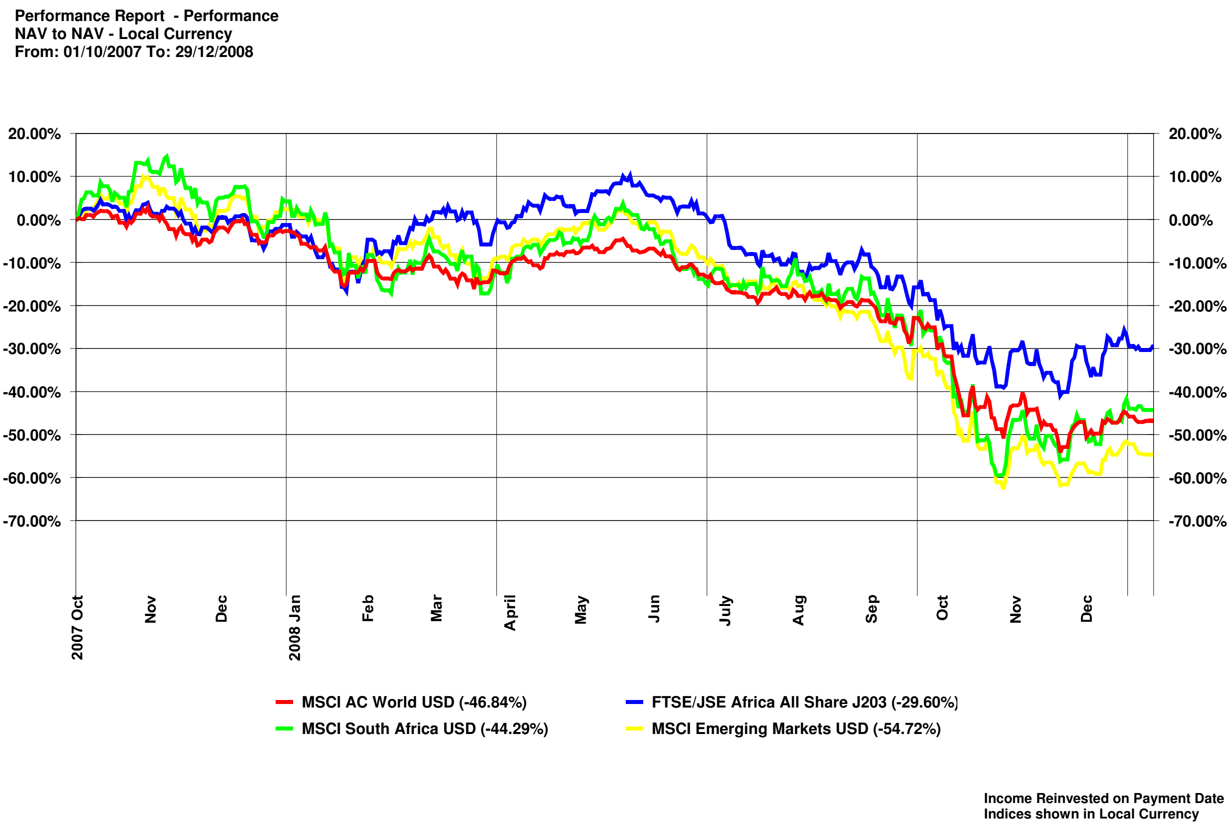
It's evident that with continual reforms occurring to retirement legislation over the last few years the authorities have been tasked with simplifying matters in what is otherwise a very complex environment. I think I say this for all that the changes are a welcome improvement and have been long overdue and hopefully there will be a few more on the horizon that will not only make the financial planning process easier but also financially beneficial to all stakeholders.

What does the stock market hold for investors in 2009?

Before we take a look at the general consensus outlook amongst fund managers for 2009 I think it's important to take a step back and review the events of 2008. Although 2008 has been a year that most people would like to forget, it does hold some interesting observations.

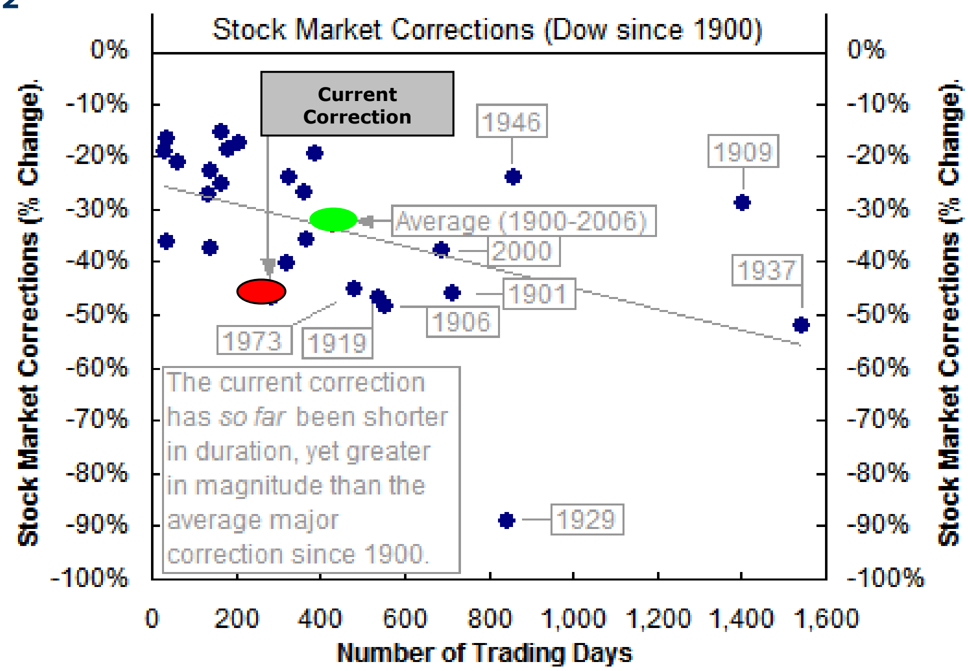
For an overall view of the current market correction I have included a graph illustrating in **US Dollars** the MSCI World Index, the MSCI Emerging Markets and the MSCI South Africa (JSE ALSI in US$) for the period 01 October 2007 to the 29 December 2008. As you can see from **Graph 1** below, the bear market started in October 2007 for the global markets as represented by the MSCI World Index (Red line), whereas for our market, represented by the MSCI South Africa (green line, blue line in Rands), the bear market really started with the collapse of Resource stocks in May 2008. For the period 01 Oct 2007 to the 29 December 2008, the MSCI World Index is down 46.84% in US$, the MSCI Emerging Markets Index down 54.72% in US$ and the MSCI South Africa is down 44.29% in US$, providing SA investors with the consolation to have outperformed global markets in US$ despite the collapse in Resource prices (excluding Gold) over the last 5 months.

Interestingly, the MSCI World Index has lost 46.84% in US$ over the 15 month period from 01 October 2007 to the 29 December 2008, whilst the ALSI has lost 44.40% in US$ over a 7 month period between its high at the end of May 2008 to the 29 December 2008, which in effect means the ALSI has given back roughly the same value in half the period of time as world markets! The movement has been extreme with the ALSI losing 56.32% in US$ between its high on the 22 May 2008 and its low on the 20 November 2008.



For some perspective on the magnitude of the current global correction the graph below illustrates all major stock market corrections (15% loss or greater) of the last 108 years. Each dot represents a major correction as measured by the Dow Jones. For example, the bear market that began in 1973 lasted 481 trading days and ended after the Dow declined 45%. Since 1900, the Dow has undergone a major correction 26 times or one major correction every 4.2 years. As it stands right now, the current stock market correction (October 2007 peak to most recent low) would measure slightly below average in duration but above average in magnitude. In fact, of the 26 major stock market corrections since 1900, the current stock market correction currently ranks as the fourth largest in magnitude (only the corrections beginning in 1906, 1929, and 1937 were greater) and is the most severe stock market correction of the post-World War II era.

Graph 2



Source: Chart of the Day – Dow Jones

Having taken stock of where we've been and where we stand currently, the next step is trying to predict where we are going to be? I have provided below in bullet point format a highlights package on the most commonly held views among fund managers for the outlook on 2009. Please note that the forecast presented by Merrill Lynch is for analysis only and does not necessarily reflect the views of VPFP.

This information has been obtained from the Merrill Lynch fourth quarter 2008 Fund Manager Survey which incorporates the views of 13 asset managers.

Generally fund managers…

- Expect the economy to get a little weaker over the next 12 months
- Forecast a negatively sloping yield curve
- Think a recession is fairly unlikely
- Think the inflation rate will be a lot lower a year from now

- Feel monetary policy is about right
- Forecast the repo rate at 11.0% in 12 months
- Forecast the 10-year bond yield at 8.50% in 12 months
- Forecast the rand at ZAR8.43/USD in 12 months
- Forecast 12-month All-Share index earnings growth at 15-20%
- Say equities are undervalued
- Say equities will yield a total return of 16% over the next 12 months, versus a total bond return of 9%
- On a 12-month view, are equity and cash bulls; bond and commodity bears
- In the near term, want to increase their equity position, maintain bond and offshore positions and decrease their cash positions
- See more Buy opportunities
- Are Overweight industrials and financials and Underweight resources
- In the near-term, want to maintain resource and financial exposure, increase industrial exposure
- In an international fund, have 63% invested in equities
- Are Overweight (in descending order): Food & general retailers and media, banks, personal goods
- Are Underweight (in descending order): Life insurance, gold, platinum
- In the near term, want to maintain their positions across all the sub-sectors
- Banks, general mining and construction are preferred on a 12-month view
- Gold, forestry and paper and life insurance are disliked on a 12-month view
- Based on various broad measures, the main assets are ranked as follows: 1st equities, 2nd cash and 3rd bonds
- Based on various broad measures, the main indices are ranked as follows: 1st financials, 2nd industrials and 3rd resources
- On broad measures, banks, retailers and media, 'heavy' industrials and personal goods are preferred
- On broad measures, gold, life and platinum are disliked
- Managers would buy South African 10-year bonds at a yield of 9.25%
- Expect a -0.5% reduction in GDP growth per annum, over the next five years, due to power shortages
- Expect the equity market to be up in six months time

Source: Merrill Lynch Fund Manager Survey

Wishing all our clients a blessed 2009!

At your service…

Vickers & Peters

LIFESTYLE AND ASSET PLANNING

James Vickers
☎Direct: +27 11 803 7689
E-mail: mailto:jvickers@vpfp.co.za

Andylee Scott
☎Direct: +27 11 803 7379
E-mail: mailto:ascott@vpfp.co.za

Ian Peters
☎Direct: +27 11 803 8158
E-mail: mailto:ipeters@vpfp.co.za

Graeme Holt
☎Direct: +27 11 803 7642
E-mail: mailto:gholt@vpfp.co.za

Marinda Combrink
☎Direct: +27 11 803 7782
E-mail: mailto:mcombrink@vpfp.co.za

Jacqui Nolan
☎Direct: +27 11 803 7399
E-mail: mailto:jnolan@vpfp.co.za

Marie Atkins
☎Direct: +27 11 803 5619
E-mail: mailto:matkins@vpfp.co.za

Chris Ellis
☎Direct: +27 11 803 3663
E-mail: mailto:cellis@vpfp.co.za

Tracy Tan
☎Direct: +27 11 803 7393
E-mail: mailto:ttan@vpfp.co.za

Yolandi Volschenk
☎Direct: +27 11 803 7689
E-mail: mailto:yvolschenk@vpfp.co.za

CELTIS CAPITAL

Tom Barlow
☎Direct: +27 11 803 6597
E-mail: mailto:tbarlow@vpfp.co.za

Our services include…

- Pre and Post Retirement Planning
- Local and Global Investments
- Business Assurance – Keyman and Partnership
- Personal and Group Life Assurance
- Employee Benefit Advice and Products
- Tax and Estate Planning

The Vickers & Peters Group

- Asset Consulting
  CELTIS CAPITAL
- Financial Planning
- Client Services
- Admin. Services
- Group Retirement Fund Benefits

Contact us

Physical address: Vickers & Peters Financial Planning Pty (Ltd), Kathea House, 45 Wessels Road, Rivonia.
Postal Address: PO Box 926, Rivonia, 2128
e-mail: clientservicing@vpfp.co.za
Website: http://www.vpfp.co.za

"The greatest thing in this world is not so much where we are, but in what direction we are moving." - Oliver Wendell Holmes

Licensed FSP No: 28003
Registration No: 2000/012548/07

Vickers & Peters
LIFESTYLE AND ASSET PLANNING

If you would like to be removed from our mailing list we would appreciate it if you would stipulate REMOVE in the subject line of a blank e-mail message.