MONDAY, 3 MAY 2021

# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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# LOCAL NEWS

## How to prepare for, and take control of, your retirement

As much as retirement often seems far away for many of us, especially younger individuals, it is important to prepare in advance to make sure you have a retirement income when the time comes. “More often, people only start to think about their retirement when they are five or ten years away from it. This is too late. Ultimately, individuals should start to think and get the ball rolling as soon as they start working. This will allow them to be better prepared to get the most out of their retirement,” says Rita Cool, certified financial planner at Alexander Forbes. Here are steps to help you prepare for and take control of your retirement:

**Take control by understanding your situation**

It is important to know where you spend your money and what resources you have. Start by making a list of expenses and debt payments. Then make a list of household income and any savings that you have.

**Take control by asking what you can change**

Review your expenses in detail to find out which expenses can be reduced, delayed or stopped.

**Take control by planning**

To take control, you need to work out how much you will need going forward each month. Also, it would be good to spend some time thinking about which expenses may increase, for example medical expenses.

**Take control by being proactive**

Once you understand your financial position, you can start planning for when and how you will reduce, delay or stop any non-essential expenses. Consider taking other necessary actions to ensure that your money stretches as far as possible and for as long as possible. A financial adviser can assist you with this step.

**Stay on top of your finances by recording expenses**

Now that you have a budget and a plan, you must compare your expenses to your budget every time you spend money and remember to check your plan every month and adjust if need be. “By starting this good habit, you will be using this opportunity to put yourself in a better position to achieve what matters most to you. A financial adviser can help you with your financial plan,” Cool concludes.

**Personal Finance | 28 April 2021**

## Unpacking longevity risk in retirement

When investing for retirement there are various risks that investors and their advisers need to consider. The most obvious is market risk as this is not only visible on a day-to-day basis, but also forms a direct part of the financial planning process when a risk analysis is conducted by the adviser. There are, however, other risks that can be detrimental to the retirement journey, namely inflation and longevity risk.

**Inflation risk**

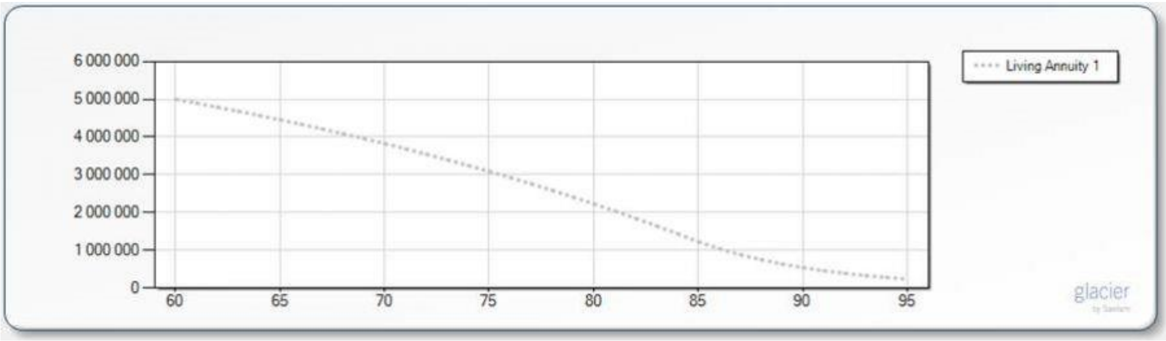
Inflation risk is easy to understand, but scary when experienced first-hand. Consider an amount of R1 million today and assume a 6% inflation. In five years, with zero growth, fee or drawdown, your purchasing power will already have diminished to R733 904. After 10 years it will have been reduced to R538 615. Add an income on to this and the picture starts to look bleak. *Let's consider an example –*

Neal (aged 60) has R5 million available to provide a retirement income.

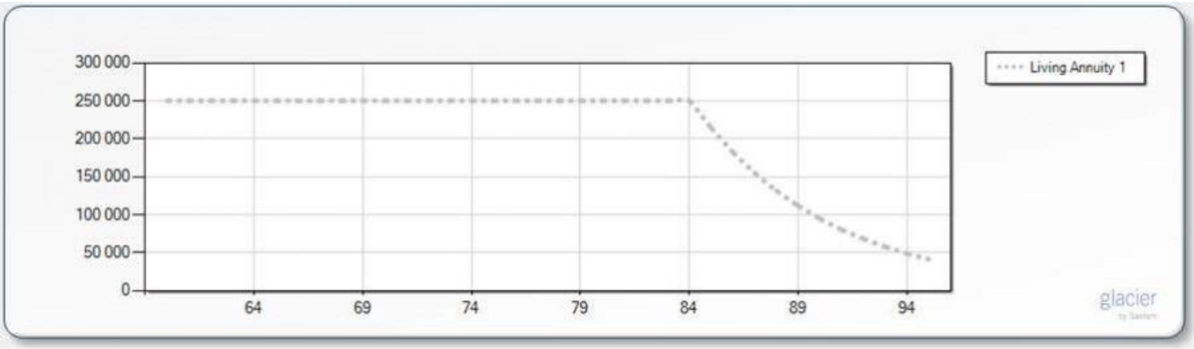
Assumptions:

1. Living annuity drawdown 5%
2. Inflation 6%
3. Growth 10%

Let's look at the impact on the capital amount in real terms, i.e. his purchasing power in the future, but in today's terms




Viewed differently, one could also see this as the value of the potential inheritance from this investment in the future. Now consider the income stream, as shown below. As illustrated below, Neal will have an adequate income stream up to the age of 84. This, however, still assumes a linear growth of 10% and does not account for any form of volatility and sequence of return risk. Adding a 5% volatility factor can reduce the odds of the income stream lasting until age 84 by as much as 50%.




Factors for Neal to consider:

1. Is the lower income after the age of 84 sustainable for Neal?
2. How will Neal mitigate the longevity risk after age 84?
3. Is 6% assumed inflation realistic? Based on CPI data per decile group of wealth distribution, the 6% number is potentially an understatement.
4. How will Neal provide for medical expenses or the increased living costs if inflation is even higher than 6%?

| Group | | Weight | Index (Dec 2016=100) | | | Percentage change | |
|---|---|---|---|---|---|---|---|
| | | | Jan 2020 | Dec 2020 | Jan 2021 | Jan 2021 vs. Dec 2020 | Jan 2021 vs. Jan 2020 |
| **All Items** | | 100,00 | 113,8 | 117,0 | 117,4 | 0,3 | 3,2 |
| **CPI per expenditure decile** | **1** | 0,87 | 110,8 | 114,5 | 114,8 | 0,3 | 3,6 |
| | **2** | 1,80 | 111,1 | 114,5 | 114,9 | 0,3 | 3,4 |
| | **3** | 2,73 | 111,1 | 114,2 | 114,7 | 0,4 | 3,2 |
| | **4** | 3,67 | 111,4 | 114,3 | 114,7 | 0,3 | 3,0 |
| | **5** | 4,61 | 111,7 | 114,5 | 114,8 | 0,3 | 2,8 |
| | **6** | 5,93 | 111,9 | 114,6 | 115,0 | 0,3 | 2,8 |
| | **7** | 7,96 | 112,8 | 115,5 | 115,9 | 0,3 | 2,7 |
| | **8** | 11,12 | 113,5 | 116,2 | 116,6 | 0,3 | 2,7 |
| | **9** | 16,04 | 114,8 | 117,9 | 118,3 | 0,3 | 3,0 |
| | **10** | 45,27 | 114,7 | 118,2 | 118,7 | 0,4 | 3,5 |

*Source: Stats SA*

**Longevity risk**

This brings us to the next risk that needs attention, namely longevity risk. In essence, this refers to you outliving your money. The impact of this is dramatic as it becomes a contributing factor to what is known as the “sandwich generation” - where a financial earner is wedged between two dependant generations. This ultimately creates a knock-on effect that spirals from generation to generation. The second pressure point has the potential to hit all earners, as the state needs to then increase its social grant bill that is ultimately funded by the taxpayer. The big question is then, for how long do you need to provide an income to ensure you have adequate income longevity? Let’s consider average age expectancy, as shown in the below table.

| Chance of survival - RSA | 65-year old man | 65-year old woman | 65-year old couple * |
|---|---|---|---|
| 1 in 2 | 85 | 89 | 94 |
| 1 in 4 | 93 | 97 | 100 |
| 1 in 10 | 100 | 104 | 106 |

* at least one surviving

WHO

*Source: WHO*

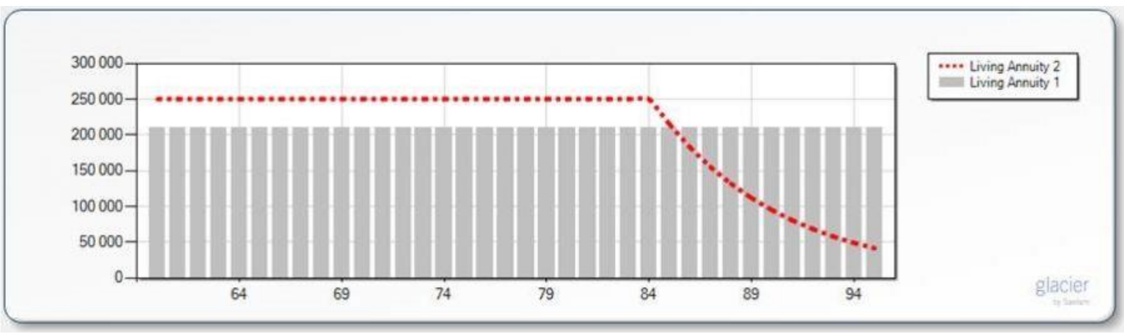
In our example above, there is a 50% chance that Neal would no longer need income after age 84, when the projection shows his income to significantly start to decrease, but that means there are many potential clients who would live longer and still need a sustainable income. Therefore, the above cash flow example would potentially cover only 50% of clients, which is not acceptable. Assume you need to leave an income for a spouse, would like to leave a legacy or assume you live to 100. Measures need to be taken to ensure there is some form of income at that stage.

**Addressing longevity risk**

There are three ways we could address this:

1. Fix the retirement longevity dilemma by ultimately fixing the cause, which is to create a savings behaviour that would eliminate any form of worry about longevity. That would mean Neal would have needed closer to R8.2 million, rather than R5 million (a 64% increase in capital needed).

2. Consider starting with a lower income by reducing your initial drawdown rate or income percentage taken. Consider then that you need to weigh up the income you want, relative to the income your capital can afford. The graph below shows Neal's outcome by reducing the starting income from 5% to 4.2%. It may only be 0.8%, but it's still R3 333 less per month to start with.




**FA News | 29 April 2021**

## Covid-19 magnifies retirement savings crisis

South Africans are facing a long-term retirement crisis, which has been magnified by the pandemic – and women are most vulnerable. This is the scary message to emerge from the third annual Retirement Reality Report by investment firm 10X, released in October last year. The report is based on a Brand Atlas survey of the lifestyles of 15.1 million South Africans with an income of over R8 000 a month. The findings are corroborated by National Treasury figures. 10X said a key issue that cropped up "time and again" in the reports was that people felt they could not afford to save for retirement, but they "really cannot afford not to save for retirement".

Before the pandemic, many were already treating retirement savings as a "nice-to-have". Covid-19 has magnified the crisis: in the 2020 report, which was conducted during the early part of the pandemic, almost half (49%) of respondents said they had no retirement plan, compared with 46% in 2019. "Forty percent believe they can save for retirement in less than 25 years, but they fail to understand that the first 15 years of employment are really important in guaranteeing a successful retirement outcome," 10X's head of investments, Chris Eddy said. "People aren't saving enough. It's not just about having a plan – that alone won't solve the problem; it's about understanding the drivers."

Worse is the fact that more than 60% of South Africans cash in their pension savings when they leave a company. Eddy says the report shows that people want to preserve their lifestyle but have not thought through the implications of not saving: 75% worry they don't have enough to retire and 77% say they will need to continue working in retirement – and yet almost 70% expect to enjoy the same standard of living in retirement. "The 49% who have no plan say they don't earn enough money to save, but in fact, they are prioritising their current lifestyle at the expense of their future self. A 5% to 10% drop in lifestyle now will make a 50% to 90% change in retirement.

"Eighteen percent say they don't save because they don't plan to retire – but given South Africa's population dynamics, the flood of younger people entering the workforce – it makes it more difficult to defend that position in the long term." Mica Townsend, 10X's business development manager, says few respondents can say their plan is well thought-through and executed: 20% have a plan, but it's "a bit vague".

**Women are worse off**

The situation is worse for women: often their careers are interrupted by pregnancy and childcare, and the latest StatsSA data says women earn about 30% less than men (a 7% increase on last year's data). "Fifty-three percent of women have no plan, versus 45% of men.

Twenty-seven percent of men have a pretty good idea of their plan, but only 22% of women (can say the same)," Townsend said. "What makes the problem worse is that those women who are saving tend to do so in cash investments. They are conservative in nature." More women identify as savers (32%) than men (28%) while 13% of women identify as investors as opposed to a much higher percentage of men (22%). "We know that simply saving your money is not enough: cash is not going to grow fast enough to give you a nest egg that you can survive on and won't keep pace with inflation," she said.

"What you really need is a high-equity or a well-balanced diversified portfolio. You simply can't just put that money in the bank. Women, typically, are not investing the assets that they need in order to grow their retirement savings." Traditionally, women leave these decisions to a partner, instead of making financial preparations for themselves. "Once that person to whom you delegated those decisions is no longer around, how are you going to manage?"

**Hard lesson**

The pandemic, Eddy said, fast-forwarded South Africans to a potential future where they no longer have an income and little-to-no savings to fall back on. But lessons can be learnt from how a crisis can cause a dramatic lifestyle downgrade. "If there is to be a positive from our state of economic and financial disaster, perhaps it is the increased awareness of our vulnerability to life's unexpected broadsides," he said. "In giving a glimpse into the future, of what it feels like to be suddenly living off a low income and the strain of great financial insecurity, it may finally convince people that they cannot afford to ignore planning for retirement."

**Personal Finance | 27 April 2021**

## Ten tips to POPIA compliance

The time for Protection of Personal Information Act (POPIA) compliance is edging closer (30 June 2021). Here are ten top tips to be ready, no matter what.

**Motivate your manpower**

Getting buy in from stakeholders and staff will accelerate the success of your POPIA compliance plans. This is a crucial first step. Find interest and value for them to pique their enthusiasm. Administrative people might be keen to save on admin time, as an example. People are not lazy; they just prefer to prioritise to get to the end of the workday. You might get more pushback if there is less control in the changes needed. If buy in can also mean having a hand in determining the changes, it could be easier. People who suffer from car sickness often don't feel symptoms if they are the ones driving, able to anticipate the turns.

**Be a bit of a MacGyver**

It's better to look at existing structures and insert POPIA compliance within that. If you aren't doing any governance whatsoever, or maybe just complying with FAIS, POPIA is not your biggest problem. Use the compliance processes you have and edit them accordingly to fit into POPIA requirements too. It's useful to check if any POPIA groundwork has been done already in some departments. You can also ensure you understand how everyone will be impacted and ask how you can help them to transition.

**Analyse haves versus needs**

Analysing gaps as a step can mean you just have gaps (such as conducting a gap analysis). When the POPIA strikes the fan, you're facing risks ranging from operational to financial, including business continuity. HR risks increase, as do litigation risks and so your reputational risks rise. You can't afford to only have a gap analysis. Plug the holes as you go, ASAP.

**Just calm down**

Our brains release cortisol when we are stressed, and when our flight or fight mechanism kicks in, there is said to be a 20-point drop in our IQ points. In other words, if you panic, your judgement is likely to be off. A calm approach is best.

**Know your blind spots**

Procrastination centres around the fear of failure or a fear of what to do (where do I start? What if I do it wrong?). Don't get caught out – every business has a blind spot. You just need to learn some things and you will be okay. Do your homework, such as checking in with an independent compliance officer for guidance.

**Tough Tech(ies) – it's all Geek to me**

Understanding how information security management works and fits together will empower you. Don't let limited knowledge on tech dissuade you. Ask questions. Take your head out of the sand.

**Embrace POPIA as a team sport**

Everyone is responsible in this collaborative journey but realise just that – it's a journey that will take time. Don't address everything and all departments at once. Make a plan to manage this merge over several months. POPIA shouldn't be an IT problem exclusively either. They can't take responsibility for the box of files that could be stolen from your boot…

**E-mailing a policy doesn't count as implementation**

You need more than a group send. You need to change the process. Assess who needs which training. There is no such thing as POPIA general awareness training – you need skills development, relevant to each department or organisation.

**Never copy and paste: tailor-make**

Borrowing wording from someone else's POPIA plan can be the poorest plan of all. You can't just copy and paste – you need to have a plan centred around the correct risk assessment, bespoke to your business.

**Know when to leave it alone**

Implementing even just one or two new processes, within an existing framework could be overwhelming, so go slow but most importantly, just go! Don't overwhelm your business by trying too much at once.

**A bonus**

POPIA compliance and sound governance add value to your business. An incident plan also saves money on protection and enhances your organisation's cybersecurity. The year ahead will hopefully be better than the last, but be kind to yourself and your business, and take a measured approach. POPIA compliance is a big task but tackling the steps one at a time will get you to where you need to go.

**FA News | 29 April 2021**

## There's no time like now – and no easier way – to save for your retirement

Your early working years can be hectic, with long days spent navigating a fast-changing world, and life partners, perhaps even a young family, placing multiple demands on you. How in the world are you supposed to be planning for the long-term, choosing an investment portfolio, selecting a retirement provider, and so on? Well, from one over-stretched worker to another, stop panicking and listen up. Planning for a dignified retirement is simpler than you think. It used to be the norm for companies to provide pension funds for their employees. It was also usually compulsory for employees to join the employer's fund. These days, fewer companies offer employees this "perk", so the responsibility of saving for retirement tends to fall on the individual.

But with a huge industry offering thousands of retirement savings options, how can the average South African know where to start? The complexity of what is available is one of the reasons so few South Africans get around to even taking the first step to ensure a dignified retirement. It's also why, according to National Treasury, only 6% of South Africans are on track to retire comfortably. The average citizen already has too much on their plate to try to understand the intricacies of the investment world, but it's essential we all do some basic retirement planning. The good news is that setting yourself up for a decent old age is not as complicated as many of the other things you've already conquered, especially if you start saving early.

Here are seven things to keep in mind as you dip your toe into investing for your retirement:

1. Fees are the single most reliable predictor of your investment's performance and, therefore, of retirement-saving success. Make sure you keep yours low. Ask for the effective annual cost report and if you're paying more than 1.2%, including VAT, you may want to look at other options.

2. Stay the course. That means do not cash out your savings. People often cash out their savings when they change jobs, thinking they will make it up later. The hard truth is that you probably won't. Even if you do contribute the amount you cashed out, you'll never get back the time those savings had to grow.

3. Trust can be misplaced. Just because a company has been around for decades and is well-known does not mean it's the best place to invest your hard-earned cash. Choose a fund manager that will give you the best chance of a great outcome rather than because it has big offices around the country, sponsors major sporting events or runs impressive television ads.

4. When choosing an underlying fund, look at its long-term track record. Ask for a fund fact sheet (also known as a minimum disclosure document) and look at its track record (at least five years). Does the fund have a record of delivering inflation-beating returns over five years or more? If yes, then go for it!

5. Investment style is important. You won't need to do too much research to discover that index funds outperform actively managed funds over the long term. Some active funds will occasionally outperform index funds over a year, maybe over two years, but that is where it ends. Over the long-term, passive funds outperform active funds, and retirement savers are in it for the long haul.

6. Be wary of what looks like a free lunch. If you're offered a product with a "booster" or a "bonus", chances are you'll be financing this "bonus" through fees charged upfront or over the long term.

7. And, a final word of warning: always choose evidence over emotion. Whether you're just starting your working life or are 20 years into it, applying the above basic principles will definitely save you time, money and hassle. It will also ensure that you're on track to get off the treadmill and enjoy the fruits of your hard work when it's time to retire.

**Personal Finance | 28 April 2021**

## South Africans cash into savings and investments to cope with covid-19 fallout, says study

South Africans under pressure as a result of Covid-19 and the subsequent nationwide lockdown are making hasty financial decisions that could have worrying long term effects. According to the latest **Momentum Household Wellness Insights Report**, dipping into precious savings and investment reserves were revealed as one of the top five selected coping strategies of households during lockdown. However, understanding inherent biases that impact our decision making – especially in times of fear – could help us to avoid further costly money decisions.

This is according to Paul Nixon, Head of Behavioural Finance at Momentum Investments, who says that the report indicates that nearly half of South African households experienced financial challenges over this period, such as a reduction in household income, or a struggle to pay debts. "This level of pressure also spills over into the savings and investment space. Negative returns on investments as a result of the tough economic landscape have created problems for the households that earn enough to save, and has resulted in more individuals accessing or changing their investments out of fear of not being able to cope," says Nixon.

He points to the findings from Momentum's Behavioural Finance white paper – *Understanding the great forces that rule the world: A study on South African investor behaviour* – which pegged fear and greed as the two strongest driving forces that influence investors, and challenge the logic of their decision-making process. "Where fear tends to make individuals switch - or even cash out - investments as soon as underperformance looms, greed often motivates investors to take an ill-advised gamble and switch to higher risk investments, lured by the possibility of higher returns.

However, there is now evidence that investors are significantly more driven by the fear of loss than they are by the prospect of equivalent gain. They are nine times more likely to switch funds as a result of their current fund performing poorly, than they would be due to the possibility that another fund may perform exceptionally well," says Nixon. The work forms part of a series of studies and research as part of the Momentum’s Science of Success initiative – a platform where data and insights are brought to life to demonstrate how certain behaviours can accelerate or decelerate our journey to success. By studying how our emotions impact our financial success, this body of work forms a crucial building block to understanding the science of success. Nixon, along with Professor Evan Gilbert from the University of Stellenbosch's School of Business and Dirk Louw, an actuarial analyst at Transaction Capital Recoveries, studied the behaviour of 23 000 local investors over time.

The result was a detailed understanding of the motivation behind our financial decisions and how this improves or derails our financial success. “From dumping stock to panic-buying toilet paper, the Covid-19 crisis has provided the perfect example of how fear and greed tend to influence us, and challenge the logic of our decision-making process. While most of us understand the science behind long term investments, it seems that in the face of a crisis, logic goes out the window and we do things that can severely hamper our financial wellbeing,” says Nixon.

With that said, Nixon adds that times of high volatility and significant economic stress, are in fact when investors need to be the most level-headed. “Understanding why we make the decisions we do - and overriding that detrimental ‘knee-jerk’ reaction that compels us to make rash decisions - remain critical to ensuring the long-term financial health of households,” says Nixon.

**FA News | 29 April 2021**

# INTERNATIONAL NEWS

## Australian pension fund association raises bar for companies on climate change

Australia's main association representing pension fund investors said it was tightening its climate change policy and may recommend voting against directors of companies which are not moving fast enough to meet Paris goals. The Australian Council of Superannuation Investors' (ASCI) is also urging companies to adopt shareholder resolutions known as 'Say on Climate' which typically call for annual disclosure of emissions, a strategy to reduce emissions and a non-binding vote on corporate climate plans at annual general meetings.

ASCI's 36 members collectively own on average 10% of every ASX200 company and its new climate change policy will go into effect from 2022. Companies should align their corporate strategy to the Paris Agreement and the objective of net zero emissions by 2050, the ASCI said in a statement. They should also set short, medium and long-term emissions reduction targets and stress test the resilience of their portfolios and strategy against climate change scenarios, it said. The ACSI and other investors have so far secured commitments for 'Say on Climate' resolutions from Woodside Petroleum Ltd (WPL.AX), Santos Ltd (STO.AX), Rio Tinto Ltd (RIO.AX), and Oil Search Ltd (OSH.AX) in 2022.

The ASCI will initially focus on ASX200 companies in climate-exposed sectors such as energy, utilities, transport and materials. "Climate change risks are deeply embedded in the financial system and impact all sectors and asset classes. For long-term investors, this poses a serious challenge to long-term value creation across investment portfolios," said ASCI CEO Louise Davidson. According to Australia's clean energy regulator, utility AGL Energy (AGL.AX) was the country's top producer of emissions in the last financial year. Other listed entities among the top 10 include Origin Energy (ORG.AX), Chevron Corp's (CVX.N) Australian unit and Woodside Petroleum.

**Reuters | 7 April 2021**

## Should You Plan for a Retirement Without Social Security?

It's a scary story told to frighten the younger members of the workforce: Social Security is running out of money and will soon be a thing of the past, leaving you to fund retirement entirely on your own. Cue the horror movie soundtrack. Fortunately, it isn't true, although the program's future is far from rosy. Below, I'll break down why people think Social Security's about to bite the dust and what its real future means for your retirement.

The good news and the bad news
The reason so many people think Social Security is going to disappear is that its trust funds are near depletion. The 2020 Social Security Trustees Report predicted the funds would be fully depleted by 2034, but that was before the pandemic really took hold. While the Social Security Administration has yet to release an updated estimate, the Bipartisan Policy Center estimates the trust funds could now be depleted as early as 2029. That sounds bad, but the trust funds are only part of how the government funds Social Security.

The majority of the program's money comes from the Social Security tax all workers pay on their income. Right now, it's 12.4% split evenly between employee and employer on the first $142,800 you earn in 2021. In 2019, payroll taxes covered 89% of the benefits Social Security paid out. Another 7.6% came from interest earnings. The money in the Social Security trust funds is invested in various securities, and when they do well, the interest provides an additional source of income for the program. The remaining 3.4% came from seniors paying taxes on their Social Security benefits.

Even once the trust funds are completely depleted, two of those three revenue streams would still exist, which means Social Security isn't going away.  But it's probably not going to go as far as it does now. The latest Social Security Trustees Report estimated that following 2034, Social Security would only be able to pay out 76% of the benefits retirees are owed. That estimate was made pre-pandemic, so the situation could be even more dire now. And it poses a challenge for those of us trying to figure out how much we need to save for retirement.

What do we do now? You don't have to plan for a retirement without Social Security, although if it makes you feel better to save a larger nest egg so you don't need to rely on the program at all, go for it. For everyone else, you can estimate your future Social Security checks by creating a my Social Security account. This tells you your estimated benefit based on your work history up until this point and the current benefit formula. If you want to be extra safe, assume you'll only get 76% of that. That way, if benefit cuts do happen, you'll still be okay. Keep in mind that the age you start benefits affects the size of your checks. You must wait until your full retirement age (FRA) -- 67 for most workers -- if you want the benefit you're owed based on your work record. You can start as early as 62, but you'll get less per check if you start that early. You can also delay benefits until 70 and your checks will increase. If you expect to live into your mid-80s or beyond, delaying benefits will usually give you the most money overall, but it's not feasible for everyone. Regardless of the size of your Social Security checks or when you start claiming, you still need a lot of money saved on your own. The average Social Security check right now only provides about $1,551 per month, which isn't enough for most people to live on.

So you need to have a personal savings plan and start putting money away in a 401(k), IRA, or other retirement account to help you cover what Social Security won't. How much you need depends on the type of lifestyle you want in retirement, but it's always better to overestimate slightly than to guess too low, especially with the future of Social Security so uncertain. It's tough to plan for retirement when you don't know exactly how much to save on your own, but as long as you have an educated guess, contribute to your retirement accounts regularly, and stay up to date on what's happening with Social Security, you can give yourself a good chance of retiring comfortably. Then, if benefits do decrease or if the government alters the program in some way, you can alter your retirement plan to help keep yourself on track.



**The Motley Fool | 27 April 2021**

# OUT OF INTEREST

## Looking to emigrate? First get your tax ducks in a row

If the Covid-19 pandemic has shown us anything, it’s that it is possible for us to work productively from anywhere. Growing numbers of South Africans are taking the opportunity to either emigrate, or at least relocate to a different country, to experience a different lifestyle and explore new opportunities. But while there are numerous attractive residency options available, including for example, Portugal and Cyprus, it's critical that South Africans looking to emigrate take a close look at the tax implications before they move, warns Sovereign Trust consultant Ralph Wichtmann. Citizens who do not tax emigrate might find themselves being tax residents both locally and in their new country of residence, and thus be subject to tax on the same income twice. "Even though you're living in another country, you could still be viewed as a South African tax resident.

To ensure you remain compliant and don't get an unpleasant surprise in the form of an unexpected tax bill, it's vital that you understand the tax residency rules and any double taxation treaties that are in place," says Wichtmann. South African tax residency can be determined by either one of two tests. One is the ordinary residence test, which looks at 'the country to which a person would naturally and as a matter of course return to from their wanderings.' So if your assets, family and permanent home are in South Africa, you'll be seen as a South African tax resident.

The second test is the physical presence test, which takes into account the number of days you spend in South Africa over a fixed period of time. Most tax treaties contain a 'tie-breaker' clause which gives the sole taxing rights to the country where the taxpayer has a permanent home. If the taxpayer has a permanent home in both countries, the country where the taxpayer's 'centre of vital interests' (personal/economic ties) are closer, is given taxing rights. If you don't have a permanent home or the centre of vital interest cannot be determined, you'll be taxed where you have a 'habitual abode', and failing that, the country where you are a national. There are a few factors that tax residents need to bear in mind when they emigrate, says Wichtmann:

• **Exit charges.** Upon becoming tax non-resident in South Africa, there is a deemed sale of all your worldwide assets at market value and effectively a capital gains tax is payable.
• **Capital taxes.** It is also important to take note of the tax regime in the country to which you are moving to, and specifically whether they levy any wealth or capital taxes, or inheritance tax and estate duties. For example, in Spain and France, you are charged an annual tax that is based on the capital value of your worldwide estate. Many countries offer special tax regimes to new residents, including various routes to obtain residency through 'golden visa' schemes or their equivalent.

**Portugal** offers the Non-Habitual Resident (NHR) regime which, with careful structuring, provides a ten-year tax-free holiday to new residents (apart from pension income, which is now taxed at 10%). The Golden Visa scheme also offers permanent residency to new non-EU residents in return for an investment of €350,000-€500,000 in an approved investment which includes real estate.

**Cyprus** is an increasingly popular location for South Africans, who get residency either by investing in property, one of several investment options, and this can also be facilitated through appropriate offshore structuring.

**The UK** will generally treat any new resident as non-domiciled in the UK, and therefore only subject to tax on income earned in the UK, or foreign income remitted to the UK. High-net-worth individuals can structure their affairs so that they pay little or no tax in the UK, and also remain outside the scope of the UK inheritance tax (IHT) regime which is 40% of the capital value of their worldwide estate. This 'non-dom' status can, with suitable planning, last 15 years or longer.

**Greece** will grant permanent residency to anybody who invests €250,000 in real estate. There are also a number of tax incentives available to new residents, which include pensioners only being taxed at a rate of 7%, and entrepreneurs only being taxed on 50% of their income. "Some countries, like **Hong Kong, Singapore** and **Thailand**, only tax territorially. It is thus possible for those who are not working in the country to avoid all tax.

Then there are a few countries that do not charge income tax, including **Dubai, Monaco** and many of the **Caribbean** countries, but if you are still tax resident in South Africa, you could still be liable for tax on your worldwide income," said Wichtmann. "There are many points to consider before making the decision to emigrate - and it's always advisable to seek professional assistance before heading abroad.

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