Investment vehicles you should consider for your retirement plan

08 November 2021 – The retirement landscape has changed significantly over the past few decades. For one, medical advances mean that, on average, people are living longer. That means we need to have more capital to invest at retirement to secure an income for the remainder of our lives.

In addition, the typical real returns that most of us can expect from a retirement fund investment have declined from the steady double digits that were the norm for previous generations of South Africans.

All of which makes it even more important for each of us to be far more actively involved in our retirement planning, preferably from the first pay cheque we earn. That’s according to Samukelo Zwane, Head of Product at FNB Wealth and Investments, who says that the days of simply putting the default contribution amount into your employer-based retirement fund, and eventually enjoying a comfortable retirement, are long gone. “The shift from defined benefit to defined contribution retirement fund formats means that we, as individuals, are now fully responsible for the type of retirement we achieve,” Zwane explains, “but with that responsibility comes great opportunity, and we now also have the means to secure exactly the retirement lifestyle we desire.”

He explains that achieving that ideal retirement goal demands a holistic and very hands-on approach to our pre-retirement investments – one that takes full advantage of diversified investment vehicles to structure a retirement plan that evolves and grows as we advance through our working lives. And he contends that tax-free savings accounts and investments should be a cornerstone of such a plan, especially for those who have time on their side.

“Most tax-free savings accounts available today offer competitive returns that are largely stable and deliver growth at least in line with inflation,” Zwane says, “and on top of that, the growth achieved over time is not subject to tax – all of which makes these vehicles an excellent foundation for any retirement investment plan.”

He highlights the fact that this tax-free growth can be significant for those who have 20 or 30 years until retirement. “If you start investing the regulatory maximum into a tax-free account when you are in your twenties, you will have contributed the maximum total amount in 15 years,” he explains, “but that invested capital will continue to grow, at a compounded rate, for as long as you leave it untouched, which means that at retirement, you could literally have one or two million rands worth of additional tax-free capital at your disposal.”

Of course, a million rand is not enough money for the type of retirement security that most people want, so Zwane points to a number of other retirement investment vehicles that you should be leveraging during your working years. The first of these, for employed individuals, is their company retirement fund.
Elize Giese, CEO of Employee Benefits at FNB says that “Some employers contribute towards their employees’ retirement fund, which means that both employer and employee commit to the continued improvement of their employees’ financial wellness. It is well worth your while to increase your own contributions to this fund as often as you can,” she says, “and your contributions are tax deductible up to the regulatory maximum of 27.5% of your total remuneration.

While it’s unlikely that most new employees will be able to contribute the maximum at the beginning of their careers, Giese says it is important to make sure that you gradually increase those fund contributions as your disposable income goes up, so that over time this can help with compound growth and tax efficiency.

However, Zwane says that believing your contributions to an employer retirement fund and tax-free account is the full extent of your retirement planning options is short-sighted at best. And he highlights a number of other investment opportunities that could help to significantly boost your retirement outcome if you are able to add them to your pre-retirement planning.

“For self-employed individuals, contributing the maximum possible amount to a retirement annuity is one of the most tax-effective ways to build up a retirement nest egg,” he says, “but retirement annuities are not the exclusive reserve of the self-employed. In fact, for employed individuals who are already making contributions to their company pension fund and a tax-free account, these instruments offer an opportunity to further bolster their at-retirement capital in a risk-managed way – because they can choose the investments underlying their fund to complement their portfolio and risk/return preferences.”

Finally, Zwane points to two further compelling ways of diversifying and growing your retirement ‘pot’ as being property investments and endowments.

“Buy to rent properties remain an excellent way of building your pre-retirement asset base, particularly because they are not acutely influenced by equity market movements and volatility,” he explains, “and provided you don’t over-extend your debt, a well-managed property portfolio gives you excellent retirement options because you can choose to retain them and derive an additional rental income in retirement, or sell them to maximise the capital you can invest to receive an annuity income for life.”

And for individuals who have progressed in their careers to the point where they are in a SARS marginal tax bracket that is higher than 30%, he suggests considering endowments as a viable option of adding to your retirement capital. “These medium-term investment vehicles give you access to a wide array of underlying funds, so you can use them to effectively balance the risk and return profile of your overall retirement portfolio,” he explains, “and since the tax levied on endowment investment growth is usually capped at 30%, and you pay no tax at the end of your investment, if your marginal tax rate is high, an endowment is a solid way of saving for retirement in a tax efficient way.”
“A retirement plan is as unique as the person who creates it, and will obviously differ according to the circumstances and objectives of each individual,” Zwane says, “but recognising that you have a vast assortment of excellent retirement investment vehicles at your disposal, and that you can, and should, ensure that your retirement planning grows and changes as you move through different life stages, is an essential first step towards achieving the financially secure and comfortable retirement you want.”

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