Don’t let fear and emotion dictate your retirement money decisions when emigrating

26 January 2022 — For most South African citizens, deciding to emigrate comes with many difficult choices. One of the most common conundrums is what to do with the retirement savings that have been accumulated over the years. In some cases, these are substantial amounts of capital, which makes the decision more difficult.

According to Samukelo Zwane, Head of Product at FNB Wealth and Investment, the choice of how to handle your retirement capital depends on a multitude of factors, many of which will differ according to the type of retirement fund and the financial regulations of the destination country. But he says that there is one universal truth when making decisions about your money during emigration, and that is to never allow fear of the unknown to influence your thinking.

"While a healthy dose of financial caution is always good, the fear of what may happen in the future most often dictates the money decisions you make, which is sometimes devastating for your long-term financial wellbeing," Zwane explains.

A case in point is the recent proposal to levy an exit tax on the retirement interests of South Africans planning to emigrate. While the proposal has been provisionally withdrawn for several reasons, the government has made it clear that it intends to revisit the exit tax in the future. In such cases, it is important for prospective emigrants to avoid acting on impulse regarding their retirement money. Spend some time considering the pros and cons before making a hasty and costly decision to withdraw your retirement benefit and deposit it overseas, explains Zwane.

This advice is echoed by FNB Global Solutions Specialist, Willem van der Merwe, who emphasises how important it is for any prospective emigrant to think carefully, not only about the immediate consequences of the decision they make, but also what it could mean for them in the long-term.

"While your emigration plans may seem like a permanent arrangement right now, nobody knows what may happen in the future," he explains, "and if you have the opportunity, or inclination, to return to South Africa later in life, possibly to retire here as many other emigrants are doing, a fear-based decision to take your retirement money out of the country now could ultimately prove to be a very poor one."

Van der Merwe also highlights the importance of diligently weighing the costs of cashing out your retirement benefit and transferring it overseas. "Apart from the fact that transferring your capital will require you to first withdraw it from your SA fund and this withdrawal might have a tax liability to be considered. It is important to ensure that your funds grow in line with the inflation of the destination country where you want to retire, therefore the end destination is an important consideration which can also change over time," he explains. "And if the tax regime in your destination country is less beneficial than South Africa’s relatively generous retirement taxation system, your transferred money may decrease further in value. We advise clients that are planning to emigrate to be aware and
understand the impact of these developments, alternatively they can discuss their needs with a Wealth Management expert to ensure the right portions of their wealth are invested in the right places."

Zwane highlights that it’s not just financial costs that need to be considered but also the opportunity cost of moving your local retirement funds offshore. "Any savvy investor knows that diversification is of the utmost importance to the resilience and sustainable growth of an investment portfolio," he explains, "and despite its current difficulties, South Africa has always been an excellent diversification opportunity that has delivered competitive returns for global investors." As a soon-to-be ex-South African, accessing that diversification is as easy as moving your retirement savings into a preservation fund, which will also not incur any tax obligations, he adds.

"The worst scenario for any emigrant is to discover 10 or 20 years down the line that the ill-conceived financial choices they made when leaving South Africa have ended up costing them a lot of money. Hence, two of the most valuable investments you can make in your future, irrespective of where you may reside, are careful consideration and in-depth research. As with any major financial decision, don’t underestimate the value of professional and impartial financial advice," concludes Zwane.

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