Case Study: IPP for the younger saver

OPTIMUS

Belinda is the Finance Director of a young but rapidly growing digital marketing business based in Cape Town. She is 32 and single with a child, aged 5.

Belinda's current annual taxable salary is R1m and she has management share options in the business.

Belinda currently contributes R250,000 a year to a local retirement annuity fund, just below the maximum tax-advantaged limit for her earnings level. However, she is frustrated at the investment choice available from her provider, and others, and is particularly concerned about over-exposure to the South African market for her long-term savings.

Belinda does not have a defined retirement date in mind but would like to re-assess her options in her early 50s, especially if the company continues to do well and her share options generate significant value when they mature.

Planning Considerations

Whilst Belinda does enjoy the tax advantages of contributing to the retirement annuity fund, this must be weighed against her concerns about the investment restrictions and over-exposure to the South African market.

With no firm plans on target retirement date and the possibility of a share windfall she would like to keep her options open and investments diversified. She is also concerned about over-committing to pension planning should she fall on hard times and need to access the cash.

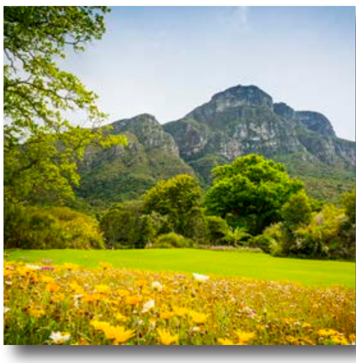
Despite her salary, her personal commitments mean that she would be concerned at contributing additional funds to a pension at this stage. However, she would like the flexibility of making ad hoc payments from time to time.

Solution: an International Pension Plan ("IPP") from Optimus

Following advice, Belinda establishes an IPP in the Isle of Man with Optimus providing the trusteeship and administration services. At the same time, she reduces the amount she pays into her retirement annuity account by R100,000 per annum and diverts this to the IPP.

The IPP represents a benign tax environment for this portion of Belinda's pension savings, bearing in mind that:

- the contributions do not suffer any donations tax
- income and gains roll-up gross
- there will be no Isle of Man tax deducted from any benefit payment
- contributions are returned tax free with income and capital gains then only taxed when benefits are taken (which can be deferred until age 75).



Investments grow in tax free environment

Flexi access to benefits

In a financial planning context, Belinda achieves several key objectives, including:

- continues to receive tax relief on the majority of her pension contributions through the retirement annuity but is also able to diversify her pension investments through the IPP.
- estate duty may apply to the proceeds of the IPP on death but by splitting her contributions between the retirement annuity and the IPP, some of her savings will be outside of the estate duty net.
- where her earnings increase, or she finds she has additional disposable income, Belinda has a flexible range of options. For example, she could make additional contributions on an ad hoc basis to top up the IPP fund, easily within the foreign investment allowance of R10m. Alternatively, she may choose to use excess disposable income to maximise tax relief in the year through the retirement annuity. She could also combine both approaches.
- she does not have to worry about the administration involved in an international portfolio of investments because this is handled by an experienced, regulated trustee and administrator in one of the world's most reputable jurisdictions, the Isle of Man.
- the IPP contains hardship provisions which enable cash payments from the scheme before age 50 in the event that Belinda suffers significant financial difficulty, which is a key concern for her.