



Case Study: International Pension Plan

Henk is the owner-director of a successful import/export business based in Durban. He is aged 37 and married with two children, aged 3 and 1. His earnings from the business have averaged approximately R2.7m per annum over the past 5 years.

Henk has been accumulating a retirement annuity fund up to the maximum tax-deductible limit for around 5 years which is currently valued at approximately R2m.

He has little time for leisure and lives comfortably rather than extravagantly which results in high levels of disposable income. He travels extensively through work and is attracted to overseas investment opportunities as well as being concerned about long-term over-exposure to the South African market.

His current plan is to start reducing his time in the business in his early fifties with a full exit by his early sixties. He may even consider retiring overseas when his children have completed their education.

Planning Considerations

The upper tax-relieved contribution limit on Henk's retirement annuity fund means he is unlikely to cover anywhere near the shortfall in his annual earnings when he plans to start winding down from his business. At around that time, his children will be at, or approaching, university age and Henk is concerned to ensure that this can be paid for even when his earnings will probably decrease.

Henk's current pension arrangements are restricted in terms of the investment opportunities outside of South Africa and he would like additional access to international markets whilst managing his exposure to the South African market over the long-term. That said, he is concerned about the administration burden of handling a portfolio of international investments himself.

His current retirement plans are such that he may wish to start supplementing income from age 52 rather than the 55 required by his existing pension. He would also like to be flexible as to how and when those funds are accessed rather than being tied in to a "lump sum plus income" pension structure.

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

Following advice, Henk establishes an IPP in the Isle of Man with Optimus providing the trusteeship and administration services. He is able to make annual contributions of R850K from existing earnings from which a supplementary income of approximately R750K per annum has been projected from age 52.

The IPP represents a benign tax environment for income and gains through which Henk can accumulate retirement benefits:

- His contributions do not qualify for any tax-relief but his allowance is already being used up within the existing retirement annuity fund.
- The contributions do not suffer any donations tax.



Investments
grow in
tax free
environment



Flexi
access to
benefits



- Income and gains roll-up gross.
- There will be no Isle of Man tax deducted from any benefit payment.
- Income tax is only payable when benefits are taken and only for that portion which does not constitute a return of contributions paid.

Henk's principal focus is accumulating retirement funds and not succession planning. However, should he die prematurely the value of the IPP can be paid to his beneficiaries, net of estate taxes if applicable.

In a financial planning context, Henk achieves a number of key objectives:

- Where his earnings increase or he finds he has additional disposable income, Henk can make additional contributions on an ad hoc basis to top up the fund, easily within the foreign investment allowance of R10m. Equally, where disposable income is less, the contribution can be adjusted accordingly.
- He can decrease his exposure to the South African economy whilst increasing international investment opportunities.
- The administration involved in an international portfolio of investments is handled by an experienced, regulated trustee and administrator in one of the world's most reputable jurisdictions, the Isle of Man.
- Benefits can be paid to him wherever he chooses to reside in retirement and in whatever currency is most suitable. Benefits may be drawn down as and when required according to Henk's circumstances at the time.