OPES Case Study 1
Wealth Protection through International Retirement Provision

For Use by Financial Advisers Only

The following case study is based on a scenario which is typical to South African residents and gives a detailed insight into how OPES accommodates a varied set of requirements and mitigates a range of risks unique to South Africa.

> “Steven wants to secure financial independence in his retirement, but worries about the political situation in South Africa and whether the government will ever deal with his biggest bug-bears, i.e. the economy, crime, corruption & Rand depreciation”

Scenario Overview

Steven McKenzie is a 50 year old married executive with two children who works for Vodacom. His salary is R1.5 million p.a. and his annual bonus is usually in the region of R1 million. His children have almost finished university and his primary goal is now to ensure he has sufficient funding to provide absolute financial security for his retirement. In this next phase of his life he wants peace of mind that his funds won’t run out and that the savings he has made will let him and his wife fulfil their dreams of travel once he retires at 60.

He is only invested in the South African market (with some offshore exposure via asset swap funds) via his pension scheme through Vodacom (current value approx. R5 million), his Retirement Annuity with Investec, (current value at approx. R1 million) and Unit Trusts totalling R3 million with Allan Gray and Coronation. Steven has also recently inherited a fairly substantial figure and is undecided as to what to do with it. Based on current values he expects to receive an income of circa R50,000 per month from his various investments but is aware that he will need additional money to fund travel plans and cater for unforeseen events. He is also concerned about the impact inflation will have on his purchasing power over time (his life expectancy is 85 and his wife’s is 89). The issue being that his investments will need to last for at least 25 years and his income will need to increase annually!

Steven’s other real worries include the political situation in South Africa and whether the ANC will ever deal with his biggest bug-bears, i.e. crime and corruption, effectively. All the recent strike action also upsets him and he is fully aware of the role that this has played in the economy and the Rand losing over 40% of its value against the Dollar and Sterling in the last couple of years. This makes his travel dreams in retirement more difficult. The JSE continues to reach record highs and he worries about how sustainable such valuations are. He has also heard something about planned retirement reforms that will limit how much he can save for retirement from 2016 (or possibly 2017) via his RA.

Recommendation and Outcomes

After discussions with his Financial Advisor, it is decided that in order to meet his financial objectives, he is going to start making use of his annual offshore discretionary allowance. By moving money into US Dollar and British Sterling denominated investments, using OPES as the structure to hold those in for the following reasons:

Investment diversification – to reduce his exposure to South African equities and a reliance on the performance of the JSE, which both he and his Advisor agree is due for a correction. There are also very few restrictions on the funds or investment vehicles he can hold within OPES so he can structure a portfolio based on his needs and appetite for risk.

Rand Hedge – if he and his wife are going to fulfil their travel dreams, having foreign currency denominated investments, that are less volatile than the Rand will make achieving this reality much easier.

Geopolitical risk – getting money offshore and using OPES as a structure will protect those assets from any radical changes the government may introduce and will also provide him with a ‘start over fund’ if the situation in SA ever deteriorates to the point he and his wife feel they need to move abroad.

Tax Efficient Structure – using OPES means he no longer has to account for interest, dividend and CGT on his annual tax return like he does with his Allan Gray and Coronation Unit Trusts. This means his money within OPES can grow tax free in a similar way to his pension and RA.

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Flexible Income/Drawdown – Steven likes the fact that he already has access to 100% of his capital within OPES since he is over 50 as this gives him the ability to provide the funding he will need for travel and any unforeseen events. Importantly Steven likes the fact that he can draw funds in a very tax advantageous manner as he can withdraw his initial contribution with no tax liability. Any growth, when paid out, will only have CGT to pay at a much lower rate of tax than the income tax he is paying on the income from his South African pensions.

Estate and Succession Planning – it's important to Steven should anything happen to him that his wife can benefit from these funds without unnecessary delay or restrictions. Using OPES will mean those assets fall outside his Estate not only saving him significant Estate Duty (20%) and Executor Fees (3.99%) – but it also means his wife can have access to those funds within a matter of days rather than having to go through a lengthy and difficult probate process which regularly take years to wind up.

Retirement Reform Proposals – Steven's Advisor makes him aware of the fact that from 2016 (or 2017 at the latest) his tax deductible contributions to SA retirement funds will increase to 27.5% of his gross income, but will be capped at R350,000 p.a. With OPES not being subject to these restrictions it will mean he can make further unlimited contributions to his retirement with the added benefits of offshore diversification and also not being limited to the investment restrictions imposed by Regulation 28.

Peace of mind – Steven will no longer have to worry about his family's financial future, should the worst happen in South Africa, given that he now has a safe haven for his non South African wealth.

Steven's Financial Advisor has considered all options including Trusts. However OPES is recommended as it meets all of Steven's needs and offers an open investment environment, personalised retirement benefits including lump sums, tax efficiency, significant options for estate and succession planning plus full asset protection.

Now Steven and his Advisor just need to decide on the underlying investments that they want to hold within the OPES.

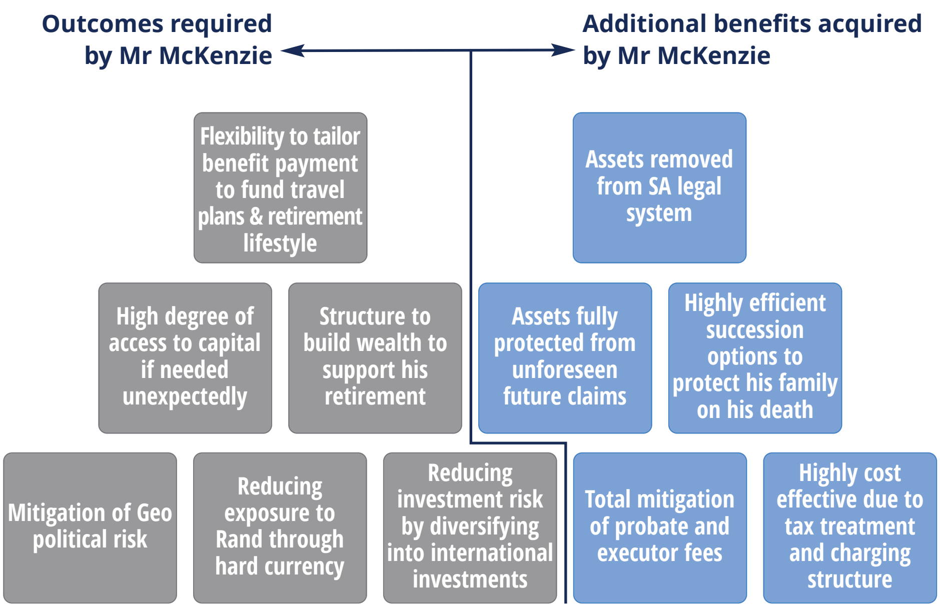
Financial Outcomes

Steven takes R7 million offshore after having gained the necessary tax clearance, which at the going exchange rate gives him £400,000 to invest in the OPES International Retirement Plan.

This results in:

- Return of contribution with no tax liability providing income tax **SAVINGS OF R2,030,000** when compared to an SA pension
- Thereafter benefit payments will be subject to CGT rates (maximum of 13.65%) as opposed to Steven's effective income tax rate (29%) **OFFERING FURTHER SAVINGS**
- **ESTATE DUTY SAVING OF R1,400,000** on Steve's death
- **SAVING ON EXECUTOR FEES OF R279,300** on assets in OPES as they are not part of Steven's estate
- **BENEFITS PAID TO BENEFICIARIES WITHIN A 7 DAYS**, which is a savings of 357 days on the average estate process and gives peace of mind to his family at a difficult time

OPES provides a Comprehensive Range of Benefits



Advantages for the Mckenzie Family

In this scenario Mr McKenzie had clearly identified a number of issues over which he was truly concerned and a number of outcomes he was hoping to achieve. However, the planning that resulted from using OPES delivered a secondary set of comprehensive additional advantages that Mr McKenzie had not considered. These had equal if not more important consequences that were of significant value to his overall financial plan with positive long term implications for his wealth and family's financial future.

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