

# The importance of reviewing your Financial Plan

by Alec Riddle

It is senseless having a Financial Planner, who is simply going to assist you to invest your hard earned Retirement Funds and monitor your investment. A Professional Financial Planner should be keeping abreast of changes within the industry, in particular, changes in legislation and what impact they may have on your Plan.

During the past few years, a number of legislative changes have occurred, all of which could have a material impact upon your Retirement Plan. These include the Living Annuity drawdown parameters; the taxation on Lump Sums; abolishment of tax on the growth within the Retirement fund; the interest exemption, donations allowances and the estate duty abatement have all been raised.

So, let us look at a relatively simple Retirement Plan, where Bill Brown (62) retired a few years ago, with a Living Annuity (current value R4,000,000) and a Unit Trust (R1,200,000). When Bill retired, the minimum drawdown on his Living Annuity was 5%, so he withdrew 5% and continues to do so, as his plan has not been reviewed since commencing retirement. Currently, this would equate to R200 000 per annum. Income drawn from a Living Annuity is fully taxable and based upon the current Tax tables, the R16 667pm translates to R14,083 net of Tax.

**The question for us as Financial Planners is, whether or not this is the most efficient manner for Bill to manage his income needs, in light of the ongoing changes in legislation?** Assume that we recommend that Bill draws the revised minimum allowable drawdown from the Living Annuity (2,5%), which is R100 000 pa. The income is taxable, so he will receive R7,646pm net of tax.

To ensure he is able to maintain the standard of living he has been accustomed to, we have to source another R6,437pm net of tax. As Bill has a Unit Trust, we recommend drawing the shortfall of R6,437pm from this source. This income drawing is not taxable, so to summarize Bill is able to contribute R6,437pm from the Unit Trust and R7,646pm net of tax from the Living Annuity, for the same total of R14,083pm net of tax.

The advantage for Bill though is that we are only drawing R177,240 Gross from his Investment Portfolio, which is considerably less than the original example, where we were drawing R200 000. This equates to a reduction in drawings of more than 10% and this adds more than five years to Bill's Retirement Plan. How did we assist Bill to save R22,760pa? By looking at his Plan holistically, applying updated legislation and reducing his Tax obligation, specific to his unique situation.

Retirees can face a variety of changes and some of these changes can result in long term trends and need to be monitored in the context of an individual's Plan, hence the need for regular reviews.

**Note 1:** The Unit Trust and its associated asset allocation has been tailored to Bill's specific needs and the interest income earned, which is Taxable, is expected to be less than the current interest rate exemption.

**Note 2:** When Bill turns 65, his Tax threshold increases. Hence, we may recommend a restructure of his drawings.

**Alec Riddle** (Winner of the Financial Planner of the Year Competition 2009) is an independent certified financial planner at Consolidated Financial Planning. For enquiries contact Alec at (041) 37 37 999 or [alec.riddle@consolidatedec.co.za](mailto:alec.riddle@consolidatedec.co.za). Consolidated Financial Planning (The home of MONEY TALK) is an authorized financial services provider.



**NASHUA**  Nashua Eastern Cape  
**COPIERS**

Nashua House, Circular Drive, Lorraine, Port Elizabeth  
Tel: +27 41 398 6000 | Fax: +27 41 368 7336