



INVESTMENTS

DESIGNING RETIREMENT INCOME WITH TAX FLEXIBILITY

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When constructing a portfolio, asset class diversification is a given. The more subtle and equally powerful version is diversifying tax treatments across various investment accounts. This matters because retirement is not a single tax event; it is a multi-decade journey of drawdowns, bracket management and policy risk.

Building a retirement plan that can “mix and match” income sources allow retirees to respond to changing tax brackets, market conditions and personal spending needs without being forced into a single taxable income stream.

Longevity is increasing, inflation can be sticky and tax regimes change over time. In addition to this, fear of complicating retirement plans or being fixated on a singular objective (e.g. a s10C tax credit) begs the question: “Are you creating wealth and financial freedom or are you & your adviser merely ticking some boxes to ensure that SASSA doesn’t feature anywhere in your future?”. The goal is therefore and should arguably always be: not only to save enough, but to save in ways that offer real choices.

BROADENING RETIREMENT HORIZONS

Retirement Annuities (RAs) remain the backbone of most retirement strategies, and rightly so, because contributions are tax deductible within limits and growth inside the fund is tax sheltered. However, once converted

to an annuity, the resulting income is treated as taxable income.

This means an RA only approach can concentrate future income into a single taxable bucket, limiting the ability to manage marginal tax rates in retirement. This is why building discretionary savings alongside retirement funds during the accumulation phase is not a luxury. It is a tax planning necessity.

Apart from discretionary savings undoubtedly requiring more investor discipline, these investments do not offer the upfront deduction of an RA, however it provides something equally valuable: optional access and optional timing. Withdrawals can be structured to complement taxable retirement income and when to realise capital gains.

For many clients, discretionary savings also act as a shock absorber. Large once off expenses can be funded without permanently increasing annuity drawdowns, which is important because once drawdowns rise it is often difficult to reverse the lifestyle adjustments that follow.

A Tax-Free Investment Account (TFIA) is purpose built for tax diversification. Returns are exempt from income tax, dividends tax and capital gains tax, and withdrawals are tax free. Used well, a TFIA complements retirement funds and discretionary savings. Retirement funds provide tax deductions and foundational income, discretionary savings provide flexibility, and a long-term compounded TFIA provides a

uniquely clean source of tax-free withdrawals, especially valuable when retirees are trying to stay within a lower tax bracket.

Imagine a retiree who wants a stable baseline income but anticipates irregular expenses. A practical structure could look like this:

- Living annuity: Set a sustainable drawdown to cover core monthly needs, recognising that this income is taxable.
- Discretionary investment: Funds irregular expenses such as travel, medical procedures or helping family, and acts as a buffer during weak markets so drawdowns do not have to increase.
- TFIA: Top up income in years where taxable income would otherwise move into a higher bracket, without increasing taxable income at all.

Lastly, it is particularly noteworthy to mention that PPS' unique mutuality complements this flexibility to an even greater degree. Long-standing clients (including retirees who elect to remain with PPS since January 2025) have profit-sharing accounts which crafted yet another source of capital, from which withdrawals net of tax can be realised at will.

Such a blend within a client's wholistic portfolio of assets, is the essence of tax diversification. It does not try to eliminate tax; but tries to control when and how tax arises, while preserving flexibility across different stages of life.

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