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THREE SCENARIOS USING GLACIER SOLUTIONS

Every client is different, with needs as varied as their taste in shoes. So, we asked experts in our business to have a look at three fictitious client scenarios and their specific needs. They then examined a blend of solutions to match the requirements and income needs of each client.

Glacier business development managers, Neal Sinclair, Waldette Stoffberg and Rocco Carr,

illustrate how multiple solutions work together and can be used as building blocks for an exceptional outcome to enable clients to invest and retire with confidence. Structuring solutions for your client involves the six steps of the financial planning process, developed by the Financial Planning Standards Board (FPSB), that are critical to a confident outcome:

1. Establish your **relationship** with your client and define their needs and risk profile.
2. **Be thorough** about collecting as much information as possible. This is a critical step to ensuring that the solutions you propose are the most appropriate ones.
3. **Analyse** and assess your client's financial status.
4. Develop financial planning **recommendations** and present them to your client.
5. **Implement** the recommendations.
6. **Review** your client's situation regularly and thoroughly to ensure the implemented recommendations remain appropriate.

The split of investment percentages and income drawdowns across each of the scenarios are only used as illustrative examples. The division of assets between the respective investments depends on each client's specific circumstances, requirements and risk profile. Therefore, we recommend that clients consult a financial adviser who can help them find the most appropriate blend of solutions and accompanying investment percentages and income drawdowns for their specific needs and circumstances.

What we hear from clients

Intermediaries who focus on retirement financial planning often hear the following comments from their clients:

- "My retirement income needs to last as long as me – even if I live to the age of 90!"
- "My retirement income should match my monthly salary in my last job."
- "I want to include offshore investing in my portfolio, but I don't know how."
- "I want to leave something for my family after I die."
- "I need some money set aside in case of emergencies."
- "I want to be able to pay the least amount of tax possible after I retire."
- "I have compulsory retirement money as well as some other investments. All my retirement savings need to work together for the best financial outcome."

These comments highlight the typical client wants and needs, and therefore inform the customised solution for each client where the division of assets between investment options is unique based on circumstances, requirements and risk profile.

SCENARIO ONE

Joe has a mix of voluntary and compulsory savings and seeks a strategy that will provide an income for life, flexibility, income tax efficiency as well as the ability to leave a legacy.

Joe is 60 and about to retire. His last annual income was R470 000. He has compulsory savings of R5 million and voluntary savings of R3.5 million. He wants his retirement income to match his last income. He needs access to money in case of emergencies; continued monthly income; and wants to provide his young son with a legacy in the form of a continued monthly income.

Traditionally, a proposal for a retirement solution would possibly have comprised a combination of a living annuity and a discretionary investment.

Living Annuity	Discretionary Investment
income of R275 000 (5.5%) 5% escalation	income of R192 000 (5.5%) 5% escalation

TRADITIONAL FINANCIAL PLANNING

However, this proposal could hold the potential danger of a significant decrease in his income later on if he lives longer than anticipated.

DOES THIS STRATEGY MEET **JOE'S NEEDS?**

- Income & Tax Efficiency ✓ ✗
- Longevity ✗
- Flexibility ✓
- Legacy ✓ ✗

1. It meets his income needs but only if he lives to a certain age.
2. It's not the most tax-efficient solution as the living annuity income received will be fully taxable at his marginal tax rate and he does not receive any tax exemptions on the income received.
3. It could fail to meet his longevity requirement.
4. It provides flexibility because Joe will have access to the funds in the discretionary investment in case of an emergency and he can change the fund selection of both products at any time.
5. It may or may not provide a legacy, depending on how long Joe lives, coupled with market performance.

The Glacier Personal Retirement Income Solution could be part of another alternative.

The Glacier Personal Retirement Income Solution proposes a combination of two investments and if also combined with a voluntary purchased annuity and a discretionary solution, it can address each of his needs and provide the required retirement income.

In this illustrated blend of solutions, the compulsory savings of R5 million is split into equal parts and used to purchase a Glacier Personal Retirement Income Solution that consists of:

- a **living annuity** with a 3.8% income drawdown of R96 000; and a
- compulsory **life annuity** producing an income of R163 440 per annum with a 20-year guaranteed term and 5% escalation.

The voluntary savings of R3.5 million is split between a voluntary purchase annuity (72%) with an annual income of R 176 375 escalating at 5% per annum, and a discretionary investment (28%) such as the Glacier Investment Plan where the client can take an income of R34 185 per month. The income figures quoted for the compulsory annuity and voluntary annuity are based on quotations taken in June 2021 (rates are subject to change).

50% Living Annuity	50% Compulsory Annuity	72% Voluntary Purchase Annuity	28% Discretionary Investment
Income of R96 000 (3.8%) 5% escalation	Income of R163 440, 20yr guaranteed term 5% escalation	Income of R176 375 5% escalation	Income of R34 185 (3.5%)

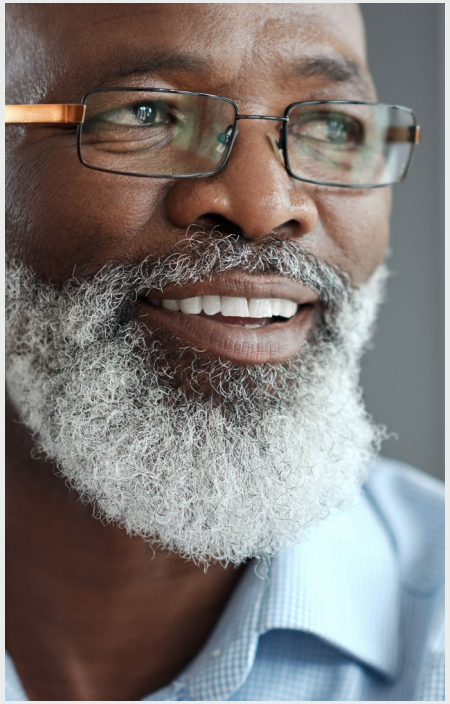
Note that the Voluntary Purchase Annuity also offers a Section 10A exemption.

DOES THIS SOLUTION **TICK ALL OF JOE'S BOXES?**

1. **Longevity** – If Joe lives to 90, his compulsory annuity income will extend to that age.
2. **Flexibility** – Joe will have access to the funds in the discretionary investment and can change his living annuity and discretionary investment fund selection at any time.
3. **Income and tax efficiency** – He receives the same gross income as his last salary, escalating at 5%, and pays less income tax as a result of the reduced living annuity income (traditional option) and the Section 10A tax exemption for the capital portion of the voluntary annuity received.
4. **Legacy** – The guaranteed term on the compulsory life annuity provides a legacy for his beneficiaries if Joe passes away within 20 years. The reduced capital drawdown from the living annuity extends the period that the capital from the living annuity is available. However, this is subject to the performance of the underlying investments.

SCENARIO TWO

Jack's savings are all voluntary and he seeks a strategy that will ensure tax efficient growth on his discretionary investments as well as on his retirement income. He would also like to leave a legacy.



Jack is 63 and single. Here's what else we know about him:

- He has R5 million in a money market account from the proceeds of the sale of a property.
- He has a share portfolio of R1.5 million which he has built up over the past 10 years.
- He has $500 000 in an offshore bank account.
- All of his assets are in his personal name.
- He currently receives an income of R35 000 per month from a life annuity (escalating at 5% per annum) and R20 000 from the rental on two properties.
- He has a high marginal tax rate.
- He has a sister with three children whom he supports.
- He has funds set aside for emergencies.

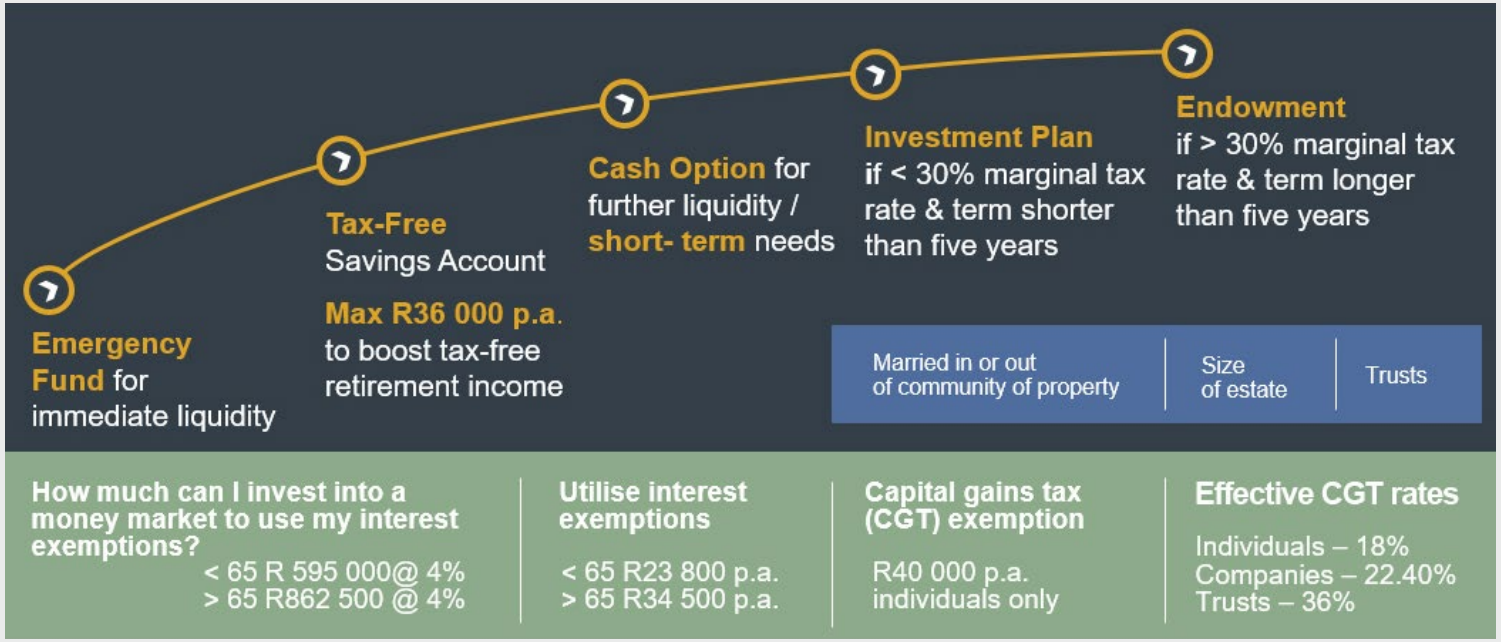
WHAT ARE JACK'S **WANTS, NEEDS** AND **CONCERNS**?

Jack is concerned about the capital gains tax (CGT) implications for his share portfolio and would like to consider other options over time whilst utilising his annual CGT exclusion. Of the R5 million currently in his money market account, he would like to use R500 000 to purchase a new vehicle in 18 months' time. Of the remaining R4.5 million, he would like to receive a monthly income of R25 000 as tax efficiently as possible.

He wants to invest the $500 000 more tax efficiently, taking into account possible estate duty implications.

He is comfortable that a portion of the capital can be used for income but would like the capital mainly to be available as an inheritance for his sister and her three children.

WHAT **TAX EFFICIENCY** COULD LOOK LIKE FOR JACK



Tax efficiency is dependent on circumstances, requirements and risk profile. The tax-efficient frontier to the left is an example where it is illustrated that a selection of optimal investment options could offer varying levels of liquidity and tax efficiency. This frontier, amongst others, could be used to help determine a blend of solutions based on their liquidity and tax efficiency, taking into account Jack's specific requirements. Jack already has an emergency fund, and the tax-free savings account is not applicable for consideration in this case, so we focus our attention on the other three solutions presented i.e. the Cash Option, an Investment Plan, and an Endowment.

JACK'S **BLEND OF SOLUTIONS** COULD LOOK LIKE THIS

An investment split into four solutions

1	2	3	4
R500 000 Cash Option for short-term needs	**R1 500 000** Term Annuity for R25 000 p.m. income	**R3 000 000** Glacier Vantage Life Plan: Endowment	**$500 000** Glacier Global Life Plan
Low risk income funds	Tax-friendly income	Tax-friendly	Offshore exposure
Expected interest R27 500 p.a.	No market volatility	Protect against creditors	Beneficiaries
Full liquidity		Share portfolio	CGT on $ gains only
		Two events for liquidity	
		Beneficiaries	

1. We know that Jack needs R500 000 to buy a new car in 18 months. He can invest this sum in a Glacier Cash Option which would allow him to make use of the Glacier Flexible Income wrap, a low-risk income fund with full liquidity which he can use to purchase the vehicle.
2. To allow for a monthly income of R25 000, a five-year term annuity is a good option as the Section 10A exemption provides tax efficiency. The low market volatility of this solution is appealing.
3. We can consider putting R3 million into the Glacier Vantage Life Plan, an endowment which is a tax-friendly vehicle for Jack who has a high marginal tax rate. It also offers protection against creditors and this solution allows him to structure a share portfolio as well. The solution allows for liquidity if he needs to access funds and he can nominate beneficiaries if he wishes to.
4. The Glacier Global Life Plan is a possible solution for his offshore investment of $500 000. Its tax efficiency in terms of CGT (taxed only on dollar gains) and foreign inheritance tax makes this solution appealing, as it can save Jack around R107 000 in taxes.

WHAT **VALUE** COULD THIS **ADD** FOR JACK?

1	**R500 000** Cash Option for short-term needs	Low risk Low tax liability on interest Liquidity Stable return Stable income
2	**R1 500 000** Term Annuity for R25 000 p.m. income	Tax-friendly income Asset allocation decision to allow other products to generate growth, while keepimg income stable
3	**R3 000 000** Glacier Vantage Life Plan: Endowment	Exposure to riskier assets Lower tax rate Income after five years Can ad hoc via 120% rule Saving executor's fees
4	**$500 000** Glacier Global Life Plan	Offshore exposure Beneficiaries CGT on $ gains only Saving executor's fees Part of RSA estate

- The Glacier Cash Option provides the liquidity required.
- A stable income for five years is derived from the Term Annuity.
- The Glacier Vantage Life Plan delivers access to riskier assets at a lower tax rate, with the possibility to structure an income after five years.
- Direct offshore exposure and the option to add beneficiaries.
- Saving on executor fees in the Glacier Global Life Plan.

By combining the different discretionary solutions, the blend could offer Jack a more tax-efficient income and growth, whilst also addressing his legacy and liquidity needs.

Important to note

The split between the discretionary investments and income drawdown is only used as an illustrative example to assist in addressing Jack's specific needs. The optimal division of assets between the respective investments is dependent on each client's specific circumstances, requirements, and risk profile.

SCENARIO THREE

Jane is risk-averse and her savings are all voluntary. She seeks a strategy that will allow her market exposure but with the comfort of a certain level of guarantee. She also has a legacy requirement.

She is 55 and single. Here's what else we know about her:

- She is employed, earns a good income and has a high marginal tax rate.
- She recently inherited some money, so has R3 million to invest.
- All of Jane's assets are in her personal name.
- Jane likes the idea of earning an income from this investment so would like to earn R150 000 per annum income which equates to R12 500 per month.
- She prefers some guarantees but wants market exposure as well.
- Offshore exposure is appealing but she fears currency risk.
- She would like to leave some money to her nieces.

The challenge in Jane's case is how to manage risk while offering opportunity for growth, which means that the blend would have to slant towards good, risk-adjusted returns.

A POSSIBLE **COMBINATION OF DISCRETIONARY SOLUTIONS** FOR JANE

R750 000 **Investment Plan for income**	R750 000 **Glacier Vantage Life Plan:** Endowment	R1 000 000 **Wealth Egde Endowment Plan:** 8% extra allocation	R500 000 **Glacier Sustainable World Enhancer**
Enough capital for five years' income	Tax-friendly	Tax-friendly	Offshore exposure with no currency risk
Low risk income funds	Protect against creditors	Protect against creditors	Capital guaranteed
Expected interest R40 000 p.a.	Cautious portfolio	Riskier funds with unit price guarantee	Possibly up to 4x geared return
Full liquidity	Two events for liquidity	Seek growth with protection	Beneficiaries
	Beneficiaries	Beneficiaries	CGT only

1. Jane can invest R750 000 in the Glacier Investment Plan in low-risk funds which will provide full liquidity and the capital to access her required R150 000 income for five years. The expected interest of R40 000 in the first year will be subject to income tax (after taking into account the interest exemption of R23 800) but the interest amount and the related tax liability will decrease from the second year as the capital reduces.

2. As Jane is in a high marginal tax bracket (above 30%), we can consider investing R750 000 in the Glacier Vantage Life Plan. This endowment will offer lower income tax and CGT rates for Jane whilst also providing protection from creditors after three years. This investment also allows for liquidity (limited in the first five years) if Jane needs to access funds and she can nominate her nieces as beneficiaries if she wishes to. An income can also be drawn from this endowment after the five-year restriction period.

3. The investment of R1 million in the Wealth Edge Endowment Plan is another tax-friendly investment solution for Jane that offers an additional 8% allocation to the original investment and can be invested in riskier funds with a guaranteed unit price on selected funds. This solution provides protection from creditors after three years and allows for Jane to nominate her nieces as beneficiaries.

4. Jane can invest the remaining R500 000 in the Glacier Sustainable World Enhancer (GSWE) which provides a level of offshore exposure without currency risk, along with a capital guarantee after five years and the potential to earn four times the global portfolio return before tax. Jane is also able to nominate her nieces as beneficiaries on this investment should she wish to do so.

WHAT **VALUE** COULD THIS ADD FOR JANE?

1	2	3	4
R750 000 **Investment Plan for income**	R750 000 **Endowment**	R1 000 000 **Wealth Edge Endowment Plan**	R500 000 **GSWE**
Low risk	Lower tax rate than own 45%	Exposure to riskier assets	Capital guaranteed
Tax liability decreases along with interest earned	Liquidity after 5 years	Unit price guaranteed	Massive upside potential
Liquidity	Cautious - risk stability with inflation plus 3% upside	Guaranteed price escalates	Offshore diversification
Stable return		Lower tax rate	Only CGT
Stable income		Income after five years	

1. Income and liquidity for five years from the Investment Plan.
2. The Glacier Vantage Life Plan endowment offers the opportunity to draw income after the first five years.
3. The Wealth Edge Endowment Plan guarantee will strengthen as time passes.
4. Capital guarantee and protection with a potential high upside from the GSWE.
5. The GSWE offers the possibility of capital growth without taking unnecessary market-related risk.
6. Offshore exposure through the GSWE that contributes to diversification.
7. Tax efficiency – in the first year there may be some income tax liability from the Investment Plan but beyond that, the interest from the Glacier Investment Plan will likely reduce below the exemption level. Interest earned in the endowment will be taxed at a lower tax rate within the fund.
8. Risk minimisation with the best possible return from the overall combination of solutions.

IT'S ABOUT **BLENDED SOLUTIONS**

In each scenario, it is all about finding the perfect blend of solutions that are unique to the client's circumstances, requirements and risk profile. As a financial adviser it is essential to your value proposition to apply the principles of tax planning, investment planning, estate planning and retirement planning effectively when blending solutions for your client, considering their individual needs and wants.

Reach out to your Glacier business development manager to help you to find a customised blend of solutions for your client.

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All monetary values in this article are for illustrative purposes only. As markets fluctuate and every client is different, values, rates and incomes will vary.

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