# Considering options for discretionary capital in the GEPF environment

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Discretionary capital refers to money saved outside of your retirement / pension or retirement annuity fund. It could be a lump sum that you've inherited, or money that you've saved over the years in a unit trust fund, for example. It's critical to keep the financial planning process in mind, even after the point of retirement, and especially when it comes to discretionary capital because it is readily available.

In many cases, retirees overlook maintaining an emergency fund. This is still a need when you're retired and an important pillar in your overall financial security. A rule of thumb is to have access to at least three to six months' income. This will save you from going into debt should you need to cover additional healthcare costs, home or car repairs, or even if you need to help a family member.

## Differing client needs

When it comes to investing a lump sum, clients' needs vary and often, they have more than one need. These can include a legacy or inheritance for their dependants, an income need, a need for tax-efficiency or perhaps a need to preserve and grow the capital in order to draw an income at a later stage. We've seen that no single solution can meet all these needs, and clients can benefit by combining different investment options.

Glacier offers a wide range of solutions to address these needs.

## Following the 'tax-efficient frontier'

If a client is unsure of where to place their lump sum investment, we suggest following what we refer to as the tax-efficient frontier, which simply means that the client starts by utilising all the available tax advantages available to them.

The first consideration should, of course, be the emergency fund. Once this is in place and the client is ready to look at investment solutions, the first option would be for them to make full use of the tax benefits of a Tax-Free Investment Plan. This allows investors to invest R36 000 per annum and all growth within this investment is completely free of tax. It's important that the funds in a tax-free savings vehicle be given the time to grow, tax free, and that this investment be viewed as a long-term one, potentially to boost their retirement income. It should not be used for funds the client is wanting to withdraw in the short term.

The client could also consider the Glacier Cash Option for further liquidity in their overall portfolio. Thereafter, those with a marginal tax rate of less than 30% could consider an investment plan, and those with a marginal tax rate greater than 30% could benefit from investing in an endowment policy – provided they're able to commit to a five-year investment term.

## Example: Let's consider two clients

Alice is 65 years old and has retired within the Government Employees Pension Fund (GEPF). She received a lump sum amount of R3m (subject to taxation) and receives R65 000 income per month. Alice has a personal marginal tax rate of 41%.

She needs R1m capital to purchase a property in the next 24 months and the remainder can be invested for five years.

So, essentially, Alice needs liquidity for the R1m and growth - together with protection - for the R2m.

Alice could consider the Glacier Cash Option for the R1m, using the Glacier Invest Flexible Income Wrap Fund. The Glacier Cash Option will give her the liquidity she needs. The Glacier Invest Flexible Income Wrap Fund aims to provide investors with a high level of income over the short term, but with a focus on preserving capital.

She could invest the R2m into the Sanlam Wealth Edge Endowment Plan, provided she does not need access to the capital over the five-year investment period. This is a tax-efficient investment solution that provides certainty and optional protection to limit losses in a declining market, giving her the growth and protection that she needs for the R2m.

Our second client, Thabo, is 55 years old and has transferred the actuarial value of his retirement fund, being R4.5m, to Glacier, prior to retirement.

At retirement, he takes a lump sum of R1.5m (subject to taxation) from the retirement fund and purchases a compulsory annuity with the remainder. He requires R500 000 upfront to pay his bond. He is able to invest the R1m which will cover his income need of around R4 000 per month. He is a moderate investor and wants access to his capital. Thabo has a personal marginal tax rate of 18%.

Thabo could consider investing the R1m into an investment plan to provide for both his monthly income and liquidity needs.  Using the Glacier Invest Moderate Wrap Fund will provide for longer-term growth of this investment. The unit trust, or collective investment, funds in the investment plan provide market exposure, thereby introducing the element of market risk to his portfolio.  The funds selected should align with his risk appetite and profile.

# In conclusion

Discretionary capital is as much a part of your retirement savings as your retirement / pension fund with your employer and needs to be treated as such.  If not invested properly, there is a danger it can run out, putting pressure on your pension money to solely cover your sustainable income requirement going forward.  Glacier has a wide range of solutions to help clients and the Glacier Business Development Managers are available to assist with any questions you may have regarding these solutions.

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