Emigrating – The impact on insurance products

Currently South African expats receive a tax exemption on their foreign income if they are outside the country for more than 183 days in total and for a continuous period of 60 days within a consecutive 12-month period. Once the new law comes into effect on 1 March 2020, this exemption will be removed. This means that South African tax residents abroad will be required to pay tax on up to 45% of their foreign income where it exceeds the R1 million threshold.

According to Renier Hugo, Certified Financial Planner at Alexander Forbes, South African tax residents living and working abroad will be required to consider whether they should emigrate from South Africa in order to avoid having to potentially account for tax in two countries. In light of this and several other questions about emigrating and financial emigration, he investigates the issue of what to do with life savings, retirement, and insurance policies when emigrating. “One needs to understand the consequences of emigrating to another country on one’s financial products, such as long-term insurance policies, investments and pre-retirement money,” Hugo advises.

Life cover – Your clients have the option of cancelling their life cover. Depending on the policy of the particular insurer, individuals might have the right to continue with the cover depending on whether the risk has changed for the insurer. Financial advisers would need to advise their clients accordingly. “If you can, it might be worthwhile to keep the current cover especially if you were underwritten when much younger or healthier. Your premiums will still have to be paid from a South African bank account. Some South African insurers currently sell life insurance that pays out in dollar or pounds; or life policies that pay out in any country abroad. These products may well be worth looking into before emigrating,” Hugo shares.

Disability and Income Protection – Care must be taken here. Assuming the policy can be continued, there may be certain exclusions within the terms and conditions when moving abroad.

Retirement Annuities – The usual restrictions of not being allowed to withdraw before age 55, as well as the one third maximum cash lump sum withdrawal, with the rest to buy a pension, does not apply. When officially emigrating, a member of an RA may withdraw the full capital amount.

Preservation Funds – The same applies to members of pension and provident preservation funds - a full withdrawal is allowed upon emigration.

Employer pension or provident funds – there is no restriction on withdrawal out of an employer pension or provident fund if a person decides to emigrate before normal retirement age.

Unit trusts and shares – regardless of whether a financial decision is made to sell these, there will be a tax consequence on emigration, so it is important to take advice.

Living Annuities – With regards to living annuities, clients are unable to withdraw the capital even if they have formally emigrated. The income will continue to be paid out into a South African bank account, and from there the annuitant can choose to transfer it offshore.