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Endowments

Product Description

An endowment policy is a tax-effective savings vehicle, a long-term investment vehicle by nature, with a minimum investment period being five years.

Suitability

An endowment policy could be appropriate for trusts, offshore investments, or high net worth clients whose marginal tax rate exceeds 30%. An endowment policy is a suitable investment vehicle for investors who want to invest after-taxed capital over the medium to long term.

How does it work?

An investor may either make a lump sum contribution or pay regular premiums into an endowment policy. It is possible to appoint a beneficiary on an endowment policy, and in the event of the owner's death, proceeds could be paid relatively quickly to the beneficiary. The endowment can also be ceded as security for a loan, and it is possible to have joint owners on the policy.

Registered with the authorities?

An endowment policy is a financial product issued by a Long-term Insurance Company and it is a regulated investment product.

Unit linked endowment policies

It is possible for an endowment policy to hold unit trusts as the underlying investment(s).

Nature of returns

Dependent on the underlying asset classes used in the fund, it can earn interest, dividends and have capital gains or losses.

Guarantees

Investment capital and investment returns in the underlying unit trusts are not guaranteed.

Taxation

Tax on investment income is withheld at source (in the endowment) by the administrator at a rate of 30% for a natural person and 28% if the owner of the policy is a company or closed corporation. In the case of trusts, the tax rate is based on the classification of the beneficiary. Capital gains tax (CGT) will also be withheld by the administrator once the underlying investment within the endowment has matured.

Accessibility of funds

It is possible to access some funds before the five-year period in the event of an emergency, but there are some restrictions on the withdrawal. It is possible to withdraw contributions plus 5% compound interest, but there are limited withdrawal opportunities in that only one partial surrender and one loan can be taken in the first five years.