

## INVESTMENT REPORT



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# TAKING CARE OF YOUR BIGGEST INVESTMENT

Brian Butchart CFP® - Director & Senior Financial Planner, BWM

**M**OST people consider their residential property to be their biggest asset. This perception was created by the 8-year property boom which came to an end when the Global Recession hit in 2008.

However, the downturn in the residential property market has shattered this myth as property went into a severe downturn. Property can be an expensive mistake, as so many buyers of leisure properties and empty stands can testify. Furthermore, your property is a lifestyle asset. We all need to live somewhere, but will this provide an income for your retirement?

So what then, is the biggest asset for the ordinary investor?

It is in fact your retirement fund (pension, provident, retirement annuities) and savings that will provide an income for you in your golden years. Why then are these, not considered your biggest asset(s)?

Many investment companies with big advertising budgets are irresponsibly sending out misleading campaigns that offer the promise of retirement at 60 or worse still 55. This is unrealistic to even consider, mainly due to longer life expectancy. On average males aged 55 can expect to live another 22 years and the average woman another 27 years. It has been stated by financial and investment professionals that the average person needs to save at least 20% of his or her salary in order to retire at 60 with an income equivalent to 75% of final salary. How does any average person manage to save 20% uninterrupted for 30 to 35 years with bonds, cars, food, clothes and school fees to pay?

At best this "impossible dream" can be reached by someone who saved diligently and intelligently over a working career of 40 to 45 years, which puts the retirement age at 65, more safely 70.

The UK, and many parts of Europe have in recent years increased the official retirement age. In the UK it is now 66 years of age and will eventually increase to 70. There is currently a whole generation of Baby Boomers, millions in fact who are realising with a shock that the retirement - bliss promised to them 20 or 30 years ago —is anything but care-free.

It has been estimated that only 4% of South Africans - and that is a very liberal calculation - can afford to retire, i.e. stop working and live off a pension for the rest of their lives. Actuaries have worked out a guideline formula which calculates what is required to retire:

At 55 - 12 times your average annual income

At 60 - 11 times your average annual income

At 65 - 10 times your average annual income

These issues further exacerbate the importance of, hopefully our biggest asset(s) over time-RETIREMENT CAPITAL. It's a fact of life that most South Africans change their jobs about seven times or so during a working career, spanning forty years or more. Sometimes these changes are by choice, other times not. In most instances every job change entails a decision as what to do with one's retirement benefits. Employment statistics have revealed that retrenchment of workers in South Africa's private sector accelerated in the first quarter of this year. As a result, thousands of employees are likely to cash in their retirement savings putting their future financial security in jeopardy.



## Investment Seminar

### PRETORIA INVESTMENT SEMINAR

DATE: TUESDAY, 14<sup>TH</sup> JUNE 2011  
 TIME: 15H30 FOR 16H00  
 VENUE: WATERKLOOF GOLF CLUB  
 (COUNTRY CLUB)

**PAUL HANSEN: (STANLIB)**  
 > IS THE BULL MARKET STILL ALIVE?

**MAGNUS HEYSTEK: (BRENTHURST WEALTH)**  
 > OFFSHORE INVESTING:  
 WHY OFFSHORE?  
 HOW MUCH OFFSHORE?  
 PORTFOLIO CONSTRUCTION?

JHB: +27 11 799 8100  
 CPT: +27 21 914 9646  
 PTA: +27 12 460 0340

Global  
 Markets  
 AND SA ECONOMY

It has been reported that less than 20% of people who change jobs take advantage of the tax benefits and capital appreciation by transferring their pension or provident fund to a preservation fund.

Either they are not aware of the options open to them or they are simply so cash strapped and desperate that they will do anything to get hold of their built up pension monies.

What people who cash in their pension or provident funds do not understand or realise until it is too late, is that any payment from the retirement fund is considered to be income and with the exception of the first R22,500 is taxable according to a sliding scale. This can be detrimental to your financial planning and ultimately retirement. The attraction of that lump sum now and instant gratification often outweighs the thought of future income requirements and where this will come from. Yet many job hopping, care free retirement hopefuls, take the money and run.

Transferring your existing retirement benefits to a preservation fund or retirement annuity is one of the best ways to ensure that you have adequate retirement capital one day. Of the two options the preservation fund is considered to be the best.

The transfer to a preservation fund is (a) tax free and (b) the fund attracts no tax within the fund for as long as it remains within such an investment.

**But the major advantage of a preservation fund over a retirement annuity is that the investor is allowed ONE withdrawal at any time prior to the official retirement date. This is very useful in the event the investor ever needs a portion or all of the money for a truly urgent emergency.**

A retirement annuity on the other hand, can only be matured when the investor turns 55, and then only can one third of the capital be accessed. The balance of the capital needs to be used to purchase a pension, either a life annuity or guaranteed annuity.

**With a preservation fund the investor has the best of both worlds: tax free growth in an own-choice portfolio with the option of withdrawing all the money at a time when it suits the investor.**

**In addition, a recent practice note issued by SARS with retrospective effect as at 30 September 2010 the following will apply to a preservation fund:**

1. A member may take an amount in cash from his/her occupational pension or provident fund before transferring the balance of the benefit to a preservation fund. This cash withdrawal will not be considered to be the member's once off withdrawal from their preservation fund and hence a further withdrawal will be allowed from the preservation fund.
2. Should you have opted previously to transfer a portion of your existing preservation fund to a retirement annuity, this deduction will not be considered the member's once of withdrawal. Hence a further withdrawal will be allowed from the preservation fund.
3. Individuals who had lump sums deducted by their employer before transferring to a preservation fund in order to pay outstanding bonds or loans to their company were not allowed a once off withdrawal from their preservation fund. This deduction by the employer was seen to be their once off withdrawal. However, these individuals are now entitled to take a once off withdrawal from their preservation fund before retirement from the same.

These amendments are subject to the retirement fund rules of the relevant preservation fund being changed.

**The preservation fund therefore just got more attractive!**

As previously mentioned if any withdrawals before transfer from your company pension/provident fund, or once in the preservation fund can be avoided, the healthier retirement you will have. However new practice allows for further flexibility which allows you to save for retirement and accessibility should this be required.

The preservation fund is therefore a very attractive retirement vehicle in which to preserve and grow your retirement capital.

In order to illustrate the power of investing into a preservation fund, besides the added flexibility, this product now offers, here's a true life example that shows even during a period when stock markets "crashed four times" (in 1997, 1998, 2001 and 2008), was it still possible to earn 18% per annum or 1238% over 16 years. Yes that's right... 1238% over 16 years. I doubt any property has offered anywhere close to this!

The client in question opted in 1995 to transfer his pension benefit of R149,302 to a preservation fund instead of withdrawing the benefits at the time. Wise move indeed, as today his current preservation with no additional investment is worth R1,998,198. This clearly illustrates the power of compound growth! This is an asset which will outperform the growth on your property if managed correctly, but more importantly an asset which will provide you with an income in your retirement years.

In conclusion a preservation fund offers an opportunity for growth with no tax implications within the fund, but also offers availability to your money should you find yourself in a position where you needed or wanted to access the same. The recent SARS practice note has also allowed greater flexibility and accessibility.

The question then is, shouldn't your retirement capital be your biggest ASSET?

Please do not hesitate to discuss your retirement concerns with anyone of our highly qualified certified financial planners. Further, please also note that we can take over the management of any existing preservation fund at NO COST to you. (Please feel free to forward this newsletter to anyone you know who is busy changing jobs and might need to be aware of all the options).

## WATERKLOOF GOLF CLUB



## SEMINAR PRETORIA

**DATE:** TUESDAY, 14<sup>TH</sup> JUNE 2011

**TIME:** 15H30 FOR 16H00

**VENUE:** WATERKLOOF GOLF CLUB (COUNTRY CLUB): JOHANN RISSIK DRIVE I WATERKLOOF

**RSVP:** PTA: +27 12 460 0340 email [esmerie@brenthurstwealth.co.za](mailto:esmerie@brenthurstwealth.co.za)

### YOUNG MONEY PRESENTATION (AGE 17-25)

14h30 -15h00 Registration

15h00 -15h30 Presentations

### INVESTMENT PRESENTATION

15h30 -16h00 Registration

16h00 -17h45 Presentations

18h00 -20h00 Refreshments FOR ALL!

## KEY NOTE SPEAKERS INCLUDE:

**PAUL HANSEN:** Director & Group Advisory Services-Investments, STANLIB

➤ UPDATE INVESTMENT & FINANCIAL MARKETS: IS THE BULL MARKET STILL ALIVE?

**MAGNUS HEYSTEK:** Director & Investment Strategist, BRENTHURST WEALTH MANAGEMENT

➤ OFFSHORE INVESTING? WHY OFFSHORE? HOW MUCH OFFSHORE? PORTFOLIO CONSTRUCTION?

**JOHAN BURGER:** Director & Senior Financial Planner, BRENTHURST WEALTH MANAGEMENT

➤ INTRODUCTION TO BRENTHURST TEAM & SERVICES OFFERED

## INVESTMENT STRATEGIST:

**MAGNUS HEYSTEK**  
magnus@heystek.co.za  
+27 11 799 8100

## INVESTMENT ADVISORS:

**BRIAN BUTCHART CFP®**  
brian@brenthurstwealth.co.za  
+27 82 335 5117

**JOHAN BURGER CFP®**  
johan@brenthurstwealth.co.za  
+27 82 732 8655

**SONIA DU PLESSIS CFP®**  
sonia@brenthurstwealth.co.za  
+27 83 260 4055

**RENEE EAGAR CFP®**  
renee@brenthurstwealth.co.za  
+27 83 233 9373

## INVESTMENT ADVISORS:

**LESYL POTGIETER CA(SA) CFP®**  
lesyl@brenthurstwealth.co.za  
+27 83 646 9818

**JANA GOUSSARD RFP™**  
jana@brenthurstwealth.co.za  
+27 21 914 9646

## TAX & ACCOUNTING:

**GAVIN BUTCHART**  
gavinb@brenthurstwealth.co.za

## MARKETING:

**SUE HEYSTEK**  
sue@brenthurstwealth.co.za

**ANTJE MOUTON**  
reception@brenthurstwealth.co.za

## CLIENT SERVICE (JHB | CPT | PTA):

**ESMERIE LOOTS**  
esmerie@brenthurstwealth.co.za

**CELESTE PHAKHATI**  
celeste@brenthurstwealth.co.za

**CHRISTOFF POTGIETER**  
christoff@brenthurstwealth.co.za

**ALLIE SIKHOSANA**  
allie@brenthurstwealth.co.za

**ERNA MARÉ**  
erna@brenthurstwealth.co.za

**LEO HEYSTEK**  
admin@brenthurstwealth.co.za

**SUZEAN HAUMANN**  
suzean@brenthurstwealth.co.za

## BRENTHURST WEALTH MANAGEMENT (PTY) LTD

**JOHANNESBURG:** Building 3 Prism Business Park | Cnr Fourways Boulevard & William Nicol Fourways | Gauteng SA  
Tel: +27 (0) 11 799 8100 | Fax: +27 (0) 11 799 8101 PO Box 10150 Fourways East | 2055 Gauteng South Africa

**PRETORIA:** Landmark East | 4th Floor | 17 Umgazi Straat | Menlo Park | Pretoria | SA  
Tel: +27 (0) 12 460 0340 | Fax: +27 (0) 12 346 8453

**CAPE TOWN:** Tyger Waterfront | Waterfront Terraces Block 2 | Waterfront Road | Carl Cronje Drive | Bellville | W Cape  
Tel: +27 (0) 21 914 9646 | Fax: +27 (0) 21 914 6515 Postnet suite 275 P/Bag X22 | Tygervalley | 7536 | Cape Town SA

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