

# Old dogs need new tricks

## PENSION PLANS: TRADITIONAL VEHICLES BREAKING DOWN

»» **There's no such thing as a carefree retirement.**

### Magnus Heystek

**S**o how's that retirement plan coming along?

You're doing all the right things. You've bought a residential property, maybe two; you've got a pension fund and perhaps a retirement annuity (RA).

But there's no such thing as a carefree retirement.

### Working for the state

You are paying more taxes. This year Tax Freedom Day (TFD) – the day when you stopped working to pay government taxes and started working for yourself – arrived on May 25, five days later than last year and 43 days later than TFD in 1994. Over the past 22 years, the percentage of the year that you work for the government has increased by an average 1.8 days per year.

Government revenue as a percentage of Gross Domestic Product now exceeds 30% for the first time, at 30.2%. The government salary bill, with over two million people on the payroll, now ex-



**AGAINST THE TIDE.** Magnus Heystek says many retirement portfolio plans are not coming together like they used to. You can't sell a big house, government's demanding more in taxes, and the JSE has perfected the sideways shuffle. Picture: Moneyweb

ceeds the total budget for 1994.

In addition to a pension fund, homes often formed a second pillar of pension wealth that worked for many years – but not now. It's the smaller properties that are in demand while the big ones are rapidly losing value.

When inflation is deducted

from nominal prices, property prices are still 18.9% down from the 2007 peak.

The residential property market is still in the grips of a severe bear market and the outlook and prices continue to deteriorate. This applies to all provinces, except the Western Cape.

Average prices in this area were up 12.5% y/y to end May – almost double the inflation rate.

FNB's John Loos says average prices are still way above the long-term average. So expect more of the same and even a further decline in real prices over the next couple of years.

The Pam Golding Property index tells a startling story: property prices in the category above R2 million declined by 5.7% in the first quarter of 2016.

The BankservAfrica index that measures trends in disposable income, says salary increases are hovering around 7% y/y – mainly for people in government.

Another thing to worry about is the sideways movement in the JSE. When measured against inflation of 6.2% y/y in the year to end May, none of the major indices, except Resources (+7.6%), beat inflation.

The only inflation-beating returns you would have earned was on your investment known as multi-asset (high, medium or low equity), which has had the ability of moving 25% offshore, with great results for their investors.

### Temper your enthusiasm

Have a look at your pension/RA/provident fund statement in the months to come: don't expect much more than 5% to 8%.

Investors with their money in living annuities (monies coming out of pension funds and retirement annuities) can move 100% offshore if their risk-profiles allow for it, and generally have done much better.

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