INVESTMENT REPORT

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BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

JHB: +27 (0)11 799 8100
PTA: +27 (0)12 347 8240
CPT: +27 (0)21 418 1236
BELLVILLE: +27 (0)21 914 9646

MAKE 2015 A YEAR OF THRIFT
WITHDRAWALS FROM LIVING ANNUITIES

Living a frugal lifestyle is particularly difficult in the consumption culture so well promoted by the world's global brands and media espousing the fabulousness of living the high life.

Retirees is the one group of people that will have to make some adjustments on that front this year as analysts and investment experts agree that the outlook for investment returns in 2015 could be well below the impressive double-digit figures of the past five years.

"Scaling down or adding a source of income has to be the name of the game for people whose main source of income is from a living annuity. Withdrawing 10% + from such an investment with inflation at around 6% and the average investment return for 2015 expected at a lukewarm 8 – 10% will mean the erosion of capital," says Brian Butchart, director and financial planner at Brenthurst's Cape Town office.

"The JSE delivered a return of 10.9% last year, 21.4% in 2013 and 26.7% in 2012. Retirees who have adjusted spending in view of such returns must now take a hard look at changes that can be made. Our investment strategy and research team predicts a very muted market for 2015. Withdrawal rates (popularly known as draw down) of 8% + will erode capital very fast if the principal investment only grows at around 8%. There needs to be an adjustment to below 5% income withdrawal levels in the expected leaner return environment.''

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

“Not only must expenses be reined in, retirees taking care of family members like children or grandchildren must immediately find ways to reduce expenses. Furthermore, improved medical care and the trend towards healthier living means people are likely to live longer adding further pressure on capital available to support their income. Apart from reducing expenses retirees could also look into adding a source of income. This can be difficult for retirees but there are relatively easy options to pursue,” says Butchart.

INTRODUCING THE GROUP RETIREMENT ANNUITY

By Michelle Burger - Client Communication

Are you a BUSINESS OWNER of a small or medium-sized company? Have you been thinking about starting a pension fund for your employees, but have been prevented from doing so after you realised how costly and admin-intensive they are to run? Are you concerned about the future of your employees and what will happen to them at retirement? In this newsletter, Brenthurst aims to raise awareness around the existence of the ideal investment product for business owners who want to assist their employees with their retirement planning that is not only cost – effective but also extremely easy to implement.

Perhaps you’ve heard of a **RETIREMENT ANNUITY (RA)** and possibly you already are a proud owner of one, reaping tax benefits whilst saving towards your old age?

Retirement Annuities remain one of the most convenient and transparent ways to plan for retirement. There is now a product known as a **GROUP RETIREMENT ANNUITY,** recently launched by Investec Management Services (IMS), which specifically caters for small- and medium-sized businesses that cannot afford to create their own pension or provident funds. It’s a cost-effective solution to assist employees in growing their retirement savings and not only does it offer tax advantages, but also a whole host of other benefits.

What many of us probably do not realise, is that South Africa is in the midst of a massive Retirement Crises. National Treasury has spent the past ten years raising concerns over the fact that too many people in South Africa reach retirement age without accumulating sufficient savings to maintain their lifestyle after retirement. The poor financial position that many retirees face prompted National Treasury to initiate a process of retirement reform, releasing several discussion papers on the subject over the past few years, which seek to address the various aspects relating to income security in retirement. As a result, National Treasury has proposed a number of legislative changes that seek to assist individuals in achieving their retirement goals.

ALTHOUGH IT IS NO SECRET THAT THE MAJORITY OF PEOPLE CANNOT AFFORD TO RETIRE COMFORTABLY, HERE ARE A FEW SOBERING STATISTICS:

- According to the South African National Treasury, **ONLY 6%** of the population will have accumulated enough money to comfortably retire, without having to adjust their standard of living.
- Out of the 50% of the population that belong to a formal retirement service vehicle, only **60%** have sufficient retirement savings when they retire.
- Another shocking statistic from the Old Mutual Savings and Investments Monitor found that around **45% OF FORMALLY EMPLOYED** South Africans have **NO FORM OF RETIREMENT SAVINGS AT ALL.**

The reasons why people are not saving enough for retirement could most likely be put down to the high cost of living coupled with a greater life expectancy. This leaves many pensioners with inadequate savings for their old age, and this is a problem of national concern. However, for those formally employed SOUTH AFRICANS, having NO RETIREMENT SAVINGS AT ALL, is simply not acceptable.

If high costs and the potential head-ache of administration was previously a hindrance from starting a retirement benefit package for your employees, now there is no more excuse. Employers of small-to-medium-sized firms, together with their financial advisers, are now able to structure a retirement-saving investment vehicle in order to encourage their employees to save towards their retirement years. Unlike a traditional company provident or pension fund, each employee has an individual RA with the benefit and ease of group administration.

WHAT ARE THE BENEFITS TO EMPLOYERS OF THE INVESTEC GROUP RETIREMENT ANNUITY?

- Retirement benefits can enhance the financial well-being of employees, therefore benefiting the business' image of social responsibility and improving its reputation.
- By offering retirement benefits, an employer will attract and retain high quality staff.
- Assist employees to save for their retirement in a tax-efficient way, lessening the burden on you as the employer when they need to retire.
- A flexible alternative to costly traditional corporate retirement schemes.
- Ease of administration by way of a web interface between payroll and Investec's systems.
- No need for the company to be tied up in the exit process of member, reducing HR costs.
- Employees have access to independent financial advice—such as from Brenthurst Wealth's qualified advisers.
- An Employer can stop and start regular contributions at any time without incurring any costs or penalties.
- Greater transparency and disclosure of fees—all costs relate directly to tangible services provided to members (financial advice, investment administration, and fund management.)
- The legal and administrative burden of running a pension or provident fund fall away.

THE BENEFITS TO EMPLOYEES ARE AS FOLLOWS:

- A Retirement Annuity is a cost-efficient way to save for retirement (compared to traditional savings schemes that could absorb as much as 10-15% of contributions to pay towards administration, lawyers, auditors, asset custodian fees etc.)
- The RA remains a separate policy, which can be independently advised on from other members.
- Tax efficiency—contributions towards a RA are tax deductible within certain limits (currently, contributions are deductible up to 15% of non-retirement funding income).
- Portability—RA membership may continue after leaving an employer without any fees, costs, or taxes due.
- Benefits may be transferred to another approved RA without penalties or exit fees.
- It's a personal retirement plan with the freedom to stop, start or make additional contributions when it suits, with a range of top quality unit trust funds to choose from.
- Each individual can have a different underlying investment strategy which is custom-designed for their risk profile and personal circumstances, and it is very easy to implement switches as financial needs change.
- Regular reporting and the ability to check their investments online ensure members can track their retirement investments at any time.
- There are no transaction fees or exit fees of any kind.
- Retirement may occur anytime from the age of 55 onwards, not before, in order to prevent members from spending their retirement benefits too early.
- Once a member does retire from the RA, one-third may be taken as a cash lump sum (subject to retirement taxation tables, where currently the first R500,000 is tax free) whilst the balance must be transferred to a living annuity from which an income will be drawn.

The process to implement a Group Retirement Annuity structure for your business is very straight-forward and easy to do. An employer simply needs to register for the IMS Group RA by completing the required documentation provided by the Brenthurst financial adviser. Once the form is submitted and processed, an employer code will be issued, including the name and number of the scheme. Each employee then has to apply in their individual capacity to become a member of the Group RA, by completing an Investec IMS application form and submitting to them the required details of the scheme.

Once this is set-up, a web-based group administration system will allow employers to make monthly contributions to the Group RA on behalf of its employees either via direct debit or via EFT. Members will also have the benefit and the flexibility to make their own additional contributions over and above what their employers contribute on their behalf as part of their salary package.

All queries regarding the process of setting up and administrating this Group RA should be directed to the chosen financial adviser. Since Investec IMS act only as the administrators of this product, they encourage employers and members of the RA to communicate directly with their chosen independent financial advisers. This is where Brenthurst Wealth comes in.

At Brenthurst, not only can we assist business owners in setting up and implementing such a structure for their employees, we can also help each of your employees choose an appropriate investment strategy for their retirement savings, based on their unique financial circumstances. We, together with Investec, certainly recognize the fact that each person is an individual and no one should be combed under the same brush when it comes to their retirement plan. This is where our highly qualified financial advisers can formulate a tailored investment portfolio for each of your employees by selecting appropriate unit trust funds to match their individual financial risk profiles.

"Independent financial advisors [such as BRENTHURST WEALTH] can add real value by identifying a solution that is suitable for the requirements of a scheme, produces returns that are above average, but more importantly, meets members' investment objectives on a consistent basis." (Marc Lindley, Retirement Fund Specialist at Investec IMS.)

When the IMS Group RA's cost savings and ease of administration are enhanced by strong performance outcomes due to sound investment recommendations from financial advisors, members will have a bigger nest egg when they retire. This product offers greater flexibility in terms of contributions and ensures that every rand contributed works harder for the member, leading to better outcomes over the long term. More importantly, employers wanting to create a retirement scheme for their staff are now able to do so without the prohibitive high costs and administration burden, allowing them to focus on what they do best - running their business.

Should you be interested in starting a GROUP RA FOR YOUR BUSINESS, please don't hesitate to contact a Brenthurst financial adviser without delay. Any one of our financial advisers will even be willing to come to your offices to discuss this ideal investment solution with your staff; simply contact your nearest BRENTHURST branch to make an appointment.

SOURCES: "Defusing the retirement savings time bomb" by Marc Lindley, Retirement Fund Specialist at Investec IMS. March 2014, IMS Group Retirement Annuity Product Brochure, IMS Group Retirement Annuity Employer FAQ.

REMINDER: TOP UP RA'S THIS MONTH

As the end of the 2015 tax year approaches, do consider transferring money into existing retirement annuities as soon as possible. **RA investments offer great tax benefits and, of course, remain a popular and trusted instrument for saving for retirement.**

"Although there are limits to the totals that can be deducted for tax benefits many investors contribute well below the limits annually and therefore miss out on the advantage it offers," says Gavin Butchart, Brenthurst Wealth tax expert.

"Such additional contributions can be made up to and including the last day of the month, but for ease of administration we recommend it be finalized ASAP - DEADLINE 28TH FEBRUARY 2015," Butchart added.

BRENTHURST WEALTH
CERTIFIED FINANCIAL PLANNERS:

Brenthurst Wealth Management (PTY) Ltd is a registered financial services provider and is a fully-fledged financial and investment services company with offices in Johannesburg, Pretoria and Cape Town.

All our Financial Planners are CFP® Professionals and members of the Financial Planning Institute of Southern Africa. They are highly qualified to give advice on all investment matters.

MAGNUS HEYSTEK **EMAIL:** magnus@heystek.co.za **TEL:** +27 (0)83 692 8635
MAGNUS is a director of Brenthurst Wealth and is in charge of investment strategies, research and client communication.

BRIAN BUTCHART CFP® **EMAIL:** brian@brenthurstwealth.co.za **TEL:** +27 (0)82 335 5117
BRIAN is head of financial planning at the CAPE TOWN OFFICE and a director of Brenthurst Wealth Management.

JOHAN BURGER CFP® **EMAIL:** johan@brenthurstwealth.co.za **TEL:** +27 (0)82 732 8655
JOHAN is the head of financial planning at the PRETORIA OFFICE and a director of Brenthurst Wealth Management.

RENEE EAGAR CFP® **EMAIL:** renee@brenthurstwealth.co.za **TEL:** +27 (0)83 233 9373

SONIA DU PLESSIS CFP® **EMAIL:** sonia@brenthurstwealth.co.za **TEL:** +27 (0)83 260 4055

MAGNUS L HEYSTEK CFP® **EMAIL:** magnus1@brenthurstwealth.co.za **TEL:** +27 (0)72 071 5567

RICHUS NEL ACCA **EMAIL:** richus@brenthurstwealth.co.za **TEL:** +27 (0)78 260 4013

SUZEAN HAUMANN RFP™ **EMAIL:** suzean@brenthurstwealth.co.za **TEL:** +27 (0)21 914 9646

CLIENT SERVICES & EXECUTIVE ASSISTANTS:

JHB: +27 (0)11 799 8100

CHRISTOFF POTGIETER
christoff@brenthurstwealth.co.za

CELESTE PHAKHATI
celeste@brenthurstwealth.co.za

ERNA MARÉ
erna@brenthurstwealth.co.za

NATASCHA DU PLESSIS
natascha@brenthurstwealth.co.za

PTA: +27 (0)12 347 8240

ESMERIE LOOTS (BCOM FIN MAN)
esmerie@brenthurstwealth.co.za

YOLANDI BURGER MA(HMS)
yolandi@brenthurstwealth.co.za

MAGDA KAMFER
magda@brenthurstwealth.co.za

CPT: DE WATERKANT +27 (0)21 418 1236

MALISSA ANTHONY (BCOM LLB)
malissa@brenthurstwealth.co.za

BELLVILLE: TYGERVALLEY +27 (0)21 914 9646

RONELLE STIPP
ronelle@brenthurstwealth.co.za

DIRECTOR & HEAD OF MARKETING: SUE HEYSTEK
sue@brenthurstwealth.co.za

CLIENT COMMUNICATION: MICHELLE BURGER
michelle@brenthurstwealth.co.za

MEDIA LIAISON EXCECUTUVE: DALEEN VAN WYK
pr@brenthurstwealth.co.za

WILLS & ESTATES: ROZANNE HEYSTEK-POTGIETER
rozanne@brenthurstwealth.co.za

TAX & ACCOUNTS: GAVIN BUTCHART
gavinb@brenthurstwealth.co.za

"THE FINE ART OF MANAGING INVESTMENTS REQUIRES CONSISTENCY, PATIENCE AND THE CRITICAL ABILITY TO PERCEIVE A LONG-TERM APPROACH TO THE CREATION OF WEALTH AND MOST IMPORTANTLY, THE POWER OF GOOD SOUND INVESTMENT ADVICE."

JOHANNESBURG

Tel: +27 (0)11 799 8100
Fax: +27 (0)11 799 8101

Unit 2B, Cedar Office Estate, Cedar Road, Fourways, SA

PO Box 10150, Fourways East, 2055, Gauteng, SA

PRETORIA

Tel: +27 (0)12 347 8240
Fax: +27 (0)12 347 0601

494A Lois Avenue, Erasmuskloof X3, Pretoria, SA

PO Box 32593, Waverley, Pretoria, 0135, SA

CAPE TOWN
(DE WATERKANT)

Tel: +27 (0) 21 418 1236
Fax: +27 (0) 21 418 1304

29 Chiappini Street, De Waterkant, Cape Town, 8001, SA

Postnet Suite 275, Box X22, Tygervalley, 7536, Cape Town, SA

BELLVILLE
(TYGERVALLEY)

Tel: +27 (0)21 914 9646
Fax: +27 (0)21 914 6515

Tyger Waterfront Terraces Block 2, Carl Cronje Drive, Tygervalley, Bellville, SA

Postnet Suite 275 P/Bag X22, Tygervalley, 7536, Cape Town, SA

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