INVESTMENT REPORT

MAY 2021 • ISSUE 397

BRENTHURST
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PLANNING A RETIREMENT WITHOUT A PLAN IS BOUND TO FAIL

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THESE SCENARIOS BELOW ARE LIKELY FAMILIAR TO MANY.

1. **It is too late to start saving for retirement, so there is no point in starting to save at all.**
2. **You changed jobs and cashed in your retirement investment.**
3. **The array of investment vehicles is too overwhelming, and you do not know where to start.**

For many South Africans, the information overload around retirement is overwhelming. In reality, it is a simple equation: what you will be spending in your retirement dictates what the total amount is that you will need to save towards.

Before becoming overwhelmed with the "what ifs", which typically include: the age you decide to go on retirement, how many years you will live, future rate of inflation, likely future returns on your investments, start with a careful plan, which is the best you can do in determining how much is enough for your retirement.

There are two best practice models you can apply, and both begin with a budget of what your expenses in retirement will be. Once you have the total, you can calculate how much you will need to cover those expenses for at least 20 or even 30 years, without running out of money.

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Retirement planning should include determining time horizons, estimating expenses, calculating required after-tax returns, assessing risk tolerance, and doing estate planning.

THE 5% RULE

Initially set as the 4% rule to ensure retirees would not have to face the prospect of outliving their savings, most financial advisors now agree that you can safely work on a withdrawal rate of a maximum 5% of total savings. If, however, you go on retirement earlier, for example at age 55, an income withdrawal percentage of 4% and lower would be advised. **Sticking to a 4% to 5% withdrawal rate, will ensure that a) your capital growth will beat inflation and b) you draw a monthly income which is sufficient to live from.**

A retirement plan laid out in accordance with this above rule would fall into what is termed a LIVING ANNUITY – meaning any capital remaining at your death will be paid out to nominated beneficiaries.

EASY WAY TO CALCULATE THE RETIREMENT CAPITAL NEEDED:

EXAMPLE 1: You require **R20,000.00 pm** income for retirement.

Annual income required is **R20,000.00 x 12 = R240,000.00.**

To calculate your capital amount, divide **R240,000.00 by 5%, giving you R4.8m.**

EXAMPLE 2: You require **R25,000.00 pm income** for retirement.

Annual income required is **R25,000.00 x 12 = R300,000.00.**

To calculate your capital amount, divide **R300,000.00 by 5%, giving you R6m.**

EXAMPLE 3: You require **R40,000.00 pm** income for retirement.

Annual income required is **R40,000.00 x 12 = R480,000.00.**

To calculate your capital amount, divide **R480,000.00 by 5%, giving you R9.6m.**

- The above calculation does not take income tax into consideration.
- It further goes without saying that market conditions could easily influence this equation.
- Stock valuations and inflation are both important metrics that could impact the 5% rule (both positively and negatively), but as mentioned above, start with your estimated retirement needs, and build towards your goal.

GOING WITH FIXED

An alternative strategy would be to purchase a FIXED or LIFE ANNUITY PRODUCT AT RETIREMENT, where your income is guaranteed for life. This product can be structured to suit your needs.

Important points to consider include changing annuity rates, these Life Annuity Rates change weekly and can be very different at retirement age.

Option 1: **SINGLE LIFE ANNUITY: income is provided to one person for life, even if death is at age 102.**

Option 2: **JOINT LIFE ANNUITY: income is paid to the first annuitant and on their death will continue to be paid to the second annuitant until death.**

This income or annuity rate considers age, gender, mortality rates (for example, women outlive men, on average), and whether the income must increase annually. It further also considers the current interest rate cycle, it will for example not be a good time to purchase a life annuity in the current low interest rate environment.

Unlike the Living Annuity enjoyed with the 5% rule above, a Fixed or Life Annuity product leaves no capital value that can be paid out to beneficiaries upon death, thus making it preferable for individuals who do not have dependants to whom they want to leave money when they pass away.

Below is an illustration of the upfront investment required on retirement to secure a monthly income, at current annuity rates. Note that the female's income is lower than the male, because females have a longer life expectancy.

SINGLE LIFE ANNUITY

5% annual increase in income

10 year guarantee period for this example, a guarantee period of up to 20 years can be selected.

(if you die during the guarantee term the income will continue to pay to beneficiary for this period)

For illustration purposes calculations based on current annuity rates and tax rates based on 2021 tax tables

	MALE AGED 60	FEMALE AGED 60
R 2,4 MILLION:	**R 15 443** gross income pm after tax R 13 973 pm	**R 14 608** gross income pm after tax R 13 288 pm
R 4,8 MILLION:	**R 30 914** gross income pm after tax R 25 489 pm	**R 29 244** gross income pm after tax R 24 336 pm
R 6,0 MILLION:	**R 38 649** gross income pm after tax R 30 826 pm	**R 36 562** gross income pm after tax R 29 386 pm

Whichever you choose, start with the end in mind. This first step will allow you to start building towards a structured retirement income. Read more about retirement planning.

BRENTHURST GLOBAL BALANCED FUND CELEBRATES 10 YEARS

TEN years ago, Brenthurst took the bold and brave step of setting up its own globally managed fund for exclusive use of its clients. Not only has the fund survived and grown the investments of its clients handsomely, it also beat the performance of some of the better known brand names on the investments landscape.

The Fund also proved its worth over the past year, one of the most traumatic for investors and wider humanity in decades. The global economy suffered its deepest recession in 100 years, stock markets plunged into the steepest bear market in history, with all asset classes suffering as liquidity dried up. The Fund could not avoid its own worst drawdown under these circumstances, but the falls were much smaller than in equities and within a matter of weeks it had recovered the ground lost. Participating fully in the recovery over recent months, the fund is now up by close to 50% from the lows of last March.

READ MORE: **Brenthurst-Global-Balanced-fund-celebrates-10-years-Issue-389-April-2021**

ADVISORS PROFILE: LESLIE GREYLING, REGISTERED FINANCIAL PLANNER™

LESLIE joined Brenthurst Wealth Management in 2018 as a Risk and Investment Advisor.

Leslie obtained her National Certificate in Financial Services, Wealth Management, in 2014. She has 22 years' experience in the financial services industry, having served 15 of those years as an Independent Financial Advisor.

She is a REGISTERED FINANCIAL PLANNER™ and a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all aspects of investments, retirement planning and life cover, which includes personal and business assurance.

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