



THE POWER  
OF INDEPENDENT ADVICE

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“ *Research has shown that only 6% of South Africans can maintain their standards of living during retirement.* ”

*If you require a gross income of R40 000 per month, in today's monetary value, you will need retirement savings to the value of R9.3 million.* ”

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WEALTH MANAGER 2021

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## THE PENSION FUNDS AMENDMENT BILL - A GOOD IDEA OR A DISASTER WAITING TO HAPPEN?

By Tanita Conradie, Certified Financial Planner™ at Brenthurst Pretoria

A rare event took place when the ANC supported the DA's proposal to approve the Pension Funds Amendment Bill.

**If this proposal is approved by the government, members of a retirement fund will be allowed to borrow an amount equal to up to 75% of their retirement savings. In other words, the members will be allowed to use their retirement savings as security/guarantee for a loan.**

The hardship experienced by the public during the Covid-19 pandemic has been the motivation for this proposed change. Using retirement savings as a guarantee for a loan will certainly give some relief in the short term, but in the long term it could have a detrimental, even devastating effect on personal finances.

Current pension fund legislation only allows for retirement fund benefits to be applied only for home loans. Using retirement savings as security for a home loan is already concerning, but at the very least a house is an asset which can be sold to pay off debt. This is very seldom the case with a personal loan to, for instance, cover living expenses.

### Let us look at the following scenario should the amendment bill be approved:

Mr. van der Merwe is 42 years old and needs cash for home renovations and to pay off his credit card and other clothing accounts. He has a pension fund with a current market value of R2 000 000. He doesn't have any other investments and has made no provision for an emergency fund. He has always reasoned that there's no money left at the end of the month for such luxuries.

He decides to apply for a loan offering his pension fund as security. According to the Amendment Bill, he would be able to apply for a maximum amount of R1 500 000 (75% of his retirement fund). The bank informs him that he only qualifies for a loan of R350 000. The interest rate payable is 22.50% over a 6-year term, which is not unusual for this type of financial endeavour (R8 900 per month).

Two years later, his employer informs him that they are struggling financially due to the Covid-19 pandemic. His salary is reduced by 30% which results in R15 000 less in his pocket. By this time, the cost of living has increased, and he still has four years left to pay off the loan. Reluctantly he informs the bank that he would not be able to make the required payments. Therefore, payment of the outstanding capital balance R280 000 had to be made from his pension fund that was offered as security. This will have an unfavourable effect on Mr. van der Merwe's retirement savings.

Another aspect to consider is the possible tax implications when the borrowing facility claims a portion of Mr. van der Merwe's pension.

One might ask what the fuss is all about. It is not as if Mr. van der Merwe lost all his retirement savings. Unfortunately putting your hand in your savings cookie-jar is like not being vigilant about the sun when you are young: the damage is only realised at a later stage.

Although Mr. van der Merwe will not have to cash out all his retirement funds, we often do see cash-outs of retirement funds when people change employment or – even worse – become retrenched.

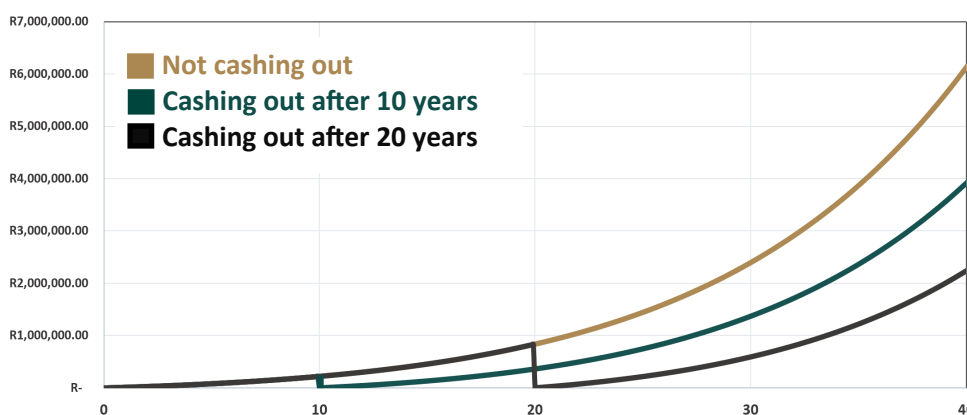
***The example below illustrates the effect of such cash-outs on your retirement funds.***

Suppose you make a monthly contribution of R1 000 to your retirement fund, which increases yearly by 5% and yields an investment return of 8% per annum. The total value of your investment after 40 years for different scenarios will be as follows:

| SCENARIO                   | INVESTMENT VALUE |
|----------------------------|------------------|
| Cashing out after 20 years | R 2 233 868,76   |
| Cashing out after 10 years | R 3 916 297,24   |
| Not cashing out            | R 6 125 352,54   |



## INVESTMENT VALUE OVER 40 YEARS FOR DIFFERENT SCENARIOS



The graph highlights how important it is not to cash out your retirement funds before retirement.

It is best to leave these funds in their intended place and let compound interest work its magic.

Source: Brenthurst Wealth

Research has shown that only 6% of South Africans can maintain their standards of living during retirement, and these findings were based on people who are economically active. In general, for every R1 million invested, a gross annual income of R40 000 can be generated for 25 years, assuming the income increased annually with inflation.

**STATED DIFFERENTLY, IF YOU REQUIRE A GROSS INCOME OF R40 000 PER MONTH, IN TODAY'S MONETARY VALUE, YOU WILL NEED RETIREMENT SAVINGS TO THE VALUE OF R9.3 MILLION.**

Retirement projections usually assume a life expectancy of 90-95 years. Although this advanced age has often been questioned by investors, one can easily believe that life expectancy will increase considering the major advancements being made in the medical/biotechnological fields. Considering that retirement age is commonly between 60 and 65, there is potentially a long time for which sufficient provision must be made.

What will happen if you have not put any money aside for retirement? Relying on the government is sadly not the answer. The maximum amount that you can receive for a pension grant is currently R1 890 per month. If you are older than 75 years, it will edge upwards to R1 910 per month.

The problem with these grants is two-fold: for the individual this amount of money is not enough to make ends meet. On the other hand, the excessive amount of people queuing for these grants is another financial burden for the government. This further impedes the state's ability to provide the public with necessary services. It is imperative that South Africans should embrace a culture of saving (for retirement); which is currently sadly lacking.

**This precarious situation has certainly caught the eye of those in power.** As from the 1st of March 2021, Provident Funds will be treated the same as Pension Funds and Retirement Annuity Funds, meaning that only one third of the value may be taken in cash at retirement. In the explanatory memorandum that accompanied the Taxation Laws Amendment Bill of 2013, Treasury stated that:

*"The absence of mandatory annuitisation in provident funds means that many retirees spend their retirement assets too quickly and face the risk of outliving their retirement savings. In view of these concerns, it is the government's policy to encourage a secure post-retirement income in the form of mandatory annuitisation."*

These changes, in terms of the Taxation Laws Amendment Act, intend to encourage a greater savings culture amongst members of provident funds. The proposed Pension Funds Amendment Bill is barking up a totally different tree.

**Offering part of your retirement fund as security for a personal loan will open avenues to cash that were not previously available. In certain instances, it might even be a good idea and work out well.**

**However, for the average Joe, old habits die hard, and this old dog will struggle with this new trick. If Rocky continuously digs holes in the garden, would you plant your fragile orchid in the flower bed?**

Read more about [retirement planning](#) and how much you will need to save depending on [your budget for retirement](#).

CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY READ >> [BRENTHURST INVESTMENT PLANNERS](#)

### ADVISORS PROFILE: TANITA CONRADIE, CERTIFIED FINANCIAL PLANNER® PROFESSIONAL



Tanita joined Brenthurst Wealth in October 2020 as an Assistant Financial Adviser at the Pretoria branch. She has been in the financial services industry since 2012 working as a liaison between Wealth Managers and clients assisting in all financial planning related duties.

Tanita obtained her B.Com degree and a B.Com (Hons) in Financial Management at the University of Pretoria. She also completed her Postgraduate Diploma in Financial Planning from the University of the Free State in 2018.

Tanita is a **CERTIFIED FINANCIAL PLANNER®** professional and a member of the Financial Planning Institute of South Africa.

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INVESTING WITH SA'S

**LEADING BOUTIQUE WEALTH MANAGER\***

**TOP 3 2021, WINNER 2020 & 2017,  
RUNNER UP 2018 & TOP 4 2019**



### CONSISTENCY SETS US APART

After being a winner in 2017 and 2020, runner up in 2018 & top 4 in 2019, Brenthurst Wealth places in the TOP 3 BOUTIQUE WEALTH MANAGERS of 2021.

Brian Butchart, Managing Director of Brenthurst Wealth, also ranked in the TOP 3 WEALTH MANAGERS in the country for the second consecutive year.

*"This is a powerful endorsement from our clients and exceptionally proud of the consistent value and service delivery from the team!"*

Brian Butchart

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