

INVESTMENT REPORT



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RETIRE CARE-FREE AT 55? THINK AGAIN.

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By Magnus Heystek -Investment Strategist

In the same week that the new British government announced that the official retirement age would increase to 66 and eventually to 70 in 2016, several local publications carried reports about how to retire "care-free" at 60 or worse, at 55 years of age.

Rian le Roux, the chief economist at Old Mutual, was quoted on financial website fin24 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.

This was followed up by another article in the Afrikaans newspaper Beeld with the same information provided on how to retire at 55 without a further care in the world...

It is inconceivable how such reports are still sent into the wide world. It creates a false expectation amongst young people that 55 is a kind of magical finishing line of a productive life, to be followed by a care-free endless holiday. Nothing could be further from the truth.

There is currently a whole generation of Baby Boomers aged 55 and older in the western world, millions of people in fact, who are realizing with a shock that the retirement- nirvana promised to them 20 or 30 years ago is anything but care-free.

Ten years ago in the book "*The Truth About Retirement*", which I co-authored with Bruce Cameron, we warned that the idea of retiring care-free at the age of 55 or even 60 was becoming increasingly impossible.

Plan to work for much longer we urged, to 65 and even 70, if at all possible. In addition, we added, think about finding a part-time job, a second-career (even if it means retraining) or even starting a small business in order to survive an increasingly uncertain retirement.

This advice is even more compelling and urgent today.

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RETIREMENT PLANNING SEMINARS:

PLEASE WATCH OUT FOR NEWS ABOUT OUR UPCOMING SEMINARS ON RETIRMENT PLANNING.

THESE SEMINARS WILL BE PRESENTED IN CAPE TOWN, JOHANNESBURG & PRETORIA DURING THE MONTH OF SEPTEMBER 2010.

"As in all successful ventures, the foundation of a good retirement is PLANNING."

— Earl Nightingale

Continued...

Let's take a look at the advice of saving 20% of your salary in order to retire at 55 or even 60.

Which average salary-earner can afford to save that much? In my humble opinion only a non-smoking, non-drinking introvert without any children or dependants still living at home with mommy and daddy who cycles to work and back.

The rest of us mortals who have bonds, cars, food, clothes and school fees to pay, battle to even save 15% into formal retirement schemes. And from that percentage one has to deduct the cost of life and disability cover which in effect leaves about 10% to put away for retirement.

Le Roux also attracted a fair amount of criticism from disgruntled Old Mutual investors whose investments failed to live up to the rosy projections made 30 or so years ago.

Probably the main reason why it is becoming unrealistic to even consider retiring at 55 or 60, is longer life expectancy. On average males aged 55 can today expect to live another 20 years and the average woman a further 25 years. Even with the best investment returns in the world would it, in my view, not be possible for a salary-earner to save enough capital over a 30-35 year working life in order to fund a "care-free retirement" of an additional 20 to 25 years. I repeat: it is just not possible.

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

How many people are able to work and save uninterrupted for such a long period of time? Not many.

Most people job-hop, on average about 7 times during a working career. According to research done by Old Mutual more than 80% of people changing jobs in SA opt for the cash in their pension funds. This is always the worst possible option.

Retirement not so care-free.

And then we come to the "care-free" part of this equation. Just ask a generation of recently retired retirees how "care-free" their retirement has been so far. Unless they opted for a guaranteed pension with guaranteed inflation adjustments -a rarity these days-will they have been fully stressed by the incredible volatility on financial markets over the past ten years or so.

This has been the result of the tidal wave of pension fund members moving away from defined benefit schemes (final salary) to defined contribution schemes. The one consequence of this is that the member takes on the investment risk. In the late nineties I was asked to consult to members of the pension fund of a very large banking group on this issue who were given the option of staying on the old-style fund or move across to the defined contribution fund, which came with a sweetener in the form of an 18% bonus to fund values.

Despite this bonus my recommendation was for members to stay in the old DB fund. I was told afterwards that 96% of the members went for the money.

They now have to live with consequences of that decision. There is no turning back. Investment markets have been terribly unkind to investors over the last three years as a consequence of the global credit crunch. Globally, stock markets are still down about 35% from their peaks in late 2007 while the JSE-all share index has now just completed three years of negative growth.

Returns on US equity markets have been flat for 10 years now, the same for most European markets while the Japanese market has been in a bear market for 20 years, still down 70% from its peak in 1989.

Talk to retirees in these countries about a care-free environment... Even the safety of interest-bearing investments is only temporary as inflation quietly erodes the purchasing power of capital over time.

This uncertain environment as a consequence creates the breeding ground for many investment scams which lure unsuspecting and unsophisticated investors in search of higher yields. Last year more than 7 property syndications went bust costing investors billions of rands in losses.

WHAT IS THE SOLUTION?

Of course people must be encouraged to save and invest for their retirement. But it is time that the notion of a care-free retirement at 55, 60 and even 65 be put to bed for good.

It's ironic that the very wealthy, who can afford to retire at 55, mostly keep on working. They seem to understand the fragile nature of wealth and the destructive nature of inflation and what it can do to capital over time.

A more realistic retirement age should be 70 (and be prepared to work to 75 if at all possible) as life expectancy increases year after year.

Working longer means two things:

- you contribute for longer to a retirement fund or investment portfolio and
- you will need to live off that capital for a shorter period of time.

This is what the British government has admitted it is trying to do: a shorter but wealthier retirement. It has used the credit crunch and its own fiscal deficits to face up to this reality; a reality long denied or ignored by countless governments around the world.

While there may be more strikes and even violence in countries such as Greece, France and Spain about pending pension fund reform, is there no turning back: *the future ain't what it used to be.*

Retire at 55? Absolute rubbish.

55 is but the beginning of the best 15 years of your life.

**Magnus Heystek is the author of several books on retirement planning and heads Brenthurst Wealth Management.*

INVESTMENT ADVISORS

Do not hesitate to contact Magnus Heystek or any one of our financial planners to assist you with regards to YOUR RETIREMENT or any other investment matters.

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 11 799 8100

MICHELLE BURGER CFP®
michelle@brenthurstwealth.co.za
+27 72 635 8667

INVESTMENT ADVISORS:

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

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

TAX & ACCOUNTING:

GAVIN BUTCHART
gavinb@brenthurstwealth.co.za
+27 11 799 8100

MARKETING:

SUE HEYSTEK
sue@brenthurstwealth.co.za
+27 11 799 8100

CLIENT SERVICE:

ESMERIE LOOTS
esmerie@brenthurstwealth.co.za

CELESTE PHAKHATI
celeste@brenthurstwealth.co.za

ALLIE SIKHOSANA
allie@brenthurstwealth.co.za

SUZEAN HAUMANN
suzean@brenthurstwealth.co.za

CHRISTOFF POTGIETER
christoff@brenthurstwealth.co.za

ANTJE MOUTON
reception@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: Forth Floor | Lakeview | 17 Umlazi Street | Menlow Park | Pretoria
Tel: +27 861 799 8000 | Fax: +27 (0) 11 799 8101

CAPE TOWN: 3rd Floor Mettle Building | Willie Van Schoor Ave Tygervalley | Western Cape SA
Tel: +27 (0) 21 946 2095 | Fax: +27 (0) 21 949 2107 | PO Box 4660 Tygervalley 7536

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