BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

BRENTHURST
THE HOME OF WEALTH

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RETIREMENT ANNUITIES: DO THEY STILL HAVE A ROLE TO PLAY?

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JHB: +27 11 799 8100
CPT: +27 21 914 9646
PTA: +27 12 460 0340

Global Markets AND SA ECONOMY

Magnus Heystek – Investment Strategist

IT is very unfortunate that the historical marketing practices of the life assurance companies created a negative impression about retirement annuities (RA'S), a very important saving instrument for people trying to build up sufficient retirement capital.

As a result many investors are reluctant to consider further RA's, but in the process they are undermining their own retirement funding and forfeiting valuable tax concessions.

Life assurance-based RA's were deeply flawed and very costly investments to investors. The costing structures of these products were based on the term of the investment (the longer the term the more expensive the fees and commissions) and were the foundation of great wealth for the insurance companies in the 80's and 90's.

It also led to many malpractices in the investment business, as intermediaries often extended investment contracts to the maximum to the detriment of the investor.

Investors, many of whom who did not understand the complex costing structure of what they were buying, were heavily penalized when RA-contracts were matured early or surrendered. This eventually led to government intervention some ten years ago, forcing the life assurance companies to drastically reduce their early-termination penalties and make top-up payments into these policies, amounting to about R3 billion.

To add to this confusion, the life companies included life, disability and retirement cover under one policy, which further complicated matters.
By and large these products and practices have been discontinued, but a whole generation of investors has been badly burnt by this experience. This is unfortunate as the new-generation pure investment RA's are, in our view, excellent investment products.

- **The new-generation RA is a far superior investment product.**
- **Anyone investing in unit-trust linked RA has no contractual issues.**
- **The fees are much lower and completely transparent the investment can be spread amongst a number of the best performing fund managers in South Africa.**
- **Investment returns can be tracked online and changes can be made to**
- **any portfolio without new upfront fees or onerous switching fees.**

The tax-free portion that can be withdrawn from the RA after the age of 55 has also been increased substantially in recent years and now stands at **R300 000** with the balance of the one third portion taxed at very favourable rates as well.

In short, the modern day RA is probably the best investment product available on the market and it is strongly recommended that every self-employed person or someone who earns rental income and/or commission income considers adding to their RA portfolio every year.

PLANNING FOR A SECOND (OR THIRD) RETIREMENT

Furthermore, and which is not as well known, is that people ALREADY retired can make further contributions to a new RA even when they are retired and earning an income from either a pension fund or living annuity.

Conventional wisdom holds that people who are already retired should not consider saving for retirement. Recent changes to the laws pertaining to RA's and increased longevity make it essential that retired people consider using the tax advantages available on their sources of income, to save and plan for a SECOND RETIREMENT.

Take this comment from a long-standing client of **Brenthurst Wealth** (and someone who has taken our investment advice to heart): *"Retirement? Give me a break. Thanks to improved health, better nutrition and improved medical care, many people who are 65 years 'young' will probably work flat out well into their 'golden years' and die at their desks, not because they have to, but because they want to and are able to do so."*

This client probably speaks for a great number of other investors whose mental programme of "retirement at 65" is being rewritten as a result of the factors alluded to above.

This trend is not only unique to SA, but also evident in much of the Western world (in the East, apparently, there is no word for retirement).

It is not strange to find people embarking on a second or even third career during a working life. In the US, for instance, the fastest-growth in employment is in the age group over 55, as many previously retired people, return to the employment market as a result, partially, of the Credit Crisis, but also because of boredom and the search for new challenges.

The thought of retiring at the age of 60 and not doing anything for the next 20 to 30 years is equally scary.
But often we come across working retirees not aware that they can still be contributing towards a retirement annuity from ANY source of income during retirement, be it a pension, living annuity, rental income, or whatever.

This is most probably a legacy from the days when RA's had to be matured at the age of 69 years and 11 months. This artificial time limit was quietly scrapped two years ago, which now means RA's can be extended indefinitely.

Section 11(n)(1) of the Income Tax allows individual taxpayers who contribute to an RA fund to deduct up to R1 750, R3 500 less pension contributions or 15% of income not from retirement funding employment, whichever is the GREATER.

This means that people already on retirement who earn an income from a pension or living annuity can contribute (and get tax relief) up to 15% of that non-retirement funding income into another income.

We strongly recommend that this be done. For those that do not have a lump-sum at hand to fund this contribution we say, sign a debit order equal to 15% of your retirement funding, which will immediately lead to a reduction in your monthly taxes.

It also makes sense to utilize the tax-breaks of RA's to build a second nest egg which can be used, for instance for an expected medical aid funding shortfall, the schooling of a grandchild or whatever.

Someone starting an RA at the age of 60 and contributing for the next 2 to 25 years, will not only be grateful for the tax deduction but also for the future capital which can be utilized at any stage when it is needed.

In conclusion, we are of the opinion that RA's are a very **worthwhile investment** for anyone not contributing to a formal pension fund. Many investors fund their RA's via monthly debit orders but high-net worth individuals who have earned income in any other format, i.e. share options, bonuses, commissions and pension income, need to strongly consider making lump-sum additions to their existing RA's or create a new stand-alone portfolio.

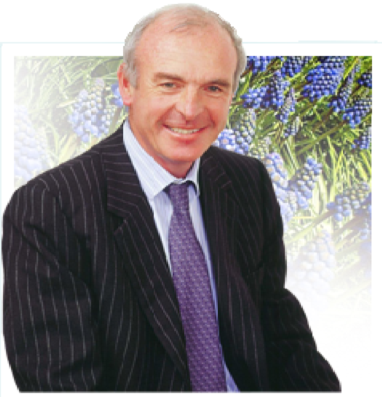
SARS FOLLOWS A PRACTICE… "USE IT OR LOSE IT"

Finally, SARS follows a practice of "use it or lose it" when it comes to the tax relief granted to individual tax payers. Contributions have to be made in the tax year that the income was earned, so it's not possible to postpone the contribution to a following year or when the taxpayer's cash-flow has increased. **The deadline therefore for any new contributions or top-ups is 28th February this year**.

PLEASE CONTACT YOUR RELATIONSHIP MANAGER AT ONE OF OUR THREE OFFICES IF YOU ARE AN EXISTING CLIENT OR CALL THE OFFICE CLOSEST TO YOU TO MAKE AN APPOINTMENT WITH ANYONE OF OUR SEVEN FINANCIAL PLANNERS TO ASSIST IN THIS MATTER.

INVESTMENT SEMINAR:

THE RISKS AND OPPORTUNITIES FOR THE GLOBAL ECONOMY & SA
"HOW A FOX SEES IT" CLEM SUNTER



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- **HOW YOU SHOULD HAVE A STRATEGIC CONVERSATION ON THE FUTURE**
- **THE LATEST GLOBAL ECONOMIC SCENARIOS**
- **THE POSSIBILITIES FOR SOUTH AFRICA.**

CAPE TOWN SEMINAR: 2nd March 2011
JOHANNESBURG SEMINAR: 23rd March 2011

Don't miss this unique opportunity to enrich your life!

Global Markets

AND SA ECONOMY

SEMINAR CAPE TOWN

DATE: Wed, 2 MARCH 2011
TIME: 15h30 FOR 16h00
VENUE: STANLIB: LIBERTY LIFE I THE ESTUARY I CENTURY BOULEVARD I CENTURY CITY I CPT
RSVP: CPT: +27 21 914 96 46 email Suzean suzean@brenthurstwealth.co.za

SEMINAR JOHANNESBURG

DATE: Wed, 23 MARCH 2011
TIME: 15h30 FOR 16h0
VENUE: STANLIB JHB OFFICE I 17 MELROSE BOULEVARD I MELROSE ARCH I JHB
RSVP: JHB: +27 11 799 8100 email Antje reception@brenthurstwealth.co.za

PROGRAMME	
15h30 –16h00 Registration	17h30 –18h00 Questions & Discussions
16h00 –17h30 Presentations	18h00 –20h00 Refreshments

Booking is essential for these seminars to secure seating .

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 83 260 4055

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

INVESTMENT ADVISORS:

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

JANA GOUSSARD
jana@brenthurstwealth.co.za
+27 21 914 9646

TAX & ACCOUNTING:

GAVIN BUTCHART
gavinb@brenthurstwealth.co.za

MARKETING:

SUE HEYSTEK
sue@brenthurstwealth.co.za

ANTJE MOUTON
reception@brenthurstwealth.co.za

CLIENT SERVICE (JHB I CPT I PTA):

ESMERIE LOOTS
esmerie@brenthurstwealth.co.za

CELESTE PHAKHATI
celeste@brenthurstwealth.co.za

CHRISTOFF POTGIETER
christoff@brenthurstwealth.co.za

ALLIE SIKHOSANA
allie@brenthurstwealth.co.za

ERNA MARÉ
erna@brenthurstwealth.co.za

M LEO HEYSTEK
admin@brenthurstwealth.co.za

SUZEAN HAUMANN
suzean@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: Landmark East I 4th Floor|17 Umgazi Straat | Menlo Park| Pretoria | SA
Tel: +27 (0) 12 460 0340 | Fax: +27 (0) 12 346 8453

CAPE TOWN: Tyger Waterfront I Waterfront Terraces Block 2 I Waterfront Road I Carl Cronje Drive I Bellville| W Cape
Tel: +27 (0) 21 914 9646 | Fax: +27 (0) 21 914 6515 Postnet suite 275 P/Bag X22 |Tygervalley |7536|Cape Town SA

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