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Make informed decisions

Many people are discouraged to invest in markets amid the current economic uncertainty. Some will even take steps as drastic as resigning from their jobs to access their pension funds.

The greater the anxiety, the greater the yearning for stability. Investors want accurate forecasts about the safety of their capital and they expect continuously stable returns.

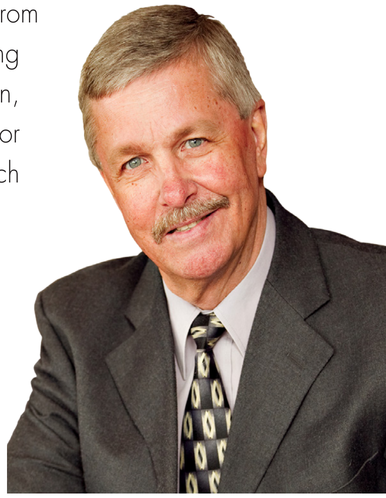
However, the greatest risk any investor faces is to be uninformed and then - based on rumours – take rash and impulsive decisions.

A classic example is the panic around the Tax Administration Laws Amendment Act which was signed recently by President Zuma. Rumours that the bill was signed too hastily and that government employees' retirement savings would be nationalised at the beginning of next month, created tension and uncertainty. Many officials resigned to have their pension savings paid out immediately.

In reality the bill was debated in parliament and thoroughly scrutinised by the public before it was accepted and approved by Parliament and the National Council of Provinces.

In short, the new law means that officials can no longer get access to their full pension as a lump sum when they retire or resign. As from the beginning of March 2016, only a third may be withdrawn in cash, while two thirds must be invested in an annuity of the person's choice.

This is a positive amendment that aims to compel irresponsible people to save, and prevent them from taking disastrous decisions regarding their retirement savings. In addition, there are to be new tax deductions for contributions to pension funds, which will put more money in their pockets.



Dr. Anton Hay - Marketing Director

In times of uncertainty, it is important to remain calm, to continue investing and to refrain from random withdrawal from the markets. The Association of Savings and Investment SA (ASISA) has warned investors that they would miss the opportunity of wealth creation if they withdraw from the markets and also if they are overtly conservative and not prepared to take any risk at all.

Take refuge from the confusion and enjoy carefree investments by looking at preference shares, offering a fixed rate without all the risks posed by ordinary shares or unit trusts.

To find out more about the amendments to retirement taxation, visit http://bit.ly/1QT7Ff4 for a user guide, or contact us and we will post a copy to you.

Kind regards,

Dr. Anton Hay

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Can you afford to retire?

The financial crisis affects everyone, but retirees, or those close to retirement, are facing a particularly challenging time.

While everyone is affected by higher interest rates, inflation and price increases, it affects retirees specifically due to portfolio growth below the inflation rate, or worse, negative returns. In addition, indications are that we can expect a financial crisis worse than in 2008/9 amid severe drought conditions, dramatic price increases, the ongoing decline of the rand, social upheavals and falling commodity prices.

Most people have to drop their standard of living after retirement. Not only are their pensions on average 30% lower than their former salary, but they also no longer enjoy benefits such as a housing or car allowances, nor do they enjoy the benefits of their employer's pension fund contributions or inflationary and promotion-related salary increases. Retirement benefits from employers seldom keep up with inflation.

So what are your options when it comes to protecting your golden years? Here are seven elements you can include in your retirement planning.

How to ensure you have enough "gold" in your golden years.

1. Start early.

Retirement planning is a process that should start with your first pay cheque. You are never too young to start investing for your old age. For every five years you delay investing, you have to invest three times more to get the same result as someone who started earlier.

2. Know how much you'll need.

If the family needs R350 000 per year, there should be provision for R350 000 x 20 years (if you live for 20 years after your retirement), i.e. R7 million.

3. Remember to take inflation into account.

If inflation is 6% per year, the purchasing power of your money will be halved every twelve years. Add to that, unforeseen events such as hospitalisation and you need almost R10 million to retire comfortably and without financial concerns.

4. Plan for an extended retirement.

Thanks to medical science people are living longer, even thirty years or more after retirement. Pay off all your debt before retirement and live within your means to stretch your income.

5. Say no!

Many elderly people further weaken their situation by lending their retirement money to children who might need it as a deposit on a house or to reduce their existing bond. Often, such loans turn into donations when children can't pay back the debt.

6. Strike a balance between capital preservation and growth.

In a financial crisis, people are worried that their capital might shrink and often sacrifice future profits by investing capital in the money market, where returns after costs are often lower than inflation.

Rather consider an investment in preference shares that secures your capital while offering a fixed growth rate. Ecsponent's Class B preference shares for example, offer a solid capital growth rate of 11.2% per year, without your paying any cost. On the revenue-generating side, Class C currently offers an annual dividend rate of 11.69% (prime + 4% minus dividend withholding tax) per annum, paid out monthly.

7. Retire but never quit work.

This means that you should continue working after retirement to put additional money on the table. Be an entrepreneur and work smartly to earn an extra income. Whether you earn something by following the success of some of our resourceful clients who sell homemade jams, another who removes garden refuse, or the couple who runs a successful guesthouse from their home – you can make a significant contribution and it also keeps you busy.

Regardless of whether you're retiring now or later, remember that panic stricken investment decisions will not save anyone from the expected negative market performance. All you can do is to remain calm and follow a carefully devised financial plan.

If you need information or advice about future-proofing your retirement, contact us.