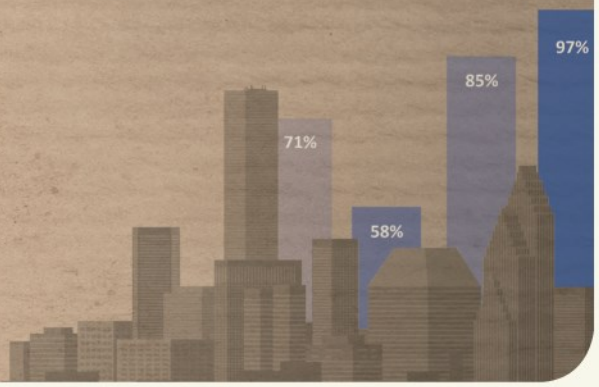
Mark Wenning's

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Mark Wenning
Certified Financial Planner®

office: Shop 4, First Floor, Nedbank, Westville Mall, 35 Buckingham Terrace, 3630
postal: P O Box 1985, Westville, 3610
email: markw@nfp.nedbank.co.za
phone: 031 203 9634
mobile: 082 900 0332
fax: 086 606 4343
web: www.markwenning.co.za
assist: Janet Rackham, janetr@nfp.nedbank.co.za
assist: René Sturrock, renes@nfp.nedbank.co.za

Living Life - Is 55 too early to retire?

Is 55 considered too early to retire? It depends on so many variables that it is a difficult question to answer in any detail. Specific planning requires the answers to questions like how old you are currently, how many years you have remaining to age 55 or how much you have set aside towards your retirement savings. Fortunately, your financial advisor can assist you with putting a plan together!

The majority of employers prescribe the retirement age for their employees to be between the ages of 60 and 65. Comparitively, retiring at 55 would be considered by most, to be an early retirement age.

Longevity

Men and women are expected to live longer due to the advancement of modern medicine and increased awareness of the importance of living a heathy lifestyle. The experts say that by 2030 men are expected to live until they are 85.7 and women to 87.6.

Assuming a person started working at the age of 23, the question is: How can you save enough money during 32 years of work, to enable you to live the lifestyle you are accustomed to for another 30-plus years of retirement?

That is the challenge, and the biggest factors that will determine success in achieving this goal are:

- Your earning potential;
- Your discipline to save and spend;
- The investment returns on your savings;

Engaging with a financial planner will ensure that the last two points above are dealt with. This provides the peace of mind to focus on your earning potential and in so doing to maximise your earning potential over your working career.

Financial Planning is key

A financial plan will provide a framework to keep you disciplined about saving regularly, and ensure that you take full advantage of investment vehicles that maximise any tax benefits available, such as retirement funds, retirement annuities and tax free savings accounts.

A good financial plan will also ensure that your investments are able to provide inflation beating returns which is essential to achieving your retirement goals.

The miracle of compound interest

Finally, a good financial adviser will be able to travel with you on the road to retirement and keep you updated as to where you are and how close you are to achieving your goals.

The power of compound interest means that the earlier you are able to start the savings process for retirement the less onerous the process with be and your potential for an earlier retirement will be a lot greater than someone without a financial coach and a set goal.

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Retire in style

While you should effectively take advantage of the benefit of compound interest while retirement is still far off, there are many other factors to be aware of when planning your retirement. It is also vital you choose the right savings vehicle to suit your needs.

When investing for retirement, it is important to plan for future increases in prices and future increases in your standard of living. Price inflation is a general increase in prices and a corresponding fall in the purchasing power of your money.

Lifestyle

Salary increases that keep pace with price inflation allow you to maintain a fixed standard of living over time. However, salary increases that exceed price inflation may increase your standard of living and therefore your cost of living. You can think of this as 'lifestyle inflation', which is the increase in your standard of living over time.

As you become accustomed to a certain lifestyle, you will need to increase your retirement savings to maintain this standard of living, or otherwise risk spending far beyond what your retirement savings will allow.

Volatility

Another factor you need to keep in mind is market volatility – this can affect the longevity of your savings. While market volatility is to be expected (it is a normal part of investing) it is something you need to take into account and effectively combat to ensure optimal performance of your retirement vehicle.

Risky business

To achieve above-inflation [real] returns, you need to be comfortable taking on some risk. History has shown that over the long term, equities provide the best return. While returns do not come in a straight line, fluctuations smooth out over time. If you invest in equities, you need to be comfortable with a bumpy ride.

Spreading your risk by investing in various sectors and industries will ensure that you are adequately equipped to tackle market volatility.

Market conditions in general have an impact on all investments including retirement savings. Inflation will contribute to your income goal increasing over time and market volatility will affect the value of your savings and, as a result, the benefit that this can produce.

Having said that, this is not necessarily a bad thing – consider a person who only



As interest compounds, things get bigger. Often it's useful to know how long it will be until the original principal has doubled. Using what we've learned it's possible to derive a formula to calculate the time period, but there is a very easy to remember *rule of thumb* approximation and it's called **The Rule of 72**

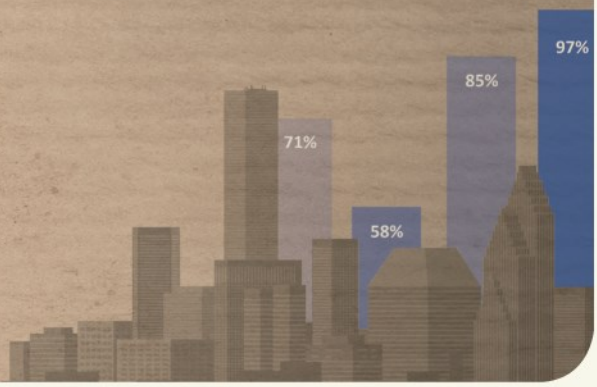
It goes like this. Let's say you have an investment with an annual interest rate of 6%. How long would it take for your initial investment to double in value? To estimate this, simply divide 72 by 6. The answer = 12. So, with an interest rate of 6%, it will take approx. a dozen years to double your initial investment.

At 4% interest, it would take 72/4 = 18 years to double (approx). The rule also works the other way around: *What interest rate would you need to receive to double your investment in 5 years?*

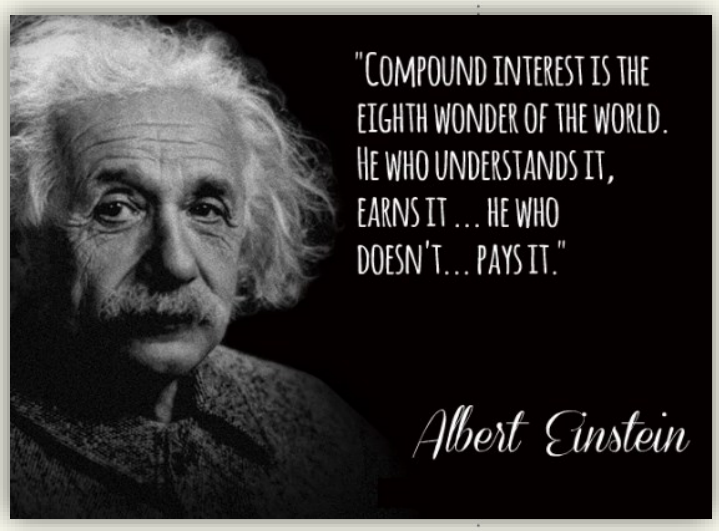
Answer, approx. 14.4%

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invests in cash, where volatility is very low. He / she will probably have a worse outcome over the long term, compared with a person in a portfolio that can produce returns above inflation even if the portfolio is volatile.

Bear in mind that investment returns are a net result of asset allocation (your choice of assets) less fees. You need to ensure your savings vehicles are cost-effective, completely transparent and reviewed regularly, with a clear indication of contributions, costs and returns.

Timing

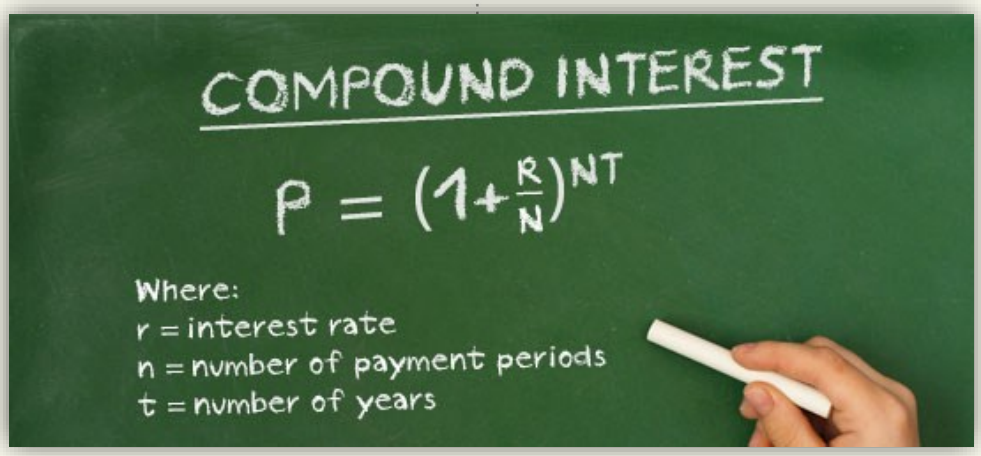
It's never too late to save (although being 60 with no retirement plan would probably constitute "too late") so ensure your financial independence during retirement by starting today. Do this by consulting a financial adviser and looking into savings vehicles.

Through careful planning and the allocation of your capital into diverse assets, you can achieve a comfortable retirement. Savings are not only the fixed debit-order or employment-based retirement plan you sign up for, but also the assets you acquire, like property and equities, along the way. The combination of these plus personal savings and employment-based savings should be focused collectively to generate this exact result [a comfortable retirement]."

The power of compound interest

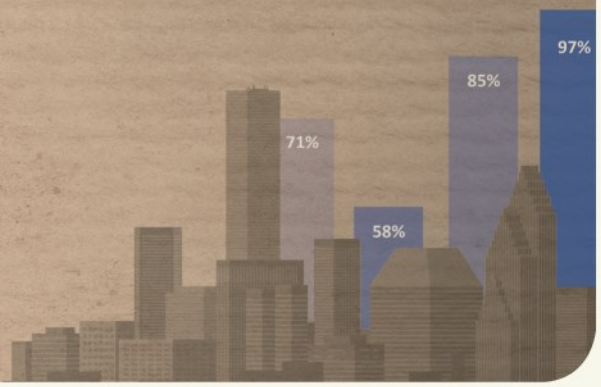
The longer you delay to starting your savings plan, the more you are going to have to save. Using a basic future value calculation, we can compare two 20-year-olds who wish to retire at the age of 60. Client A saves R1 000 a month from the age of 20 to the age of 30. He then stops contributing but leaves the funds invested until he reaches 60. Client B, on the other hand, saves R1 000 from the age of 30 until he retires at 60.

Assuming a growth rate of 10% for both A and B the results are as follows: Client A will have saved a total of R1 000 x 12 months x 10 years = R120 000. Client B will have saved R1 000 x 12 x 30 years = R360 000. At the age of 60, Client A will have capital valued at R4m, whereas client B will have only R2.3m. This shows the cost of delay.



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Living La Vida Loca - The Heir Abroad



It has been estimated that there are many thousands of young South Africans living and working abroad. This means that many, especially older South Africans, should plan their Wills around the fact that one or more of their future heirs will be outside SA at the time they die, and that the transmission of inheritances to heirs abroad is not necessarily a straightforward matter.

Movable assets

South Africa's Exchange Control laws govern and restrict the right for the local assets of South Africans to be transferred overseas, and that applies even after one dies. Before any inheritance due to a South African living abroad can be remitted to their place of residence, the executor of the estate must obtain the permission of the South African Reserve Bank. The same applies to the beneficiary named on a life assurance policy – the assurance company concerned will have to obtain Reserve Bank approval before transmitting proceeds abroad.

A South African who has not formally emigrated will, for the purposes of exchange control, be regarded as an SA resident temporarily living abroad even if they left SA many years before and never intend returning.

Where there's a Will there's a way

Broadly, in terms of South African exchange controls, if a South African living abroad has received an inheritance from an SA estate, he or she will fall into one of three categories:

- *South African Resident temporarily abroad (most people fall into this category)* The options are then to:
  (a) Transfer funds using the heir's foreign investment allowance, which will require getting a SARS tax compliance certificate (formerly called a tax clearance) or
  (b) Placing his or her formal emigration on record with the South African Reserve Bank – this is done via a local bank's foreign exchange department or an emigration company. Emigration does not affect one's SA citizenship or the right to retain a South African passport.
- *South African who has already formally emigrated in terms of exchange control laws (also called "financial emigration")* Emigrants falling into this category can have their funds transferred abroad, provided they can provide proof of emigration in the form of a South African Reserve Bank reference number which they would have received when they originally emigrated.
- *Non-resident – a person who was never a South African resident* - This is a relatively straight forward process of providing evidence of non-residence status after which the inherited funds can be freely transferred overseas.

If an executor is unable to transmit an inheritance to an heir due to a legal disability, such as exchange control restrictions, the law makes provision for the inheritance to be paid into the Guardian's Fund administered by the office of the Master of the High Court, for the duration of the legal disability.

Here or there?

If you have left an inheritance to a family member who is living abroad, it would be prudent to ascertain from them their residency status as far as Exchange Control is concerned, so as to ensure a relatively hassle free transmission of their inheritance come the time.

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