



## FROM THE CEO'S DESK

**M**y medium term concerns as both an investor and an advisor revolve around expectations. I recently read a newsletter from one of our product providers which referred to an ancient belief. This was all about saving one tenth of your earnings throughout your working life and consequently having plenty for your retirement. Easier said than done! The major issue concerns our egos and well established social norms. It is amazing how what we need and what we want becomes materially different as income increases. We spend what we earn and given that employers no longer offer defined pensions, it's up to us to provide for retirement. I will leave this interesting subject to our partner Laurie Wiid.

The global theme which I am watching very carefully concerns taking responsibility for the excesses of the last decade. The desperate reality is that taking responsibility and acting responsibly is politically dangerous. Taking responsibility and acting so when the problem isn't even yours is politically suicidal. The job being done in Europe, where the decisions are being made in Germany and France, all unpopular, both at home and in the countries they are bailing out, is not for the faint-hearted. Mrs Merkel is particularly fascinating, taking on her own constituency and those of Europe at large. I feel she is eclipsing the job Maggie did in Britain taking on The Unions and winning. Here's hoping that Angela gets this one right.

In the States the medicine is also very bitter and looks likely to dethrone the current President as they continue their bipartisan politic.

The saviour in the current economic mire is the developing markets. Whether this sustains itself is dependent on both domestic and export demand. There are two risks of a meltdown here. The first and very probable failure is that of exports. As the inevitable painful belt tightening happens in Europe and the US continues to struggle to find equilibrium the demand they will generate will wane. The second risk is domestic demand. China is a good example where the costs of goods and wages have not moved in synergy. This dislocation is a priority of the Chinese monetary authority and how they manage inflation, money supply and the economy in general is critical in determining the outcome and, therefore, impact of this issue on global demand.

Something quite astounding is the significant swing of sentiment away from banks, particularly in Europe. Traditionally seen as an investment in certainty they have lost this status as they struggle with their own balance sheets, bad or doubtful debt and pressure to reduce leverage from the Regulators, and the executive arms of Governments who have been unpopular in the bailout packages dished out over the last few years, putting the taxpayers in line to pay for the errors and excesses of the banks. The world needs banking and a means of commercial

settlement. When the current meltdown works its way out of the market there will be money to be made in this very large sector of the market.

I am quite interested in investment themes where outcomes are guaranteed, tax efficiency is optimized and where, if markets behave better, some upside is available. When one structures something like this the usual caveat is a lack of liquidity. Guarantees usually mean a lock-in or poor after-tax returns. If funds can be locked up for a few years, we find strong institutions, buy a guarantee and complement this with an equity driven investment which can, if markets perform, deliver reasonable upside. Between the three advisory teams and our Asset Management business, we continue to seek solutions such as these which answer some of the demands of investors in these testy times.

NFB has for many years supported the Liberty Life Property backed Endowment. This delivered a return to investors of approximately 6.3% (net of tax and management charges). This remains an interesting belt and braced option and, given the probability of another year with low interest rates, deserves consideration in most taxed and retirement portfolios.

Expectation management is critical today and, whilst NFB runs the risk of losing some business as we forecast at lower returns than some, we believe the world we find ourselves in at present will continue to embarrass the over-expectant and advisors basing estimated future returns on historical results; unlikely to be repeated given the economic quagmire we find ourselves in.

Hot off the press was an announcement that cheques will not be acceptable after mid-July 2012 if they exceed R500,000. Currently the maximum acceptable cheque is for R5 million. This represents a tenfold reduction in what is acceptable and is driven by the fact that the majority of cheque fraud is perpetrated in these larger amounts. The authorities reckon that by reducing this maximum the outcome will be a reduction in fraud. It also represents a move to have South African clients follow international trends where alternate forms of settlement such as EFT (Electronic Fund Transfer), online settlement and the use of credit and debit cards are used.

The management and staff of NFB wish all of our clients and friends well for the year ahead. We will, in these difficult times, continue to strive to secure optimum results whilst offering clients authentic, transparent and appropriate advice.

2011 represented another year of significant growth in assets under our management. We would like to thank our clients for their support and the institutions who provided us with products and excellent service through the year. We look forward to an even better year ahead.

**Mike Estment, BA CFP®**  
CEO, NFB Financial Services Group



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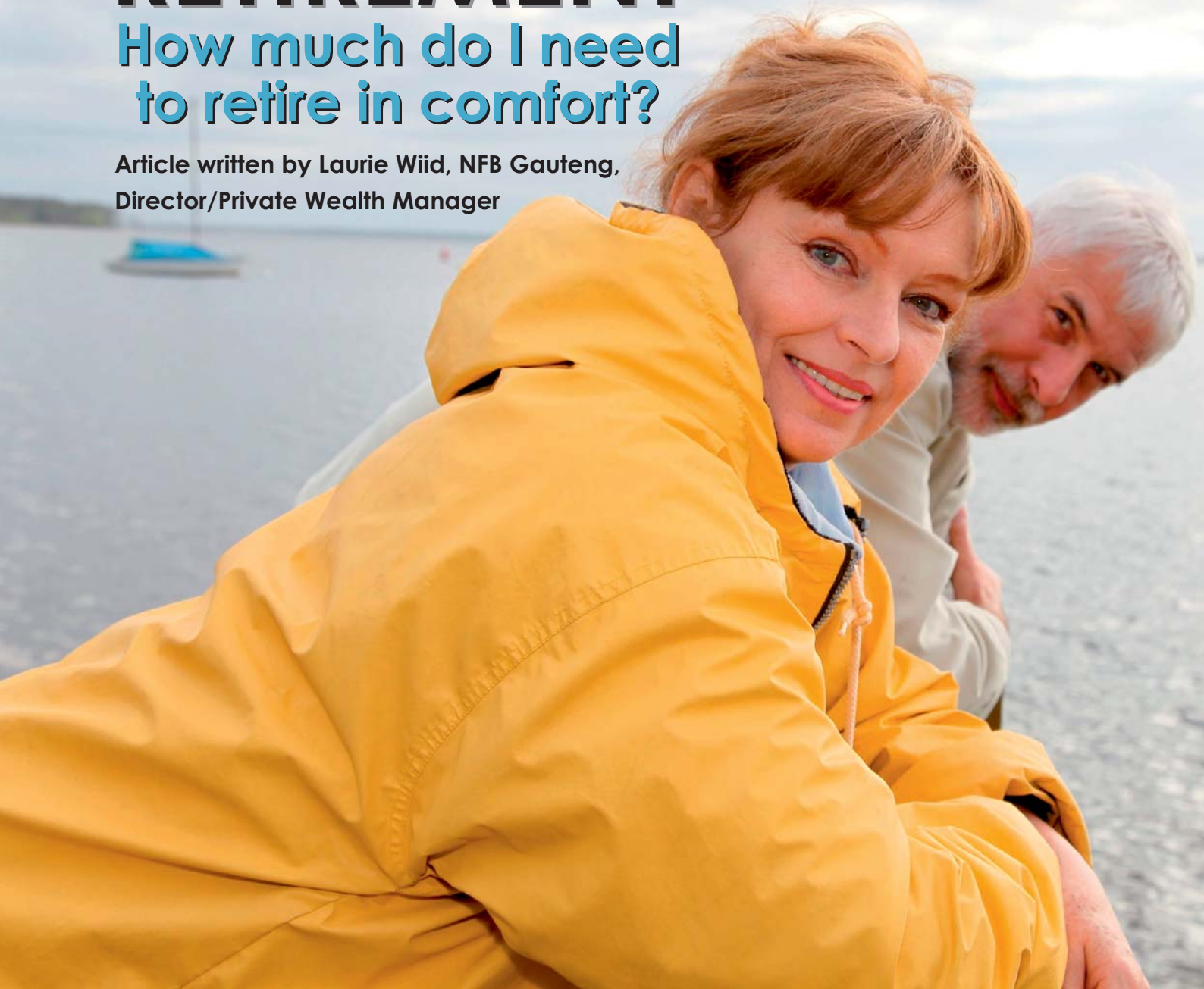
Retirement – how much do I need to retire in comfort?

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# RETIREMENT

## How much do I need to retire in comfort?

Article written by Laurie Wiid, NFB Gauteng,  
Director/Private Wealth Manager



**T**his question is asked by all of us, many times over and the answer seems to be a moving target. The problem, of course, largely due to the influence of a 1% or 2% change in the variables used by the financial model to determine this magical capital amount that you require. A few other reasons that will influence the capital required at retirement, include:

- The real inflation that you and I experience in our budgets is greater than expected.
  - The inflation rate used in the scenario cannot be the official CPI statistic as we typically experience higher increases in electricity, fuel, medical aid contributions and food.
- The real growth that we achieve can be lower than forecasted.
  - Be careful not to be over optimistic with your return forecast.
  - Higher returns normally require higher risk investments.
- A major stock market collapse can take several years to recover the losses sustained and make up the returns that should have been

achieved over this period.

- This is evident from the equity market collapse of 2008; resulting in the average equity fund only yielding 7% p.a. over the past 5 years.
- The longer you are invested in the stock market, the less vulnerable you are to such volatility or under-performance.
- New expenses arise that were not budgeted for, for example:
  - More and more families have loved ones that have emigrated and as a pensioner the cost of international travel can be significant.
  - A spouse suffers from a severe illness and requires specialised care that is not fully covered by the medical aid.
- A financial setback.
  - Retrenchment or early retirement can affect your ability to save the required monthly amount for your retirement.
  - You may lose a large capital sum due to a poor investment

decision or being forced to help a family member.

- Your business fails to realise the capital sum that you expected or you file for bankruptcy.

- A collapse in your marriage requiring the division of your assets.
  - With the high divorce rate in South Africa, the division of assets can destroy significant wealth for both parties who must now rebuild their financial security.

### Three Retirement Scenarios

Three friends start work at the age of 25 and earn a salary of R7,500 p.m. Their career paths are similar with similar earning patterns. The following scenarios unfold:

- Salary increases at 6% p.a. with promotion increases along the way resulting in an average salary increase of 9.20% p.a.
- A savings rate of 15% of their salary is recommended by their financial advisors
- John follows this advice and his portfolio performs at 12% p.a. average for the 40 years
- Simon follows this advice and his portfolio performs at 10% p.a. average for the 40 years
- Justin only starts to save at age 41 and his portfolio performs at 12% p.a. for the remaining 25 years

Age	Salary	Savings	John	Simon	Justin
			12% return	10% return	12% return
25	R7,500	R1,125	R14,268	R14,136	R -
30	R13,224	R1,984	R153,365	R144,725	R -
35	R27,980	R4,197	R538,610	R485,925	R -
40	R59,200	R8,880	R1,490,474	R1,287,826	R -
45	R79,223	R11,884	R3,562,495	R2,931,188	R854,757
50	R106,019	R15,903	R7,615,830	R5,909,771	R2,696,691
55	R141,877	R21,282	R15,366,393	R11,178,133	R6,429,808
60	R189,863	R28,480	R29,964,549	R20,338,244	R13,729,486
65	R254,080	R38,112	R57,177,817	R36,067,901	R27,683,631

At age 65 the three friends turn to their financial advisor to structure an income for their retirement. The requirement is to provide an income of 75% of their final salary (i.e. R190,560 p.m.) with an

inflation increase of 8% p.a. on the basis that the investment return will be 10% p.a. In other words a real growth of 2% is attained.

John's capital base will provide this income with ease and continue to grow to age 93 before the capital starts to decline. Simon's capital will be depleted at the age of 87 while Justin's capital will be depleted at the age of 81. The graph below illustrates the capital values of these three scenarios.

Given longevity and modern medical care, let us assume that each of the friends project their life expectancy to be age 90. What is the maximum monthly income that they can expect to draw when they retire?

- John R 190,560 p.m.
- Simon R 164,207 p.m. (14% less than John)
- Justin R 126,036 p.m. (34% less than John)

Because John was a disciplined saver, he had amassed a capital sum of R1,490,474 by the time Justin started saving at the age of 41. The compound effect on this capital sum is what gives John 34% more income in his retirement years.

### The Rule of Thumb

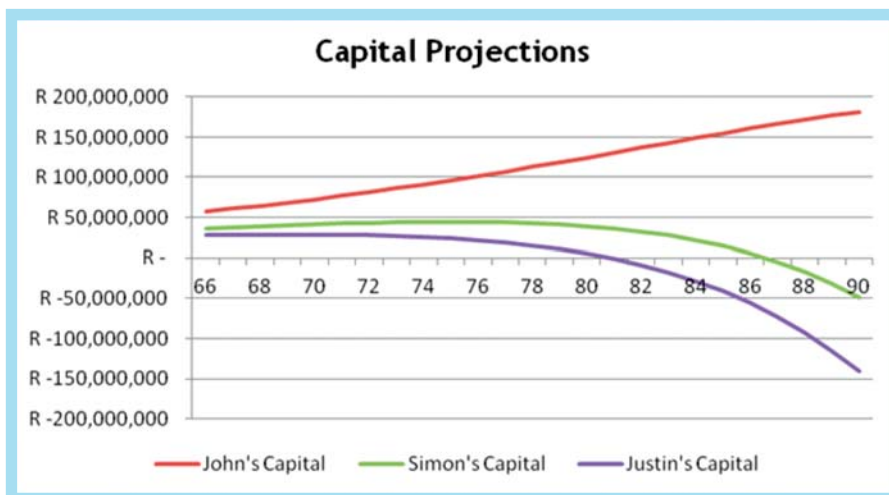
We all have different earnings capacities, monthly budgets and circumstances that will influence our ability to save. So, is there a general Rule of Thumb? In the days of higher returns, investors were said to require 10 times their annual pension as a capital base. Given lower investment returns and higher inflation figures, this multiple has risen to 15 times the annual pension required – only to secure income for just over 20 years. Unfortunately this is still not adequate for comfortable retirement with today's longevity. The multiple is now closer to 19 times the annual pension required.

### Steps to secure your retirement plan

1. Start saving as soon as possible
2. Save 15% of your earnings
3. Don't use long term savings for short term needs
4. Constantly review your retirement plan – actual vs target
5. Ensure that under-performing assets are identified early
6. Protect your capital from "scammers"
7. Take advantage of tax breaks afforded by Retirement Annuities
8. Diversify your investments across investment classes and a variety

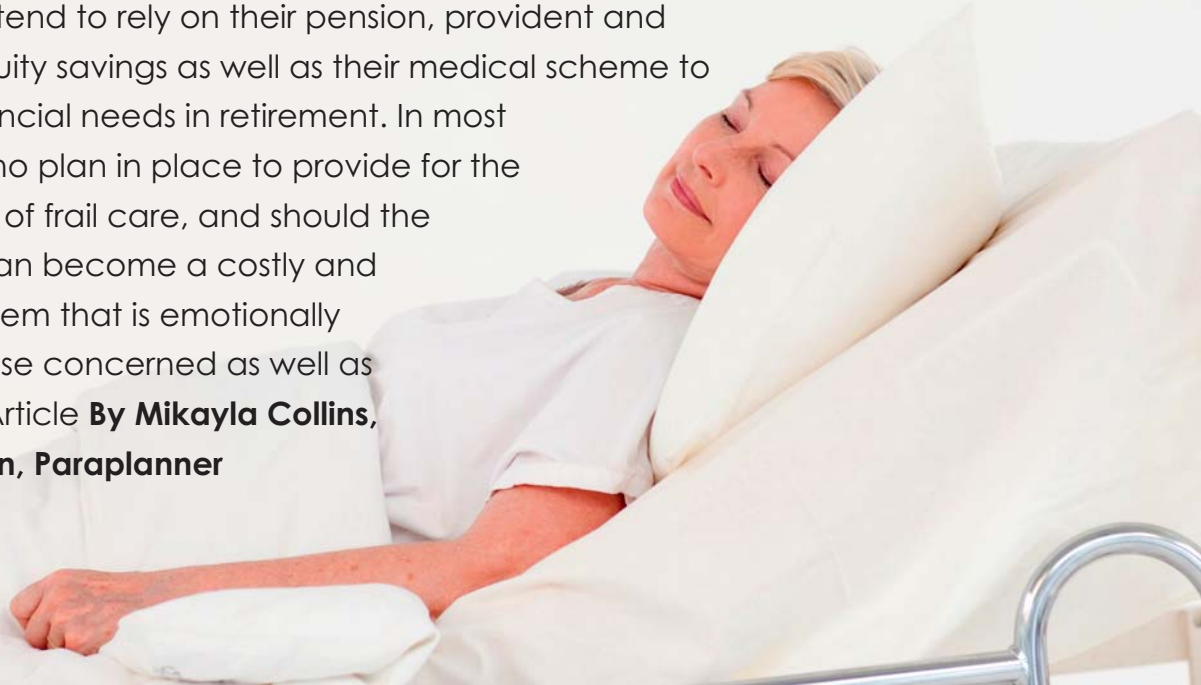
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Those of us that are formally employed normally have the luxury of a company Pension or Provident Fund. The combined savings rate can vary between 10% - 20% of pensionable salary. Provided this is well managed and you avoid early withdrawal or retrenchment, this will go a long way in securing your financial independence in your retirement years. Further voluntary savings and the benefit of a husband and wife both saving for retirement should secure you an adequate retirement. ⊕



# A NEW BENEFIT TO PROVIDE FOR LONG TERM FRAIL CARE

Most people intend to rely on their pension, provident and retirement annuity savings as well as their medical scheme to cover their financial needs in retirement. In most cases, there is no plan in place to provide for the extensive costs of frail care, and should the need arise, it can become a costly and restrictive problem that is emotionally draining for those concerned as well as their families. Article **By Mikayla Collins, NFB East London, Paraplanner**



**T**he current state of frail care in South Africa is dire due to the deterioration of public facilities and escalating costs of private care which render it unaffordable for the majority of the country's elderly. In 2010, Old Mutual estimated the costs for staying in a retirement home at between R4 500 and R16 000 a month. The alternative of employing a private caregiver in your home for at least R300 a day, an additional R300 per night and double this on Sundays, will cost around R20 000 per month.

Reportedly only 13% of persons 65 and older have access to a medical aid fund and even then, it is unlikely that a medical aid will pay for all related costs. While your medical aid may cover some of the cost of frail care, these are likely to be limited to particular health events or severe illnesses. If you become frail and incapable of living independently as a result of old-age then you are unlikely to enjoy medical scheme cover for the type of assistance you will need, as individual schemes cannot afford to offer rich benefits for this kind of predicable, long-term, low-grade care.

The burden then falls on loved ones or family members and makes a difficult time that much worse.

To provide for this need, Altrisk have created a benefit to protect you against this eventuality. The benefit is called

the "Long Term Care Benefit" and provides that if you require frail care after you reach the age of 65, you will receive a monthly income intended to cover the resulting costs.

The income will be set at the level you require, with the maximum being the lower of 100% of your previous earnings or R 30 000 per month.

If you are unable to perform three or more of the seven defined activities of daily living then you would meet the definition of the long term care benefit and qualify to begin receiving your income. Once you are admitted to a registered frail care, hospice or nursing home facility or require such care from a registered medical professional, Altrisk will apply a one month waiting period and begin paying benefits thereafter.

This type of cover can be a useful addition to planning for your own future needs or those of your parents in the case where you would become responsible for the payment of their frail care expenses.

Possibly the most valuable advantage of this cover is the peace-of-mind in knowing that your financial needs will be provided for at the time when you can no longer provide for yourself, and you will be able to afford the best possible care, which, when needed, will be invaluable. ⊕

A licensed Financial Services Provider

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