Vickers & Peters
LIFESTYLE AND ASSET PLANNING

Around the Table with Vickers & Peters Financial Planning

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New medical tax dispensation for the over-65s

This tax year (effective as from 1 March 2014) sees the adoption of the tax-credit system for the over-65s, which has to date been phased in for the under-65s since 2012/13.

This tax-credit system replaces the previous full deductions allowed to over-65s, comprising, first, medical scheme contributions and, secondly, expenses not reimbursed by a medical scheme.

Tax formula

The distinction in the computation of tax is that a tax deduction reduces a person's income, resulting in a lower taxable income upon which tax is calculated under the tables, while a tax credit equates to a rebate, in that it allows a deduction against the actual tax payable.

Tax credits for the over-65s

Credit 1: Medical Scheme Contributions: R257 a month for the member plus R257 for the first dependent plus R172 for each further dependent.

Plus Credit 2: 33,3% of any medical scheme contributions paid that exceed three times Credit 1. For example, a couple may claim a credit of 33.3% of contributions exceeding R1 542 [(R257 + 257) x 3] a month or R18 504 a year.

Plus Credit 3: 33,3% of qualifying medical expenses that are not reimbursed by the medical scheme.

Winners and losers

According to National Treasury calculations, the break-even point between the previous deduction system and the new credit system sits at an annual income of about R400 000. Those earning more will be worse off, and *vice versa*.

Why covering your financial risk is paramount to securing your future

When re-evaluating budgets one always looks to see where one can save money and often insurance premiums (life, disability and critical illness insurance or contractual savings policies) are seen as the obvious choice. Because insurance is an intangible asset and the benefit is not enjoyed immediately it's difficult to see the value add. But before choosing to remain without cover or cancelling your existing insurance cover, one should consider the following factors when assessing your financial risk (the risk of losing your assets, lifestyle and future aspirations):

- Should you lose your current primary source of income, do you have adequate liquidity (cash) to cover your primary income, debts and family lifestyle (monthly expenses) and for how long?
- If you were unable to work would you have sufficient assets to provide a monthly income to cover your needs?
- If you became disabled would you be in a position to continue to save for retirement?
- In the event of death or disability would there be sufficient cash in your estate to be able to pay for the education for your children?
- Would you be able to not access your retirement funding for any cash emergency?
- Will you have enough cash available on death, disability or critical illness to remain debt free and not take on additional debt?
- Does your medical aid provide critical illness cover?
- Would you be able to cover the costs of a critical illness?
- Would you be self sufficient and not have to rely on other family members if you suffered a disability or illness?

If you answered **NO** to any of the above questions then death, disability and critical illness should form a part of your financial plan.

If you feel the need is not immediate and would like to put your insurance cover on hold, be mindful that owing to age and other factors you might not be able to obtain any risk cover in future. The older you get, generally the more expensive risk cover becomes. Likewise, health related factors like increased cholesterol, hypertension, diabetes and back problems to name a few, can render you uninsurable or can result in excessive loadings on the premium, making a new policy unaffordable.

Insurance provides immediate liquidity and safeguards the risk of having to sell assets (often below market value) to provide much needed cash. Decrease your financial risk by taking out insurance cover and securing yours and your family's future.

For a full financial review and risk quotes please contact your financial planner.

The 2014/2015 pre retirement and post retirement tax tables

If a member decides to make a withdrawal (pre retirement) he/she will be taxed according to **Table 1** below. On retirement, a member electing to take a lump sum will be taxed according to **Table 2** highlighted below. The lump sum is restricted to one third for pension funds and retirement annuities with no restriction on provident funds.

Warning… any pre retirement withdrawal will reduced your tax free portion at retirement proportionally. For example: If a member of a pension/provident fund decides to make a withdrawal of R500 000.00 pre retirement, his/her tax free portion at retirement will be zero. The option to withdraw retirement funds should therefore be exercised with caution. Alternative methods of funding should be explored first and a withdrawal from your retirement fund viewed as a last resort.

Please find below a short summary of the tax applicable to withdrawals on retirement investments.

Retirements fund benefits (effective 1 March 2014)

Lump sum withdrawals on resignation:

The tax-free portion increases from **R22 500** to **R25 000**.

2013/2014		**2014/2015**	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 – R22 500	0% of taxable income	R0 – R25 000	0% of taxable income
R22 501 – R600 000	18% of taxable income above R22 500	R25 001 – R660 000	18% of taxable income above R25 000
R600 001 – R900 000	R103 950 + 27% of taxable income above R600 000	R660 001 – R990 000	R114 300 + 27% of taxable income above R660 000
R900 001 +	R184 950 + 36% of taxable income above R900 000	R990 001 +	R203 400 + 36% of taxable income above R990 000

Retirement fund lump sum withdrawal benefits consist of lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund on withdrawal (including attachments in terms of a divorce order).

Lump sums on retirement:

The tax-free portion increases from **R315 000** to **R500 000**.

2013/2014		**2014/2015**	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 – R315 000	0% of taxable income	R0 – R500 000	0% of taxable income
R315 001 – R630 000	18% of taxable income above R315 000	R500 001 – R700 000	18% of taxable income above R500 000
R630 001 – R945 000	R56 700 + 27% of taxable income above R630 000	R700 001 – R1 050 000	R36 000 + 27% of taxable income above R700 000
R945 001 +	R141 750 + 36% of taxable income above R945 000	R1 050 001 +	R130 500 + 36% of taxable income above R1 050 000

Retirement fund lump sum benefits consist of lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund on death, retirement or termination of employment due to redundancy or termination of employer's trade.

Home Employees and Domestic Worker Retirement Savings

For many of us in South Africa, our domestic workers play an important role in our families, and often are considered more than just staff members. And as their employer we have the same obligations to assist our home staff with their savings for retirement as any big corporation or business does with their staff, especially in South Africa, where government assistance in terms of Retirement Savings is close to zero.

VPFP have found a reliable and cost efficient product offering retirement savings for your domestic and home employed staff. The Absa Home Employees Provident Fund is an employee benefits package that offers participating employers the means to provide their employees with a Retirement Savings Fund. The fund provides retirement and withdrawal benefits, with the option for associated separate group risk schemes offering death, disability and funeral benefits. The fund comprises several plans, each offering unique benefits at affordable monthly contributions.

The final retirement savings amount is not a guaranteed amount; rather it is the total of all contributions, less fees and costs, plus investment returns. With this in mind the earlier you begin saving for your staff, the more the staff will have accumulated at retirement.

The Absa Home Employees Provident Fund is designed specifically with the domestic employers and body corporate in mind and there is no minimum number of employees you need to have in your employment before you can participate in the fund. The Absa Home Employees Provident Fund is a provident fund and is registered with the Financial Services Board. As per the below table, this product caters for all contribution options, and is a cost effective and simple solution. **It is important to note that the normal retirement age is 65 and that risk benefits cease at the age of 65.**

Membership of the fund is simple and done through you the employer. Your staff has the option to take their accumulated savings only on termination of your employment contract, be that through dismissal, resignation, retrenchment or retirement.

Macro Overview

It has been a choppy start to 2014, although markets finished up nicely, keeping with the long term positive trend.

The US Federal Reserve Bank (Fed) has continued to taper its bond buying program, cutting bond purchases by a further US$10 billion in January, and US$10 billion again in March. In total, the Fed has cut US$30 billion from its monthly purchases of debt securities so far, since December 2013. Current purchases of debt securities thus total US$55 billion per month, made up of US$25 billion in US Treasury purchases and US$30 billion in Mortgage-backed security purchases. Fed Chairwoman Janet Yellen, however, recently noted that the U.S. economy and job market are still far from healthy, and still require significant support from the central bank, particularly in the form of an extended low-interest-rate policy, thus stoking the view of a continued favourable equity environment.

In Japan, UK and Europe, central banks have kept interest rates on hold near all-time lows and await further guidance on the extent of the global recovery. Global inflationary pressures also remain benign, particularly in developed economies, thereby relieving pressure on central bankers to tighten monetary policy.

The view from within emerging markets looks somewhat different, where we have seen a material shift in global investor sentiment away from previously favoured emerging economies, back towards developed economies. January in particular saw massive outflows from emerging markets. R25 billion was pulled from the South African bond market in January, resulting in a cumulative outflow from bonds of -R9.1 billion for the first quarter compared to a cumulative inflow into bonds of +R14.2 billion in the first quarter of 2013.

We believe that there are several reasons for the shift. The primary reasons in our opinion have been the political tensions occurring in many emerging countries, coupled with the progressing recovery in global economic growth, particularly in developed economies. The recovery in developed economies appears less volatile than in emerging economies.

Inflationary pressure has begun to creep back into certain emerging economies, causing massive currency depreciation and higher bond yields, forcing central banks in these regions to begin tightening monetary policy. Some have been far more drastic that others - The Central Bank of Turkey shocked markets in January as they raised their repo rate from 4.5% to 10.0%.

The South African Reserve Bank (SARB) followed the emerging market trend and unexpectedly hiked rates in January by 50 basis points, taking the Repo rate from 5.0% to 5.5% and the Prime interest rate from 8.5% to 9.0%. This is the first interest rate increase since June 2008. The primary reason cited for the rate increase is the significant deterioration in the inflation outlook in South Africa. Local CPI rose from 5.3% at the end of December 2013 to 5.9% in March 2014. CPI is forecast to average 6.3% in 2014 (previously 5.7%) and 6.0% in 2015 (previously 5.4%). Rand weakness remains the largest upside risk to inflation (the rand touched a close of R11.29/US$ on 29 January 2014). To put this into perspective, previous recorded lows were R11.58/US$ on 22 October 2008 and R12.56/US$ on December 2001. Additional factors that could further

contribute to a weaker rand include a high current account deficit, continued labour unrest and striking in the platinum sector and higher petrol costs.

Local Q4 GDP improved to 3.8% from 0.7% in Q3 (above expectations of 3.4%), although the outlook remains subdued with forecasts continually being revised downwards. Risks to the downside remain.

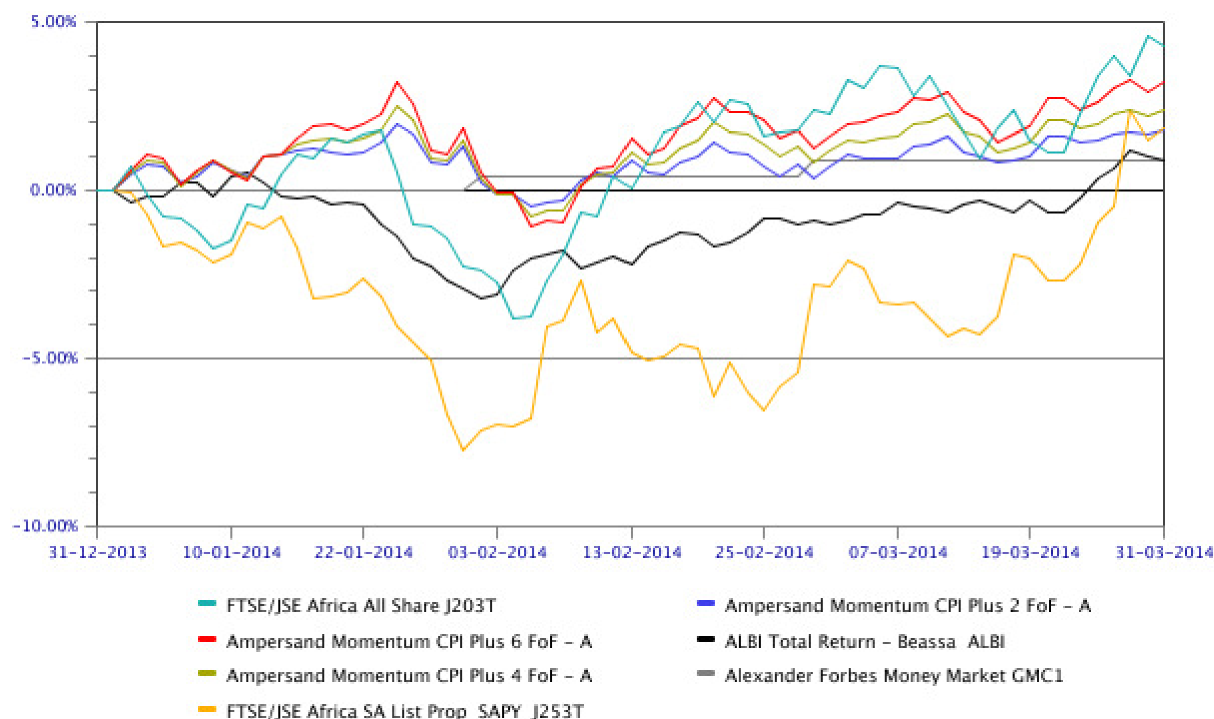
Performance – *what added and what detracted?*

We achieved another quarter of favourable performance across the portfolios, driven mainly by local equities. Rand weakness also contributed marginally to the upside.

Local equities were the clear winner for the quarter, with the Top 40 index outperforming both emerging market and developed world equity indices in US dollar terms. Gains on the JSE for the year to date were led by resources (+10.6%) and financials (+6.1%). Some of our larger equity holdings within the portfolios are in the resources sector.

Local property, bonds and cash also gained over the quarter, but to a significantly lesser extent than equity.

Offshore bonds outperformed offshore equities, although both were positive for the quarter.



Position going forward

We believe that risk-on is still prevalent and as such continue to favour offshore equities over most other asset classes. Local equities are relatively overvalued although we still see some pockets of value here too.

Although local listed property has pulled back slightly recently, we believe this asset class to be an essential component of the portfolios due to its escalating income generating capabilities over the long term.

Notwithstanding our reasonably bullish view, we proceed with caution. The portfolios remain well diversified and positioned for volatility and uncertainty.

In addition, we have added African fixed interest exposure to the portfolios to further diversify and enhance income producing capabilities.

We continue to adhere to more conservative guidelines in order to provide stable and consistent long-term returns above inflation.

Fund Performance for the Period Ending 31 March 2014

Fund or Benchmark	6 Month	1 Year	3 Years	5 Years	Inception	
	Return	Return	Return	Return	Return	Risk
Ampersand Momentum CPI + 2% FoF	**4.57%**	**8.55%**	**39.09%**	**68.03%**	**69.83%**	**4.32**
Investment Objective (CPI + 2%)	3.90%	8.03%	26.20%	43.88%		
Ampersand Momentum CPI + 4% FoF	**5.87%**	**12.13%**	**42.65%**	**81.04%**	**69.93%**	**6.05**
Investment Objective (CPI + 4%)	4.90%	10.14%	33.74%	58.49%		
Ampersand Momentum CPI + 6% FoF	**7.03%**	**15.18%**	**47.08%**	**99.08%**	**67.60%**	**8.79**
Investment Objective (CPI + 6%)	5.90%	12.25%	41.56%	74.25%		
Alexander Forbes Money Market	**2.20%**	**4.88%**	**16.98%**	**34.39%**	**49.56%**	**0.66**

Inception 12/05/2008 *(CPI Benchmark as at 28 February 2014)*

Source: MoneyMate

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Financial Planning

James Vickers
☎ +27 11 803 8105
jvickers@vpfp.co.za

Ian Peters
☎ +27 11 803 8158
ipeters@vpfp.co.za

Graeme Holt
☎ +27 11 803 7642
gholt@vpfp.co.za

Jacqui Nolan
☎ +27 11 803 7782
jnolan@vpfp.co.za

Marinda Combrink
☎ +27 11 803 7399
mcombrink@vpfp.co.za

Tracy Tan
☎ +27 11 803 7393
ttan@vpfp.co.za

Yolandi Perold
☎ +27 11 803 6519
yvolschenk@vpfp.co.za

Tinks Hichert
☎ +27 11 803 7689
thichert@vpfp.co.za

Roxy Geel
☎ +27 11 234 2902
rgeel@vpfp.co.za

Employee Benefits

Chris Ellis
☎ +27 11 803 3663
cellis@vpfp.co.za

Guy Peters
☎ +27 11 803 7379
gpeters@vpfp.co.za

Mark Lumley
☎ +27 11 803 7379
mlumley@vpfp.co.za

Peliswa Mzondo
☎ +27 11 234 6682
pmzondo@vpfp.co.za

ampers&nd
ASSET MANAGEMENT

Tom Barlow
☎ +27 11 803 6597
tom@ampersandam.co.za

Tarryn Keogh
☎ +27 11 803 6597
tarryn@ampersandam.co.za

Tiaan Fourie
☎ +27 11 803 6597
tiaan@ampersandam.co.za

Stacey Muller
☎ +27 11 803 6597
stacy@ampersandam.co.za

Our services include…

- Pre and Post Retirement Planning
- Local and Global Investments
- Business Assurance – Key person and Partnership
- Personal and Group Life Assurance
- Employee Benefit Advice and Products
- Tax and Estate Planning

Contact Us

Physical Address: Unit 13 & 14, Rivonia Gate, 381 Rivonia Boulevard, Rivonia
Postal Address: PO Box 926, Rivonia, 2128
e-mail: clientservicing@vpfp.co.za
Website: www.vpfp.co.za

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