

# MANAGING FINANCES

Northwood Financial Services CC



## THE DOMESTIC GROWTH STORY

### INSIDE THIS ISSUE:

**THE FAMILY INTER-VIVOS TRUST** 2

**MINIMUM INDIVIDUAL RESERVE** 2

**LUMP SUM PAYOUT GUIDELINES** 3

**THE DECEASED SHARE OF POLICIES** 3

**DELIVER EFFECTIVE FEEDBACK** 4

### SERVICES OFFERED:

- Financial Planning
- Short-term Insurance
- Risk Management
- Mortgage Loans
- Wealth Creation

The Reserve Bank's decision to leave the interest rates unchanged at its last monetary meeting had an impact on the local economy.

The JSE exchange reached new heights and may maintain this momentum based on ongoing global support.

Business confidence remains high. With manufacturing confidence having upward potential. The result is that overall business could remain near 80% in the coming quarters.

The 87% capacity utilization in manufacturing promises potentially even more aggressive private fixed investment expansion. This is in addition to the coming onslaught of infrastructure-related expenditures.

Households are also increasingly comfortable about the economic outlook. A growing majority of households appears confident about their employment, income and asset prospects. Consumption spending could remain lively, supported by strong employment surges, good income growth, ongoing rapid gains in

household net worth, and the growing confidence accompanying these conditions.

There is also scope for improved net export prospects. Not necessarily slower importing, but rather faster exporting in the years ahead. The main drivers favouring exports are a better valued Rand, European growth revival, ongoing strong global growth, export prices outperforming import prices, and a decided revival in mining output.

Interest in South African assets, based on strong global growth, suggests strong capital inflows, firming Rand, suppressing CPIX inflation and reinforcing our domestic growth story.

Thus despite the current levels of CPIX can we expect good things from the South African economy.



## ECONOMIC OUTLOOK

**Inflation:** The CPIX will peak at 6,1% in April or May, rising further from 5.5% in March and 4.9% in February.

**Interest rates:** Another 0,5% increase is a strong possibility in June 2007.

**GDP:** 5% GDP growth as base,

leaving the decimal point debate for the upside this year and next.

**Currency:** The Rand may be firming anew to below 7:\$.  
[Based on Information in the Media]

[The content presented in this report is for information purposes only.]

## THE FAMILY INTER-VIVOS TRUST

A trust is a useful and proven tool to assist in estate planning. The family inter-vivos trust, also known as the *living trust* is one of the options available to us.

A family inter-vivos trust is a contractual arrangement between a person who wishes to create the trust and the trustees who undertake to administer the assets of the trust for the benefit of the beneficiaries.

The donor of the trust is required to make an initial donation (usually money) to the trustee who thereafter creates the inter-vivos trust.

The trustees take receipt of the initial donation in their capacity

as trustees and draw up a Trust Deed. In it they stipulate their responsibility to administer the trust on behalf of the beneficiaries, subject to the terms of the Trust Deed.

The beneficiaries should be named in the Trust Deed or must be easily ascertained from the given information. Usually such a trust is created within one family with the beneficiaries being the specified children of the parents.

This article described the mechanics to establish a family inter-vivos trust. Consult a trusted expert to understand the purpose and benefits of this trust type.



***A stumbling block to the pessimist is a stepping stone to the optimist.***

- Eleanor Roosevelt

## MINIMUM INDIVIDUAL RESERVE

Most people are members of at least one retirement fund – whether defined contribution- or defined benefit funds. This membership is based on an individual account.

In the case of a defined contribution fund the value of this individual account is determined by the following formula:

***fixed rate of member contributions + fixed rate employer contributions – expenses on behalf of the member + any actuarial surplus apportioned = individual member account value***

This total must be increased by ***investment returns*** (a proportionate share of the investment reserve account and

the contingency reserve account).

In the case of a defined benefit fund the minimum individual reserve is the fair value equivalent of the member's accrued deferred pension (based on prescribed assumptions) subject to a minimum based on member's contributions. It increases by the lesser of:

The consumer price index since retirement; and

What the fund can afford based on past and the pensioner group experience.

Membership of a retirement fund is important, but is rarely sufficient for a comfortable retirement. Consult a trusted expert to ensure proper retirement planning.



## LUMP SUM PAYOUT GUIDELINES

Payouts from retirement funds needs careful consideration, as they often play an important role in your investment planning. Certain rules guide the lump sum payouts from retirement funds.

On resignation from a fund the rules are the same for pension-; provident- and retirement annuity funds. They are:

The tax portion of the lump sum is the greater of:

- R1 800 + amounts paid to another pension or *Retirement Annuity Fund*; or
- Contributions not allowed as a deduction.

For retirement, in the case of a pension- or retirement annuity fund, a maximum of one-third

may be converted to a lump sum. While, in the case of a provident fund the total amount may be taken as a lump sum.

In both instances is the tax free portion calculated through specific formulae. A trusted expert could explain these formulae to you. Also note that if you retire before 55 (male) or 50 (female) your retirement will be treated as a resignation.

In the case of death, the rules are the same for all retirement funds, namely that the deduction will be determined as if you retired on the day before your death.



## THE DECEASED SHARE OF POLICIES

It is important to remember that in the event of a partner's death, the estate will still own a portion of the policies on the lives of the surviving partners, and in such a case, provision must be made in the agreement for the treatment of the policies in question.

Bearing in mind that the deceased estate actually makes no financial gain on the death of the deceased. All it receives are the proceeds of a policy on the life in exchange for the partnership assets. It would be more equitable for the deceased's share of the policies on the lives of the survivors if it were to be released for the amount of premiums actually

expended by the deceased on the policies, or the surrender value of the policies, whichever is the greater.

The deceased could have taken out a policy on his or her own life without exchanging it for the interest in the partnership and must surely be entitled to more than just the proceeds of the policy on his or her own life.



**Self-confidence is the first requisite to great undertakings.**

– Samuel Johnson



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## Compliant, Comprehensive Reviews

A number of clients have asked why they need to visit our offices for their annual review. The short answer is that reviews have become far more comprehensive. It is difficult to predict which software programmes I will need to refer to while analysing your portfolio. So to ensure that the review complies with legislation; clients will be asked to visit us here where we have the scanners, printers and software. On departure a current FNA will be handed to you.

Office hours have been extended to include Saturday mornings.

Those who have ADSL, a computer and printer can opt for off site reviews. You will need dial into SKYPE and have a computer in front of you. Using new software I can link your computer so you can see whatever appears on my laptop. You will be able to print important documents. This allows clients all over the world to have comprehensive reviews which comply with the law.

**C R E A T I N G   W E A L T H**

## DELIVER EFFECTIVE FEEDBACK

Feedback defines, from somebody else's perspective, what we are doing right and where we need to improve. It helps to mitigate our blind spot, something inherent in all human beings. It is therefore important to be open to feedback. Both to deliver it to others, and to receive and accept it.

Feedback can however easily become destructive. To be beneficial feedback must be delivered in an effective manner. Here are some tips:

**Be Direct:** Focus on the specific behaviour (positive or constructive) and not the person.

**Timely:** Provide the feedback quickly after the event – once all parties are ready to hear it.

**Ask For Permission:** Ask for permission; it puts the control in the receiver's hands and reduces defensiveness.

**Be Sensitive:** Remember, feedback is not intended to hurt, be-little or demean anybody.

**Be Helpful:** Offer suggestions, do not demand different behaviour.

Remember also to be open to receive feedback. It will boost your own performance.

