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## TO SERVICE DEBT OR SAVINGS?

**If you have an extra R100 available, what would you do? Put it towards paying off debt or towards your retirement savings?**

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*“If you’re in debt, then you’re actually someone else’s investment! – you’re giving them a return on their capital (which you borrowed).”* NEIL SAVAGE

The choice depends on a number of factors such as the bond interest rate vs. the expectations of the fund’s investment returns. In short the answer rests with the assumptions used (actuarially speaking) and what is “good guidance” (from a financial planning perspective). Here are some key factors for consideration:

- Assuming that the bond interest rate is prime (currently 10.25%) the bondholder is funding someone else’s (the Bank’s) really good return at around CPI plus 5%.
- Further, loan (or bond) repayments are made from after-tax income. This means that for every R55 you pay on your debt you have to earn R100 gross in order to pay:
  - R45 to the taxman (assuming top-rate tax) and then give
  - the Bank (or lender) around CPI +5% on the relevant portion of outstanding capital.

## WHAT DOES THIS MEAN FOR YOU?

*Rather get out of debt first, and then you can pay the full R100 as a cost and tax efficient Additional Voluntary Contribution, assuming your fund provides for this and you have space within the 27.5% and R350,000 tax deductible limits.*

**...now that’s an APPealing outcome.**

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