WOOLWORTHS GROUP RETIREMENT FUND
MAKING THE DIFFERENCE TO YOUR RETIREMENT

MEMBER NEWSLETTER
QUARTER 4 • 2018

PRESERVING YOUR RETIREMENT SAVINGS

TRUSTEE BENNIE MABUDAFHASI OFFERS ADVICE ON HOW TO PRESERVE YOUR RETIREMENT SAVINGS.

When the Fund discusses retirement with our members, the sad reality is that many of you are just not ready to retire, as you have not saved enough.

Most of you have 40 years in which to save by the time you reach retirement age. **Bad decisions that you make during these 40 years can result in you having a poor pension.** This means that you will have insufficient income to live on once you retire.

SAVE NOW FOR YOUR FUTURE

Save during your working life so that you can pay yourself an income when you are retired.

At retirement, your employee-employer relationship comes to an end and so will your regular monthly salary. From then on, you will have to use your retirement savings to provide yourself with an income so that you can continue providing for yourself and your family.

GROW YOUR MONEY WITH A PRESERVATION FUND

A preservation fund is a **personal retirement savings vehicle that allows you to preserve and grow your benefits in a tax-efficient way**.

- You can transfer your pension fund to a preservation fund **in the event that you are dismissed or retrenched, or if you resign**.
- A preservation fund gives you **the flexibility of allowing you to make one withdrawal** (of up to 100%, depending on the source) before you retire.
- Keeping your savings in a preservation fund will help you **resist the lure of short-term spending**.
- **If you have an emergency**, a preservation fund offers you one chance to access your savings.

See the article on page 2 which outlines the benefits of a preservation fund.

PRESERVE YOUR FUNDS IF CHANGING EMPLOYERS

While saving for retirement on a regular basis and throughout your career is very important, **preserving your funds when changing employers must be at the top of your list of priorities**.

See the article on page 3 for the negative impact of cashing out your retirement savings.

THINK BIG. START SMALL. ACT NOW!

WHAT ARE THE BENEFITS OF A PRESERVATION FUND?

A PRESERVATION FUND IS TAX-EFFICIENT

If you transfer your retirement fund credit to a preservation fund, **the transfer is tax exempt**. **Also, you do not pay tax on the returns earned by your preservation fund.**

When you draw your savings on retirement, you will be taxed at favourable rates.

NOTE: If you cash out early, this concession will fall away and your withdrawal will be subject to tax.

You can also transfer your preservation fund to another preservation fund, a retirement annuity, or to your new employer's retirement fund without having to pay tax.

YOU HAVE ACCESS TO YOUR FUNDS

Before you reach the age of 55, you are allowed to make **ONE partial or full withdrawal** from your preservation fund.

This is an excellent facility to have in case of real emergencies.

Your withdrawal will be taxed. You are allowed to make one early withdrawal for each transfer to a preservation fund.

NOTE: The balance can only be accessed at retirement, or from age 55 onward.

YOU CAN RETIRE FROM A PRESERVATION FUND

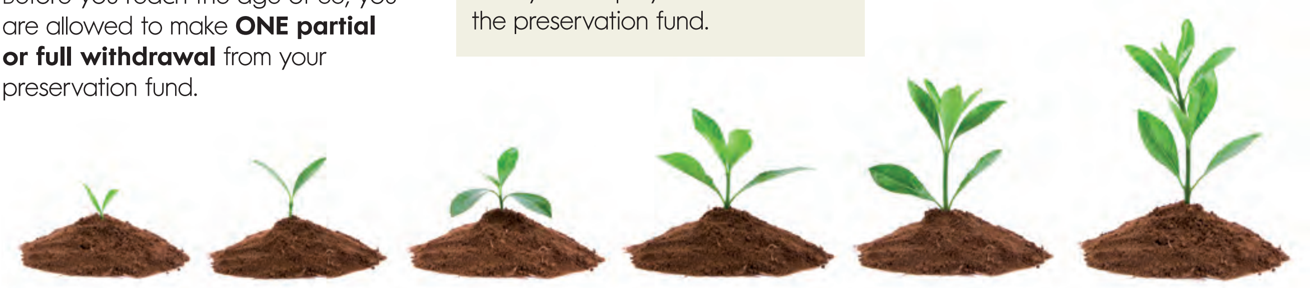
You have the option to retire from your preservation fund from age 55 onwards.

NOTE: You do not need to retire from your employer to retire from the preservation fund.

On retirement from the preservation fund all or part of your investment value may be taken as a lump sum:

- If your total investment value at retirement is **less than R247 500**, the **full amount** can be taken as a lump sum.
- If your total investment value at retirement is **more than R247 500**, a **maximum of one-third** of your investment value may be taken as a lump sum.

- The balance of the investment value MUST be invested in a compulsory annuity (pension).
- No ongoing contributions can be made to the preservation fund.



PRESERVING YOUR CREDIT EARNS YOU COMPOUND INTEREST

Not cashing out your benefits will help to ensure that you are in a better position to retire comfortably one day.

If you do not preserve:

- you will no longer have savings
- **you will lose all the interest that your savings would have generated**.

The interest on your investment returns compounds over time, turning even modest savings into sizeable amounts after only a few decades.

START EARLY

The earlier you start saving, the greater your compound interest will be and the more money you will earn. Compound interest means you are earning interest on interest. This is basically growth on growth.

Interest can be your friend if you're earning it, and it can be your enemy if you're paying it.

We are also living longer so will need even more money to retire comfortably.

NEVER CASH OUT

If you decide to spend your pension payout on a luxury item or a holiday, you will lose out significantly on the compounding effect. Don't be tempted.

BE SURE TO PRESERVE YOUR SAVINGS – YOUR FUTURE SELF WILL THANK YOU!

THE IMPACT OF CASHING OUT YOUR RETIREMENT SAVINGS

CHANGING JOBS IS NORMAL. BUT DOING SO BRINGS TEMPTATION.

One of the issues we face along the way is cashing out accumulated retirement savings when resigning. The consequences of this can be disastrous.

When changing jobs, your employer usually asks you what you want to do with your retirement savings. The options are to:

1. **Leave your money in the Fund** (this is an option available from 1 June 2018),
2. **transfer to another fund**, like your new employer's retirement fund or a preservation fund, or
3. **take a portion (or all) of your savings in cash** and pay away a huge chunk in tax.

The option of taking everything in cash is very tempting, as human nature kicks in and we start thinking about everything we can do with that money. It is easy to focus on short-term satisfaction rather than weighing up the long-term benefits. The scenario below shows the impact of withdrawing your benefits.

By withdrawing R261 972, Thembi has R1 million less at retirement, which translates into approximately R4 500 less income per month.

SCENARIO 1

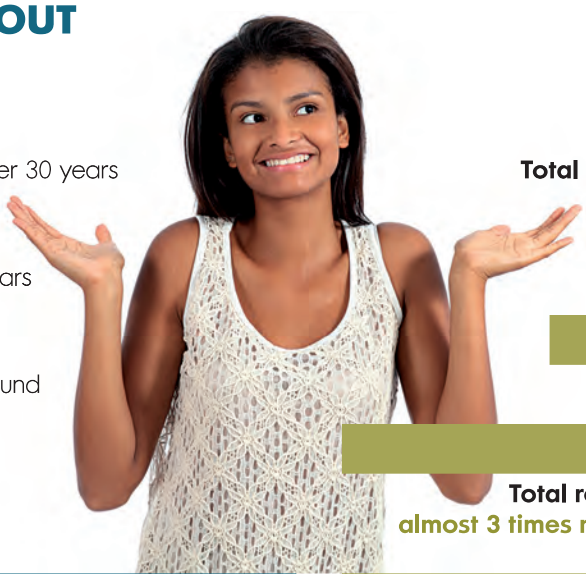
THEMBI CASHED OUT HER SAVINGS

R496 317
Total capital contribution over 30 years

R261 972
Total withdrawals over 30 years

R203 484
Interest earned in retirement fund

R527 079
Total retirement savings after 30 years



SCENARIO 2

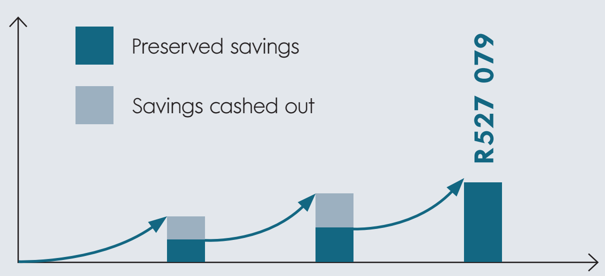
THEMBI PRESERVED HER SAVINGS

R496 317
Total capital contribution over 30 years

R0
Total withdrawals over 30 years

R1 017 226
Interest earned in retirement fund

R1 513 543
Total retirement savings after 30 years – **almost 3 times more than if she had cashed out!**



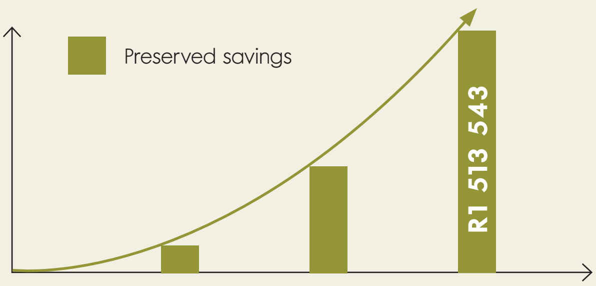
25 years: Thembi starts her first job and starts saving for retirement.

32 years: Thembi gets retrenched, but finds a new job.

43 years: Thembi resigns and finds a new job.

55 years: Thembi retires.

Thembi **doesn't have enough money** when she retires because she cashed out her savings.



25 years: Thembi starts her first job and starts saving for retirement.

32 years: Thembi gets retrenched, but finds a new job.

43 years: Thembi resigns and finds a new job.

55 years: Thembi retires.

Thembi can **retire comfortably** because she has preserved her savings.

INFLATION AND HOW IT AFFECTS YOUR RETIREMENT

IT IS CRITICAL TO UNDERSTAND INFLATION AS IT WILL IMPACT YOUR RETIREMENT SIGNIFICANTLY.

Simply put, inflation is a rise in prices relative to money available. In other words, **you get less for your money than you used to**.

HERE'S AN EXAMPLE:

The price of a chocolate bar.

You buy a chocolate bar for 50c. A year later, you go to buy the same chocolate bar and it is 55c. You still have only 50c, but the price of the chocolate bar has gone up. We can say that inflation is at work. The price of that bar has been inflated.

People usually refer to inflation when they talk about the prices of more expensive items, like cars and houses. **But inflation also affects things like groceries, house supplies, mortgage payments and rent.**

When inflation increases and our salaries don't, it means we have to spend more of our money to buy the same things that used to cost less.

YOU MUST ENSURE THAT YOUR PENSION WILL BE ABLE TO KEEP UP WITH INFLATION.

If your pension cannot keep up with inflation, your ability to live comfortably after retirement will consistently reduce.

Saving the maximum that you can every month and having other vehicles in which to save will go a long way to helping you retire comfortably.

It is important to note that **unless you have saved a minimum of 15% of your income per month for 40 years** your chances of retiring comfortably are significantly reduced.

Currently you can save a whopping 27,5% of your salary in a tax-efficient way, but most of us are only paying the minimum of 15%.

WHATEVER DECISION YOU MAKE TODAY AND WHEN YOU RESIGN – YOUR OLD AGE IS ENTIRELY IN YOUR OWN HANDS.

IF YOU ARE BEHIND IN YOUR SAVINGS HERE ARE A FEW THINGS YOU CAN DO:

1. **Make Additional Voluntary Contributions** (AVCs). The form is available on Imbizo.
2. For TCOE you can **increase your contribution to the pension fund** via the Modelling Tool which opened in October 2018.
3. **Take out a Retirement Annuity** (RA) with an insurer – this is your own private pension fund and operates on the same rules.
4. **Open a tax-free savings account** – you can save a maximum of R500 000 over your lifetime and it will grow with compound interest.
5. **Save in a unit trust** – it buys you shares in a fairly safe portfolio along with those of all the other participants in the trust.
6. **Save in a money market or fixed deposit account** – remember you are trying to earn more interest than the CPI (consumer price index).
7. **Pay off your bond** and then use all this money to SAVE, SAVE, SAVE!

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Let us know if you want us to cover particular topics, if you would like to know more about something, or want to raise a concern. We'd like to hear from you!

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