WOOLWORTHS GROUP RETIREMENT FUND
MAKING THE DIFFERENCE TO YOUR RETIREMENT

MEMBER NEWSLETTER

QUARTER 3 • 2019

DON'T CASH OUT YOUR RETIREMENT SAVINGS

IN THE LONG RUN, IT'S NOT JUST HOW MUCH MONEY YOU MAKE THAT WILL DETERMINE YOUR RETIREMENT. IT'S HOW MUCH OF THAT MONEY YOU PUT TO WORK BY SAVING AND INVESTING IT.

IF LEAVING YOUR EMPLOYER

One of the important financial decisions you will need to make is what to do with your retirement savings if you leave your current employer.

Changing jobs brings temptation that could impact the rest of your life. The option of withdrawing your retirement savings in cash is very tempting, especially if you start thinking about everything that you could do with that money. Short-term satisfaction seems to get the better of you, rather than weighing up the long-term benefits of preserving and growing your retirement savings.

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

While saving for retirement throughout your career is important, preserving your funds when changing employers must be at the top of your list of priorities.

PRESERVE YOUR FUNDS!

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

Preserving your benefits will also earn you compound interest, where your interest earns interest.

The interest on your investment returns compounds over time, turning even modest savings into sizeable amounts after only a few decades. Compound interest means you are earning interest on interest. This is basically growth on growth. We are also living longer, so we will need even more money to retire comfortably.

NEVER CASH OUT – your future self will thank you!

THINK BIG. START SMALL. ACT NOW!

OUTCOME 1 R15 367 monthly

If Lisa **preserves her funds** when she changes jobs (except for the one time when she makes a partial withdrawal to study) **and increases her retirement contributions regularly,** she'll get a monthly pension of R15 367 in today's money when she retires.

OUTCOME 2 R11 902 monthly

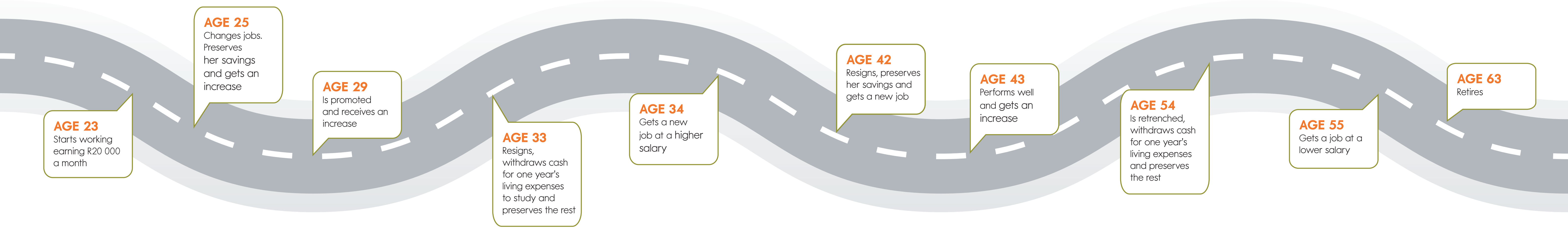
If Lisa **preserves her funds** whenever she changes jobs (except for the one time when she makes a partial withdrawal to study) **but doesn't increase her contributions,** she'll get a monthly pension of R11 902 in today's money when she retires.

OUTCOME 3 R4 609 monthly

If Lisa **never preserves** (except at her last job change when she's older, approaching retirement and realising the importance of preserving) **but increases her contributions regularly,** she'll retire with a pension of R4 609 in today's money.

OUTCOME 4 R2 804 monthly

If Lisa **never preserves** until her last job change, at age 55, and **doesn't increase her contributions,** she'll retire with a pension of R2 804 in today's money.



YOUR CHOICES WILL AFFECT YOUR RETIREMENT

THE ABOVE EXAMPLE SHOWS THE IMPACT OF THE CHOICES THAT LISA MADE THROUGHOUT HER CAREER.

Like all of us, Lisa's life is a journey and is full of ups and downs. When changing employers, the option of taking everything in cash is very tempting, as human nature kicks in and we start thinking about what we can do with the money. It is easy to focus on short-term satisfaction rather than weighing up the long-term benefits.

Lisa was faced with the following important choices:

- Whether to withdraw or preserve her retirement savings whenever she changed jobs.
- Whether to increase her monthly contribution rate regularly, or not.

Her choices make a big difference to how much her monthly pension will be when she retires.

THE TAX BENEFITS

THIS IS HOW YOU WILL BE TAXED IF YOU PRESERVE YOUR RETIREMENT SAVINGS, RATHER THAN WITHDRAW THEM BEFORE RETIREMENT

When you retire, you can take a total of R500 000 of your retirement savings TAX FREE.

However, all amounts you withdraw in cash (exceeding R25 000) before retirement will reduce this tax-free amount. The amount you can take in cash tax free all depends on your previous cash withdrawals from your retirement funds. How much you are taxed depends on how much you take and when you take it – see the tables below.

IF YOU WITHDRAW

How much you will take	Rate of tax
R0 to **R25 000**	0%
R25 001 to **R660 000**	18%
R660 001 to **R990 000**	27%
R990 001 and above	36%

WHEN YOU RETIRE

How much you will take	Rate of tax
R0 to **R500 000**	0%
R500 001 to **R700 000**	18%
R700 001 to **R1 050 000**	27%
R1 050 001 and above	36%

WHAT ARE YOUR OPTIONS FOR PRESERVING YOUR RETIREMENT SAVINGS

AND REDUCING THE RISK THAT YOU WON'T SAVE ENOUGH FOR RETIREMENT?

1 Transfer your money to your new employer's fund.

- You won't pay tax on the transfer, unless you transfer from a pension fund to a provident fund. In that case, the full amount will be taxed.
- You can take a portion of your fund credit in cash (which is taxable) and transfer the balance tax free.

2 Leave your money in the current fund.

- You will benefit from lower fees.
- You can withdraw your full fund credit before you retire. If you withdraw only part of your fund credit, the balance must be transferred to another fund.
- You can't make additional contributions.

3 Transfer your money to a preservation fund.

- You don't pay tax on the money you transfer, unless you transfer from a pension fund to a provident preservation fund.
- You can make a once-off withdrawal from the preservation fund. This single withdrawal allows you to take all or part of your money in the preservation fund.
- You can transfer from a preservation fund to a future employer's fund.
- You can't make any additional contributions.
- The AFRIS preservation fund is available to you. You may benefit from the lower fees.

4 Transfer your money to a retirement annuity fund.

- Your fund credit is preserved for your retirement.
- You don't pay tax on transfer.
- You can make additional contributions.
- You can't withdraw any money until you retire, unless you emigrate.
- You can take up to one-third of your benefit as cash when you retire.

COMPOUND INTEREST

YOUR MOST POWERFUL TOOL IN WEALTH CREATION

To put it simply – compound interest is when interest earns interest.

Compound interest is the result of reinvesting interest, rather than paying it out, so that interest on the next period is then earned on the principal sum **PLUS** the previously accumulated interest.

The table on the right illustrates the powerful effect compounding can have on the investment returns of a portfolio.

The result over time has a snowball effect, where the portfolio starts growing quicker and quicker the longer it is invested.

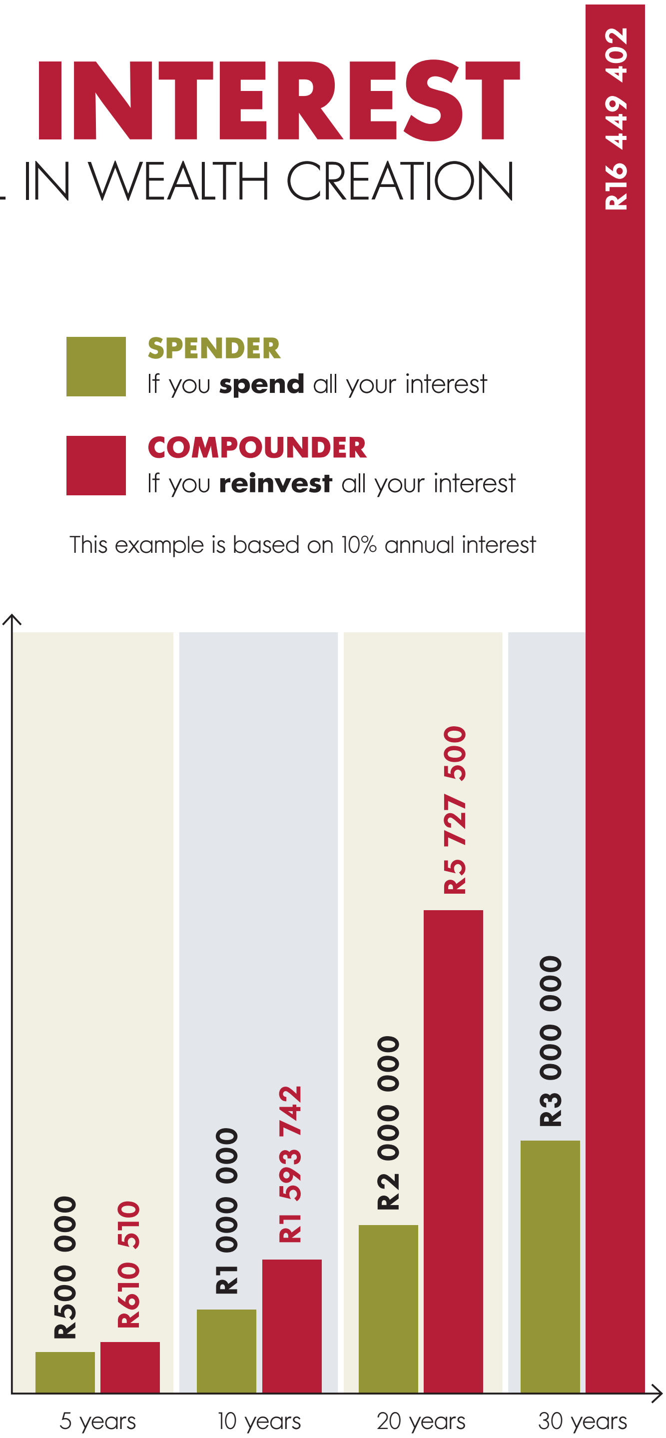
ALL GOOD THINGS TAKE TIME

The benefits of compound interest require patience and time. This scares many people who live in a world where everything is instant and they are looking to make a quick buck. Nonetheless, the returns that compounding creates over time are well worth the wait.

The financial world often refers to compound interest as 'magic' because it is one of the most fundamental ways to build wealth, yet takes the least amount of effort.

The example on the right shows the gains of two portfolios called the 'Spender' and the 'Compounder'. The Spender spends all the interest that is earned and the Compounder reinvests all the interest that is earned. The differences in the gains of the two portfolios becomes even larger as time goes by.

Over a 20-year period, the Compounder's portfolio gain is more than FIVE times the gain of the Spender's portfolio.



THE VALUE OF GOOD ADVICE

The value of getting financial advice from a qualified financial adviser should not be underestimated and is highly recommended. It may help you reach your goals.

Speak to a financial adviser to help you consider your options.

Contact Alexander Forbes Individual Advice Centre (IAC):

Tel: 0860 100 444 or Email: iac@aforbes.com

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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!

Fund queries: For more information about the Fund or for Fund queries, you can contact us on **021 401 9300**
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