NTRF
NATIONAL TERTIARY RETIREMENT FUND

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10 years to retirement

16th JULY 2024

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AGENDA

- What are your expectations for retirement?
- Other things to consider
- Are you on track?
- Retirement Fund options
- Current action options?
- Early or late retirement
- Investment strategies
- Professional financial advice

Income post retirement

A rule of thumb has been 75% of your final salary, but this is a dangerous assumption as everyone is different.

The 75% was derived considering (amongst other factors):

- you no longer contribute to retirement savings
- your home loan may have been paid off (maturity date on mortgage bond aligned with NRA).
- personal costs linked to employment fall away (petrol / transport costs, clothing, lunch etc).

But this may not apply to you.

NOTE : 75% of total cost to company or basic salary??

INCOME POST RETIREMENT

Income requirement will also be linked to lifestyle issues.

You could sit at home watch TV all day and income required would be reduced.

Or

You could be planning to travel to visit children around the globe and even 75% may be too low.

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QUESTION ONE

Have you considered your income required post retirement?

1. Yes, I have a financial plan and working towards a targeted income level.

2. I have a rough idea, but haven’t done any actual calculations.

3. I have never really thought too much about it.

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THINGS TO CONSIDER

Who else do you need to consider when planning post retirement finances:

- Spouse.
- Children not yet financially independent
- Other family members

Would they require support even after your death or only while you are alive?

THINGS TO CONSIDER

What financial liabilities will you have post retirement:

- any debts that have not been settled? (house or car repayments).
- medical aid contributions
- insurance (life and short term)

What capital outlays may be required (and when)?

- would a car need to be replaced
- home upgrades

Accommodation. Do you own a home or are your renting? Do you plan to downscale?

THINGS TO CONSIDER

Members have the ability to take a portion of their retirement capital as cash at retirement.

The extent that this will be done will impact the financial planning.

One approach would be to use cash to settle any existing debts (eg balance of a bond)

It makes sense to utilize the tax break offered by SARS, even if the cash is then utilised to purchase a monthly income, with only the income portion being taxable.

TAX ON RETIREMENT BENEFITS

Taxable Income Rands	Rate of tax
0 - 550 000	0% tax of taxable income
550 001 – 770 000	18% of taxable income above 550 000
770 001 – 1 050 000	36 000 + 27% of taxable income above 770 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

SARS TAX BREAK

SARS provides a tax break with the first R550 000 cash lump sum tax free. If you don’t use it, you lose it ….. BUT

SARS records all previous lump sum withdrawals and retrenchment benefits and accumulates the lump sums. You may have already used the R550 000.

Compulsory purchased annuity income is fully taxed as income.
Voluntary purchased annuity income has a tax free capital element.

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10 YEARS TO GO……ARE YOU ON TRACK?

You need to project your current savings to see whether you are on track with your financial planning.

You need to include all investments / assets in the projections and not only your NTRF assets.

You need to ensure that there is consistency in the approach used, in terms of:

- investment returns and growth assumptions vs inflation assumptions
- the time value of money

INVESTMENT RETURNS AND INFLATION

The Long Term portfolio has an objective of exceeding inflation by 5% pa (net of fees).

If you project your retirement savings with a 10% pa return, it would make sense to assume a 5% inflation.

This means your salary could be expected to increase by 5%pa.

If you assume investment in more conservative portfolios, you need to consider the portfolio objective.

NOTE: these are objectives and not guarantees.

TIME VALUE OF MONEY

If you currently earn R100 000 a month, and your projection is that your monthly pension will be R75 000 per month, do NOT get excited that you are on track for 75% of salary!!

Based on 5%pa inflation, and assuming 10 years to retirement, your R100 000 salary would have grown to R162 890 per month and your pension of R75 000 would only be 46% of your salary at retirement.

The same applies when considering other expense items. Either work everything in “today’s rands” or inflate everything to projected costs and values as at date of retirement.

CONVERTING LUMP SUMS TO INCOME

Lump sum values at retirement are misleading.
You need to convert them to a monthly income and allow for future inflationary increases.

For a Living Annuity you should probably only allow for a 4% or 5% annual drawdown. Investment return in excess of the draw down would generate the annual increase.

Life annuity rates would depend on a number of factors, but consider the following:

R1 million used to purchase a Life annuity as follows:

- Male aged 65
- Spouse aged 62
- Increases targeted at 65% of inflation
- Initial monthly pension R6 904

UNDERSTANDING RETIREMENT OPTIONS

You need to understand the difference between a LIFE ANNUITY and a LIVING ANNUITY

And

How the assumptions used impact the income you can receive from a lump sum.

LIFE ANNUITY

The annuity is defined in the contract and is guaranteed by the insurer. The insurer carries the investment risk and also the longevity risk.

The annuity increases are defined in the contract , and may have no increases, fixed percentage increases, increases linked to inflation or increases linked to bonus declarations from the insurer.

Any guarantees, spouses benefits or payments on your death would be defined in the contract.

The initial pension will be determined by the contractual issues such as the rate of increase and any guarantees. For example, the higher the rate of increases, the lower the initial pension.
On death of the member the benefit due to beneficiaries is generally limited to the balance of the guaranteed period defined in the contract.

Generally, once a life annuity has been purchased there is limited flexibility to amend the contract.

LIVING ANNUITY

A Living annuity links the annuity to underlying investment portfolios.

The annuity is not guaranteed and is reviewed each year. The drawdown must be between 2.5% and 17.5% of the capital at the start of the year, and thus can reduce on the annual review

The annuitant assumes the investment risk and the longevity risk.

Dependent on the rate of “drawdown” and the investment return earned, the monthly payments could exhaust the capital and the annuity will cease at that point.

On the death of the member the beneficiaries receive the remaining asset value.
The product structure does allow for considerable flexibility

LIVING ANNUITY

The financial planning projection will be impacted by the assumed drawdown rate.

If your retirement lump sum is R4 million and you assume a draw down rate of 5%pa, the initial monthly income before tax would be R16 666.

If the investment return is 10%pa, then the income will increase by 5% per annum if you retain the draw down rate.

But if you assume a 17.5% draw down, then in year one the monthly income before tax is R58 333.

However if the investment return is only 10%, the capital will start eroding in year one and your year two income will be lower.

QUESTION 2

An annuity where the member takes the risk of investment returns and living too long is called a:

1. Life Annuity
2. Living Annuity
3. Retirement Annuity

CURRENT ACTION ITEMS

Increase your monthly savings.

- make regular additional voluntary contributions
- switch to the lower risk benefit category (by definition that would mean 2% of salary saved each month).

NOTE: the lower risk benefits is an option but seek financial advice before reducing your cover

CURRENT ACTION ITEMS

Where possible pay off all debts before retirement.

Replace your car before retirement if necessary to avoid a capital outlay post retirement.

EARLY RETIREMENT

The issues to consider with early retirement are two fold:

1. You have less years for your savings to grow. Assuming 10% investment returns, if you retire 4 years early you have 68% of your projected capital.
2. The capital needs to provide income for a longer period. The Life annuity rate is lower for the younger age

LATE RETIREMENT

NOTE : This presentation refers to financial retirement and not retirement from employment which is between employer and employee.

If you can delay financial retirement your retirement savings can continue to grow.

Can you generate "other" income to allow you to delay financial retirement.

QUESTION THREE : INVESTMENT STRATEGIES

Do you know in which portfolio your retirement savings are currently invested?

1. Yes, I have been tracking my retirement savings.
2. I think so
3. I have no idea.

INVESTMENT PORTFOLIOS

The three main NTRF portfolios are structured to meet the needs of members.

Long-term Capital: provides the greatest exposure to equities and offshore assets, to provide the long-term returns required; but with that comes greater volatility.

Stable Fund: provides inflation-beating returns with less volatility. Over the longer term, however, it will under-perform the Long-term Capital Portfolio.

Money Market: provides returns linked to current interest rates. This avoids the impact of equity slumps or currency swings, but the longer-term return is lower.

VOLATILITY vs RETURNS

- There is a need to get a balance between seeking the higher long term returns of the Long Term Capital portfolio and accepting the market volatility.
- This will be impacted by the selected annuity option at retirement.
- If you plan to purchase a Living Annuity invested in the Long Term Capital portfolio, you should consider a “seamless” approach.
- If you plan to purchase a Life Annuity then you need to avoid market volatility at retirement date.

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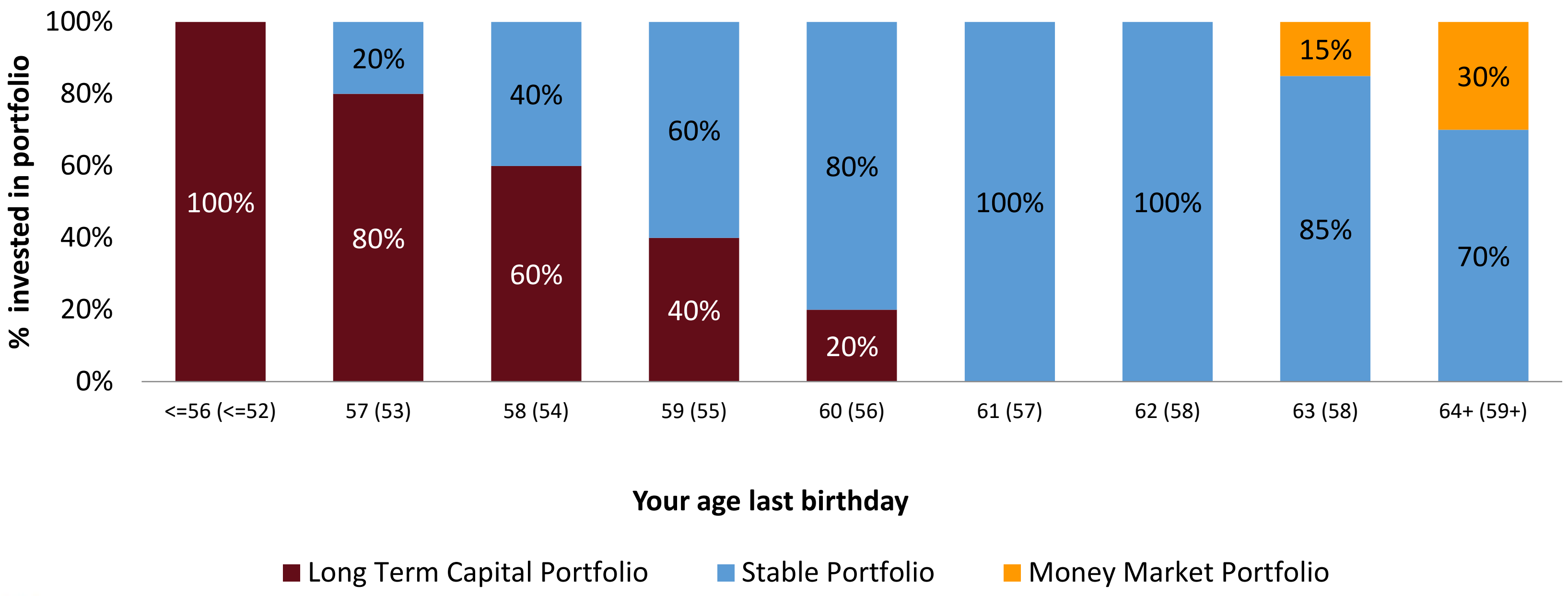
LIFE STAGE MODEL



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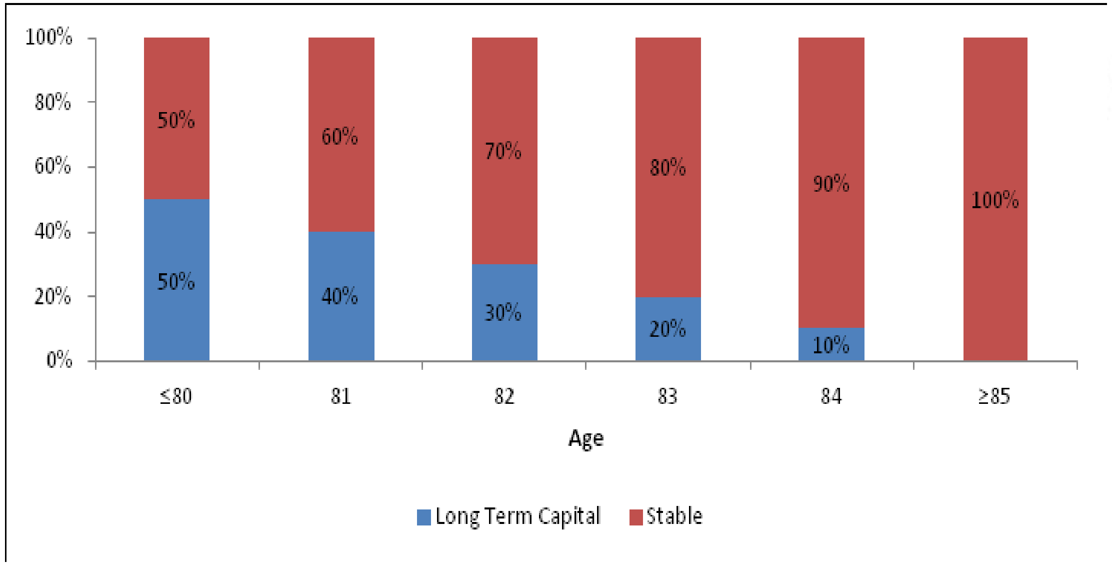
LIVING ANNUITY INVESTMENTS

Investment of assets
At retirement, your money will be invested in your Living Annuity Capital Account that will comprise the investment return earned on the balance in your account after deducting investment management expenses *(this return could be negative from time to time); **less*** the monthly benefit paid to you; ***less*** the administration and other operational expenses.

You must decide how to invest your Living Annuity. If you do not exercise a choice the Board's default selection will be applied.



RETIREMENT FUND OPTIONS

RETIREMENT WITHIN THE FUND : IN FUND LIFE ANNUITY

The NTRF aims to target pension increases of 65% of inflation – this is not guaranteed though. Historically the level of pension increases exceeded the target to inflation because investment returns have been very good, making such increases affordable.

In addition, a lump sum of **R15 000** is payable on the death of the principal annuitant. This is to cover immediate expenses.

RETIREMENT FUND OPTIONS

Outside the Fund

- You purchase the annuity directly from the insurer using money transferred to the insurer by the Fund.
- Terms and conditions would be those applicable to an individual applicant.
- You cease to be a member of the Fund, and you deal directly with the insurer, and the insurer pays the monthly annuity to you.
- You can select options outside those approved by the Trustees, provided you comply with industry regulations.

QUESTION FOUR

If you purchase a Life annuity outside of the Fund, the initial annuity will be impacted by the following factors (which one is incorrect):

1. Your age
2. Your gender
3. Your province / location
4. Whether your spouse is included
5. The basis of annual increases if applicable
6. Any guaranteed minimum payment term

QUESTION FIVE

If you are receiving a pension / annuity which of the following is not true in respect of what happens in the vent of your death:

1. **The balance of a Living annuity is payable to the nominated beneficiary**
2. **The balance of a Life annuity is payable to the nominated beneficiary**
3. **The Life annuity will continue for the balance of the guaranteed minimum term**

PROFESSIONAL FINANCIAL ADVICE

- Members are encouraged to seek professional advice.
- Advisors can help develop a plan, and that should be done NOW and not at retirement.
- Start building a relationship of Trust with your advisor, so you are comfortable when you make significant decisions at retirement.

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FINAL QUESTION

Did you find this presentation helpful?

- Thanks, I found this a useful session and will be giving more thought to my retirement.
- This provided no helpful or new information.
- I feel more worried and confused than before and feel I need help

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Fund Contact Information

Member Website: www.ntrf.co.za

OFFICE OF THE PRINCIPAL OFFICER (Management of the Fund) Contact the Principal Officer for all escalations of queries		
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ADMINISTRATOR (Administrative matters) Contact the Fund Administrator for all investment and claim queries and other admin-related queries		
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QUESTIONS