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the RETIREMENT COMPASS

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Disclaimer: Errors and Omissions Excluded

A word from the Editor

Welcome to another edition of the Retirement Compass. This newsletter is sponsored by RFS Fund Administrators, as part of its social responsibility and retirement fund industry support initiatives. The purpose of this newsletter is to provide members of funds managed by RFS Fund Administrators and other parties in our network with retirement funding and planning related news and insights, presented in an easily understandable manner.

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This analysis explains the effect of timing, contribution rates, and investment returns on retirement savings for someone looking to retire at age 60:

1. Adding a little more each month (extra 2%)

- **Starting early (age 25):** if you start saving for retirement at 25 and contribute 12% of your salary, you're on track to have around 63% of your salary as your retirement income when you reach 60.
- **If you add just 2% more:** By increasing your contributions from 12% to 14%, you'd reach a target of 75% of your final salary for retirement income. This means you'll be more comfortable in retirement.
- **Or pay a lump sum now:** Instead of increasing monthly contributions, you could reach this same goal by investing a one-time amount of N$84,302 at age 25.

Summary: Starting young with even a small extra contribution makes a big difference on your retirement outcome.

2. Waiting 10 years to start saving (starting at 35)

- **Starting later (age 35):** If you wait until 35 to start saving 12% of your salary, you'll only end up with around 36% of your final salary as retirement income by age 60.
- **What you'd need to catch up:** To get to the same 75% goal, you'd have to nearly double your contribution to 25% of your salary — or make a large one-time investment of N$383,082 at age 35.

Summary: The longer you wait to start saving, the harder it gets to reach a comfortable retirement income, even if you try to catch up later.

3. The effect of lower investment returns (1% less return)

- **Lower returns mean less money:** If the investment returns are just 1% lower than expected, you'd end up with only about 52% of your final salary, instead of 63%, even if you start saving at 25.
- **What you'd need to make up the difference:** To reach 75% of your final salary in retirement with these lower returns, you'd have to contribute an extra 5% each month or invest N$216,352 in a lump sum now.

Summary: Even a small decrease in investment returns can make a big difference on your retirement savings, so minimizing fees and optimizing investment returns is important. But remember, fees are also linked to the options and service you get. More options and better service costs more. Always ask what you are getting for the fees you pay.

Conclusion

- **Start early:** Beginning retirement savings early makes it much easier to reach your goals.
- **Contribute more if you start later:** If you wait to start, you'll need to save much more each month or make a large lump-sum investment to catch up.
- **Maximise investment returns:** Small differences in returns add up over time, so make sure you're investing wisely to avoid shortfalls and that you receive advice on the most suitable investment portfolios in line with your age.

Fees payable in the retirement fund environment

1. Types of fees in retirement funds

- **Administration fees:** These cover the general costs of managing your account within the retirement fund, such as record-keeping, customer support, and other administrative services. They might seem small, but they're charged monthly and can add up over years. These fees are usually deducted from the monthly retirement fund contributions or from the growth of any lump sum investments.
- **Investment management fees:** These are fees paid to the people managing your fund's investments. They're usually asset-based fees and deducted from the gross investment return. Funds that try to pick specific stocks (called actively managed funds) often have higher fees than those that just follow the market (called index funds).
- **Consulting fees:** If your fund appointed an employee benefits consultant or an investment consultant, a consulting fee will be charged. This is usually similar to the administration fee explained above. Consultants can help ensure that your investments align with your retirement goals, and that your fund structure is still adequate based on the members' needs.
- **Risk benefit fees:** If your fund offers insured benefits such as upon death, when disabled or funeral benefits, these will be sourced from insurance companies. The fees for these benefits are usually paid from monthly contributions and depend on the amount of insurance cover provided.
- **General fund fees:** This includes trustee fees, audit fees, actuary fees and other general fees incurred to run the fund. In umbrella funds, these fees are usually covered through an asset-based fee applied to all members.

2. How fees impact your retirement savings

- Fees take money out of your retirement fund, and over time, this means you'll lose out on both the money itself and the growth it could have earned. Here's why it matters:
- **Small differences, big impact:** For example, a fund with a 2% fee compared to one with a 1% fee can make a huge difference over 30 or 40 years because your savings will grow faster with lower fees.
- **Lost growth over time:** Higher fees not only cost you now, but they also reduce the growth of your savings over time. The more you pay in fees, the slower your savings grow.
- But remember, fees are also linked to the options and service you get. More options and better service costs more. Always ask what you are getting for the fees you pay.

3. Transparency

- To compare fees across funds, it is important to understand how they are charged and of course, the fees need to be disclosed properly and in an understandable manner. You cannot compare a payroll-based fee with an asset-based fee for instance. To compare the two fees, you can convert them into a monetary amount. Asset based fees increase as your investment grows. Payroll-based fees increase as your salary increases.

4. Understand what the fees are paid for

Solely focusing on using the service providers that charge the lowest fees will not necessary be your best approach. We advise that you compare the services and the options you get with the fees being charged. For instance, it does not help you if an asset manager charges extremely low fees but they are not able to generate superior investment returns.

Conclusion

Fees can erode a significant portion of your retirement savings if they're not managed carefully. Choosing funds with a transparent fee structure will help you to keep track of the fees. It should be ensured that fees are reviewed and benchmarked regularly to ensure that they are still appropriate. Fees may differ from one service provider to the other. Lower fees are desirable, but the quality of service provided should also be considered.

> "I am very humbled by your customer service, advice and assistance throughout the processing of my application. You have really been very kind and even if I contacted you after hours you still came through. I appreciate your services and wish you all the best in future. God bless you."
>
> *A compliment from*
> a Benchmark Member

Why does it take so long for withdrawal claims from retirement funds to be paid out?

When withdrawing money from retirement funds, there can be delays for a few main reasons:

1. **Checking the rules:** One must make sure the fund rules and the Pension Funds Act are followed. This includes checking that you're exercising an option in line with the fund rules, which might depend on things like your age, employment status, or other conditions.
2. **Documents:** You and your employer usually must submit documents like a withdrawal form to opt for your preferred payment option, copy of your ID, proof that you've stopped working, and your bank details, etc. If any of the paperwork is missing or incorrect, the fund must contact you to correct it, which can slow things down. Your employer usually only sends all the documents to the administrator at the end of the month after you exited.
3. **Approval steps:** Each claim must go through several steps and may involve different parties to the service of the fund. The fund's administrators (the people who manage it) need to look over your contributions and calculate your benefits. They must wait for the asset managers to provide the latest interest earned which must be confirmed by the fund's actuary etc, before calculating the value of the benefit payable.
4. **Taxes:** Depending on the type of fund and type of withdrawal, your withdrawal benefit might be taxed. NamRA must check how much tax the administrator must deduct, which might take a while. If you have outstanding tax returns or other tax issues, NamRA will not issue a tax directive which will delay the withdrawal process until your tax is up-to-date.
5. **Payment deductions:** Sometimes, a fund offers members access to housing loans and any other amounts owed to a bank or a member's outstanding loan from the fund must first be deducted. Employers may also request certain deductions allowed in line with the Pension Funds Act (Section 37D), if the member committed fraud or caused any financial harm to the employer.

To avoid delays, make sure you've provided all the right documents, that your tax affairs are in order and stay in contact with your employer's HR department to find out what is needed to smoothen the process.

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