the RETIREMENT COMPASS

WELCOME TO THE FIRST EDITION!

Welcome to the first edition of the brand new member newsletter **The RETIREMENT COMPASS**! The 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. We aim to publish this newsletter quarterly.

Sebastian Frank - Schultz
CA (NAM) - The Retirement Compass Editor

Retirement Q & A

Marthinuz Fabianus
Managing Director of RFS Fund Administrators.

Interviewer:
Why is saving for retirement important?

Marthinuz Fabianus:
After many years of gainful employment and with the advanced age of 60 years and older, it will be time to consider retirement from one's employment. If you are not self-employed, your employment contract in any event will state an age when you are expected to stop working and settle into retirement. Besides, from the age of 60, the body starts to lose its youthful strength and as frailty starts to creep in, you are no longer able to operate with the same levels of energy and strength. But the million-dollar question is, what income are you going to live on when you leave employment and give up the income from your employment? This is when savings for use during one's retirement become very important. If no savings have been made in any way, it becomes difficult to face retirement, and possibly living a life after retirement in poverty and with hardships becomes real. You may argue that "my children and family will look after me", but will they? Will your children and family have the means to provide you with a dignified retirement financial care and other support needed? The importance of saving towards your own financial needs for use during retirement can therefore not be over-emphasised. Savings for retirement can and must be made through one's own efforts using appropriate and tax-friendly schemes in addition to any retirement saving funds arranged by your employer.

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Retirement Q & A - Continuation

Interviewer:
When should I start saving for my retirement?

Marthinuz Fabianus:
Saving for one's retirement must be started as soon as one starts to earn own income when gainfully employed as an adult. Many experts advise that the earlier one starts the better, and that at least 30 years of uninterrupted contributions of one's income leading up to retirement age must be saved at no less than 15%. This may not be so easy, as many people during their young age do not see the importance of saving for retirement as this is seen as still far off. However, the best retirement saving outcomes are experienced by people who started very early, as soon as they got their first job. Waiting until you are older, until you are married, until you bought your first car, your first house etc. is likely to be disastrous not only for retirement outcomes, but also because retirement savings can play an important part in preventing a young family from becoming destitute when the breadwinner falls away.

Interviewer:
What are the tax advantages of saving for retirement?

Marthinuz Fabianus:
The Namibian income tax law provides various advantages and incentives in respect of savings made towards approved retirement schemes, such as Retirement Annuity Funds and employer's retirement funds. Currently, an employee can deduct contributions made to such funds up to N$ 150 000 per annum from their taxable earnings. Upon reaching retirement age (usually from age 55), a member of a retirement fund may commute up to a third (1/3) of the total savings free of tax.

Interviewer:
How do I know if my retirement savings will be sufficient?

Marthinuz Fabianus:
There are various general measures one can reasonably rely upon to test if you are on the right retirement savings track. One rule of thumb suggests that you should have saved 1x your annual salary by age 30, 3x by age 40, 6x by age 50 and between 8x – 11x between the age 60 – 65. But to get a better understanding of one's own situation, make an appointment with a financial advisor that can provide you with information concerning your expected retirement outcomes.

Interviewer:
Which are the best schemes to save for retirement?

Marthinuz Fabianus:
There are various ways and schemes to save towards one's retirement. The most tax beneficial scheme when saving towards retirement from one's regular income are retirement funds. As an individual you may save towards retirement through a Retirement Annuity Fund, which also has great tax benefits as mentioned above. It is, however, important to understand the costs associated with saving towards retirement using Retirement Annuity Funds. The most cost-effective and tax-beneficial way of saving towards retirement is through the retirement fund offered by your employer. This is because the costs of maintaining such a fund are normally paid by your employer. One however needs to guard against the temptations of cashing in on your retirement savings when changing jobs. This practice derails your plans of reaching the best retirement savings outcome as you pay tax on the full benefits withdrawn before reaching retirement and often must start saving from scratch, which may be too late to save sufficiently for retirement, as explained above.

Tax deductibility of member contributions

The Namibian Income Tax Act was amended in December 2022 to allow a member to deduct up to N$150,000 per year from income tax for contributions made to a retirement fund and other similar savings arrangements. However, only compulsory contributions made by members may be deducted, but not voluntary contributions*. This means that if you want to make use of this tax advantage, and your current member contributions are less, it is advisable to find out if your fund allows higher member contribution rates (of course subject to being able to afford additional contributions monthly). Higher member contributions mean additional retirement savings combined with a significant tax advantage. From a tax perspective, it means that effectively you save your annual member contribution (limited to N$150,000) times the tax rate applicable to you as per the Namibian tax brackets. To illustrate this, let's look at this simplified example:

Annual member contribution: N$100,000; Tax rate applicable to member for illustrative purposes: 25%

Annual tax savings: N$25,000; you contribute N$100,000 but you salary after tax will only be N$75,000 lower.

**Based on RFS interpretation of section 17(2) of the Income Tax Act. Deductibility is subject to certain requirements. We advise any employer whose employees want to use the increased tax deductible contribution by making additional voluntary contributions ("AVCs"), to consider obtaining a tax ruling for their fund. It remains a risk to make AVCs without a ruling.*

Aggressive vs. conservative investment portfolio.

Depending on the type of fund and options available to you in your retirement fund, you might have the option to choose between different investment portfolios. While all pension fund investment portfolios have to adhere to certain limits regarding the different asset classes that they invest in (for example equity, bonds, cash, property etc.), a more aggressive portfolio will try to maximize its exposure towards equity (i.e. shares), which means accepting more volatile investment returns, but which in the long term generates the highest returns. A more conservative portfolio will include a higher exposure to less volatile asset classes such as bonds and cash, but the flipside of the coin is that this will result in lower returns in the long term. The most important thing to consider as a member is one's age, which determines the years left until retirement. As a young member, taking higher risks might be acceptable as short-term volatility should not be a major concern as they will correct later on. The closer you get to retirement, the more concerned you will be with performance volatility as a high negative return just before you reach your retirement age can have a significant negative effect. Timing in this regard is crucial, but also tremendously difficult. While one does not want to sacrifice any potential investment returns, one also does not want to jeopardize one's financial plan due to a lower-than-expected pension. Perhaps you can defer your retirement and wait for the market to go up again, or you can buy your retirement income cheaply as well. Our advice is to engage with a trusted financial advisor well before reaching your retirement age to discuss the different options. Also, while changing in and out of investment portfolios might not be the best idea in the long term, ensure that you continuously monitor the performance and status of your retirement savings to ascertain that you are on track with your predetermined goals.

Have you registered for Benchmark Benefit Counsellor yet?

Members of many of the funds managed by RFS Fund Administrators, such as Benchmark Retirement Fund members are encouraged to log into Benefit Counsellor to gain access to lots of very interesting information, such as:

- Viewing your benefit statement and to update your beneficiaries;
- Viewing your current fund balance and a history of the monthly contributions;
- Viewing the benefits in the event of death or disability for you and your dependents;
- Watch educational video clips and asset manager presentations;
- Get the latest reports, information and announcements from the fund;
- Viewing and printing various fund forms;
- Obtain retirement advice, do a financial wellness assessment;
- Make use of various calculators to predict your future balance;
- Make use of a scenario planner, use a tax calculator etc.;
- AND MUCH MORE!

Benchmark
Retirement Fund

DID YOU KNOW? Not completing or updating a beneficiary nomination form can disadvantage dependent persons legitimately entitled to benefits in the event of your death (such as major children still dependent on you, or your parents).