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the RETIREMENT COMPASS

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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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Risk Benefits Through a Retirement Fund or an Employer-owned Scheme

Risk benefits (such as life cover, disability benefits, and funeral benefits) can be provided either through a retirement fund or an employer-owned scheme. The choice between these two structures has important implications for members. Here are the key differences:

1. Ownership & Control

- Retirement Fund: The risk benefits are part of the fund and managed by the board of trustees, who act in the best interest of all fund members and their dependants.
- Employer-Owned Scheme: The employer contracts directly with an insurer, and the employer has control over the scheme's structure, terms, and insurer selection.

2. Legal Protection & Governance

- Retirement Fund: Governed by the Pension Funds Act (1956) (soon to be replaced by the FIMA). Trustees must ensure compliance, and members have legal protections under the fund's rules.
- Employer-Owned Scheme: Typically falls under an employer's group insurance policy, which is regulated by NAMFISA at provider level but does not have the same governance protections as a retirement fund at the consumer level.

3. Portability (When Changing Jobs)

- Retirement Fund: If a member leaves employment, their risk benefits generally cease, but they would normally be able to continue under a new fund (if their new employer offers a similar scheme).
- Employer-Owned Scheme: Benefits also stop when leaving the employer, and there would not be an option to continue similar cover under a new scheme.

4. Tax Treatment

- Retirement Fund: Premiums for risk benefits are usually a part of the pension contributions, and the total contributions (including risk premiums) qualify for tax deductions.
- Employer-Owned Scheme: The employer usually pays for the risk benefits, and the premiums must be treated as a fringe benefit for tax purposes, meaning they would be taxable in the hands of the employee.

5. Cost & Affordability

- Retirement Fund: Often more cost-effective due to group pricing and pooling of risk among a large number of members. The fund's trustees negotiate better rates with insurers.
- Employer-Owned Scheme: May be more expensive, especially for smaller employers, as risk is assessed at the company level rather than across a large retirement fund.

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6. Claim Process & Transparency

- Retirement Fund: The trustees ensure fair and transparent claims processing, and members have recourse if a claim is unfairly denied. The administrator is geared to administer the process.
- Employer-Owned Scheme: The employer decides on the insurer and may have discretion over claims processes, which could lead to less transparency. Employers are not geared to manage the process.

7. Flexibility & Customization

- Retirement Fund: Benefits are standardized for all members of the fund. Changes require trustee approval and fund rule amendments. Funds are usually supported by employee benefit experts.
- Employer-Owned Scheme: Employers have more flexibility to tailor benefits based on their needs and workforce demographics. However, employers usually lack the expertise.

8. Financial Security & Continuity

- Retirement Fund: Funds are held in trust for members, ensuring they are used for their intended purpose.
- Employer-Owned Scheme: There is a risk that if the employer faces financial difficulties, they may cancel or reduce the cover. In the event of the employer's bankruptcy, benefits due to employees may end up in the employer's liquidation, benefiting the company's creditors rather than the employees.

Summary Table

Factor	Retirement Fund	Employer-Owned Scheme
Control	Managed by trustees	Managed by employer
Legal Protection	Governed by retirement laws	Regulated but less member-focused
Portability	May transfer to a new fund	Stops when leaving employment
Tax Treatment	Contribution are tax-deductible	May be treated as a taxable fringe benefit
Cost	Often lower due to group risk pooling	Can be more expensive for smaller employers
Claim Process	Overseen by trustees, more transparent	Employer and insurer control process
Flexibility	Standardized benefits for all	Customizable by employer
Financial Security	Funds protected in trust	Exposed to employer's insolvency

Which is Better for Members?

- **Retirement fund-based risk benefits** offer better governance, transparency, and cost-effectiveness but may lack flexibility.
- **Employer-owned schemes** provide customization but may have higher costs and fewer legal protections for members.

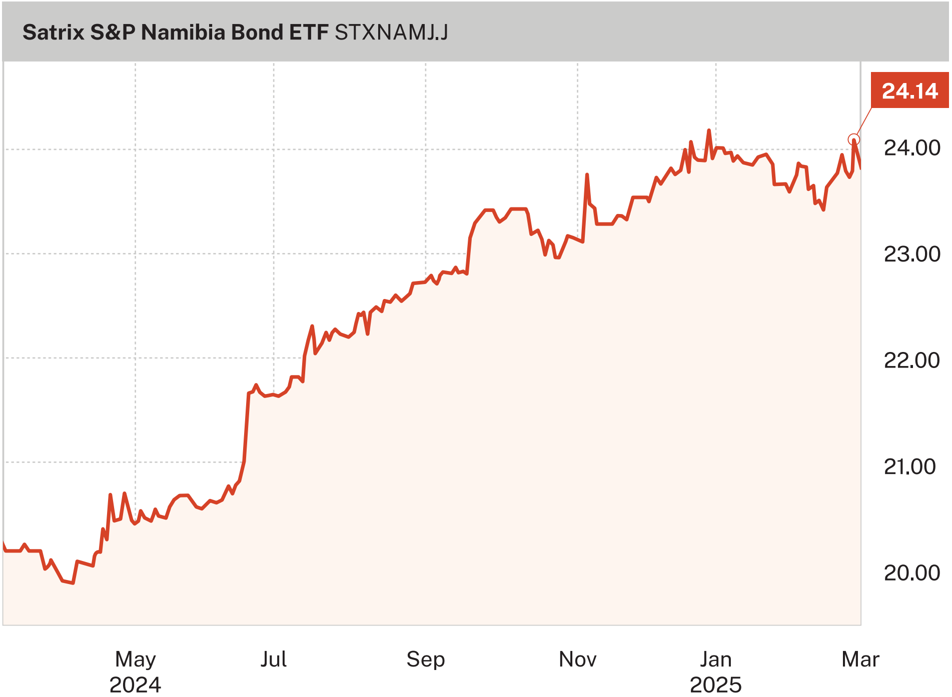
The best choice depends on the employer's size, financial position, and the level of protection members prefer. In addition, NAMFISA makes it increasingly difficult for funds to offer risk benefits in-house and this will become even more cumbersome under the FIMA, which is why many funds are contemplating moving funds to employer-owned schemes.

How Namibia's Oil Discovery Could Affect Retirement Savings

Recent oil discoveries and increased foreign investment have boosted Namibia's economic prospects. These developments could influence the performance of retirement fund investments and the broader economic environment in which retirees live.

The discovery of increased reserves of crude oil in Namibia has sparked interest in Namibian assets, with an index fund tracking local government bonds showing remarkable growth since Portugal-based Galp's discovery in April 2024 that the Mopane field offshore Namibia could hold at least 10 billion barrels of oil.

While this is great news, it also comes with risks. Here's how it might affect retirement funds and retirees.



1. Stock Market & Investments

Good news:

- More money flowing into the country could boost Namibia's stock market and government bonds, helping retirement funds grow.
- Infrastructure projects (like roads and energy) could create more investment opportunities.

Possible risks:

- If the economy becomes too dependent on oil, a drop in oil prices could hurt investments.
- Poor financial management could lead to instability.

Impact on retirees:

- Retirement savings could grow faster due to a stronger stock market.
- Pension funds might find new investment opportunities.

2. Inflation & Cost of Living

Good news:

- If the government spends oil money wisely, better infrastructure and services could improve retirees' quality of life.
- Energy and public service subsidies could reduce living costs.

Possible risks:

- More money in the economy could lead to higher prices for everyday goods.
- If inflation rises too fast, retirees' savings might lose value.

Impact on retirees:

- Pensions may need adjustments to keep up with rising prices.
- Retirement funds might invest in assets that protect against inflation.

3. Currency & Interest Rates

Good news:

- A stronger Namibian dollar (NAD) could make imported goods cheaper.
- Lower interest rates could make borrowing easier for businesses and individuals.

Possible risks:

- If the NAD gets too strong, it could hurt industries that rely on exports.
- Changing interest rates could impact pension fund investments.

Impact on retirees:

- A stable NAD can help retirees afford imported goods.
- Pension funds may need to adjust investments to balance risks.

4. Government Policies & Taxes

Good news:

- If managed well, oil money could make the economy more stable and improve public services.
- The government might introduce tax breaks or subsidies for retirees.

Possible risks:

- Poor management of oil money could lead to economic problems.
- New taxes on businesses could lead to higher prices for consumers.

Impact on retirees:

- The future of pensions will depend on how well the government manages oil wealth.
- Changes in taxes could affect how much retirees receive from their pensions.

What This Means for Retirement Planning

To make the most of these economic changes:

1. **Diversify Investments:** Don't put all savings in one type of investment.
2. **Plan for Inflation:** Look for investment options that protect against rising prices.
3. **Watch Currency and Interest Rates:** These factors can affect investment returns.
4. **Stay Informed on Government Decisions:** Policies will shape how retirement funds perform.

If managed properly, Namibia's oil boom could be great for retirees and their savings.

Retirement Savings in Southern Africa

Here are some interesting facts about retirement savings in Southern Africa:

1. **South Africa Has One of the Largest Pension Fund Industries in the World**

South Africa's retirement savings industry is one of the largest in the world, managing trillions of rands in assets. The Government Employees Pension Fund (GEPF) alone is the largest pension fund in Africa!

2. **Botswana's Pension Fund Grew Rapidly**

Despite being a smaller economy, Botswana has one of the fastest-growing pension fund industries in Africa, with assets under management exceeding the country's GDP.

3. **Zimbabwe's Hyperinflation Wiped Out Many Savings**

Due to extreme inflation in the 2000s, many Zimbabweans lost their retirement savings as the value of their pension funds collapsed. This forced many retirees to rely on informal savings and family support.

4. **Namibia Has a Strong Pension System**

Namibia has one of the highest pension fund assets as a percentage of GDP in Africa, thanks to well-managed contractual pension contributions.

5. **Eswatini's Unique Provident Fund System**

Eswatini operates a National Provident Fund, which differs from traditional pensions. It provides lump-sum payouts rather than monthly pensions, making it unique in the region.

6. **Most Southern Africans Don't Save Enough for Retirement**

Studies show that in South Africa, about 90% of people don't have enough savings to retire comfortably, leading to financial struggles in old age.

7. **The "Sandwich Generation" Effect**

In many Southern African countries, younger people often support both their aging parents and their children, making it harder to save for their own retirement.

8. **Alternative Retirement Savings – Livestock and Property**

In rural areas, many people invest in cattle, goats, and land as a form of "retirement savings," viewing them as assets that can be sold or rented out in old age.

9. **South Africa Has a Default Retirement Fund Rule**

As of 2019, retirement funds in South Africa must offer a default investment strategy, ensuring that members who don't actively choose an investment option are still placed in a well-structured retirement plan.

10. **More Women Struggle with Retirement Savings**

Across Southern Africa, women generally save less for retirement than men, partly due to lower wages, career breaks for family care, and a longer life expectancy.