STANLIB Retirement Guide

STANLIB

STANLIB

STANLIB RETIREMENT GUIDE

Introduction

Choosing to retire, and financial planning for retirement, are some of the most important decisions you make during this phase of your life. Your decisions will have lasting and far-reaching consequences, so it is important to be armed with all the facts. This simple guide, along with assistance from your trusted financial adviser, will help you to understand your options, and to decide which will provide the best outcome for you. This guide does not provide advice, and we strongly encourage you to discuss your personal circumstances with your financial adviser.

Are you financially ready to retire?

The answer to the question of when you are able to retire is a complex one, and everyone's situations are different. Many people underestimate how much they will actually need, and retiring too early can have severe consequences.

The general rule of thumb is that you need at least 17 times your annual salary saved up in order to retire at 65. We think it's vital to look at your individual circumstances, rather than relying on averages. A few things to take into consideration are:

How long will you live?

Planning for a 10 to 15 year retirement like our parents did may no longer be realistic. South African statistics indicate that 50% of people aged 65 years will still be alive by the age of 85, and our lifespan is only going to increase as medicine and healthcare evolve. If you are not financially prepared for a 20-year to 30-year retirement, you may wish to consider delaying your departure from the workplace. Keep in mind that longevity is affected by genetics, lifestyle, access to quality healthcare and various other factors that should be considered in your planning.

What will your expenses be?

Traditional literature talks about needing the equivalent of 75% of your final salary every month to cover your expenses in retirement. This rule may be too conservative, with some research indicating that a figure of 90% may be more realistic for the average retiree. In reality, what you spend is a more important consideration than what you earn in this instance, and the two figures may not coincide. Preparing a detailed budget with your financial adviser will assist you in determining how much you will need to retire comfortably. Important talking points may be:

- Are you debt free, or do you still have a home loan or other commitments to pay off?
- Are you or will you be providing financial support for children or grandchildren?
- Are you planning some exciting trips in your golden years, or potentially even a permanent move to a new country to be closer to loved ones?
- Are you planning on downsizing or moving to a retirement village, and do you understand the financial implications of this decision?
- Have you taken your future medical expenses into account, and the fact that they may increase if you require increased medical care in your old age?
- Do you need to budget for a new car, and how often would you like to upgrade?

Don't forget to take inflation into account in your planning. Even 5% inflation can have a significant effect in eroding the buying power of your savings over the long term. Your personal inflation rate may also be substantially higher than the reported CPI percentage. For example, medical expense inflation is typically 3% higher on average than normal inflation. These are important things to think about in your retirement plan, and when choosing what to invest in for your retirement. For example, not all guaranteed annuity products cater for inflation related increases.

What portion of your retirement savings will you need to live each year?

If you choose to invest in a living annuity to provide you with an income in retirement, you will need to choose the percentage of the investment you take as income every year. This is restricted by legislation to between 2.5% and 17.5% per annum. Research out of America using data from 1925 to 1995 suggests that if you withdraw 4% of your retirement savings every year as an income for retirement, and only ever increase this amount to account for inflation, then your retirement savings should be enough to last through 30 years of retirement. So a good starting point for your retirement plan is to determine if you can live comfortably on no more than 4% of your retirement savings per year. If you need more than this, there is a chance that you will erode your savings too quickly, and outlive your money.

Furthermore, later research both locally and internationally suggests that this rule shouldn't be used as a silver bullet, and should be used with caution and only in conjunction with proper financial advice. Firstly, it doesn't take personal inflation, fees and taxes into account. Secondly it assumes that the portfolio was invested in the optimal asset allocation mix of equities, bonds and cash throughout the period, using the power of hindsight. This is practically not possible to achieve in a real world scenario.

What investment options will you invest into?

While you may be tempted to invest into a very low risk portfolio with minimal volatility, it is not advisable to be too conservative when it comes to investing your retirement savings. Your retirement money needs to work hard for you to last the duration of your retirement, and so that your income in real terms is protected againt inflation. A well-diversified portfolio aimed at long term investing with at least 50% invested in equities may be optimal to provide the level of growth required to sustain your capital. Your financial adviser will be able to assist you with the risk return combination which is the most appropriate for your situation, but be prepared to stomach some short term volatility and stay the course to get the returns you need.

Your options at retirement The Classic Retirement Annuity fund and the Classic Preservation Pension Plans

Unless you request for an early retirement due to ill health or disability, you may only retire once you have reached the age of 55, or any time thereafter. There is no maximum retirement age. If you have more than one retirement savings product, you are not required to retire from them all at once.

On retirement, you have a choice to either take a portion of your benefit in cash or invest it to provide you with a regular income in your retirement.

From 1 March 2021, the rules relating to taking a retirement benefit from provident fund contributions have changed.

Contributions made to a Provident fund on and after 1 March 2021

Any money contributed to a provident fund from this date will be subject to the same annuitisation rules applied to a pension fund or retirement annuity benefit at retirement: only one third of the benefit may be taken in cash, and the other two thirds must be used to purchase an annuity to provide you with a regular income on retirement.

Contributions made to a Provident fund before 1 March 2021

A provident fund benefit accumulated up to 28 February 2021, plus any future growth, are referred to as your "vested benefit" and may be taken as a cash lump sum in full at retirement.

On receipt of your investment we will record which portions of your benefit are vested and non-vested; and will manage the benefit accordingly. All contributions originating from a pension fund or retirement annuity fund are considered fully non-vested.

Members who were 55 or older on 1 March 2021

Provident fund members who were 55 years or older on 1 March 2021 are exempt from the new rules, in that any further contributions they make to their provident fund after 1 March 2021, along with growth, will also be considered vested benefits. This remains the case if the member transfers this benefit to another retirement fund: the full benefit plus growth after the transfer takes place remains vested.

Your retirement benefit is the value of your investment at the time that we process your retirement instruction. You may be required to pay income tax on the portion of your retirement benefit which you cash out. Tax will be deducted from any cash withdrawal before it is paid out, according to a tax directive issued by SARS. A R500 000 tax-free retirement amount applies to the combined value of all the withdrawals you make before and at retirement, from all of your retirement fund investments. SARS keeps track of all withdrawals made from your retirement funds, and will take these into account when they determine the tax-free amount applicable to you when you retire from our Funds.

Choosing an Annuity

Retirement income products in South Africa are broadly grouped into Guaranteed Life Annuities and Living Annuities.

Guaranteed Life Annuity

A guaranteed life annuity promises to pay you a set income for as long as you live. Some annuities include inflation related increases, or will continue to pay to your surviving spouse should you pass away. The amount of income for which you are eligible will differ from insurer to insurer, and will depend on your projected lifespan based on your age, health and gender.

The advantage of a guaranteed life annuity is that you will receive an income until you pass away, you don't take the risk of poor investment returns or drawing too much income and outliving your savings. However, these benefits are not without cost, and with long-term interest rates relatively low, guaranteed life annuities with full inflation protection and additional benefits can be expensive. Additionally, life annuities do not provide flexibility – once you have purchased the product your income levels and product rules are fixed for life, and you are not able to change your mind or transfer to a living annuity. Another drawback is that life annuities typically do not pay anything out when you pass away, so are not a good option if you want to make provision for loved ones to inherit some of your money.

Living Annuity

A living annuity in an investment product which allows you to choose what to invest your retirement savings into, and how much income you withdraw from your savings every year, within the limits of 2.5% to 17.5% per annum. It offers flexibility to change your income levels or investment risk over time. You may also decide to convert the remaining money in your living annuity to buy a guaranteed life annuity at some point. Any money remaining in your living annuity when you pass away will be paid to the beneficiaries you nominate, free of estate duty and executors fees.

The disadvantage of a living annuity is that you as the investor bear the investment risk, and there are no guarantees. The level of income you select is not guaranteed for the rest of your life and will stop being paid if the value of your investment reaches zero. The income you require may not be sustainable if you live longer than you expected and planned for; if you select an income which exceeds the growth in your account; or if the return on your capital is lower than required.

The STANLIB Default Annuity Option

From March 2019, Retirement Fund law requires each retirement fund to specify a default annuity option for their members at retirement. As an investor in the STANLIB Retirement Funds, you are under no obligation to make use of this default option when you retire, and we recommend that you consult with your financial adviser to decide what is best suited to your circumstances and needs.

Default annuity

The STANLIB Classic Linked Life Annuity product is the default annuity option for the STANLIB Retirement Funds. This is a living annuity that provides you with the flexibility to change your income level annually, adjust your investment portfolio selection at any point, or transfer to another living or life annuity provider should you wish to. You can specify your income as a rand amount or as a percentage, and you can choose how often you would like your annuity income to be paid, selecting from a monthly, quarterly, bi-annual, or annual payment.

As the Classic Linked Life Annuity forms part of the STANLIB Platform offering, the trustees of the STANLIB Retirement Funds are afforded line of sight of the rules, governance and risk management of the product, and can obtain assurance from STANLIB that the product remains well run, and represents an appropriate default option. The product operates under the same ethos as the STANLIB Retirement funds and offers fees which are simple, competitive and transparent. There are no initial fees, transacting fees, exit fees or penalties of any kind.

Default Investment Portfolio

The default investment portfolio selected for the default annuity is the STANLIB Multi-Manager Medium Equity Fund of Funds. The portfolio has a well-diversified and moderate risk profile, and is a well-priced actively managed fund. It is intended to yield a real return to investors with low volatility, and coupled with a low income drawdown level of 4% or less, should provide you with a reasonable probability of your retirement savings lasting for 30 years. If you choose to invest in the default option, you may change your investment portfolio selection at any time should you wish to.

Default Income Percentage

The default solution provides for an annual income of 4%. Setting the income rate at this level and investing in portfolios with sufficient exposure to growth assets should result in a high probability of not drawing down on the capital amount of the investment, and therefore allowing retirement savings to last for the normal duration of a retirement. You will be allowed to adjust your income percentage annually to between 2.5% and 17.5% of the value of your Classic Linked Life Annuity investment.