

STREETWISE FINANCE

“To provide basic financial literacy (‘be streetwise’) to the people of South Africa, one group at a time; thereby creating a broader, more financially literate community and nation.”

Module 4 Retirement

Hollard.

This booklet will help you gain an understanding about retirement



Preparation



Products



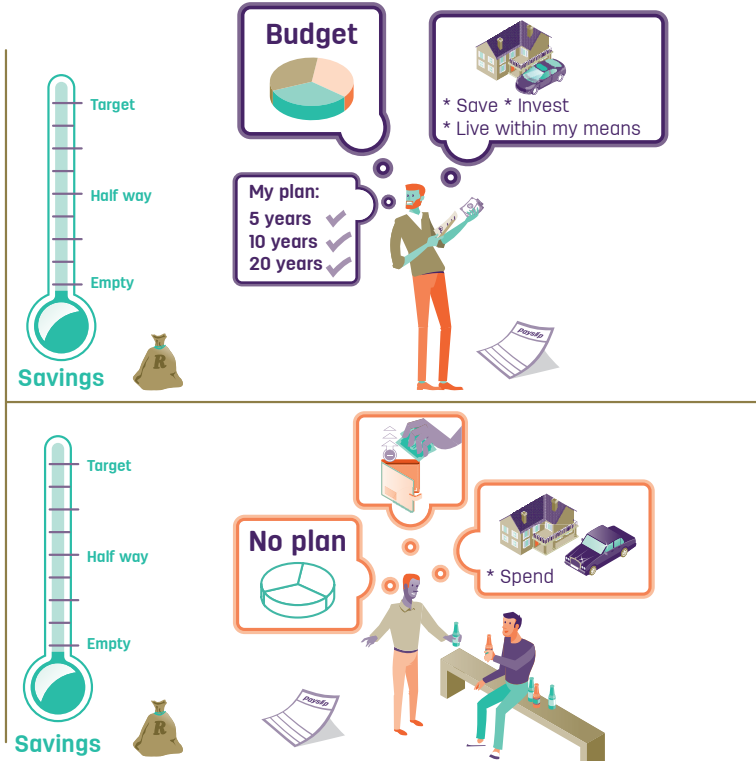
Factors and mistakes

Contents

Retirement planning life cycle	4
Why do you need to plan for retirement?	7
Preparation	9
Retirement products	11
My own retirement goals	13
Retirement planning	14
Retirement statistics	16

Retirement planning life cycle

Proper retirement planning begins with determining where we are in the retirement planning life cycle. The three stages in the retirement planning life cycle are:

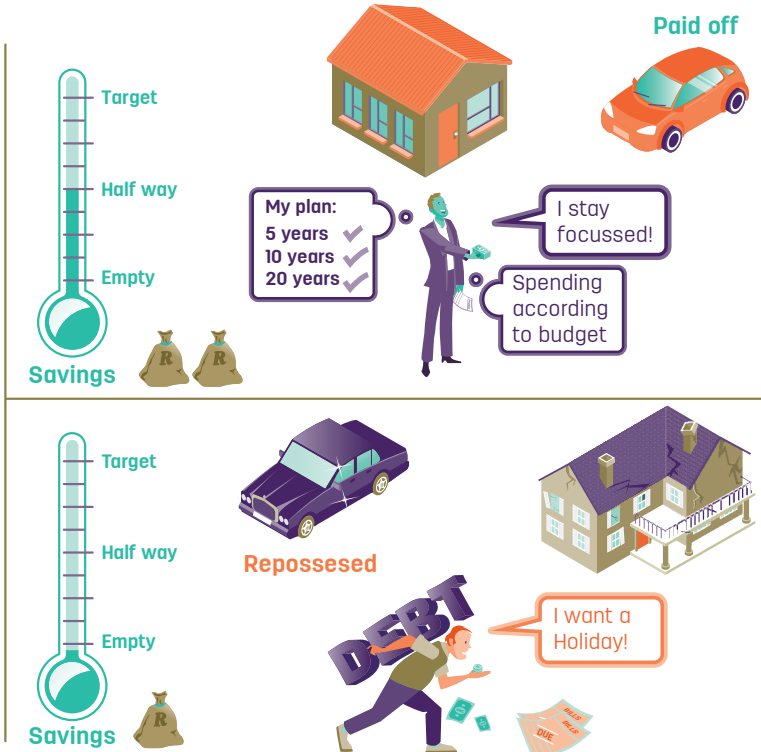


Starting out

- This stage is from age 25 through to 45.
- This is the time when it is most optimal to save, since the earlier one begins to save, the easier it is to attain one's goals.

Retirement planning life cycle (continued)

Final preparation

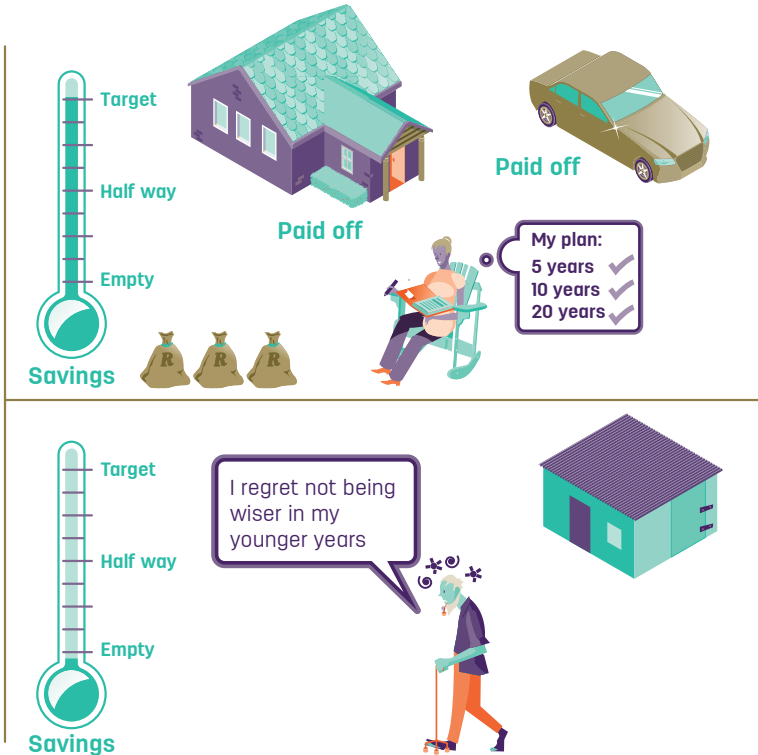


Final preparation

- This stage ranges from 45 to the date one retires.
- It is during this stage that one must regularly review the status of one's accounts and then adjust saving and organise/consolidate accounts in a way that increases the likelihood of success.
- This stage is the last step before retirement; it is critical that it be done right.

Retirement planning life cycle (continued)

Retirement



Retirement

- This is the time when your lifetime of saving and proper planning pays off.
- Once in this stage you will have accumulated enough assets to carry you through the rest of your life.
- You will have determined how to best organise various asset accounts as well as made proper elections on your pensions (including Social Security).
- Without such thrift, saving and planning your retirement can be a rather dismal time in your life.

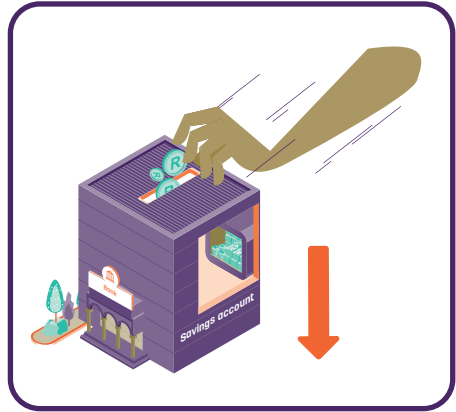
Why do you need to plan for retirement?

Many people dream about their retirement as a time they will spend doing what they love. However, to ensure you are financially taken care of when you reach retirement you need to start planning in your younger years, because you may need more money than you expect.

Here are some reasons why you may find yourself without enough income:



Increasing number of years spent in retirement



Low returns on normal savings

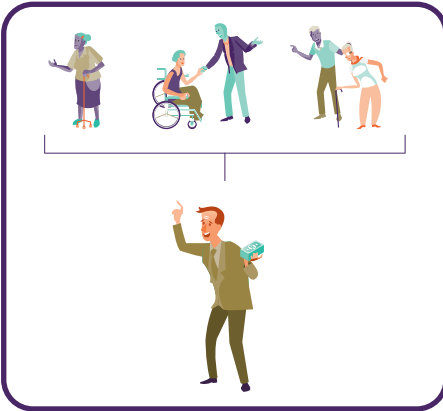


Unforeseen events

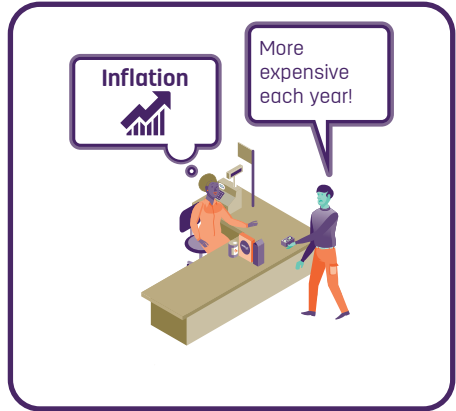


Increasing medical costs

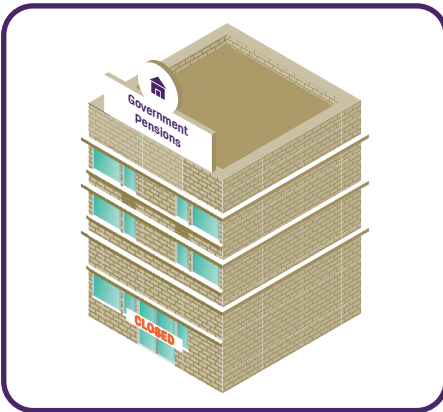
Why do you need to plan for retirement? (continued)



Family unable to support older generations



Inflationary trends

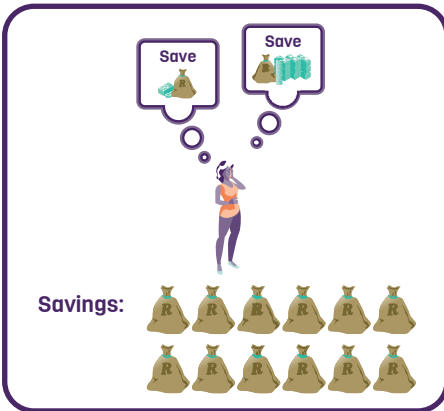


Lack of Social Security benefits from the government

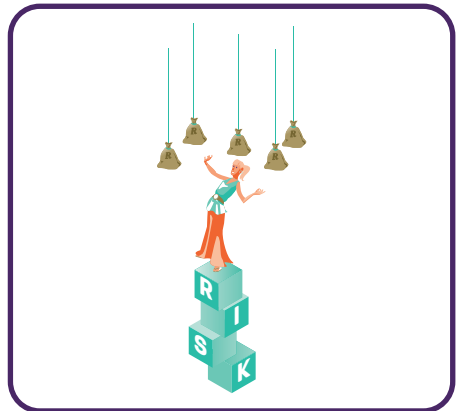


Desire to enjoy hobbies such as going on fishing trips or playing golf

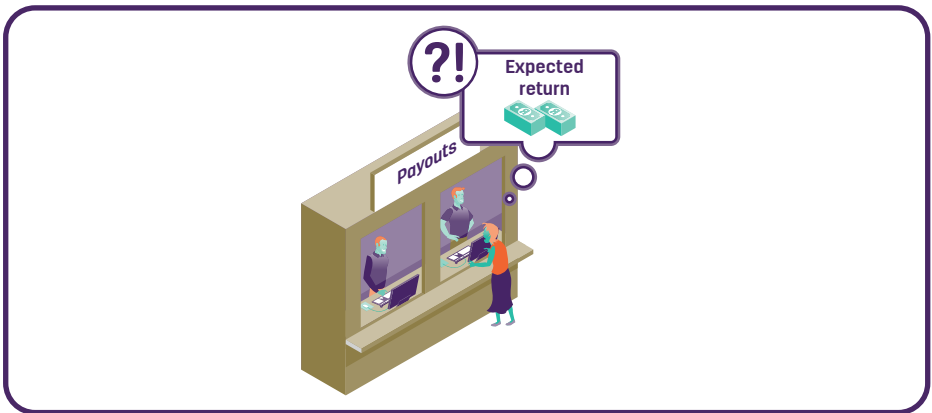
Preparation



Save as much as you can, as soon as you can

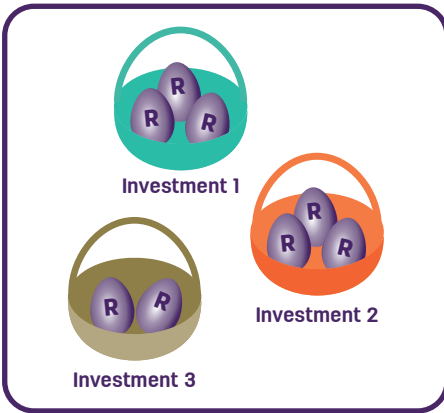


Understand your appetite for risk

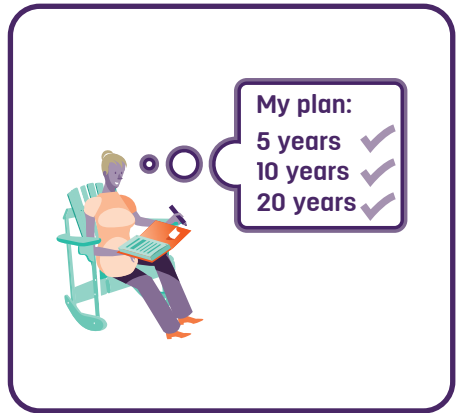


Realistic return expectations

Preparation (continued)



Have a varied investment portfolio




Have the longer term in mind




Receive a tax benefit by having a retirement fund

Retirement products




A retirement annuity is taken out by an individual.




Pays out at retirement age

Payout: Lump sum or monthly pension.
Tax benefit: maximum of 7.5% of salary



An employee pension fund run by the employer or government. Employer contribution = maximum 20% of salary.




Pays out for the rest of your life.

Or: Can be transferred to a new pension fund, when changing jobs. A maximum of 1/3 of final benefit paid as cash.


Payout: 1/3 paid as lump sum, the rest as monthly payouts.
Tax benefit: maximum of 7.5% of salary

Retirement Annuities

Pension Fund




An employee provident fund run by the employer. Maximum contribution of 20% of your salary.



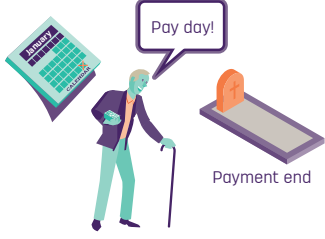
Pays out at retirement age

Or: Pays out when employee leaves job. Can be transferred to a new provident fund, or taken as a lump sum (taxed).

Payout: Lump sum or transferred to another pension fund. Additional benefits (e.g. disability cover).
Tax benefit: maximum of 7.5% of salary



An insurance product bought by an individual.



Pay day!


Payment end


Payout: Monthly payouts from retirement age. This continues for as long as individual is alive.

Provident Fund

Life Annuities

Retirement products (continued)



An insurance product bought by an individual.

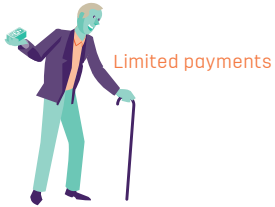


Capital

Payout: Monthly payouts while the rest gets invested so it can grow, to make it last longer. You can run out of funds.

Living annuity


An insurance product bought by an individual.



Limited payments

Payout: This annuity will give monthly payouts for a fixed period of time only.

Term Annuities



Buying shares that are pooled to be collectively managed by a trust.

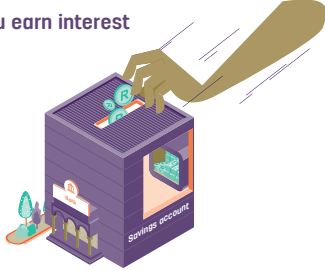


Units

Payout: Dividends are earned or the individual can sell their units at any time to get access to their funds.

Unit trust

 **You earn interest**



Payout: Savings account earns very low interest but individual has immediate access to funds.

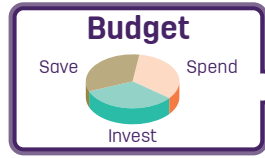
Bank Savings Account

My own retirement goals

What sort of lifestyle would you like to have when you retire and what costs are involved with this? Make some notes on items you need to take action on now; for example, find out about the different retirement funds your company offers.

Retirement planning

Retirement planning involves fitting together many puzzle pieces to provide your ideal solution.



Exp

My plan:
5 years ✓
10 years ✓
20 years ✓



enses

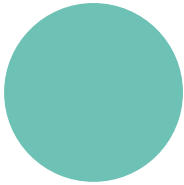


Income



Retirement statistics

1. 9 out of 10 people in South Africa do not have sufficient income when they retire.
2. According to a recent survey of people who have reached the age of 65:



46 %

forced to
continue
working or take
up second
careers



31 %

dependent on
relatives



17 %

dependent on a
state pension



6 %

financially
independent

Notes

Contact Details

Hollard Insurance	011 351 5000
Hollard Claims Line	0800 252 467
South African Insurance Association	011 726 5381
Association for Savings and Investments SA	021 673 1620
FAIS Ombudsman	0860 324 766
Short- Term Insurance Ombudsman	011 726 8900
Life Assurance Ombudsman	021 657 5000
Financial Sector Conduct Authority	0800 203 722
National Credit Regulator	0860 627 627
Credit Information Ombudsman	0861 482 482
Banking Ombudsman	0860 800 900