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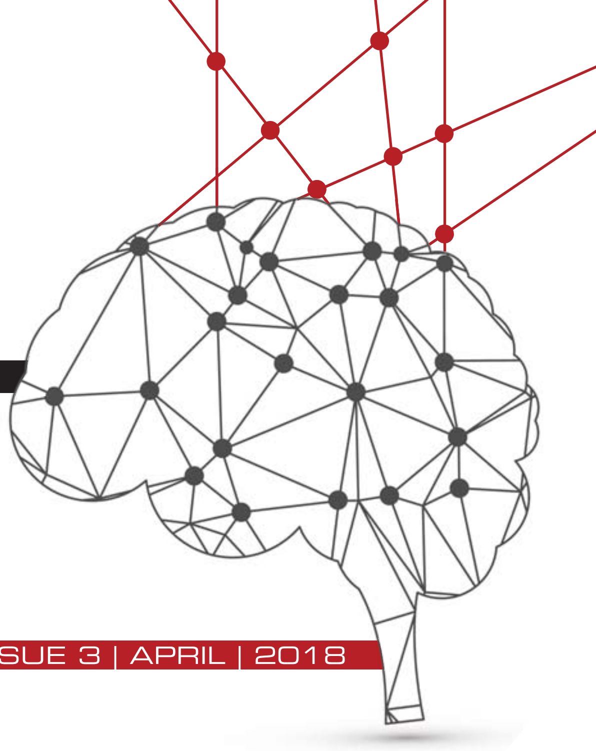
SPARK YOUR INVESTMENT IN RETIREMENT

GREY MATTERS NEWSLETTER

AECI DC Pension Fund

ISSUE 3 | APRIL | 2018



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WELCOME

Welcome to the very first edition of Grey Matters for 2018.

During our life there are certain events or milestones that define and ultimately shape our future. When you think back on your life you will highlight events such as: the day you completed school, the day you graduated or the day you got married or the birth of your first child.

There are so many varying opinions on the keys to success and leading a meaningful, happy, and fulfilling life. Working hard, having discipline, and sacrificing are just a few examples. One of the integral factors necessary to be successful at anything is planning.

An important date that will form part of your time line in the future, is the day you retire. The choices you make today on saving and planning for retirement will have a direct impact on your future financial independence. Please read our interesting articles on this topic and more - we hope you enjoy reading this newsletter.

PLEASE NOTE: Members with existing ID numbers ending in 001,003,005,006,007,009,059,080,100 (that used to indicate race) must visit a SARS office so that SARS can record their new ID number on their system before electing to withdraw from the Fund. This also applies where SARS has the member's passport number and no record of the member's new ID number. The Fund must obtain a tax directive from SARS before paying a claim and old (race-indicating) numbers are automatically rejected by the SARS system. No money can be paid from the Fund without the Fund obtaining a tax directive first.

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ESTATE PLANNING

Planning is key to winding up your Estate quickly without unnecessary delays.

When people die they often leave a mess behind. The reason for this is that they haven't taken the time to write a will, also known as a testament. This is a document setting out the person's wishes for what will happen to his or her belongings when they die. Not having a will can also have extremely serious consequences for the spouse left behind.

Wills, Trusts and Beneficiary Funds
Your last will and testament is one of the most important documents you will ever sign during your lifetime. It is an essential part of estate planning as it stipulates how you want your assets dealt with upon your death.

Your estate refers to everything you own and owe, from property and cars to investments and debts. Proper estate planning will ensure that your estate is set up in a tax-efficient way that benefits you during your lifetime and your beneficiaries after you die.

A properly structured estate ensures that:
- There is enough cash to pay outstanding debts.
- There is an income (and capital if required) for your dependants.
- The estate is distributed according to your wishes.
- Your business interests are protected (where applicable).
- Taxes are minimised (e.g. estate duty and income tax).

As it is a crucial area of financial planning, it is worth getting professional advice if you are drawing up a will. If you do not have a valid will, you die intestate and the laws of intestate succession apply. In other words, the law of the land designates beneficiaries according to specific kinship.

Seven steps in compiling a testament/will

Step 1: Appoint an executor
This person will ensure that your last wishes in your testament will be fulfilled. You can nominate your spouse, your adult son or daughter, your lawyer or auditor or even your bank or trust company.

Step 2: Appoint a guardian
If you have minor children, it is of the utmost importance that you plan for their care. Your testament gives you the opportunity to appoint someone for the loving care of your children in case of your death.

Step 3: Compile a list of assets and liabilities
Make a complete list of everything you own as well as all your short- and long-term debt. Your assets include fixed property, personal belongings, vehicles, life policies and savings. Your liabilities include house bonds, bank loans or unpaid taxes.

Step 4: Appoint your heir
Make provision for your heir to receive the inheritance before any other bequests are paid out.

Step 5: Consider friends, churches, educational- and charity organisations
You might decide to leave an amount or specific item to a loyal friend, a faithful worker, your favourite charity organisation or educational institution. Make sure that you are in possession of the person's or institution's correct name and address for inclusion in your testament.

Step 6: Instructions regarding your burial/cremation must be set out clearly
If it is your wish to donate your organs, include this in you testament, inform your family members, and doctor about your decision.

Step 7: Consult your lawyer
It is also advisable to consult your lawyer regarding the compilation of your testament.

Testamentary Trusts
A Trust can be established in your will in order to hold and administer assets on behalf of a beneficiary. Whether it makes sense to set up a Trust fund depends on the beneficiary's circumstances and the value of the assets.

Some reasons for setting up a Testamentary Trust include:
- To provide for maintenance obligations.
- To ensure that minors' inheritances are invested until a certain age (age of majority is 18, though a trust can last for longer).
- To administer assets on behalf of immature/handicapped beneficiaries during their lifetime.

PLEASE NOTE: The benefits payable from retirement funds (pension, provident and retirement annuity) when a member dies do not form part of your estate and are therefore not governed by your will. These benefits are paid at the discretion of the respective Board of Trustees in terms of Sect 37C of the Pension Funds Act.

Beneficiary Funds

On the death of a member the Board of Trustees will meet to determine the legal and factual beneficiaries of the member. Should any of these beneficiaries be minors, i.e. under the age of 18 years or physically/mentally challenged majors, their portion could be paid into a registered Beneficiary Fund.

Advantages of Beneficiary Funds

- Improved protection of beneficiaries' benefits and rights
- Better governance and reporting requirements
- Control and regulation by the Financial Services Board (FSB)
- Recourse to the Pension Funds Adjudicator for complaints

Consult your Financial Advisor

It is also advisable to consult your financial advisor/lawyer regarding the compilation of your testament.

Please consider your family's liquidity needs

How much cash would your family need if you were to die or become disabled? How much do they need to survive – for monthly bills, education and necessities?

Many members underestimate the liquidity needed to continue with normal life. Remember that policies outside the Fund will pay out immediately, whereas the payout from the Fund is subject to the 37C procedure (distribution of death benefits by Trustees of the Fund) that may take some time to complete.

A person with a large amount of debt may need additional cover to protect their dependants from being left with nothing, whereas a person with additional policies (outside the Fund) may have enough cover to protect their family.

EARLY RETIREMENT NEEDS SERIOUS CONSIDERATION

There are a couple of negative factors that you need to consider before thinking of early retirement:

Loss of future earnings: The earlier you retire the more certain you need to be that your savings will last until you die. You must accept that you are forfeiting the opportunity to increase retirement savings.

The best financial years of your life: The last 10 years before retirement is normally a period when you have no dependent children, allowing you to increase your savings. You are also able to achieve the biggest growth on your investments due to the large capital that you have built up in your fund. This is when the full force of compound interest is at work.

Medical benefits: Medical inflation is high and many employers do not contribute to retired employees' medical insurance.

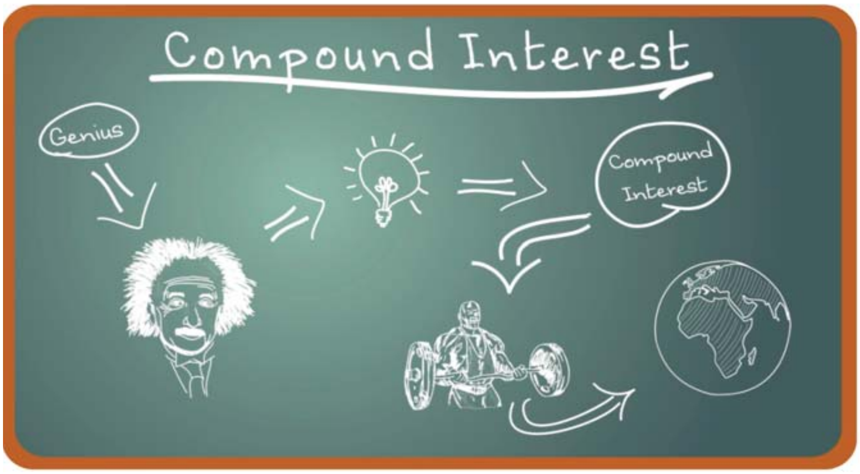
Your level of debt: You should have paid off your debts by the time that you retire. You should postpone your retirement if you have a high level of debt. You will reduce your pension significantly if you use the lump sum benefit that you receive at retirement to pay off your debts.

DID YOU KNOW?

Your retirement savings in the first 10 years of your working life (i.e. assuming you contribute for 30 years), could contribute towards 50% of your pension. Cashing these in when you change jobs means giving away half of your retirement savings.

Preserving your benefits when you exit the Fund is the smart choice. You can preserve your benefits by transferring this to your new employer's fund, to a preservation fund or to a retirement annuity.

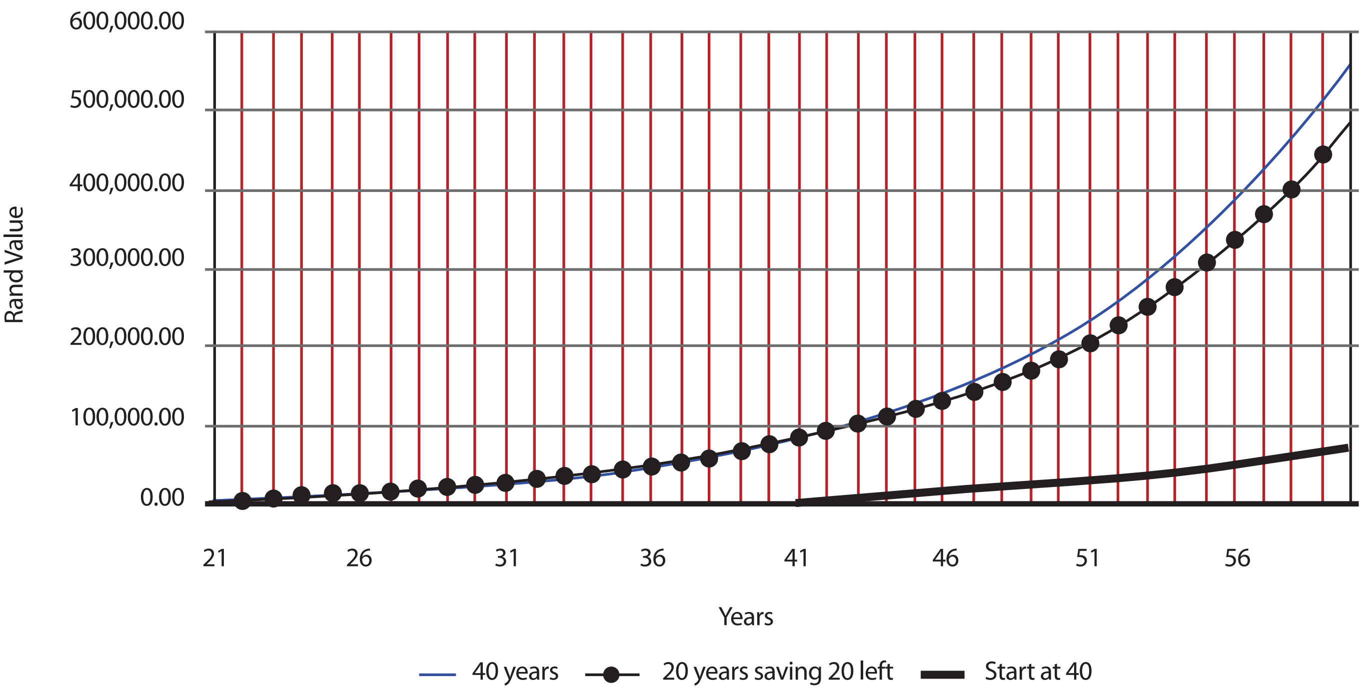
COMPOUND INTEREST IS ONE OF THE STRONGEST FORCES ON EARTH



Albert Einstein said that compound interest was one of the strongest forces on earth, this is why!

If you save R100 per month for 40 years at 10% compound interest per annum you would have accumulated almost R600 000 at the end of the period. If you saved R100 per month for 20 years and then left the money to grow for another 20 years your money would grow to almost R500 000. But if you only start saving the same amount for 20 years from age 40, you will only have saved approximately R90 000.

Time and Compound Interest 10% pa R100 pm contribution



The difference between the two who started at age 20 and the one who started at age 40 shows the power of compound interest. Don't wait, start making additional savings today! Additional contributions up to R350 000 p.a. are tax deductable.

HAVE YOU SAVED ENOUGH TO RETIRE?

As a member of the Fund you already have a pool of money saved for retirement, and depending on your length of membership of the Fund and growth received, your pool of money could be quite substantial.

For many members of funds however, the sad truth is that although they have capital saved for retirement – it might not be enough to sustain their standard of living after retirement. Most people will be able to live on about 70% of their working salary during retirement. This is because your bond should be paid off, you should have less dependants and less debt.

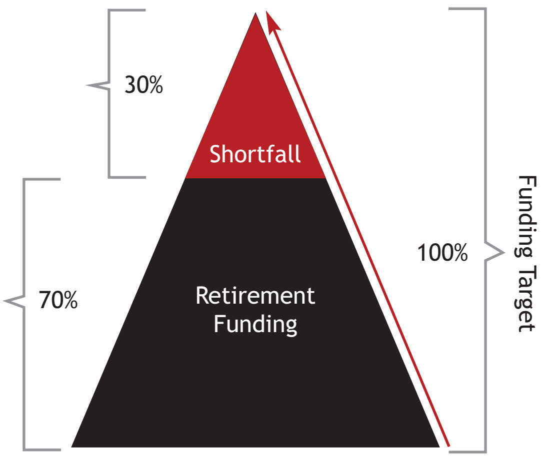
Your final retirement benefit (accumulated credit at retirement) will be influenced by many factors over the years – level of contributions to your fund; investment growth on your assets; inflation; and change of employer where your fund investments were not preserved. Each one of these factors needs serious consideration when doing your financial planning.

What is a replacement ratio?

Your Replacement Ratio can be described as your Projected monthly pension at retirement divided by your Projected monthly salary at retirement. Ideally you want to replace your salary with a pension at retirement.

A replacement ratio of less than 100% means you will receive a pension/income after retirement that is less than your salary before retirement.

For example: If Joe Soap has pensionable earnings of R10,000 a month just before he retires, a Replacement Ratio of 65% would mean that he will receive a pension of R6,500 per month (65% of R10 000) on his retirement.



Why is this information important?

Only one in five South Africans have enough money saved at retirement and are financially independent. Most rely on family and the state old age pension to survive. It is important to make sure how well your fund credit or fund value is growing and whether or not you will be able to replace your salary at retirement with a pension income that will be sufficient for you to live from.

DID YOU KNOW?

Financial advisors calculate that you will need approximately between 12 and 16 times your annual salary as a retirement capital in order to buy a pension that will sustain your standard of living in retirement. So if you are earning R10 000 per month as in the example used above you will need R1,9 million at retirement (if you use 16 times your salary) to sustain your standard of living at retirement.

If you would like to see what your projected retirement income benefit will be please log onto the Administrators Website at http://www.mra.momentum.co.za and select: Login AECI Member. Here you will find a calculator which will allow you to insert parameters to provide a better projection. There is detailed information in the form of a member guide that will assist you in gaining a better understanding of the projected retirement income values and some education about the decisions you would have to make at retirement.

Conclusion

Your retirement is your responsibility and it is important to ensure that you are on track to meet your goals to ensure a financially secure future. We urge you to use the calculator to regularly assess whether you are on track to meet your goals. It is equally important that you seek Financial Advice from a qualified financial advisor when making any financial decisions that could impact your retirement.

DID YOU KNOW?

Tax-free savings accounts allow individuals to save for the longer term and offer flexible contributions that do not require individuals to commit to any future contributions. An individual, including your spouse and children, may each contribute up to - R33 000 per year in tax-free savings and investments with a lifetime contribution limit of R500 000. All returns from such products will be tax-free in the hands of the individual who owns them. Investors are able to access their savings and investments within seven business days.

MARKETS PERFORMANCE - 28 FEBRUARY 2018

The local equity market, as measured by the capped SWIX fell 0.8% in February 2018 with the rand strength weighing on the performance of Resources and Industrials which fell 4.8% and 3.0% respectively over the month of February 2018. However, Financials were buoyed by the positive political and economic developments locally, gaining 2.6% over the same period. Property shares remained under pressure amid a continued sell-off in the Resilient group of shares. The SA Listed Property index tumbled 9.9%, for the second month in a row.

Investors welcomed the string of changes to the local political landscape which commenced with Cyril Ramaphosa being sworn in as South Africa's new President. The National Budget Speech was also positively viewed as reflecting a more sustainable fiscal trajectory and an improved economic outlook. However, gains were eroded later in the month on the back of a motion in parliament to proceed with land expropriation without compensation. The rand strengthened against most major currencies, appreciating by 0.6% against the US dollar, 2.7% against the euro and 3.7% against the British pound.

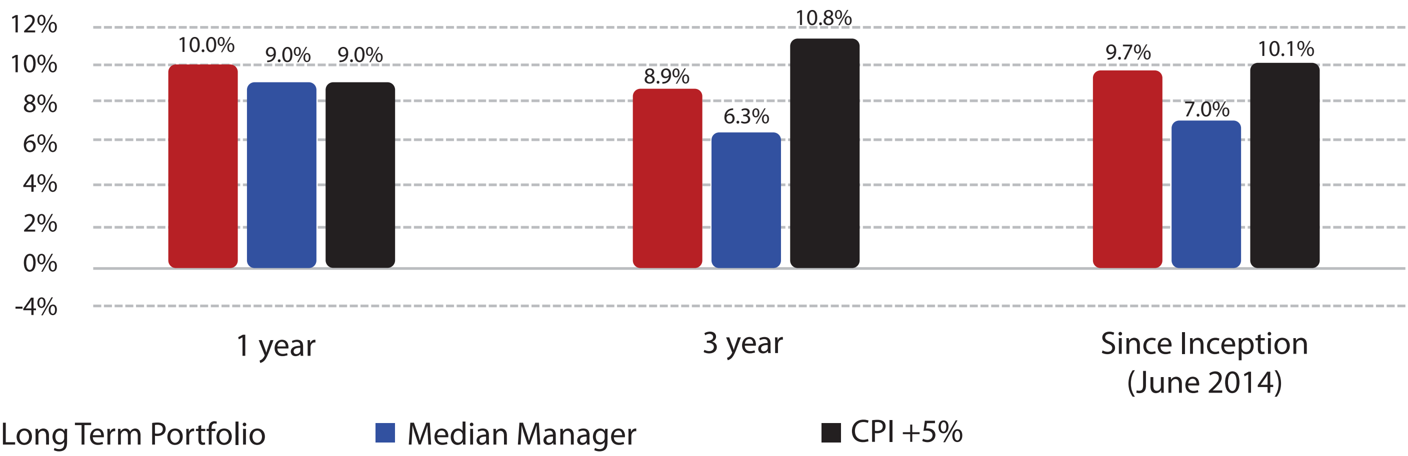
Global market volatility heightened in February amid expectations of an accelerated path to tighter monetary policy in the US, with the MSCI World Index falling 4.1% in US dollar terms over the month. The expectations of tighter monetary policy in the developed world incited sell-offs in global bond markets during February, with the Barclays Capital Global Aggregate index falling 0.9% in US dollar terms for the month of February.

INVESTMENT PERFORMANCE

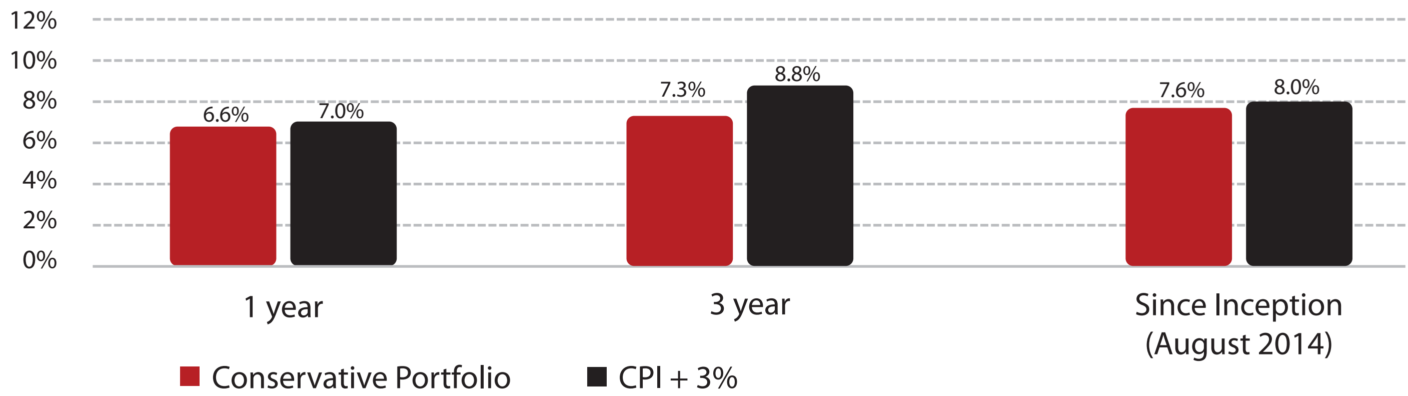
The graphs below show the performance of the Life Stage Model Portfolios for periods to the end of February 2018.

Each Portfolio has a different performance target as follows:

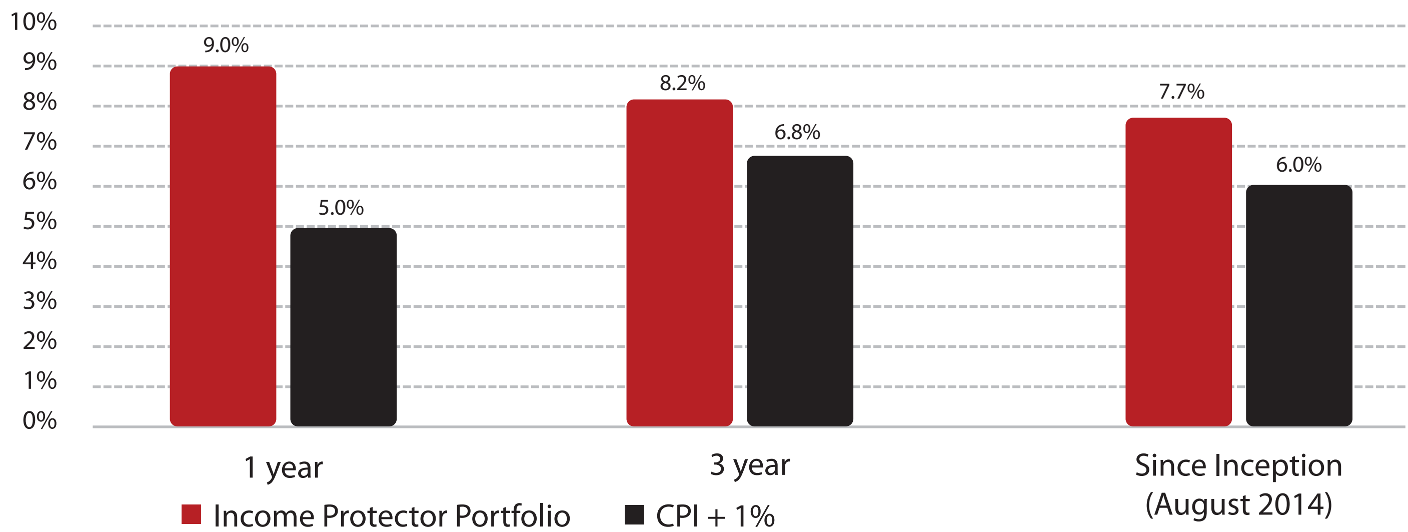
Long Term Portfolio



Conservative Portfolio



Income Protection Portfolio



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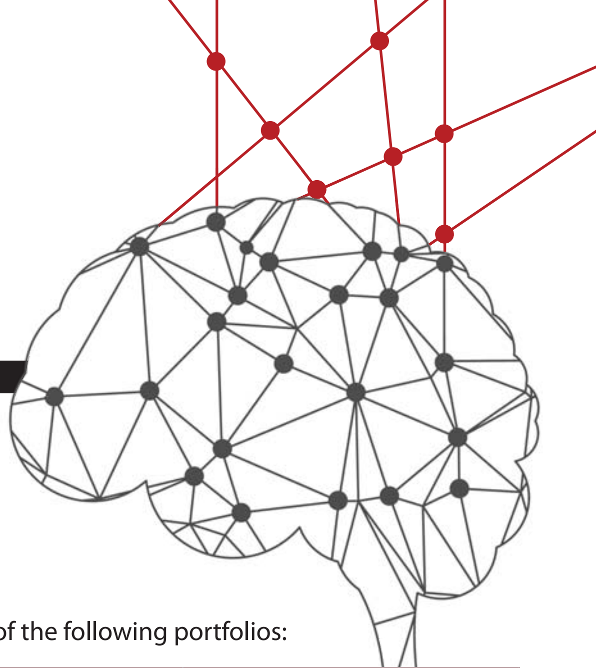

Members have a choice of either the Life Stage Model or may choose one or more of the following portfolios:

PERIOD ENDED 28 FEBRUARY 2018	1 YEAR	SINCE INCEPTION	INCEPTION DATE
Long Term Portfolio	10.0%	9.7%	01-Jun-14
Investec Domestic Balanced	14.3%	6.3%	01-Nov-15
Coronation Domestic Balanced	9.7%	5.6%	01-Nov-15
Allan Gray Domestic Balanced	10.6%	10.1%	01-Nov-15
Orbis Global Equity	11.8%	11.5%	01-Nov-15
Hosking Global Equity	9.4%	5.1%	01-Sep-16
Veritas Global Equity	5.0%	4.3%	01-Oct-16
Resolution Capital Global Property	-6.4%	-8.0%	01-Oct-16
Conservative Portfolio	6.6%	7.6%	01-Aug-14
Investec Cautious Managed	6.9%	7.3%	01-Sep-15
Coronation Inflation Plus	6.8%	6.7%	01-Jan-16
Income Protector Portfolio	9.0%	7.7%	01-Aug-14
Investec Money Market	9.2%	8.2%	01-Sep-14

THE SEVEN HABITS OF FINANCIALLY HEALTHY RETIREES

A recent Sanlam Benchmark study showed that financially healthy retirees have the following in common:

1) **They start saving early** - they save for 33.2 years compared to the average of 29 years.
2) **Save as much as possible** - financially healthy retirees save 8% (excluding the employer's contribution) of their salary on a monthly basis, the average is 7.3%.
3) **Don't rely on the company** - financially healthy retirees have a retirement annuity in addition to their company retirement fund.
4) **Leave your savings alone** - Only 12% of these retirees dipped into retirement savings when they switched jobs, on average 21% did.
5) **Widen your nets** - 98% of well-off retirees have additional sources of income, compared to 68% on average.
6) **Use the pros** - 88% consulted a financial adviser before retirement and 72% after retirement. The average is 58% before and 34% after retirement.
7) **Make sure your money grows after retirement** - 48% of well-to-dos have a guaranteed escalation annuity and only 8% have a level annuity.

A FINAL WORD

The future belongs to those who prepare for it today!

Malcolm X