

Wealth for Life

Retirement Investing

 **STANLIB**

the art and science of investing

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Investing for Retirement

It is difficult to think about life after work, especially when you are still young, or are immersed in your career, family and social life. But in order for you to continue to live in a carefree manner one day, it is worth putting away a regular amount now to help fund that freedom. Some may believe that a windfall will happen one day – or that the lottery ticket will eventually pay out, but in fact there is an easier, if more boring way to achieve financial freedom, with a lot more certainty and a lot less anxiety.

Why save for your Retirement?

International studies show that people who did even a little retirement planning had twice the savings as those who did almost none. In South Africa, nearly half of us depend on family support once we reach retirement age. Another 31% are forced to continue working while 16% rely on state pensions. Very few of us manage to achieve the dream we had of care-free retirement. Saving for retirement is key to your entire financial plan – as it is likely to be the longest savings exercise you ever attempt. This means that it can actually be the easiest, as you have more time, and it is easier to create real wealth. It also means that you are likely to have more investment options and that you will be able to take more risk in order to achieve better returns.

Compounding

Having time on your side also means that you can depend on the power of compounding. Compounding starts when the income (interest or dividends) you earn from the underlying securities in your investment are added back to your investment account. The greater value then attracts further income and you are then earning income on your income.

The power of compounding can be seen in this example in which an investor starts investing R200 a month at different ages. Investment growth is assumed to be an average of 10% per year.

Age	Value of investment at age 60 (with 10% escalation)		Cost of delay
25	766 000	(2 439 000)	
35	266 000	(657 200)	1 781 800
45	83 500	(148 700)	2 290 300
55	15 600	(18 700)	2 420 300

*Costs and charges excluded. These values are for illustrative purposes only and are not guaranteed.

The cost of delaying your retirement planning can be enormous. Starting your retirement investing at the age of 45 in this case would mean a loss of retirement savings of R2 290 300. If you have already left it late to start saving for your retirement, you should consider putting away as much as you can possibly afford. So, where a 25 year old should aim to save about 15% of their earnings, a 45 year old would have to save 47% of their earnings to achieve the same financial position at retirement as a 25 year old.

Successful retirement saving = starting early or saving more, combined with sticking to a clear investment strategy

Taxation benefits

Tax breaks have been put in place to encourage you to save, and include some rules to ensure that you are not tempted to dip into your retirement savings before you reach retirement. This all helps you to achieve what is likely to be your ultimate retirement goal – financial freedom to enjoy your leisure time and to spend more time with your family.

To reward you for putting money aside to make you self-sufficient after retirement, your contributions to a registered retirement vehicle, such as a retirement annuity, are tax deductible up to an amount, whichever is the greater of:

- 15% of your non-retirement funding income
- R3500 less your deductible pension fund contributions
- R1750

Investors in a retirement annuity also benefit from tax free growth in the fund. Although tax should not be the primary reason for choosing a vehicle, it certainly should be considered as part of your decision-making process, and where possible, take advantage of the benefits.

Beating inflation

Inflation can erode any incidental savings you may have accumulated over your working life. To illustrate this, consider that R1000 in terms of today's spending capacity will only be worth R500 in 12 years time, at an inflation rate of 6%. So you cannot afford to leave money sitting idle in a bank account, for long periods of time. It is prudent to invest this money. If you have time, consider investing in shares on the equity markets. Equities not only have historically provided the best returns, they also have the potential to provide significantly better returns than other types of investments over the long term, despite the underlying volatility. Usually the more risk you are willing to take, the greater the potential return on your investment. Registered retirement vehicles have rules around how much exposure to equity you may have within your portfolio, so that not too much risk is taken with your hard-saved retirement capital. Equities are one of the only asset classes to have convincingly beaten inflation over time.

How Can I Save For Retirement?

You may choose to invest in a range of collective investment schemes directly, or you can use STANLIB's retirement products. The STANLIB Retirement Range offers you cost- and tax-effective ways of taking advantage of tax incentives which reward you for saving for your retirement. The retirement saving range includes a retirement annuity and preservation funds.

STANLIB Retirement Annuity

This is a savings mechanism that can be used by all investors, including company employees, professionals, small business owners and unemployed individuals. It is a vehicle in which new retirement money can be invested either as a lump sum or monthly debit order and can either be used as the only retirement savings vehicle or as a supplementary option to your existing pension or provident fund.

STANLIB Preservation Plans

Preservation plans are retirement fund vehicles specifically aimed at and created for preserving the retirement benefits of members in provident or pension funds, for instance when you change jobs.

Choosing the underlying funds

Once the decision has been made as to what retirement product you require, the underlying funds can be chosen. It is important to create a portfolio of funds that is aligned to your investment goal and risk profile. STANLIB has one of the widest ranges of funds in the industry and a proven track record of providing solid returns for our investors. If you would like to add to the STANLIB funds in your portfolio, there are a number of other reputable companies' funds on offer.

Investing in Retirement

Some of us can't wait to retire, while others dread it - fearing the uncertainty of a changing lifestyle as well as all the financial decisions that have to be made. Regardless of which camp you fall into, it is worth remembering that there are easy, uncomplicated and flexible options open to you at retirement when considering your financial future.

Many investors make the mistake of thinking that as long as they have saved for retirement they don't have to do any planning thereafter. However, it becomes really important to evaluate your hard earned savings against your future lifestyle requirements, as well as the length of time that you believe you need those savings to sustain you.

Making a plan

Most of us will have some form of pension or provident fund. Usually the money from the pension fund will pay you a monthly income. In general this income is unlikely to allow you to maintain your current expense levels at retirement age, and therefore most wise investors have also put money aside in a retirement savings vehicle such as a Retirement Annuity (RA). The money from the RA can be converted at retirement age into a living annuity, which allows you to manage your additional income requirements in a flexible manner while still benefiting from the tax benefits of a retirement vehicle.

Taxation benefits

Investors in a living annuity benefit from tax advantages, such as tax free growth until the money is withdrawn from the funds. Although tax should not be the primary reason for choosing a vehicle, it certainly should be considered as part of your decision-making process, and where possible, taking advantage of the benefits.

Making the most of your retirement savings

Retirement objectives are built based on a number of assumptions, including how much money you will need each month in retirement to fund your lifestyle, the investment returns and inflation rates while in retirement, as well as your tax rate. To illustrate how changes in these assumptions can affect your retirement capital, let's look at the following example. Assume that your lump sum from your RA is R5 million, that you expect the investment to have a real return of 5% per year (i.e. beating inflation by 5%) and that inflation is assumed to be 6% per year over your retirement, with your individual tax rate being 30%. You now need to decide how much money you will require after retiring in order to finance your monthly retirement lifestyle.

	Scenario 1: You draw R15 000 per month after tax	Scenario 2: You draw R30 000 per month after tax	Scenario 3: You draw R40 000 per month after tax
Length of time before your retirement capital runs out	Your retirement capital should never run out	13 Years	8 Years and 11 months

*Costs and charges excluded. These values are for illustrative purposes only and are not guaranteed.

These scenarios illustrate how much of a difference the size of the monthly withdrawal makes. Even with a reasonably good real return of 5%, your capital will run out if you draw too much income as scenarios 2 or 3 show. Obviously if you are retiring at 80, you may not think that this is a problem, but if you retire at 65 there is a strong probability that you will outlive your capital.

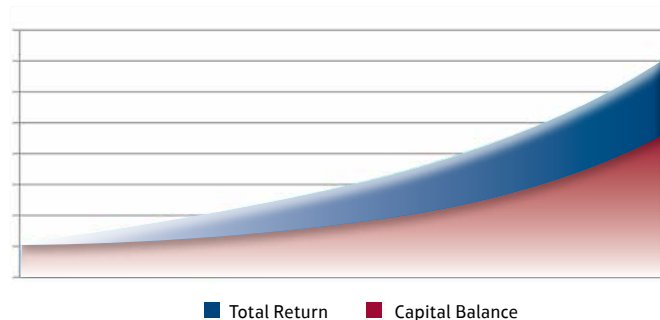
The battle between the Annuity amount and Capital value

There are three basic scenarios you could face once you are fully retired and living off your retirement capital. The future of your retirement capital hangs in the balance between how much income you receive (annuity) and how much growth you are getting from your capital. As a simple example, consider that you have R100 capital and you are earning R10 from that as growth. If you only need R10 as income then your R100 remains intact. If you require R11 as income then your R100 will reduce by R1 to make up the difference. Similarly, if you only need R9 as income then the additional R1 you aren't spending is added back to your capital amount – which then continues to grow with the additional benefit of compounding.

The first scenario is the most favourable:

Growth > Annuity

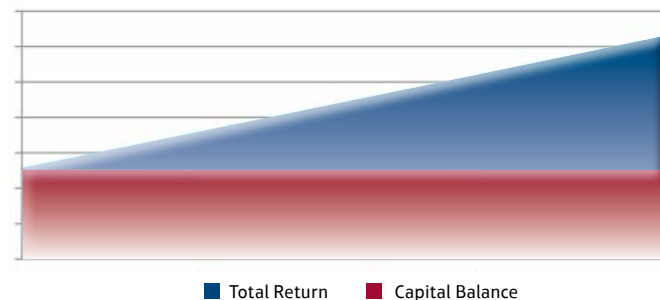
You have accumulated a large enough lump sum during your income earning years so that the annuity you take does not eat away at your capital. While your annuity is lower than your investment growth, you are actually building a larger retirement capital base.



The second scenario is a balancing act:

Growth = Annuity

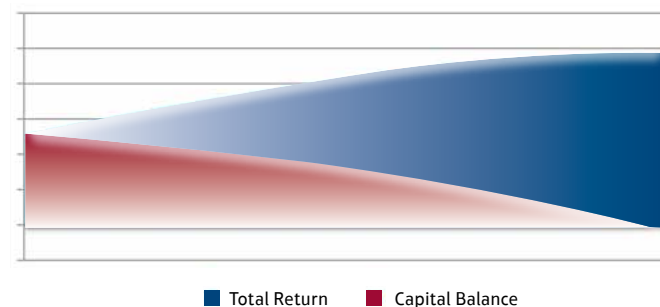
You have a retirement base that can provide an annuity that covers your income requirements. As long as the growth you are receiving is the same as your annuity, then your capital remains stable. The problem with this scenario is that growth rates, or returns from your investment do not remain constant and rise and fall which will have a direct impact on your capital. The biggest risk in this scenario is that your income doesn't increase to counter the effects of inflation, so your real annuity is actually declining all the time.



The third scenario is least favourable:

Growth < Annuity

You have a retirement base that is not large enough to accommodate your income requirements. If you draw the income you require then your capital base will be depleted. Hopefully it won't run out before you do. Alternatively, you will have to reduce the income you receive – somehow – so that your capital base remains intact.

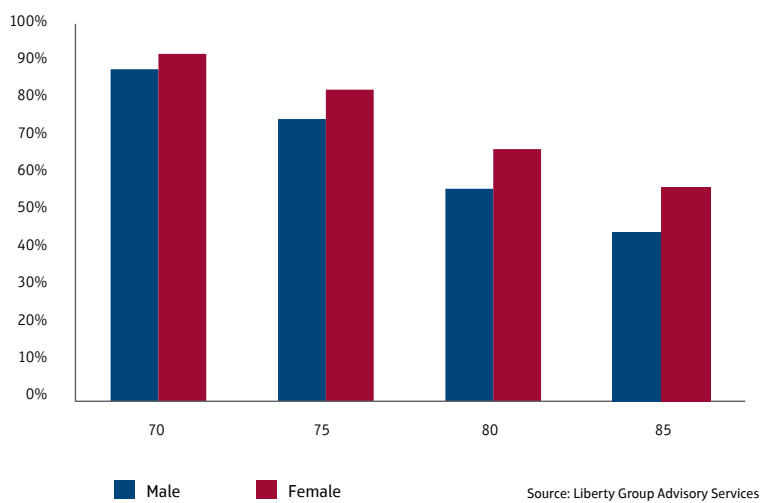


Successful retirement saving = keeping your monthly income withdrawals as low as possible in the beginning, combined with sticking to a clear investment strategy.

Life Expectancy

Making sure that you do not draw too large a monthly income allows your living annuity investment to continue growing. This allows you to benefit from the power of compounding even after you have retired. Too many people think that they don't have to do any further investing with their money once they reach retirement age – yet it has been proven that for those investors who reach 65, they are likely to live for at least another 15 years, if not more.

Probability of survival at age 65 to age 85



It is therefore important that you continue to grow your capital so that it can sustain you all the way through your life.

How can I invest my money in retirement?

Once you reach retirement you will hopefully have built up at least one of two lump sums, made up of after-tax money, and/or pre-tax money. It is these lump sums that will have to provide you with an income for the rest of your life. They must be invested wisely, and the investment options you have are dependent on the tax treatment of your original investment. After-tax money can be invested directly in a range of collective investment schemes; while it is required that pre-tax money be invested in an annuity vehicle.

Inflation can ravage your retirement savings. Remember our example, R1000 in terms of today's spending capacity will only be worth R500 in 12 years time, at an inflation rate of 6%. You should invest to counter inflation, even in retirement. The STANLIB Retirement Range offers you a cost effective way of managing your retirement savings, while allowing you to structure your investment portfolio in the most appropriate way for your personal needs.

STANLIB Linked Life Annuity

When you retire you can use the lump sum from your Retirement Annuity or Preservation Fund to purchase a STANLIB Linked Life Annuity which will provide you with a regular income during retirement. Your income payments are directly linked to the performance of your underlying investments. An annuity of between 2.5% and 17.5% can be selected to match your income needs and this can be adjusted annually. You can switch between underlying unit trusts freely to capitalise on performance or enhance protection of assets. On death, the capital remaining in the plan is distributed to your beneficiaries. You do however bear the risk of running out of capital if you outlive your savings.

Choosing the underlying funds

Once you have decided to invest in a STANLIB Linked Life Annuity, the underlying funds can be chosen. It is important to create a portfolio of funds that is aligned to your investment goal and risk profile. STANLIB has one of the widest ranges of funds in the industry and a proven track record of providing solid returns for our investors. If you would like to add to the STANLIB funds in your portfolio, there are a number of other reputable companies' funds on offer.

Why STANLIB?

STANLIB provides access to one of the most comprehensive ranges of unit trusts in the country as well as the opportunity to invest in a wide range of retirement products, which also provide access to additional funds from other companies.

STANLIB was established in 2002 through the merger of Liberty Asset Management and SCMB, and is wholly owned by the Liberty Group. Standard Bank is a major shareholder, together with a number of BEE organisations dedicated to the advancement of the previously disadvantaged.

The company has a presence in eight African countries. With over 400 000 clients and managing more than R300 billion worth of assets, STANLIB aims to continue satisfying clients, some of whom have been with the company for the last 40 years.

STANLIB has a proud track record as a leading investment manager, particularly in the fixed interest and property areas. We also offer top fund management in a broad range of other asset classes both locally and globally. Our fund managers are able to tap into one of the most respected economic think tanks in the country.

Our investment approach

STANLIB is well positioned to add value to any retirement portfolio. Our skills lie in proactive, valuation driven asset management. We believe that we can add value through our superior and proprietary research backed by a rigorous investment process, with a specific focus on asset valuation. We actively seek out assets which trade at levels below their intrinsic value.

It is our view that each investment area requires different skills and approaches and hence we create small teams, each with a dedicated focus. These multi-asset teams allow us to appoint talented and passionate people with the specific skills to deliver the best potential outcome for our clients, backed by our rigorous process.

STANLIB employs over 40 investment specialists. Some focus on specific areas within the equity, property and fixed interest sectors, while others are specialists in asset allocation. We have diversity in our investment team as we believe that it is only through recruiting independent thinkers that we can provide our clients with the diversity of specialist skills they need.

We follow the same philosophy in our approach to offshore investing but where necessary, we complement our own in-house skills by carefully selecting experienced asset managers who share the same valuation driven approach.

Disclaimer and statutory disclosure

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. An investment in the participations of a collective investment scheme in securities is not the same as a deposit with a banking institution. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments limited. ("the Manager"). Commission and incentives may be paid and if so, would be included in the overall costs. Some portfolios forward price while other portfolios price historically. Consult the Manager for details. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Liberty is a full member of the Association for Savings and Investments of South Africa. The manager is a member of the Liberty Group of Companies.

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