Quantum Leap

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INSIDE THIS ISSUE:

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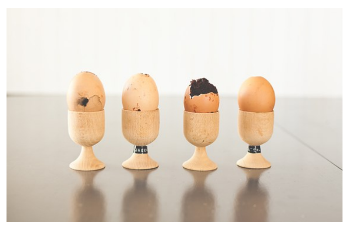
Rotten Eggs

In the April 2015 issue of Quantum Leap we focused on the recipe for a successful retirement and a meaningful retirement benefit. We dis-cussed the ingredients of time, compounding and the level of contributions. In this issue we are looking at the rotten eggs. A rotten egg is something you don't expect, and something you will never forget. This egg will ruin your entire recipe for a meaningful retirement benefit if you don't take immediate, drastic and long term steps to con-trol or rectify the damage.

The rotten eggs of retirement planning are divorce, re-trenchment, ill health or death.

Divorce: Members who get divorced could lose up to 100% of their pensionable interest to their ex-spouse. The division of assets at di-vorce depends entirely on the negotiation between the par-ties. In the majority of di-vorce cases that we see, members lose 50% of their pensionable interest, but there is no law that stipulates that the amount is limited to 50%. We also come across divorce orders where 100% of the member's pensionable interest has to be paid over to their ex-spouse.



The unhappy fact is that once the dust of divorce has settled, you will be poorer than you were during your marriage. The upside is that you will know exactly where you stand financially and what you need to do to get back on track. One of the ways to do this is to start to make additional voluntary contributions to your retire-ment fund as soon as you are in a financial position to do so.

The timing of your divorce will affect your financial plan to get back on track. Divorc-es often happen at the time when the children leave the home, which puts you well into your 40's or 50's. This means that you don't have that much time left to make up for lost savings, and you need to implement drastic changes to restore your re-tirement funding. If the di-vorce happens earlier in your working career, in your late 20's or early 30's getting back on track could be achieved with less severe intervention.

The rotten eggs of retirement planning are divorce, re-trenchment, Ill-health and death.

Retrenchment: This rotten egg will potentially deplete your retirement sav-ings. In the immediate future after retrenchment your ini-tial reaction will be to take your entire withdrawal bene-fit in cash to pay for house-hold expenses. You can con-tain this damage by delaying a cash payment until such time that you are more cer-tain of your future, and until you have prepared a budget of anticipated future income and expenses. As is the case in a divorce, the timing of the retrenchment will have a

Rotten Eggs...continued

"A rotten egg is a disaster, but it need not be a catastrophe."

great effect on your financial planning. Retrenchment in your 50's or 60's will leave you with very little time and opportunity to make up for the shortfall in your pensionable interest and very few people can actually afford to retire early. Our advice is that accrued retirement monies be used extremely sparingly. Once you are financially back on your feet the portion of your retirement benefit that was not spent during the time of retrenchment could be used to invest again toward your retirement benefit. In addition to this, you will need to increase your savings portion to make up for the shortfall suffered due to your retrenchment.

Ill health: This egg can be a "not so rotten egg" or it can be a catastrophe. If you have a disability income protection policy in place, the egg is "not so rotten". A disability income protection policy will ensure that you receive a monthly income during your time of disability. If this policy is properly constructed, you will receive an annual inflationary adjustment,

the employer's contribution to your retirement fund will continue, and you will also continue to make contributions to your retirement fund.

Depending on the terms of your disability income policy, the contributions made in respect of your retirement benefit could now be based on your disability income and not on your previous salary. In this instance it means that in future your retirement benefit will not enjoy the same growth as prior to your ill health. You will need to prepare yourself for a lesser retirement benefit, . and make the relevant adjustments to your lifestyle to accommodate these changes. If you don't have ill-health insurances in place, this rotten egg is a catastropy. Not only will it deplete your accrued savings with a forced early retirement, but it will also leave you at best with limited opportunity to get back on track.

Death: Your family will be the ones who have to deal with this rotten egg. While you are safely departed, your family face all the outstanding financial burdens, which could be eased by your lump sum death benefit and accrued retirement savings.

Some funds offer higher death benefits for members with dependents, and if this option is available in your retirement fund, we suggest that you consider increasing your death benefit so as to lessen the burden on your family in the event of your death.

A rotten egg is a disaster, but it need not be a catastrophe. Deal with the consequences as soon as you can, make the relevant lifestyle changes, increase your savings as soon as possible with as much as possible and continue to manage your retirement benefit .

THE FUNERAL INDUSTRY IN SOUTH AFRICA IN A FLASH !

The funeral industry has and always will be plagued by unscrupulous operators who work on a "fly by night" basis, do not provide proper services, do not have the proper infrastructures in place, are not accredited to any recognised funeral industry body, but are in the business purely to make money at a time when people are the most vulnerable viz. when a death occurs in the family.

The above scenario is very real in the lower segment income group in South Africa.

According to the Centre for Financial Regulation & Inclusion, *Funeral insurance is the most prevalent form of insurance in South Africa with just less than 90% of all risk cover being attributed to this form of insurance, more than a quarter of which is informal.*

Some funeral parlours still offer schemes that are not underwritten by a registered insurer and many instances of fraud are reported as they operate in an unregulated environment.

There are also many funeral products on sale via accredited funeral undertakers and parlours and in the retail market from companies such as Edgars, Pep Stores, Checkers, etc. Many of these products are expensive and the terms and conditions must be carefully read before purchasing.

In the employee benefits space, funeral benefits are offered through employer owned policies of insurance and in this instance it is not only far less expensive, but it is also regulated properly. These types of policies are compulsory for members of retirement funds and generally provide a scale of lump sum benefits to members and to their dependents. The most popular scale offers R10 000 to a fund member and his spouse, and lesser amounts to dependent children, depending on their age. In addition to this, some underwriters provide, at a cost, other benefits as well, i.e. HIV Protection Treatment, Legal Support and Trauma and Assault Support.

Please speak to your financial advisor before signing any funeral contract, paying over any cash or handing over your personal banking details.

"Many instances of fraud are reported as they operate in an unregulated environment"

National Treasury aims to achieve the following objectives:

- *Extend access to a variety of good-value formal insurance products appropriate to the needs of low-income households, thereby supporting financial inclusion.*
- Facilitate formalised insurance provision by currently informal *providers, and promote the formation of regulated and well capitalised insurance providers and small business development.*
- *Lower barriers to entry to encourage broader participation in the market and promote competition amongst providers.*
- *Enhance consumer protection within this market segment through appropriate prudential and business conduct regulation, improved enforcement of regulations, and consumer education interventions targeted at understanding insurance and its associated risks and benefits.*

Investment Performance Figures

May 2015

Note: Past performance is never an indication of future performance

Money Market	1 year	3 years	5 years
Quantum Elite Money Market Fund	6.60%	5.90%	5.90%
Guaranteed Funds	**1 year**	**3 years**	**5 years**
Old Mutual Absolute Stable Growth	17.4%	17.6%	15.1%
Sanlam Monthly Bonus Fund	15.34%	15.29%	12.79%
Momentum MM Smooth Growth Global	19.38%	18.13%	14.00%
Conservative Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Absolute Return	6.70%	12.40%	10.80%
Investment Solutions Conserver	6.10%	11.80%	11.50%
Moderate Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Moderate Portfolio	9.50%	14.20%	12.60%
Investment Solutions Performer	12.00%	19.30%	17.40%
Stanlib MM Moderate Balanced	11.35%	18.36%	16.82%
Aggressive Investment Portfolios	**1 year**	**3 years**	**5 years**
Quantum Elite Growth Fund	8.90%	14.30%	12.70%
CPI Inflation	**4.49%**	**5.50%**	**5.37%**

All performance figures are shown as at May 2015.

Sources of information : Novare, Investment Solutions, Liberty, Old Mutual, Sanlam

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