Quantum Leap

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INSIDE THIS ISSUE:

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Risk and Return

In this issue of Quantum Leap we will be discussing the final ingredient of a meaningful retirement benefit.

In previous issues we discussed Time and Compounding (April 2015), Level of Contributions (April 2015) and Rotten Eggs (July 2015).

In October we are looking at investment risk.

The possibility of losing your hard-earned savings is called investment risk, while investment return is the real growth that you make on your hard-earned savings.

> Investment risk: The possibility of losing your money
>
> Investment Return: The real growth that you make on your savings

The relationship between risk and return is often represented by a trade-off. The more risk you take, the greater is your possible return or your possible loss.

You could invest your savings into a low risk product like a bank account. It is low risk because you could never lose the savings portion that you invested. We say that your savings are protected. The tradeoff however is that you will only earn a small return.

You could go to the other extreme and invest your savings into a high risk product like listed shares. In this case your investment is not protected and can increase and decrease depending on the investment return.

Let's use an example to explain the relationship.

Let us assume that the average real return on a money market fund over 40 years is 4% and for listed shares 9%. The effect on your savings, and whether you chose the money market fund or listed shares, is set out in the table below.

There is a HUGE difference of more than R5.5 mil ! With the power of compounding the high return would give you an even higher return. However with the investment not being protected, there is a risk that the return could be less than 9%.

What investment product to choose?

Your retirement investment journey can be likened to a flight. In the early part while you are young, you can fly high and have your savings invested in products with

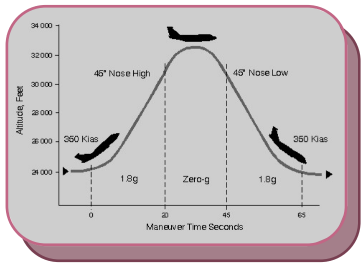
	Bank	Shares
Years saved	40	40
Starting annual salary	60 000	60 000
Contributions	15%	15%
Annual increase	8%	8%
Real Return	4%	9%
Total saved	**R3 960 099**	**R9 500 885**

Investments having a high exposure to shares. The reason being that over long periods of investing (ten years and more) history has shown that shares have always had positive real return. So it does not matter if you have positive or negative years, or turbulence in a plane, in the long run your overall return will be positive.

As you approach retirement and you can no longer fly high you will need to start descending and therefore cannot have the risk of losing your savings. You need to start protecting the savings you have by investing in lower risk products.

It is important to understand that the risk and return of the investment products you use to save, is determined by how close you are to retirement and make the relevant adjustments to your lifestyle.

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.



What investment product do I choose?

Products have been generally designed to cater for those people that have little understanding of investments as well as for those that have a better understanding of financial markets.

Member choice products allow individuals (we recommend with the help of a financial service planner) to choose their own investment products. Target Life staging or member age appropriate investment products are designed for those members that have very little understanding and want to rely on a product that matches the risk and returns for them depending on their age or years to retirement.

If a member fails to make a choice, they will be invested in a default portfolio which is typically a low risk investment product.

So it's time to have a look at the rules of your retirement fund. See which investment choices are available to you, ask for advice, and if need be, make a choice so that your retirement benefit is invested exactly where you are comfortable with the risk and return profile of the investment.

"If a member fails to make a choice, they will be invested in a default portfolio which is typically a low risk investment product."

How to maintain a healthy level of insanity during retirement.

Pick up a box of condoms at the pharmacy, go to the counter and ask where the fitting room is.

Go to a large Department store's fitting room, drop your drawers to your ankles and yell out, "There's no paper in here!"

When the money comes out of the ATM, scream 'I Won! I Won!'

Sing along at The Opera.

Tell your children over dinner, 'Due to the economy, we are going to have to let one of you go....'

With a serious face, order a Diet Water whenever you go out to eat.

Unclaimed Benefits

While reading Quantum Leap, you have suddenly realized that you contributed to a Pension or Provident Fund many years ago and you have never received your benefit when you resigned from your previous employer.

Don't worry, you are not alone! It happens very often in our industry that members don't claim their withdrawal benefits. They either forget to complete and hand in the withdrawal form to their employer, or they assume that as a result of the circumstances surrounding their resignation, the employer will lay a claim to their benefits from the retirement fund.

According to the Pension Fund's Act, your withdrawal benefit may only be paid to you as the member (except in a case of fraud, theft or misconduct to which you have admitted liability to your employer in writing), or to your beneficiaries. This means that if you did not complete a withdrawal form, or if the information supplied by you is not sufficient or incorrect, the administrator of your retirement fund could not proceed with the payment to you.

The Pension Fund's Act states that where the money is unclaimed for a period of more than 2 years, it has to be transferred to an Unclaimed Benefits Fund. The money owing to you may not be kept in the Pension or Provident Fund from which you resigned and it may not be paid to any other person.

Unclaimed Benefits Funds operate as separate legal entities, with their own Board of Trustees and with very specific tasks that need to be managed.

These funds normally appoint tracing agencies on a regular basis to try and locate the members in order that their benefits may be paid to them. On the other hand, these funds need to ensure that the benefits are invested wisely and normally follow a conservative investment approach.

The Unclaimed Benefits Fund would most likely be linked to the Pension or Provident Fund from which you resigned.

The Unclaimed Benefits Fund may not pay your withdrawal benefit to any other person, or to your previous employer. Your benefit has to be paid to you or to your beneficiaries.

If you think that there may be an unclaimed benefit due to you, you'll need to get in contact with either your previous employer, or the administrator of your previous retirement fund.

In cases where you are trying to locate a benefit that was due to you a very long time ago, your employer may not know to which Unclaimed Benefits Fund your money was transferred. In this case we suggest that you contact the administrator of your previous pension fund, and ask them to trace your benefit.

You will need to supply your ID number and the name of your previous employer. If you are the beneficiary of a deceased member, you'll need to use the ID number of the deceased member in order to trace an unclaimed benefit linked to the deceased.

Once your benefit has been successfully traced, you will need to complete a withdrawal form and confirm your bank account details and your ID number. Your previous employer should also complete a portion of that form.

The Unclaimed Benefits Fund will then be in a position to apply for a tax directive, and once SARS has issued the relevant documentation your money will be paid to you.

As with all other withdrawal benefits, you have the option to transfer the benefit to a Preservation Fund, or to your current Employer's Pension or Provident Fund.

Good Luck, and happy hunting !

Investment Performance Figures August 2015

Money Market	1 year	3 years	5 years
Quantum Elite Money Market Fund	6.80%	6.00%	5.90%
Guaranteed Funds	1 year	3 years	5 years
Old Mutual Absolute Stable Growth	15.50%	17.20%	14.80%
Sanlam Monthly Bonus Fund	13.90%	15.40%	12.90%
Momentum MM Smooth Growth Global	18.21%	18.52%	14.71%
Conservative Investment Portfolios	1 year	3 years	5 years
Quantum Elite Absolute Return	5.20%	11.20%	10.50%
Investment Solutions Conserver	4.89%	10.59%	11.08%
Moderate Investment Portfolios	1 year	3 years	5 years
Quantum Elite Moderate Portfolio	5.80%	12.40%	12.00%
Investment Solutions Performer	8.80%	17.01%	16.74%
Aggressive Investment Portfolios	1 year	3 years	5 years
Quantum Elite Growth Fund	4.50%	12.50%	12.00%
CPI Inflation	5.0%	5.9%	5.6%

Note: Past performance is never an indication of future performance

All performance figures are shown as at August 2015.

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

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