Insurance and Retirement Robot Assumptions

momentum

05/2018

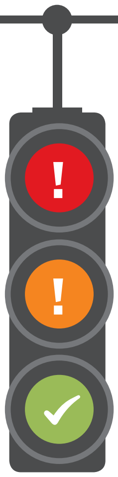
FundsAtWork is designed to help you enhance your financial wellness by reaching your retirement goals and also protect you if unforeseen circumstances, such as death or disability, happen. Your benefit statement includes retirement and insurance planning robots illustrating the benefits that you have with FundsAtWork. The robots give you an indication of the level to which your needs are currently being met for retirement, disability or death.

Ask a licensed financial adviser to help you with your retirement planning to make sure that all your needs will be met when you retire.

Retirement planning

Only 6% of South Africans will retire comfortably and independently. We do not save enough for retirement and we have a habit of spending our retirement savings every time we change jobs instead of saving them. This means that we are spending the little that we have saved long before we get to retirement. It is clear that we are facing a retirement crisis as many people will outlive their retirement savings. To retire independently and comfortably you should save enough money to buy a pension that will replace at least 75% of your last salary just before retirement. The percentage of your salary that you can replace with your retirement savings is called your retirement replacement ratio.

Retirement planning robot



Danger zone: Your retirement savings will not be enough. With your retirement savings you will only be able to buy a pension of less than half of your salary at retirement.

Warning zone: Your retirement savings will not be enough. Your savings will buy you a pension of between 50% to 75% of your salary at retirement.

Safety zone: Your retirement savings are expected to be enough at retirement. You should be able to buy a pension of more than 75% of you salary at retirement.

Your retirement replacement ratio example:

John is 60 years old and he earns R10 000 per month before all salary deductions. This is called John's total cost-to-company. John is retiring next month and has saved R1 000 000 in his retirement savings account. Based on the assumptions explained below, this will buy John a monthly pension of about R4 250 per month, which only replaces 42.5% of John's total cost-to-company salary before he retired.

$$\frac{\text{Monthly pension after retirement: R4 250}}{\text{Monthly cost-to-company salary before retirement: R10 000}} = 42.5\% \text{ Expected replacement ratio}$$

Your retirement replacement ratio is calculated using the following assumptions:

The retirement replacement ratio on your FundsAtWork benefit statement are only based on your retirement savings with FundsAtWork and does not take into account any other savings that you may have such as retirement annuities and unit trusts.

1. Our assumptions take into account the period of time from now until your expected retirement date. These assumptions are used to calculate how much we expect your retirement savings to be when you retire if you continue to contribute at your current rate. The current rate includes your own and your employer's contributions to your retirement savings, as well as any additional contributions that you make.

   - **Inflation:** We assume that inflation will be 5.5% year-on-year, which is based on Momentum's long term view of inflation.
   - **Salary inflation:** We expect the average member's salary to grow each year by 6.5%, which is 1% more than our inflation assumption of 5.5%. This includes an allowance for inflation-related increases, as well as a small allowance for promotion-related increases.
   - **Net real investment return:** This is used to estimate how much we expect your savings to grow each year over and above inflation and after deducting fees. If you are invested in Momentum portfolios, the targeted investment return of that investment portfolio is used and adjusted downwards to allow for a more conservative investment portfolio selection as you approach retirement. If you're invested in non-Momentum portfolios we base the return assumption on a broad-based risk profile of the portfolio.
   - **Pensionable salary:** Your pensionable salary is provided by your employer and used to calculate your retirement contributions each month. On average a member's pensionable salary is 80% of their total cost-to-company salary which includes additional amounts like your employer's contributions to the retirement fund, insurance premiums and medical scheme contributions. We assume that your pensionable salary is 80% of your total cost-to-company salary.
   - **Need at retirement:** We assume you need your cost-to-company salary when you retire. We believe if you replace 75% of your cost-to-company you should be able to retire comfortably.

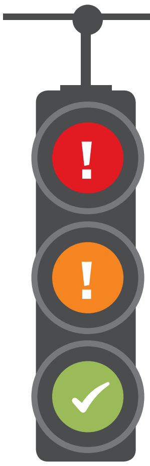
2. We assume that at retirement you will use the full balance in your retirement savings account to buy a pension. We also assume that you will buy a pension that will increase annually with inflation, which is called an inflation-linked pension. When you retire, a range of factors like your age, gender and the economic conditions at the time, will be taken into account to convert the total amount of retirement savings into a monthly pension.

Ask a licensed financial adviser to help you to make sure that you have enough insurance benefits to meet your own and your family's needs if you become disabled or pass away.

Insurance planning

Your insurance gap is the difference between the insurance cover you need and the insurance cover you have if you become disabled or pass away. Many South Africans have a significant insurance gap and the insurance benefits they have are provided by their employer and don't cover their full insurance needs. FlexiCovers offers you the ability to close your insurance gap by choosing the insurance cover you need.

Insurance planning robot



Danger zone: Your current insurance benefits are less than 50% of what you need.

Warning zone: Your current insurance benefits are between 50% and 75% of what you need.

Safety zone: Your current insurance benefits are more than 75% of what you need.

Your insurance replacement ratio is calculated based on the following assumptions:

Insurance salary

Your insurance salary is provided by your employer and is used to calculate your insurance benefits each month. On average a member's insurance salary is 80% of their total cost-to-company salary which includes additional amounts like your employer's contributions to the retirement fund, insurance premiums and medical scheme contributions. We assume that your pensionable salary is 80% of your total cost-to-company salary.

Insured death benefits

- Your lump sum death benefit and spouse's and children's pension benefit provided by your employer are used to calculate your death benefit replacement ratio.
- Each member's family status changes over time. We assume that the average member gets married by age 24, has their first child a year later and additional children at 2 year intervals. We also assume that on average each member will have between 2 and 3 children.
- If you pass away, we assume that 50% of your total cost-to-company salary will need to be replaced to meet your spouse's needs until your retirement age, and an additional 20% will need to be replaced to meet each of your children's needs until they reach the age of 22 years.

Example:

Based on John's age and assumed family status, he needs R3 000 000 death cover. John's actual death cover is R1 000 000 which means that his death cover replacement ratio is 33.3%.

$$\frac{\text{Current death benefit: R1 000 000}}{\text{Death benefit needed: R3 000 000}} = \text{33.3\% Death cover replacement ratio}$$

Please note these assumptions are based on an average member and may not match your personal circumstances. Please contact your financial adviser for more information and to ensure that you and your dependants have sufficient insurance benefits if you become disabled or pass away.

Income disability benefits

- We assume that you need a total disability income benefit that is enough to replace at least 100% of your net pay (i.e. total cost-to-company salary less tax). We also assume that your income will need to be replaced until your retirement age, after which your retirement savings will be paid that you can use to buy a pension.
- Your income disability benefit is used to determine your disability income benefit replacement ratio.

Example:

John's insurance salary is R8 000 per month and his insured disability benefit is 75% of his insurance salary (R6 000 per month). We assume that John's insurance salary is only 80% of his total cost-to-company salary of R10 000. John needs at least 100% of his after tax salary to meet his needs (R9 305 per month).

Current disability benefit:	R6 000 per month	=	64% Income disability cover replacement ratio
Disability benefit needed:	R9 305 per month		

Lump sum disability benefits

- We assume that you need a lump sum of 2 times your annual salary at the time you become disabled. This is over and above your disability income benefit.
- Your lump sum disability benefit and your critical illness benefit are used to calculate the lump sum disability cover replacement ratio.

Example:

John has R240 000 lump sum disability cover. John's current insurance salary is used to calculate the amount of lump sum disability benefit that he needs. If John's annual cost to company salary is currently R240 000, we will assume that he needs a lump sum disability benefit of R480 000.

Current disability benefit:	R240 000 per month	=	50% Lump sum disability cover replacement ratio
Disability benefit needed:	R480 000 per month		

Meeting your financial wellness needs with FundsAtWork

Increasing your insurance benefit will increase your insurance premiums which normally mean that less money is available to contribute towards your retirement savings. To avoid less money going towards your retirement savings you may need to increase your overall contributions. Increasing your contributions may seem like an ideal option to secure a more comfortable future, but this will have an impact on your net take home pay.

FundsAtWork gives you the following choices to meet your financial wellness needs:

- If your scheme has access to FlexiCovers, you can increase or decrease your insurance benefit and only pay for the cover that you need at each stage of your life.
- Investment flexibility allows you to opt out of the default investment portfolio selected for the average member and invest in a portfolio that targets a higher investment return throughout your years to retirement.
- Contribution flexibility and additional voluntary contributions allow you, with the agreement of your employer, to increase your contributions to the scheme.
- Our preservation solutions allow you to preserve your savings if you change jobs. You can either keep your retirement savings invested in the Umbrella Fund, or transfer it to the Momentum Corporate Preservation Fund without disinvestment and without any termination or initial fees.

Please speak to your financial adviser or call our Client Contact Centre on 0860 65 75 85 if you have any questions.

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