COLUMBUS RETIREMENT FUNDS

11 September 2020

to Columbus Retirement Fund Members

Maximise your Retirement Benefit *(Information Brief 1 of 3)*

There are three ways to maximise your retirement benefit. And the Columbus Retirement Fund (CRF) enables you to implement all three and more.

1 Contribute regularly

2 Optimise growth

3 Preserve your savings

This brief focus on retirement fund contributions as a key element in ensuring that you save enough for retirement. It explains how the CRF contributions work and how to apply it to your retirement planning.

The CRF contribution story

The CRF consists of a pension and provident section which was designed to provide maximum tax benefits for contributions and retirement structuring.

The employer and member contribute to the CRF. Certain deductions are made from the employer contributions such as service provider costs (e.g. administration, advice, legal, statutory levies, etc.) and the insurance costs for death and disability benefits.

How does it work

The employer and the employee contribute to the CRF and the CRF is registered with SARS to ensure members can deduct their contributions from tax.

In 2016 the tax legislation changed, and members can now deduct up to about 25% of their pensionable salary, that they contribute to the CRF, and receive a tax benefit.

The tax deductions are for all your savings to retirement, including the retirement fund and annuities.

The employer converted its contributions to member savings in the CRF Provident Section into salary and added it to the member’s income in 2016 when the tax legislation changed. Before then, only employer contributions to provident funds were tax-deductible. From that date, the first 4.1% contribution to savings in the CRF Provident Section is a compulsory minimum contribution and represents the previous employer contributions.

There are further changes to pension legislation being drafted and negotiated and at that time, the Pension and Provident Sections of the CRF will be combined and the contributions will be simplified. The current contributions to member's savings are as follows:

			Member Choice 1	Member Choice 2	Member Choice 3
Pension Section	Member		5%	6%	7.5%
	Employer		3%	3%	3.0%
	Sub-total		**8%**	**9%**	**10.5%**
Provident Section			Add the Provident Section contributions ranging from 4.1% to 14.1% according to the contribution category		
Total Contributions	Contribution category	1	12.1%	13.1%	14.6%
		2	13.1%	14.1%	15.6%
		3	14.1%	15.1%	16.6%
		4	15.1%	16.1%	17.6%
		5	16.1%	17.1%	18.6%
		6	17.1%	18.1%	19.6%
		7	18.1%	19.1%	20.6%
		8	19.1%	20.1%	21.6%
		9	20.1%	21.1%	22.6%
		10	21.1%	22.1%	23.6%
		11	22.1%	23.1%	24.6%
The employer contributes a further 2% in the Pension Section and 0.5% in the Provident Section to pay for administration, advice, levies and insured death benefits and an additional contribution for the premium of a separate disability insurance policy.					

Why are contributions so important?

Your income after retirement is determined by the amounts you have saved and accumulated up to retirement and then converted into a monthly income (buying a pension) after retirement. The actuaries project the rate at which your salary, inflation and investment returns will grow, and they take into account the contribution rate and returns that you have chosen. They then show your projected monthly income as a *salary replacement ratio*. This is simply the expected pension that you will be able to buy with the money that you have saved as a ratio of the salary that you are expected to earn at your retirement date.

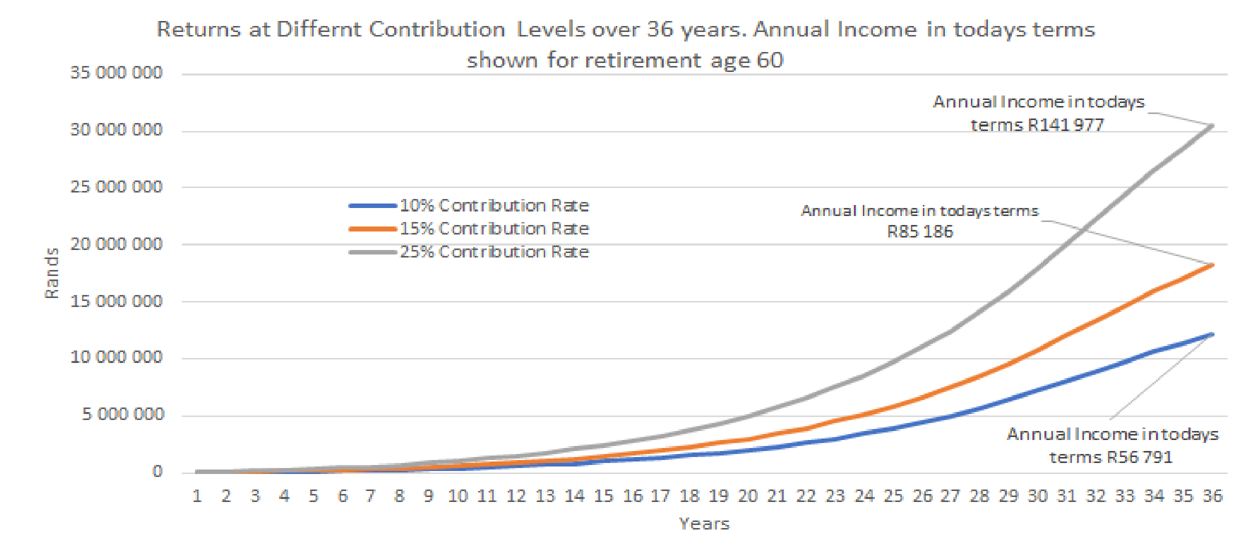
Research has also shown that most pensioners require a salary replacement at 75% of their last salary in retirement.

To achieve this, the average person should invest at least 15% of their salary in growth assets for 35 - 40 years without withdrawing from their savings.

Does it affect me

Your contributions are the first step to secure a reasonable income in retirement. The Board of Trustees is concerned that members do not contribute sufficiently to secure this first step and encourage members to consult a financial advisor to ensure that they construct a personal retirement savings plan.

In the example below, we assume that your current salary is R250,000 (and growing at a constant CPI plus 4%, 5% and 6% a year. In the illustration, there are three time periods - 15, 20 and 25-years and three contribution options - 10%, 15%, and 25% and we also assume that you are invested in a portfolio that provides a constant CPI plus 4% growth during this period.



This graph answers the questions, whether and to what degree your contribution choice affects you. Note the amounts in the horizontal bar – that represents the cash that you would need to secure the annual income as indicated.

Why did the Board provide for flexible contributions?

The CRF was designed to enable members to develop their retirement plans while remaining cost-competitive.

The Board have optimised the growth within constraints by the law and actively discouraged premature withdrawals. The one aspect that is within your control is contributions.

23% of members have selected the minimum total contribution rate of 12.1% (the "Min" rate below) and a further 60% selected contribution rates between 12.1% and 18.1%. These contribution rates exclude the employer contributions towards costs.

Min			Mid			Max		
Pen	**Prov**	**Total**	**Pen**	**Prov**	**Total**	**Pen**	**Prov**	**Total**
8.0%	4.1%	12.1%	9.0%	9.1%	18.1%	10.5%	14.1%	24.6%

The result of these choices is that members will retirement with an average of 40% of their salary as a pension. Please consult your financial advisor and take control of your retirement independence today!

Now that you know…

You must act. Set a timeline, diarise an appointment with a financial advisor, and implement the recommendations. It will likely only change when it is in the diary! Please consult your financial advisor to ensure that you make the appropriate contribution choice for your retirement.

Important dates and deadlines

Contribution choices may be exercised whenever your salary is reviewed or changed. We encourage you to make a conscious decision to allocate an additional amount from your annual increase to your retirement savings. That will lessen the impact on your cash flow and add to the compounding of your savings.

Note that there are some limitations in the values that you can contribute tax-friendly, and, to keep administration manageable and cost-effective, we limited the allocations to the different portfolios in the Fund to about 25%.

Who to contact?

After you confirmed your choices with your financial advisor, please contact your Payroll Administrator for the contribution option form. You may also contact us at yourfund@columbus.co.za or download a copy from the Fund's website – www.col-ret.co.za.

Please email us at yourfund@columbus.co.za or call 021-648-9180 if we can assist you further with this choice.

Contributions in the future

The CRF was previously designed to provide for maximum contribution flexibility and tax benefits. The legislation has since changed and we await the final tax changes to the pension and tax legislation, after which the CRF will in all likelihood be consolidated to simplify your options and enable us to become even more cost-competitive.

Do not hesitate to contact us at yourfund@columbus.co.za if you have any questions.

Columbus Retirement Fund
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