NAPOTEL PENSION FUND

NEWSLETTER

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PRESERVING RETIREMENT SAVINGS WHEN CHANGING JOBS

When you reach retirement age, the ideal is to receive a pension that allows you to maintain your standard of living while you enjoy your retirement years. To achieve this goal, you have to save for your retirement throughout your working career.

Saving for retirement (and saving in general) is difficult for most people given current financial pressures. When people change jobs, it is tempting to have their benefits in their retirement fund paid to them in cash and start saving for retirement from zero at their new employer.

Taking your retirement benefit in cash when changing jobs has major financial implications for you. Firstly, the benefit is taxed as income at marginal tax rates, which immediately removes the tax advantages that you enjoyed while saving in the retirement fund.

Secondly, the negative impact on your future pension when you retire is irreparable and in most instances financially catastrophic. Retirement benefits are referred to in behavioral finance as "a delayed reward", meaning that an individual does not experience the benefits and advantages of disciplined savings for many years. Members often think that they can start saving later for retirement and that there will be sufficient time for them to accumulate sufficient capital to retire comfortably.

However, the later you start saving for retirement, the more you have to put away and the less you enjoy the advantage of compound investment returns on your savings, i.e. the less your money works for you.

The table below shows the estimated pension (expressed as a percentage of a member's salary at normal retirement age or net replacement ratio) that can be expected from saving for retirement for different periods:

Number of years saving towards retirement	Net replacement ratio
10	12%
15	23%
20	30%
25	42%
30	55%
35	70%

It is clear from the above calculations that taking benefits in cash and "starting from scratch" when you change jobs will result in retirement benefits that are unlikely to support your standard of living in retirement.

What are your options?

Instead of taking your benefit in cash when you change jobs, paying tax and ending up with a small or no pension, you can preserve your benefits by transferring it to your new employer's retirement fund or a preservation fund.

By preserving your benefit, you will not pay tax on the amount being transferred and your retirement capital will continue to grow with your future contributions and investment returns to ensure that you retire with a reasonable pension.

Members are encouraged to speak to a financial adviser regarding the preservation options available to them when they change jobs.

CHANGES TO HOUSING LOAN APPLICATION PROCESS

The Fund offers a housing loan facility that allows members to borrow money from the Fund to buy or build a house (refer to the housing loan booklet for details).

The Trustees agreed to change the housing loan application process. When applying for a loan, the following process will apply:

When a loan application is submitted, the eligibility to grant a loan will be reviewed to confirm if the member qualifies for the loan. The administration fee and estimated valuation fees of the property will be added to the amount that the member seeks to borrow for this purpose. No instruction to value (when requested by a member) or inspect a property will be given before confirmation of the affordability and qualification for the requested loan amount, administration fee, inspection and valuation cost.

The inspection and valuation (when requested by a member) cost of the property is for the loan applicant's account. The cost will be recovered from the loan applicant, either by way of deduction from the approved loan, or directly from the applicant, if the applicant cancels the application after these costs have been incurred.

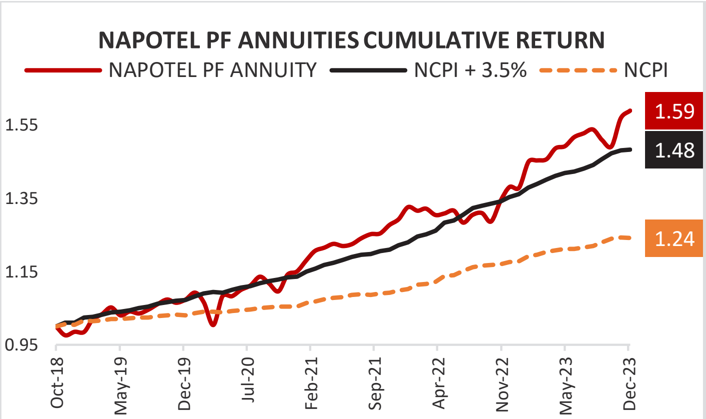
NAPOTEL PENSION FUND LIVING ANNUITIES INVESTMENT STRATEGY

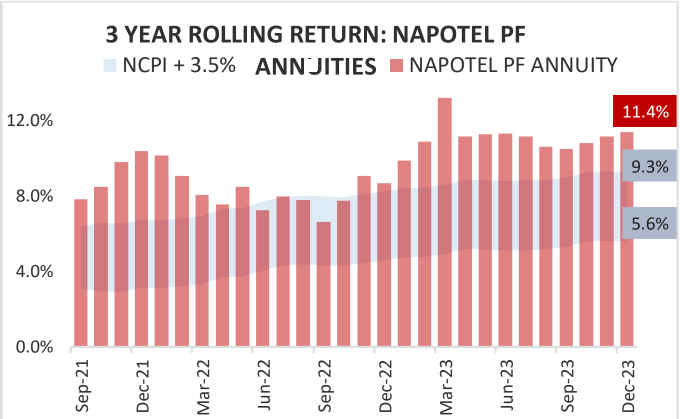
NAPOTEL Pension Fund ('NAPOTEL PF') Living Annuity Portfolio has been designed to protect capital and grow assets by Namibia inflation rate (NCPI) + 3.5% (NCPI + 3.5%) annualised, over a 36-month rolling period. To achieve a real growth of 3.5%, (return in excess of inflation) annualised, over a 36 months rolling period, the trustees considered an investment strategy that ensures assets are invested in a responsible manner.

This strategy encompasses negative market fluctuations because of the risk exposure, although this risk is neither unintended nor unwarranted, but assists to generate a real capital growth over medium to long-term to enable inflationary adjustments to pensions payments. The portfolio has been designed in such a manner that provides protection of pensioners' assets on the downside and supports the intended capital growth over the medium to long term. Short term negative returns are expected because of the risk NAPOTEL PF Living Annuity takes so as it can absorb the adverse impact of the real growth potential emanating from the annual legal draw-down rate of Living Annuities, which spread from a minimum of 5% and a maximum of 20% of the member's accumulated credits.

The strategic exposure to risk assets (assets that can produce short term negative returns although providing growth above inflation over a medium to long term) is around 55%. Therefore, the return objective of NCPI + 3.5% per annum is aligned with the living annuitant's short- and long-term risks.

It should be noted that shorter term underperformance against inflation and negative performance may be possible because of the inherent risk in the Living Annuity product. The living annuity product has been constructed using the different asset building blocks and diversifying among managers.





The above graphs show that over the medium to long term, the Living Annuities investment strategy has met its objectives. The Living Annuity 3-year annualised return to 31 December 2023 was 11.4% versus the benchmark NCPI + 3.5% of 9.3%. Inflation over the same period under review was 5.6%. Per every dollar that was invested since inception of the Living Annuities product (November 2018), it has grown to N$1.59. If the same dollar was invested in the benchmark over the same period, it would have increased to N$1.48. Although, there are some short-term risks, that generate some negative returns, over a medium- to long period, the Living Annuities product provides some value accretion.