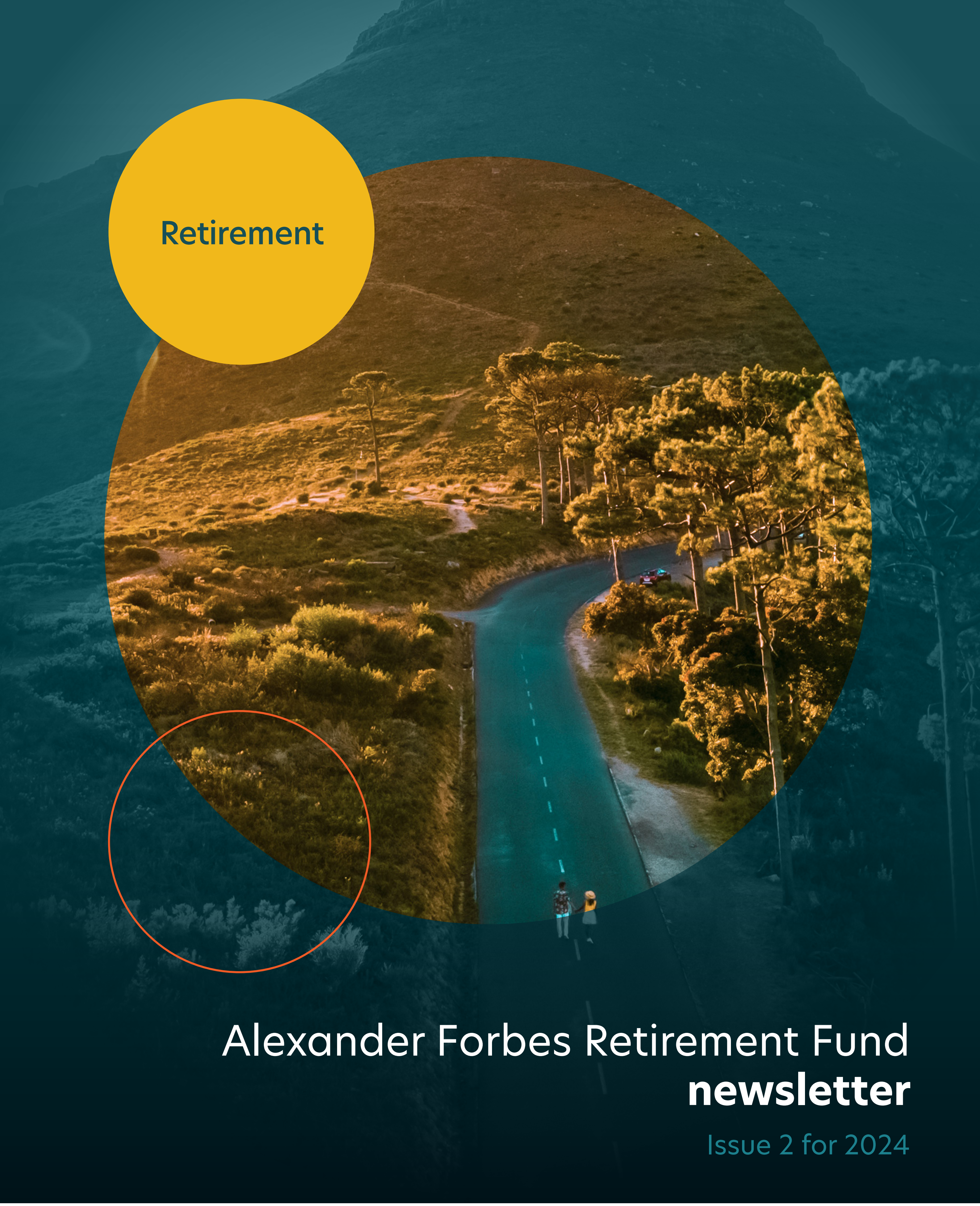


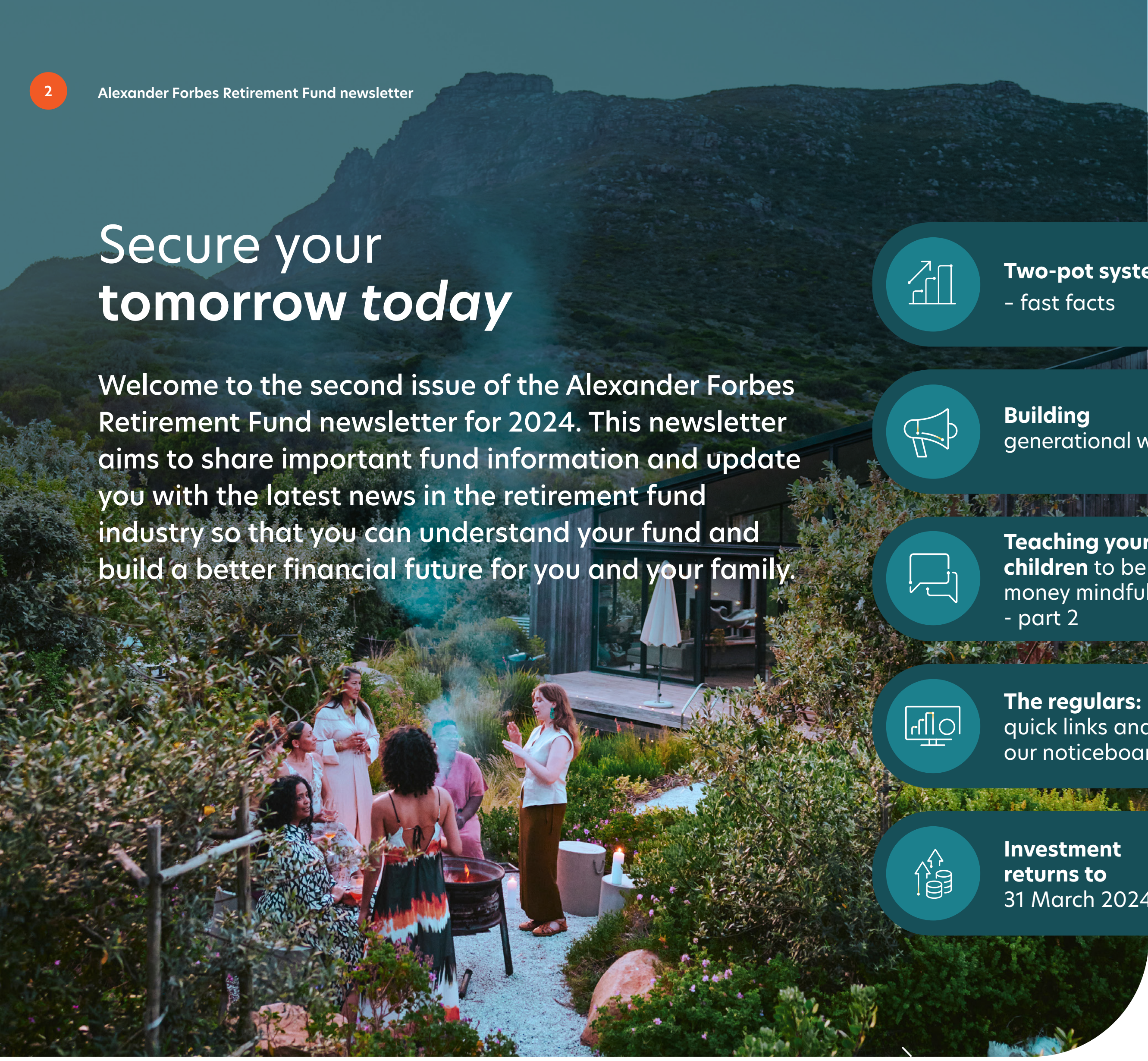
Retirement

Alexander Forbes Retirement Fund **newsletter**

Issue 2 for 2024

alexforbes.com

:alexforbes
insight • advice • impact



Secure your **tomorrow *today***

Welcome to the second issue of the Alexander Forbes Retirement Fund newsletter for 2024. This newsletter aims to share important fund information and update you with the latest news in the retirement fund industry so that you can understand your fund and build a better financial future for you and your family.

Two-pot system ***fast facts***

Effective date:
1 September 2024

One withdrawal allowed in a tax year:
1 March to 28 February

Minimum withdrawal from the savings pot allowed:
R2 000

How do you claim?
Savings pot withdrawals must be submitted online through AF Connect. **Click here** to register for AF Connect

Keep your savings pot,
your ***future self*** will thank you!

Building ***generational wealth***

What is generational wealth?

Generational wealth is any type of asset or money that can be passed down from one family generation to the next.

Examples include a family home, a car, savings and investments.

These assets are regarded as generational wealth when the generation that follows does not need to build their financial wealth as much as a person who is starting from scratch because they already have a foundation to build on.

Let's look at an example

Solly's parents were not wealthy but they managed to pay off a two-bedroom home that they lived out their retirement in. As an only child, Solly inherited the home when they passed away. Instead of saving for his own home from scratch, Solly moved into his parent's paid-off home and, as a result, managed to pay for his children's education without taking a loan.

Why is it important to think about the generation after you?

We all want our children and our grandchildren to benefit from our hard work. We also want to see the generations that follow us succeed. Making good financial decisions today can not only secure your future, but it can also play a part in securing your children and their children's financial future.

Looking at the example above, because Solly had a paid-off house, his children had access to quality education, which would help them secure a successful career and a good salary. In time, they will also inherit the house that Solly inherited, which will help them give their children a good start in life. Your actions today have a ripple effect on the generations that follow you.

The dos and don'ts of building generational wealth

Do …

- Contribute as much as you can to your retirement fund. The more you contribute, the more you will leave for your family when you pass away
- Get rid of unnecessary debt and try to stay out of debt where possible
- Pay your house and cars off as soon as possible
- Have a valid will and estate plan in place to avoid excessive tax, costs and delays
- Teach your children to understand the concept of generational wealth so that they can continue building generational wealth for the generations that follow them

Don't …

- Underestimate the value of getting professional financial advice. The cost of advice is far lower than the benefit you will get from having a financial plan in place for future generations
- Rely on your company retirement fund as your only source of money for retirement. With other savings in place, you safeguard your family against unexpected money challenges
- Forget to keep your nomination of beneficiary forms up to date - this could cause delays that could have devastating effects on your family's wealth

How the two-pot system builds generational wealth

The two-pot system is government's way of balancing the immediate financial needs you have today with the financial needs you will have when you retire. Since two-thirds of your contributions will go into a retirement pot that can only be accessed at retirement, you are safeguarding two-thirds of your retirement savings for yourself and your children. This will go a long way towards helping you not have to rely on your children for day-to-day expenses when you retire. In turn, your children can spend their money on giving their children a good financial head start in life.

Get in touch with your **future self**

Try out the FaceApp (face aging app in your app store) to picture your future self. It's a clever way to remind yourself that one day you will need an income when you are no longer working.

Send your older self picture to **umbrellafundnews@alexforbes.com** and stand a chance to **win a Takealot voucher.**

Lights, camera … action!

Teaching your children to ***be money mindful*** – part 2

In the previous newsletter we looked at lessons you can teach your child in two different age groups (3 to 5 years and 6 to 11 years), as well as games you can play with them to make learning about money fun. In this newsletter we cover the next two age groups (12 to 15 and 16 to 18). The preteen and teen years are a good age to reason with your children about money management. Don't miss this important opportunity.

12 to 15 years: preteen and teen years

Lessons to teach them

1. **Basic budgeting for their pocket money:** help them to set up a basic budget. Add how much they get for pocket money as their income, then add the expected expenses like birthday gifts, Mother's Day or Father's Day gifts. They may have a cake and candy sale at school – help them budget for it.

2. **How a bank account works and how cash machines work.** Take them with you to an ATM and explain how you get money for working. Show them how you use your card and your secret pin number (without sharing it with them) to withdraw some of your money. Remember to explain that you must always be very careful of bad people who try to trick you into getting your pin so they can steal your money.

Games to play with them

1. **Monopoly for teens:** this game teaches teens how to strategise, plan ahead, calculate transactions, negotiate with others, deal with winning or losing and control their emotions.

2. **When you are out shopping, give them money and ask them to buy something for you.** Ask them how much you gave them, how much the item cost, and if they got the right change – they must mentally calculate it and give the correct change back to you.

16 to 18 years: older teenagers

Lessons to teach them

1 **Managing their own bank account:** once you have opened a bank account for them go online and show them how online banking works. The ‘transaction history’ will help them understand. You can show them when their pocket money was deposited into the account, what they spent the money on and the interest earned. Even though the interest may be very little, you can explain that the bank gives them a small amount of money back for allowing them to grow the money while it is in their care.

3 **Saving for a rainy day, having emergency savings:** this is an important lesson. They need to understand the value of keeping money saved for when the unexpected happens.

Games to play with them

There are many really nice financial online games that teens can play to learn more about managing money. Just make sure their screen time is always limited. Although some games use dollars or pounds, the financial skills they will learn will benefit them for years to come.

Start your children early with smart money skills!

If you can teach your children to be money smart from a young age, you’ll give them a head start in life when it comes to their finances. FinFix (a debt counselling company) has reported that there is an ongoing increase in young South Africans grappling with financial burdens. One of the many challenges they face is the lack of financial education.

As a parent, you can make a big difference!

Quick links

My Money Matters

My Money Matters Centre
Tel: 0860 000 381

Email: mymoneymatters@alexforbes.com

Website: mymoneymatters.alexforbes.com

AF Connect

Register for AF Connect today – it's as easy as 1, 2, 3 …

1. Log in **here**
2. Click on **Register now**
3. Complete the registration page

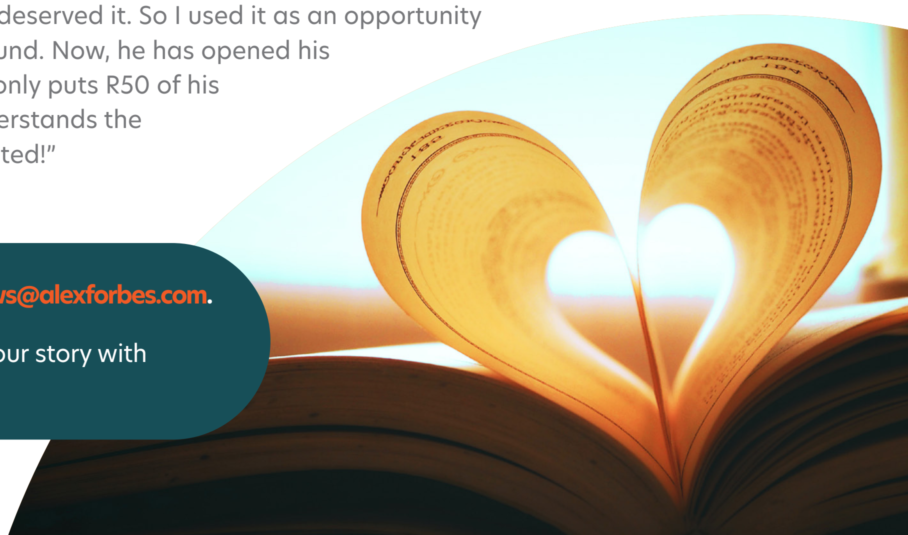
Important note:
This may take a couple of days.

Tell us *your story* and win!

If this newsletter has helped you change the way you manage your money, we'd love to hear your story. Give us your testimonial in no more than 150 words. The most encouraging story will win a Takealot voucher.

Here's an example:

"After reading the AFRF newsletter I decided to start an emergency fund. I opened a 32-day call account with FNB and set up a small scheduled payment every month. My son is in matric this year and the school designed matric jackets for them. It was quite a hefty price - which I would normally not be able to afford. But I used my emergency savings to buy the jacket for my son. Now I know this is not an emergency but my son has worked really hard - so I believed that he deserved it. So I used it as an opportunity to teach him about setting up an emergency fund. Now, he has opened his own 32-day call account and even though he only puts R50 of his pocket money into it every month, he now understands the importance of being prepared for the unexpected!"



Send your testimonial to: umbrellafundnews@alexforbes.com.

Remember to let us know if we can share your story with other AFRF members in this newsletter.

Our noticeboard

Highlights from our latest survey: *the two-pot system*

In the last issue of the newsletter, we asked you to respond to our two-pot survey. Thank you to those of you who gave us feedback. Let's look at what you had to say:

Some 'home' truths

Many of you said you wanted to withdraw money from your savings pot to buy a home or repair your home. **The good news is that there is another alternative:**

Some employers offer pension-backed home loan facilities. What this means is your retirement savings are used as surety for the loan. There are limits and you still need to go through a formal bond approval process. **For more information speak to your HR and payroll department.**

50%

Saving for a rainy day

Well done, nearly 50% of the people who responded to the survey have emergency savings accounts. If you are one of the respondents who doesn't have an emergency savings account, you can consider one of these three options to get started:

1 A tax-free savings account:

Tax-free savings accounts have grown in popularity over time. This is another way that government has provided a strong incentive to save. As the name suggests, any returns earned within the tax-free savings account is tax free. Over the long term this will have a significant benefit on your savings.

2 A 30-day call account at a bank

This is a savings account through the bank or other financial institutions. You may put money into the account at any time but you have to give the bank or financial institution 30 days' notice if you want to draw some of your money. The money you save is invested to beat inflation - it usually offers a higher interest rate.

3 A money market account:

A money market account is a deposit account also offered by a bank or financial institution. It works the same as a normal savings account but the interest rates are generally higher than an ordinary account. This means that your money will grow faster with interest. Unlike the 30-day call account, you have easy and fast access to your money.

It's never too late to start saving!

Most banks offer all three of the above options and you can open them up online - it's really easy. Then you can set up a scheduled payment or a debit order so that you just forget about the account and let it grow. When you need the money, it will be available!

Investment returns

As financial markets are still unpredictable, your retirement savings tend to increase and decrease often.

This can be scary for a lot of members, and you may wonder how your retirement savings grow during these unstable times and what the fund does to limit you losing your savings. This is where diversified portfolios (spreading your investments between different investments) play an important role. A diversified portfolio gives you:

Reduced risk:

Imagine your retirement savings are like a basket of eggs. If you put all your eggs in one basket (say, only shares), and that basket falls (when the share market crashes), you lose all your eggs. But if you spread your eggs across different baskets (shares, government bonds, property, and so on), even if one basket falls, the others can still hold up. **Diversification helps soften the blow when some investments perform poorly by balancing them with others that might be doing well**.

Better growth opportunities:

Diversification not only protects you from financial market dips but it can also put you in a position to benefit from various growth opportunities. Different industry sectors or markets can grow at different rates. By diversifying, you ensure you don't miss out on potential growth. For instance, emerging markets in Asia and Latin America might offer substantial growth prospects. **A diversified portfolio can tap into these opportunities**.

Remember, diversification is like having a balanced diet for your investments – it keeps your financial health in check! Here's a quick refresher on what the different asset classes are:

Shares

Shares are also known as 'equities'. Buying shares means you buy or part of a company. Shares usually make up the biggest part of retirement fund investments. You can make money from your shares in two ways:

Company

Share of ownership in a company

You can make money from your shares in two ways:

Firstly ...

As a shareholder, you can share in the profits of the company. Your portion of the profit that the company makes is called a dividend.

When you buy a share, you hope that the price of the share will increase over time, so that you can sell the share for more than you paid for it.

Bonds

Governments, state-owned enterprises, and companies borrow money from investors by issuing bonds. Bonds usually make up between 15% and 30% of investment portfolios and are, therefore, the second largest area of investment in most portfolios.

Cash

A portfolio or individual investor deposits money in a bank, and the bank pays interest based on the amount of the deposit. A retirement fund will normally not have a large amount of its money invested in cash because although it may be a safe investment, the interest earned will not be much more than inflation which will reduce the fund's ability to achieve its objectives.

Property

Property investment takes two forms. The first is buying a physical property and the second is to buy shares in property trusts such as those listed on the Johannesburg Stock Exchange. The property portion of a fund's portfolio would usually be less than 10% of the fund.

Investment returns

Performance of investment portfolios to 31 March 2024

Let's take AF Balanced High Growth as an example

The value of R100 invested over various periods to the end of March 2024

1

We measure how well a portfolio is performing by comparing it to a benchmark[1]. We can see that the portfolio is **better than** its benchmark over **all** periods.

2

Over a period of 10 years you would have R250 more for every R100 you saved in this investment portfolio instead of its benchmark.

Source: Alexforbes

3

Over long periods, we expect the value of investments to grow in line with its target, which may not be the case in shorter periods. For this reason, it's better to focus on long periods like **five or ten years** when you look at retirement savings.

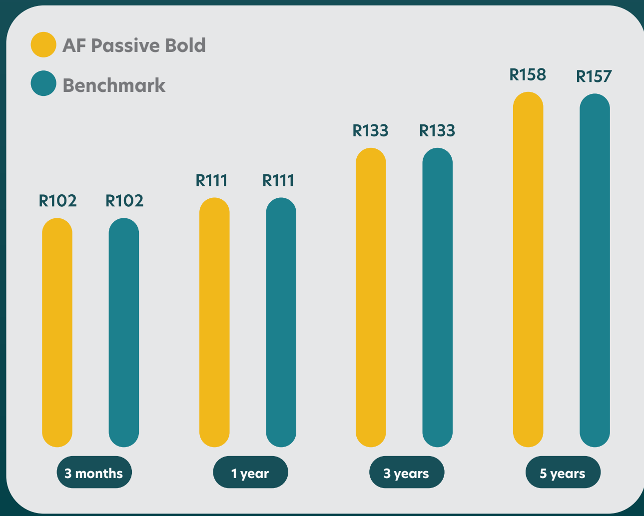
4

Keep in mind that the value of your investments go up and down over short periods like **three months**.

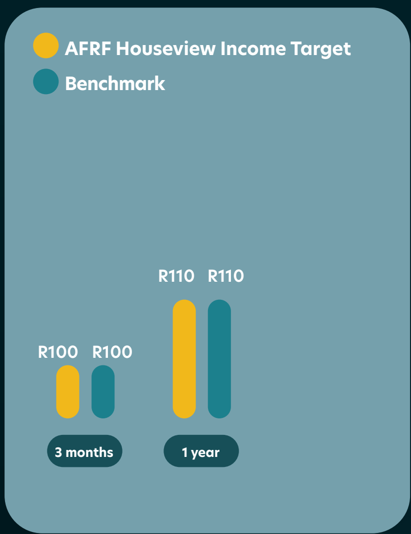
5

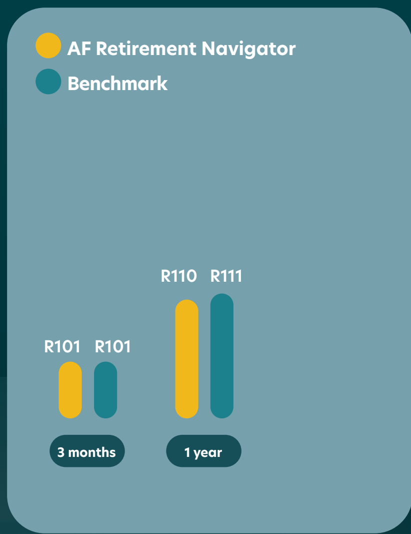
Invest over long periods for your money to grow - the longer the better.

Growth portfolios



Income target portfolios





Source: Alexander Forbes Investements

Do you have any questions relating to the articles in this newsletter?

You can contact the fund or My Money Matters using these contact details:

0860 100 333
Monday to Friday between 08:30 and 17:30

Send an email to:
admin@alexforbes.com
contactus@alexforbes.com
(if there's something you feel the fund can improve on)

alexforbes.com

While care has been taken to present correct information, Alexforbes and its directors, officers and employees take no responsibility for any actions taken based on this information, all of which require financial advice. Please speak to your financial adviser for tailored advice based on your individual financial needs.