Woolworths Group Retirement Fund

Making the difference to your retirement

Member Newsletter

Quarter 1 • 2010

Dear Member

Welcome to our first issue for 2010. This issue highlights a very important topic – early retirement. With the financial woes of 2009 still fresh in our mind, it is worth thinking twice if you were considering taking early retirement this year. The Fund has long been concerned with the financial impact that early retirement has on members' final benefit. Research done last year with actual members provided some very worrying results. I urge you to read this newsletter to understand the consequences of taking early retirement, especially if you don't have another form of income lined up for your retirement.

If you still decide to retire early, make sure you understand how your retirement benefit will be affected and ensure that you have a plan to make up any shortfall.

Happy reading!
Ed.

What you need to know about early retirement

What is the purpose of the Fund?

The main reason that companies, such as Woolworths, have a retirement fund is to enable staff to save for retirement. With this in mind, the objective of the Fund is to provide members with the greatest chance of having a reasonable pension at retirement. You should therefore be aiming to accumulate enough savings over your working life to provide for an annuity income after retirement of about 70% of your pensionable salary before retirement (also called the net replacement ratio or NRR) after 35 years of service. By the time you reach retirement, many of your costs will have been reduced so you should be able to live off a smaller income.

So, if you were earning R10 000 before you retired and you achieve a NRR of 70% after retirement, your income after retirement would be R7 000.

When is early retirement too soon?

Sadly, many members don't go the distance and instead opt for early retirement. The Fund recently did some research to quantify the impact that early retirement can have on a member's post-retirement income. The results were startling and should make you think twice if you are contemplating early retirement. Take a look...

"Saving today for financial independence tomorrow"

Early retirement research results

The research was done on two levels.

- **The first level looked at the impact that reduced years of service can have on a member's post-retirement income.**
- **The second level looked at four Fund members and quantified the difference between their income at early retirement vs at normal retirement date (NRD) – age 60.**

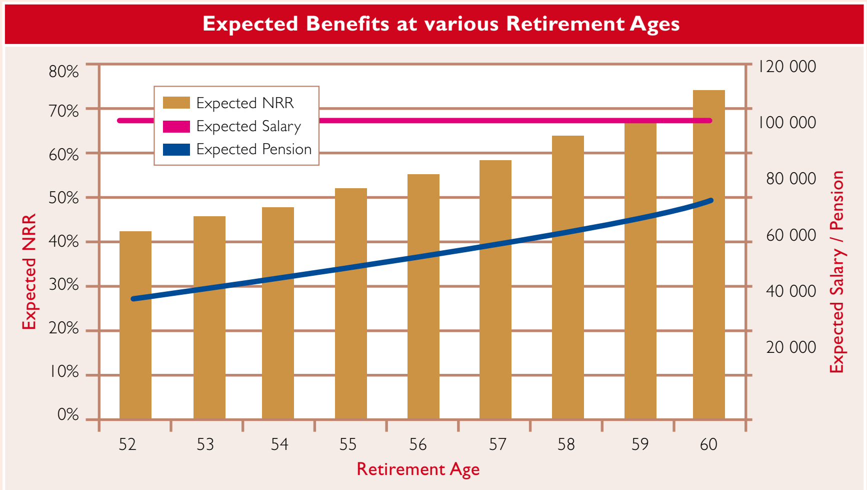
Level 1 research results

This leg of the research looked at two members both aged 52, with 27 and 12 years' service and making allocations equal to 15.74% of their pensionable salary to the Fund.

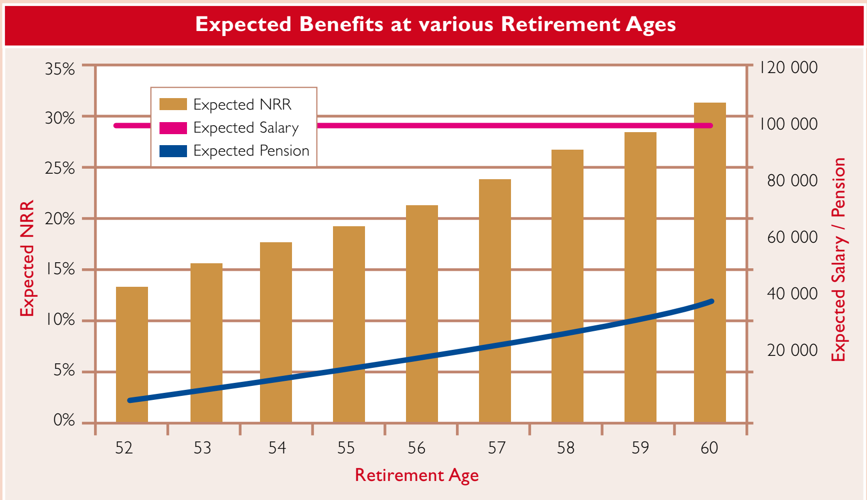
What does the 27 years of service graph show us?

- At age 52, this member can expect a pension equal to 41% of his salary. This increases to 51% at age 55 and 73% at age 60.
- This member will have to work to age 60 to achieve the target NRR of 70%.
- For each year that the member retires later, he can expect an increase in his pension of approximately 7.5% in excess of inflation. This amounts to a cumulative increase of 24% above inflation if he retires at age 55 and 77% above inflation if he retires at age 60. (Based on the assumptions used, a with-profit annuity should provide pension increases broadly in line with inflation.)

The results below are for a member with 27 YEARS' service in the Fund.



The results below are for a member with 12 YEARS' service in the Fund.



What does the 12 years of service graph show us?

- At age 52, this member can expect a pension equal to 14% of his salary. This increases to 19% at age 55 and 32% at age 60.
- For each year that this member retires later, he can expect an increase in his pension of approximately 10% in excess of inflation. This amounts to a cumulative increase of 40% above inflation if he retires at age 55 and 129% above inflation if he retires at age 60. (Based on the assumptions used, a with-profit annuity should provide pension increases broadly in line with inflation.)

Level 2 research results

Here is some information about the four members who were part of the research. We assumed that members would use their entire Fund Credit to purchase a with-profit annuity.

	Current Age	Annual Salary	Fund Credit
Member A	52.00	R327 566	R667 891
Member B	54.25	R200 799	R1 615 341
Member C	56.25	R395 389	R2 023 624
Member D	54.92	R307 254	R307 254

The table below shows the NRR, i.e. the percentage of pre-retirement income they can expect to receive at their current age (i.e. early retirement) and at age 60 (NRD).

	Current NRR	NRR at NRD	Increase
Member A	11.7%	28.3%	16.5%
Member B	47.8%	73.6%	25.8%
Member C	31.5%	43.5%	12.0%
Member D	12.8%	23.4%	10.6%

The table below shows the same results but uses their actual salaries.

	Current Pension	Projected pension at NRD (in present value terms)	Increase per annum (in excess of inflation)
Member A	R38 737	R92 737	11.7%
Member B	R95 890	R147 785	7.8%
Member C	R124 392	R172 184	9.1%
Member D	R39 464	R71 859	12.5%

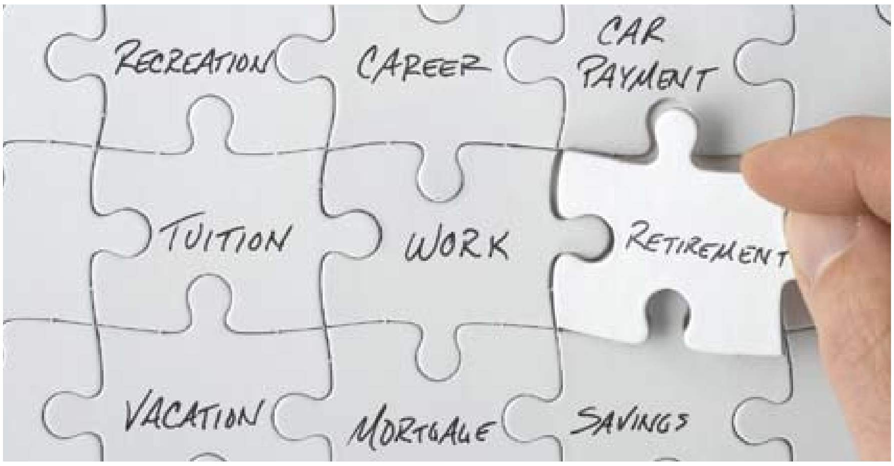
What do these research results show us?

- For each year that a member retires later, he can expect a substantial increase in his pension (between 7.8% and 12.5% in excess of inflation). This is the result of:
  - Contributions being paid for an additional year;
  - Annuity rates (the cost of purchasing a pension) decreasing with age; and
  - Investment returns earned on the accumulated retirement benefit.
- The resulting increase in expected pension is significantly higher than that expected on a with-profit annuity (broadly in line with inflation).
- The financial impact is bigger for members with lower accumulated contributions (relative to their salaries).

Did you know?

- You can spend up to one-third of your life in retirement.
- Most people spend 60% of their total healthcare costs during their lifetime in the last six months of their life.
- With modern medical technology, people are living longer. Someone born today could live to be over 100 years and will therefore need an income for much longer.
- Only 3% of all South Africans will be financially independent when they retire.
- Research done in 2007 showed that members leaving the WGRF over the age of 50 preserve less than 20% of their retirement savings (on average). It is therefore likely that these members will spend the bulk (if not all) of their retirement savings on exit, a decision that can have dire consequences.

Based on the aforementioned analysis, early retirement will almost always be too soon.



Keeping track

Portfolio	Returns for 3 months ended 31 December 2009	Returns for 6 months ended 31 December 2009	Returns for 12 months ended 31 December 2009
Woolworths High Growth	**5.08%**	**16.17%**	**17.20%**
Woolworths Growth	**4.79%**	**14.83%**	**15.97%**
Woolworths Medium Growth	**4.58%**	**13.65%**	**14.97%**
Woolworths Medium Conservative	**4.12%**	**13.32%**	**14.97%**
Woolworths Conservative	**3.85%**	**11.68%**	**14.57%**
Woolworths Stable	**3.75%**	**11.68%**	**12.84%**
Banker	**2.01%**	**4.17%**	**9.38%**

The above returns are net, i.e. investment fees have been deducted.

Trustee Corner

The Fund's member-elected trustees are available if you would like to talk to them about Fund issues, queries, etc. Please feel free to contact them via phone or e-mail – their details are listed here.

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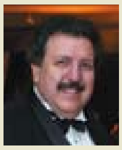

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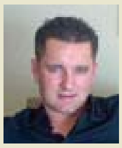

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WOOLWORTHS

Woolworths Group Retirement Fund

Making the difference to your retirement

Let us know if you want us to cover particular topics, if you would like to know more about something, or want to raise a concern.

We'd like to hear from you!

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