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Back to Basics

For the younger folk, the words "Pensions" and "Retirement" are considered morbid. Some may even say it's taboo. The average 30-year-old is not thinking about life after retirement and so he fails to plan for life after working years. The ever-common phrase "forever young" seems to be ever present until retirement is staring him in the eyes. In this edition of the PensionsJournal, we'll take you back to the basics of Pensions and Retirement.

Retirement is simply ceasing to work, at which point you stop receiving a salary. A **Pension** is income you begin receiving after you retire. This pension doesn't just fall from the sky however, there is something that must be done on your part to enable you to receive this pension.

You must be a member of a pension arrangement during your working lifetime.

What is a pension arrangement?
There are 2 types of pension arrangements – an ***Approved Superannuation Fund*** and an ***Approved Retirement Scheme***. An ***Approved Superannuation Fund*** is a company sponsored plan where the members are only persons who are employed to a specific company or related group of companies. Contributions are usually made by both the member and the employer, however there are plans where only the employer is required to contribute on behalf of a member. An ***Approved Retirement Scheme*** is an arrangement to which persons who are self employed or employed to a company which does not have an approved superannuation fund can contribute. Let's delve a little further into superannuation funds. There are 2 main types of superannuation funds – a ***Defined Contribution Plan*** and a ***Defined Benefit Plan***.

A **Defined Contribution Plan** means that the amount of contributions made by both the member and the employer are known at the outset and that the pension to be received at retirement is dependent on the contributions made and the interest earned over the member's lifetime in the plan. These contributions are categorized as compulsory (or basic) contributions, voluntary contributions and employer's contributions. The compulsory portion of your contributions represent the mandatory contributions which must be deducted from your monthly salary. This is usually 5% of your salary. The employer's contributions usually range between 5% and 10% but is based on what is indicated in the Plan's Trust Deed and Rules. **The total contributions that can be made on behalf of any member cannot exceed 20% of salary**. You therefore have the option to pay the difference between 20% and the total basic and the employer's contributions, as your voluntary contributions.

For example, if a member pays 5% compulsory contributions, the employer pays 5%, then the member has the option to make voluntary contributions up to 10% of salary.

The total contributions plus interest at retirement date is used to purchase an annuity.

The more contributions you make, the greater your accumulated value at retirement date which leads to a larger pension.

This simply means that the ball is in your court to maximize your pension benefit.

We will speak about the Defined Benefit Plan and the Approved Retirement Scheme in subsequent editions of the PensionsJournal.

Did you Know?
All pension arrangements are governed by a set of legal documents known as the Trust Deed & Rules or Master Deed and Rules. A summary of this document is called the Members' Handbook and is prepared for each member of a plan. This gives all the relevant information that members should know about the pension plan they are a part of.

Meet the Team

The Pensions Administration Unit is responsible for managing the day-to-day activities of pension plans. You may contact any member of the team if you have any questions or suggestions by calling **876 908-3800** or via email at **PWLPensionAdmin@provenwealth.com**

Trecia-Gay Clarke
Head, Pensions Administration

Nathefa Waldo
Assistant Manager, Pensions Administration

Yanique Henry Simms
Pensions Administrator

Shantana Rankine
Pensions Administrator

Retirement is not the end of the road. It is the beginning of the open highway.
Author Unknown

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