Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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National Pensions Bill deferred

Pending further public discussions, your pension plan remains unchanged

The National Pensions Bill, introduced in May – and reported on in our August bulletin (see *On the horizon*) – was recently deferred by the Legislative Assembly while it considers amendments. Designed primarily to address non-compliant employers and to raise the "pensionable age" (the age at which members are normally eligible to receive pension benefits) from age 60 to 65, the bill's deferral means that your pension plan will remain unchanged for the time being.

The deferral is likely the product of a public commentary period, as well as extensive public discussion over the past several months. The Cayman Islands government has given no formal indication of the changes (if any) it is considering, although the amended bill is expected to be finalized in the late spring of 2013.

Of special note for Silver Thatch members, public discussion included two televised panel debates on Cayman 27 (on October 10th and 17th), called *The Future of Pensions*. The panelists included our own Carlyle McLaughlin Jr., Chairman of the Board of Trustees for the Silver Thatch Pension Plan, and Brian Williams, CEO of Saxon Pension Services, the plan's client services manager. The panel also included several pension experts and Members of the Legislative Assembly, including Rolston Anglin, Minister of Education, Training and Employment. Both panel discussions are posted online and can be viewed at: www.cayman27.com.ky/?s=pensions.

The following is a guide to some of the issues raised as part of these panel discussions, and of key interest to employers and employees.

Raising the age of pension eligibility to 65

Although a controversial issue among many pension plan members, the panelists generally agreed that raising the pensionable age to 65 (up from the current age of 60) will help to improve the readiness of Caymanians to retire when the time comes. Of note, 65 is the typical retirement age in the USA, Canada, the UK (for men) and many other industrialized nations. And facing financial pressures, many of these countries are looking to extend the "normal" retirement age to 67, 68 or older.

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Rolston Anglin


Carlyle McLaughlin Jr.


Brian Williams

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The change recognizes that people are simply living longer and spending more years in retirement – which means they need more retirement savings than ever before. Delaying the pensionable age to 65 gives people more time to grow their retirement savings, and fewer years to rely on them.

By introducing the term ***pension eligibility*** and eliminating the term ***retirement age***, the proposed law would also remove any notion of mandatory retirement. As is currently the case, pension plan members could continue to work beyond age 65 and make voluntary pension contributions. That said, employers would not be required to contribute to employee pensions once the member reaches the age of pension eligibility (age 65). Panelists felt that not having to make pension contributions for older members would encourage employers to hold onto these productive employees.

Clarifying participation in pension plans by expatriates

The pension bill makes clear that an expatriate employee engaged on a work permit of one year or more must participate in a pension plan. An employee on a temporary work permit of less than one year is not permitted to participate in a pension plan, although this is only for the first year of their Cayman Islands employment. Excluding short-term temporary workers helps to keep pension administration costs lower.

Once a temporary work permit holder's Cayman employment extends beyond one year, they too must participate in a pension plan. The only foreign workers who are exempt from participating in pension plans are domestic helpers, excluding specialist caregivers.

Some Caymanians contend that expatriates should not have to participate, and that employers should be exempt from making contributions to expat pension accounts – especially since these retirement savings can be fully refunded in cash to an expat plan member after only two years of leaving the Cayman Islands. The television panelists generally took an alternative view, agreeing that expats should be required to participate, to build personal retirement savings, and to help contribute to the scale and efficiencies of pension plans. However, the panelists also supported amending the bill to require that expats leaving the Cayman Islands transfer their pension savings into a pension plan or other type of locked-in retirement savings scheme in their home country.

Designated voluntary contributions

Despite some suggestions to increase minimum employee and employer contributions (each set at 5% of earnings) and maximum pensionable earnings (set at $60,000), the new bill includes no change to the basic contribution levels. However, the bill does introduce ***designated voluntary contributions.*** These are member contributions that could be withdrawn before age 65 for several select purposes, including healthcare, education and housing. There is no plan to change the existing ***additional voluntary contributions,*** which are accessible only at the age of pension entitlement.

Silver Thatch supports the introduction of designated voluntary contributions as a progressive change. Withdrawing these voluntary contributions to buy or build a house is a better alternative than withdrawing basic pension savings under the housing withdrawal rules introduced in 2011 (see *Home loan update* on page 3 for more information). That said, the National Pensions Bill's provisions on housing withdrawals as currently drafted does prohibit withdrawing both basic pension savings and designated voluntary contributions in combination.

Survivor benefits

As an important plan improvement, the bill would extend survivor benefits to protect dependent children. Where a plan member dies leaving a spouse and dependent children, 50% of the value of the pension would be paid in trust to the legal guardian of the dependent children for their benefit.

Enhanced transparency

To help improve member understanding of their pension plans, the new bill would require plans to provide quarterly pension statements. As it stands, statements must now be delivered once a year. The bill would also require plan administrators to make specified performance details available to membership applicants. While these are certainly steps in the right direction, critics argue the proposed rules don't go far enough to help engage plan members – or to help them understand how their plan works or how it is performing.

As Mr. McLaughlin stressed to the panel, Silver Thatch is a leading supporter of improving the information and education made available to plan members, and has set an example that other pension plans would do well to emulate. For example, Silver Thatch has been providing member statements quarterly (and financial statements annually) since the plan's inception. Silver Thatch also gives members online access to a wide range of information and tools through the plan's website, and investment fund performance is published quarterly in this bulletin.

Investing more pension assets in the Cayman Islands

While the National Pensions Bill does not address the investment of plan funds in the Cayman Islands, domestic investment remains a subject of discussion. Some Caymanians believe that a portion of assets should be designated for local investment, possibly even in social initiatives.

As several panelists said, the Cayman Islands is a small investment market where there are few opportunities to invest pension plan assets. These are assets that plan members are depending on as a key source of financial support in retirement, and must be invested to meet high standards for risk and return as a key guiding principle.

More information

Silver Thatch will closely follow the progress of the National Pensions Bill, including proposed amendments, and provide you with updates. Watch for future editions of this bulletin, and check for news on the Silver Thatch website at www.silverthatch.org.ky.

The cost of investing

As a key advantage for Silver Thatch members, the plan gives you access to a range of actively managed investments that are typically restricted to institutional investors with large amounts of money to invest. More importantly, the cost of investing in the plan's portfolios is generally much lower than you would find in the retail marketplace.

For the year ended June 30, 2012, the plan's expense ratio was 1.09% (1.08% in 2011). This is the total of plan expenses expressed as a percentage of total assets. Plan expenses include the cost of administration and member services, as well as investment management fees. Because the plan's large size translates into cost efficiencies and economies of scale, the investment management fees charged to the plan drop as the assets grow. This means that as the money in the plan gets larger, the fees gradually become a smaller percentage of the total assets – the more you save, the less it costs.

The investment management fees charged by most retail investment funds offered in the Cayman Islands can range from about 1% to 2% of net assets. Some fund managers may charge an additional annual performance fee of up to 20% of the gains in a fund's net asset value. There may also be operational fees paid to administrators, custodians and other service providers. Add up these fees, and the total expense ratio for a retail investment fund can be 2% to 3% of net assets. The average expense ratio for retail investment funds in the U.S. is about 2%, while the average in Europe is about 1.5%.

Generally, any expense savings from lower fees go directly into boosting your investment returns. For example, a $100,000 investment with a 5% rate of return would save $500 annually based on fee savings of 0.5% (half of one percent). Over a 10-year time frame, the compounded value would mean more than $5,000 in savings.

The table below outlines the expense ratio for the funds offered under the available portfolios for the past three years.

Portfolios	Annual expense ratio		
	2012	2011	2010
Conservative	1.12%	1.09%	1.14%
Balanced	1.08%	1.05%	1.13%
Growth	1.06%	1.05%	1.13%
Aggressive	1.19%	1.18%	1.13%

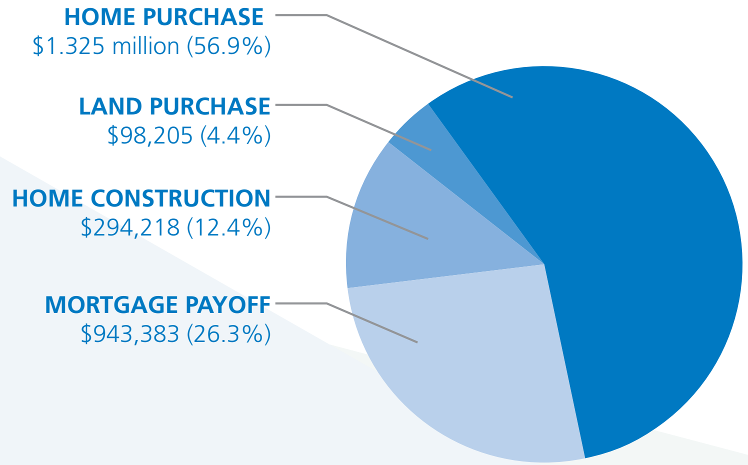
Put low fees to work for you

Given the low expenses associated with investing in the Silver Thatch plan's portfolios, making additional voluntary contributions (AVCs) in the plan can be an attractive place to add to your retirement savings – especially compared to a bank account or an investment account with higher fees. With Silver Thatch, there are no added account fees, or fees for account balances that are below a minimum threshold (for example, a minimum account value of $25,000). And there are no trading fees for moving money between portfolios. Most retail investment funds will charge a trading fee to sell units of one fund and invest the proceeds in another. For more information, contact: Saxon Pension Services at 1 (345) 943-7770, or support@silverthatch.org.ky.

Home loan update

Last March, we examined rules introduced in 2011 that allow Caymanians to borrow up to $35,000 from their private pension plan savings to buy or build a home, pay off an existing mortgage, or purchase residential land.

Since this option became available, 137 of the 143 applications (95.8%) have been approved by the Department of Labour and Pensions. The total pension savings withdrawn from all Cayman pension plans under the new rules is $2.65-million. Of the approved applications, the borrowed pension loans were used as follows:



While borrowing from pension savings can help you buy your own home, keep in mind that withdrawing from your pension may make sense in the short term, but it may also undermine your pension savings in the long run. By leaving your money in the plan, you benefit from compound growth over time. On the other hand, withdrawing money to use as a down payment can help you meet the minimum needed to buy a home and start building equity sooner. Borrowing from your pension can also reduce the overall size of your mortgage and its cost to you – and in turn allow you to make voluntary contributions to your pension. With a number of factors to consider – including mortgage interest, investment returns, and personal circumstances – there's no easy way to decide which option is best for you.

Investment review For the quarter ended September 30, 2012

As of September 30, 2012, the combined value of savings held in the Silver Thatch Pension Plan stood at US$339.1 million.

The table below shows the rates of return as of September 30, 2012, for each of the investment portfolio options offered under the plan. Also shown (in blue) are the corresponding benchmarks. (A benchmark is the standard against which a fund's performance is judged.)

For the period ended September 30, 2012 [1, 2, 3]	Quarter (three months)	Long-term strategic asset allocation	
Conservative Portfolio Conservative Portfolio Benchmark	3.27% 2.45%	• Cash: 3% • Bonds: 65%	• Equities: 19% • Alternative investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	4.20% 3.73%	• Cash: 3% • Bonds: 41%	• Equities: 45% • Alternative investments: 11%
Growth Portfolio Growth Portfolio Benchmark	5.30% 4.87%	• Cash: 3% • Bonds: 18%	• Equities: 70% • Alternative investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	6.15% 5.72%	• Cash: 3% • Equities: 90%	• Alternative investments: 7%

1. Returns are expressed net of all investment management fees.
2. While the Income Portfolio is made available to members through additional voluntary contributions, sufficient contributions have not accumulated to date in order to implement the portfolio.
3. Each of the portfolios is managed against its own composite benchmark. These benchmarks are: ***cash***: US$ 1-month LIBOR; ***bonds***: Barclays Capital U.S. Treasury Index and Barclays Capital Eurodollar Index; ***equities***: MSCI All Country World Index; ***alternative investments:*** HFRI Fund of Funds Composite Index.

Market review

Global and U.S. equity markets rebounded in the quarter ended September 30, mostly in response to policy announcements by global central bankers to support financial markets. At the same time, improving investor outlook for equities and rising inflation expectations eroded returns from government bonds. Strong demand for income in the low interest rate environment continued to drive healthy returns from corporate investment-grade bonds.

The emerging Asia equity market performed well in the more confident environment that followed central bank action. Within alternative asset classes, gold drove higher returns as further quantitative easing (printing money to buy bonds) in the U.S. pushed inflation expectations and weakened the long-term outlook for the U.S. dollar.

Market outlook

Markets have become overly reliant on central bankers to bail them out and, in the short run, are vulnerable to setbacks from event risks. Hopes for a resolution to the Eurozone debt crisis and avoiding the U.S. government funding crisis (referred to as the "fiscal cliff") could suffer setbacks in the weeks ahead. Structural economic challenges in China also lie ahead with its leadership changes in the short term.

Recent U.S. economic data hasn't been as bad as the overly pessimistic forecasts. This is fuelling expectations of relatively consistent and stable returns in the U.S. market, and raises the risk that the next round of the Federal Reserve's (the U.S. central bank) quantitative easing measures may come more slowly and less aggressively.

Economic conditions in Europe show continuing deterioration, and now the German economy is showing signs of slowing. The silver lining here is that there will be greater consensus for policy action by the European Central Bank.

The outlook is highest in emerging Asian markets, where central banks and policy makers have a greater scope to respond to any signs of weak growth. Expectations for Asian growth continue to be better than for the developed world. Despite fears of slowing growth in China, policy makers are likely to provide support and give a boost to Chinese equities through to year-end.

Based on this outlook, we still see equities as being attractively valued over the longer run, with a preference for companies and sectors with high dividend yields and other defensive qualities. Within fixed-income markets, the healthier balance sheets and higher yields of corporate bonds are favoured over government bonds. In alternative investments, gold is still a preferred hedge against weakness in major currencies, especially with growing risk of currency devaluations as a way for governments to manage default risk.