Silver Thatch Pensions

BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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On the horizon

Proposed legislation could mean pension plan members may have to wait longer before they are eligible to receive benefits

The National Pensions Bill 2012, announced on May 28, 2012, aims to reform the existing *National Pensions Law* created in 1998. The bill's key driver is to give regulators more tools to deal with non-compliant employers – as many as 600+ who are behind in their required contributions to pension plans, including the Silver Thatch Pension Plan and other similar plans.

Notably, the bill also proposes to raise the pensionable age – age at which members are normally eligible to receive pension benefits – to age 65 from its current age 60.

To enhance the process of monitoring and enforcing pension contributions, and improve the regulation of pension plans and pension plan administrators, the bill would reassign management of the new legislation to the Cayman Island Monetary Authority and the new Department of Labour and Pensions. Currently, the National Pensions Office is responsible for the existing legislation.

The bill also aims for greater transparency and increased disclosure to ensure that members are better informed about their pension arrangements. Proposed additions include a legal requirement for annual general meetings and for quarterly statements of pension benefits to be issued. As you may know, this is already the practice of Silver Thatch Pensions. There is also a new requirement that information regarding pension fund performance be made available to employees enrolling in a plan – this information is currently available from Silver Thatch pensions through the client services agent.

What this means for you

The National Pensions Bill 2012 does not affect the existing minimum 10% combined contribution rate for employers and employees.

If passed into legislation, however, age requirements can be expected to change for both normal and early retirement. In addition to delaying the pensionable age to 65 (currently age 60), the bill would raise the early retirement age to 55 (currently age 50). This means that if you retire from work before you turn age 55, you will be eligible to receive retirement benefits starting at age 55. If you go back to work before you turn age 65, your benefits will be postponed until you either retire again or reach age 65. While for some this may mean working a little longer, this arrangement will ensure that more is contributed to your pension. While the choice is yours to decide when it's right for you to retire, making contributions into your

… *continued on page 2*

what's inside

This bulletin provides a summary of certain provisions of your Silver Thatch Pension Plan. Complete descriptions are contained in the official Plan documents and contracts. Every effort has been made to provide an accurate summary. If there are any differences between the information contained in this document and the legal documents, the legal documents will apply. The Board of Trustees reserves the right to change, amend or terminate the Plan subject to regulatory approvals, and may be required to do so in response to regulatory or legislative updates.

On the horizon *… continued from page 1*

pension fund for a longer period of time may help to put you in a better financial position in the long run – especially considering people are now living longer on average and therefore pension benefits need to be stretched over a longer payout period.

The new bill also proposes a fixed penalty system for non-compliant employers with stiffer fines and better protection for employees who report them. By cracking down on employers who aren't doing their part and by protecting the employees that bring these violations to light, it will help ensure that money is being put where it belongs – in a pension fund intended to help employees save for retirement.

There is no specific timetable for final passage of the bill, or when it is proposed to be in effect.

Below is a comparative table outlining the key differences between the current law and the proposed legislation:

Provision	National Pensions Law (current)	National Pensions Bill 2012 (proposed)
Regulatory agency	National Pensions Office	• **Cayman Islands Monetary Authority:** responsible for regulation of pension plans, trustees, and administrators • **Department of Labour and Pensions:** responsible for functions related to employers and employees
Contribution rate	• 5% employee contribution • min. 5% employer contribution	No change
Normal retirement age	Age 60	Age 65
Early retirement age	Age 50	Age 55
Pensionable age terminology	'Retirement'	'Pension entitlement': change meant to clarify when a person can start receiving pension benefits, not that the person is expected to retire from work before receiving pension benefits
Withdrawal of Additional Voluntary Contributions (AVCs)	Can not be withdrawn until retirement	Designated voluntary contributions can be withdrawn before age of entitlement for certain specific health, education and housing requirements.

How Silver Thatch investments work under current investment regulations

Understanding and navigating through all the available options in the investment world can be tricky. With thousands of different investment funds to pick from, each fund offers a different risk-reward potential. And there are no guarantees with investment funds – performance is not insured or guaranteed by the government.

However, the government has put in place investment regulations that all Cayman-registered pension plans must follow. These regulations restrict how and what pension funds like Silver Thatch Pensions can invest in. The objective of the regulations is to ensure that pension funds are not exposed to excessive risk nor limited by too little risk, which can result in low returns. The aim is to get your risk exposure "just right" so that your funds can grow enough to outstrip inflation and provide an income for you in retirement.

Of interest, the government-issued investment regulations provide the following guidelines for investing the assets of a pension fund:

- **Equities** – 40-70%, publically-traded, including:
  - large cap (large market value) equities;
  - small to medium cap (up to a maximum of 10% of the pension fund's assets);
  - investment grade debentures (loaned equities); or
  - mutual or pooled funds that invest in equities;
- **Bonds** – 20-40%, including:
  - Bonds issued by the U.S. Treasury;
  - investment grade bonds, corporate bonds, Eurobonds or preferred shares; or
  - secured first mortgages (up to a maximum of 10% of the pension fund's assets);
- **Cash equivalents** – up to 25%, including:
  - U.S. Treasury Bills;
  - investment grade treasury bills of foreign countries; or
  - investment grade commercial paper, money market funds, bank certificates of deposits, or fixed-term deposits with a bank.

Your savings in the Silver Thatch Pension Plan are managed by a team of over 30 world-class investment managers, who are in turn under the management and oversight of Coutts & Co (Cayman) Limited. Together with research by Coutts, Silver Thatch has carefully put together three investment portfolios – the Conservative, Balanced and Growth Portfolios – that fall specifically within the limits of current law for the investment of required pension contributions.

The portfolios are designed to seek appropriate levels of risk and return. Pension investment regulations state that investments should also take into account the demographic composition of the plan members. This is why these portfolios are matched to your age, income range and marital status. How your pension account and contributions are invested at any given point will depend on your personal risk profile. As you age and your income grows, your personal risk profile changes over time. So too will your investment portfolio, ensuring your investments continue to reflect your needs.

Countdown to retirement

Preparing for retirement can be a lot of work. Consider it one of life's great ironies.

Whether you're just starting to consider retirement – or you've been preparing for some time – there are a number of key factors that you'll need to consider in the years, months and weeks leading up to retirement.

Three to five years before retirement: ***Will you have enough to retire?***

If you haven't already, start planning for your retirement as soon as possible. That way you'll know ahead of time if you need to save more, adjust your retirement expectations or, if you can, go ahead and buy those new golf clubs.

Review your investment portfolio – As you get closer to retirement, revisit your investment strategy. With your retirement date approaching, you have less time to recover from any significant investment losses. With that in mind, you may want to start shifting your additional voluntary contributions (AVCs) to more conservative (lower-risk) investments. Remember, your basic pension savings with Silver Thatch will be shifted to a more conservative portfolio automatically.

Know your plan – Putting money away for retirement is one thing, withdrawing your savings is another. Your Silver Thatch Pension Plan has rules that can restrict how and when you can start withdrawing money. Make sure you know the rules and options and factor these into your retirement plans. At retirement, you can convert your Silver Thatch pension savings to an income in several ways:

- Buying an annuity, and/or
- Transferring your savings to a retirement income fund (RIF) or a Retirement Savings Arrangement (RSA).

Re-evaluate your lifestyle and residence needs – What will you do differently in retirement – and how much will it cost or save you? Sit down and think about your retirement lifestyle. Do you have hobbies or travel plans you're going to pursue? Are you planning to work part time? These are just some of the questions you should be asking yourself when evaluating your future needs.

Estimate your living expenses – Track everything you spend in the next year or so – and then use this information to estimate your retirement income needs and develop a realistic budget. When estimating your future expenses, don't forget about inflation. Even a modest level of inflation can – over time – have a significant impact on your expenses. Although it may seem like a lot of work to track and project your expenses, it will give you a good idea of how much you really need to maintain your lifestyle – and whether you'll have enough.

Estimate your retirement income – Take inventory of all potential sources of income, including additional voluntary contributions, pension benefits, bank accounts, investment funds, stocks, bonds, rental properties, etc.

One year to go: ***Getting your affairs in order***

Review your insurance needs – Your insurance needs may change in retirement. You might find you can get by with less life insurance or home insurance. On the other hand, you may be less able to handle big deductibles or recover from a loss.

Think about estate planning – Do you have a will? Is it up to date? Sit down with a professional to review your will, powers of attorney, and investment plans. Make sure your powers of attorney for healthcare and financial matters reflect your wishes.

Six months to go: ***The home stretch***

This is it. You have planned and budgeted, organized and reviewed; now you just have to tell everybody!

Update beneficiary information – Remember to update your beneficiary for your Silver Thatch Pension Plan, insurance policies, etc. Keep in mind that for your Silver Thatch pension savings, your spouse is automatically your beneficiary. If you don't have a spouse, you will need to appoint a personal or estate representative.

Apply for your pensions – Be sure to apply to begin receiving your Silver Thatch pension and let your employer know when you will start your pension. There are numerous decisions and forms to complete, and the process can take from 60 to 90 days.

As you count down to retirement, there is a lot to think about and some tough but critical decisions to make. Set some time aside now to start mapping out the milestones… and make sure your road to retirement is a smooth one.

The benefits of your Silver Thatch AVCs

There are many advantages to making additional voluntary contributions (AVCs) within your Silver Thatch Pension Plan versus contributing to a savings or investment account with a retail bank or other financial institution. Here are the top five reasons:

1. **Convenience** – Contributions are deducted automatically from your pay each pay period. Simply set it and watch your savings grow into retirement.
2. **Low fees** – Because we are a group plan with a considerable pool of money, we can negotiate lower investment management fees than you would typically pay in the retail market. With these cost savings, more of your contribution money is going directly into your pension investments and less on paying fees.
3. **Flexibility** – You can change the level of your voluntary contributions at any time.
4. **Expertise** – You can invest in a range of professionally managed funds that are typically not available to retail investors with modest amounts of money – including two extra portfolios to choose from in addition to the three portfolios offered in your basic contributions.
5. **Risk reduction** – By making regular contributions, you reduce the risk that other investors face when they try to "time the market."

Investment Review For the quarter ended June 30, 2012

As of June 30, 2012, the combined value of savings held in the Silver Thatch Pension Plan stood at US$323.4 million. The table below shows the rates of return as of June 30, 2012, for each of the investment portfolio options offered under the Silver Thatch Pension Plan. Also shown (in blue) are the corresponding *benchmarks*. (A *benchmarks* is the standard against which a fund's performance is judged).

June 30, 2012 [1, 2, 3]	Quarter (three months)	12 months	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	0.57% 0.21%	3.54% 3.35%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-1.51% -2.02%	-0.52% -0.72%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-3.25% -4.16%	-3.30% -4.79%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-4.72% -5.83%	-6.81% -8.07%	• Cash: 3% • Alternative Investments: 7% • Equities: 90%

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.

Manager comments

Unexpected progress at the late-June EU summit drove a bounce in equities, which helped keep most global share markets up on the year as Government bonds dipped in June amid this growing risk sentiment. In contrast, investment-grade, high-yield and emerging market corporate bonds, our preferences in fixed interest, and all delivered gains that helped drive portfolio performance.

We continue to expect that corporate bonds will outperform government bonds long term as a result of their better value, stronger balance sheets and higher yields. Our strongest conviction remains Asia and Emerging Markets given their strong growth prospects and flexibility to stimulate growth. Equity valuations remain attractive on a long-term horizon, particularly versus government bonds. In current volatile markets we favour high dividend payers and look to buy on market weakness, although we still limit European exposure. Our overweight position in US equities continued to have a positive impact on performance, whilst our overweight position in Emerging Markets slightly detracted from performance.

Among alternative investments, hedge funds slipped lower in the month but have generated a moderate return year to date. Gold rose and we continue to value the asset for the hedge it provides against policies encouraging the depreciation of currencies and inflationary pressures in major developed economies in order to help ease debt burdens.

Market review and outlook

Market reaction to the June European summit has swiftly turned to disappointment, whilst Spanish bonds are still trading at crisis levels, with ten-year yields close to the 7% level. If they remain at this level for a long period, it will make Spain's debt position unsustainable. We think that the negative reaction from investors overlooks the key initiative to tackle the problems of the banking sector on a pan-European basis. This addresses an issue that represents a key route of contagion within countries, across the region and for the wider world.

However, the measures will not be fully implemented until 2013 and the ESM has insufficient funding to address all the problem areas. In the meantime Ireland is only now recovering from its banking crisis, having endured over three years of recession with property halving in value. As global growth starts to falter Investors are increasingly impatient of the inevitable delays to the implementation of measures to address the Eurozone debt crisis as they see that not only is the Euro zone in recession, but that growth in the rest of the world is also slowing. The IMF downgraded its forecasts of growth to 3.5% in 2012 and 3.9% in 2013. Global manufacturing production contracted in the previous quarter, which is rare for periods outside a recession. Current levels of global PMIs are consistent with no growth quarter-on-quarter in the OECD.

German business confidence, as measured by the IFO survey, fell to a two-year low, which implies that the German economy has slowed from the 0.5% pace of growth in the first quarter. The positive side is that German economic conditions are now more in line with the rest of the Eurozone, which allowed the ECB to cut rates earlier this month. We maintain our view that the Eurozone will enter mild recession this year.

Recovery in the US loses its shine as there have also been signs of slowing growth in the US economy, with business activity surveys of both small and large companies weakening. We remain positive on the outlook for the US economy as, following significant restructuring, both banks and consumers are in reasonable health and there is loan growth to sustain the economy. This does not preclude the need for further intervention by the Federal Reserve if the pace of growth falters or if there is a shock – either externally from the Eurozone, or internally from the 'fiscal cliff' if Congress fails to agree to postpone (again) scheduled tax increases and spending cuts. Finally Oil prices have fallen back from their peak and therefore pose less of a risk to global growth. However, drought-affected harvests will push up food price inflation in 2013.

Investors are still risk-averse, favouring US Treasuries and other such bonds which can outperform during periods of crisis. However, buying protection is very costly with record low and even negative yields on high-quality bonds. We favour selectively buying risk assets given attractive relative valuations and especially yields. However, we would constrain overall risk exposure as downside risks remain under a worst-case scenario. Within equities, we prefer those with high yields and defensive attributes; we continue to underweight the Eurozone and favour emerging Asia. We also continue to favour the healthier balance sheets and higher yields of corporate over government bonds and Gold remains an important hedge against currency devaluation and the pursuit of low real rates to ease debt burdens.