Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan | Volume 15 | Number 2 | May 2020

New pension contribution holiday allowed

National Pensions Bill amended in wake of pandemic – but is it a good time to stop contributing or to access your funds?

The impact of the Novel Coronavirus (COVID-19) pandemic has been felt throughout all areas of society. It's affected the way we conduct our daily lives, how and when we leave the house, and how we interact with one another.

It's also affected how businesses operate, causing a rise in unemployment in some regions, and has sent major shockwaves through the global stock markets, leading to losses in investment income and leaving markets battling to rebound after the downturn in March.

LEARN MORE INSIDE:

- The pros and cons of a pension contribution holiday
- Examples of how contribution holidays and emergency withdrawals impact retirement savings
- Our plan's investment report for Q1 2020

Pension holiday

To address the economic fallout caused by COVID-19, an amendment to the National Pensions Bill has been passed with the intent to provide some relief to both pension plan members and employers.

The amendment allows for a "pension holiday period" where contributions to the pension plan aren't required. This also applies to those who are self-employed. While this move is intended to be supportive, it comes with both pros and cons that should be considered carefully.

The holiday is retroactive to April 1, 2020 and ends on September 30, 2020.

Emergency withdrawals

- If you belong to a defined contribution (DC) plan and your account balance or commuted value is less than $10,000, you can withdraw up to 100%.
- If it's more than $10,000, you can withdraw $10,000 and up to 25% of the remaining balance.
- These funds must be taken in a single lump-sum payment.

Emergency withdrawals don't apply for those who have claimed pension benefits already or who work as a public servant and had pension contributions paid by a statutory authority or government company.

While it's our duty to keep you aware of legislative changes and news related to your pension plan, above all we want to wish you and your family health, safety and strength during these difficult times.

We're happy to help!

If you have questions, please contact us:
Phone or **WhatsApp:** 1-345-943-7770

Email: support@silverthatch.org.ky

CONTACT US

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Pension contribution holiday What is it? Is it worth it?

A pension contribution holiday is a voluntary suspension of contributions to your pension plan by both you and your employer. In this case, it was passed in a recent amendment to the National Pensions Bill and will last until September 30, 2020.

We last saw legislation of this kind in April 2010, when Caymanians were allowed to take a 1-year pension contribution holiday and non-Caymanians were allowed to take a 2-year break. Though taking a break on your pension contributions during this time may seem like a prudent plan, it's important to look at the big picture.

Taking a contribution break will reduce the total pension savings available to you at retirement, due to less contributions being made and lost compound growth on those contributions. Looking at it over the long term, the amount of cash "saved" during a contribution holiday will be dwarfed by the negative impact to your retirement savings.

SHOULD YOU TAKE A PENSION HOLIDAY?

Let's assume you earn an annual salary of $50,000 and you take the full six-month contribution holiday.

Note: If your employer makes the decision to stop paying their 5% you can still request they continue to deduct and submit your 5% or more to the pension plan during this time.

What you'll get now

YOU WON'T MAKE
$1,250
in basic contributions
(5% x $50,000 x 0.5 years)

+

YOU LOSE YOUR
$1,250
in EMPLOYER contributions

=

YOUR PENSION ACCOUNT HAS
$2,500 less
to accumulate over time

While having $1,250 in cash might sound appealing (plus any AVCs you may be making), consider the long-term impact on your retirement savings. How might that extra money grow over the years, assuming investment returns, compounding and annual pay?

At retirement it means...

Depending on your age, $2,500 at an annualized return rate of 6% will provide much more retirement income.

IF YOU'RE 40 YEARS OLD NOW
growth over 25 years
= $10,730

IF YOU'RE 30 YEARS OLD NOW
growth over 35 years
$19,215

As you can see, it's a steep price to pay for $1,250 in cash now! And the impact is worse the younger you are. Like most vacations, a pension contribution holiday offers some temporary relief, but it comes at a hefty cost. You need to ask yourself which you value more: extra cash flow in the short-term or additional financial security in the years to come?

SHOULD YOU MAKE AN EMERGENCY WITHDRAWAL?

Assuming you have $100,000 in your pension account and you take out $10,000 plus 25% of the remainder.

What you'll get now

YOU WILL RECEIVE
$32,500
($10,000 of your pension account + $22,500, which is 25% of $90,000 remaining)

At retirement it means...

Depending on your age, $32,500 at an annualized return rate of 6% will provide much more retirement income.

IF YOU'RE 40 YEARS OLD NOW
growth over 25 years
= $139,485

IF YOU'RE 30 YEARS OLD NOW
growth over 35 years
= $249,797

As you can see, this money can be worth a huge portion of your future retirement income. It's important to consider this when deciding whether or not to make an emergency withdrawal from your pension account.

Staying the course

There are three key factors that impact your savings at retirement, all of which should be kept in mind when deciding on a pension holiday.

Factor 1

The length of time you save

This is really impacted by age, as the earlier in your career you start saving, the easier it is to build your retirement nest egg through saving and compounding investment returns over time. As a younger person taking a contribution holiday, you would lose out on accumulating that compound interest more so than an older member.

Factor 2

The amount of money you and your employer contribute during your working years

Contributions are within your control. The more you save and contribute to your pension plan now, the more you'll have at retirement. By not taking a contribution holiday now, you do your future self a favour by allowing more retirement savings to accumulate.

Factor 3

The return on your investments

Investments have taken a hit now, but it's important to remember that pension plans invest for the long term. Downturns are expected, but overall the returns do trend upwards. Also, by staying invested now, you can take advantage of more buying power, as your money will buy more shares at a lower price and those will eventually grow in value. And it's much easier to stay invested than to stop and then try to time the market and buy back in.

Additional Voluntary Contributions (AVCs) can be helpful

It's also a good idea to look for opportunities to increase your AVCs – if you can. If you come into any extra money, whether it's through a bonus or simply cutting your expenses, it's worth putting that money to work for you in your Silver Thatch Pension Plan.

Above all, put yourself in charge of your retirement savings and stay committed to making decisions that are in your own best interests.

THE CONSEQUENCES OF SUSPENDING YOUR CONTRIBUTIONS?

It could mean a drop in your standard of living in retirement, or a delay in starting your retirement.

What do Silver Thatch members say?

When faced with a pension contribution holiday option in 2010, Silver Thatch members were polled about what they planned to do. Almost **67%** said they wouldn't take a contribution holiday, while just **20%** said they would suspend contributions. The remaining **13%** were undecided.

While this current situation is different than 2010, it gives you an idea of how your fellow Silver Thatch members have viewed this choice historically.

Investment highlights — Q1 2020

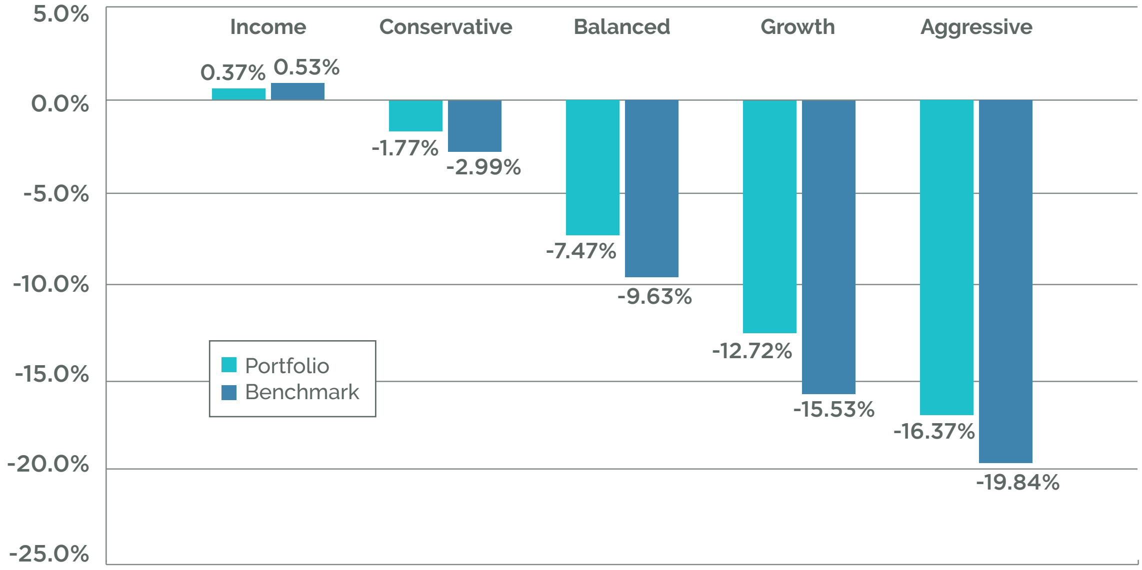
The following is an edited commentary on the first quarter of 2020 (Q1), as prepared by Deutsche Bank, Silver Thatch Pensions' investment manager. The full, unedited investment commentary is available at **silverthatch.org.ky.**

Performance Summary

As of March 31, 2020, the combined value of the Plan's five investment portfolios was

USD $627,424,867.67

The following chart summarizes the performance of the portfolios for 3 months ended March 31, 2020:



Q1 Market Review

Investors' sentiment turned brutally negative late January, on rising concerns about the coronavirus outbreak which took centre stage, gradually, worldwide.

Core interest rates moved massively lower, while equities corrected substantially through February and March on the back of an unprecedented economic shut-down across regions. Central banks stepped in with massive monetary and fiscal support measures. The welcomed liquidity helped stabilizing markets down from extreme volatility levels.

After wide swings, equity markets stabilized and retraced a few weeks of negative performance. They remained deeply negative year-to-date, between 19% and 26% for developed markets, while the impact on Chinese equities has been surprisingly contained (-10%) thanks to some drastic and efficient measures against the virus taken early on.

Manager Comments

In relative terms, the portfolio showed robust returns outperforming the benchmark. All profiles outperformed, primarily thanks to our cautious positioning in equities.

Market Outlook

We believe that short-term a recovery is likely if we continue to observe a reduction in the number of infections and the virus containment measures fade. Production of physical goods can recover, but the bulk of consumption foregone over the shutdown period (particularly of services) will be lost – and developed economies, China for example, are more services-driven than others. Hence, recovery in the developed markets could take some time. Markets could remain volatile as long as uncertainty persists, but when they start anticipating a better economic environment, their readjustment process could be rapid.

We continue to think that a staggered approach to adding risk to portfolios, in anticipation of an eventual economic recovery, is the best way to weather short-term volatility and market setback.