Fortress FUND MANAGERS

Fortress Pension News

June 2016

Keep Calm and Carry On

In spite of recent tax changes in Barbados that affected individuals' contributions to registered pension plans, we continue to believe pensions are a hugely valuable tool for saving for retirement. This is because they are structured, automatic and because employee contributions are often matched by employers. We hope that tax deferral can again be added to this list of benefits in the near future, but even without that additional benefit our suggestion is to keep calm and carry on saving for your retirement.

And "carry on" is exactly what we and our clients have done over the past year. In that time, the Fortress Caribbean Pension Fund grew from $220 million to $234 million, reflecting steady contributions from participants and growth from investment returns.

This edition of the Fortress Pension News features items ranging from how retirement itself can look, to how to think about stock market volatility. We hope you enjoy reading. As always, please let us know if you have any questions at all about your pension or investments with us. We are here to help.

You can email us at **invest@fortressfund.com.**

In this issue:

RESOURCES

Online Account Access

24/7 secure access to your pension account online.

The Fortress Builder™ Slide Calculator

Use the slide calculator to see what you would need to save daily, monthly and yearly in order to achieve your long term saving goals. Request one from our office.

Pension News Emails

- Receive timely updates from us about your pension.
- Get topical commentaries from the Fortress team.

Net Worth
What's My Number?

Most of us know our monthly or annual income. But how many of us know our net worth or have an idea of how much it should be?

We asked Michael Lashley, Chief Executive of Lashley Financial to weigh in on this topic.

Your net worth is the amount by which the value of your assets differs from your liabilities. In plain language, net worth is the difference between what you own and what you owe. If your assets exceed your liabilities, you have a positive net worth. On the other hand, if your liabilities are greater than your assets, you have a negative net worth.

Assets are those things of value that can be converted into cash. Typical examples include your home, cash and investments, pension funds and your car. Your liabilities include mortgages, loans, credit card debt, lines of credit and unpaid utility bills.

Calculating your assets correctly

To determine your net worth, you need to total the value of your liabilities and subtract this from the total value of all your assets. Some assets, such as cash, are easy to value but others like your home, a defined benefit pension or your collection of original Caribbean art may be more difficult.

Unless you have a more complex financial situation, taking a simple and conservative approach to estimating your net worth is best, especially if it encourages you to take the action necessary to get yourself on track.

Simple snapshot vs. long-term tracking

Determining your net worth only gives you a snapshot of your financial situation. While this figure is a good start, tracking your net worth over time offers more meaningful information of your finances. When measured periodically and monitored over time, your net worth can allow you to evaluate your financial progress and let you know where you are in relation to your financial goals. It provides partial answers to the questions of "Where are you?" and "Are you headed in the right direction?"

ESTIMATING YOUR TARGET NET WORTH

The bestselling book *The Millionaire Next Door* offers a simple guideline for estimating what your net worth should be, based on your age and income.

$$\text{TARGET NET WORTH} = \frac{\text{AGE} \times \text{ANNUAL PRE-TAX INCOME}}{10}$$

All Not Equal

But be careful as this is only a guideline, since all net worth is not equal!

The composition of your net worth is also important. Cash is a "liquid" asset and therefore more accessible than an illiquid asset such as a home but each holds value in your financial situation. While on the liability side, a mortgage is very different to credit card debt because the costs to carry a credit card balance are much higher.

Value and limits of knowing net worth

Your financial situation is not only about your net worth, just like knowing the temperature is important but not the only factor in determining the weather.

However, when used in conjunction with other financial measures, and in the context of sound financial advice, your net worth can provide useful information on your financial condition over time.

Your Pension Questions Answered

Q: *"How do I make sure I save enough to have a more comfortable income in retirement?"*

A: Here in Barbados, there are four main threads of retirement savings that can contribute to weaving together a comfortable retirement income: NIS; company pension plans; standalone financial investments like stocks, bonds and mutual funds; and real estate. Experts agree that the best approach is to maximise the tax-assisted vehicles like pensions first, and then to add investments in other areas in a disciplined and consistent way. After your pension is taken care of, setting up a monthly purchase plan for a mutual fund investment is one easy option. At Fortress, we have hundreds of clients who invest automatically every month, keeping the process as painless as possible and, most importantly, always moving forward. Another important ingredient to retirement comfort is to examine your expenses. As the age-old quote goes, "That man is the richest whose pleasures are the cheapest." A hard look at expenses can make a big difference, especially over a period of decades. Fewer costs mean you can accumulate savings faster, and enjoy financial security sooner because the amount you need to accumulate will be lower.

Q: *"Is inflation still a concern for my retirement savings?"*

A: Unfortunately, yes. Over the long term, inflation is a very real long-term cost for everyone because it slowly but surely increases the costs of things we will actually want to buy in the future. In Barbados, the annual inflation rate has been falling recently. In 2015 the rate was even slightly negative, but bear in mind that for the previous 10 years the inflation rate averaged 4.5% per year. Recent declines have been due to lower oil prices, and continued downward pressure on wages in many sectors as the economy remains weaker than normal. These factors will not necessarily last, and as they wane inflation can be expected to return to more normal levels. With savings deposit rates inching lower and lower, we all need to ensure that our long term savings are invested in long term assets, things like stocks, bonds and mutual funds, whose returns can be expected to outrun inflation over the next 20 years or more.

Q: *"Stock markets have been really volatile recently. Should I change the asset allocation for my pension plan?"*

A: Market volatility is a good reminder that prices go down as well as up, and that investing for better long term returns naturally comes with this variability. For long term savings like pensions, though, we consider market movements "noise" in the very long term project - 20, 30, 40 years or more - that is saving for and supporting a healthy retirement. Thankfully asset prices tend to go up over time because companies keep making profits and paying dividends and interest. As investment manager for the funds that make up the Fortress Caribbean Pension Fund, when we see market prices decline we usually think of it as an opportunity to pick up good merchandise on sale. For pension investors, we would always advise you select the class of the Pension Fund (AA, CC or CS) that fits your stage of life, and then make very few if any adjustments over the years. You will want to reduce exposure to equities as you get closer to actually spending your accumulated retirement savings, but until then we think the best approach is to ignore the market's ups and downs get on with the important things in life.

... "That man is the richest whose pleasures are the cheapest."

QUESTIONS?

Ask us - we can help!
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What is "Retirement"? It's Up to *You.*

Sometimes it seems that images of retirement all around the world have been generated by the same artist. There are always pictures of beaches, golf courses, cruise ship decks, pitchers of lemonade … and our favourite, the hammock in the shade. Nothing says relaxation quite like a hammock in the shade. And that's natural. When we are working full time, week in, week out, it's fun to think about a time in the future when we can just do nothing. But what if you don't actually want to relax all the time, or play golf or swing in a hammock for 20 or 30 years? And what about the financial preparations required to enable such a long period of leisure and inactivity?

More and more, today's financial planners are encouraging us to think about retirement not as freedom to do *nothing*, but more broadly the freedom to pursue the activities that capture our imaginations and are meaningful to us. The important distinction is that this might still involve earning some income. Doing so is not necessarily at odds with "freedom", and earning some income can help make the period viable for longer (or start sooner!), and make it more comfortable. Before or after retirement age there may be periods of complete leisure, or volunteer or paid work, because it is fun, rewarding, and keeps us connected to others in the community - or it might be all of the above as the mood and opportunity strikes. The point is that it is up to us, and it can take many forms.

Having a good level of financial security can help in this. Saving and growing your money over the years to achieve financial security can give you the flexibility to know that the basics will be covered - to take some risks, maybe earn less for a while in pursuit of something interesting that may keep you happily engaged well past "retirement" age.

Our suggestion is to think of retirement in exactly the terms that interest *you*. This may be a gradual slowing down of work life with income well into your seventies, or it may be a full jettisoning of all work and connections to it. It's up to you. Thinking of retirement broadly as a period of freedom is a great place to start, and might mean it can happen sooner, and be more rewarding. Freedom can look like lots of things - new projects, new people, new places, even new skills - not just lying in a hammock. And if you start early, plan well, and pay attention to your spending, it doesn't have to wait until you're 65.

… freedom to pursue the activities that capture our imaginations and are meaningful to us.

Fortress Fund Managers is a leading provider of pension management and administration services to companies of all sizes, and to individuals via the Registered Retirement Savings Plan (RRSP). In existence for more than 18 years, Fortress has developed a reputation of being a trusted manager of mutual funds, including the Fortress Caribbean Growth Fund and the Fortress High Interest Fund,which have generated annual compound returns of 8.6% and 4.6% since inception in 1996 and 2002 respectively, as at March 31, 2016.

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