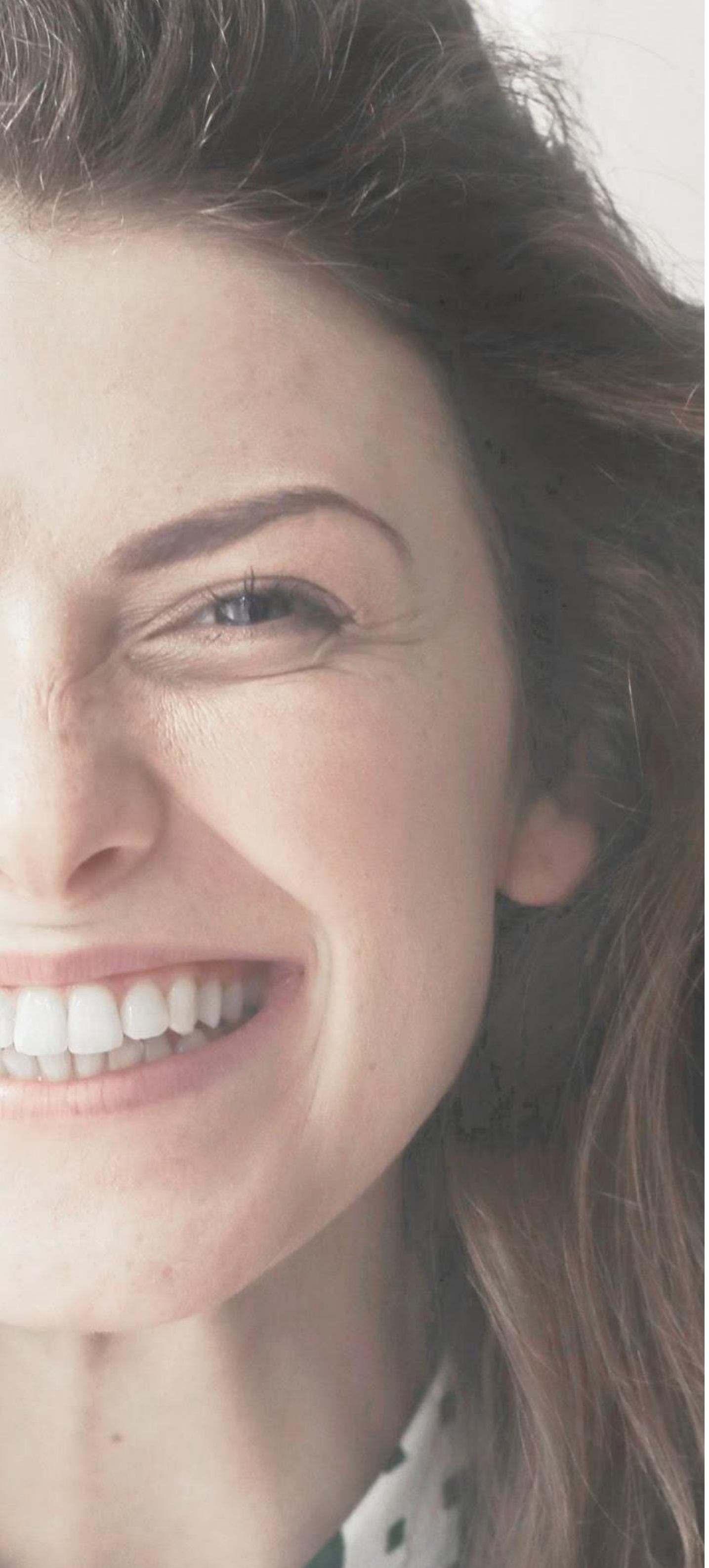


The Third Pillar

Your cheat sheet for smart savings

"The first step in investment: a low-cost third pillar fund."

Teacher, founder of the Women's Investment Club

Kristi Saare

“Tuleva members created their own fund, because good third pillar funds simply weren’t available.”

Tuleva founder and fund manager

Tõnu Pekk

Of greatest importance:

Always invest in the third pillar first.

A simple rule for both beginners and experienced investors: Before you weight other investment options, contribute to the third pillar. Why?

It's the only investment to offer 25% immediate gain.

Third pillar contributions are income-tax-free. For example, a €1,250 investment requires only €1,000 of your own money – the state provides the €250 balance. Your investment is immediately leveraged 25%.

How to benefit more from tax exemption:

The law allows you to contribute 15% of your gross income (not to exceed €6,000) to the third pillar free of income tax. Check before the year's end to make sure you've maxed out your contributions.

For pensions, but not only.

The third pillar is meant as a pension supplement. But in reality it's also a good tool for achieving other wealth goals - for example, college-fund-type savings for children.

You may withdraw money if needed.

Withdrawing money before your retirement age you pay 20% income tax. In such case you have invested with an interest-free loan from the government. Later, the income tax is only 10%. Third pillar fund can be inherited!

Not all third pillar funds are good!

The sad fact: high fees in bank-run funds tend to eliminate tax benefits. In addition to management fees, most funds charge an additional 1% of your money when you withdraw funds. Some also charge 1% of every euro invested.

How to choose a third pillar fund:

- ✓ Low cost
- ✓ Maximum equity share
- ✓ No contribution or withdrawal fees

Investing money raises questions. How to start?

Stocks? Investment funds? Term deposits? Savings accounts? College funds?

Funds insurance contracts? Real estate? Crowdfinancing? Start-ups? ETFs?

Start with the third pillar. Why?

Why the third pillar is the best for saving money:

“Max out your 401k!”

It’s a simple rule from American investment books. Just as in the US, in Estonia it’s also smart to first use first your third pillar tax benefit before looking at other investments.

Tax-free money

Up to 15% of your gross income (maximum €6,000 per year) may be contributed tax free to the third pillar. If you’ve already paid income tax, you’ll receive a refund after your return is filed.

State contribution

For every €1,000 you contribute to the third pillar, the government gives €250 as a tax refund.

25% immediate gain

Your investment is immediately 25% larger – better start than with any other option.

Your third pillar tax benefit in action:

Siim and Laura decided to put aside €**4,800 euros per year**.

Siim opened an investment account and regularly buys stocks. Laura contributes to the third pillar fund and adds the €**1,200** she receives as a tax return.

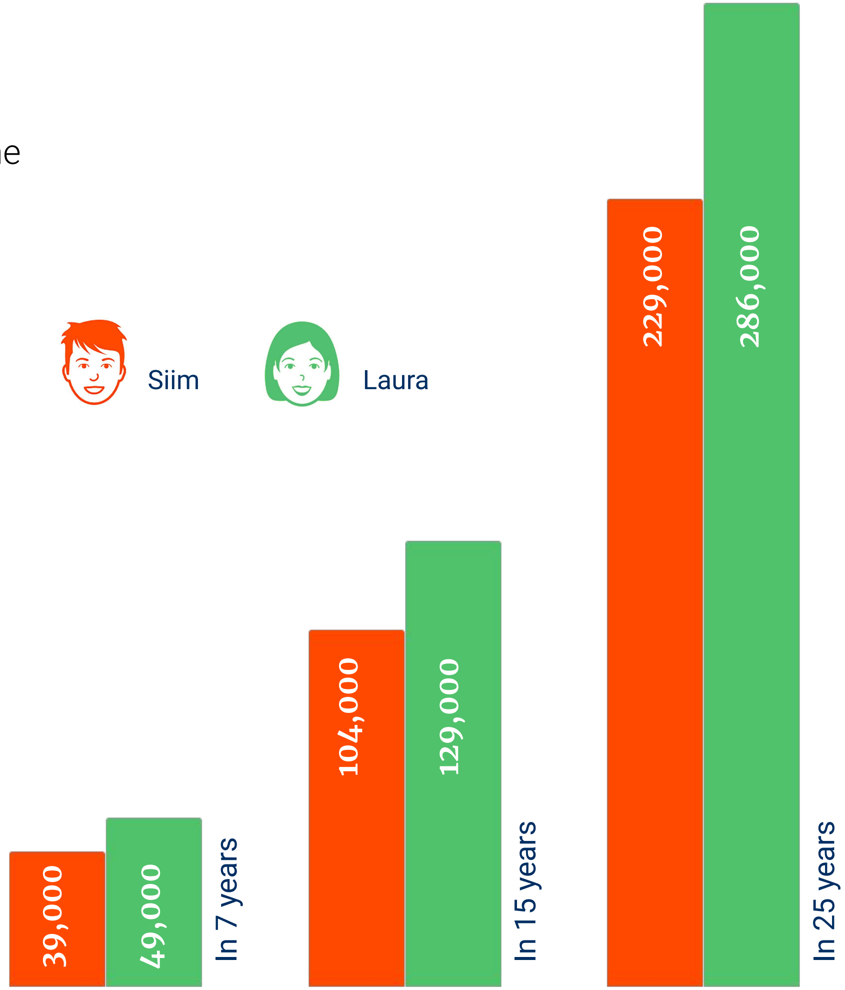
Assume both investments return 5% per year.

In seven years, Laura accumulates €10,000 more than Siim.

In 15 years, Laura has €25,000 more.

In 25 years, she has €60,000 more than Siim.

Both Laura and Siim earn compound interest, but thanks to the government's contribution, Laura's advantage keeps growing.



Appropriate uses for the third pillar:

The third pillar is a flexible way to save money. It allows you to set long-term goals and, if needed, access the money earlier or postpone for later use. Examples:

Personal dreams

A major adventure? Your own home? Starting a business?

Children

The third pillar is superior to most college-fund-type investment vehicles.

Retirement

Take your money in a lump sum or withdraw piecemeal.

For pensions, but not only!

Loit Linnupõld used his third pillar money to start a company. Today, Crowdestate is one of Estonia's largest crowdfinance platforms.

More choices for the future

What will you do in the second half of your adulthood?

Those starting work today will have a greater chance to celebrate their 100th birthdays. By saving money for your pension, you create more choices for the second half of your life - even if you don't inherit a fortune or choose to work until you die.

The millionaire next door

A person earning a gross salary of €1,900 euros per month, investing 15% of her salary in the third pillar from her 23rd birthday, can accumulate €1,000,000 euros in her second and third pillars by retirement age. Regularly setting aside even a small amount of income is the easiest way to accumulate capital.

Assumptions:
Gross salary grows 3%/year on average, return 5%/year.

A head start for your child

- Banks' college-fund savings products stand out for their high fees and complexity: it's hard to calculate how much of your money goes toward paying the bank.

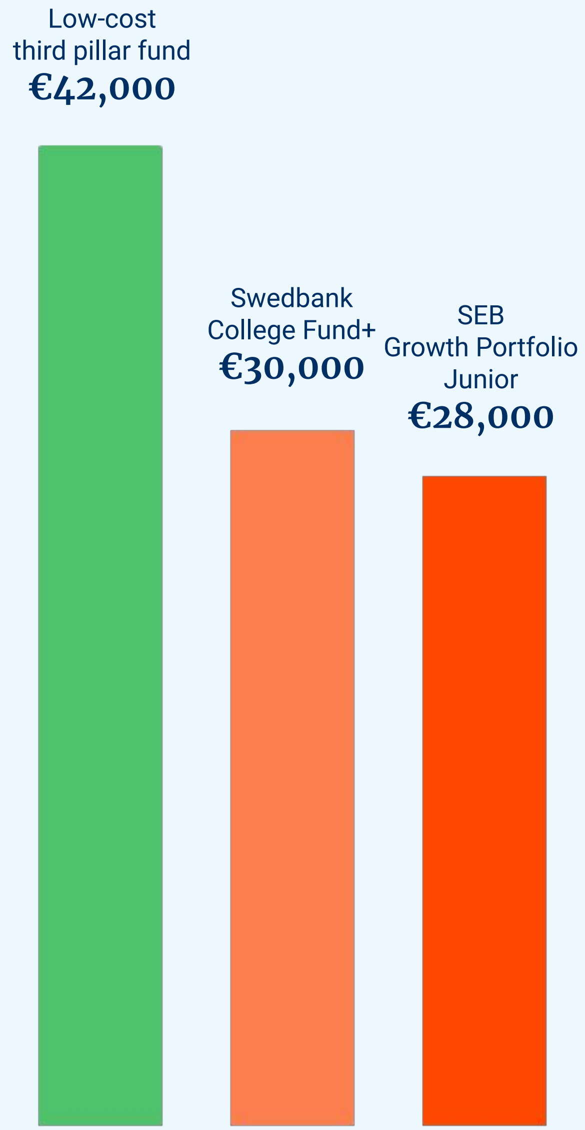
- In most cases, these products offer a small life insurance policy that would be much cheaper to buy separately.

- In third pillar funds you win, thanks to lower fees and a tax benefit of up to 50% more.

The amount you can accumulate if you invest €100 per month for 20 years for your child. In the third pillar the government adds (via tax benefit) €25 per month.

Assume market return before fees is 5% per year.
In the third pillar, assume the child will use the money after the parents' 55th birthdays where 10% income tax will apply.

Third pillar fund fees widely vary. In this example, the person invests in the Tuleva Third Pillar Pension Fund with the lowest fees in Estonia (0.36% of assets per year).



How to withdraw money from the third pillar:

Your may withdraw money from the pillar at any time. You may also bequeath your third pillar fund assets. Withdrawals are taxed as follows (more info here):

Before 60th birthday

20%

- When you withdraw money, you pay 20% income tax.
- This does not eliminate the tax benefit. In essence, you are using an interest-free loan from the government to leverage your investment returns.

After 60th birthday

10%

- If you have contributed more than 5 years, you pay only 10% income tax when you withdraw money.
- If you have contributed fewer than 5 years, you pay 20% income tax.

Regular pension payments

0%

- Currently, you may use your money tax free if you purchase an annuity from an insurance company (and you are 55 or older).*

Change related to pension reform 2021

*Those who started saving in the third pillar before 2021 will enjoy a 10% income tax rate on disbursements form age 55.

Three recommendations for painless saving:

"Compound interest is the eighth wonder of the world."

Albert Einstein

1. Start now

It's never too late to start but, thanks to compound interest, early starters have a huge advantage. By contributing €500 per month or €6,000 per year for 15 years into the third pillar, you can accumulate €130,000. In 40 years, you could accumulate €700,000!

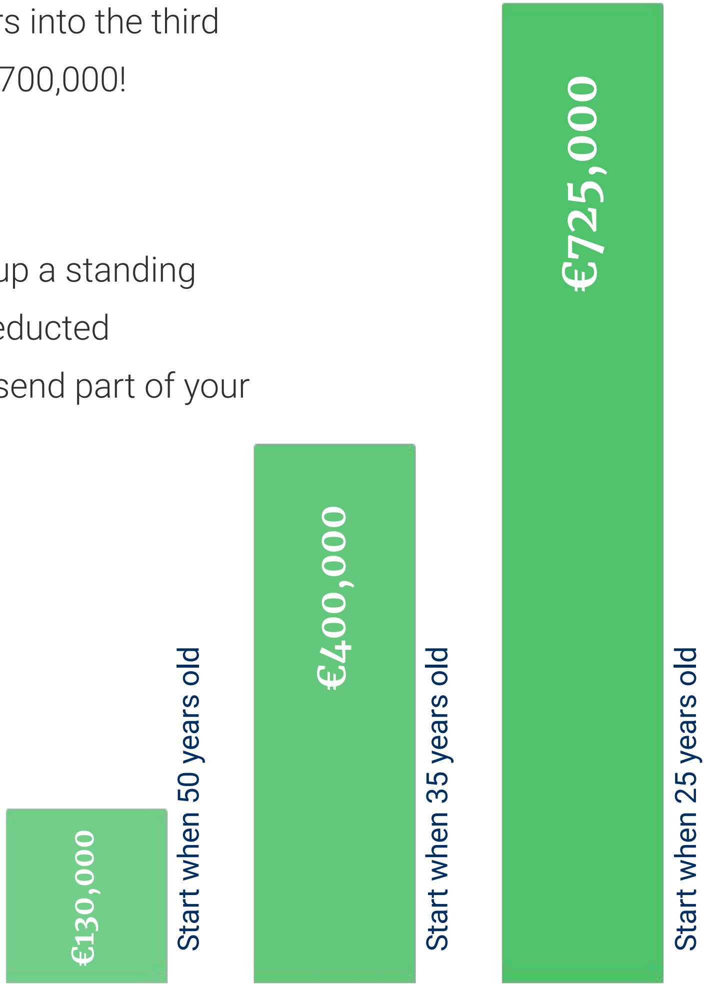
2. Automate your retirement savings

It's easier to stay on course when you make your savings automatic. Set up a standing order in your internet bank so that your contribution to the third pillar is deducted immediately after salary date. It's better still if you employer will agree to send part of your paycheck directly to your third pillar account.

3. Average to reduce risk

Dollar cost averaging is an elegant way to reduce risk. Better to invest a small amount every month than one large amount each year. Before year-end, add to your fund if your tax benefit is not yet fully used.

The amount accumulated by your 65th birthday if you contribute €6,000/year to a third pillar fund (5% return per year on average).



In the event of a crash or recession:

During our lifetime there will be several larger or smaller stock market crashes. You don't have to be an expert to know this - though even experts cannot accurately forecast when crashes will happen.

Your third pillar account will not experience linear growth.

A recession in the world economy causes stock prices to fall affecting stockholder wealth (including ours). Accept that as fact and don't rush to sell your funds when that happens. **Why?**

Because the history of markets shows that in the long run **those who stay put have better chances to earn greater returns**. That is why we do not attempt to time the market and we, little by little, purchase more stock in world's major companies.

No one can predict what the next years or decades will bring to stock markets. But by investing regularly, we can be sure **our wealth will grow together with the world's stock markets**.

! The third pillar is a tool for long-term savings. Do not invest money that you will need in the near future.

How to choose a third pillar fund:

1. Choose a low-cost fund.

The world's major research centers have repeatedly concluded from analysis of investment fund returns: low-cost funds regularly return more than high cost funds. When comparing funds, always look at the total expense ratio (the ongoing cost figure) – a fund's management fee often forms only a part of your total expenses.

2. Choose a fund that does not charge issue- or redemption fees.

Choose a fund that doesn't restrict redemptions or that does not charge fees for changing or buying fund units. Most banks' pension funds charge a full 1% of your money when you redeem fund units and some also take 1% of each contribution.

3. Choose a fund with maximum exposure in stocks.

Stock prices fluctuate more than bonds. This means that in bad times your account can be in the red. But the history of markets shows that you can get better your long-term returns if you choose stocks over bonds.

Most third pillar funds do not follow these principles...

Only two funds exists that don't charge fees for contributions and/or withdrawals, otherwise restrict withdrawals, and which would be characterized as low-fee funds with maximum equity exposure. Beyond Tuleva, only the LHV Pension Fund Index Plus is a reasonable choice – though their fees are 40% higher than Tuleva's.

Why Tuleva members needed their own fund:

The Tuleva Commercial Association unites people who want to squeeze the maximum from every euro they invest.

Existing funds' results were terrible. Old third pillar fund fees are higher still, and the funds' performance worse than second pillar funds.

Everyone can invest with us. No need to become a member of the Tuleva Commercial Association.

1. One of the lowest fees in Estonia

The total expense ratio of our fund is 0.36% of assets per year. This is three times lower than the largest third pillar funds charge and you can be sure that fees will drop further.

2. Sustainable investing

We invest based on consistent principles and evidence: every month, we take a share of our salaries and increase our share in the world's largest companies.

3. Fair share of market growth

Low-cost principles and consistent investment rules ensure our returns never lag behind average market returns (as has been the case with bank-owned pension funds).

It’s easy to start third pillar contributions

1. First, **select a suitable third pillar fund**. Submit your selection via the Tuleva web page, your internet bank, or *pensionikeskus* web page.

2. Determine your monthly contribution, and set up a **standing order in your internet bank**.

    - You already have a free account in **the state pensions registry**. No additional bank accounts or account fees are necessary for keeping your third pillar fund units.

    - If you have previously contributed to the third pillar and want to transfer to Tuleva, submit a transfer request on our web page, in your internet bank, or via the pensionikeskus web page.

    - You receive the maximum tax benefit when you contribute **15% of your gross income** (maximum annual contribution €6,000). The tax benefit is received after your return is filed.

Start saving

tuleva.ee/III-sammas

Direct contributions from gross salary

Better employers accept requests from employees to transfer part of their salary directly to a pension account. By doing this you receive your tax benefit immediately.

- Select a third pillar fund on the Tuleva web page, in your internet bank, or via the *pensionikeskus* web page.

- Send your employer a request, noting your pension account number and what amount from your salary you want contributed directly to your pension account.

    - You can indicate a fixed amount: e.g., €300 per month, or a percentage or, e.g., 15% of your salary.

    - This is an example of [a request (in Estonian)](#).

Instructions for employers

- Prepare your payroll administrator. [Step-by-step instructions for accounting (in Estonian)].
- Let your employees know where to send the request for third pillar payments. [Example of request] (in Estonian)
- To reduce hassle, add a checkbox to new employment agreements allowing employees to contribute to the third pillar directly from salary:

  ☐ Please transfer [...] % of my gross salary to my third pillar account [0000000000] at Pensionikeskus.

Further reading

Tuleva III Pillar Pension Fund Documents (in Estonian)

Fund terms, prospectus and key investor information document.

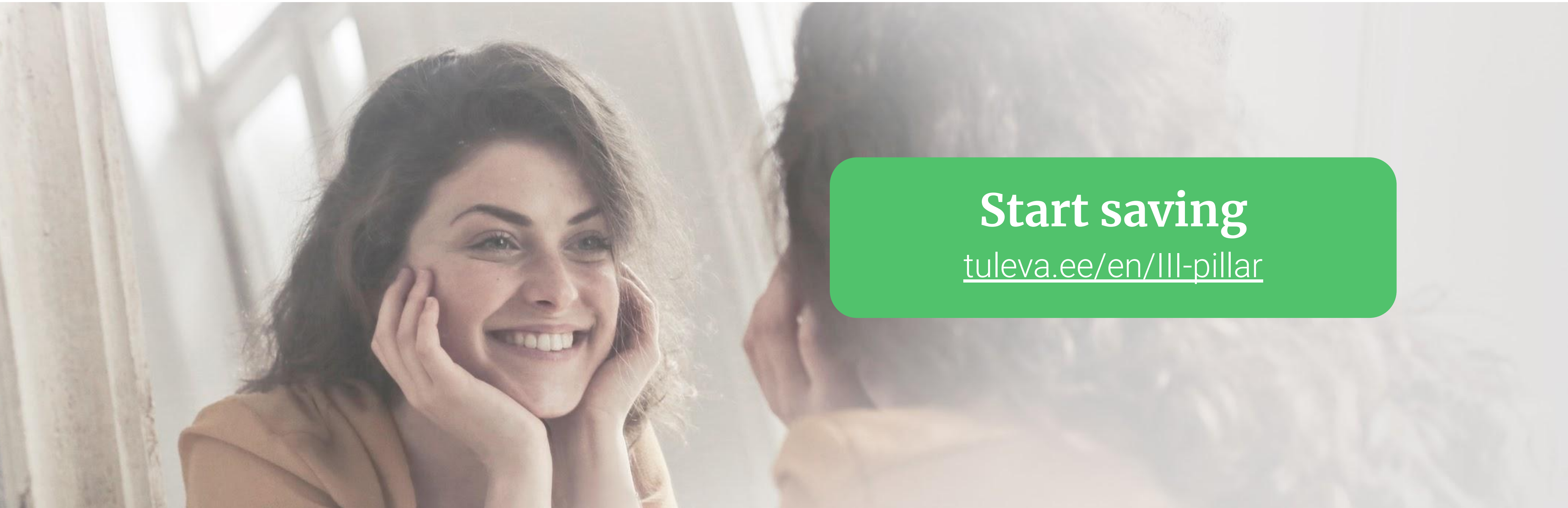
Instructions for starting third pillar with Tuleva

Step-by-step instructions that save your time and complete everything in minutes.

Frequently Asked Questions

In case you want to know more:

tuleva@tuleva.ee.



Start saving

tuleva.ee/en/III-pillar