



RETIREMENT: WHEN DO WE START PLANNING FOR IT?

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“Plan for your future because that is where you are going to spend the rest of your life.”

Taking heed of what Mark Twain said, when then should we start planning for retirement?

The word “retirement” caught my attention about 10 years ago. Hard at work, I was too engrossed in my career to think of much else, let alone retirement. It was then that Isaac Low from First Principal Financial spoke about Retirement Planning at the company I worked for. It was a good reminder for me to start planning for the next phase of my life and one that finally led me to “retire” from the corporate world and jump into self-employment, serving others and helping them plan their finances.





A holistic approach to retirement goes beyond savings programmes or investments. It will have to address health issues like government-assisted healthcare programmes, MediShield schemes, major illness, long-term care, wellness, nutrition, lifestyle choices, relocation possibilities and retirement communities. **TYPICAL RETIREMENT OBJECTIVES ENCOMPASS:**

1 Maintaining pre-retirement standard of living in retirement	2 Maintaining economic self-sufficiency	3 Minimising taxes
4 Retiring early	5 Adapting lifestyle in retirement	6 Dependent care
7 Legacy or passing on wealth to others	8 Investment strategies	9 Adequate insurance

Such decisions made early would mean having more time to learn about investment strategies and understanding what works best for you. It allows breathing space to make mistakes and facilitates the smoothening of short-term volatility.

Unfortunately, some don't save for retirement until it's too late. Whether to take a lavish holiday now or a more moderate one, and save the difference for our retirement is a question we need to answer now rather than later. Lifestyle choices don't start from retirement; it actually starts way before that. If we become accustomed to an unusually high standard of living, it will get more difficult to adjust down when retirement comes.

The habit of setting aside some money and letting compound interest work through time goes a much longer way, than being forced to accumulate a much higher amount or to take much greater risk than what is normally needed, if we were to start planning later.

How we take care of the older person we will be in the future, starts from the decisions we make as the younger person we are today.



WE ARE NEVER TOO YOUNG TO START RETIREMENT PLANNING

To illustrate the power of compounding for an accumulation of \$1m at 6% compounded interest per year to age 65, you need to save just \$6,000/year if you begin from age 25.

However, if you are already 45 and have just decided to accumulate the \$1m for retirement at age 65, you need to save \$27,000/year.

Here is another illustration based on savings with SRS (Supplementary Retirement Scheme), which I hope you have already started. Take a look at the future value of each period saved.

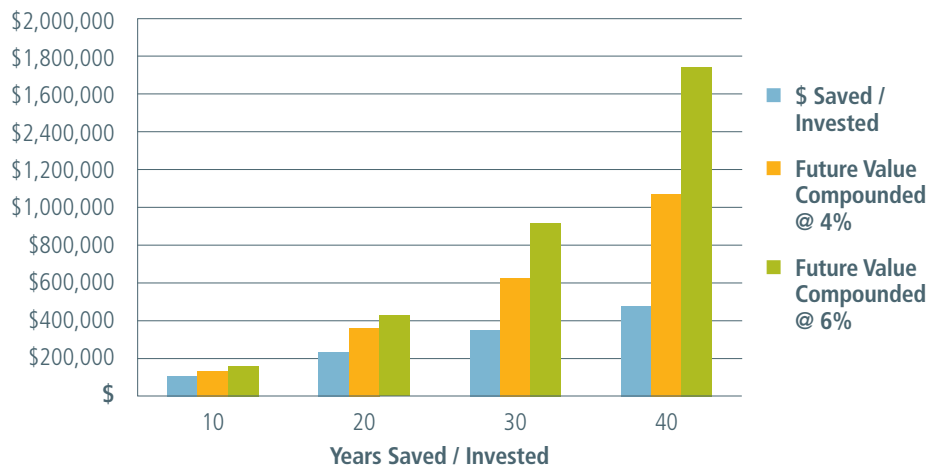
ACCUMULATION OF \$11,475/YEAR WITH SRS

Years Saved / Investment	\$ Saved / Invested	Future Value Compounded @ 4%	Future Value Compounded @ 6%
10	\$114,750	\$137,770	\$151,249
20	\$229,500	\$341,703	\$422,115
30	\$344,250	\$643,575	\$907,192
40	\$459,000	\$1,090,418	\$1,775,894

Notice the differences in starting early and taking some risk for higher returns?

For a clearer picture of what to expect in the future, let's take a quick look at the Table, where the green bar measures a portfolio at average 6% returns and its value if saved/invested over a longer period, i.e. 40 years versus 20 years:

ACCUMULATION OF \$11,475/YEAR WITH SRS



A risk-averse investor saving earlier at age 25 is able to accumulate \$11,475/year over 40 years till age 65, at an average return of 4% to achieve about \$1m. If the investor takes some risk and as a result, achieves another 2% to increase average returns to 6%, he will accumulate \$685,476 more of retirement funds!

Note the exponential growth when compounded at a higher rate of return! Therefore, start retirement planning sooner rather than later. Remember,

"A graceful and honourable old age is the childhood of immortality"

– Pindar



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