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RETIREMENT WITH DIGNITY – ROADBLOCKS AND SOLUTIONS

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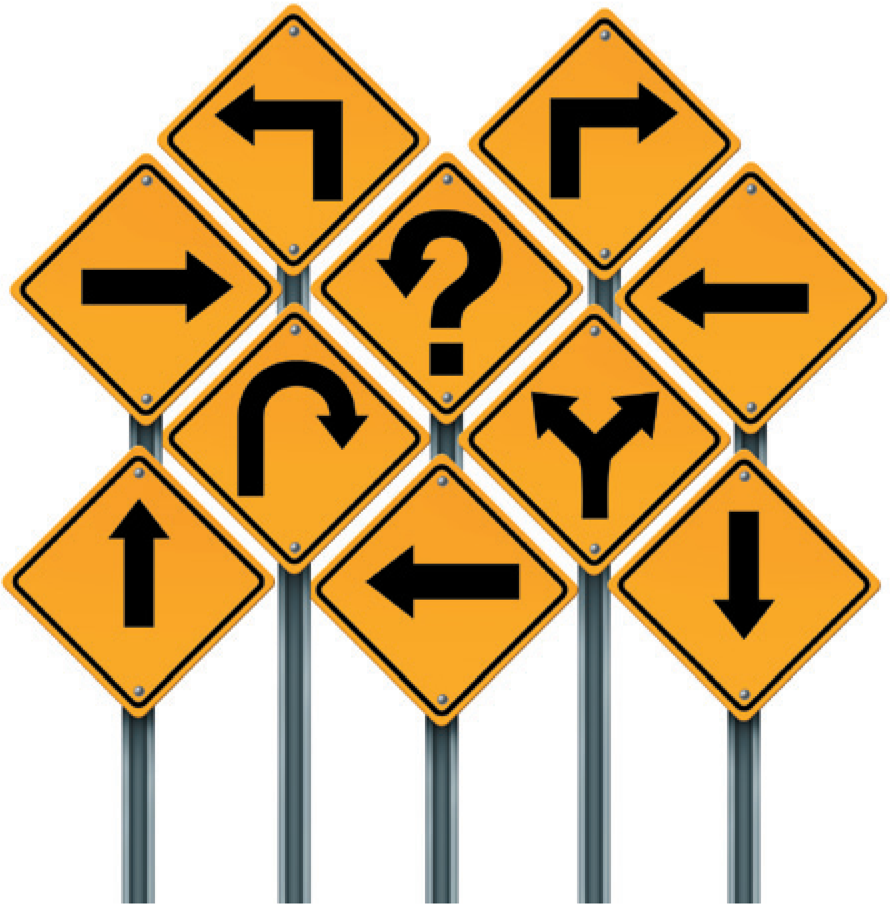

Some years back an insurance company ran an advertisement campaign with the tag line, "Enjoy your retirement; not retire from enjoyment" that stuck in my mind for a long time. It portrayed an employee whose colleagues celebrated his retirement with him but the employee who retired was downcast. He failed to enjoy the fruits of his earlier labour on his retirement; he failed to plan adequately for his retirement. The day he retired from the company was the day he retired from enjoyment because he had not saved for his retirement. It was a message that still resonates in my head.

CPF Board statistics over the years also showed that more than half the annual cohorts who turned age 55 do not have sufficient money in their retirement accounts to meet the minimum sum requirements. It was also generally observed that people are living longer due to better healthcare and nutrition. The government set up the National Longevity Insurance Committee (NLIC) that was tasked to look at the adequacy of the minimum sum scheme in the light of increasing longevity of Singaporeans. This report was accepted by the government and published in the CPF website.

An excerpt from the independent actuarial consultants, Trowbridge Deloitte, among other things concluded that Singaporeans are indeed living much longer. They went on to report that 55% of CPF members who are alive at age 65 will likely still be alive at age 85. And life expectancy for Singaporeans will continue to increase even more for future cohorts as this had happened in other developed countries.

Check out the link for the report of the NLIC, *http://mycpf.cpf.gov.sg/NR/rdonlyres/AD668053-FC50-4C33-9664-6540149B9DE3/0/ExecutiveSummary.pdf*.

These developments point to real road blocks for many working persons wanting to retire with dignity in Singapore regardless whether they are early in their career, mid-career or are at the late stages of their careers. This article will examine four common road blocks and challenges that most working people face in trying to save enough for a proper retirement and what they can do about it.

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ROADBLOCK 1
PROCRASTINATION

It is obvious that for one to go on a long road trip one must have an idea where one's destination is and where it will end eventually. The journey to retirement starts when one starts work. It is not an optional journey; all of us must go on this road trip whether we like it or not. So start thinking now and not leave retirement planning till tomorrow. Do not procrastinate because the longer you put it off, the harder the task to accumulate your desired retirement capital at your desired retirement age. The cost of waiting can be pretty daunting as illustrated in Table 1 below:

TABLE 1 – COST OF WAITING

TO ACCUMULATE $1,000,000 BY AGE 65 WITH 6% PER YEAR INVESTMENT YIELD

Age	Quantum Outlay Per Year ($)
20	$4,700
30	$8,974
40	$18,228
50	$42,963

Everything else being equal, the capital outlay for the 50, 40 and 30 year old person is approximately 9, 4 and 2 times respectively more compared to the 20 year old who started his journey the earliest. The moral of the story is to start as early as possible as your climb up the hill will be gentler.

The later you start the road will get steeper by the year.

ROADBLOCK 2
MEDICAL INSURANCE NOT IN PLACE EARLY

Another important point about starting the retirement planning process early is for the purpose of acquiring medical insurance while one is insurable. Medical care is needed throughout one's life hence the ability to pay for this financial need is obviously needed throughout life. Long term insurance risk can be identified and the proper type and level of medical insurance coverage can then be properly arranged while one is younger and insurable.

The lack of insurability is a real problem that many older people face. Medical insurance when properly arranged will eliminate the anxiety of not being able to meet the high cost of medical care when one gets old.

ROADBLOCK 3
NO ROAD MAP

In the course of my work, I discovered that many people are unclear about their retirement plans and what they should do; they merely just flow along in the hope that things will work out in the end. My approach has been to assist them to articulate their retirement objectives clearly with the help of a retirement needs analysis and supplemented with a net worth as well as a cash flow analysis, i.e. provide a road map.

A retirement needs analysis would be liken to radar in a ship to "see" beyond the horizon and chart a course forward to reach one's retirement goals. It is an important planning tool. Broadly here is what it looks like:

TABLE 2 – RETIREMENT NEEDS ANALYSIS

Planning assumptions pertaining to expected retirement age, years from retirement, assumed life expectancy, assumed inflation rate, assumed effective investment yield post retirement	
Capital needs on retirement (Expenditure on retirement less Income to be received on retirement, including CPFLife and/or income from CPF Minimum Sum Scheme)	A
Total Assets Available on Retirement (including cash, CPF, SRS, life insurance, shares, etc)	B
Present Value of Total Retirement Needs less Retirement Assets Accumulated i.e. Deficit/Surplus	C=(A-B)

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The result from this analysis will act as a guide to the next phase of the process, i.e. to evaluate the different types of investment vehicles one needs to consider to accumulate money to meet the deficit, if any. Professional help in investing and accumulating money long term for retirement and indeed post-retirement needs is highly recommended. This is a weak area for many people. The stakes are high and one should carefully evaluate one's ability to invest one's retirement funds without professional help.

The retirement road map is also helped with an analysis of net worth as per table 3 below:

TABLE 3 – NET WORTH ANALYSIS STATEMENT

Total Assets (comprising cash, investments, CPF, others)	A
Less Liabilities (comprising short term, long term commitments, e.g. housing mortgages and others)	B
Positive/Negative Networth	C=(A-B)

A negative statement suggests some serious work needs to be done to bring down liabilities within a reasonable time frame and/or boost accumulations on the asset side to eventually turn it into a positive statement. This statement of net worth also helps to identify underperforming investment assets for re-allocation to better yielding investment vehicles as well as identify assets that need protection from creditors.

The third tool is the cash flow analysis. See table 4 below.

TABLE 4 – CASH FLOW ANALYSIS

Sources of annual income (comprising employment and non-employment income)	A
Less annual expenditure (comprising home payments, utilities, communications, food, transportation, medical, domestic help, education, entertainment and festive spending, insurance, vacations, etc)	B
Net Surplus/Deficit	C=(A-B)

Again many people do not use this tool enough; one that will reveal to them their spending patterns and behaviour, hence providing themselves with a better understanding of their financial plan including retirement planning. This tool helps to identify one's core expenditure and guides us to make feasible adjustments according to our unique personal and family situation. A healthy positive cash flow is vital for proper retirement funding among other competing needs.

Generally speaking, over-spending whether in housing or consumption and careless use of credit facilities are big drawbacks to setting aside funds for retirement funding. On the other hand, disciplined spending and careful use of credit facilities will enable adequate funds to be channelled to investments for retirement and other accumulation purposes.

As can be seen from these three tools, the process of retirement planning is rather dynamic and challenging. Trade-offs between spending now and deferring spending may have to be made. Inflation and investment yields need to be monitored so that real purchasing power can be protected or preserved over the long term. A regular audit of the retirement plan say once a year is also important to ensure that it is working according to plan and to evaluate and update the plan as and when necessary.

ROADBLOCK 4

NOT SEEKING PROFESSIONAL HELP

As can be seen from the discussion above the process of planning to retire with dignity is rather challenging because it involves a span of knowledge and skills in planning, insurance and investment accumulations that many do not have. Due to work pressures many also do not have the time to put things together and execute their plans even though they may have the knowledge and or skills to do so. And many folks make the error of not seeking professional help until it is too late. The good news is that professional help at a reasonable cost is available. Seek it early.

We at First Principal Financial have the knowledge, expertise and experience to guide and help you on the road to a retirement of your dreams. Do contact us for an obligation-free assessment that will set you on the road to enjoy your retirement.

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