Planning for retirement

The sooner you start, the easier it is

We all look forward to enjoying our years in retirement. It is an opportunity to do all the things we could not do during our hectic working lives. However, how do we ensure that we have sufficient funds to enjoy our retirement to the fullest?

In Singapore, we are fortunate to have Central Provident Fund (CPF) that provides financial aid upon retirement but will a monthly income of $1,000 offered by the Minimum Sum be adequate for us to do the things we plan to do?

This article highlights some ways to help you achieve a fulfilling retirement.

Planning for retirement is a marathon and not a sprint

To enjoy an active and quality lifestyle during your golden years will require early planning, coupled with disciplined saving.

When you start saving at a young age, you will need to put aside less over the years to meet your financial goals. At the same time you can benefit from compounding interest, which in turn will help you build a larger nest egg.

Ideally, you should start planning for retirement as soon as you enter the workforce. This is when you have disposable income to invest in the future. However, regardless of age, it is always better to start saving than not at all.

As a rule of thumb, you will need to have a post retirement income of two-thirds your last drawn salary to continue a similar lifestyle during your retirement. Bear in mind that more will be needed if you aspire to have an active lifestyle that involves frequent travelling, hobbies and so on.

Saving to last through your lifetime may seem daunting and unachievable but with an effective savings vehicle in place, you can gradually and surely build your retirement fund.

You can start by depositing a portion of your income in a bank account. Although it is a safe and low risk option, interest rates are typically low, meaning that your money may not be working as hard for you as it should be.

Another way to build your retirement fund is by investing in stocks and unit trusts. Although these professionally-managed investments carry a higher level of risk, they can potentially reap higher returns. When considering such products, assess your risk appetite, time horizon for which you are prepared to invest, and the nature of the investment return you hope to achieve. If your risk appetite is low, this option is not for you.

Life insurance is another attractive option to help you save for your golden years. It typically provides higher returns than banks, offers more security than shares and allows you to save methodically each month, while providing you with some insurance protection.

With an *endowment policy*, for example, you have the advantage of the life insurance company managing your money so that you do not have to worry about the volatility of the market.

An *Investment-Linked Insurance Plan* (ILP) is also another option to consider if you want to invest, and protect yourself and your family against financial loss in the event of death or permanent disability or injury. You can decide how much protection coverage you need, how your premiums are invested and in which funds. You also have the flexibility to switch between different funds during the life of the policy to suit any change to your needs and financial objectives.

Where adequate protection is already provided for, ILPs can also be used as pure investment products where growth and retirement-fund building is the key driver for you and your family. This can be a very effective way of building sufficient funds, which can be used to buy an annuity subsequently.

If you need advice on retirement planning, visit the Life Insurance Association website at www.lia.org.sg for the list of insurance companies in Singapore – and tell them you want to speak to one of their agents. If you wish to receive independent advice from a financial adviser, please visit the Monetary Authority of Singapore at www.mas.gov.sg for a list of authorised financial advisers. They will be able to guide you in planning for your retirement so that you can enjoy the benefits in future.

Life Insurance Association

Insights from Jason Sadler, President of the Life Insurance Association of Singapore:

You've often said that we all need to do more to save for our retirement. How so?

While we all aspire to have an active lifestyle that involves travelling, hobbies and so on during their retirement, many do not appear to have a plan to achieve it.

Some are even unaware of how much is actually needed.

In addition, most Singaporeans have the assumption that their CPF savings will be sufficient to meet their retirement needs—by providing them with a monthly income equivalent to their last drawn monthly income. The reality is CPF funds are simply insufficient to last through the retirement years. The minimum sum will provide a monthly income of less than S$1,000 for 20 years. That is hardly sufficient to support a family, and what if you outlive your CPF Funds?

As such, Singaporeans are not adequately prepared for their retirement.

How would you define 'adequately prepared'?

You need to have accumulated sufficient funds that will enable you to sustain your desired lifestyle throughout your retirement years. An international rule of thumb is for retirees to have a post retirement income of two-thirds their last drawn salary in order to sustain their desired lifestyle. This would mean an accumulated lump sum of 10 times your last salary.

You have worked in other insurance markets. How different are Singaporeans' attitudes towards retirement planning compared to, say, the UK?

Unfortunately, Singaporeans are not alone when it comes to being ill-prepared for retirement. This is a global issue.

Even in the UK, where employer-provided retirement schemes are wide-spread, most fail to accumulate sufficient funds to maintain their desired lifestyle throughout their retirement.

When did you start planning for your own retirement and what factors did you take into account when purchasing a particular policy?

I started saving for my own retirement at 21, when I first started working. I've always believed that saving a little from an early age is the best approach and that planning for retirement is a marathon and not a sprint!

What advice would you give to someone who is nearing retirement and is financially ill-prepared for it?

This is a problem faced by many. Seek a good financial adviser.

A financial adviser will be able to do a full financial evaluation that will look at your income and expenses, assets and liabilities and then determine what needs to be done to meet your retirement lifestyle objectives. However, you may find yourself having to make some difficult choices, such as 'downsizing' your home or even continuing to work longer.

How should one manage their retirement savings to ensure that it lasts for life?

Again, consult a financial adviser.

You may also consider an annuity, and depending on the type of annuity you choose, you will have the security of knowing that it will provide you with a lifetime income and thereby allow you to plan your lifestyle accordingly.