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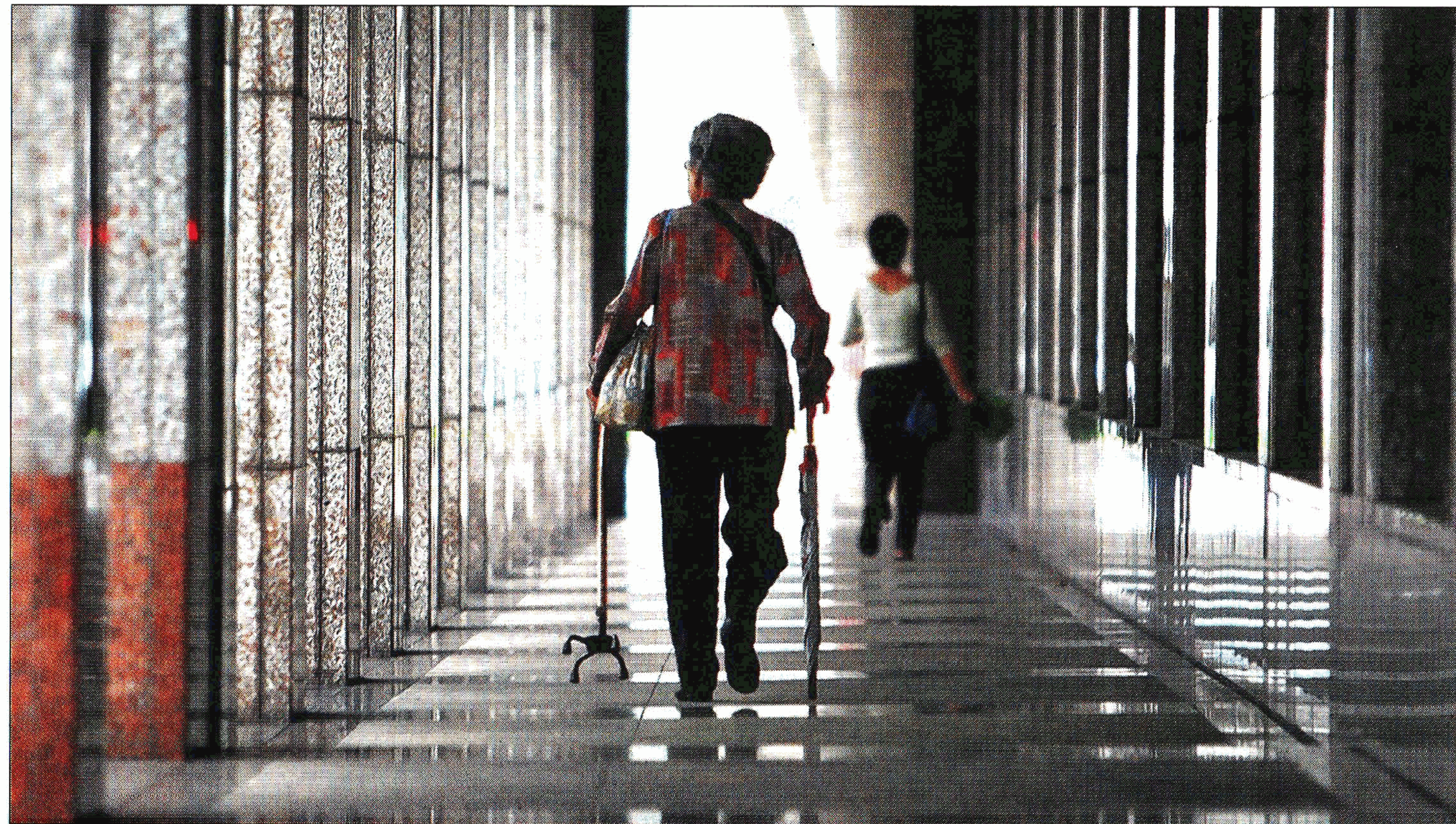
Publication: The Business Times
Date: 17 May 2006
Headline: Ready for the long haul?

While many of us yearn to live to a ripe old age, we are not doing much to ensure we have enough funds to sustain us, notes **ANNE TAY**

Ready for the long haul?



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EVERY day, we strive to do the right things to improve our health — eating right, controlling our caffeine intake, taking health supplements and hitting the gym. The sole purpose of all this is to ensure we live well and long to enjoy our children and grandchildren, and above all, the fruits of our labour for the past 40 years. Yet, while many of us are doing all we can to ensure longevity, we are not doing much to ensure that we have sufficient funds to sustain us.

Whether our retirement ends up as enjoyable golden years depends on the decisions made in the early part of our life. Even if you are years away from retirement, it is never too early to start planning.

Two important trends have emerged in the past 10 to 20 years — people are living longer and they are having fewer children to support them in old age. The number of years you spend in retirement could be longer than that of your parents. However, with the spiraling cost of living and fewer children, you may not be able to rely on your children to support you, unlike previous generations. So it is critical to ensure that you are sufficiently provided for during your retirement years.

A Singapore Management University and OCBC study last year on Singaporeans' money management behaviour found that those aged 55 have only an average of $120,000 in liquid assets, including their CPF savings. The survey also found that 74 per cent of Singaporeans wish to retire before the current mandatory retirement age of 62. Yet, most of them are ill-prepared for their golden years.

Many may be tired of hearing the oft-repeated message that our CPF is not enough to see us through retirement. Imagine this: If you lose your employment income for one year, how are you going to carry on with your lifestyle? For many, this may not be an issue. You can dip into your savings to sustain your living expenses.

But what happens if you do not have income for the next 20 or 25 years? What will you do for your living expenses? It can be a frightening thought if you have little retirement savings. As life expectancy increases, it becomes even more important to have sufficient retirement funds to last your lifetime.

For many people, the millions of dollars that financial advisers say you need for retirement will never be achievable. At the end of the day, it depends on how much you need to live on and how comfortable a lifestyle you want.

Lifestyle question

Many people may ask: "But how would I know how much I need?" At the end of the day, it's really a lifestyle issue. What kind of lifestyle do you want during your retirement years? Do you want to maintain your current lifestyle, do you wish to better it or are you prepared to lower your standard of living? Many will be happy if they can just maintain their present lifestyle.

The key here is how comfortable you want your golden years to be. However, the definition of comfort varies from person to person. The best solution is to picture how much you need each month to achieve your idea of a comfortable lifestyle. For a start, calculate how much it costs you to run your current household. Now, strip off those expenses that you do not need to carry into your golden years, such as your children's expenses and mortgages.

Let's assume that it costs you $4,000 to run your household now and your children and mortgage costs comprise $2,100. Take out the $2,100 and factor in expenses that will change, for example, your personal taxes may drop with lower or no employment income. Examples of expenses that will increase are healthcare or travel expenses. Thinking about how you would like to spend your retirement years can point out the other expenses you have to provide for.

One rule of thumb is to target 70 per cent of your last drawn income before retirement. Let's assume that you are earning $2,500 today and you are 35 years old. If you get a wage increment of 2 per cent a year until you are 62, your last drawn pay will be $4,267. To maintain your lifestyle, you will need $2,987 a month.

If you assume an investment return of 4 per cent and an inflation rate of 2 per cent, you will require a lump sum of $624,196 at age 62. If you are a woman, due to a longer average life expectancy, you will require $694,362.

If you are 45 years old today, the good news is that you are closer to retirement and would need to accumulate a smaller lump sum compared to the 35-year-old. The reason is the time value of money. The 45-year-old will only need $512,132. The bad news for this 45-year-old is that if he has not started accumulating his retirement funds, he will need to put aside a monthly saving of $1,757 all the way to age 62. In comparison, the 35-year-old only needs monthly savings of $1,073.

By starting early, you won't have to play catch-up later in life. With a longer investment horizon, you do not have to take unnecessary risks that you are not comfortable with. Another reason to start early is that you may not be able to work until 62. You may have to stop work earlier due to lack of employment opportunities or bad health.

A common excuse people give for their lack of early preparation is that they can downsize their homes if they need to. This is an alternative but one uncertainty you may face is downsizing at a time when the housing market is in the doldrums. You may then take longer to unlock your home equity value.

Cash flow

Additionally, if you have to stop work at 55 due to unplanned circumstances and your mortgage runs till you're 65, this imperfect matching of cash inflows versus cash outflows may be a problem. The other issue is how many are actually willing to downsize. The golden years may be the best time to truly enjoy your home.

You should also consider how exposed you are to the property sector. If you only have your home and no other investment income, you may be taking too much risk on one sector of the economy and not diversifying enough. With portfolio concentration, you'll either make it or break it. Are you prepared to wait till your golden years to find out or would you rather play it safe and diversify your investments?

Do include annuity products in your retirement portfolio. You do not know exactly how long you are going to live. With an annuity in your retirement portfolio, you can hedge against living too long because such products pay you an income as long as you live.

By constantly accumulating and growing your wealth when you are young, you can build up the bulk of your retirement funds and have greater freedom in your later years.

You can also consider working as long as you can, health permitting. The later you start drawing on your retirement funds, the better. As longevity increases, you'll never know how many years you may need to rely on your funds.

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