Saving for retirement should start as soon as you receive your first paycheck.

Key to Retirement Planning…

- *Begin with the end in mind*
- *Start Early*
- *Invest in the right financial instruments*

Retirement Planning – Start right now the right way!

"I'm retiring at 62, so it is not too late to plan for it when I'm 50…"

"I don't really know how much I need when I retire but I think I've enough (money) for myself…"

If any of the above statements reflect your perception about retirement plans, you are not alone. You are probably among the many Singaporeans who are not doing enough to plan for your retirement and not knowing how much to save to achieve financial freedom on or before your retirement.

A survey conducted in early 2010 by an insurance company involving 15,000 people from 15 countries found that 90 per cent of the respondents in Singapore do not know how much money they will have when they retire. This echoes the view of Mr Tan Hak Leh, Deputy President of Life Insurance Association-Singapore, in that Singaporeans are still focusing on practical short-term finances rather than on retirement needs which requires a disciplined savings and investment over a span of 20 years and above.

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In Singapore, the population of those aged 65 and above is expected to treble to a million by 2030, which means one in every five people will be of this age group. This will pose critical economic problem when there are fewer young people in the workforce to support the increasing aging population. So, do not pin your hope in getting your children to support you financially when you retire. A more prudent choice is for you to save for your own retirement needs in the golden years.

As you will find out from this article, successful retirement planning not only requires you to know how much you need to save but also to start early (right NOW if you've not) with the right financial instrument based on the time horizon you have.

Longer time horizon will yield more savings with the power of compounding interest.

Retirement Sum – Begin with the end in mind

The amount of retirement sum required for each of us varies on our lifestyle. For example, if you think you plan to lead on a basic lifestyle without restaurant meal and overseas holiday trips, then a monthly income of $1,000 probably will be sufficient to cover all your expenses. If you plan to enjoy a more luxurious retirement with several overseas trips in a year, then plan to have $5,000 a month.

You may derive the retirement amount needed via two methods – ***Expense Method*** or ***Lump Sum Annuity***.

Expense Method simply refers to the total amount of retirement sum needed to support you from the start to the end of retirement years. The full amount of sum, which includes an assumed inflation rate of 2% p.a. and a comfortable rate of investment rate of return (e.g. 3%) will be depleted at the end of the period.

Alternatively, you can purchase a lump sum Annuity that pays you the desired monthly income for lifetime which also factors in inflation during retirement years.

The table below shows the estimated lump sum needed at retirement through Expense Method and an Annuity plan.

Preferred Lifestyle	Retirement Monthly Income at age 60	Projected Lump Sum Needed at Retirement		
		Expense Method*	Lump Sum Annuity Plan^	
			Female	Male
Basic	$1,000	$264,919	$250,000	$238,000
Simple	$1,500	$397,379	$375,000	$350,000
Comfortable	$2,000	$529,839	$500,000	$470,000
Comfortable with car	$2,500	$662,299	$630,000	$590,000
Luxurious	$5,000	$1,324,597	1,250,000	$1,170,000

#The retirement income indicated above is based on today's dollar. If your retirement is 20 years later, $1,000 today is equivalent to $1,486 in year 2020 with inflation rate of 2%. The formula to use to project the future amount is

$$\text{Future Amount} = \text{Current Amount} \times \left(1+\frac{r}{100}\right)^n$$

where *r* is the inflation rate, *n* is the number of years in future.

*Assume inflation rate of 2% p.a. and 3% p.a. investment rate of return of retirement sum from age 60 to 85.

^ The amount is estimated based on NTUC Income Guaranteed Life Annuity Immediate, and is accurate as of March 2010.

Advantages of Lump Sum Annuity…

- *Require less amount as compared to Expense Method at retirement*
- *Annuity is adjusted for inflation, thus preserving your purchasing power throughout retirement years*
- *Pay as long as you live*

Benefits of Starting Early…

- *Save less, earn more with compound interest*
- *Longer time-horizon for investment*
- *Reduce risk in high-return investment*

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As you can tell from the table, purchasing an Annuity Plan is more favourable option as it requires a lower lump sum amount when you retire. A pitfall for using the Expense Method is that you may outlive your lifespan, assuming beyond 85. Annuity will not have such problem, as it will pay you as long as you live, and it is adjusted for inflation. Hence, you are assured that your monthly spending power of say, $2,000 will be maintained throughout your retirement years. If you were to pass on earlier, the unused portion of your Annuity will be paid to your beneficiary.

If you are born in 1958 onwards, it is compulsory to join the government annuity scheme called ***CPF LIFE*** with your CPF Minimum Sum in your Retirement Account. Therefore, lump sum cash needed for commercial annuity can be reduced by the amount you put aside in your CPF Minimum Sum.
The main difference between CPF LIFE and commercial annuity scheme is CPF LIFE monthly pay-out does not adjust for inflation. Thus, your purchasing power will shrink with each year. It is advisable to purchase a commercial annuity plan such as ***NTUC Income Guaranteed Life Annuity*** on top of CPF LIFE to maintain the purchasing power. This is especially important when one live to a ripe old age of 80!

Please visit my website at www.aboutfinancialplanning.net to find out more CPF Life and compare it with that offered by NTUC Income.

Start Young – Save Less Earn More with the Power of Compounding Interest!

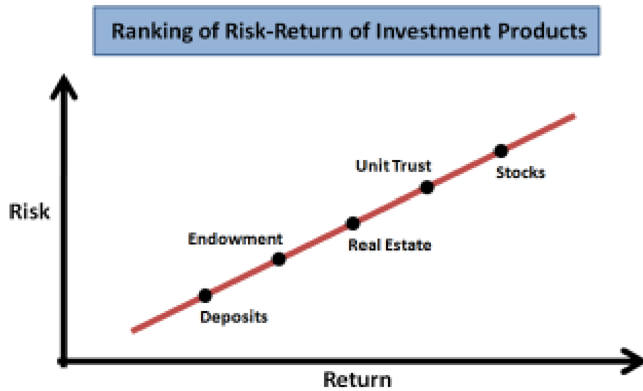
Retirement planning is definitely not only for those in their 50s. If we start young, the monthly savings that we need to set aside is much less than if we were to start later, say at age 45. In the table below, you will see that to achieve **ONE MILLION** at age 60 with assumed interest rate of 9% per annum, you only need to put aside $214 per month at age 20 compared to $2,643 if you invest at age 45!

Entry Savings Age	Monthly Savings Required to achieve $1M at age 60	
	Assumed 5% p.a.	Assumed 9% p.a.
20	**$655**	**$214**
25	$880	$340
30	$1,202	$546
35	$1,679	$892
40	$2,433	$1497
45	$3,741	$2,643
50	**$6,440**	**$5,168**
55	$14,705	$13,258

So, start early and right NOW if you haven't! The power of compounding interest will help you to grow your money at an amazing rate which translates to saving less monthly but earning more at the end.

Financial Instruments – Harvest What you Sought and Protect it!

After knowing how much you need and the benefit to start early, the next question is that what financial instruments will help you to achieve your financial independence at your retirement years?
The chart below shows the different types of investment products according to their risk-return profile. Obviously, putting your money into bank fixed deposits which merely earn less than 1% interest will not be the best option to multiply your money in the long run.



If you are between 20 to 49 years old, you have more than 10 years of time horizon for investment. You should save your money monthly in Exchange Traded Funds (ETFs) or funds from Unit Trust Company or Insurance Company. Certainly, the higher return from investing in ETFs or Unit Trusts involves a higher risk. The risk, however, is much reduced as you have a longer time horizon for investment. In his book - Secrets of Self-made Millionaire, Mr Adam Koh wrote "Based on historical performance, if we invest in the stock market index, i.e. ETFs, for long term (more than 10 years), we will get a 12.08% return risk free." Again, the message is to start early than sorry.

Long-term investment on ETFs and Unit Trusts works best through Dollar-Cost Averaging. **Dollar-Cost Averaging** is a disciplined saving strategy of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the price. Using this strategy, you purchase more shares of unit trusts when prices are low, and fewer shares when prices are high. In the long run, your average cost will be lower as you do not time the market and you capture both the high and low market cycles. Also, it is important for you to realize the investment returns in the window period of 58 to 62 years old when the market is good.

On the other hand, if you are above 50 years old, it will be safer to put your funds into endowment plan which will yield around 3% to 5% interest per annum. If you have accumulated some of your wealth in other investment vehicles such as the stock market or property, you probably should preserve the money in more conservative endowment plan or annuity plan too.

Conclusion

It is important to plan early and wisely for your retirement. If you have yet to do anything about your retirement planning, start planning now. Ask yourself the lifestyle you want to lead after retirement to determine the monthly expenses and lump sum saving required at retirement. Start saving early to enjoy the benefits of compound interest with the suitable investment products based on the time horizon you have. Manage the risk and money well with the time-tested investment strategy – Dollar Cost Averaging, and exit the market at good time. Retirement planning starts right now the right way!

Dollar-Cost Averaging is a disciplined saving strategy of buying a fixed dollar amount of a particular investment on a regular schedule... In the long run, your average cost will be lower as you do not time the market and you capture both the high and low market cycles.

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