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ADD COLOURS TO YOUR FUTURE

The Star – Star Special Issue: Planning Your Retirement (24 July 2018)

By Ismitz Matthew De Alwis

Start planning your finances early to have a peaceful retirement.

DOES the thought of retirement cause anxiety or the exact opposite – indifference? While the idea of preparing for retirement may be intimidating to some, younger folk may think of it as such a faraway concept that is too early to plan for. Whatever the case may be, retirement planning can be simple and straightforward. It does not even require you to give up all the day-to-day luxuries you are currently enjoying. All it takes is a little bit of discipline. There is a growing concern regarding the ageing population in Malaysia. According to the Department of Statistics Malaysia, the country's percentage of elderly population is expected to exceed 7% by 2020. This could cause already burgeoning medical costs to increase drastically within the next five years. Longer average life expectancy also means more years spent in retirement, which means you will need even more funds to help get you through the coming years.

While Employees Provident Fund (EPF) has managed to provide impressive dividends year after year, it is too risky to depend on it as your only source of retirement income. Many people are not even actively contributing to their EPF. The EPF Board's 2017 annual report showed only 7,110,517 out of 13,790,216 members were active. Most of us rely on our EPF savings for major purchases such as property or our children's education. By the time you are ready to use this pool for your retirement; it might be partially used or almost finished.

RETIREMENT PHASES

The retirement age can be categorised into three phases. The first is the Go-Go Phase (50s and 60s). This may be the best part of retirement, where retirees live a fairly active lifestyle that includes travelling, hobbies and socialising. Work may still occur but on a part-time or consulting basis. This may also be the most expensive phase of retirement. If you are still earning an income in this phase, it can be used to offset some of the additional expenses that come from your new retirement lifestyle.

The next phase is the Slow-Go Phase (70s), where you still enjoy spending time with family and friends but may also be dealing with health issues. Your daily routine may now include medical appointments while physical limitations prohibit you from carrying out strenuous activities. The third and final phase is the No-Go Phase (80s and 90s). This phase involves less energy, less physical mobility and more rest. You will most probably cut back on a lot of your recreational activities while healthcare expenditure increases. Bear in mind that medical costs are one of the biggest drivers of inflation in retirement.


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THE "P" WORD

Planning is the best thing you can do for your retirement years. This applies to everyone, whether you are just starting out in the workforce, at the peak of your career or have achieved your career aspirations. Calculate your retirement planning goals, commit to a regular savings schedule and keep to it. Always aim for a larger sum rather than underestimate what you would require. If you are already living your retirement years, planning is still needed to ensure that you do not spend beyond your means.

Planning habits correspond to a person's age. For example, an investor in his early 20s should prioritise paying off his credit card debt and student loans and establishing an emergency fund. He should also start setting aside funds for his retirement savings. In his 30s and 40s, he needs to reassess his insurance needs, alleviate bigger debts such mortgage and car loans, and increase his retirement savings. In his 50s, it is time to reduce expenses, boost his retirement savings aggressively and evaluate his retirement plan to ensure that it is still aligned with his goals. However, as every person is different, it is important to have a plan that fits your individual needs, goals and circumstances.

WHEN ENOUGH IS ENOUGH

How do you know if you are saving enough? A rule of thumb is to set aside about one-third (33%) of your salary for retirement. Your EPF contribution should make up about 23% while the remaining 10% can be in the form of investments. A few minor inconveniences today can turn into gains that compound over time. For example, that artisanal coffee that you have been buying daily for 30 years, if saved at a 10% annual interest rate, will compound to an astonishing RM600,000 for your retirement. We're not saying you should swear off coffee altogether, but maybe bring the frequency down to a couple of times a week instead of every day. What about how much you will need to maintain your current lifestyle during retirement?

Another rule of thumb (good thing we have two) is to aim for a minimum of two-thirds (67%) of your last drawn salary as income in retirement. Do remember that retirees often spend more on travel, entertainment and dining out since they have the time to do so.

DIVERSIFICATION

Now that we have established that retirement planning does not need to be intimidating, it is time to look at how you can supplement your retirement funds with other things besides saving. Many people choose to invest their money to protect themselves against the decrease in purchasing power brought about by inflation. One of the key things that financial experts advocate is the diversification of investments.

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By diversifying, you decrease the chances of all your investments experiencing the same negative market forces at the same time. One way to do this is to blend a variety of investments with different characteristics so you can reduce their overall risk. Below is a breakdown of investment products that you can consider.

- **Equities** – These are ordinary shares of companies that are listed on the stock exchange. They are considered high-risk investments as they fluctuate according to market sentiments.

- **Unit trusts** – Unit trusts are professionally managed pools of funds that are broken down into units for sale to investors. This gives investors an indirect involvement in a range of investments such as equities, bonds and fixed-income securities. They are safer than equities but still depend on market forces.

- **Private retirement schemes (PRS)** – Similar to unit trusts, PRS are a professionally managed pool of funds, except that they are dedicated to retirement only. Besides lower fees and charges involved, there are usually tax reliefs and incentives for those aged between 20 and 30.

- **Investment-linked insurance** – This gives the investor the benefits of protection and investment under a single integrated plan. Like unit trusts, investors can make capital gains as well as dividends. It is safer than equities but still subject to market forces.

- **Real property** – Excluding the current home of the investor, this refers to other condominiums, houses, flats, land or factories that belong to the investor. Profitability will depend on the type, location and market timing but it is one of the least liquid investments to hold. It is safer compared to equities, but its value can severely erode during negative times.

- **Fixed-income securities** – These refer to fixed-deposit accounts, bonds and other debt instruments with fixed interest payments. Bank deposit rates vary according to time and the respective financial institutions, while bonds generally give higher returns than bank deposits. Bank deposits are one of the safest investment products while bonds will depend on the issuing institution. The secret to long-term retirement planning is to start budgeting, saving and investing wisely early on in life. Decisions made in your 20s, 30s, 40s and 50s can impact your golden years.

Asset allocation based on age group		
Aggressive	**Moderate**	**Conservative**
20s to 40s	40s to 50s	50s and beyond
● Highest possible returns ● High risk tolerance ● May include 75% equities, 15% fixed income and 10% commodities	● A longer time horizon ● Average risk tolerance ● To balance the amount of risk and return contained within the fund ● May include 50% equities, 40% fixed-income securities and 10% cash equivalents	● A longer time horizon ● Average risk tolerance ● To balance the amount of risk and return contained within the fund ● May include 50% equities, 40% fixed-income securities and 10% cash equivalents

Hopefully, you are in a much better place to understand how you should start planning for your retirement. For those who need more in-depth advice, Kenanga offers a comprehensive set of investment solutions that covers all the examples explored in this article, including share trading, treasury solutions, unit trusts, PRS, insurance and alternative investments. Instead of mulling over the different options that are in the market, speak to us to find out how you can craft out a retirement plan that caters solely to you. Fill your retirement with a rainbow of colours and not just gold for a fulfilling new chapter in life. – **By Ismitz Matthew De Alwis, executive director and chief executive officer of Kenanga Investors Berhad and president of the Financial Planning Association of Malaysia.**

ENDS

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Retirement phases

The "P" word

When enough is enough

Diversification


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