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ILPS AS A RETIREMENT SOLUTION?

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Investment-Linked Policies (ILPs) are labeled as the bad boys of the Financial planning industry – out of all the policies available, they're debated the most due to their high level of complexity. But a clear understanding of that same structure is exactly what makes them so viable for retirement use– a financial instrument that can provide you higher, endless income until you're dead, not before.

Here's 5 good reasons why an ILP makes such as suitable retirement solution.

1 MORE MONEY FOR YOUR RETIREMENT

A study by Dr Wealth* found 452 Unit trusts in Singapore yielding over 6.83% annualized over a 10-year period [bid-to-bid].
For comparison, a CPF Ordinary Account makes 2.5%.

The median Singaporean puts about $9000 a year in CPF. If you do that for 30 years, you'll get $405,000.

With that average unit trust performance, you'll probably get over $800,000, or more than double that of your retirement scheme. That's a lot more money to spend for your non-working years. Additionally, a good planner can help you access *even higher* yielding funds.

2 MORE FREEDOM OF CONTROL

An ILP allows you to choose prior i) how many years you'd like to pay and ii) what you'd like to be paid out.

Most retirement plans, including CPF, will pay out your fixed income every month out of your capital. Once it hits that payout age, you don't have much control over it.

With an ILP, you can be paid out in dividends (profits) without necessarily lowering your capital, or withdraw bigger amounts, or not withdraw anything at all if you don't need money that month so it can continue to work for you.

You can pay a fixed number of years and let the money work for you, rather than paying every year until you're 55.

You can also start your 'payouts' earlier or later, rather than a fixed age or date

3 MORE BALANCING AND RE-BALANCING

Most ILPs come with additional benefits that would otherwise incur high costs to do manually.

When accumulating for your retirement, you can take higher risks. Once you're drawing income from your funds, you can fund switch over to a safer option. If you have a sector or opportunity that you spot, you can redirect that money over at no cost to you.

Additionally, auto re-balancing, which is the act of maintaining your aimed asset allocation - will ensure your aims are continually met with reduced risk.

These privileges are all provided for free as part of your ILP structure*.

4 FREE BONUS UNITS AND CONTINGENCY PLANS

If you've reached this point and already believe in an investment plan for retirement but aren't convinced about ILPs - there are significant and vital contingencies that ILPs have compared to traditional investments.

The first is of course, bonus units. There has never been supplemented bonus units in the history of any other traditional investment plan. ILP bonus units have a high range - from 5% of a yearly premium every year, to 180% of your first year premium upfront.

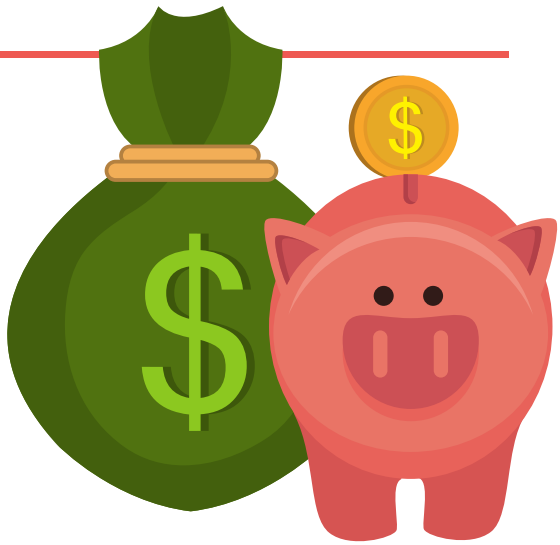
Imagine an investment plan where every year, you invest $6000 and the platform invests an additional $300 for you. Or even better, if you invest $10,000 a year and the investment company gives you another $18,000 to work with for a total of $28,000 for the price of $10,000. Bonus units come with conditions, but the potential significance can't simply be ignored.

5 CONTINGENCY PLANS

Other differences an ILP has from traditional retirement or investment plans will matter to the risk conscious or extremely aggressive investor.

If you pass away unexpectedly during a financial crisis when all your investments are in the red, the insurance company will still make sure to pay you all of your premiums paid regardless of how much was lost to the stock market (Note to reader :certain companies have CPFIS ILP with coverage of 105% of premiums paid. And often with the help of a nomination, it becomes much harder to contest and is paid out much faster to your beneficiaries than a traditional investment.

Additionally, there are contingencies in place or optionally purchasable in the event that you contract a critical illness or permanent disability, where they may forward you your money upfront with a sizeable bonus units or even better, provide your investment premiums for you while you work towards recovery. Furthermore, some insurance companies will provide supplementary bonus units such as a zero sales charge (bid-to-bid prices) or regular bonus units to reward you for using their account.



6 MORE GUIDANCE (OF A FINANCIAL ADVISER)

Most of all, purchasing an ILP means continual guidance.

Trying to retire in Singapore requires comprehensive planning. Even if you retire at a traditional age, such as 65 – our longevity requires that you make that money last for 20 years consistently. You have to financially deal with an increasing range of needs around a range of dimensions such as the following –

Socially – where you may have to deal with an increasing desire to spend since you have an excess of free time, as well as to celebrate your golden years, spoiling your children and grandchildren, etc. Many old people also find it difficult to transition out of the identity of a working adult, and may overcompensate excessively through charity.

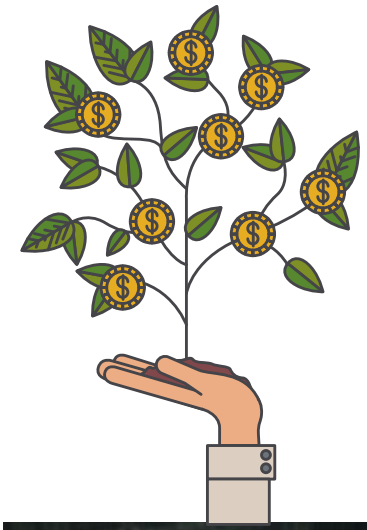
Health – such as rising cost of insurance, the increasing limitation and accessibility of what you can eat, transport and mobility costs, the decline of your mental faculties to make sound financial decisions

Economically and Personally – Inflation, what kind of legacy you want and are prepared to leave behind, etc.

TO SUMMARIZE,

An insurance-linked policy can complement and guide your retirement and is something that can be carried out effectively by a competent advisor, who will also walk with you as you plan for your retirement AND when that retirement finally arrives.

SOURCE:
FSM One, https://www.drwealth.com/



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