RETIREMENT PLANNING WITH "R.E.T.I.R.E" POINTERS

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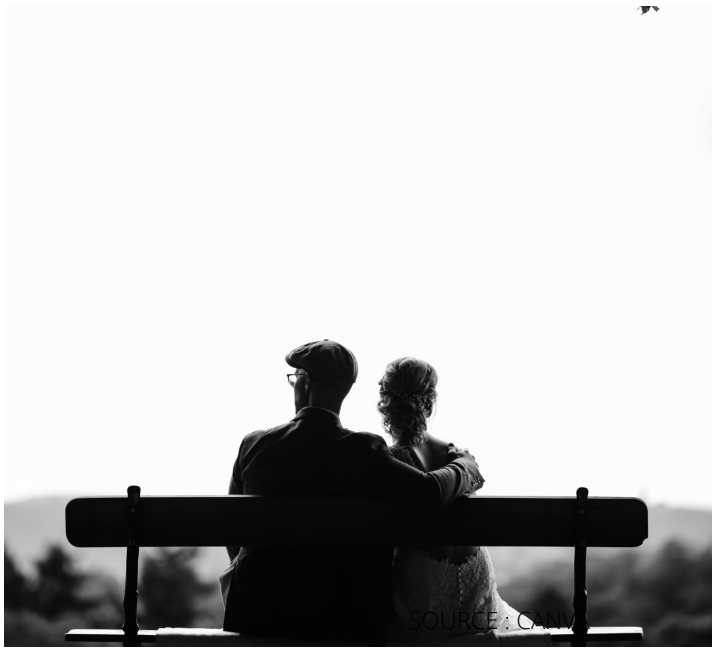
Retirement Planning with *"R.E.T.I.R.E"* pointers

The COVID-19 pandemic has resulted in severe impacts in all aspects of people's lives. According to a Business Times article (1), it was reported that "more Singaporeans are concerned that they will retire less comfortably" given the financial impact of COVID 19. In another report by Fullerton Fund Management (2), it was also reported that "COVID-19 pandemic has triggered more Singaporeans to plan for the future… prompting Singaporeans to kick-start the retirement planning process earlier". With increasing concerns of retirement planning by Singaporeans, this article hopes to share the "R.E.T.I.R.E" pointers that one can take reference from, for their retirement planning journey.

R – Review your situation & retirement goals/objectives

There are two phases in retirement planning: the first being the accumulation phase whereby one starts to work, save and invest to accumulate wealth for retirement; and the second one being the withdrawal phase whereby a person starts to draw down and use the accumulated money to fund for their lifestyle during retirement. In Singapore, the minimum retirement age according to the Retirement and Re-employment Act (RRA) (3) is currently at age 62. However, one can choose to retire before that, or even continue working after age 62, depending on circumstances and choices.



As every one of us is unique and have different lifestyle preferences during retirement, the first step in retirement planning will be the identification of one's retirement goals/objective with a review of their current situation.

This is akin to a doctor assessing a person's health to see what's wrong and prescribing medication to treat a particular condition or sickness. One should first identify their retirement lifestyle and goals/objective, and then assess their existing situation by taking stock of what they currently have. Once this is done, one can then continue to map out and put into effect an action plan as well as strategies to achieve their retirement goals during the accumulation phase.

E – Expenses or income replacement method to calculate retirement goals?

There are typically two methods used for the calculation and estimation of retirement goals: the first being the expense method, and the second one, the income replacement method. The expense method is more commonly used, and is more suitable for people who are nearing their retirement. The reason is because the estimation of expense during retirement will be more accurate. In a Straits Times article (4), it was reported that "many in S'pore don't know the costs of retirement" and "one in every two people underestimates the monthly expenses needed". With this in mind, it may be better for one to use the income replacement method to plan more for retirement, and that way, prevent underestimation or a miscalculation of expenses.

T – Take up insurance as risk management & wealth protection against risk events

Before taking action to start working towards one's retirement goal, a person should also consider taking up insurance plans for risk management and wealth protection. Singaporeans are general living longer and have a higher life expectancy. With increased longevity, one may be faced with health and medical issues as well as a greater need and demand for health care. This may possibly consume their savings, retirement funds or other available financial resources.

Rising medical cost and medical inflation poses a financial concern, as it may deplete one's retirement savings and funds faster than expected, particularly in the event of a serious illness. As such, it will be important to have adequate medical and health insurance, as well as long term care/disability insurance to manage this challenge. This will help ensure one's retirement plan and funds are safeguarded and aren't affected. Having contingency arrangements like insurance plan/s helps to minimise the impact of unforeseen circumstances, such as the rising costs mentioned earlier in relation to medical expenses, and that way, protect one's financial well-being. For insurance planning, it is good that this is started earlier, such as when individuals are younger and healthier, thus saving on cost related to this area of planning. Adding, it would be useful to refer to Tuesday Times articles (5) for more details on insurance planning.

I – Investing & saving for retirement

After implementing wealth protection and risk management through insurance to safeguard their funds, an individual should start investing and saving for their desired retirement goal. There are two sources of funds to look at for planning in Singapore: with funds under the Central Provident Fund (CPF) being the first source, and cash being the second one

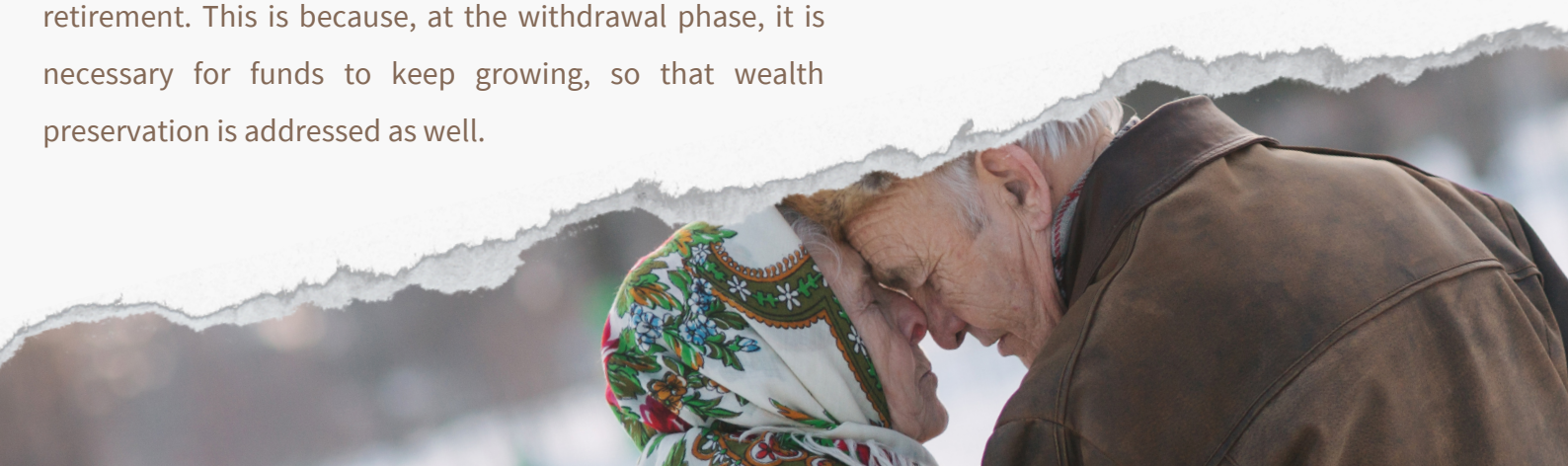
I – Investing & Saving for retirement (cont'd)

In Singapore, retirement schemes such as the CPF Retirement Sum Scheme (RSS) and CPF Lifelong Income For The Elderly (CPF LIFE) scheme have an important role as they help ensure the provision of a source of income during our golden years. Individuals should consider their CPF funds for retirement planning, by looking at ways to boost and increase those savings. According to a The New Paper article (6), it was reported that “more people sought to tap the benefits of the Central Provident Fund (CPF) last year to stretch their savings” by topping their own or their loved ones' CPF retirement savings. In addition to evaluating if their CPF source for retirement is enough, it would be a good step to consider complementing this by using allocable cash resources as well, in preparation for this significant and meaningful phase of our life.

For retirement plans funded by cash, one can start investing and saving to build a retirement fund so they can draw down during the withdrawal phase when they retire. A person can also consider purchasing an annuity plan to provide a regular stream of income during their retirement in the withdrawal phase, when they are not working. For individuals who have a higher appetite for risk, they can consider doing investments to grow their retirement nest. They may also consider investing with a view to achieve some passive income, such as through property rental or/& dividends from businesses/shares/REITS etc. It is also important to note that retirement planning does not end at retirement. This is because, at the withdrawal phase, it is necessary for funds to keep growing, so that wealth preservation is addressed as well.

R – Review retirement plan regularly

Just like one goes for a regular medical check-up to ensure that their health is alright, it is important for an individual to have a regular review of their retirement plan too. As retirement planning calculation relies on the assumption of certain parameters (eg. expenses or income replacement, inflation, life expectancy etc), one should ensure that these assumptions are valid and relevant during reviews to minimise and prevent potential miscalculation of retirement needs. Certain changes in lifestyle or family situations along the way (eg. divorce, loss of spouse/family member etc) will also affect one’s retirement. Adding, there may also be a tendency to underestimate one’s spending. Post retirement expenses too, may rise instead of falling. Another important factor is, during the years immediately preceding retirement, every day is a non-working day and it is possible, people may tend to spend more on things like eating out, entertainment or travels, just like during their weekends and off days, as it was in the course of their working years. As such, regular reviews are important to keep our retirement plan in check to ensure that the planning is still relevant with changes that align with our retirement goals and objectives.



E – Enjoy the retirement journey and live life to fullest

Retirement is a journey and not a destination. It is more about a new beginning and less about the ending. By working hard and planning early to prepare for retirement with the above five points, one can then have a peace of mind to enjoy the retirement journey, where life is lived to the fullest, quality time is spent with their family and loved ones, favourite hobbies and recreations are pursued, new and meaningful experiences are formed and cherished, as well as fond and lasting memories made, all of which, may cap what could become yet, the finest days and moments of one's life.

In conclusion, I hope the "R.E.T.I.R.E" pointers serve as a useful guide for you in your retirement planning journey. However, it is beyond the scope of this article to cover all aspects of retirement planning. As such, it will be better if one can work with a trusted and competent financial practitioner to go through the proper retirement planning process so that, it would help them achieve their retirement goals as well as a great sense of fulfilment, financial security and peace of mind that accompanies those golden years. Wait no longer and start your retirement planning now!

Notes:

1 - https://www.businesstimes.com.sg/banking-finance/covid-19-raises-retirement-uncertainty-poll

2 - https://www.fullertonfund.com/documents/insights/Rethinking_Retirement.pdf

3 - https://sso.agc.gov.sg/Act/RRA1993

4- https://www.straitstimes.com/business/invest/many-dont-know-the-costs-of-retirement

5. https://www.ifpas.org.sg/file/ISSUE8.pdf

6. https://www.tnp.sg/news/singapore/more-tapping-cpfs-stability-stretch-savings

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