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# **THE ABC'S OF RETIREMENT PLANNING**

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## THE ABC'S OF RETIREMENT PLANNING

It was reported in a recent Straits Times article<sup>1</sup> that *“more have started on their retirement plans this year, but fewer people are on track to achieve their goals”*.

It was also reported in The Edge article<sup>2</sup> that *“a comfortable retirement is getting harder to achieve”* and *“nearly 60% of Singaporeans say they are not on track with their retirement plans”*.

With increasing concerns of retirement planning by Singaporeans, this article hopes to share the “ABC”s of Retirement Planning that one can take reference from for their retirement planning journey.

# A - ANALYSIS OF OWN SITUATION, GOALS & OBJECTIVES

The first step of retirement planning is the analysis of own situation, goals, and objectives; understanding what we have and where we are going; before mapping out the action plan.



There are two phases in retirement planning process - : with the first phase being the (1) the accumulation phase whereby one starts to work, save and invest to accumulate wealth for retirement, and (2) the second phase being the

withdrawal phase whereby one starts to draw down and use the accumulated money to fund for their lifestyle during retirement.

Firstly, one needs to first identify their current situation of where they are in the retirement planning process and taking stock of what they have, followed by the identification of identifying retirement lifestyle, goals and objectives that they want.

Once this is done, one can then continue to map out and carry out the action plan and strategies to achieve their retirement goals during the accumulation phase.

# B- BEGIN WITH AN END IN MIND

In retirement planning, it is important to begin with an end in mind. One should plan for when they would want to retire and the commencement of the withdrawal phase.

In Singapore, the minimum retirement age is currently at age 63, and it is set to increase gradually to 65.

However, one can choose to retire before that, or even continue working after age 63 depending on circumstances and choices.



Once this is done, one can then proceed to the calculation and estimation of retirement goals.

There are typically two methods used for the calculation and estimation of retirement goals – (1) the expense method, and (2) the income replacement method.

# B- BEGIN WITH AN END IN MIND

The expense method is more commonly used, and it is more suitable for people who are nearing their retirement as the estimation of expense during retirement will be more accurate.

In another Straits Times article<sup>3</sup>, it was reported that “*many in Singapore don't know the costs of retirement*” and “*one in every two people underestimates the monthly expenses needed*”.



With this, it may be better for one to use the income replacement method to plan more for retirement, so as to prevent underestimation or miscalculation of expense.

# C- COVER YOURSELF WITH INSURANCE FOR WEALTH PROTECTION AND MINIMISE LEAKAGES

Before working towards retirement goals, one should also consider taking up insurance plans to cover risk management and wealth protection to minimise wealth leakages. Singaporeans are generally living longer and have a longer life expectancy.

According to the Department of Statistics data<sup>4</sup>, the average life expectancy for Singaporean is 83.5. With a longer life expectancy, one may be faced with health and medical issues and may have a greater need and demand for health care.

Rising medical cost and medical inflation may threaten to deplete one's savings, retirement funds and financial resources when one turns seriously ill.

# C- COVER YOURSELF WITH INSURANCE FOR WEALTH PROTECTION AND MINIMISE LEAKAGES

As such, it will be important for one to have adequate medical and health insurance, as well as long term care/disability insurance to manage this challenge, so as not to compromise their retirement fund.

Having contingency arrangement like insurance plan helps to minimise the impacts of unforeseen circumstances, medical and healthcare cost, and to protect one's financial well-being.

For insurance planning, it will be cost-efficient to start early when one is relatively younger and healthier.

One can refer to Tuesday times articles<sup>5</sup> for more details on insurance planning.



# D- DO WEALTH ACCUMULATION & PRESERVATION WITH SAVINGS AND INVESTMENT

After covering oneself with insurance plans for wealth protection and risk management, one should start investing and saving for their desired retirement goals. There are a few sources of funds to look at for planning in Singapore and these include, Central Provident Fund (CPF), Cash and Supplementary Retirement Sum (SRS).

CPF and cash are two major pillars in retirement planning. It was reported in a Business Times article<sup>6</sup> that *“Singaporeans mainly depend on Central Provident Fund (CPF) and bank savings when it comes to funding for retirement, with 73 per cent of those surveyed listing CPF savings as their top source of retirement income.”*

For CPF, there is the CPF Retirement Sum Scheme (RSS) and CPF Lifelong Income For The Elderly (CPF LIFE) scheme.

One should consider their CPF funds for their retirement planning and look at ways to boost and increase their CPF savings. It is important for one to evaluate if their CPF source for retirement is enough and complement it with cash source planning.



# D- DO WEALTH ACCUMULATION & PRESERVATION WITH SAVINGS AND INVESTMENT

For cash source planning, one can start investing and saving to build a retirement fund for draw down during the withdrawal phase when they retire.

One can also consider purchasing annuity plan to provide an income stream during their retirement in the withdrawal phase when they are no longer working. For individuals who have higher risk appetite, they can consider doing investment to grow their retirement nest, or acquiring passive income through properties rental, dividends from businesses/shares/REITS etc.

It is also important for one to note that retirement planning does not end at retirement. During the withdrawal phase, it is also important for one to ensure that their retirement fund still grows for wealth preservation.

For individuals who earn higher income and contribute to SRS account, they can look at investing their funds for retirement planning as well.

# E- ENSURE REGULAR REVIEW

Just like one goes for regular medical check-up to ensure that their health is alright, it is important for one to have regular review of their retirement plan as well.



As retirement planning calculation relies on the assumption of certain parameters like (expenses or income replacement, inflation, life expectancy etc.), one should ensure that these assumptions are valid and relevant during reviews to minimise and prevent the miscalculation of retirement needs. Recent spikes in cost of living and inflation have raised some concerns.

It was reported in another recent Business Times article<sup>7</sup> that *“high inflation is exposing widening gaps in retirement adequacy”* and *“challenge of inflation makes it even more important to set aside enough savings”*.

# E- ENSURE REGULAR REVIEW

Other changes in lifestyle or family situation along the way (e.g., divorce, loss of spouse/family member etc) will also affect one's retirement and there may be also a tendency of underestimating one's spending.



Post retirement expenses may rise instead of an expected decline. During the years immediately preceding retirement, every day is a non-working day, and people may tend to spend more on things like eating out or entertainment or travels (just like during their weekends and off days while they were still working). As such, regular reviews are important to keep retirement plan in checks, to ensure that the planning is still relevant with changes and in line with retirement goals and objectives.

# CONCLUSION

Retirement is a journey and not a destination. It is more about new beginning and less about ending. I hope the above pointers serve as a useful guide in your retirement planning journey. However, it is beyond the scope of this article to cover all aspects of retirement planning. It will be better to work with a trusted and competent financial practitioner for your retirement planning.

## Notes:

1. <https://www.straitstimes.com/singapore/close-to-half-of-singaporeans-dont-have-enough-savings-to-tide-through-an-emergency-survey>
2. Singaporeans face working longer to afford retirement (theedgesingapore.com)
3. <https://www.straitstimes.com/business/invest/many-dont-know-the-costs-of-retirement>
4. <https://www.singstat.gov.sg/find-data/search-by-theme/population/death-and-life-expectancy/latest-data>
5. <https://www.ifpas.org.sg/file/ISSUE8.pdf>  
<https://www.ifpas.org.sg/file/ISSUE64.pdf>
6. <https://www.businesstimes.com.sg/companies-markets/banking-finance/about-1-5-singaporeans-expect-6-year-delay-retirement-prudential>
7. <https://www.businesstimes.com.sg/wealth/wealth-investing/how-inflation-changing-face-retirement>



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