Getting down to the ABCs of planning for retirement

Among some things to consider are your future expenses, savings and sources of income, if any

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After working in the financial sector for the past 30 years, it forces me to think about retirement now and then.

My framework for a comfortable retirement is to achieve three priorities - to have a roof over my head, be debt-free and have a regular income.

In most cases, if a person is prudent with his spending, he can achieve the first two easily. It is the third priority that is a challenge to many. How do you determine how much money you will need for retirement?

Most practitioners use the universal rule of 70 per cent of your last drawn salary as your retirement income.

Or some may use their current expenses as an initial guide and adjust the amount for their retirement lifestyle.

In both cases, you should include an estimate for inflation, since prices continue to creep upwards by at least 1 to 2 per cent in most years.

So, your desired income will be your starting point, and you will need to work backwards to calculate what you will need to have for retirement.

From there, calculate how much savings and investments you have currently and how much it will grow to upon retirement.

If there is a shortfall, you have to save more to plug the amount.

The next step is to calculate how much to save to produce the income you need.

Pre-retirement is all about accumulating while you are working, and that can be done through saving and investing. Post-retirement is about consumption all the way.

The truth is, individuals tend to get more conservative as they get older, so they become more cautious when investing for the future.

One way is to compromise on the amount of retirement income, which to some extent will help to reach a reasonable outcome. Of course, if your health permits, you may consider working for as long as you can.

When it comes to investing in a retirement plan, ensure that the payouts for your retirement are robust and personalised to your needs as you will be committing a significant portion of your life savings.

Once you know how much you need, you can determine how to generate that amount each month.

You can combine your retirement plan savings with other sources of retirement income, such as the annuity scheme Central Provident Fund (CPF) Life plan.

The bigger the amount in your Retirement Account (RA), the greater your monthly CPF Life payouts will be.

To build up your CPF Life account faster, you can do a voluntary contribution to your RA to the tune of $7,000 a year, and get tax relief at the same time, subject to conditions.

But remember, CPF Life monthly payouts only start from age 65. If you intend to retire earlier, you will not be able to count on your CPF Life payouts to tide you over.

You may also want to consider opening a Supplementary Retirement Scheme (SRS) account and use it for investments.

The SRS is a tax deferral scheme in which Singaporeans and permanent residents can contribute up to $15,300 a year and be eligible for tax relief.

SRS payouts start at age 62 (or the statutory retirement age when you make your first SRS contribution), which is a great stop-gap measure while waiting for your CPF Life payouts to start.

If you are using your SRS savings to invest in stocks, consider picking up some dividend-yielding ones, which can be a meaningful source of passive income once you have accumulated enough.

Stocks that pay dividends regularly are typically stable businesses such as retail real estate investment trusts (Reits) and telcos. They tend to be less sensitive to market cycles.

Some individuals look for an insurance company that offers a specified amount of income for as long as you live or within a specific period. However, you need to pay premiums for an agreed period in exchange for receiving an income during your retirement years.

Unlike the CPF Life scheme, which starts providing payouts only from age 65, and the SRS from age 62, individuals have the flexibility to choose when to start receiving their monthly payouts. This can be from as early as 55 to as late as your 70s.

You can also choose the premium terms that best fit your needs. There is an option for those who have substantial savings to pay a single premium.

For those who are nearing retirement, a shorter premium payment term of between three and five years may make sense.

In addition, many of these retirement savings plans offered by insurers also include a small insurance component, providing you with basic added protection.

Singapore Savings Bonds (SSBs) should also be considered. They are available in small portions and provide risk-free, short-term returns for the interim period when you have no immediate use for the cash.

They are issued by the Government and offer a risk-free investment to grow your retirement nest egg. This month's tranche offers an average return of 1.74 per cent a year over the entire 10-year holding period.

SSBs also provide liquidity, allowing you to withdraw your money if needed. You can also drop this investment at any point, without penalty, by giving just a month's notice.

This makes it attractive for anyone who wants to invest their excess funds or savings for future expenses during retirement but are not sure when they will need it.

At the same time, due to the increasing life expectancy of Singaporeans, many are running into the problem of outlasting their savings. Many retirees are worried about how long their money can last.

How many years will your nest egg last?

Your annual drawdown rate	Your annual investment growth rate									
	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
13%	8	9	9	10	11	12	13	15	17	22
12%	9	10	11	11	12	14	16	18	23	
11%	10	11	12	13	14	16	19	25		
10%	12	13	14	15	17	20	26			
9%	13	14	16	18	22	28				
8%	15	17	20	23	30					
7%	18	21	25	33						
6%	23	28	36							
5%	30	41								
4%	46									

- The table shows the drawdown rates from **4% to 13%** per year and the annual investment growth rates of a portfolio that generates **3% to 12%** returns. It illustrates how many years a nest egg will last at various drawdown rates and rates of returns.
- Let's assume that a sum of **$100,000** earns **4% per annum ($4,000)**, and **8% ($8,000)** is drawn down annually for retirement expenses. You can continue to draw down **$8,000 for 17 years** before the principal is depleted.
- Your nest egg can last longer if the earnings are greater than the drawndown amount, as you will not be dipping into your principal.

Source: GRANDTAG FINANCIAL CONSULTANCY (SINGAPORE) SUNDAY TIMES GRAPHICS

Finally, retirement does not mean you stop living a meaningful life. On the contrary, you can live your life pursuing your biggest passions and interests. To ensure this, you need to have sufficient funds for your retirement.

It is imperative you plan well in advance for this stage of your life.

Keep in mind that there is no single "right" approach. It is important to stay flexible by adjusting your approach over time as your circumstances change.

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