

PLANNING FOR A RETIREMENT TO LOOK FORWARD TO

When I graduated from college, I already envisioned my retirement. I was to be a CEO of a company by age 30, earn a monthly 5-figure salary (mid 5-figure by my considered estimate); and finally at 50, retire to a lifestyle of tennis everyday and indulgences in philosophical debates over coffee with friends. Not forgetting some frequent holidays to my seaside vacation home down under for good measure. Also, I assumed I would be healthy. Indefinitely. Modest ambitions, if the success stories we read about today are anything to go by.

It seemed like a possible lifestyle to look forward to, up till now. Today, I am 6 years into my career and scarcely have enough to pay for my 2-bedroom flat, or my 55-inch flat screen TV, let alone marry or retire. *I must give up on those cigarettes.* Each year I continue to procrastinate over it. Suddenly, that retirement dream is starting to get foggy.

I need to do something. Quick.

Retirement planning is about putting aside sufficient funds to finance your expenditures when you enter into “the golden age”. To achieve this, you must start planning as early as possible for it. One of the critical pitfalls of retirement planning is starting too late. It’s difficult to envisage retirement when you have just commenced your career, but the earlier you realize the importance of starting now, the easier it will be to plan and achieve it.

With the increasing life expectancy of Singaporeans, we now need to save up more money to last us through. Add this to no state welfare, the high and rising standard of living in Singapore, increasing medical costs and insufficient CPF savings, and you get a recipe for disaster if you do not start now or save enough for retirement.

Below are some simple steps to help you begin your retirement planning now. The list is obviously not exhaustive but is certainly a very good place to begin.

Set realistic retirement goals. For the purpose of planning, you need to decide when you would like to retire, and what type of lifestyle you would like to live after retirement. Make sure your goals are realistic; do not commit to unrealistic retirement age of 35 or plan for a lifestyle similar to Bill Gates'. Modesty is the best policy. Once you set aside your goals, estimate the amount of funds needed to support your desired lifestyle, including funding for medical care and repayment of loans. Add 20% - inflation, a certainty.

Estimate the surplus/deficit between the saved up funds and your expenditures. Make sure that what you intend to save up will be sufficient to last you through retirement. Work this with a worksheet. By employing a tracking mechanism that allows you to monitor your money over time, it allows you to plan and measure your progress over time. Plus it puts you in a better position of controlling your cash and expenditure. If there is a deficit, devise a savings or investment plan and take action to eliminate it. Develop a budget and stick to it, or you will find yourself without funds in the last years of your life!

Pay off all your loans by a certain age. Have one less worry in retirement by paying off all loans by a certain age and while you are economically viable. By clearing all debt, you need not worry about where part of your retirement money will go. Pay off that property loan before you retire so you are assured of a roof over your head. Start your financial planning early, by setting aside in a different account some savings used to pay off any loans or debts incurred during your work life. You should also be on the lookout for refinancing opportunities and always opt for the plan that works to your advantage. Stay aware of what's out there in the market and if you can avoid it, do not acquire new loans along the way.

Save enough for your children's education. If you have a family and children, you would need to ensure that you have sufficient funds set aside for their education and well-being before they are financially independent. Plan ahead with “what-if” scenarios on education programmes in Singapore and, if necessary, abroad. Always try to plan ahead where your child's education requirements are concerned. A good way of managing this is to secure a term investment that matures in time for child's needs.

Consider carefully before making investments. Through a systematic investment plan, you can get good returns by the time you hit retirement age if you invest early. Consider long term investment in stocks that are stable and will retain its value over the long term or consider investing in bonds. The ultimate aim is to put aside some money for retirement and try to increase it by getting good returns from your investment, yet without too high a risk of losing the money invested. Depending on how risky your investment portfolio is, the amount of your retirement funds you use for investment will vary. Make informed investment decisions and avoid following the herd to invest in instruments you do not understand. Make it a point to get sound advice, from several sources preferably. But do remember, with higher risk comes 2 possibilities. The upside is higher returns, the downside is higher risk.

Buy an insurance that will cover medical expenses in old age. It is common knowledge that the older you get the more vulnerable you are to falling ill. On top of getting life insurance for the benefit of your beneficiaries, get a health insurance policy as well to cover any medical costs you incur should you fall sick in old age. It would reduce the amount of money you will need to pull out of your retirement fund and continue to ensure you have sufficient funds to last you through your retirement years. Plan for your dependents and ensure that they are covered as well.

Check your credit report and rating frequently. This is a relatively new credit concept which has all the benefits to the consumer.

Throughout your life, you should be tracking your personal credit report and rating frequently. The banks monitor your report and rating over time and if you have a good personal credit rating, you can use this to negotiate for a better interest rate on your mortgage or vehicle loan. This will reduce your interest payments significantly over time. If you have good repayment behaviour and you use this to your advantage, this can amount to significant savings over time, savings of which can be placed in your investment or life savings.

Planning early for your retirement is crucial to your financial well-being. One cannot be over dependent on the CPF savings as it is almost certainly not sufficient to last throughout your retirement. Planning early will ensure you get to achieve your set retirement goals and be able to enjoy life after work.

Article contributed by DP Credit Bureau (www.dpcreditbureau.sg)