

The Cost of Living

RETIREMENT PLANNING

The longer you live, the more you will need to fund your retirement. But how should you go about saving for your 'golden years', and how much are you likely to need?

By Patrick Lim

It's amazing, isn't it? Newspapers recently carried reports of a new home test kit that can accurately predict how long you will live and how you will die, as indicated by the length of tell-tale strands called telomeres, which are found at the ends of chromosomes.

Be that as it may, we already know from a 2000 World Health Organisation report that Singaporeans have one of the world's longest life expectancies. Men can expect to live for 75.1 years, and women for 80.8 years, which is an improvement on the figures of 73.5 and 77.9 years reported in 1991.

Once a Singaporean woman has reached the age of 65, she will, on average, live to see her 84th birthday, while a Singaporean man can be expected to reach his 81st. Over the last 30 years, Singapore's elderly population has increased by a factor of six, and, by 2030, it is estimated that there will be 800,000 people over the age of 65, which will amount to close to 20% of the country's population.

No longer just an option, retirement planning has become absolutely imperative. When it comes down to dollars and cents, however, it is troubling to learn that, in 2000, household debt surged to a staggering

174% of personal disposable income, a figure much higher than in developed economies like the US, the UK or Japan.

Furthermore, around half of CPF members turning 55 this year do not even have the minimum sum of S\$75,000 in their retirement accounts, and even if they did, the monthly disbursement of S\$610 will not fund even the most basic no-frills retirement lifestyle, let alone address longevity risks.

Recently, the Monetary Authority of Singapore (MAS) relaxed further the

financing rules on two big-ticket items beloved by most Singaporeans, namely property and cars. Since July last year, Singaporeans have been allowed to use their CPF savings to pay up to half of the stipulated property down payment, which is set at 20% of the market valuation.

More recently, on 22 January this year, the MAS said it would scrap the 30% cash down payment ruling for car purchases, while the migration of HDB market-rate loans to commercial banks, and the rates war that has ensued, have seen more mortgagees taking up such loans, and plenty more refinancing their existing loans.

This liberalisation of the financial sector only serves to emphasise the need for prudent financial planning and, in particular, retirement planning. A recent survey by NTUC Income has concluded that to lead a basic lifestyle today costs between S\$600 and S\$900 a month for a person living alone, and \$1,000 to \$1,600 a month for a couple. Add that up over the course of a typical retirement and the accumulated savings needed start to look rather daunting.

So, instead of procrastinating, let's consider some of the more popular investment vehicles used to fund retirement.

ARE YOU SAVING ENOUGH?

RETIREMENT MONTHLY INCOME IN SINGAPORE					
Lifestyle Type	Live In Own Home		Live In Rented Home		
	Single	Couple	Single	Couple	
Basic	\$600	\$1,000	\$900	\$1,600	Basic: Minimum to meet daily expenses, leaving out non-essentials
Adequate	\$1,300	\$2,200	\$1,800	\$3,200	Adequate: Can meet daily expenses, and include some holidays, entertainment and gifts
Comfortable	\$2,100	\$3,500	\$2,900	\$5,100	Comfortable: Can afford a car and more frequent holidays, entertainment and gifts
Luxurious	\$3,500	\$6,000	\$5,000	\$9,000	Luxurious: Can afford private housing, car, frequent holidays, entertainment and gifts

ACCUMULATED SAVINGS NEEDED AT RETIREMENT								
Lifestyle Type	Live In Own Home				Live In Rented House			
	Retire at Age 60		Retire at Age 65		Retire at Age 60		Retire at Age 65	
	Single	Couple	Single	Couple	Single	Couple	Single	Couple
Basic	\$108,000	\$180,000	\$97,000	\$162,000	\$162,000	\$288,000	\$146,000	\$260,000
Adequate	\$234,000	\$396,000	\$211,000	\$357,000	\$324,000	\$577,000	\$292,000	\$520,000
Comfortable	\$378,000	\$631,000	\$341,000	\$568,000	\$523,000	\$919,000	\$471,000	\$828,000
Luxurious	\$631,000	\$1,081,000	\$568,000	\$974,000	\$901,000	\$1,622,000	\$812,000	\$1,461,000

Source: NTUC INCOME
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old maxim that high risk means high returns might not actually be true, and even our very own index fund, the STI-ETF is currently near its historical low of S\$13.80, after being launched last April at S\$18.05.

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Unit trusts

As for funds, data from Standard & Poor's shows that global bonds returned an annualised 4.98% over the 13 years from December 1989 to December 2002, with global equities returning under 4% over the same period. The STI fared very poorly, with an annualised return of 0.76% and, generally speaking, the statistics tell us that investors who have put their money into unit trusts in the last few years have not been rewarded.

Around four out of five investors either lost money through unit trusts or only managed to break even. On a brighter note, 22% came out with a net profit, but many amongst those 148,000 made less than S\$5,000. In fact, those in the black made a dismal average net profit of S\$873 last year, compared to \$1,062 in 2001, \$1,758 in 2000 and a hefty \$7,256 in 1999. Unfortunately, taking into account the accrued interest that would have been earned had investors left their money in their CPF accounts, 508,500 investors lost money in 2002.

Endowment policies

The most compelling argument in favour of saving through an endowment plan is that this is the only instrument that provides

two levels of guarantees. On the one hand, there's the full or partial guarantee of capital plus returns of up to 4%, and, on the other hand, this is the only instrument that is self-financing. The insurer pays a guaranteed sum assured through premature death, total and permanent disability, or even on diagnosis of any of the 30 major illnesses.

Annuities

Annuities are arguably the only instruments to pay a guaranteed lifetime income and cover the risks of longevity. You can purchase an immediate or deferred annuity with either cash or your CPF. The Minimum Sum Scheme allows members to purchase an annuity (usually deferred) using CPF funds with the S\$75,000 (\$80,000 on 1 July, 2003) stipulated currently, and this will buy a monthly income of up to S\$557 or S\$497 for a 55-year-old man and woman respectively. There are, of course, options to take up much higher monthly incomes with corresponding increases in the initial capital invested.

With advances in medical science, the possibility of extending people's life expectancy to 130 years looks increasingly achievable, and higher living standards mean people are living longer and longer. That means that putting off your retirement planning is getting increasingly risky. The longer you have to plan for your retirement, the easier it will be to achieve your desired goals and enjoy your golden years. Perhaps Lao Tze said it best when he observed that, "A journey of a thousand miles must begin with a single step." Take that first step today – you might not have as much time as you think. **S**

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Photo: rap-rew-france



Residential property

Our obsession with residential property is legendary. The Department of Statistics has calculated that some S\$119 billion has been invested in housing over the last 10 years, and, with the cash down payment on property reduced to 10%, the housing take-up rate last year jumped to close to 9,500 units, up from just 5,500 units in 2001. One only needs to look at the boom-and-bust property cycles in places like Japan, Hong Kong, Malaysia and even Singapore to see how property prices can fall dramatically, and another compelling reason for not investing in property is the illiquid nature of the asset class.

Stocks and shares

With the Straits Times Index (STI) hitting a 16-month low of 1,291 points in January 2003, the local index has delivered a return of zero over the last 10 years. The