Dreaming of Retirement? Here's Why You Need to Start Planning Now.

As many of us hustle in our working years, retirement seems to be the dream that we look forward to—for some, it might even serve as an important source of motivation. After all, how pleasant is it to think that one day, we'd be able to spend all our time doing the things we love? No more bosses or clients, no more stress, no more deadlines…

But have you ever thought about where the money will come from during your retirement years when you no longer have a full-time job? Without a steady flow of income, it might be difficult to sustain your current lifestyle, much less fulfil any dreams like travelling the world.

Key Considerations in Building & Protecting Your Retirement Nest Egg

1. LIFE EXPECTANCY

It's important to note that the average Singaporean enjoys a life span of 83.9 years—if you retire between 55–65 years old, that's about 19–29 years of retirement that you'll need to save up for! Even for those who plan to live out their retirement days simply, significant funds will be needed just to cover daily expenses such as food, transport and utility bills. And this is just your baseline.

2. HEALTH EXPECTANCY

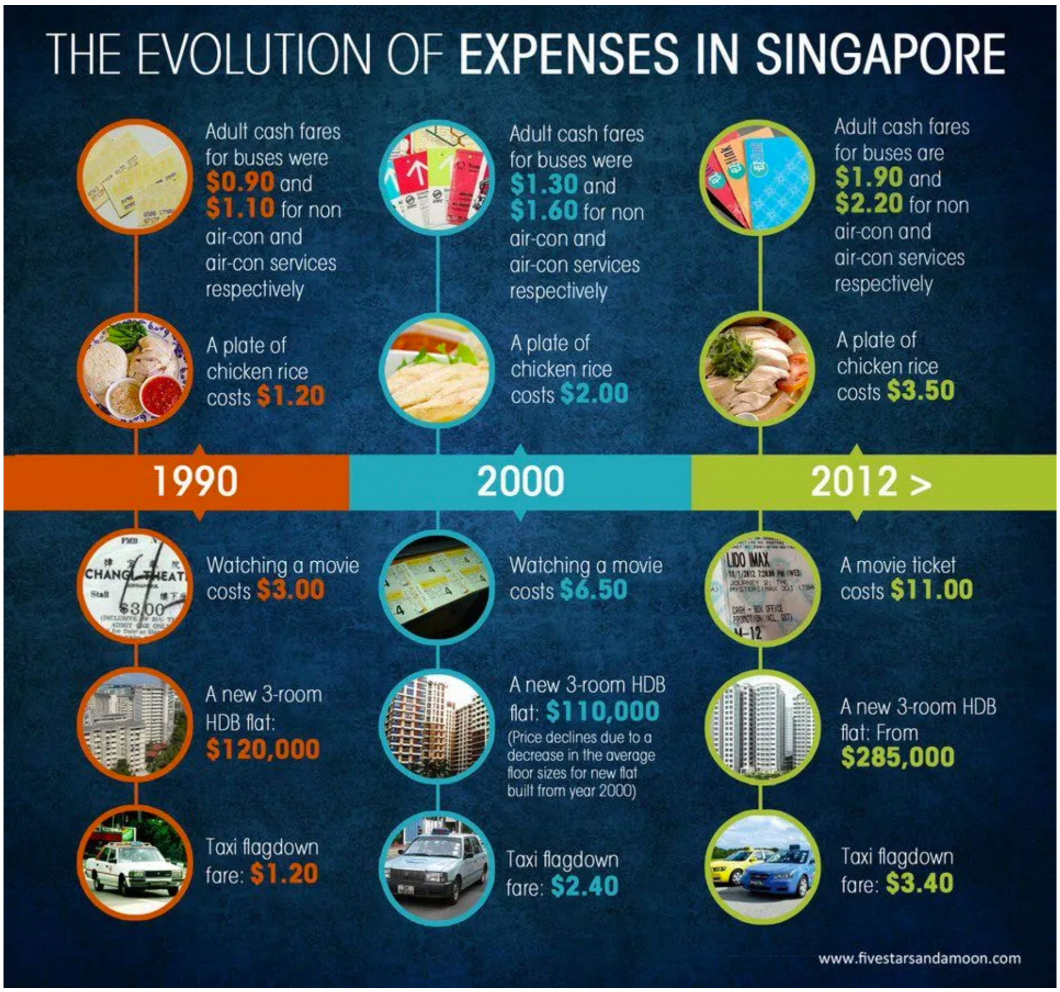
For the majority of us, retirement happens in old age, a life stage which brings increased healthcare needs. From healthcare costs and medical treatments to long-term elderly care and disability-related costs, all these are factors which can easily drain your retirement savings if left unplanned for. To ensure that your children will not be burdened, you might even want to include final expenses such as funeral and crematorium costs.

As reported by the Ministry of Health, while we are living longer, an increasing number of years (average of 10.6 in 2017 V.S. 9.1 in 1990) are spent in ill health. The need for healthcare is not a remote possibility, but a highly likely scenario as you enter into old age.

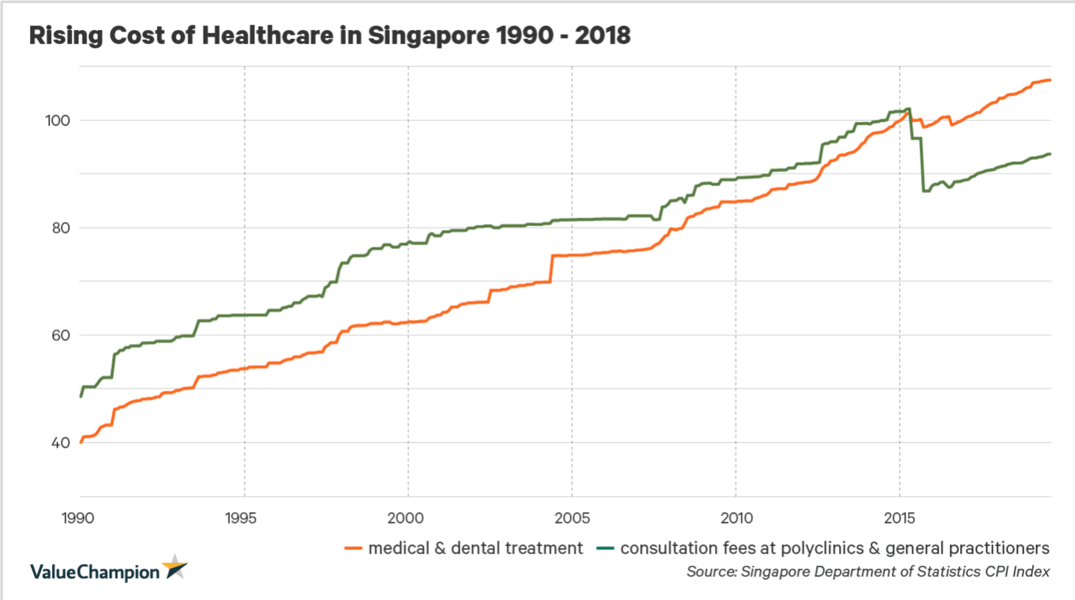
To protect your cherished retirement funds against any leakage, you need to consider all the possible healthcare, long-term elderly care and disability-related costs etc.

3. INFLATION

It's also vital to remember that you're planning for retirement in the *future*, not today, so your nest egg must take into account inflation, which erodes the purchasing power of your money. As the value of your money shrinks, the general cost of everything is set to go up, including necessities like food, transport and healthcare.



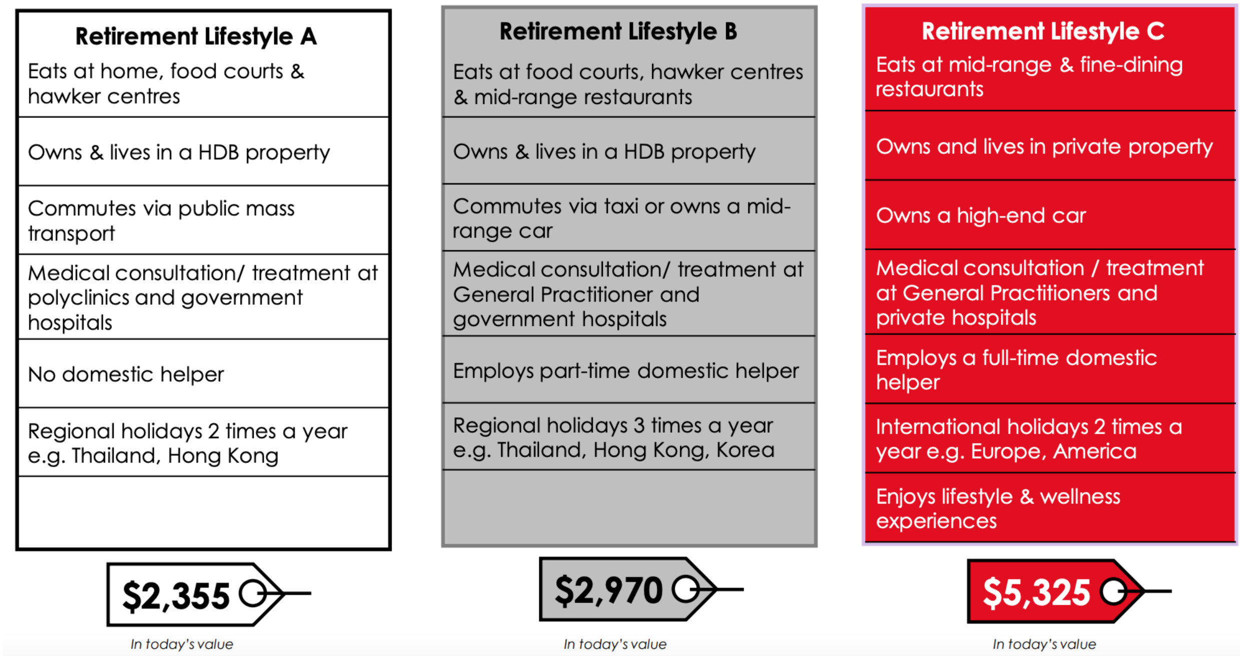
(Source: Fivestarsandamoon.com via TechieLobang)



(Source: ValueChampion)

It's inevitable—retirement in the future will cost much, much more (in absolute dollars) than it does today. This is also the reason why letting your money sit in the bank with meagre interest rates will essentially mean a loss in value over time, further jeopardising your retirement plans. At the very least, your financial portfolio should cover inflation to protect the value of your money. Ideally, it should go beyond just beating inflation, and contribute to growing your retirement nest egg.

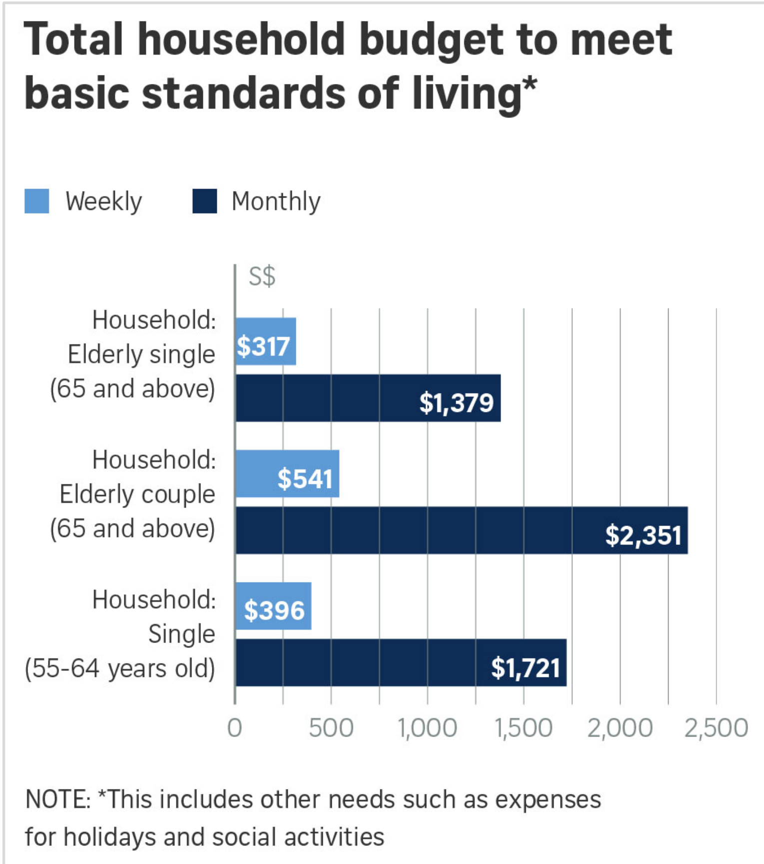
So What Is the Average Cost of Retirement in Singapore?



(Source: OCBC Financial Wellness Index 2021)

As briefly illustrated above, the cost can vary greatly depending on your desired retirement lifestyle. Based on a 2019 Household Budgets Study, for the most basic standard of living, a single aged 65 and above will need at least $1,379 a month, and a couple aged 65 and above will incur a combined cost of $2,351. This includes occasional inexpensive meals out, safe and comfortable homes, and an annual holiday to a nearby destination that costs about $500.

It does not cover “extravagances” like air-conditioning, a car, or any healthcare and long-term care costs, so you’d need to bump up the amount to factor these additional costs in.



(Source: "What Older People Need In Singapore, A Household Budgets Study", Straits Times Graphics)

In fact, according to research commissioned by NTUC Income in 2018, the average amount that Singaporeans aged 30 to 55 years old believed they needed was S$3,314 a month. Without proper planning, that amount is going to deplete your savings pretty quickly. And if you want a more luxurious lifestyle, you should definitely start planning now.

Can You Just Rely on Your Central Provident Fund (CPF) LIFE?

A retirement scheme backed by the Singapore Government, CPF LIFE provides you with a monthly payout for as long as you live, and it does a great job at covering the very, very basic costs of retirement. But is that enough for *you*? That's a question that only you can answer, based on your own ideal retirement lifestyle.

The monthly payouts increase over the years to keep up with inflation, but the amount you'll get from the age of 65 (under the CPF LIFE Basic Retirement Scheme) is about S$870–S$980. Taking S$3,314 (the average monthly amount that middle-aged

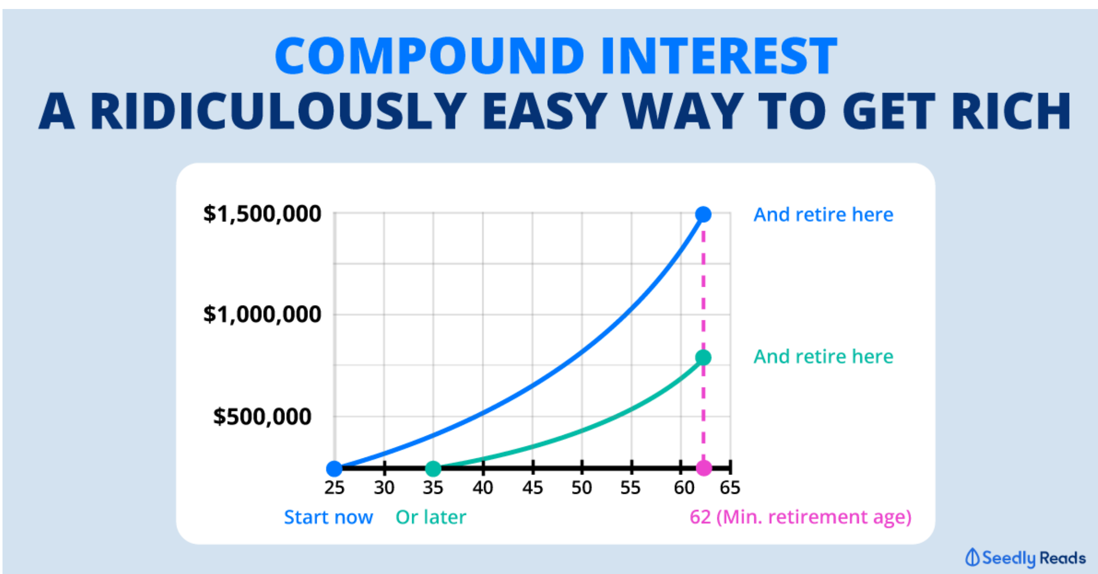
Singaporeans feel they need for retirement) as an example, the CPF LIFE monthly payout would only make up 26–29% of what's needed.

To determine how much more you might need, calculate your ideal retirement income and compare it with the monthly payout from your preferred CPF LIFE plan. If there's a significant shortfall, don't panic!

Here's the good news: CPF LIFE doesn't have to be your only retirement plan. As a low-risk national annuity scheme, it is indeed a great complement, but it is just one component of your whole portfolio. Making plans aside from CPF LIFE will allow for the diversification of your income streams. As the saying goes, "don't put all your eggs in one basket".

This may sound like a cliché, but to avoid regrets, the best time to start is now.

Does compound interest sound like a feared mathematical term from your school days? Lo and behold, it will actually become your lifesaver if you start investing early.



(Source: Seedly)

Compound interest is interest calculated on the initial principal plus all accumulated interest from previous periods—in other words, it's "interest on interest". The magic of compound interest lies in how you earn money simply by virtue of time.

To tap on compound interest, you must start investing as soon as possible—the earlier you start, the more time you have to accumulate interest and "interest on interest". And what's just as important is to stay invested, so as to maximise the effects of compound interest. If you give in to fear and withdraw your money whenever the market declines, you'll lose out on a lot of potential compounded interest.

Let your money work for you by planning your retirement early, and you'll see an exponential growth in your funds over time. If you invest your monthly savings into a retirement plan which offers returns compounded over time, your returns will be much more than someone who sets aside the same amount without compound interest.

This is brilliantly summed up by Albert Einstein who once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

How to Prepare for Your Retirement in a Holistic Manner

Imagine this—you've reached your ideal retirement age but your savings are barely enough to support your desired retirement lifestyle, so you have to either (1) downgrade your desired lifestyle or (2) delay retirement and continue working until you've saved enough. Sounds like a nightmare? Without proper retirement planning, it could become reality as it has for many Singaporeans.

Based on a 2021 Manulife survey, 1 in 4 Singaporean retirees indicated that they've experienced a decline in their standard of living, having to adopt lifestyle changes such as consciously spending about S$1,500 less every month. 50% regret not investing in a retirement plan earlier on in life.

As we work hard to earn income, we often forget to make our money work harder for us through the effective use of investments, insurance plans, REITs or properties etc. Too many Singaporeans plan to rely on just one source of income (e.g. CPF LIFE) for their retirement, neglecting the importance of having a diverse retirement portfolio with multiple income streams.

A holistic portfolio helps to manage risk while maximising returns, making it more sustainable than a single income in the long run. In today's market, there's a rising demand for insurers' annuity plans as consumers prefer to utilise instruments that are less volatile for their retirement planning. Such products are a good complement to their existing CPF Life.

Less volatile assets can offer much-needed stability should an adverse event happen, and riskier assets can provide better returns which help to grow your funds. As your risk appetite changes over the years, it would also be helpful to rebalance your portfolio to match your needs. At a younger age when you can take more risk, you can have a larger growth component (e.g. stocks, properties), and as you grow older, the focus will generally shift from growth to capital preservation (e.g. lower-risk assets such as bonds).

If you're starting to feel severely unprepared for retirement, don't worry, that's perfectly normal! Everyone starts somewhere, and having the intention to start planning is the first step. What's next is to bridge the gap between intention and action. Ask yourself, what's stopping you from taking the next step? People tend to sacrifice their long-term needs for short-term wants, so it's helpful to take a step back and look at the big picture.

Are you bogged down by current expenses and worried that the costs of investing would prevent you from providing for your family now? That's a valid concern, but remember, not planning for your retirement will also cause extra burden for your children in the future. In such cases, it would be wise to find a plan within your budget so that you can fulfil current responsibilities without risking the future.

Or are the many high-yield retirement plans out there making you confused as to which is the best for you? This is also understandable, but don't let decision paralysis rob you of your ideal retirement life.

No matter your concerns, our preferred advisors will be more than glad to guide you through. Simply contact any of them now and let them help you pin down the most suitable plan for your unique needs and wants!