Why It Is A Mistake To Delay Planning For Retirement

Description

Many of us do not start thinking about planning for our retirement until we're much older. However, this is a mistake because you need time for your plans to bear fruit, and starting early is one of the best ways to ensure that it does.

A recent study by AIA showed that Singaporeans generally spend 2.5 times more n their children's needs than their retirement planning, with some even neglecting it altogether. But don't forget that your child also needs you to be financially prepared for your retirement, so that they won't have to be stressed out about having enough to support your retirement expenses.

Planning early will make a huge difference to your retirement years.

As part of the sandwich generation, it is even more crucial that we start planning early. My husband and started discussions about this in our first year of parenthood, as we both agreed that **we did not want to become a financial burden to our children** when we're in our 60s and beyond.

Instead, **we wanted to make sure that our own retirement needs will be well taken care of, so that our children can be free to make their own financial decisions** without having to be weighed down by us. This determination was cemented after personally going through the stress of having to support our growing family as well as our own ageing parents (who did not plan nor save towards their own retirement).

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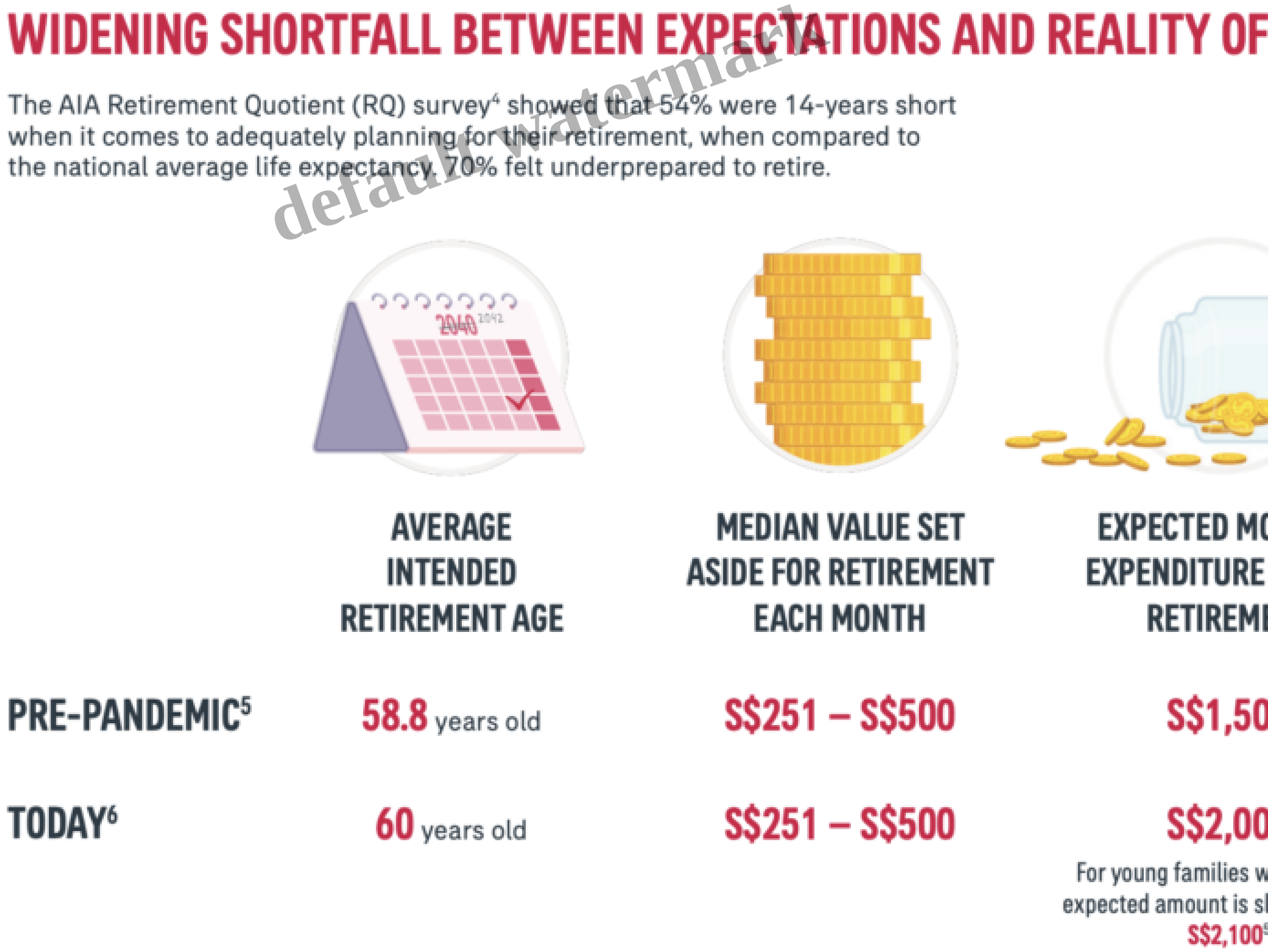
The need to balance your priorities

It is only natural to procrastinate on planning for your retirement because you're too focused on being able to finance your present, shorter-term needs. But to defer your retirement plans would be a huge mistake, and you'll be doing yourself (and your children) a huge disservice.

Considering that most Singaporeans plan to retire at 60 years old, this will require at least 25 years of retirement income that we will need to plan for. If you start early, you'll be able to leverage the power of compounded growth over time to accumulate your retirement pot of savings.

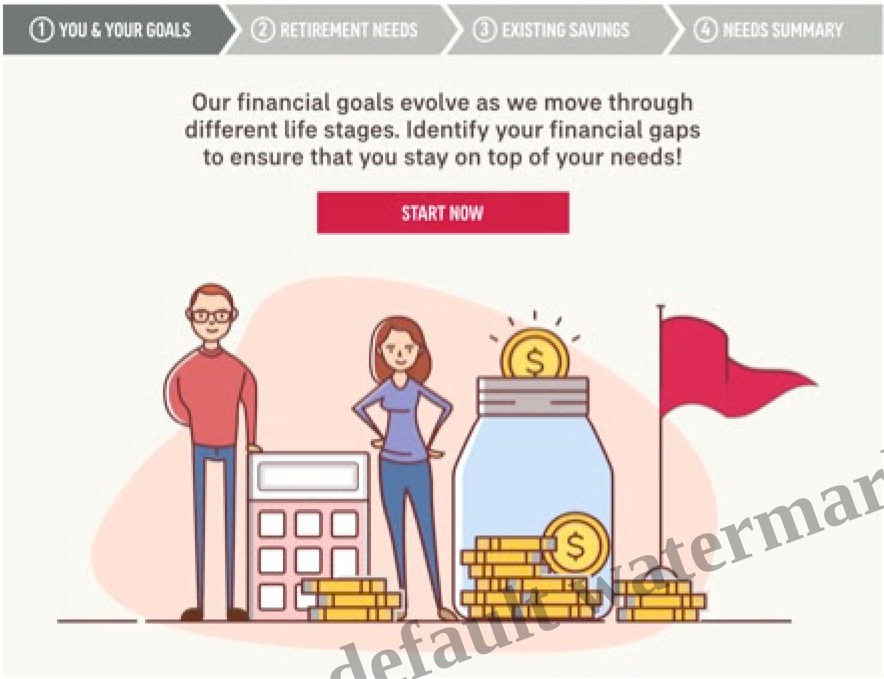
But if you continue to put it off, you'll likely need to put aside an even higher sum of money later on, and by then, you will also have fewer tools or options available for you to choose from – depending on your age and health. The study also revealed an irony: while 70% of young Singaporean parents do not wish to be a financial burden during retirement, they may very well end up having to rely on their children or other family members and friends eventually if they face a retirement planning shortfall.



Source: More than half of Singaporeans are 14-years short in their retirement planning.

Here’s how you can start planning

First, you’ll need to estimate how much you will need in your retirement years. By using online tools – such as [AIA’s retirement calculator here] – calculating that has become so much easier than before.



Source: AIA Retirement Calculator (2021)

With an end goal in mind, you can now work backwards and plan concrete steps to get there.

Next, you’d also want to make sure that you’re well protected against unexpected emergencies, such as medical bills or critical illnesses. If you have dependents (be it young children or your elderly parents), then having a life insurance with critical illness cover is also important. Plans like AIA’s Guaranteed Protect Plus (III) also often appeal to those looking to finish paying the premiums during their working years while accumulating cash value in their policy, with the flexibility of encashing it later on to supplement one’s retirement income if you wish to.

Once you have your bases covered, it is time to look at how you can grow your savings by leveraging on the power of compounding over time.

Please don’t be like the 92% of Singaporeans who rely on bank deposits as the most popular savings tool of their choice. Instead, learn from the savvier 21% who are growing their wealth by also supplementing with investment tools.

How to achieve your retirement plans

The best retirement plan is one that you can consistently stick to, without giving up.

1. Calculate CPF Life as your base

As a Singaporean, don't forget to factor in your CPF into the equation. **Find out how much you can expect to have from CPF Life as your base foundation**, since the national insurance annuity scheme provides you with a monthly payout no matter how long you live. Of course, relying on your CPF Life alone may not be enough, especially if you have a desired retirement lifestyle in mind, so this is where you'll need to start building the rest of your retirement pot.

Source: [CPF Board]

2. Optimise your current resources.

Next, look at your current resources. **How much cash savings do you have?** And are you simply leaving it in your bank account to earn paltry interest, or actively growing that through investments?

Some of you may even have [funds sitting idle in your Supplementary Retirement Scheme (SRS) account] – to be more accurate, 26% of the total contributions in 2020 ($12 billion) are held in cash. **For those who invest their SRS monies, insurance and direct investments continue to be the most popular tools used.**

	Dec-20	Dec-19
No. Account Holders	221,849	185,489
Total SRS Contributions (billion$)	$12.23	$10.68
Composition of SRS Investment Portfolio		
Cash Balance	26%	28%
Unit Trusts	11%	10%
Insurance	26%	27%
Singapore Dollar Fixed Deposits	1%	1%
Shares, REITs, ETFs	29%	26%
Others	8%	8%

Source: [Ministry of Finance]

Insurance retirement plans that allow you to invest using funds from your SRS account can help. They don't have to be expensive either – for instance, [AIA Platinum Retirement Elite starts with premiums from $500 a month]

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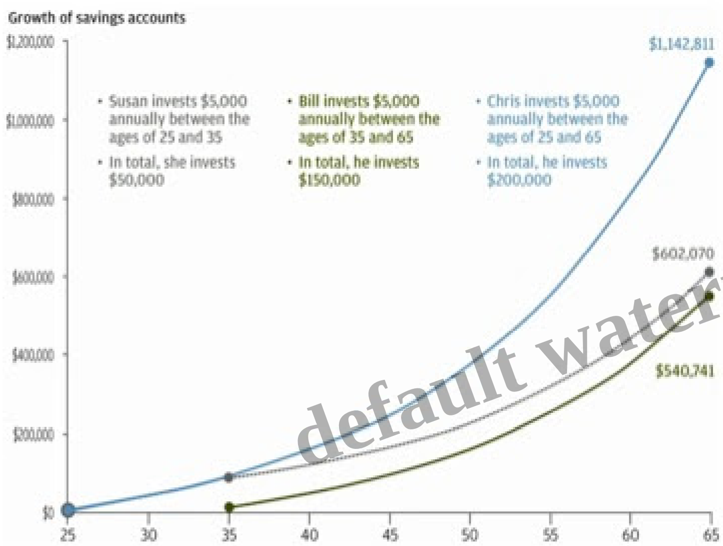
, and you can then set the monthly retirement income you wish to receive upon your target retirement age. It is no wonder that such plans focusing on sustainable long-term wealth strategy to help grow your wealth and build your target retirement income continue to remain popular. To further ensure that your desired retirement lifestyle is not impeded by rising inflation rates, you can check if your insurer allows you the flexibility to receive a yearly stepped-up income as well *(similar to you opting for the [Escalating Plan on CPF Life](#)).*

3. Plan how much to set aside each month.

To get to your goal, you need to be disciplined in putting aside money each month towards your retirement. The good news is, the earlier you start, the easier it is.



Source: [JP Morgan's 2020 Guide to Retirement](#)

For instance, even setting aside a monthly amount of $400 (or a lump sum of $5,000 each year) can go a long way when you allow this to compound over time. In the chart above, you can clearly see that because Susan started earlier, she still emerges with more money than Bill, even though Bill sticks to his plan for a longer duration (30 years) and invests more capital (3 times more) than she does.

That is the power of starting early – even if you were to pause later on in life, your money can continue to grow if you've parked it in the right financial instruments.

In choosing which tool to grow your savings with, you'll need to ask yourself, **how confident are you when it comes to investing**, and are you reasonably good at it?

Whether you prefer to manage your own investments or outsource it to the professionals (e.g. [BlackRock or Wellington Management, just to name a few](#)), there are **different options to suit your discipline level, skill, budget and even time** (or the lack of it, when it comes to actively managing your own investments for growth).

4. Factor in your property.

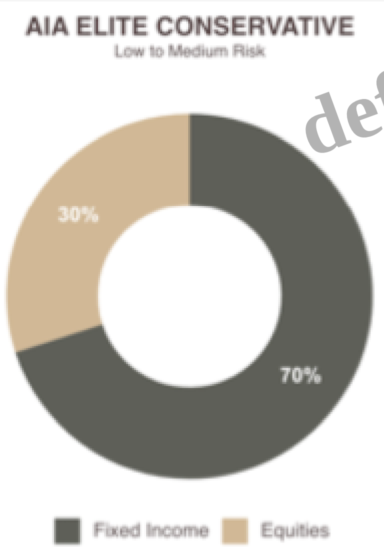
If you have a property, don't forget to include that into your plans as well. Will you be staying in your current residence all the way, or do you intend to downsize (or "rightsize") when you're older and your kids have moved out?

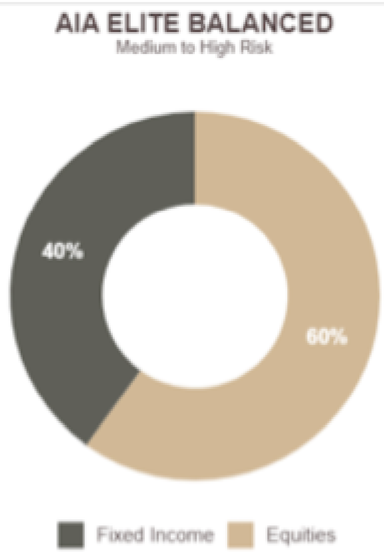
Liquidating your property can sometimes help to unlock cash for your retirement years as well. This was what we did for my parents (neither of them have much savings for retirement) since the house was now too big for just the two of them.

5. Review, adapt and change.

It is prudent to review your retirement plans every few years to ensure that you are on track to meeting your goals. Another good time to do so is whenever there is a significant change in your life milestones, as that may necessitate a change in your retirement plans as well.

For instance, if you end up having more children, then you may be faced with the prospect of having lesser cash flow to invest during their younger years *(especially as preschool and tuition fees can cost quite a bit to support!).* This may then mean you have to either push back your target retirement age, or perhaps consider if taking a more calculated and aggressive risk approach (such as increasing your exposure to equities, for instance) would be more appropriate.





Should you top up your monthly savings for investments, or take on higher risk in your portfolio?

Take the above illustration for instance: these portfolios, accessible via AIA Platinum Retirement Elite, are managed by AIA Investments and powered by some of the world's top institutional asset managers (Baillie Gifford, Wellington Management and BlackRock) which most ordinary retail investors may find difficult to get access to.

Conclusion

As you can see, planning for your retirement need not be difficult. And the best part is, the earlier you start, the easier it will be for you to achieve your retirement goals since you get to ride on the power of compounding your money over time.

Procrastination, on the other hand, will mean you'll have a much harder time catching up in your later years.

It is easy to get caught up in the pressing day-to-day matters such as climbing the career ladder and taking care of our family that we forget, or push aside planning for our own retirement. But it can be as easy as 1-2-3:

1. Optimise what you currently have.

2. Set aside a sum each month.

3. Invest your cash.

So start thinking about your retirement today, and if you're married, have a chat with your spouse about theirs as well.

For more ideas on how to start and explore possible solutions, click here.

Disclosure: This post is written in collaboration with AIA Singapore. All opinions are that of my own, and information referenced is accurate as of 29 July 2021.

This advertisement has not been reviewed by the Monetary Authority of Singapore.

Category

1. Family
2. Insurance