Taking retirement into your own hands

Experts reinforce need to start planning early and not to rely on just CPF savings for income

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We often hear of the need for retirement planning, yet many Singaporeans may not be getting the full picture.

Only half of the people polled in a Nielsen survey last week had actually started making concrete retirement plans.

Even more alarming, the survey found that the average age at which Singaporeans tend to embark on retirement planning is 59.

And only 20 per cent have worked or plan to work with a professional financial adviser.

The survey, commissioned by Russell Investments, polled more than 500 employed Singaporeans aged 35 to 55.

By 2030, one in five Singaporeans will be 65 and older – up from one in 12 today. Life expectancy is increasing, prompting the Government to raise the official retirement age from 62 today to 65 by 2012.

The risk is that most Singaporeans expect to be strapped for money in their golden years, according to the survey, and are preparing for a decline in their quality of life – with more money to go on essentials and less on leisure.

Singaporeans are fortunate to have one definite source of income – CPF savings – but that might not be enough, given that we are living longer and likely to spend more as the cost of living goes up.

Aside from your personal savings and investment returns, it is worth considering how to supplement your retirement income through regular payout schemes like CPF Life and private annuities.

CPF savings at retirement

Over the years, the CPF scheme has been extended to cater to our housing, education and health-care needs, says Mr Peter Siong, vice-president of field distribution at NTUC Income.

"With so many priorities competing for the same CPF dollar, our CPF savings might not be sufficient to provide for our retirement needs," he adds.

Many will end up asset rich but cash poor, says Ms Viviena Chin, chief executive of Eternal Financial Advisory.

It is partly because of this concern that initiatives like the Minimum Sum Scheme and CPF Life were introduced to reinforce the original intent of the CPF scheme, Mr Siong adds.

For higher-income earners, CPF becomes less important as contributions hit an upper ceiling, with the current monthly income cap at $4,500, says Mr Shrikant Bhat, head of wealth management at Citibank Singapore.

And for self-employed individuals, CPF is especially limited, he says.

CPF Life

Launched in September last year, the CPF Life scheme gives members regular payouts for life instead of the 20 years under the Minimum Sum Scheme.

Monthly payouts are distributed with the amount dependent on your retirement account savings. Higher savings imply higher payouts and vice-versa.

The highest payout is about $1,040 a month.

The scheme pools the money and invests in long-term special Government bonds to ensure stable returns.

By 2013, the scheme will automatically apply to people who turn 55 and have at least $40,000 in their CPF savings.

CPF members with $60,000 in their retirement accounts at 65 will also automatically be included.

The scheme is open to those between 55 and 80 and offers four plans which "differ in the level of monthly payout and the refund amount that may be left for their beneficiaries", says Ms Chin.

The ideal plan will depend on the particular circumstances at the point of a person's retirement phase and lifestyle, she adds.

Mr Tan Kin Lian, president of the Financial Services Consumer Association, advises retirees not to worry about leaving money for their children and to choose a plan that offers adequate monthly payouts.

"Most retirees are likely to leave behind a home to the children. This is already the most valuable asset they can leave behind," he says.

Private insurers' payout plans

The CPF Life scheme is favourable for its low expenses and non-profit nature, Mr Tan says.

But with a highest payout of a little over $1,000 a month, alternative sources of income are needed to supplement the payouts.

Mr Tan points out that personal savings cannot be invested in the scheme, so it is necessary to have private annuity products if a person wants a regular payout product.

"Most retirees are more comfortable with periodic payouts, as it offers a regular stream of income, not unlike pre-retirement days," Mr Siong says.

Late starters tend to choose immediate instead of deferred annuities, says Mr Bhat.

Ms Chin says that Singapore insurers generally have less competitive annuity type schemes available.

It is essential to understand the difference between various types of life annuities, compare the same type of plan across various insurance providers and ensure that the plan can offer a good return on top of the purchase sum, Mr Tan says.

Endowment plans for retirement

Endowment plans are another option to boost retirement income.

Some can provide regular income payouts after the premium payment ends, Ms Chin says.

There are also plans that give out annual coupons or regular coupons but these usually result in lower yields, says Mr Raymond Ng, president of the Association of Financial Advisers in Singapore.

He says a more suitable option for retirement is a single-premium endowment plan. This accepts a single lump sum to be invested for a period as short as four years to as long as 20 years.

The guaranteed maturity value is usually equal or slightly higher than the principal, with better returns than bank deposits.

A five-year plan, for example, can bring a return of 2.95 per cent a year.

The lump-sum payouts can then be used to buy other life annuities or saved for retirement, Mr Tan says.

The danger here, Mr Bhat says, is that people can start spending beyond their control, thus reducing their lump-sum payouts faster than intended.

He adds that it is ideal for a retiree to look at a balanced portfolio of retirement funds involving regular and lump-sum payouts.

Mr Tan highlights that it is crucial to ensure that charges on the policy do not erode too large a share of the accumulated premiums.

On a 25-year policy, for example, charges should amount to less than 20 per cent of accumulated premiums.

It is also important to check whether you will get a lower guaranteed cash value but with highest non-guaranteed cash value, or vice-versa, says Mr Ng.

"I would usually favour one plan that is in between the two extremes," he adds.

The bigger picture

Ensuring a steady stream of income is not limited to annuity or regular payout type of products. Rental income, stock dividends and bond coupons are other alternatives that provide payouts for a limited term, at least, Mr Bhat says.

Starting to save early and assessing your risk capacity are both vital.

Mr Siong says: "The key to retirement planning is to start early – even from the first pay cheque – to leverage on the power of compounding."

After all, you don't want your retirement years to involve struggling. It should be the time to finally enjoy the fruit of your lifelong hard work.

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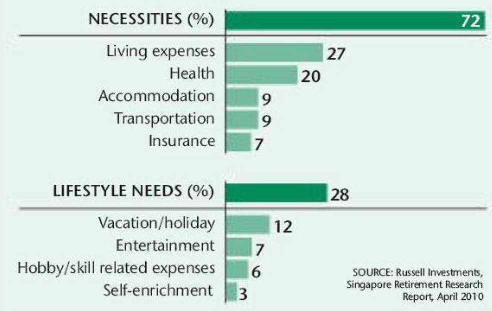
Where your retirement income will go



SOURCE: Russell Investments, Singapore Retirement Research Report, April 2010

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FOUR CPF LIFE OPTIONS

Here are the details of the four CPF Life Plans, with input from Ms Viviena Chin, chief executive of Eternal Financial Advisory.

- **Life Basic Plan:** Gives lower payouts but leaves more to beneficiaries. Suitable for those with sufficient retirement income and wish to leave behind income for their loved ones.
- **Life Balanced Plan:** Strikes a balance between monthly payouts and the bequest. This is the default plan for those who will automatically be included in the scheme from 2013. Suitable for retirees who have additional sources of retirement income.
- **Life Plus Plan:** Gives higher payouts and leaves less for beneficiaries. The plan will appeal to individuals with conditions such as chronic medical conditions who require higher payouts to cope with the cost of living and yet still wish to leave something behind. This plan has been the most popular so far.
- **Life Income Plan:** Offers the highest payout with no bequest feature. Any amount left in the retirement account will go to the CPF Life monies pool, to be shared with the existing members under the scheme. Likely to be suitable for those with no beneficiaries and those who have no other sources of retirement income.