Time to review your retirement nest egg

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Redoing your sums will help determine if you will need more funds than anticipated

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If it has been a few years since you did your retirement sums, now may be a good time to take another look at those numbers.

Some of the assumptions used to calculate your retirement nest egg may need to change.

Inflation rate assumptions need to be adjusted upwards, as does life expectancy.

Changes in expected returns on investments also need to be considered.

Inflation

Inflation remained high at 5 per cent in March due to pricey food, housing and transport costs.

Compared with the same month last year, housing costs were up 2.6 per cent, resulting from a rise in electricity tariffs and accommodation expenses.

Food prices in the same period were up 2.6 per cent, according to the Department of Statistics.

"Inflation erodes the value of your purchasing power over time. Simply put, when prices of goods and services rise, the purchasing power of your dollar goes down," said Mr Brian Tan, vice-president and appointed representative at ipac financial planning Singapore.

Mr Tan said a retiree expecting to spend $50,000 a year over 30 years will logically assume he needs a retirement nest egg of $1.5 million.

But factor in a 2 per cent inflation rate and that money runs out in 23½ years.

If the assumption regarding inflation is 3 per cent, the money will vanish in 21 years.

Once prices increase, they tend to be sticky and are unlikely to fall, said Dr Benedict Koh, professor of finance at Singapore Management University.

That means sums have to be adjusted to reflect these higher prices, he said.

While 2 per cent has typically been considered a reasonable assumption for the long-term inflation rate, experts suggest that using 3 per cent to 4 per cent is more reflective of today's economic environment.

Longer life expectancy

Singaporeans are living longer. Life expectancy for males born in 1957 was 59, said Mr David Beynon, chief executive of Tokio Marine Life Insurance in Singapore. Now it's 79. For females, it used to be 63 and is now 84.

By 2050, 37 per cent of Singapore's population will be over 65 years old compared with 34 per cent of the population in Japan and 21 per cent in the United States, he added.

With increasing average life expectancy, an individual has to make sure he has enough to avoid out-living his savings, said Mr Shrikant Bhat, head of wealth management at Citibank Singapore.

He said that with increased longevity comes rising medical costs.

"These costs are not limited to expenses for treatment but would include expenses for prevention and long-term support, such as nursing home fees."

Investment returns

Saving your money is good but not always enough.

People who are especially risk-averse and stick to keeping their money in savings deposits "will never make it that way", said Prof Koh.

Savings deposits give consumers near-zero interest rates these days, so many Singaporeans develop an investment portfolio and place their money across various assets to earn better returns.

Citi's Mr Bhat said returns reflect a person's risk appetite, the time horizon in mind and the allocation of assets.

Given the changes in the global economy and the current low interest rate environment, those with exposure to fixed-income assets such as bonds are likely to have reduced investment return expectations, said ipac's Mr Tan.

For example, five years ago government bonds such as a 10-year US Treasury note would yield around 5 per cent a year. Today, they are likely to yield only 3 per cent, which is below the inflation rate, Mr Tan added.

Fixed-income instruments – although less risky in nature – are more vulnerable during inflation, said Prof Koh.

Changes in the expected returns on investments will have to be accounted for when doing retirement sums.

While inflation affects the outflows of cash from a retirement pot, investment growth will affect the inflows or the building of retirement wealth, said Mr Tan.

"It also determines how much your core wealth will grow while it is being depleted during retirement."

Doing your sums

Reworking your retirement numbers will help determine if you will need more funds than anticipated.

If you're doing your own sums, you could use tools such as the Central Provident Fund's (CPF) retirement calculator, Mr Beynon recommended.

The calculator is on the CPF website – www.cpf.gov.sg – under the calculator/games tab.

It allows a person to work out retirement needs based on certain variables, including desired retirement age and monthly income, as well as the number of years the retirement fund should last.

The calculator also asks for the expected rate of return on investments during retirement and the average long-term inflation rate assumption.

Comprehensive details of your finances will need to be given. These include working income, bonuses, CPF savings and interest rates, annual expenses, a breakdown of investments, and income plans as well as liabilities, including mortgages.

The calculator can then derive how much you will need to retire.

It also reveals how much you are likely to have available at the point of retirement and identifies any shortfalls.

If there is a shortfall, the calculator shows how much needs to be saved annually to address that shortfall.

Closing the gap

A shortfall can be addressed by pushing back retirement and working longer, or by considering living on a reduced retirement budget.

During retirement, a person's budget will have to change, said Mr Beynon.

He advises people to test themselves by living on an estimated retirement budget for about a month.

If that does not seem manageable, then another option would be to start saving more.

The CPF retirement calculator, which displays general guidelines on savings, says saving 15 per cent of your annual income is a good way to go.

When closer to retirement, this needs to go up to about 50 per cent of annual income.

To complement savings, a person can also find other sources of passive income, said Mr Bhat.

Making sure your investment portfolio is robust enough to help combat inflation can help mitigate shortfalls as well, he added.

Good sources of passive income include dividends from shares or real estate investment trusts, and coupon payments from good-quality bond issuers.

Shares and commodities can also be good hedges against inflation, Mr Bhat said.

Also appropriate for retirement planning purposes are insurance and investment-linked policies tailored to retirement needs.

These policies include regular or single endowment savings plans, lifetime income plans and mutual funds tailored for retirement, said Ms Viviena Chin, chief executive of Eternal Financial Advisory.

But she highlighted that if you start late, the choice of investments may need to be more aggressive to make up for any shortfall.

Citi's Mr Bhat said an annuity plan – which offers a regular stream of income over a certain timeframe – is a useful option to help hedge against increased expenses arising from longer life expectancies.

Annuities guarantee lifetime benefits for policyholders.

At retirement, when health costs increase, medical insurance is also one good way to pass the risk on to insurers, he said.

That leaves any excess funds for your retirement lifestyle needs.

Visiting your retirement estimates from time to time is good practice as it can prevent you from being caught off-guard when circumstances change.

To plan wisely is also to avoid the common pitfalls in retirement planning such as carrying debt into retirement, said Mr Beynon.

As he puts it: "Retirement is about taking a break from work pressure, it's about having time to do all the things you've had to put off, it's about freedom."

It is not essential to retire rich, but it is important to have enough to retire carefree, Mr Beynon added.

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Retirement Calculator

The CPF Retirement Calculator is an interactive tool that helps you to determine if your retirement goal is achievable. It determines the amount of savings you need based on your desired retirement age and retirement lifestyle. It uses these assumptions for projecting the CPF savings.

I have read the disclaimer

Step 1 of 6

My Desired Retirement Needs

Birth Date	: Jan YYYY
My Desired Retirement Age	:
My Desired Monthly Retirement Income (in today's dollars)	: 0.00
Number of Years My Retirement Nest Egg Should Last	:
Return on Investment (During Retirement)	: 5.0%
Average Inflation Rate	: 2.0%

Click here to retrieve your last input made.

If you have previously saved any inputs when using the previous version of the CPF Retirement Calculator, please click here.

Continue

Step 6 of 6

Results

Based on your desired retirement age of 60 , a desired monthly retirement income of $5,000, and information provided by you:

You will need a retirement nest egg of	: $1,461,698
Your projected CPF savings is	: $833,088
Add: Projected investments value	: $0
Cash $0	
CPFIS-OA $0	
CPFIS-SA $0	
Less: Outstanding liabilities at retirement	: $(0)
Less: Cash payments made, if any	: $(0)
Your net projected savings is	: $833,088
Retirement nest egg's projected deficit	: $628,610

A shortfall in your nest egg means you may not be able to get a desired monthly retirement income of $5,000 till age 70. Should you retire at 60, your retirement fund would be depleted at 65.*

You could consider:

1. Having an annual cash savings of $7,851 from now until retirement, in order to accumulate $628,610 by then. (assuming this annual amount is re-inverted at the same investment return as as during your post retirement years of 5.0%)
2. Delaying your retirement age beyond age 60.
3. Reducing your desired retirement income of $5,000.
4. Downgrading your residential property to generate funds for retirement.

COMMON MISTAKES IN RETIREMENT PLANNING

Carrying debt into retirement, including mortgage and car loans

Retirement income is much less than when you are working so servicing debt may be too big an obligation, risking bankruptcy.

Relying on others such as employers or children to take care of you

It is important to take personal financial responsibility. Companies may not always offer retirement benefits and if they do, those benefits can change.

CPF savings may not suffice and relying on your children may not always be possible.

Carrying on living as you always have

Its advisable to moderate your budget as income reduces.

It has to be about living within your means.

Lack of adequate insurance

Not having enough insurance, such as medical cover, will make it difficult to cope if your health deteriorates.

Life insurance can help protect against unexpected circumstances while endowments help to accumulate savings over the long term.

Being either too aggressive or too cautious with retirement savings

Long-term investments such as stocks are necessary to grow and boost savings but the closer you get to retirement, the more cautious the approach needs to be.

The focus, when drawing closer to retiring, should be on consolidating investment gains.