Time for a Reality Check

Singaporeans need to rein in their optimism towards retirement and ensure that their savings meet up with their expectations of a comfortable retirement, says David Choo.

As the recent casino debate indicated, Singaporeans are willing to take the risk on a bet, even when the numbers are stacked against them. Similarly, a medical insurance practitioner once commented that a Singaporean mother is unlikely to be convinced that her child will develop health problems despite a 1-in-100 chance of it happening.

In addition, CPF members who lacked the aptitude and knowledge for individual investments were still optimistic that they would do well if they were given the opportunity to invest their CPF savings in a private pension plan.

Is this optimism of the typical Singaporean really true and is it justified?

The AXA survey of how Singaporeans view retirement was not comprehensive; it covered about 600 persons. But the sample was deemed representative of the working population and retirees based on age, gender and occupation. The findings did reveal some interesting and somewhat surprising attitudes of Singaporeans. The survey showed that Singaporeans:

- Aim to have the earliest ideal retirement age of 54 (of all countries surveyed by AXA), while old age is considered to be after the 70s
- Think they will maintain or have a better standard of living at retirement
- Look forward to retirement as a time of knowledge transfer (to their children) and community activities
- Are optimistic about retirement and see it as a time to do voluntary/charity work and travel, but do not place sports, cultural interests or hobbies at the top of their retirement plans
- Are happy retiring in Singapore, with a higher percentage of the current working population hoping to migrate when they retire

The key finding is that Singaporeans hope to retire early at age 54 and have the same or better standard of living at retirement.

This is a laudable goal and should be good news for the government, families and financial advisers. But the next finding brings everyone back to reality: "Singaporeans are retirement savvy but have the least retirement income". This is despite the fact that most Singaporeans now do not expect their children to support them financially. Also, they do not think they can rely on their family in case of illness.

The survey threw up a disturbing statistic: the average amount of retirement income is $1,692 and the average amount needed for household expenses is $1,592. This means that, on average, there is only $100 left for personal expenses.

What is the cause of the gap between the optimistic attitude and the inadequacy of savings? I can think of at least four causes.

Firstly, the sense of optimism is evident in the survey of attitudes. Although ours is not a social security state, there are people still optimistic that the ever-reliable government will do something about the retirement time bomb. There are others who still believe their children will be their retirement ticket, although a sense of realism is sinking in. It is not unusual to hear the opposite sentiment today: "If my children can take care of themselves and not depend on me, I will take it as a plus."

The second cause for the gap between expectation and reality is the lack of appreciation of how quickly longevity has improved.

The median life span for male and female is now 74 and 78 years respectively, which means that many will live beyond 80, or even 90. Taking the average retirement age as 60, the average Singaporean still has to provide for 20 years of retirement. Considering that 90 per cent of medical expenses are incurred in the last ten years of one's life, the cost or expenses in retirement years will be staggering.

Another reason for the low retirement savings of Singaporeans is the common belief that CPF is sufficient for retirement. The total CPF contribution of 33 per cent is substantial, but with the Ordinary Account typically being invested in property for most Singaporeans, only the Special Account is available.

About half of Singaporeans do not even have enough for the Minimum Sum Scheme for retirement, which is now $84,500. If this sum is used to purchase an annuity, it can only provide $439 per month from age 62 onwards (from one of the insurance companies). If this sum is left with CPF, the amount that is available from age 62 onwards is $668 per month and it will end at around age 82.

Even Singaporeans who have some disposable income available for savings do not normally save sufficiently for retirement on their own. This is due to the tussle between present comforts and deferred future provision. The Singaporean lifestyle, mirroring that of the advanced countries, tends towards style and conspicuous consumption. Even if not rational, it is the attitude of enjoying now while there is time – tomorrow will take care of itself.

For the conservative and moderate who save consistently, one big hole still looms ahead – their children's education. For every child who fails to make it to our subsidised universities, the financial setback can be between $80,000 to $300,000 to give the child a university education in the other local courses or abroad.

Lastly, but most importantly, Singaporeans are largely still not sufficiently financially educated. While our academic standards are high, we have only recently seen an interest in financial education. For many decades, the only form of savings and investment were CPF and bank deposits.

In the last ten years, Singaporeans have become more aware of the need to invest in insurance, unit trusts and even equities. Along the way, many have made losses and, in a sense, paid for their financial education, but collectively, the whole nation has become more knowledgeable. The role of the financial planner and adviser is crucial in this respect. The Monetary Authority of Singapore (MAS), media and the financial institutions have also promoted public education and soon our adult population should be familiar with the function of interest rate, inflation, business cycles, risk tolerance, investment strategies, etc.

Given political stability and steady economic growth, there should be grounds for measured optimism. But in the short and medium term, for the thousands who did not save sufficiently for their retirement, their goal of retiring early and enjoying life would be more of a dream. They have to be prepared to work longer up to age 65 or even 70 just to see their children through to a university education and have sufficient funds to live up to 80 or longer. The difference a longer working period makes can be seen from the table (refer to Table on Retirement 101).

The most logical and wisest response is to take charge of one's retirement plan and start early. Do a proper retirement savings plan early and start saving enough to account for inflation and the increasing longevity. Start early and your retirement savings plan is affordable. Start later and the climb gets increasingly steep.

Also, have a good insurance programme to prevent untoward losses and creating big holes in your retirement plan. The insurance programme should cover death and disability protection (for working life at least), critical illness and medical insurance. Investments should be carefully selected and sufficiently diversified, monitored and managed. Only with a well-prepared financial plan covering all types can one be justifiably optimistic and enjoy one's retirement years, and watch movies and listen to songs and laugh at one's make belief.

For ultimately, there is no free lunch and no free retirement.

TABLE 1: RETIREMENT 101
THE MERITS OF SAVING EARLY AND WORKING LONGER TO PROVIDE $1,000 PER MONTH IN RETIREMENT

Retirement Age	Lump Sum Required At Retirement Age	Amount of Regular Annual Savings To Achieve Lump Sum		
		From Age 30	From Age 40	From Age 50
55	$266,197	$7,089	$13,896 (+96%)*	$48,679 (+250%)*
60	$218,042	$4,450	$7,878 (+77%)*	$18,466 (+134%)*
65	$167,468	$2,689	$4,460 (+66%)*	$8,742 (+96%)*
			* Percentage increase is over age 30 figure	

Assumptions:

1. Retiree lives to age 80

2. Inflation is 2% per annum

3. Investment return is 3% per annum

David Choo is the managing director of independent financial advisory firm PromiseLand Independent Pte Ltd.