Retirement income – how much is enough?

Don’t delay finding out how much you will need for retirement

Options under CPF MSS	What you will get
Leave in CPF	Earn interest rate of 4%; fixed monthly payment from age 62 until capital and interest payments are fully drawn out.
Put in fixed deposit	Fixed monthly payment from age 62 until capital and interest payments are fully drawn out.
Invest in annuity	Regular payment from age 62 and will continue for as long as you live.

According to the National Financial Literacy Survey commissioned by the Monetary Authority of Singapore (MAS) last year, many Singaporeans are not saving adequately, nor are they saving early enough for retirement. While the majority of Singaporeans consider personal and CPF savings to be their most important sources of retirement income, less than 1 in 3 Singaporeans are actually aware of how much CPF funds they will have when they reach 55 years old.

The reality is, CPF savings alone may not be sufficient to support your desired lifestyle during retirement. With the increasing use of CPF funds for non-retirement purposes e.g. housing, education, etc, your CPF funds may not even be sufficient to meet all your basic retirement needs.

To enjoy your golden years, you should start saving early and consider alternatives beyond CPF to accumulate adequate savings for retirement.

Gauging your retirement needs

To ascertain how much retirement income is needed, it is important to first identify your retirement goals. You should try to envision the type of lifestyle you aspire to have, at what age you expect to retire and most importantly, establish what retirement means to you. Being realistic and having specific and measurable retirement goals can also help provide a more accurate assessment of how much money is needed.

As a general rule of thumb, most would require 50 to 70 per cent of their last drawn annual income to maintain their current standard of living during retirement. However, bear in mind that you have to take into account the impact of inflation and if you aspire to have an active retirement lifestyle that involves travelling and hobbies, you will require more savings!

Mark O’ Dell, Deputy President, Life Insurance Association:

Retirement planning is absolutely essential if you want to achieve the lifestyle you want in your golden years. It involves determining how much you need in order to retire comfortably, identifying the best ways to accumulate savings as well as making decisions about how you live your life today.

To ensure that you save sufficiently, it is important that you start planning early for it. This allows a longer period for accumulation and hence, more time to save, as well as invest.

Many Singaporeans are still uncertain as to how to go about achieving their retirement objectives. As a result, they are usually financially ill- prepared after they leave the workforce.

If you are unsure about saving for your retirement, it is advisable that you seek a professional financial adviser’s expertise. He or she will be able to guide you in making financial decisions that will help you achieve your retirement goals.

Whether retirement is decades away or around the corner, now is a good time to begin planning for it.

To ensure sufficient income during your retirement years, you will need to start planning and saving early. The earlier you start, the more funds you will have to enjoy your retirement.

Accumulate savings for your golden years

There are many avenues to accumulate savings and to ensure a sufficient income during your retirement years. The traditional method is to regularly save a portion of your income in a savings or fixed deposit account. These low-risk options generally pay a very low interest but they can help ensure a smooth savings plan over the years and it is easy to withdraw from these funds for immediate needs. However, as the returns are low, there is a high chance that they may not be adequate to last through your retirement.

You may want to consider purchasing life insurance products, which offer a more disciplined way of saving and potentially higher returns.

There are a number of life insurance products such as endowment plans and Investment-Linked Plans (ILPs) that enable you to combine savings, investment and protection benefits to guard against financial loss when life’s unforeseen events occur. You should speak to a financial adviser to determine the appropriate product for your needs.

Bear in mind also that even though you have saved for your retirement nest egg, a huge medical expense could wipe out a large portion of savings. Thus, it is prudent to purchase an appropriate health insurance plan when one is still young to cover part of the unforeseen medical expenses in one’s old age.

When you are no longer working and would like to enjoy some form of regular income to support your retirement expenses, you may want to consider purchasing a lifetime annuity. It offers a lifetime of guaranteed income for as long as you live without running the risk of you outliving your savings!

CPF members can purchase an annuity product using their Minimum Sum. Under the CPF Minimum Sum Scheme (MSS), Singaporeans are required at age 55 to set aside a ‘minimum sum’. For the year 1 July 2006 to 30 June 2007, the Minimum Sum is $94,600. The amount changes every year and is set by the CPF Board. Keeping your Minimum Sum in the CPF account, putting it in a fixed deposit or investing in an annuity are the only options for using your Minimum Sum.

If you need advice on financial planning, visit the Life Insurance Association website at www.lia.org.sg for the list of insurance companies in Singapore and tell them you want to speak to one of their representatives. If you wish to receive advice from a financial adviser, visit the Monetary Authority of Singapore at www.mas.gov.sg for a list of authorised financial advisers.

Life Insurance Association