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MONEY WISE

RETIREMENT – A TIME TO ENJOY LIFE OR JUST SURVIVE?

Last week we saw how improvements in healthcare and lifestyle were helping people to live a decade or two longer than the previous generation. But we also saw the downside in that for many if not most, the quality of life in those bonus years can be diminished by financial hardship or even abject poverty. This is the result of a combination of the inability of workforces to sustain support for an ever-growing army of retirees, dislocation in the financial markets and the failure of individuals to anticipate and prepare for their likely needs in retirement.

For many the issue is irrelevant as large segments of the population in poorer countries have not even experienced employment, let alone retirement. For them life continues in the hope that they can count on family support in later years. But for those who have grown up with parents and grandparents who enjoyed the luxury of pensions at the end of their working lives the future is looking less rosy. The pension cake may be the same size but there are far more people who are looking for a slice of it.

What can Governments do about it?

In the developing world governments can just ignore the issue and leave the responsibility for the aged to the private sector or simply traditional family support. But if a country wishes to become an advanced and progressive nation it has to develop a social system to look after the old just as it has to provide education for the young. Not an easy task when income from taxes and other sources is limited while other needs such as defense and infrastructure are considered more important.

In the developed world however, governments are in a state of crisis as people have become accustomed to generous benefits from the state. European governments recognize that the status quo cannot continue but are coming up against strong opposition as they try to reduce benefits and force people to work longer. While it can be costly to them politically they really have no choice; there are more and more unproductive mouths to feed. Even

injustices such as the British government's refusal to unfreeze the pensions of expatriate retirees in a number of countries including Indonesia are allowed to continue on the grounds of cost. The social security system in the US is under similar stress. Westerners are going to have to accept that they can no longer count on their home countries to adequately support them in retirement.

Do companies have a responsibility?

They certainly do and some of them take it seriously. In the past in Indonesia companies would simply reward long service employees by paying a single lump sum on their last day in accordance with the labor laws. The fact that the money would likely evaporate in days was not their problem. Progressive companies are now paying real pensions although if they are not linked to the cost of living they will also evaporate in a short time as inflation takes its toll. In recent years we have seen a relatively stable Rupiah. But if the situation should change local pensions could become worthless unless inflation-protected. Companies should make provision to protect pension schemes in the event of a currency collapse as we saw in 1997 / 98.

The situation facing companies in the West is again very different. Decades of socially conscious governments and strong union movements have resulted in company benefits that people in the rest of the world could only dream about. A man working all his life in one company could expect on retirement a pension equivalent to perhaps two thirds of his final salary and this would be further protected against inflation. But these very benefits have come back to haunt companies like General Motors and British Airways which are massively burdened by their pension schemes. While past obligations have to be honoured almost all companies have now abandoned the concept of pensions linked to salaries and have moved to pensions where employees in the future will have to take on the investment risk. The best companies can do is ensure their pension funds are well managed. This is not always the case and employees should play an active role in monitoring how their pensions are being managed.

What can individuals do?

Positive and early action is critical. Perhaps the first thing is to recognize the reality that we cannot count on either governments or companies to

provide adequately for us in retirement. There is no 'quick fix' to the situation. Neither is there a simple formula that anyone can follow. What quality of retirement awaits us will probably depend far more on our actions than those of states or corporations. So what action should we be taking, assuming there is still enough time left? Let's look at this in detail next week.

Colin Bloodworth

PPi Indonesia