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MONEY WISE

THE IMPORTANCE OF AN OVERALL PLAN FOR RETIREMENT

The last four articles explained why we cannot assume our respective governments or employers will keep us whole in retirement. The burden of supporting ageing populations can no longer be borne by dwindling workforces. We looked at a formula to calculate how much we should save for retirement, a good rule of thumb being to estimate how much a month we would need in today's money and then multiply it by 240. The resulting figure should produce the desired income based on an assumption of a 5% annual return. The daunting figure will still need to be adjusted regularly to take account of inflation.

The conclusion was that we will almost certainly need to supplement any pension we might expect from a government or employer. This could entail a private pension plan and / or a portfolio of investments. But they cannot be relied upon too heavily as they depend on the vagaries of the financial markets and may produce far less than originally projected. So where else should we look?

Annuities

This is a very basic form of pension and it has the advantage of not being subject to market fluctuations. While there are variations, a basic annuity will guarantee a given level of income for life. It should not be affected by stock market crashes or any form of economic or political disturbances. However, because the amount is fixed its purchasing value will be eroded by inflation. After 20 years its real value could be less than a quarter of its original value. The other big drawback is that the annuity dies with you; there is no residual value for your estate. At this point in time you will not get a very high return on an annuity due to the low yields on bonds. Nevertheless, it is always comforting to have some fixed income coming in. It could also make sense for someone in poor health or a smoker since insurance companies will often pay a higher amount if they think the person will not be around too long to collect it!

Property

A major financial planning objective should be to have a home that is fully paid for well before retirement. Many people will find that the family home they have occupied for years is too large once the children have 'flown the nest'. This is an opportunity to trade down to a smaller house and release equity which can be added to the retirement pot.

In addition to the family home some find that owning other properties is a profitable investment as the rentals can boost income in retirement. Many people in Indonesia have profited considerably from land they bought years ago. If the price is right land should always be a good asset to own. As Mark Twain said: "Buy land; they are not making it anymore." Be aware however that real estate is not liquid; it can take a long time to sell when you may need cash in a hurry. Maintenance costs can also be a burden, particularly if a property is old.

Running a business or working in retirement

When you are young the concept of retirement is often one of putting your feet up and just taking life easy. This is not how many see retirement today. Some see it as an opportunity to start a small business or to work in a field totally different from their previous profession. There is probably no worse retirement gift than a gold watch or a clock, the traditional way a company would say 'thank you', implying that the retiree would spend most of his remaining days watching time go by.

A job or business may help to ease the financial strain but it is also important from a psychological point of view. The job does not need to be a paying one; it could be charity related or connected to a particular interest or hobby. I always fancied driving steam engines. It's a bit late for that now as a career but there are opportunities to qualify and help out on railway lines restored as tourist attractions. Or you can join a local chapter of the Hash House Harriers in Indonesia or elsewhere and grow old disgracefully! The important thing is to stay active as this can also result in lower medical bills.

It is never too early to plan

As you will gather, planning for retirement is a bit more than just checking that you have a pension. The financial side definitely needs serious attention but so does the whole concept of retirement. And the time to plan is well before the day they give you that gold watch.

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