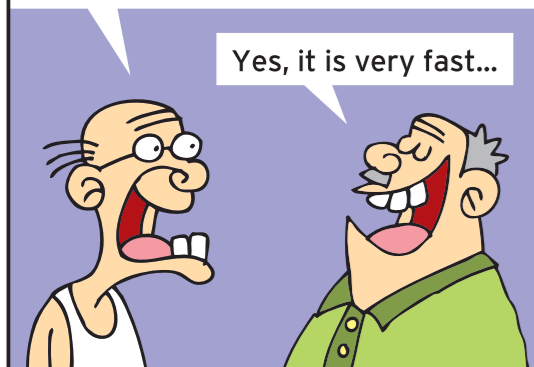


I heard you used the money from your retirement to buy a sports car. Is it fast?



...very fast in depleting my savings!! Can you spare me 70 cents for a coffee?



TIP: Manage your retirement funds prudently.

MoneySENSE Worksheet on Managing Your Retirement Funds



Produced by:



An initiative of:



INTRODUCTION

Congratulations! You are approaching your golden years. You can now have more time with your family members, do things or take part in activities that you had always wanted to but did not have time for. You have worked hard and accumulated some funds for your retirement.

It is important to manage your money prudently and ensure a comfortable retirement. MoneySENSE takes you through key issues you need to consider, and provides worksheets that you can use.

1) DEVELOP A BUDGET AND STICK TO IT

Simple budgeting can help stretch your retirement funds. For a start, work out a monthly budget based on your available retirement funds from your CPF account, investment holdings and personal savings.

Simply divide your total retirement funds by the number of years you want your funds to last, then divide the number by 12 months.

While this method of calculation does not take inflation into consideration, it will help you get a quick estimate of the maximum amount you can spend each month.

Here's a simple example to illustrate this:

Assume you and your spouse are 60 years old. You have combined retirement funds of \$600,000. You would like the funds to provide for you for another 25 years¹.

Divide \$600,000 equally over 25 years. You can spend up to a maximum of \$24,000 per year or \$2,000 per month.

Draw up your budget, review each expense item, make adjustments so that your monthly expenses do not exceed \$2,000.

¹ Life expectancy is the average number of years that a typical person at a certain age can expect to live. The Singapore life expectancy at birth is 77 for men and 81 for women (Source: Demographic Indicators for Singapore 2004; Sing Stats).

TIPS

✓ Stick to your monthly budget. Record your expenses. A rule of thumb is to withdraw not more than 4%² of your savings a year so that you do not run out of money should your savings suffer from market downturns or your personal circumstances change for the worse.

✓ Clear all debt as far as possible and avoid borrowing more money so as to minimise paying interest.

✓ Evaluate every purchase. Review ways to reduce your ongoing big expense items. For example, choose to drive a smaller car or use public transport. Senior citizens aged 60 and above enjoy concessionary fares.

✓ Take advantage of concessionary or free services. For example, visit the library or parks in your leisure. Check for senior citizen concessionary rates when you head for recreational activities like movies, theatre and even when dining out.

✓ Do not compromise on providing for emergencies and medical care. Make sure you have cash savings that can provide for 3 to 6 months in case of emergencies.

✓ Also, set aside a sum for medical care as one can usually expect to incur higher medical expenses as one grows older. Consider maintaining or taking up medical insurance.

² William P Bengen, "Determining Withdrawal Rates Using Historical Data", Journal of Financial Planning, October 1994, Volume 7 Number 4.

³ There is a wide range of medical insurance plans, including the CPF Medishield plan and EldersShield plan. Information on CPF plans is available at the CPF website (<http://www.cpf.gov.sg>).

2) MANAGE YOUR CPF SAVINGS

When you reach 55, you have to decide how you wish to manage your CPF savings.

✓ Withdrawal of CPF

You can decide whether to withdraw your CPF savings at age 55. You have two options:

Options	Things to Consider
1 Withdraw a lump sum/partial savings from your Ordinary Account (OA) and Special Account (SA) after setting aside the full Minimum Sum in your Retirement Account.	<p>What do you intend to do with the funds upon withdrawal?</p> <p>Note that the Retirement Account is for your old age needs. If you decide to withdraw your CPF savings, make sure that you manage the CPF money withdrawn carefully as it is your old-age savings which will see you through the next 20 years or more.</p> <p>Are you financially independent or still working?</p> <p>If yes, option 2 is generally preferred as this means you can continue to build a larger nest egg. At the same time, your OA savings can continue to earn the interest of 2.5% per annum.</p>
2 Postpone your withdrawal until a later date.	

✓ Management of CPF Minimum Sum

The CPF Minimum Sum Scheme provides you with a monthly income to support a basic standard of living during retirement. The minimum sum is presently \$90,000 (as at 1 July 2005 and adjusted for inflation.) It will be raised gradually until it reaches \$120,000 (in 2003 dollars) in 2013, and will be adjusted yearly for inflation.

You can decide how you want to manage your CPF Minimum Sum. You have three options:

Options	Things to Consider
1 Leave your CPF Minimum Sum in your Retirement Account with the CPF Board to earn the prevailing interest rate of 4% interest.	<p>Do you want the certainty of a regular income for a limited period or for life?</p> <p>If you prefer a limited period, evaluate the interest rates and monthly incomes offered by the CPF Board and various banks, and consider how long you can expect to receive this regular income based on the amount of CPF Minimum Sum you have. Consider also what sources of income you would have after these monthly income payments stop.</p>
2 Place your CPF Minimum Sum as a deposit with a participating bank.	<p>The bank will then pay you a monthly income to meet basic needs from age 62. But the payment will cease once your CPF Minimum Sum and interest are fully withdrawn.</p> <p>If you want to have the certainty of receiving a regular income for life, consider using your CPF Minimum Sum to buy a life annuity. If you wish to have more income, you can consider buying additional life annuities with your savings. This way, you can be relieved of the anxiety of whether your retirement savings will be adequate to see you through your golden years.</p>
3 Use your CPF Minimum Sum to buy a life annuity from a participating insurance company.	<p>A life annuity is an insurance product which guarantees payment of a fixed amount monthly for as long as the policyholder lives.</p>

For more information on CPF matters, please refer to the CPF website (www.cpf.gov.sg). The list of participating insurance companies as well as participating banks offering fixed deposit for the Minimum Sum amount can also be found on the CPF website.

3) CONSIDER HOUSING MATTERS

As a general guide, you should aim to pay off your housing loan by 55. This would help you minimise debt obligations in your golden years.

However, if you have an outstanding housing loan when you reach 55, do consider how you plan to continue paying the instalments. This means considering factors such as:

- The need to set aside the CPF Minimum Sum. Note that this could reduce the CPF available for housing.
- Whether you would continue working. Note that of the CPF contribution rate of 18.5% for those aged above 55 to 60, only 10.5% goes into OA and can be used for housing.
- Whether you intend to make a lump sum/partial withdrawal of your CPF at 55.

Depending on your situation, you may have to fork out more cash to pay your housing loan if the CPF available for housing is reduced after 55.

Visit the CPF website (www.cpf.gov.sg) to find out the factors affecting homeowners aged 55 years and above when using CPF to repay housing loans.

The information in this worksheet is of a general nature and may not apply to every situation or to your own personal circumstances. The information is correct as at time of publication. For more tips and educational resources on personal financial matters, visit the MoneySENSE website at www.moneysense.gov.sg.

4) CONSIDER CAREFULLY BEFORE INVESTING YOUR RETIREMENT FUNDS

You may decide to invest your retirement funds, especially if you have prior investment experience. However, as you may no longer be drawing a regular income, it is generally advisable to take a more conservative approach to investment.

There is a wide range of investment instruments, including stocks and bonds, derivatives, unit trusts, insurance plans, structured deposits and many more.

Remember that all investments come with risk. Invest only in instruments that you understand, and that are suitable for you.

You definitely do not want to make wrong investment decisions that will drain your retirement finances.

TIPS

- ✓ Set aside sufficient funds for daily needs and emergencies before you invest.
- ✓ Draw up your own investment objectives. Think about how much you are prepared to invest, how long you intend to stay invested, how much return you want and how much loss you can take. This is important as this will help you evaluate which investment instruments are suitable for you.
- ✓ Understand your risk profile. Select instruments that are aligned with your risk profile. Investing in instruments that are too risky for you may cause anxiety and loss of sleep.
- ✓ Do not invest in anything you do not understand. Make sure you understand key areas such as the investment objective, potential risks and returns, minimum investment periods, penalty charges, terms and conditions.

TIPS

- ✓ Diversify. Do not put all your eggs in one basket. Put your money into a range of investments to offset risks. So if one investment loses money, the loss does not affect your other investments.
- ✓ Monitor your investments regularly. Re-evaluate how your investments are performing, at least once a year.
- ✓ Do not invest on your own if you do not know how to. Consult professionals for advice.

5) CONSIDER POST-RETIREMENT EMPLOYMENT

You may wish to consider post retirement employment to keep yourself busy and to continue to grow your retirement funds.

You may also be tempted to start a small business. Bear in mind that there are risks to consider. Ask yourself if you know enough about the business prospects, or if you have the capacity to stomach losses and risks. You should also note that many businesses take several years to break even or stabilise.

WORKSHEET TO DRAW UP YOUR BUDGET

How do you calculate how much you can spend each month without wiping out your retirement funds prematurely?

The worksheet below provides a guide to help you estimate your monthly budget. For a more comprehensive calculation, do use the retirement calculators on the CPF website (www.cpf.gov.sg).

Step 1: Record how much retirement funds you have today. Deduct the amount you need to set aside for an annuity if you wish to invest in one.	(A) Available retirement savings after deducting the amount used to buy life annuity	\$ _____
Step 2: Decide how long you would like your retirement funds to last. You may wish to consider your retirement age and the current life expectancy ⁵ .	(B) Current life expectancy	_____ years
	(C) Retirement Age	_____ years
	(D) Expected number of years in retirement (D = B - C):	_____ years
Step 3: Estimate the rate of return for your retirement funds. As a guide, if you intend to deposit your funds in the bank, use the current interest rate the bank is offering. If you intend to invest your funds, consider the instruments' past performance and investment outlook. However, note that past performance may not necessarily be indicative of future performance.	(E) Expected rate of return	_____ % per annum
	(F) Inflation rate	_____ % per annum
	(G) Net expected rate of return (G = E - F):	_____ % per annum
Step 4: Check the annuity factor based on the net expected rate of return (G) and estimated number of years in retirement (D). See annuity table and example in the next page.	(H) Annuity factor: (see annuity table in the next page)	_____
Step 5: Calculate the monthly income your retirement savings can provide.	(I) Monthly amount from available retirement savings = Available retirement savings (A) Annuity factor (H) x 12 months	\$ _____
Step 6: Add the monthly income you expect from other sources to get the total monthly income you expect in your retirement. This would be the maximum amount that you can spend each month.	(J) Monthly amount receivable from life annuity (if available)	\$ _____
	(K) Monthly amount receivable from other sources (e.g. rental, contributions from children, investment income)	\$ _____
	Maximum amount you can spend each month (I + J + K)	\$ _____

⁵ Life expectancy is the average number of years that a typical person at a certain age can expect to live. The Singapore life expectancy at birth is 77 for men and 81 for women (Source: Demographic Indicators for Singapore 2004; Sing Stats).

ANNUITY TABLE (H)

Expected number of years in retirement (D)	Net expected rate of return per annum (G)							
	1%	2%	3%	4%	5%	6%	7%	8%
1 year	0.9900	0.9803	0.9708	0.9615	0.9523	0.9433	0.9345	0.9259
2 years	1.9703	1.9415	1.9134	1.8860	1.8594	1.8333	1.8080	1.7832
3 years	2.9409	2.8838	2.8286	2.7750	2.7232	2.6730	2.6243	2.5770
4 years	3.9019	3.8077	3.7170	3.6298	3.5459	3.4651	3.3872	3.3121
5 years	4.8534	4.7134	4.5797	4.4518	4.3294	4.2123	4.1001	3.9927
6 years	5.7954	5.6014	5.4171	5.2421	5.0756	4.9173	4.7665	4.6228
7 years	6.7281	6.4719	6.2302	6.0020	5.7863	5.5823	5.3892	5.2063
8 years	7.6516	7.3254	7.0196	6.7327	6.4632	6.2097	5.9712	5.7466
9 years	8.5660	8.1622	7.7861	7.4353	7.1078	6.8016	6.5152	6.2468
10 years	9.4713	8.9825	8.5302	8.1108	7.7217	7.3600	7.0235	6.7100
11 years	10.367	9.7868	9.2526	8.7604	8.3064	7.8868	7.4986	7.1389
12 years	11.255	10.575	9.954	9.3850	8.8632	8.3838	7.9426	7.5360
13 years	12.133	11.348	10.634	9.9856	9.3935	8.8526	8.3576	7.9037
14 years	13.003	12.106	11.296	10.563	9.8986	9.2949	8.7454	8.2442
15 years	13.865	12.849	11.937	11.118	10.379	9.7122	9.1079	8.5594
16 years	14.717	13.577	12.561	11.652	10.837	10.105	9.4466	8.8513
17 years	15.562	14.291	13.166	12.165	11.274	10.477	9.7632	9.1216
18 years	16.398	14.992	13.753	12.659	11.689	10.827	10.059	9.3718
19 years	17.226	15.678	14.323	13.133	12.085	11.158	10.335	9.6035
20 years	18.045	16.351	14.877	13.590	12.462	11.469	10.594	9.8181
21 years	18.856	17.011	15.415	14.029	12.821	11.764	10.835	10.016
22 years	19.660	17.658	15.936	14.451	13.163	12.041	11.061	10.200
23 years	20.455	18.292	16.443	14.856	13.488	12.303	11.272	10.371
24 years	21.243	18.913	16.935	15.246	13.798	12.550	11.469	10.528
25 years	22.023	19.523	17.413	15.622	14.093	12.783	11.653	10.674
26 years	22.795	20.121	17.876	15.982	14.375	13.003	11.825	10.809
27 years	23.559	20.706	18.327	16.329	14.643	13.210	11.986	10.935
28 years	24.316	21.281	18.764	16.663	14.898	13.406	12.137	11.051
29 years	25.065	21.844	19.188	16.983	15.141	13.590	12.277	11.158
30 years	25.807	22.396	19.600	17.292	15.372	13.764	12.409	11.257

Example to illustrate how to use the annuity table:

Assuming you have retirement savings of \$300,000 and you expect to have 25 years in retirement. If your savings earn an interest rate of 3% p.a. while the average annual inflation is 2%, this means your savings' annual rate of return after inflation or net expected rate of return is about 1% (i.e. 3% - 2%).

Use the annuity table above to calculate the monthly amount available for spending. Find the vertical column for the interest rate of 1%; then find the horizontal row corresponding to the number of years (i.e. 25 years) you will receive the payment. The intersection point is the annuity factor of 22.023. The annuity factor is the present value of a series of \$1 payments for a particular time period and interest rate.

Divide \$300,000 by this annuity factor 22.023 to get an annual amount of \$13,622, then divide by 12 to get \$1,135. This is the maximum amount you can spend each month.

Step 7: Set up a monthly budget based on the available amount you can spend each month. Do not spend more than this amount. Use the following worksheet to set up a budget. Record your expenses and make sure you keep to your budget.

MONTHLY EXPENSES	Actual Expenses (\$)	Targeted Expenses (\$)
Fixed expenses		
• Savings		
• Mortgage payment / rental payment		
• Conservancy and property taxes		
• Insurance		
• Income tax		
• Maid		
Utilities and household maintenance		
• Utilities bill		
• Telephone and mobile phone bills		
• Cable TV and internet		
Food and necessities		
• Groceries		
• Eating out		
• Clothes and personal maintenance		
• Health and medical		
Transport		
• Car loan payments		
• Motor insurance and road tax		
• Petrol, car park fees and maintenance		
• Public transport		
Miscellaneous		
• Tour and family outings		
• Entertainment		
• Hobbies and sports		
• Others		
TOTAL EXPENSES		

TIPS

- ✓ Your total monthly expenses should not exceed the maximum amount you can spend each month (computed in Step 6).