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BONDS&ISSUES

FirstPrincipal financial

FINANCIAL CONCERNS OF THE 50 – 60s

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We're now on the last leg of our pre-retirement journey. Hopefully, life has been good to us. Our children have grown and we are probably at the pinnacle of our career. But life is hardly over. For many of us, it is just beginning. The years of dreaming about our retirement are finally in our grasp. From here on, all we have to do is to decide how we're going live, but for some, we struggle with how to survive retirement.

MAJOR EVENTS IN THIS DECADE OF OUR LIFE

For starters, the Minimum Sum in the Central Provident Fund (CPF) will be set aside and will go into our Retirement Account when we reach 55. Depending on how much we have accumulated in our Ordinary and Special Accounts, we can withdraw the rest in cash[1].

If we had children at a young age, some of us may even be grandparents!

Some of us may be staring compulsory "retirement" in the face. Not the kind where we spend leisurely walks along the beach, but where we are no longer needed at our jobs. We may no longer be as efficient as we used to be; we lack the cutting edge and are not as energetic or enthusiastic as our younger colleagues.

Current global events underscore the importance of planning early for retirement. With just a few more years to go before the statutory retirement age of 62, many of us may be seeing our hard-earned money whittled down in the flurry of global financial breakdowns.

MAJOR CONCERNS

In this financial crisis, as in the last, layoffs have been paramount in the minds of many. Many have been without jobs for a while, or have been forced to take up to 50 percent pay cuts. Companies that we work for will be looking for ways to cut cost. The more senior the staff, the more likely they will be on the chopping block. Loyalty does not feature in the equation.

Living in retirement with a heavy sack of liabilities is not anyone's idea of a good retirement plan. Telemarketers frequently tout the glorious benefits of easy credit. However, it would be foolhardy to be taken in. Debt can, and will make our golden years miserable. We will not mince words here: if any one of us is deep in debt in this phase of life, we are deeply in trouble. Major financial surgery is warranted.

For those of us who have been putting off planning for retirement, the pressure is on and real work needs to be done now. Many may have expectations on the children to take care of us in old age. Others think "downgrading" our lifestyles will do the trick. While these ideas may seem viable, we must not be overly optimistic about our children's ability to finance our retirement, or overestimate the future value of our homes as a source of income. There are other forces at play, and we need to be aware of what they are.

[1] How the CPF Minimum Sum Scheme impacts us, is determined very much on whether we have pledged our homes. Recent rule changes regarding home sellers aged 55 and above will also affect our available funds at age 55. The year we reach age 55 will also determine the aggregated amounts we can withdraw. Please consult a First Principal Financial Adviser for more details.

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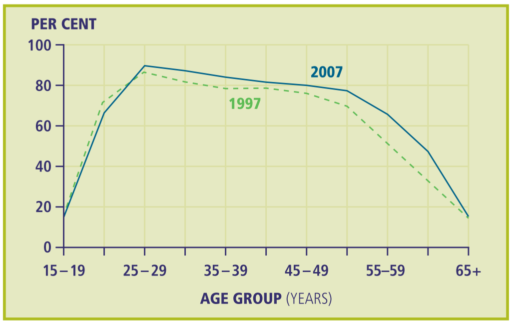
FIVE IDEAS TO SERIOUSLY CONSIDER

1 KEEP AN EYE ON OUR CAREER

Based on statistics for the Singapore market, older members of our society tend to now work a longer period, as compared to 1997. This trend is expected to continue.



Source: Singapore Statistics, www.singstat.gov.sg

As baby boomers, the last thing we want after years of working is to be idle in retirement. Understand what it takes to continue working, even in our golden years, and take steps now to ensure that our skills and abilities will still be economically valuable. Our companies may not keep us for much longer as they are not obliged to see us into comfortable retirement. Nothing personal!

Some of us may even want to consider starting our own business. We need to:

A. Understand who we are, and our abilities. Starting a business may be more complex than we imagine. Some of us may not be able to distinguish between a hobby and a business, and may turn a hobby into a business without properly studying the viability of such a business.

B. Understand what type of business it is that we want to build. Some types of business may take too much out of us, and hence be unsustainable.

C. Understand where we want to operate our business. Most other places have laws and conventions that are different from what we are used to. An awareness of such market nuances will be vital to our business. Being informed minimises the possibility of losing our investments.

D. A good tip may be to run through the business plan with a business consultant or even to approach a bank for a loan facility, to see if they will approve the business plan. It might just be the acid test needed to help us make that decision, whether to go ahead or to abandon the plan.

2 PREPARE FOR RETIREMENT – VIGOROUSLY

Let's face it. We're losing time, and surely not getting it back. We cannot plan for our retirement as if we are 30-year olds. If we have not done it yet, we may have missed the boat. But it does not mean that there is no other recourse.

We need to be realistic about our expectations:

A. Do not expect to make double-digit gains to make up for lost time. It would be more prudent to manage risk, than to just think about maximising gains.

B. Understand our investments. While there are a lot of good vehicles out there to help us reach our investment goals, there are also scores that parade as "safe" products that we have no business getting into.

C. Talk to a qualified and mature Financial Adviser who has our interest at heart. Before we work with them, interview them as we would a consultant working for our company. A good Financial Adviser can really add value to our retirement efforts, while saving us from wasting money on non-essentials.

Understand what it takes to continue working, even in our golden years, and take steps now to ensure that our skills and abilities will still be economically valuable.

3 DOWNGRADE RISK

It's time to start taking less risk because of the shorter time horizon we have to meet our objective of retirement. We can't afford to take the kinds of risk that we are used to. However, this is easier said than done, especially if we have had good experiences making money from our investments in the past. This downgrade of risk-taking is very important because any crisis like what we are facing now, might wipe out all the gains we have built up over the years, or even more.

One way to provide for the future is to divide our investment needs into yearly intervals and to match what we need with an appropriate risk-return portfolio, vis-à-vis inflation and investment projections.

The net effect is to provide an income stream for our post-retirement years that will match our needs each year. Despite inflation eating up our funds, we are in effect curtailing risk as we invest. This is a process that we, at First Principal Financial, have become quite familiar with. It is not something commonly found elsewhere. Do call us. We'll be more than happy to help you plan for your retirement securely.

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4 ACCELERATE DEBT REPAYMENT

Do not cling to debt. We don't need it because debt will kill us! This is especially true when we gradually find our earning capacity falling.

From statistics gathered in the United States, the profile of the average 50-year old owning credit cards, is as follows:

Percentage with credit card debt	50.3%
Median amount owed on cards	US$2,700

Taken from the Federal Reserve Survey of Consumer Finances, 2004

In crisis years, these figures are expected to increase as people try to find means to "tide over" a difficult period. The cure to our financial issues will be short-lived because it usually takes years to pay off a credit card debt.

The advice here is to stop living on credit, and to develop the discipline of living well within our means. If the children are still young, we want to begin instilling good financial habits in them. If they are older, we can enlist their help in working with us to curtail unnecessary spending. Our children may be more supportive than we imagine.

5 REVIEW LIFE INSURANCE

If our children are still young and we have not provided for their education, we may want to take a serious look at life insurance.

However, if all our kids are grown and we have little debt, then life insurance is not necessary. WRONG! Critical illness is that insidious event in our life that can wipe out a rather large portion of our estate, especially if we are not prepared for it.

Hospital & Surgical Insurance is also important in our insurance portfolio. In the course of our work, we have come across many people who relied solely on the hospital insurance provided by their companies. When the inevitable happens and they get sick, claims are made but sometimes the illness is so bad that they are laid off eventually. When this happens, they will lose the hospital cover when they need it most. For those who leave the job voluntarily or otherwise, poor health might disqualify them from purchasing health insurance on their own, and they are left without cover. We should take a good look at what we really own. There are now comprehensive national and private health schemes that are very affordable. Talk to our First Principal Adviser and let us guide you on the most appropriate insurance options available in the market.

Last, but not least, review our CPF ElderShield insurance cover. Enhancements have been in place since October 2007. Under the original and improved versions, claimants are paid a benefit of $300 and $400 per month, for five and six years, respectively. Not very much we can do with that money. But under the enhanced version, we can now opt for a larger sum, as much as $2,000 per month, for life. Premiums are paid from our personal or the family's CPF. Do check with a First Principal Adviser for more details.

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FINAL WORDS

We have presented an overview of the issues we all face. The plethora of information to consider would be the subject of many volumes. Hence it would be difficult for a non-financial practitioner to be aware of everything concerning financial planning. Going about it alone would be akin to doing open-heart surgery on one's self. There may be some blind spots or we may be too emotionally entangled to objectively devise a well, thought-out rescue plan. First Principal Financial is here for you. Do seek us for some informed help.

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