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BONDS & ISSUES

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# GROWING YOUR RETIREMENT FUNDS

## WITH THE SUPPLEMENTARY RETIREMENT SCHEME (SRS)

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The Supplementary Retirement Scheme (SRS) came into effect on 1st April 2001, as part of the government's multi-pronged strategy to address the financial needs of a greying population. It is meant to complement the CPF scheme, which provides funds for housing, medical needs and basic living needs after retirement. Participation in SRS is voluntary and people can contribute a varying amount to SRS (subject to a cap) at their own discretion. The contributions can be used to purchase various investment instruments.

To encourage people to save more for their old age through SRS, the government offers attractive tax benefits. Contributions to SRS qualify for 100% tax relief, while only 50% of the withdrawals are taxable upon reaching the statutory retirement age currently set at 62. You have a choice to spread your withdrawals over a period of up to 10 years to meet your financial needs, while at the same time lowering your taxable income.

The maximum SRS contribution rate is 15% of the annual income base (currently set at $76,500) for Singaporeans and Singapore Permanent Residents, and 35% for foreigners, as they do not enjoy tax relief on their CPF contributions. This translates to a maximum amount of $11,475 and $26,775 respectively, for each group. The reason for a cap is that it is meant to help people save part of their income for retirement and not give high-income earners an undue tax advantage.

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A SRS account has to be opened with an approved bank and all contributions have to be made in cash. To qualify for tax relief in any particular Year of Assessment (YA), the contribution has to be made before 31st December of the same YA. To illustrate this tax benefit, let us look at the following example of a Singaporean who is single, and earns $10,000 monthly:

| | Without SRS | With SRS |
|---|---|---|
| Gross salary | $120,000 | $120,000 |
| Bonus | $30,000 | $30,000 |
| **Total Earned Income** | **$150,000** | **$150,000** |
| LESS: PERSONAL RELIEFS | | |
| Earned income | ($1,000) | ($1,000) |
| CPF contributions | ($15,300) | ($15,300) |
| SRS contributions | – | ($11,475) |
| **Chargeable Income** | **$133,700** | **$122,225** |
| TAX PAYABLE: | | |
| First $80,000 | $4,300 | $4,300 |
| Next $53,700 / $42,225 @ 14% | $7,518 | $5,912 |
| **Total tax payable** | **$11,818** | **$10,212** |
| **TAX SAVINGS** | **$1,606 or 13.5%** | |

*IN A FOLLOW-UP ARTICLE, I will highlight the potential pitfall that can happen when investing your SRS funds. Being a tax deferral scheme, one should be aware that capital gains are taxable. Nevertheless, I believe the benefits outweigh the potential problems that can arise when one starts to make withdrawals at retirement. This can be mitigated through proper planning as one nears retirement age. Do look to the next issue of this newsletter for a discussion on the matter.*

# INVESTMENT OPTIONS

**THE FUNDS CAN BE INVESTED IN A WIDE RANGE OF PRODUCTS, SUCH AS:**

- **Shares listed on the Singapore Exchange (with certain restrictions)**
- **Unit trusts**
- **Single premium insurance plans**
- **Annuities**
- **Savings or Fixed Deposits with an approved bank**

Given that SRS funds are meant for retirement, people in their 30s to 50s should take advantage of the time horizon they have to invest for the long term, by choosing shares and unit trusts over lower risk options like annuities and bank deposits. Because of market volatility in recent years, my recommendation to clients would be to adopt a dollar-cost averaging strategy to invest about $1,000 monthly into a portfolio of unit trusts. You could also choose to do a lump sum investment every year instead of opting for a monthly option.

After every two to three years of this monthly accumulation strategy, the funds can then be transferred to a managed portfolio, where reviews and rebalancing are performed regularly to ensure that your retirement objective is met. One of the possible benefits for the managed portfolio is that after some time, the funds would have grown to a sizable amount relative to the monthly investment amount. In this respect, the dollar-cost averaging strategy thereafter, would not be able to mitigate the investment risks for the funds that have already been invested.

**At First Principal, we offer three different managed portfolios for SRS funds, depending on a person's return and risk profile. In addition, we also have nine portfolios, including one that is Asia-centric ("Asia Power Income") to choose from if you invest using cash, and another three portfolios if you want to invest using your CPF Ordinary funds.**

**As the year draws to a close, you may very well be planning that year-end trip. Why not make an effort to utilise SRS to pay for your holiday, instead of giving your money away to the taxman? Speak to your First Principal adviser today. We are here to help.**

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