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50% Retirees Exhausted Their Savings Within Five Years of Retirement, How Can You Avoid This?

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Have you ever asked yourselves how much savings would you like to have by the time you retire? And what exactly is your plan to achieve that goal?

Many have wondered when is the right time to start planning for retirement. In general, the earlier, the easier it will be for you later on, given the number of financial obligations that tend to be incurred at that later period in your life.

While starting saving from tomorrow, and setting aside 10% of your monthly income sounds like a reasonable plan, most, tend to put it on hold.

A survey from MoneyRates.com finds that only 52% of people started saving for retirement by age 40, and saving rates generally don't improve until people near the end of their careers.

An HSBC Global report also stated that more than half retirees regret not having saved earlier for retirement. What was even more upsetting was the fact that only 21% of Malaysian retirees acknowledged the importance of starting retirement planning by the age of 30.

A study by Nielsen Malaysia shows 79% of Malaysians are not prepared for retirement. Its latest findings show 50% Malaysians planned to retire, or have left the workforce earlier than 60. 69% respondents also say they plan to rely on their personal savings and investments as primary source of income after retirement.

While some may have personal savings and investments, what is worrying is that the EPF 2014 annual report revealed that by age 54, 68% of its members had accumulated savings of only RM50,000 and below, due to the many qualified withdrawals they had made beforehand.

Earlier this year, EPF stated that nearly 80% of workers who will turn 55 this year will not have enough savings in their account to live above the poverty line. It claims, only 23% of its members aged 55 have RM196,000 in their EPF accounts, the recommended minimum savings' level needed to sustain them until the age of 75.

This shows that Malaysians nearing retirement age did not have enough funds to sustain a basic lifestyle for more than five years, and EPF further states that 50% of retirees exhausted their savings within five years of retirement.

To make matters worse, according to EPF Strategy Management Department head Balqais Yusoff, in a report, bankruptcy rates in Malaysia are increasing, with 25,000 declared bankrupt yearly. This means that extra savings is crucial as EPF does not provide an adequate retirement income.

Furthermore, with life expectancy growing, and the rising cost of living, how can Malaysians generally start planning to save enough, or probably change their habits during their working life to at least have enough money when they retire? *Malaysian Digest* find out what some experts had to say.

Investing In Property

There are several ways of maximising your EPF savings now to generate more income later during retirement and while it may still be awhile till you can have full access to fully utilise both accounts, 1 and 2 under EPF savings, you can already start planning ahead and prepare to use it in the near future.

Abdul Rahman, an ex-banker at an American multinational banking and financial services holding company, but is currently a financial analyst, shared his insights on benefits of investing and buying properties through EPF savings, then renting it out.

“Based on how the market is performing, the best thing to do with your EPF savings is to buy properties.

“Properties are able to contribute income through rental payments for our retirement as both the income and asset values of said property is protected against inflation,” said the 44-year-old retiree.

He also added that we are allowed to withdraw savings from Account 2 before the age of 50, particularly when it comes to purchasing loans for housing, medical and education, among selected others.

Rahman continues to share, “Property loans such as housing loans retrieve from your Account 2 EPF savings could branch out to become an alternative source of income for your retirement.”

“Although you will be reducing your retirement savings from the EPF, you’ll be guaranteeing yourself a much more stable source of income through ownership of the property.

“This is because you’ll be moving from a lower pay asset, by leaving your savings untouched in your savings to a higher pay asset that is through property investment and this is better in the long run.

“If you do it correctly and with proper planning, it will only take just a few more years to fully own a piece of rental property, free mortgage payments,” according to Rahman.

Unit Trusts – A Safe Option

The main forms of investing are through shares, funds or trusts. Buying shares means the value of your stake will rise and fall according to supply and demand. While investing in funds or trusts typically means a fund manager pick shares or bonds for you, unless you opt for a passive tracker that follows a set index.

Rahman recommended buying shares with the EPF withdrawal savings, however, he advised that the option is not optimal for most people, as it requires a certain degree of knowledge and skills to navigate around the system of buying and selling stocks.

Alternatively, he suggested considering investing in unit trust agents approved by EPF Fund Management Institutions to handle funds in Account 1. This is to ensure a much more secure handling of your savings.

“Unit trust is always a safer option compared to attempting to trade stocks on your own.

“Basically, you should leave the handling of your EPF savings to the professionals,” he said.

We then interviewed Nur Khairunissa, a former unit trust agent, who shared her expert opinions on investing EPF Account 1 savings on unit trusts.

“By investing your EPF savings on unit trusts, you will be segregating your money and not putting it all in one place, instead, you will have the chance of receiving good investments, with higher returns.

“Unit Trust is a high risk, high returns type of investment. It follows the rise and fall of the market. It is up to the individual if they wish to either keep their savings stagnant or watch it grow,” said the 31-year-old.

But when is an ideal time to start investing on unit trusts? According to Khairunissa, now will be a good time, in this phase where we are faced with an economic downturn.

“Now is a better time than ever to do so. However, you should not withdraw your money now, especially during the economy downturn. But it is the best time to push your savings towards investing, especially on approved Unit Trusts.”

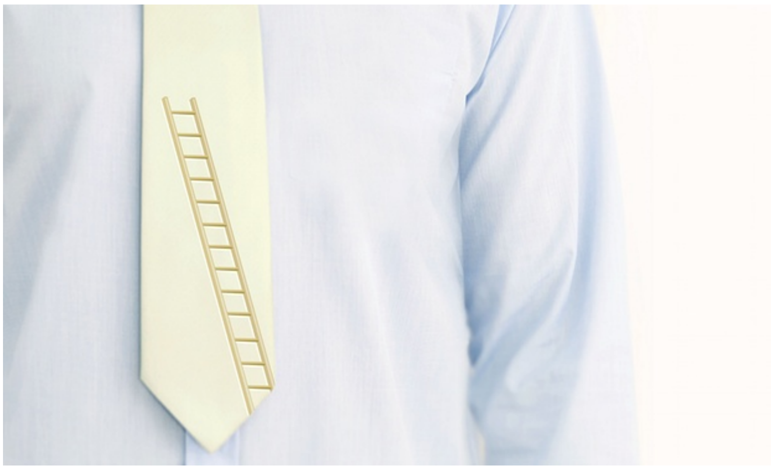
She then warned, besides the risks involved, one would need to assess whether the fund manager has the resources, experience and skills to manage the fund.

“Besides taking the chance of receiving higher returns, investors should find someone who is experienced on which fund they should invest in.

“You must be clear about your investment objectives before deciding which funds are suitable for you.

“After investing, you should also regularly monitor the fund’s performance to see if it meets your expectations.” she said.

The Higher The Pay, The Better?



While the government is beginning to engage the retirement challenge, Malaysians best hope to see an increase in their salaries, to ensure more financial security in their old age.

Rahman states that acquiring a higher-paying job will be the best bet for a secure retirement.

“A higher pay would guarantee a comfortable retirement in the future, no doubt about it.

“We have to also keep in mind that with a higher-paying job, we tend to expect a higher standard of living, and thus may require more savings during retirement to maintain this lifestyle.

“In the end, it doesn’t really change much” he concluded.

Diversify Sources Of Income

While EPF is considered to be one of the safest retirement investments, you should set aside entirely supplementary retirement savings to complement our EPF savings for your golden years.

The Private Retirement Schemes (PRS), is a voluntary scheme that allows individuals to contribute voluntarily in a long-term investment scheme towards their retirement. Individuals may choose to invest based on their own retirement needs, goals and risk appetite, for long-term returns.

Since the launch of the first PRS fund on October 31, 2012, PRS has hit more than 100,000 members according to the Private Pension Administrator (PPA).

Up to RM3,000 of PRS contributions are tax deductible each year, and for those between the ages of 20 and 30, the government has rolled out the PRS Youth Incentive, encouraging youths to set up accounts by depositing a RM500 one-off incentive into each account that amasses a minimum of RM1,000 in a year.

This means there are no excuses for both the young and old to not take charge of their retirement planning.

Apart from that, if you wish, you could pursue an interest or even utilise personal skills, and start a small business venture that will enrich your retirement experience.

The income that is generated from it can be the cherry on top, but first, remember to talk to people in the field where you'd like to start your business, and identify people who are active on social media channels to follow and learn what's hot.

Aside from her nine-to-five job in a global IT company, Khairunissa is an entrepreneur herself, and started baking cakes to earn extra income for her retirement savings.

“If you have a hobby, or are passionate about something, try earning from it. I did that with my baking. It’s a clean source of income, especially when you can promote it to your family and friends through social media.

“It is easy to make extra income these days. I feel like we should do whatever we can do now when we are young, to fully utilise our skills, so we would be able to save as much for our future.

“There’s no better time to have extra savings, when we are able-bodied, because we will never know when age and our health might take a toll on us,” she further stressed.

Health Matters

While combining your EPF savings with your supplementary retirement savings will create a long-lasting stream of income, echoing Khairunissa's stance, health may catch up on us sooner than we think.

Getting medical insurance is important, and it is definitely encouraged to start protecting your health at an early age.

You should never wait till you get sick as medical insurance is only available to those who are in good health. Plus, the older you are, the more the insurance is likely to cost.

Medical bills can quickly deplete your retirement savings, and in Malaysia, the medical inflation rate, which is the increase of medical costs, is between 10% and 15% every year.

In a column, Ismitz Matthew De Alwis, the executive director and CEO of Kenanga Investors Bhd said: "There is no denying that healthcare costs are a major concern and even bigger expense for most retirees.

"But a financially successful retirement plan that includes a combination of proper health insurance coverage to provide the necessary medical attention when one gets sick and additional provision for long-term care will definitely set you on a correct path to a solid retirement plan."

Having said this, to avoid possibilities of having to pay high medical bills in the future, it is ideal to go for regular medical check-ups and try to lead a fully healthy lifestyle, because healthy is inexpensive.

Furthermore, the healthier you are, the longer you can work, thus the more income you can generate for your retirement savings.

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So, play your cards right, take charge of your health and retirement planning, and you won't have to worry about breaking the bank.

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http://www.malaysiandigest.com/frontpage/282-main-tile/585044-50-retirees-exhausted-their-savings-within-five-years-of-retirement-how-can-you-avoid-this.html