Kenanga Investors

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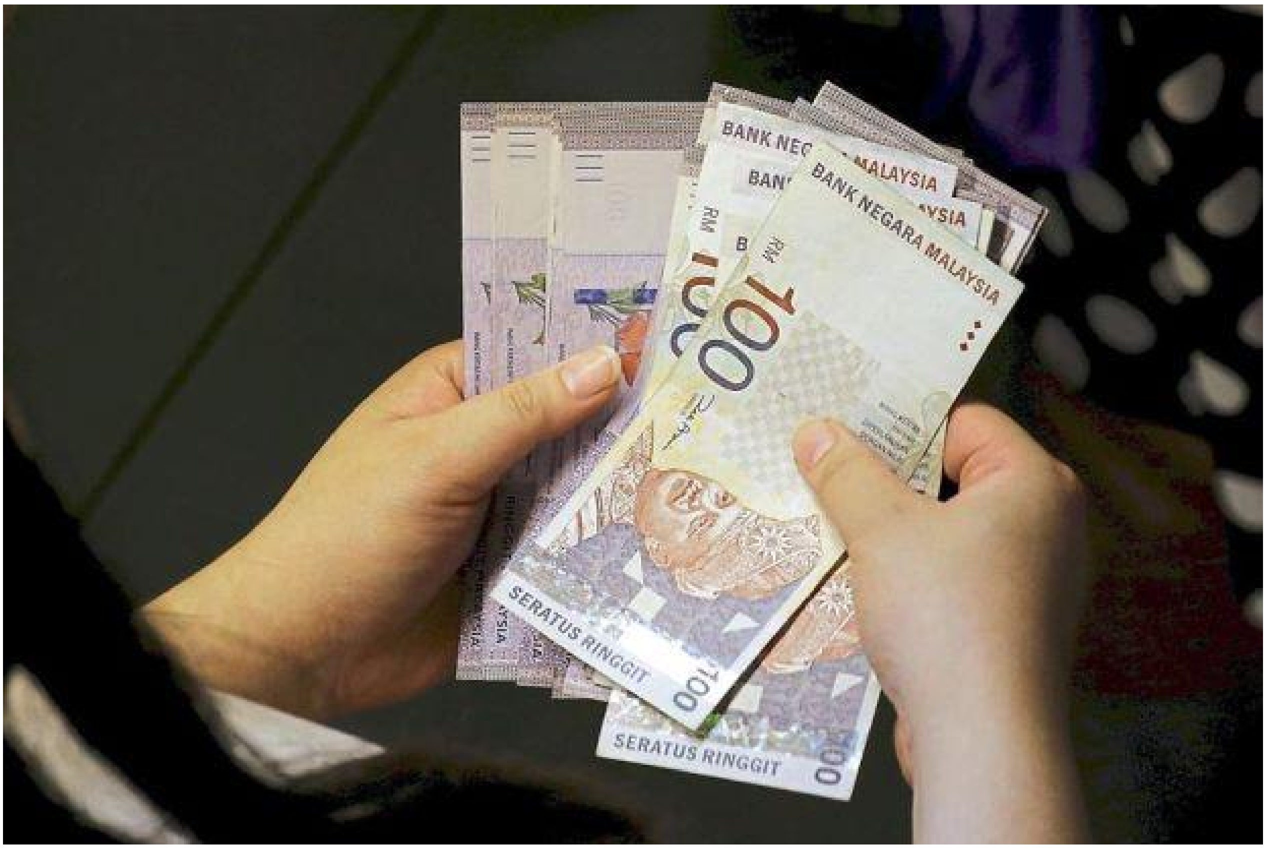
Sustainable retirement income

The Star (12 December 2015)
The Star Online – Business News (12 December 2015)
3age.com.my – Finance (9 December 2015)

By: Ismitz Matthew De Alwis



Retirement savings: Long-term money which is invested in the capital markets to capture earnings and growth opportunities and a cash reserve should be considered for retirement savings. – Reuters

Do you know that retirement planning is not just about accumulating a sizeable nest egg to pay for retirement living expenses?

It is also about managing the accumulated funds during your retirement years in order to provide further retirement income, so that your nest egg continues to grow even at retirement.

When we are working, a salary is what we depend on to pay for living expenses. To a large extent, the salary we earn buys us a certain standard of living. So, in the same sense, would it be accurate to say that how much we saved for retirement provides a bearing to the standard of retirement we will live?

Rightly so, but it also depends on how you spend and manage your nest egg.

Don’t outlive your retirement savings

If not careful, one might treat your retirement savings as a windfall. If you withdraw your funds too quickly, this will result in you outliving your savings. Meaning, your money will run out before you pass on. Indeed this is a big concern and a major challenge many retirees face.

When it comes to retirement savings, don’t just consider your retirement assets as money to be spent in retirement. Instead, consider the money to be a monthly pay cheque generator and spend no more than this pay cheque. By creating a regular stream of income from your savings, this will allow you to keep the rest of savings invested for retirement income. This is similar to water in a well. While water is drawn out for use, rain water will help to replenish water that is drawn out. This will ensure water in the well will not run dry.

Retirement income generating strategies

I hope that Malaysians are setting aside supplementary retirement savings to complement your EPF’s mandatory retirement savings. The supplementary savings can be in a form of Private Retirement Schemes (PRS), unit trusts or stocks, just to name a few. You can combine your EPF savings with your supplementary retirement savings to create a long-lasting stream of income. There are several strategies to doing so but methods listed below apply mostly in the Malaysian context.

Spending investment income

Invest your nest egg in a broad range of assets that can provide not just current income but capital growth as well. That way, you can then get the retirement spending money you need not just from interest and dividend payments, but also by periodically selling shares from your investment holdings. While this method provides a low amount of retirement income, this strategy has a high chance of making your money last with easy access to your savings.

Typically, the recommended balanced portfolio of 50% stocks and 50% bonds may be reasonable for many retirees, but it may be too aggressive or conservative for others.

Historically, a balanced portfolio between stocks and bonds will garner annual income within the range of 2% to 3% of your account balance. However, this may seem low for some. So, to get a sense of what mix of stocks and bonds you will be comfortable with and your risk/return appetite, do speak to an investment professional to fill out the suitability assessment form.

Spending principal cautiously

One of the strategies to ensure nest egg is long-lasting is using the 4% retirement withdrawal method. How does it work? The first year of retirement, you withdraw 4% of your total retirement savings. Then increase the amount by adjusting the inflation rate annually to maintain your purchasing power.

For example, if you have a combined RM1,000,000 in your retirement accounts, you would withdraw RM40,000 for the first year of retirement. If inflation is running at 2%, you would increase RM40,000 to RM40,800 the next year, RM41,600 the following year, and so on.

If you own a broadly diversified mix of investments, the interest and dividends garnered will return some investment income back to your portfolio. By following this systematic withdrawal plan, there is a relatively high chance that your savings will last at least 30 years. This method works best if you need more income than just interest and dividends, and maximising your retirement income is important.

However, be flexible. If a sharp market drop reduces value of your portfolio significant that year, tighten your belt by omitting the inflation adjustment.

Create a cash reserve

Deriving income from your retirement savings is a process of gradually transferring money from your long-term investments to a short-term spending account. You can move the amount you expect to need for 12 months into fixed deposits. That way you won't have to worry about market swings affecting your immediate spending needs. Think of retirement savings as divided into two broad categories:

Long-term money, which remains invested in the capital markets (stocks, bonds, unit trusts, PRS) to capture earnings and growth opportunities.

A cash reserve or your spending money for the next year which is parked in low-risk and liquid accounts like fixed deposit.

Keep in mind that there is no single "right" approach. While you have learned several ways to create a steady stream of retirement income, it is important to realise that no one method is perfect and that most retirees change their approach as their circumstances change. Because there are so many factors that you cannot control (e.g. market performance, rate of inflation and life expectancy), the more flexible you are, the more likely it is that you can maintain a lifelong stream of retirement income.

-END-

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Article Source: ***The Star***

ISMITZ MATTHEW DE ALWIS
comment

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> FROM PREVIOUS PAGE

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Article Source: ***The Star Online Business News***
http://www.thestar.com.my/business/business-news/2015/12/12/sustainable-retirement-income/?style=biz

Business News

Saturday, 12 December 2015

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BY ISMITZ MATTHEW DE ALWIS

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TAGS / KEYWORDS:
Business, retirement, planning, investment

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Also featured in ***3Age Portal***

http://3age.com.my/2015/10/29/what-to-invest-in-for-your-retirement/

FINANCES MONEY DECEMBER 9, 2015

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