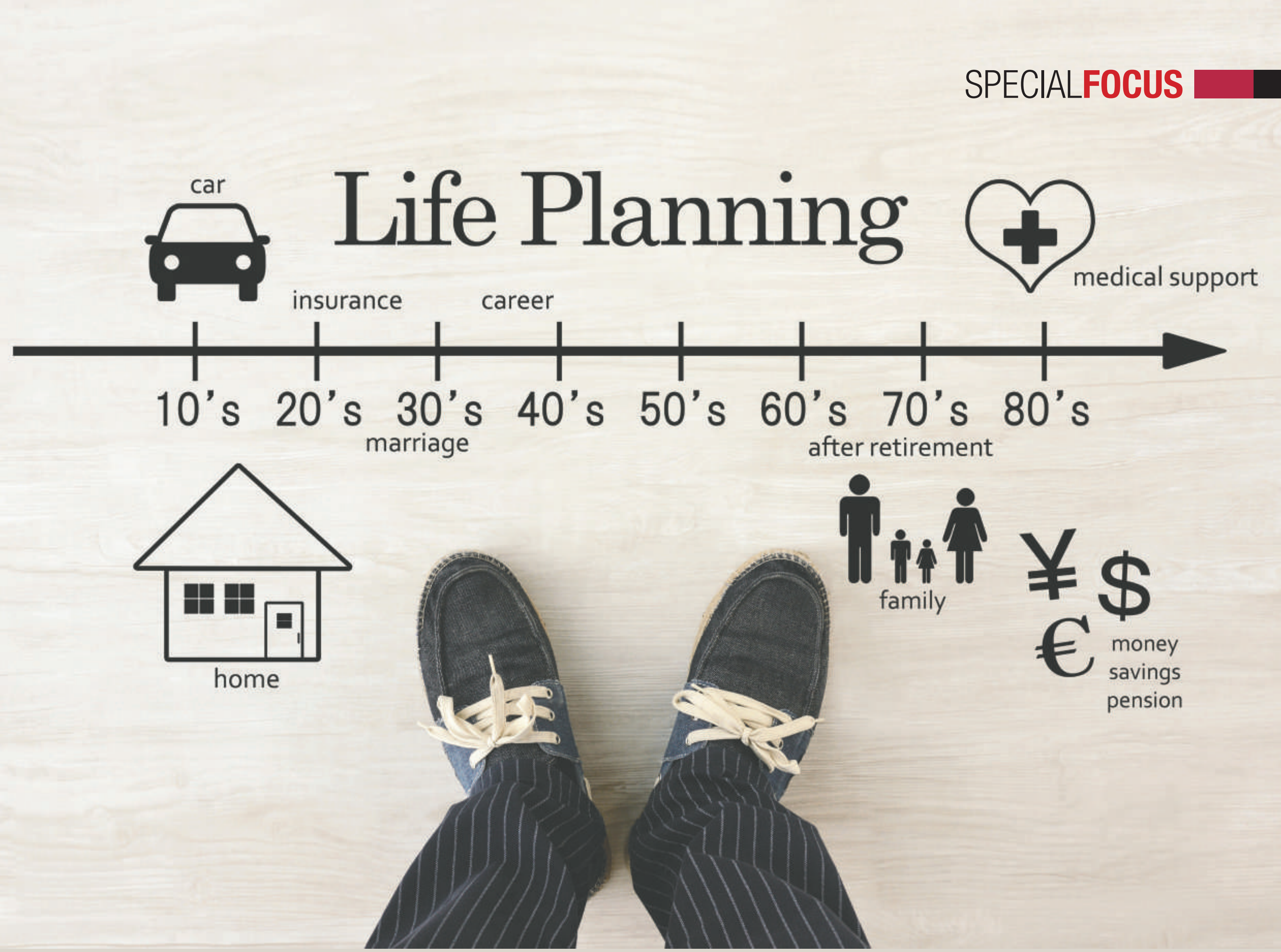

WHAT TO DO WHEN YOUR RETIREMENT FUNDS ARE INSUFFICIENT

Malaysians are facing challenges saving for their retirement, so what can be done about it?

By **Bernie Yeo**

Most working-age Malaysians have certain ideas of how they want to live their retirement years, but more often than not, the stark reality of retirement paints a picture that is far from rosy.

Challenges such as the lack of adequate savings and rising medical costs are knocking well-made retirement plans off kilter, and thus reducing the value of one's nest egg. Throw the Covid-19 pandemic into the fray and Malaysians are suddenly discovering that their retirement funds are insufficient.

For context, according to Employees' Provident Fund (EPF), current EPF savings for most Malaysians are barely enough for a decent life after retirement. In fact, statistics indicate that 70% of Malaysians outlive their retirement savings – those who withdrew their funds at age 55 use up their savings less than a decade after retiring.

Equally troubling is the fact that more than two-thirds (68%) of EPF members aged 54 had less than RM50,000 in EPF savings, and with the household poverty line income at RM930 monthly, the RM50,000 in savings will only last approximately 4½ years. The bottom fifth of EPF members, meanwhile, have average savings of only RM6,909.

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DOING THE MATH FOR YOUR GOLDEN YEARS

Q If you are a young adult today (say, in your late 20s or early 30s) and taking into account the fluctuating global markets, how much would you need to retire comfortably?

Private Pension Administrator Malaysia CEO Husaini Hussin: How much one needs for retirement will depend on their current lifestyle. Studies have indicated that we will need 2/3 of our last drawn salary as replacement income to maintain our current lifestyle in retirement.

This is because work-related expenses such as commuting would no longer be incurred and long-term loans such as mortgages would most likely have been settled. In order to achieve this, we should aim to save 1/3 of our salary today.

The good news is, if you are currently employed, you are probably already contributing 11% of your salary into a mandatory scheme each month. Your employer also contributes at least a further 12%, which brings the total contribution to 23%.

Therefore, you just need to top up an additional 10% to achieve the 1/3 minimum. I say 'minimum' because one should first aim for 10%, and then plan to save more as our earnings increase.

As the amount each person needs for retirement differs, we have created a retirement calculator on PPA's website for those interested to simulate different projections and scenarios. You can use it as a guide to design an accumulation plan to reach your retirement savings goal.

This begs the question: is having insufficient retirement funds beyond one's control given the worsening global crisis, or could this be due to poor financial management?

Managing priorities and habits

Retirement planning can be daunting, but the beauty of the process is that it allows you to think about your retirement goals, how long you have to meet them, and most importantly, it allows you to work out how much you would need to comfortably enjoy your golden years.

"Retirement planning can be planned, but at the end of the day, it all comes down to one's priorities and habits," opines Harveston Wealth Management financial adviser Annie Hor.

"If you are in your 50s and have nothing prepared for retirement, you are in a lot of trouble. You may not be able to stop working immediately and would need to start relooking at your expenses and trim as much as possible while saving most of your nett income," she says.

Hor goes on to share that she once advised a client in his late 50s to immediately cut back on his lifestyle and spend no more than half of his income.

"The client is single, has a house that has been paid up, and other loans. However, he has no one to depend on and has less than RM150,000 in his savings and EPF account. While he has a medical insurance, he also has a medical condition that requires regular treatment which is not covered by his medical insurance.

"At the moment, he can still claim employee benefits, but because of his age and low resources, he is unable to maximise his investments and would need to be mindful about his money management," Hor recalls.

Hor cautions that despite not being in a similar situation, one should not make the mistake of thinking that time is on his side and that he still has many more years ahead of him to plan for retirement.

"We don't have much time to plan for retirement as there will always be distractions and setbacks in life, chief among them being getting married and starting a family, worrying about your children's school fees, having to take care of your ageing parents, and even the Covid-19 pandemic," she reveals, adding the earlier one sets his retirement plan in motion, the better.

Ensuring you have medical insurance is the basic foundation of financial planning. If you do not have one, falling ill can potentially affect your wealth, she adds.

"Medical insurance can secure your coverage for today and for the future. This is because when you are much older and possibly less healthy, it would be difficult to get adequate insurance coverage even if you are willing to pay for it."

Bridging the growing gap in one's retirement fund

While EPF does its best to support one's post-retirement life, simply relying on it alone is not enough, as indicated in the revision of the minimum savings target in 2017, which saw the EPF raising the minimum savings target by age 55 from RM196,800 to RM228,000.

Suffice to say, active contribution to one's EPF account alone may be insufficient for achieving one's retirement goals, and Malaysians would need to explore other

HANDY TIPS FOR RETIREMENT PLANNING

When it comes to ensuring sufficient retirement funds, good financial planning is paramount. Harveston Wealth Management financial adviser Annie Hor shares some important tips on saving and investing for one's retirement.

1. Never underestimate the importance of having your own personal medical insurance. That way, in the event of a medical emergency, you can rest assured knowing that you can file a claim with the insurance company rather than tapping into your retirement funds;

2. It is not too early to plan for your retirement. You can always start early, and even if you do not have children, you can always start investing early for your children's education. The sooner that you start, the better;

3. Take a bit of risk when it comes to retirement planning. You need to look at investing to grow your monies to beat inflation and not depend only on your savings to retire. Have a licensed financial adviser review your investments and help make sure that your investments grow according to your desired returns;

4. If your resources are limited, do not try to look at settling your mortgage and car loans and forgo investing. You might be asset rich but cash poor when you retire.

5. Always make sure that your children's education plan and your retirement planning are done separately. If you do not plan for your children's education, you might end up using your EPF to fund your children's education. If you cannot afford to do both education and retirement planning, remember that you can borrow money for education but not for retirement so make a wise decision.

Annie Hor

avenues to give their nest eggs a boost. And a useful tool that one can consider is private retirement schemes (PRS).

"PRS was introduced especially for Malaysians to save for their retirement in a structured and regulated scheme. It complements the mandatory contribution scheme to bridge the retirement savings gap.

"If you are self-employed and do not contribute into a mandatory scheme, PRS is a great avenue to start building your savings as it provides diversification into various asset classes in multiple regions to grow your retirement nest," Private Pension Administrator (PPA) Malaysia CEO Husaini Hussin tells *Smart Investor*.

According to PPA's survey last year, 67% of the respondents want to save more for their retirement.

"However, as we go about our

If you are self-employed and do not contribute into a mandatory scheme, PRS is a great avenue to start building your savings as it provides diversification into various asset classes in multiple regions to grow your retirement nest.

lives balancing various commitments, perhaps at one point it became inconvenient to find the time to set up an account. Or maybe we procrastinated a little in another instance and forgot to follow up later on. One way or another, this intention of wanting to save did not translate into action."

As such, with the PRS Online service developed by PPA, the user experience of opening a PRS account is now made easy, convenient and secure. A seamless process, Husaini stresses, will be one less barrier for Malaysians to enrol and continually top up their PRS accounts.

"It is never too late to start. In fact, the government encourages you to save with a PRS Tax Relief of up to RM3,000 each year. This means that when you start saving in PRS, not only are you saving for your future, you also get to enjoy immediate benefits through the tax incentive.

"For example, if your tax bracket is 24%, then just by setting aside RM250 per month into your PRS account each month for one year will earn you a tax savings of RM720."

Husaini Hussin

"Reinvesting the tax savings on a yearly basis will further compound the growth of your retirement fund," he explains.

Husaini urges those who just entered the workforce should start saving too. "It's a myth when people tell you that it's too early to plan for retirement. Young Malaysians aged 30 and below get to enjoy 0% sales charge when they enrol for a PRS account with PPA's PRS Online service.

"Get into the habit of setting aside a fixed sum into a retirement fund each month as saving regularly is more important than how much you actually put away, because even small amounts add up over time," he advises.

Weathering unexpected setbacks

Unexpected setbacks like the Covid-19 pandemic are oftentimes inevitable and can put a glitch in one's retirement plans, and temporary as they are, they can negatively affect your existing retirement plans.

"You may need to tap into your savings meant for retirement in such situations, but if you have done proper planning, your retirement planning is in fact not even your savings. You should have emergency funds at hand to weather these unexpected setbacks, and this will ensure that your retirement planning will still be untouched and intact," Harveston Wealth Management's Hor explains.

While the pandemic is unavoidable, she believes the situation can be rectified with proper planning. "Make sure that you have sufficient emergency funds to last you about three to six months should something like this happen again.

"On top of that, review your household expenses and try to use less than what you are currently earning. If you keep your lifestyle just within your average means and do not maximise your borrowings, you would have less to be worried about," Hor suggests.

On what Malaysians can do if their retirement funds are insufficient, here's her advice: "First, find out what kind of retirement you would like to have. Then, look at your current resources and identify which basket of assets is meant for your retirement. Your next step is to identify the shortfalls and gaps, and ways that you can fulfil these realistically."

"Start trimming down unnecessary wants and expenses and start investing for the future. You don't only work to spend today. You work to spend today and save – or invest – for tomorrow." SI