Take the right steps now

By RACHEL PUNITHA

LIVING off your savings without an income can be a very frightening notion, spurring some to work even harder to earn money.

The reality does not get any better when you are finally retired and your ability to earn a living has decreased significantly.

Life expectancy in Malaysia now stands at 74.75 – a good 15 years post-retirement, which is pinned at 60.

It is hard from this side of the equation to fully grasp how long the retirement years will actually be, more so in this day and age where we are living significantly longer. In the 1950s, life expectancy stood at 54.8 for Malaysians and a mere 38.3 for neighbouring Indonesia.

Needless to say, retirement years were not very long then and the concept of retirement as it stands has crept up on us. In fact, life expectancy in many parts of the world stands in the 80s.

As much as a longer lifespan is something to be thankful for, are we preparing wisely for reduced or no income, whether it is by living off our savings, cashing in on bonds or redirecting our investments? Whatever the scenario, decisions pertaining to them need to be made today.

Depending on your age, retirement could be within your immediate or near future. Here we look at some of the areas that you need to address in preparation for your retirement.

Less than 15 years away (45 years old and above)

Investments and the Employees Provident Fund (EPF)

For private and non-pensionable public sector employees, EPF is the mandatory savings for retirement and typically the funds that many rely on for retirement.

However, because EPF provides many options to lessen the financial burdens of their members, including housing, education and soon-to-be available health withdrawals, there is the possibility that having exhausted all these options, your EPF balance may not be as healthy as you hope it to be when you reach 60.

Therefore, now that retirement is less than 15 years away for you, be wise as to how you use your EPF funds.

An option would be to talk to EPF on withdrawals and your options or speak to a professional about managing your funds.

Bryan Zeng, general manager and licensed financial planner of FA Advisory Sdn Bhd and a certified member of The Financial Planning Association of Malaysia, strongly advises against spending EPF money.

He recommends employees discuss with their employer the possibility of increasing the employer's contribution rate in place of a salary increment.

This way, you will be saving more towards your retirement without incurring higher taxes.

There are also ways for investments to be made with your EPF funds and for the interests to be chanelled back into your retirement accounts.

Therefore, seek expert advice to ensure your funds are worked to achieve their full potential.

Family support

Family is an invaluable asset that can be tapped into. If you have a spouse, look at how you can stagger your retirements so that your family will not suffer the loss of a double income within a short period of time.

Moreover, you can supplement your income with part-time and casual work. The trick at this stage would be to create as much cash flow as possible that can be saved or reinvested.

It would also be a good idea at this point to enlist your children's help. Would they be able to commit to a monthly contribution or be open to caring for you under the same roof when you retire? Retirement is a family matter and should be addressed together.

The value of homes

More than just a roof over your head, your home is where a large part of your expenses would go to even after retirement, especially if your house loan is still being paid off.

An option to consider is to trade in your current home for something easier to maintain that comes with just the necessary security and facilities.

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According to this year's retirement index by *International Living*, Malaysia is in the list of the top 10 best countries to retire, alongside Panama, Ecuador, Mexico, Spain and Portugal, scoring high on entertainment, amenities, healthcare and buying and renting.

Another option to consider is retirement villages such as GreenAcres by TI Homes in Ipoh, which are aimed at improving the quality of life for seniors.

They meet the changing needs of the elderly, enrich lives and renew vigour within a specially designed environment.

Covered for healthcare

The Health Ministry reports that the average individual spending on health in 1997 was at RM629.

This figure rose steadily and in 2012, average per capita spending on health stood at RM1,433.

Moreover, out of the RM42,309mil that was spent on healthcare in 2012, 37% was out of pocket – this includes both public and private sectors.

Out of the RM19,795mil that was spent in 2012 for private healthcare, a whopping 79% was out of pocket.

Ensure that you are well-covered in terms of medical insurance with necessary protection for your age and specialists you would need.

The best way to prepare for an impending expenditure on healthcare is to make small but significant lifestyle changes.

Zeng suggests maintaining a healthy lifestyle and eating well, which can reduce the number of hospital trips or intensity of medical care later on.

"Don't rob yourselves of a meaningful, healthy retirement."

Redefining retirement

As a progressive result of longer lifespans, more people are able to actively contribute financially after the official retirement age of 60.

This inadvertently increases your ability to save more, allowing more time for your funds to generate returns and delaying the depletion of your resources.

So ask yourself these questions: Do you want to work in your retirement years? If yes, then in what capacity? Would you like to be doing full-time or part-time work or engage in casual or contractual work?

Retirement does not mean isolation – consider the options that will bring you fulfilment without depleting your finances.

Society can still benefit from your skills and decades of working experience. If money is going to be an issue, ask yourself how you can exercise, travel or even purchase things economically.

Depending on your actions, these 15 years can be the best investment for your retirement years or a downhill road to not-so-golden years – each moment counts.

More than 15 years away (45 years old and below)

Investments: Sow now, reap later

The biggest issue with having a long way to retirement is being nonchalant about it, causing many to believe that "Once I have a million dollars, I can retire" or "I just have to buy and sell my first property" or "I'll wait until my bonus/big pay-out/project starts raking in before doing investments".

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Ready, set, grow

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Regardless of your age, now is always the best time to start planning for your retirement.

Rather than focusing on the big prize, we should direct our effort and thoughts towards the small steps that take us there such as putting aside a little bit of money now to invest. You do not have to wait until you reach a grand amount of money before choosing to invest. Many investment schemes such as the private retirement schemes (PRS) can start from as low as RM50 per month.

There are eight licensed PRS providers in Malaysia and they do syariah schemes as well.

These PRS providers are Affin Hwang Asset Management Bhd, AIA Pension and Asset Management Sdn Bhd, AmFunds Management Bhd (AmInvest), CIMB-Principal Asset Management Bhd (CIMB-Principal), Kenanga Investors Bhd (KIB), Manulife Asset Management Services Bhd (MAMSB), Public Mutual Bhd and RHB Asset Management Sdn Bhd.

In terms of EPF, there is an option for you to set aside a certain portion from your Account 1 to be put towards investment.

Any dividend earned is put back into your Account 1. This way, even your EPF money is being put to work.

This is the age where you can afford to take bigger risks with your money, something you will not be able to do once you are much closer to your retirement. Seek professional help to assess your finances and figure out your next move.

Become debt-free

Reduce your debt as much as possible and as quickly as possible, starting with debts that have higher interest rates.

"Ideally you should retire debt-free, but in the current low-interest rate environment, you can plan to have some low-interest debts in the early years of your retirement provided you have post-retirement income to pay off the monthly debt repayment," says Zeng.

"However you go about it, it should be about minimising risks and maximising returns."

Make it a family thing

Try to coordinate your children's tertiary study years and their income-contributing years to tie in with your retirement plan.

If non-ideal circumstances are inevitable (meaning, you still need to provide education for your children even at retirement age), delay your retirement to give time for your children to become established in their careers.

It is best to lay the groundwork now by talking to your children about your expectations – Do you expect them to take care of you and live together once you are retired?

Aim to make collective decisions that everyone can agree on and ensure all situations are accounted for. For example, if you wish to send your children overseas, you can request for them to contribute towards your retirement when the time comes.

Another family-related option is for a spouse to run his or her own business, which is a good option if you have enough disposable income and if you are at a good age to take the risk.

Hence, if the business plan does not work out, your backup plan would be to take up employment again.

Seek help in clarifying the state of your finances and money health as it will aid in making the right choices that will impact your retirement goals in the long run.

Property as an investment

A smart way to put your money to work is to buy a second property. An option is to invest in low-cost units where rental rates are high.

Urbanites used to fancy living may avoid them, but they can prove to be an effective cash-generating tool.

Moreover, it can typically be sold off at a much higher price if market conditions are favourable, providing you with a large sum to invest elsewhere.

And at the end of the day, it can be your backup home once you retire and want to live elsewhere.

Live the right lifestyle

Decide on things that are healthy not only for yourself but for your pocket and bank balance as well. Search for resources and ideas that will indirectly invest back into you.

Reading, volunteering, exercising or engaging in an inspiring hobby are some of the ways.

By ceasing habits that will hurt your pocket or your bank balance, you can possibly reap your rewards much sooner than you think.

Plus, these renewed habits and healthy balance will tremendously enhance your retirement years.

Retirement is not a national or state matter – it is a personal journey, not to be shelved or handled carelessly care.

No matter what age you are at, there is always something that can be done. Take a good look at your finances, consider your retirement goals and weigh your commitments.

Your retirement goal does not have to remain a dream, whether it is living in a foreign land or working on your passion in life.

You alone have the power to create the retirement life you will truly value, as long as you begin now.

Capitalising on youth

SINCE young people everywhere are increasingly changing the way things are done, why not apply some creative steps in raising money for your nest egg?

Here are a few ways you can do this:

● **Transform** – You may be familiar with insurance for your car, health and travels, but did you know there are insurance plans that involve investments or that there are also endowment plans with an element of insurance? These can be especially useful in growing your worth, especially if you are young.

Investment-linked insurance plans that combine protection and investment elements can help you build a solid fund if you start in your 20s.

This is how it works: part of your premium payment will be channelled into specific investment funds and you will have control over the type of funds that suits your risk appetite.

If you are just beginning to build your nest egg, you would most probably opt for a monthly or quarterly premium plan. You may increase your premiums and coverage as you earn more and stabilise your finances.

Benefits of investment-linked plans include a cheap entry cost from as low as RM100 monthly; an all-in-one starter pack plan that covers investment, death, disability and possibly hospitalisation (depending on what riders are added); professionally managed funds that make it possible for the inexperienced to invest, tax benefit on the insurance part of the policy, and the opportunity to withdraw funds after some time without compromising the insurance.

Endowment plans are fixed term savings/investment plans that pay out a lump sum or certain amounts after a specific term.

They typically mature over 10 to 30 years, and therefore, are great for those in their early 20s.

Advantages of endowment plans include a low risk as it does not follow stock market fluctuations, forced savings as you are required to pay premiums for a certain amount of years and tax-free returns when withdrawn.

Research the insurance company's offerings and track record before you commit.

● **Collect** – Certain collectibles have the potential to appreciate in value over the years, creating a small fortune for owners with patience and foresight.

Classic cars, fine art, antique furniture and rare coins are among the most valuable luxury collectibles in the world, but these items are rather exclusive to wealthy individuals or those who inherit family heirlooms.

Sports memorabilia, game cards or comic books, however, are some more common options that could become more precious as they age.

Take the case of Jonathan Ross, a BBC reporter who in 2009 auctioned an original copy of *The Amazing Spider-Man* for British charity Comic Relief at £40,000 (RM209,098 at current exchange rate). He spent a year tracking down the comic, which cost 12 cents when it was released in 1962.

If you play your cards right, items that hold personal nostalgic value can double as long-term investments.

In order to reap benefits from your collections, though, you must know your items well to be able to eliminate imitations and ascertain those that have high potential for value appreciation.

Some items reach their peak value before others, so you must give your collection up at the right time.

● **Create** – Your ideas are valuable, so why not make your passion work for you? Whether it is making art, music, apparel or food, your creations can be marketed on any scale you are comfortable with, thanks to the reach of social media sites and online stores such as *etsy.com*.

If you write well or take good photographs, you can create a profile of your work on websites such as *clippings.me* or *behance.net*. These tools make it feasible for creative professionals to showcase their products and attract customers.

By cashing in on your trade or even hobby, you will be able to create a supplementary source of income and this money can be put away for your future or for further investment.