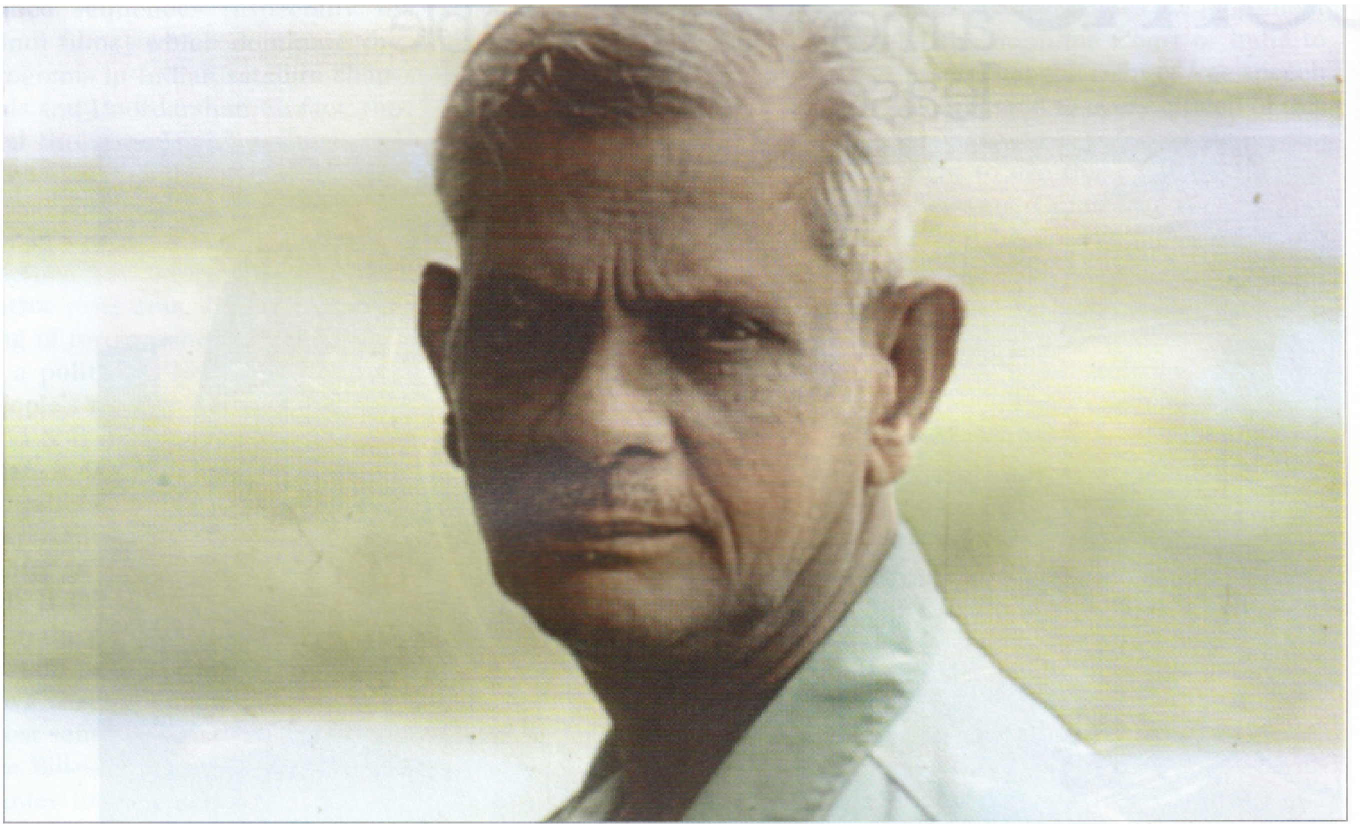
Work Hard Play Hard



Planning Your Retirement

We live longer, we enjoy better health and the dynamism of our economies allows us to retire from the cut and thrust of the main stream before we're completely burnt out. So when we stop working hard, we want to play hard instead.

So what are you going to do about it? The nuclear family isn't what it used to be. Mimi Ho, assistant general manager at Prudential Assurance in Singapore says, 'more and more people realize that they can no longer depend upon 58 BUSINESS TODAY June 1997 their children and they have to be self-sufficient during their retirement years."

That means becoming retirement-conscious early in your working life, starting to consider parking your money in places where it's going to work for you without you having to do all the work. In Europe and the United States, people think about providing for their retirement lifestyle very early. Ho says this isn’t yet the case in Asia. It’s still hard to get people in their twenties and thirties to think about retirement, she says, rather it usually becomes a burning issue around the 40 mark. The longer you leave it, the harder your cash is going to have to work for you, whereas a little. money invested early and consistently can go a long way.

A Question Of Mathematics

The first step to achieving an intelligent retirement investment strategy is to start calculating how much you’re going to need. The general rule of thumb is that you’ll need between 70% and 80% of what you’re spending before you retire. As well as having an idea of how much your day-to-day bills are likely to be, how much your health card could cost and any other domestic considerations like children and so forth, you need to know what sort of retirement goals you want to achieve. You may want to take advantage of all those golf courses mushrooming around the region, you may have ambitious travel plans, you may want to bask in the sun at the plethora of beach resorts under construction or just hang out at a second home in Malaysia or Australia.

Alan Harden, head of investment services, Group Personal Banking at Standard Chartered in Singapore warns of a further trend within post-working Asia. Like their counterparts in Europe and the United States, Asian retirees are increasingly opting to fulfill a second career beyond the professional mainstream. So if you’re bent on becoming an entrepreneur in your later years, you better start thinking about that too, because start-up costs may take a big chunk out of your retirement nest egg.

If The Cap Fits

If you can’t make head or tail of the mathematics yourself, there are financial planners all over the region, willing to tailor a retirement plan for you based on your projected needs and also based on your appetite for risk. If your financial advisor promises you massive returns on your investments, then be sure the risk is massive too. Investment strategies can be classified A to D, with A representing the lowest risk and D the highest risk. Harden says that like anywhere else, most Asian investors fall into the B and C compartments.

Risk-free Retirement

If the mere whisper of the word risk makes you jittery, relax, there’s always the government pension scheme. Although public benefits are currently being dismantled in the West at a remark- able speed, Asia is busy constructing and consolidating them, with Singapore at the forefront. The island state plays proud host to the granddaddy of all government pension schemes, the Central Provident Fund, or CPF, one of the best funded pension and social security schemes in the world. Singapore is quietly sitting on a massive cash pile of some US$40 billion. Singaporeans stash up to 40% of their income into the mandatory scheme. The CPF system is so impressive that Tony Blair, Britain's new Prime Minister, was recently prompted to import his social security secretary into Singapore to take a closer look. Else- where in Asia, Malaysia has the Employees Provident Fund and Hong Kong is preparing for its own Mandatory Provident Fund to start in 1997.

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But government schemes do not have a reputation for providing you with the resources to scale the heights in retirement. Indeed, in many places in the West, it's a passport to an existence only marginally above poverty level. Even in Singapore, Harden recognizes a danger that people may be over-reliant on the CPF. And he suggests that high- end earners may proportionally be getting short-changed.

If you're the cautious type, you may also want to subscribe to the company pension scheme. It's widespread in the West and ready for doing the rounds in Asia. Hong Kong and Taiwan already have corporate pension coverage. If other Asian economies bring in tax benefits for employers, coverage at the corporate level will become increasingly popular. Company pensions can be sizable, but that's often dependent on sticking it out in the same job. If you're prone to moving employer, your company pension is likely to nose-dive.

And if you want to supplement both or either of those options, there's always the trusty savings account.

Now whilst you'll end up with something to fall back on when you finally clear out your office, you'll never be rich if you play your cards that carefully, leaving your cash to languish in low-yield, fixed income accounts.

Risk Is The Spice Of Life. Ode To Diversity

There is such a thing as play- ing it too safe. Government pen- sions, company pensions, savings, the conservative choices. Who's to say they'll even be able to beat off the enemy inflation when push comes to shove. The sophistication begins when you start to investigate the possibilities of embracing an element of risk. Forget blue chip stocks, insurance policies or money market accounts. If you want high returns, then you better start thinking about mutual funds.

Mutual funds or unit trusts are for the fearless. If you want to be kept on your toes, spread your investment money around, hit the international markets and possibly rake in huge returns, then mutual funds are for you. Analysts unite in praise of the mutual fund. They

all say it's the way for the investor with the ambitious retirement plan to go. Mutual funds are just a bit slow taking off in Asia and fund managers are busy trying to highlight the huge potential of their products. Peter Douglas, business development manager at Abtrust Fund Managers in Singapore says 'unit trusts are not yet seen as a retirement vehicle, they're not seen as a nest egg, just as a convenient way to access the stock market."

In the United States, mutual funds are big business, some 40% of all households have mutual funds. That compares with a 2-3% penetration in Asia. Mutual funds are not available in all parts of Asia. Countries like the Philippines and Indonesia haven’t yet thought of collective investment, while places like Singapore and Malaysia do market mutual funds, although it’s difficult to do other forms of collective investment such as closed-end funds or umbrella funds.

Morgan Stanley is one party betting that people will become more adventurous and turn increasingly to mutual funds with their spare cash. Morgan Stanley recently signed a preliminary deal with a Malaysian cooperative, Koperasi Polis DiRaja Malaysia Berhad, to set up a fund management unit in Kuala Lumpur. Contributors to the EPF scheme have been given the go-ahead to withdraw a maximum of 20% of their retirement account savings exceeding RM50,000 to invest in financial markets, all part of Malaysia’s plan to kick-start its fund management industry. Similarly, in Singapore, the government is busy relaxing the guidelines for CPF contributors in order to give investors more responsibility for their own investment environment.

A retirement plan doesn’t have to be a risky business. Handled right, it can be tailor made to fit the needs of both the faint of heart and the fearless. But a retirement plan must be an integral part of your working life.