

Retirement Planning

With the inflation rate currently at 7.6 per cent, rising food prices and the general cost of living increasing, the question of saving for retirement seems to be a formidable one nowadays. Personal savings, let alone savings for retirement, have not kept pace with the growth seen in incomes. It is very important however, that you start planning and saving for your retirement as soon as possible. Time is a crucial factor in amassing wealth through the power of compounding and so the sooner you implement your retirement plan the easier it would be to meet your retirement goals. Use this information to your advantage by starting to put away a small sum of money on a regular basis today.

Consider the following scenario: If at age 25 you start saving for your retirement by putting aside \$3,000 a year for 35 years, you would have accumulated around \$446,000, assuming a 7 per cent annual rate of return. However, if you wait until you are 35 to start saving the same \$3,000 a year, at a rate of return of 7 per cent per annum you would have approximately \$206,000 at a retirement age of 60. By putting off your saving for ten years, you would have lost out on accumulating more than half of the money. That is the power of compounding! (See Table 1)

Table 1

Accumulated value of investment at age 60 assuming a 7% annual return					
Age	Yearly Contribution				
	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000
25	297,827	446,740	595,654	744,567	893,481
35	137,353	206,029	274,706	343,382	412,059
45	55,776	83,664	111,552	139,440	167,328
55	14,307	21,460	28,613	35,766	42,920

So the question arises, how much income do you need to save and invest for your retirement?

Before you can start planning, you have to first ask yourself at what age you would like to retire and then determine your post-retirement income. In other words, how much will you need in retirement to at least maintain the same standard of living. In arriving at this amount also take into account if you will have any dependents to support? Do you plan on traveling? Do you have enough to cover any medical expenses that may arise? Many of us will require at least seventy per cent of our pre-retirement income in order to sustain our current standard of living. Based on 2005 statistics taken from the World Health Organization (WHO) the life expectancy at birth for males in Trinidad and Tobago (compared with other countries in the WHO Region of the Americas) was 67 years and 74 years for females. So assuming a retirement age of 60, this means that you will need to ensure that you have sufficient income to cover at least a ten to fifteen year period.

Once this dollar amount is established, you also have to consider other factors. These include the time horizon you have available before retirement, how much risk you are willing to take, and how much you can realistically afford to save. Also bear in mind the cost of inflation which can erode the purchasing power of your savings over time. In order to preserve the value of your retirement fund in the years to come, the funds must be invested in financial instruments that provide a rate of return that is greater than the rate of inflation. Table 2 below shows how much you will need to save each month at various years before retirement, in order to accumulate a \$1 million retirement nest. These calculations assume a 7 per cent annual return on your investment.

Table 2

Number of Years Left Until Retirement	Monthly Amount Required to Save (to achieve \$1M goal)
35	\$555.23
30	\$819.69
25	\$1,234.46
20	\$1,919.66
15	\$3,154.95
10	\$5,777.51

How can you accumulate this income?

Once you have estimated your post-retirement income, the next step is to develop an appropriate asset allocation strategy based on your risk tolerance and time horizon. In a nutshell, asset allocation is about dividing your investments up between various asset classes; equities (stocks), fixed-income (bonds) and cash equivalents (money market accounts) to match your investments with your financial goals. This can be done in consultation with an investment advisor whose expertise and guidance will help you determine the best asset allocation mix to reach your retirement goals. Keep in mind that retirement planning is not only about wealth accumulation but also about properly managing this income to sustain you in your golden years.

On the part of the Government, there is a National Insurance retirement benefit (retirement pension or retirement grant) available, which is designed to supplement the income of individuals after retirement. The retirement pension, which is payable for life, is accessible to every individual who has paid 750 or more weekly contributions. Additionally, the individual must be between the ages of 60 and 65 and retired or age 65 whether retired or not. The retirement grant, which is a lump sum payment, is obtainable to those who have made less than 750 weekly contributions, subject to a minimum sum of \$200.

Based on the 7th Actuarial Review of the National Insurance System (NIS), conducted by the International Labour Organisation, the National Insurance Board of Trinidad and Tobago has increased the minimum retirement pension from \$1,000 to \$2,000 per month effective January 1, 2008.

There is also a Senior Citizens Grant (or Old Age Pension) available to individuals age 65 and over whose monthly incomes do not exceed \$2,500. If your monthly income is \$100 or less, you will receive a monthly grant of \$1,650. If you earn a monthly income up to \$1,000, you are entitled to a grant of \$1,550 per month. For those with a monthly income in excess of \$1,000, the monthly grant will be the difference between the \$2,500 and your monthly income received.

Based on the information provided, the stark reality of carefully planning and putting provisions in place for your retirement becomes even more apparent. Pensions provided by employers are meant to supplement your retirement income, and should not be depended on as the primary source of retirement income. The same applies to the benefits received from the Government. The responsibility therefore of making financial arrangements for a successful retirement lies solely with the individual.

In conclusion, planning for your retirement is about adapting to a new lifestyle post retirement and ensuring that you have enough money to live out your golden years comfortably. Kick start your retirement planning today. Contact your investment advisor and create that portfolio that will help you be better prepared for a relaxing, worry-free and enjoyable retirement ahead.

Contribution of \$500 per month compounded monthly					
Years	6%	8%	10%	12%	14%
10	81,940	91,473	102,422	115,019	129,534
20	231,020	294,510	379,684	494,628	650,583
30	502,258	745,180	1,130,244	1,747,482	2,746,485
40	995,745	1,745,504	3,162,040	5,882,386	11,177,192
50	1,893,596	3,965,864	8,662,195	19,529,170	45,089,460

Some interesting points to consider:

- One in three (33%) persons over the age of 60 continue to work because they need additional income.
- 54% of retirees do not have an occupational or personal pension. Only 13% ever considered taking out a personal pension plan.
- Almost half of retirees (45%) report that their current household income was insufficient to give them the standard of living they hoped to have in their retirement.
- A substantial percentage of respondents (69%) are relying on government pensions (NIS/Old Age) for their retirement income.

***** Statistics taken from the Central Bank of Trinidad and Tobago survey conducted in July to August 2007**

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