

DEFINITION OF RETIREMENT PLANNING



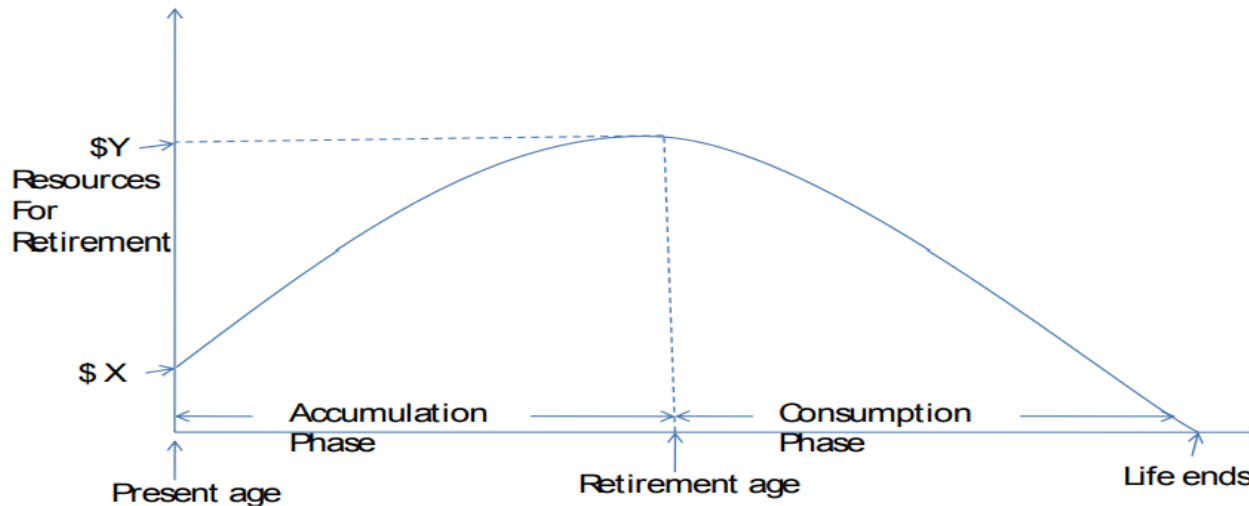
“A process of managing an individual’s financial resources, expenses and liabilities, both present and future, with the purpose of providing sufficient future periodic passive income that starts at a predetermined retirement date, for the individual and its dependents.”

PHASES IN RETIREMENT PLANNING



We have **SCARCE RESOURCES** that are available for spending and the need for the resources to spread into 2 main phases of our life.

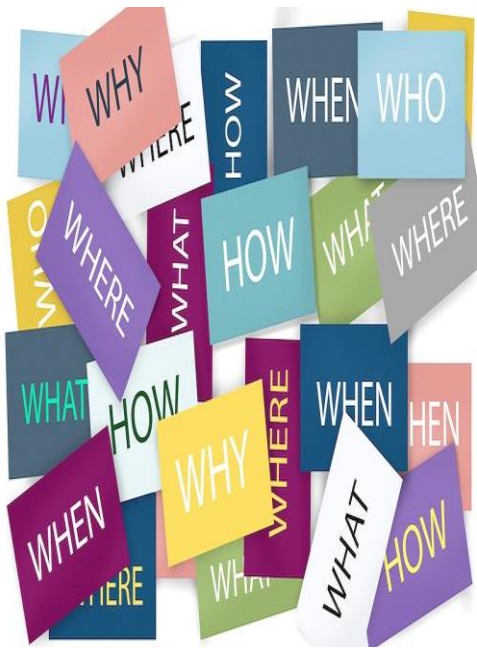
Time Line on Retirement Planning



THEORY ON RETIREMENT

MODIGLIANI AND BRUMBERG (1954) – suggests that the propensity to consume and to save are different at various stages of individuals' life where the exclusive motive for saving and wealth accumulation is to provide sufficient resources for retirement.

TOBIN MODEL - suggests that the possibility of householders incurring debt in their early working life due to study loan repayments, house purchases and other durables. This model reflects more of reality since it considers the possibility of debt occurrence among households in their early employment period.



ISSUES IN RETIREMENT PLANNING



- ❑ In general, many Malaysians do not have sufficient funds to retire, and some of the obstacles they face in creating a retirement plan are low salary, late planning, high bankruptcy rates, high household debt, and low savings.
- ❑ Medical advances and lower health risks extend retirement times of need. Inflation, unaffordable medical care, and insufficient funds to sustain the current quality of living are more likely.
- ❑ Life expectancy is expected to rise, extending retirement for Malaysians. With extended retirement lives, most Malaysians' retirement practises, which rely on savings, pensions, EPFs, and children assistance, seem outdated

RETIREMENT PLANNING



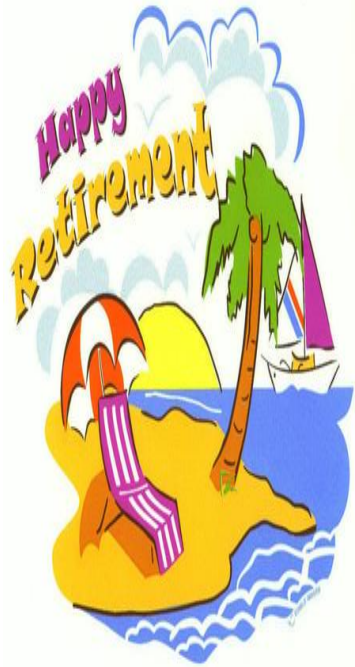
Retirement is a very *delicate process* because we do not know for certain the exact amount we need. Why? because we do not know *how long* we will live in this world and some people live *well beyond the average life expectancy*.

RETIREMENT PLANNING



But some individuals need *no retirement fund* because they *die too young*.

WHY RETIREMENT PLANNING?



- ❖ Helps individual to *adjust psychologically* to live after retirement
- ❖ *Maximize retirement fund* e.g. medical reserve, emergency fund, donation to charity
- ❖ To prepare to be *independent financially* when one is old or retires from one's job
- ❖ The responsibility of children taking care of parents becomes increasingly difficult due to the *increased cost of living*.

RETIREMENT PLANNING HAZARDS



- Underestimating *healthcare costs*
- *Misjudging* one's & spouse longevity
- *Presuming* a longer working life
- Tendency to *overspend*
- House and car *maintenance cost*
- *Economic crisis* results in an unexpected pay cut

THE RETIREMENT PLANNING PROCESS : AN OVERVIEW

Assess the future income need of a person

- Desired lifestyle of a potential retiree at retirement?
 - Simple lifestyle - smaller funds needed
 - Sophisticated lifestyle - bigger funds needed
- Identify funding sources.

How to accumulate the fund needed in the first step?

- Design and implement the plan
- Determine the retirement gap or shortfall

Ascertain how the accumulation will be consumed.

- First step - make known the period of projected benefit payment and provision for dependents.
- Mode of payment: lump sum or annuity payment



APPLYING THE 6 STEPS TO RETIREMENT PLANNING



Step 1: Establish the client-planner *relationship*

- Planner to establish a *trusting* relationship with the client.
 - *Disclosure* of planner's background, practice and testimonial of past performance. "What does the planner do and his track record"?
- To *enlighten* the client on the *duties of the planner* and achieve realistic expectations
 - To explain the *mutual responsibilities*
 - Disclosure of *planner's area of expertise* and getting assistance from other professionals when necessary
- Define the *scope of the engagement* and *sign* the engagement *letter*

APPLYING THE 6 STEPS TO RETIREMENT PLANNING

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Step 2: *Gathering* data and setting retirement *objectives*

- To obtain *information* on the client's situation: financial well-being, future needs, aspirations, goals and objectives at retirement.
- Since the client will always have limited resources, it is important to *know his priorities*.
- *Current financial health* and *available financial resources* to support his retirement plan.



READY

TO

RETIRE

APPLYING THE 6 STEPS TO RETIREMENT PLANNING

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Step 3: *Analysing* data to determine client's situation and his retirement *needs*

- Analyse the data obtained from Step 2 and determine the client's *current financial situation, retirement needs and financial resources* adequacy in meeting those needs.
- Determine and fill client's retirement needs: There are **6 stages** to determining and filling the client's retirement needs



APPLYING THE 6 STEPS TO RETIREMENT PLANNING

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Step 4: *Designing and recommending a retirement plan*

- There are *5 areas in a roadmap* towards a retirement plan. What does the client / What is the client's:
 - *want* at retirement?
 - *financial retirement resources*?
 - income amount needed to sufficiently *fund the chosen lifestyle*?
 - additional lump sum amount needed (*fund deficiency*) to fill the client's retirement needs?
 - actions from now to meet his retirement funding shortfall?



READY

TO

RETIRE

APPLYING THE 6 STEPS TO RETIREMENT PLANNING

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Step 5: *Implementing* the retirement plan

- Once the client is agreeable to the products and/or services proposed, the *implementation* responsibilities must be *clearly defined* and consistent with the engagement letter agreed upon earlier. The financial plan starts with an opening or introductory letter to the client.

Step 6: *Monitoring* performance and reviewing the retirement plan

- Depending on the scope of work agreed upon, other professionals may be engaged if the planner is not competent in the specific areas.



READY

TO

RETIRE

KEY AREAS OF CONCERN WHEN DETERMINING RETIREMENT NEEDS

Areas of Concerns



Concern # 1: How much is required annually (the 1st year income needed)?

- Replacement ratio method – Pre-retirement lifestyle indicator
- Expense ratio method – to budget retirement living expenses

Concern #2: How much is the total Retirement Capital?

- Capital Liquidation method
- Capital Conservation method

KEY AREAS OF CONCERN WHEN DETERMINING RETIREMENT NEEDS

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Concern # 3: What are the current and future resources available for retirement?

- *Identify productive assets* earmarked for retirement planning. Computation is done on a spreadsheet.
- *Non-income producing assets* or personal-use assets should be excluded from the computation.
- Income stream and assets that will be depleted before the client retires should be omitted from the computation. The construction of a *net worth statement and cash flow statement would be useful for identification.*



KEY AREAS OF CONCERN WHEN DETERMINING RETIREMENT NEEDS

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Concern # 4: What is the value at retirement of current and future resources available?

- *Project the resources* at the time of retirement using the time value of money, TVM techniques
- The total amount derived is the “*funds or resources available*” *at retirement*. Sometimes this is called the client’s retirement resources status.



KEY AREAS OF CONCERN WHEN DETERMINING RETIREMENT NEEDS

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Concern # 5: What is the lump sum retirement gap or the deficit/surplus amount.

- Lump sum “*retirement gap*”, RG or retirement deficiency is “funds needed” less “fund available” or $RG = \text{Stage 2} - \text{Stage 4}$
- The design and recommendations made in retirement funding plans are made with the lump sum retirement gap in mind.

Concern # 6: Which approach of funding (the retirement deficiency) during the pre-retirement period should be adopted.

- Annual Funding Need (AFN) approach
- Lump Sum Funding need (LSFN) approach
- Combination funding approach

REVIEWS

APPROVAL PROCESS



- **Yearly Reviews**
 - The first annual review is carried out **twelve months after the plan is implemented** and subsequently annually
 - The review is to **ensure** the **performance** of the investment and other non-investment activities are by **expectations**.
- **Impromptu Reviews**
 - These reviews are triggered by unexpected events or called by the client because he has a change of plan

Thank You

