7 Financial Sources Available During Retirement

During our working years, our salaries are partly used to cover our daily expenses. Any remainder is put into savings or invested further. Envision retirement, something that will happen to us one day. Our working career is over, yet our daily expenses still needs to be covered. We also live longer, thanks to advances in medical treatment. This means we need to pay more attention to plan for retirement when we are no longer earn a salary but expenses continue to burden us. We need financial sources to carry us through. Let's explore what these sources are.

Each person is likely to adopt a different method to save for retirement. This is a matter of preference and expertise that differs from person to person. There are many ways one can save for retirement.

@Bank Deposit

This is still a highly secure place to put your money since the government basically guarantees principal and interest. It is also a source of savings that is highly liquid, available to be withdrawn promptly. Most Thais are already familiar with bank deposits, despite some of the downsides such as a rather meager interest rate compared to other types of investments. Bank deposits are still the largest source of funding for Thais. Lertchai Kocharoenratkul, Director Corporates/Fund of Fitch Ratings pointed out that a portion of bank deposits have increasingly shifted into money market funds over the last 2 years. Prevailing rates had been rather low and money market funds are seen as a more viable place to save compared to bank deposits. There's a slight sacrifice in convenience; cash is received a day after you make a withdrawal. However, the yield is better and it's tax-free. Money market funds are also sometimes used as a temporary place to park funds, until the time arises to invest in something else." Anyone seeking to put their money in a place that safeguards principal may consider money market funds with credit ratings by Fitch.

@Life Insurance Policy with Savings or Annuity Features

This is considered another funding source for retirement that shouldn't be overlooked. Such life insurance policies gives you protection coverage plus certainty of the terminal value. For example, if you purchased a life insurance policy with a savings feature costing 200,000 Baht and you pass away while the policy remains valid, the beneficiary will receive 200,000 Baht. On the other hand, if the life insurance policy had already expired and you are still well, you will receive that 200,000 Baht back and the policy will usually pay dividends periodically during the life of the policy. Another type of policy is one with an annuity feature that pays an amount of money to policyholders periodically upon retirement or when policy matures. Khun Atchara Suthisirikul, Managing Director of Siam City Asset Management stated that she is fond of pension schemes but in Thailand, such schemes are rarely found outside of the government sector. A pension or annuity scheme provides you with income payments on a regular basis for the rest of your life. The beauty of this scheme is you do not need to manage any investment nor are you vulnerable to any external factors; payments simply come to you monthly. Note that only some life insurance products offer such pension or annuity features. Just invest a sum in this type of policy. Once the end of the policy schedule has been reached, you begin receiving annuity payments every month for the rest of your life. We don't even need to worry how long we'll live; the life insurance company will keep paying you. Some people argue that it doesn't offer good value if we don't live that long, but once we pass away, that is irrelevant. What is more important to address is that if we live a long life, our ability to manage our money may weaken. Hence, I have set aside a portion of my money into life insurance policies. Furthermore, the insurance premiums are no more than 50,000 Baht and the premiums are eligible for a tax allowance on your income tax filing. The drawback of life insurance policies is the lack of liquidity since the product involves insurance coverage and it's a long-term saving. You will be unable to switch into another investment which may offer a better return.

@Provident Fund

A provident fund is a means for employees in the private sector to conduct financial planning for retirement, where money is contributed into the fund each month. "Araya Thiragomen," Head of Provident Funds, Tisco Securities, explained that a provident fund is voluntary savings that yield considerable benefits to members because the money contributed by the employee is also accompanied by another matching sum contributed by the employer. It is like putting in one part, but actually investing twice as much; a great savings mechanism. Furthermore, Thai tax privileges for provident funds are considered one of the most generous in the world whereby tax payers receive an allowance of as much as 300,000 Baht per annum. The tax privileges have "EEE" characteristics, namely the first E represents tax exemption for money we contributed into the fund, the second E for tax exemption on the investments by the provident fund, and the third E for tax exemption on the final sum received upon retirement whereby the member receives the full 100% amount with no tax liability. This makes a provident fund a very good savings vehicle, more of which should be encouraged. In a provident fund, the employer also contributes into the fund. However, the savings process is a voluntary process that is jointly formed between the employee and the employer. The attraction is that the savings is a joint contribution from both the employee and the employer. It's also a savings that receives tax benefits, hence constitutes a very significant funding vehicle to prepare for retirement. The terms of the maturity payment received upon retirement increases with length of employment since that is an objective of a provident fund.

@Social Security Benefits for the Elderly

This is another source of fund for retirement which should not be overlooked, since one of the major benefits of the social security scheme is to assist the elderly. "Ratchaya Kulvanitchainun", Director of the Social Security Office, Region 5, stated that employees of the private sector which are under this scheme contributes 5% into the fund, which is deducted from the employee and the employer. In tandem, the government simultaneously contributes 2.75%, bringing the total contribution into the fund to 12.75%. The social security scheme offers coverage to members in 7 ways, one of which are "social welfare benefits for the elderly." The 5% which the employee and employer contributed into the fund will be saved towards a pension-like scheme at 3% each, totaling 6%, into welfare benefit for the elderly. The scheme took effect from 31 December 1998 onwards. For those who failed to contribute up to the minimum requirement of 180 months will instead receive a lump sum payment whereby the social security scheme shall pay 6% of the salary for the period when the payments started until date of resignation from job. For those whose payments are at least 180 months or more, they shall receive entitlement as pension payments. 3 conditions must be met. The 180 month requirement which shall determine whether entitlement is a lump sum or annuity payments; the resignation itself and the 55 year age requirement. Ratchaya added that those who failed to be in the social security scheme up to the require 15 years (180 months) and resign before that period, shall be entitled to receive the entire 3% contributed for social welfare benefits, including 3% from the employer, totaling 6%, plus any financial returns earned from the amount as a lump sum payment. For those who have remained in the social security scheme for at least 15 years (180 months) and retires at age 55 shall receive a monthly payment equivalent to 15% of the average salary of the latest 60 months before retirement, for the remaining duration of their lives. The maximum salary is capped at 15,000 Baht, hence 15% is 2,250 Baht to be received monthly. If the contributions exceeded 15 years, the returns that the recipient is entitled to would be increased by 1% a year. For example, an employee that has been with the social security scheme for 20 years shall receive 20% upon retirement. This is significant since the contributions towards social welfare benefits was 3% by the employee and 3% by the employer for a total of 6%, but actual amount received upon retirement is 15%.

@Government Pension Fund

Money from the government pension fund is an amount that government sector employees shall receive upon resignation from government service. During their employment, government workers would contribute monthly payments into the fund accompanied by a contribution from the government. Furthermore, there are supplementary bonuses and compensations that the government contributes for employees enlisted into the government service before 27 March 1997. Wisit Tantisuntorn, Secretary of the Government Pension Fund stated that the savings consideration of members is what is being emphasize and the Government Pension Act had been amended since he took office 5 years ago. The amendments allowed members to increase their "savings" amount from the customary 3% of monthly salary to 7%, 10% or even 15% depending on choice. The government shall continue to chip in 3%. Furthermore, the amendments allow the employee to "continue saving" beyond their retirement date, by not withdrawing the sum but continuing to maintain the balance. Withdrawal can made gradually. The Government Pension Fund office shall manage the money on the employee's behalf, hence the employee can leave the balance in the fund. Otherwise, a retired government employee would typically withdraw his/her entitlement without having a clear plan how to manage that money by themselves going forwards. That could present financial challenges during retirement. It is expected that the proposed amendments would be approved by Parliament during this government's tenure, as the amendments are beneficial to members and the Government Pension Fund is ready to implement the changes.

@Ministry of Finance Pension Fund

When government employees resign and meets legal conditions regarding years of service, one is entitled to choose either to receive a lump sum payment or annuity payments. The lump sum is a one-time payment made by the government upon retiring from government service. One has to have worked at least 10 full years or is leaving the government service for having reached retirement age or disability, but on condition that one has served at least 1 full year. The formula is shown below:

Lump sum

Amount = Latest Monthly Salary x Years of Service

Annuity payments, on the other hand, are payments that the government makes to the retired staff who have completed at least 25 full years of service or resigned due to having reached retirement age or disability, but on condition that one has served at least 10 full years. Payments are made monthly as shown by the formula below:

Annuity Payments

Pension payments for staff which are not members of the Government Pension Fund.

Amount= Latest Monthly Salary x Years of Service / 50

Pension payments for staff which are members of the Government Pension Fund.

Amount =Average of the Latest 60 Monthly Salaries x Years of Service / 50

*But not exceeding 70% of the average of the latest 60 monthly salaries

@Retirement Mutual Fund (RMF)

Retirement mutual funds are another important source of fund for retirees. However, it is unfortunate that the benefits of RMF funds have tapped as much. Araya stated that RMF funds enable long term savings towards the social welfare of oneself and family at retirement. It adds to a provident fund you may already have, as they share common objectives. However, RMF funds also help where provident funds are not available to everyone since some employers do not offer provident funds. Or you may use RMF funds to maximize the tax benefits which allow up to 15% or 300,000 Baht, which the provident fund alone may not fully capture, for taxpayers who are able to put in more savings than what the employer offered. For RMF investments, the maximum amount eligible for tax benefits is 300,000 Baht, tallied together with provident funds and government pension funds. For people who do not belong in a provident fund scheme, such as the self-employed or employees of companies not offering a provident fund, these people may also invest in RMF funds as well. Typically, people with provident funds or pension funds rarely reach the full 300,000 Baht tax benefit limit, hence RMF funds allow them to make additional investments for retirement that will also qualify for these benefits. Even those who not belong to a provident fund scheme or government pension fund can also qualify to invest in RMF funds for their own retirement preparations. “Kampol Adsavakulchai”, Executive Vice President, Mutual Funds, SCB Asset Management, stated that RMF funds offer tremendous benefits, especially to those who are approaching retirement since the savings on the tax rate of 10-37% is sizable. That should be a convincing incentive for people to consider investing in RMF funds. Furthermore, that doesn’t even yet include the tax exemptions that the fund receives on its portfolio investment. Many RMF funds are available to match one’s investment preference and risk tolerance. It is therefore highly encouraged that these RMF tax benefits be utilized. Just remember two requirements that the “investment must have been on-going for at least 5 years” and the investor must “reach at least 55 years old” when the fund is finally redeemed without incurring a penalty of having to return the entire tax benefits received over the last 5 years. It is a good source of fund for yourself to meet expenses during retirement.

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