Wealth Management … Upon Retirement

People in the private sector and turning 60 years old this year may feel some anxiety as retirement approaches and their working career is ending. Government officials may have already retired last October and currently spending time relaxing at home.

The day we cease being a salaryman, we get to rest and usually will have received a lump sum of money on our retirement day to spend when we are old.

Our long term savings may come from compulsory savings such as social security or voluntary savings such as our provident fund or investment in retirement funds or lump sum from a life insurance policy upon termination of policy.

This lump sum money is the last sizable amount of money you will own; don't spend it all so quickly. You will need to spread this amount out well to cover expenses for the remainder of your life. That's not such an easy task if you expect to depend on the interest earned; the principal amount may be at risk if not managed well or spent quickly on unimportant items. Don't be cornered into a position where you end up losing your financial freedom. You may have retired, but don't let that mean your wealth stops working otherwise retired life can't be smooth.

Some of us may also be unaware that our supposedly large sum of money can be depleted faster than we think. If we received a 5 million Baht sum along with our retirement but have the prospect of living till the age of 80, will this sum be sufficient to cover expenses? What about if we live even longer than that, or inflation rises higher than what our savings deposit could generate in interest?

Furthermore, as we age, unexpected expenses become more frequent. As you may imagine, our medical bills will rise. More illnesses crop up as we grow older. The life insurance industry also warned that the price of medical care rises by 20% each year; imagine what costs will look like 10-20 years from now. Don't expect to rely entirely on life insurance as product coverage in Thailand tend not to include the elderly or premium costs are not reasonable.

To protect principal and earn decent returns, we need financial planning. The process is no different from the financial planning we used to go through during our working age, but with the added consideration that we must take far less risk with our investments since this sum is our final amount.

Khun Wiwan Tharahirunchote, Executive Vice Chairman at Kasikorn Research Center, an investment and financial planning guru advised that retirees can invest in equities but with good diversification. The recommended allocation in stocks is 10%, fixed income 50%, deposits or money market instruments 25%, and property 15%.

With this portfolio mix, Khun Wiwan estimated that one could generate 4.65% returns per annum. Volatility would average about 5.7%, hence one may receive a total return of 10% in a good year, and perhaps 1% in a bad year. Raising the amount invested in property to 20% may yield a 4.9% return per annum and volatility of 6.1%.

"You will notice that this portfolio contains a large amount of cash holdings since interest rates are on a rise. When fixed income yields rise, money market holdings will drop to 15%. A 10-15% holding in equities over a 4-5 year period is unlikely to incur a loss, unlike a short 1-year period which may see a loss", says Khun Wiwan.

For those who only have a moderate amount of money at retirement, the investment choices are more constrained than the example described in the model above.

Mr. Reungvit Nandhabiwat, Secretary of the Thai Financial Planners Association, stated that if the sum saved is a mere one million, you should not invest in anything volatile. Even a 10% allocated towards equities is not recommended because protecting your principal is most important.

The investment advice described above may actually be stated little late. To achieve a reasonably good life during retirement requires that planning takes place earlier when we are still working and earning a steady income. This applies to both our investments and savings. The earlier you start, the wealthier you are likely to become. Our financial stability and its duration will hinge on our discipline to save, perseverance and determination.

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