

Are You Ready for Retirement?



YONG CHU EU
LICENSED FINANCIAL ADVISOR
(FAR, CMSRL)

In recent years, the subject of retirement has been a hot topic of discussion in the newspapers, magazines and even in coffee shop chatter. This is because it affects everyone.

Most Malaysians Not Ready For Retirement

According to EPF's published figures on 2011, about 62,000 EPF members would retire in 2011 but on average, there would be only about RM150,000 in their EPF accounts. What worries us is that 80% of retired members will deplete their money in 5 years. With RM150,000 in hand, and if we consider a Malaysian's life expectancy is about 75 years, that means they only can spend about RM830 per month for 15 years of their retirement life. Although according to a Malaysian Employers Federation's (MPF) survey retired Malaysians need about RM700 per month to survive, if the inflation rate keeps on increasing, the rising cost of living will make RM150,000 in their EPF account insufficient.

Table 1: EPF Active Members as at 2011

Number of Members	Total amount in EPF account
4,440,028 (70.79%)	<50k
1,361,325 (21.74%)	5-150k
461,479 (7.37%)	>150k

Case Study: Malaysian Fresh Graduate

Let's use a fresh graduate with a monthly salary of 2,500 as a case study. If he gets a salary increment of 3% yearly until the age of 60 and he consistently contributes about

11% of his salary to EPF and assuming the EPF annual return to be about 5.5%, during retirement, he would be able to accumulate about RM1,241,831 in his EPF account. If after 37 years of working life he wants to maintain 75% of his lifestyle during retirement (in about 15 years until he is 75), he still has a shortfall of RM1,032,530. This calculation only focuses on his retirement life required amount and does not factor in other goals like buying a car or house, etc. The misuse or mismanagement of assets can even delay his retirement date. Please refer Table 2 for more detail.

Table 2: Case Study: Malaysian Fresh Graduate Scenario

Now until Retirement Age	37 Years
Desired Annual Retirement Income at Present Value (%)	RM136,832 (75%)
Other Annual Income Available After Retirement/Pension	0
Annual Inflation Rate – Living Expenses	5 %
Number of Years in Retirement (until age of 75)	15
Annual Investment Rate on Retirement Fund	3.5%
Estimated Capital Requirement Upon Retirement	RM2,274,361
Projected EPF Balance at Retirement (Annual Salary Growth 3%, EPF Annual Return of 5.5%)	RM1,241,831
Retirement Fund Shortfall	RM1,032,530

Retirement Obstacles

Many people cannot retire early or attain financial freedom mainly due to three major reasons namely, insufficient time to accumulate retirement fund, slow capital growth or depreciation of capital, and lack of planning (no plan or late plan).

Insufficient Time

Many people make the mistake of taking action at the last minute. They feel it is too early to plan now or have the wrong perception that there is plenty of time ahead. Some get distracted by many short term goals/commitments or some do not even plan at all. As a matter of fact, a retirement fund needs time to build and grow; it requires consistent saving and investing. The worst case is not planning at all. This is like giving up the right or opportunity to be your own life master. Let's look at Table 3 where you can see the advantage of starting early. If you start earlier, you can utilize the power of time to compound your investment.

Table 3: The difference between starting to invest early or later

	A (Starts at age 23)	B (Starts at age 33)
Monthly Investment Amount	RM250	RM250
Years	37	27
Annual Investment Return	8%	8%
Total Return at Age 60	RM679,100	RM285,345