Retirement adequacy amid the pandemic

The sandwich class still has time. But they do not have an exceedingly long runway to execute retirement plans.

By Chan Fook Leong

ASK the sandwich class in Singapore about retirement planning and you are likely to receive blank stares. Why should they even bother? After all, retirement may be years away.

Middle-income households would rather talk about their new born. Or fuss over PSLE preparations. Or how to build up their kid's portfolio to vie for the competitive courses in premier universities. If it is not about the kids, it may be about their parents.

Take your pick of issues: health, medical, old age issues, living expenses during retirement, where will the funds come from and who will foot the shortfall should there be one.

These are on top of navigating a career and other commitments. Who has time to mull over retirement planning?

Pandemic and retirement adequacy

The 2020 CFA Institute Mercer study on retirement systems worldwide came to a grim conclusion: Retirement benefits will likely be reduced in our advanced years due to Covid-19. The pandemic sent the global economy into a recession in 2020. The expected recovery in 2021, although underway, may be uneven this year. The herculean task of vaccinating 7.8 billion people is going take quite a while. With mutation of the virus, and waves of infection, there is still much uncertainty.

The research on the retirement system pointed out that four factors will reduce worldwide retirement benefits. They are: reduced contribution to retirement schemes, reduced investment returns, less future government support and earlier access to retirement benefits. These factors are likely to persist in 2021, and the sandwich class is not spared.

Potential effects from Covid-19

The sandwich class still has time. But they do not have an exceedingly long runway to execute retirement plans. One or two decades can help the sandwich class (provided there are surpluses) to accumulate wealth and allow compound interest to work its magic. This is a major advantage over those who are in their advanced years. But there is a caveat. One must do it right.

The first few steps

The OCBC Financial Impact Survey for Covid-19 conducted in mid-May 2020 found that only 30 per cent of respondents in Singapore could sustain themselves for more than six months should they lose their jobs. Eighteen, 28 and 23 per cent could do the same for up to one, three and six months respectively.

How much emergency savings should you have? This is the question I often hear. Many suggest various figures in number of months – often without explaining the rationale for their recommendation.

I'd argue everyone is different. Do some homework. Take into account the following when deciding the level of emergency funds:

- Estimated time to snag the next job. The older you are, the longer you may take. Factor in cost of training or re-skilling as well.
- On top of household expenses, factor in how much you need to allocate for the kids, and elderly parents. And how much more you would need for emergencies and other contingent expenses or lump sum expenditure.
- The less risk averse you are, the more emergency funds you need put aside to feel secure. And please remember – when it rains, it often pours.
- Many say that should they lose their jobs, they would be able to make some cuts to lifestyle expenses such as children's ballet classes or dining out. I have my doubts. Most do not want to be seen as being down and out, so expenses continue on plastic.

Insurance

The next time professionals ask to review your coverage, perhaps you should do so. What is the point of investing when an unexpected event may severely diminish your hard-earned wealth, more so when risk-pooling insurance products are readily available to help you mitigate these unforeseen events at an affordable premium.

We often believe that the less financially savvy would have issues on how to utilise insurance. But I reckon there are finance professionals who also need help. They may be excellent at their jobs. But a proportion of them have not got their personal finances in order. Or they have not had a review for a long time, more so when there are material developments such as a newborn or retiring parent.

Get educated

The Institute for Financial Literacy has courses on retirement and planning. The Building Your Nest Egg workshop has the following objective: "Learn the basic steps in retirement planning. The content includes the use of retirement calculators to determine your retirement income needs. Also learn the options for dealing with projected shortfalls and for building your retirement income."

There are other options such as including financial blogs. But do think through the recommendations. You may want to check for the veracity of pointers with professionals.

How to mess up your retirement accumulation?

Instead of suggesting what else the sandwich class can do, I suspect that highlighting two recipes for disaster may make the point effectively:

Make excuses for not saving

In good times (and especially in turbulent times like now), the sandwich class must squeeze out a surplus consistently. "But this is impossible," you would hear the sandwich class exclaim.

For some, squeezing out a surplus is a tall order. For others, I'd say that all excuses are valid. But the hard truth is the chances of success much higher if one stops making excuses.

Put all eggs into a few baskets

I will not bore you with Markowitz's portfolio optimisation but instead put it in a phrase which everyone would have come across: Do not put all your eggs into one basket. Many investment strategies do not work. Some even fail miserably. The one thing that works is diversification across asset classes, geographies and currencies.

So if you are thinking of cryptocurrencies because the historical return (of late) is mind-boggling, or SPACs (which may arrive in Singapore soon), you may want to ask yourself if you truly understand how they work. And please consider if you are prepared to lose all of what you put in especially if it's a significant portion of your investible assets.

I have highlighted the CFA Institute/Mercer findings of the likelihood of reduced retirement benefits. I hope they are wrong. I also hope employment prospects improve with vaccination programmes underway.

I believe governments should not keep kicking the debt can down the road, because we are probably close to the end of the tarmac. With less outsized sovereign debt, monetary policy can return to normalcy. Higher interest rates can help the accumulation of wealth for retirement.

But I urge the sandwich class not to bet on favourable outcomes anytime soon. After all, it is up to no one but ourselves. The sandwich class still has time but the end of the road is closer than most of us perceive it to be.

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