The best time to invest was when you drew your first pay cheque. The next best is now

By Samuel Low By Chan Fook Leong

LIFE in university halls of residence was packed full of activities, Sheila recalls. It felt like only yesterday. She reminisces that she felt richer as a tertiary student with a generous allowance from parents to cover her expenditure during undergraduate studies.

Sheila now earns an above-average income. But because she has to pay for food, travel, mobile phone, insurance, entertainment as well as contribute to the family, she chalks up a credit card debt at the end of each month. Although small, the outstanding balance accumulates into a tidy sum which gets paid off when her bonus arrives at the close of the financial year.

Like for some of her peers, retirement planning is not in Sheila's vocabulary. She has set her sights instead on a car. For her, continuing an action-packed hall-like life is a must. After all, you only live once.

'*Kiasu*' to plan for retirement early

Fresh graduates who spare the slightest thought for retirement planning are sometimes considered odd balls. In colloquial speak, they are labelled "*kiasu*". For fear of losing out on something, or for whatever reason, a minority starts planning for retirement at a comparatively young age.

As financial professionals, we welcome this *kiasu* attitude. Retirement accumulation takes time. And it is best to start early. We have been cajoling millennials and Generation Z to put away a small surplus after each pay cheque. Nevertheless, we know financial representatives on the ground do have a tough time convincing some potential clients.

Concern compounded

The 2020 CFA Institute Mercer study on the world's retirement systems concluded on a grim note. Retirement benefits from pension systems will likely be reduced in our advanced years due to the Covid-19 pandemic.

As the battle with the disease rages on, the four factors that will reduce worldwide retirement benefits flagged by the CFA Institute Mercer study are: reduced contributions to retirement schemes, reduced investment returns, less future government support, and earlier access to retirement benefits.

So where are we now? The Covid-19 infection numbers are down in most developed countries while they have resurfaced and spiked in others. Can anyone see the light at the end of the tunnel? Or do you foresee us being stuck with the virus for the foreseeable future?

What, then, can millennials and Gen Z do to ensure retirement adequacy?

If you are currently earning an income, we suggest choosing an option presented in the CFA Institute study – save more – which we interpret as save early and save consistently. If the word "saving" puts you off (because the broken record has been playing in school and still plays at home), apply a little psychology, or behavioural finance and think of it as paying yourself first before splurging.

"Paying yourself first" early in your career enables you to leverage the biggest advantage that the younger generations have – ample time to accumulate retirement wealth. Time is money. This is so because of the power of compounding.

One can use the Rule of 72 to determine the duration it takes for one's wealth to double at any rate of interest. Here is a simple illustration to refresh your memory:

From a research done by *Business Insider*, if one starts saving at age 25, he or she can accumulate S$460,000 by age 65. If one starts 10 years later, he or she will only accumulate S$251,000 by saving the same amount as the person who started saving at 25 years old. Hence, by applying the Rule of 72, Sheila could have potentially doubled her wealth if she started saving and investing 20 to 30 per cent of her monthly salary upon receiving her first pay cheque.

"Paying yourself first" early in your career enables you to leverage the biggest advantage that the younger generations have – ample time to accumulate retirement wealth. PHOTO: PIXABAY

Benefits of '*kiasu*-ism'

There are many other benefits to starting early. Financial freedom can come earlier. Passive income from stocks, bonds and unit trusts that pay regular dividends can cover monthly expenses. Financial freedom gives one the option of pursuing other interests or exercising the option of working beyond Singapore's official retirement age of 62.

The power of compounding can also help Sheila achieve short- and long-term goals in a shorter period of time. Short-term goals can include travel when borders reopen. Long-term goals may include a deposit for a residential unit, marriage, and children's education.

A third benefit is beating inflation. In a December 2020 poll reported by *The Straits Times*, Singapore households expected inflation to rise to 2.2 per cent in 2021, up from the 1.9 per cent they expected in a September 2020 poll. We expect inflation to progressively increase when Covid-19 recedes and borders are reopened. Saving early can help to beat inflation.

When Sheila is young, she is less risk-averse and can look at investment products with higher returns to mitigate the loss of purchasing power due to inflation. However, as she becomes older, she is likely to become more risk-averse and will look at investment products with capital preservation features. Usually, that translates to lower returns on investment. Starting early bodes well for maintaining purchasing power of one's wealth in retirement.

From S$100 a month

Millennials and Gen Z often point out that their take-home pay is on the lower end. We hear you. Bite-sized investment in regular saving and investment plans start as low S$100 a month. Are there any other reasons to hesitate?

"But I studied sociology. I have zero investing knowledge" is a sentiment we hear fairly often. If you are clueless, Google MoneySense. Try SGX Academy as well. Brokerage houses provide you with lots of information which you can corroborate with what you pick up from blogs and the digital space.

If volatility is a concern, consider dollar-cost averaging, which involves investing a small fixed sum of investment at regular intervals instead of a one-time lump-sum investment. Investors receive a higher number of units of the asset when the price is low. Conversely, when the price of the asset is high, investors receive fewer units. Hence, investors do not need to time the market. By investing regularly, over the long haul, the cost of investment averages out.

Young people should start investing and accumulating retirement wealth in bite sizes today. Join the oddballs. This group of people may be ridiculed. But fast forward half a century down the road, and take a guess – who will have the last laugh?

Samuel Low is a relationship manager at Phillip Securities. Chan Fook Leong, CFA, is the executive director, advocacy, at CFA Society Singapore.