



ASCENTA  
WEALTH

# The Retirement Income Guide





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# Introduction

If you are heading towards retirement, just about to retire or already in retirement you will face crucial decisions about how to organise your income. These will be amongst the most important financial decisions you will ever have to take.

The choices can be complicated and stressful.

You are having to deal with a swathe of unknown factors. These include, but are in no way restricted to, the following examples:

- How long you will live
- How much money you will need year by year
- How your health will be
- Whether you will need to fund care fees
- The future levels of taxes, interest rates and inflation rates
- What return will be generated from various asset types if you remain invested throughout your retirement

Due to the sheer range of unknown factors the chances of getting something badly wrong in your financial decision making are inevitably increased.

This guide is written to give you a series of thoughts about how to approach planning for your retirement years and how to work out answers to all the questions you will have to address.

Plus we will provide you with six critical steps you should take to ensure your position is as secure as it can be.

The intention is to help you craft the right solutions for your retirement and to support you in getting the best income position you can achieve, through this stage of your life.



## The Starting Line

Where to start? To borrow from Lewis Carroll, let's begin at the beginning.

Any appraisal of your retirement income needs has to begin with an accurate summary of what you currently have in place.

Before looking at your future pathway and all the possible ways of managing your finances through this, you will need to address what you have in place **today**.

This has to be an all-embracing view of your current assets and liabilities, current income and expenditure and then an idea of your lifestyle requirements. It needs to include a view of your health position, your family position and employment/business position and prospects.

In one respect this exercise is akin to producing a 'picture' of your financial position, a bit like a personal balance sheet, but it has to be mixed with a broader picture of your life and lifestyle.

This is, if you like, a foundation stage, which, when completed, allows you to build your future financial plan.

This is **Step One**.

It is easy to misconstrue the importance of this step or to run through it quickly, not giving it enough attention. This would be a mistake. It is important to take time to make sure everything is clear in this initial stage and the assessment of your current position is accurate.





# Assessing Your Future Pathway

The great thing about Step One is that it is largely about facts and figures, various aspects of your position which are easily checked – and are **known**. The difficulty starts with the assessment of your future pathway, because this is where the cocktail of unknown factors come to the fore.

How do you go about tackling these unknowns?

## Will your retirement income meet your future expenditure?

The best way of producing some form of roadmap is to start with your future expected expenditure. In this respect the first objective of any retirement income plan or planning should be to see if there are any obvious issues in meeting your likely expenditure.

The fact that you will not know how long this expenditure is needed could be a relatively insignificant one, assuming that your income generating sources can sustain **a lifetime income**.

This is **Step Two**; estimating your expenditure in retirement. How easy to do this will depend on where you are today, if you are still ten years away from retirement then there will clearly be more guesswork than if you are already in retirement.

Any prediction of future expenditure could be tricky, for example:

- If you are a couple then it is likely that expenditure will change on the first death of one of you, this is another unknown, when will the first death occur?
- What healthcare or other care costs may come into play and when?
- What pattern of lifestyle will be relevant?
- How much will your expenditure need to increase to cater for inflation?

Although the variables and unknowns continue to influence the predicted figures, this is not a reason to avoid this step! In reality expenditure estimates can be put together fairly accurately in the majority of cases and the exercise of doing this is a fundamental part of a successful retirement income plan.



## Your Income Sources

Once you have estimated your expenditure in retirement and all the variables this will include, you will need to turn to **the sources** of income that you will need to rely on to cover this expenditure. As above, this will vary from individual situation to situation, but the core approach to this should be consistent.

If, for example, you have estimated that you need SG\$240,000 per year from retirement year one and onwards, increasing at 3% per year, then you need to check whether your sources of income will cover this. This is **Step Three**.

Sources of income are likely to be:

- State Pension Entitlements
- Other Pensions (e.g. a Company Scheme, Personal Pensions)
- Investments
- Savings
- Others

'Others' could include windfalls (such as a property sale or inheritance).

If your state pension comes to SG\$80,000 per year then you now have a base to work from. Other pensions might total SG\$60,000 per year. This means you need to check if your investments and savings will generate the remaining SG\$100,000. If you have SG\$2,000,000 in savings you could then look at a 5% income rate as the required rate to top up your pensions.

This step is probably the most difficult for us to deal with in this guide because there are so many different scenarios, any example will be just that – a simplified example to highlight how the exercise may be viewed and completed.

The important aspect of this step is to bring together your future expenditure and your potential income sources and see how these 'marry'. This exercise will expose any areas of potential shortfall and also how best you might go about structuring your finances going forward to meet your expenditure.



## Building in *Protection* Against All the Variables

So far, we have outlined relating simple and straightforward methods of dealing with your retirement income needs. Now we need to address some of the bigger unknowns, which represent common threats to retirees:

- Not knowing 'how long?'
- Inflation
- Economic uncertainties
- Misbehaving markets
- Health problems

### How long?

Financial Planning would be much easier if we knew how long we have to plan for!

The biggest threat and fear for retirees is running out of money in retirement. So the question of 'how long?' is a really important one.

If you have an income in retirement need of SG\$240,000 per year, then in theory (ignoring inflation etc.) you need SG\$2,400,000 if you live for 10 years and SG\$7,200,000 if you live for 30 years. That is quite a big difference.

The difference may be somewhat reduced by lifetime pensions, so the state pension, for example, is effectively a lifetime pension, you can expect the government to continue paying this for the rest of your life. If you can secure other lifetime incomes, then this produces the same effect. This is why anything that underpins your income is highly valuable. This is why **traditionally** annuities were so popular, because they offered certainty and shifted risks from you to an insurance company.

If you are relying on savings and investments to top up your income, then your objective must be firstly to see if you can generate your income need for the rest of your life regardless of the length of time. Back to our example, if you need to generate SG\$10,000 per year from your savings and these amount to SG\$2,000,000 then you have a fair chance from a well-managed portfolio of getting a SG\$100,000 per year return.

If you have SG\$1,000,000 then you might be struggling and you will be eating into your capital to meet your income; if you have SG\$4,000,000 then you will surely be able to generate your income comfortably.

The task here therefore has to be to see if your income sources can cope with any length of time that may be relevant. If they can, then you are in good shape, if they can't you will have to adjust your planning accordingly.



## Inflation

Is inflation going to stay benign or as low as it has in recent times? No-one knows. But a sensible retirement strategy would assume that the possibility of higher inflation rates must be a factor.

Inflation hurts. It can cause hidden problems; slowly eroding the value of a given level of retirement income. And inflation does not need to be rampant to have a significant impact. Even relatively modest levels can cause a serious loss of spending power.

***At an inflation rate of 3% per year an income of SG\$240,000 needs to increase to SG\$374,000 in just 15 years.***

Another factor about inflation in the context of retirement income planning is this: the official inflation rate could be potentially misleading. The important question in retirement is one which relates to inflation in prices or costs that directly impact retirees?

The expenditure areas and items in retirement may be different to pre-retirement. This means a close eye needs to be kept on healthcare costs, care costs and expenditure which is more prevalent in later life. This 'retirement' inflation rate could easily be higher than the overall official rate.

It is not enough to ensure your income can cope with your current expenditure. It has to cope with future expenditure which, due to inflation, could be very much higher, within a relatively short time.

## Economic Uncertainties

Just a generation ago interest rates were over 10%. The highest rate of income tax was 60%. Property prices used to rise and fall. A high proportion of retirees had company pension schemes.

The economic picture is constantly changing.

For many people retirement will be a multi-decade period, in some cases possibly 40-50 years; it is likely that the economic backdrop will be very different at different times during retirement.

For example, if you were to plan your income assuming current levels of interest rates and make no allowance or provision for a time when they might be higher, you could come unstuck.

Interest rates, inflation, property prices, tax rates and investment returns are all liable to significant rises and falls, any one of which could derail your plans, if you don't make provision. To do this you need to test any financial planning against various "what if?" scenarios and check how major changes might impact your position.



## Misbehaving Markets

It is probable that you will be looking to asset-backed investments to support your income needs. You may have a personal-style pension which you will be drawing upon, or ISAs or a portfolio of investment funds. Whatever your investment position, if your invested monies rely on markets to generate a return to provide your income, then you must factor in that markets may misbehave.

In plain English this means they may not generate the necessary or assumed returns. Worse still they could involve unexpected losses. Nothing is more dangerous to retirement income than a sudden and major loss in value of an income generating investment.

Nobody knows how markets are going to behave and history is not a reliable guide. Yes, investments tend to go up over time, but there is no reason to think that periods of sustained downturn are not possible, such periods are **very** possible.

For many retirees long periods of downward spiralling markets could be very damaging; unlike people in work there is unlikely to be any possibility of rebuilding value through further savings from income.

As with the economic uncertainties you need to stress test any income strategy you might pursue in retirement against assumptions of markets and asset values behaving in a way which may not be favourable. Test your plan against the question “what happens if my investments lose value?” and then look at large falls over long periods, can you withstand this?

## Health problems

The sad fact is that many retirees will suffer from health problems in their retirements. These could have potential expenditure implications, especially if this involves paying care fees. It is not unusual today for a care package to cost in excess of SG\$500,000 per year. Even the best laid retirement income strategy can be seriously thrown off course because of ill health.

The provisional rule changes around who pays for care are still subject to consultation and prevarication at government level; the current rules basically mean that anyone with more than SG\$220,000 in assets will have to pay for their own care. The future rules may be more lenient but it seems government is struggling to work out how this can be afforded.

It would be reasonable to expect therefore that if you have any significant asset value you will be expected to or asked to pay for your own care, at least in large part.

Of course, care fees are not the only possible healthcare cost; ill-health can come in many forms and there may be need for expensive treatments or other complications which could knock on to your income/expenditure.



**Step four** is the exercise of looking at all of these potential factors, stress testing and asking “what if?” in each case. Whatever financial plan you put into place to provide for your retirement income needs you should aim to make sure that as many of these future unknowns are catered for as possible.

It **can** be done, normally by remaining flexible in your approach and finding a balanced strategy.

## Other Factors to Take into Account

Although the priority may be planning and securing your retirement income, it could be the case that you have other factors you want to consider (and by definition build into your thinking and planning). For example, you may want to help your children or grandchildren with a property purchase or education fees. You may want to make sure you leave a healthy estate to your heirs on your death and/or try to avoid a future Inheritance Tax liability.

Someone planning their retirement income who isn't concerned about preserving their estate on their death could pursue a very different plan or strategy to someone where this a major, material, factor.





## Constructing a Retirement Income Strategy and Plan

### To recap the steps so far:

- Assess your current position with accuracy
- Estimate your future expenditure in retirement
- Consider all your potential income sources
- Map out a pathway – building in stress tests against different scenarios and considering other factors – where your income sources will meet your expenditure requirements

If you have pursued each of those four steps above then you should be able to put together a financial plan.

This is **Step five** – the construction of your plan of action. At this point you should know what your future expenditure looks like, what your income sources to fund this expenditure will be and then you need to start putting together a plan which ties the two together.

The nature of this plan will be **very** situation-dependent. If you are 45 today, aiming to retire at 60 the constituent parts of this plan and what you need to prioritise, the financial products you need to use, the investment approach and so on, will be very different to a 70 year old who is just retiring now.

Whatever your position, it is important that your plan is ***stress-tested*** against the risks we have covered earlier and that all factors are built in.

Whether you use ISAs over pensions, or a balance between the two, whether you pursue an annuity or a drawdown pension product, whether you invest in equities or in bonds, what companies and funds you will use and many other relevant decisions will all come from identifying your position and priorities from those first four steps.

We also believe it is very important that your plan is written down and committed to paper. This not only provides a clear picture for you to work from but it also allows for good ongoing management (see section below).

At Ascenta Wealth we specialise in helping construct suitable plans, whether this is forward looking towards a future retirement or whether you are already at the point of retirement. This is one of those life stages where specialist help and getting the very best advice is incredibly important.



## Maintaining and Reviewing Your Position

The whole nature of retirement has changed over the past couple of generations of retirees. This is down to major increases in life expectancy, which makes the retirement period commonly a long one, significant changes in the economic environment and a different set of financial products that are now available to individual's seeking to plan their retirement income.

In some ways the first five steps are all potentially irrelevant if the next step is either ignored or not managed correctly.

Whatever plan you put in place, **Step six** is the ongoing maintenance and reviewing of your plan and position.

We have tried to outline how variable different situations are likely to be; this means that there cannot be a "one size fits all" approach which works every time. Put another way, **you need to construct a plan which is unique and bespoke to your position and requirements.**

Likewise, we have sought to highlight the extent of the risks and uncertainty that will be in place, caused by the wide range of unknown factors that could influence how successful any plan might be. You can protect against these unknowns to some extent, during the planning stages, by rigorously stress testing them and constantly asking "what if?"

This will only work to a point. The sixth step involves regularly reviewing and renewing your plan to cater for those unknown factors as you move through retirement.

You will need to take your written financial plan of action and see how it is progressing and performing, probably around once per year as a minimum. This way if things have changed, or look like they are going to change, you can adjust and amend as required. In this way you are reacting to the unknowns as they slowly become 'knowns', as far as this is possible.



## Conclusion:

### The Six Steps for a Successful Retirement Income Strategy

There is no magic formula for a successful income strategy for retirement; however, we believe that any individual who diligently pursues these six steps will go a long way to ensuring they are managing their positions to maximise their prospects. A combination of these with our specialist advice alongside should provide the best framework for getting the results you desire.

**Step One:** Assess your current position with accuracy

**Step Two:** Estimate your future expenditure in retirement

**Step Three:** Consider all your potential income sources

**Step Four:** Map out a pathway – building in stress tests against different scenarios and considering other factors – where your income sources will meet your expenditure requirements

**Step Five:** Construct a written financial plan of action – and implement this

**Step Six:** Review this plan of action and adjust accordingly as you go forward through the years



## About Us

Ascenta Wealth is a part of Farringdon Asset Management and was set up with the aim of providing the highest levels of transparency and professionalism to clients who are looking for personalised financial planning in Singapore.

All of our Partners are fully regulated by the Monetary Authority of Singapore (MAS) as well as holding a range of UK and International Financial Planning Qualifications of the highest standard.

## Taking the Next Step

To find out more and to arrange an introductory call with one of our Partners, we've made it really easy to get in touch.

Please feel free to contact us by e-mail at the address below or use the 'Book A Meeting' link on our homepage to choose a time that suits you to have an introductory call – either face to face or by Zoom.

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