

SAVE, INVEST, RETIRE & ENJOY

with **Steve**



RETIREMENT MYTHS

Ask anyone if it is important to plan for their retirement and they would answer with a resounding, “Yes! It is important.” Yet, no matter how crucial retirement planning is, most people do not seem to have the urgency to prepare a proper retirement plan that can provide them with a financially secure retirement.

There seems to be a reluctance to plan for the future, as retirement often seems to be too far away. Unfortunately, the future will come sooner than we think. The adage that “people don’t plan to fail, but fail to plan” is a good reminder that our retirement needs need to be addressed now. This can be done with a proper retirement plan that is then executed. Doing so now enables us to influence our future.

In trying to understand the mindset of Malaysians on the subject of retirement and why they lack interest in taking control of their financial future, the Private Pension Administrator Malaysia (PPA), has found five common

excuses based on unfounded assumptions or myths on retirement planning.

THE FIVE MYTHS

1 **EPF SAVINGS WILL FUND MY RETIREMENT**

Malaysians think that their Employee Provident Fund (EPF) savings is sufficient for their retirement years. They believe that their EPF contributions can replace their income when they retire.

This is not necessarily true. EPF contributions are unlikely to be enough to fund one’s retirement. In 2011, statistics from the mandatory pension fund show that a whopping 72% of its members, at the pre-retirement age of 54, have savings of RM50,000 and below. Another study found that 50% of retirees spend their entire EPF savings within five years.

2 **MY CHILDREN WILL CARE FOR ME**

Many people assume that their children can take care of them during their old age. The thing is that the cost of living is going up. Young adults are finding it difficult to provide for their own family now. The burden on them is even greater if they have to provide financially for their parents.

3 **IT IS TOO EARLY FOR ME TO START SAVING FOR RETIREMENT**

Some people think it is too early for them to start saving for their retirement. Others think it is too late and that they cannot do much even if they were to start now. There never is a perfect time, but it is necessary to start. Everyone should aim to have their money work harder for them. Think of the benefits of compounding interest. Starting a retirement nest egg early, even when



you're in your 20s, gives you the full amazing benefits of compounding interest.

4 I WILL FIND ANOTHER JOB AFTER I RETIRE

Working in your golden years is a matter of preference. But not working is only possible if you have enough savings to support your lifestyle. If you run out of funds, you will find yourself in the unfortunate position of having to work. And there is no certainty that you will find a job at that point.

5 I WILL SPEND MUCH LESS WHEN I RETIRE

There is a belief that it is easy to scale back on one's expenses during retirement. But in reality, if someone is already used to a certain lifestyle, it is not easy to adjust. Furthermore, inflation is rising and medical costs are continuously increasing.

CHANGING MINDSETS


Research has also shown that financial illiteracy is the main reason people around the world do not plan adequately for their retirement and arrive at this stage of their life with little or no wealth. Financial illiteracy causes poor financial decision-making and this stunts one's ability to save and invest.

Financial illiteracy causes another problem if retirees

decide to stop using professional fund managers and take over the job of managing their retirement savings. Perhaps this is why many spend their EPF savings within five years of receiving it. It is easy to deplete retirement savings if it is treated like a windfall and not as capital to generate passive income.

While these issues have often been raised, lack of interest and urgency in taking, planning for retirement seriously suggests there is a need to bring this issue to a personal level.

Here, individuals can find out for themselves what they need to do to plan for their retirement. The PPA is helping individuals plan for their retirement by drawing their attention to three issues that must be addressed now.

We will discuss these issues in the next article. Till then, start planning and start taking action towards achieving a financially secure retirement. 

Datuk Steve Ong is CEO of the Private Pension Administrator, the central administrator for the Private Retirement Scheme (PRS). The PPA is tasked by the Securities Commission Malaysia to oversee and promote the growth of the PRS industry, to create general awareness on and educate the public on retirement saving. The PPA also works to protect the interest of PRS contributors.

Questions related to the PRS and retirement planning are welcome. Send them to: pmmail@bizedge.com, attn: Datuk Steve Ong

