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Golden years, silver fears

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The consequence of living long and healthy lives

If you wish to live to a ripe old age, it would be wise to start saving up early. According to the Melbourne Mercer Global Pension Index 2012, Denmark is the only country with a retirement income system that receives an ‘A’ grade. Which is not to say that the rest of us are doomed to spending our golden years begging for food and medicine, but that more has to be done so we’d have sufficient funds to tide us through our old age.

Deborah Ralston, director of the Australian Centre for Financial Studies, indicates that the issue of inadequacy and self-sufficiency in retirement is not unique to just a few countries.

“Generally we don’t like to think of ourselves getting old,” Ralston told *Perspectives@SMU* on the sidelines of a recent SMU SKBI conference, *Retirement Readiness: Income adequacy, long-term care and social well-being.*

“Many people don’t plan for retirement, in any country around the world. It is a very common problem.”

Given the general decline in birth rates in developed nations, retirement planning is being increasingly discussed by both academics and government officials. Ralston asserts that policy makers need to start thinking about striking a balance between the citizen’s personal responsibility for retirement savings, and what the government should do.

Take Australia as an example. According to Ralston, at present the ratio of tax payer to retired person is five to one. The figure is expected to go down to 2.6 to one by 2030.

“What it means,” explains Ralston, “is that it is going to be increasingly difficult to provide the level of services in terms of pension, healthcare and accommodation, which people are going to need if the tax base which you are collecting money from is greatly reduced.”

Declining birth rates aside, people are also living longer, putting further strain on pension systems which were not structured to support so many retirees living way beyond the traditional retirement age.

To counter the problem, Ralston points to a logical but underrated solution: Saving money or putting it into funds.

Having sufficient funds

“It’s not hard to give up the equivalent of a cup of coffee a week and put it into a fund,” she suggests. “The compound interest generates terrific return over the long term and before you know it, the amount you have is significant.”

When it comes to the allocation of one’s pension funds, Ralston also encourages having a diversified mix of bonds and growth assets, although she cautions against putting money into volatile assets in the later periods nearing retirement.

“Certainly one of the biggest lessons we’ve learnt from the global financial crisis,” she says, “is that when the share market drops, your life savings can be wiped out if you have a lot of growth assets.”

Ralston also notes that people should reassess the security of their retirement payout amount, as the trend for pension funds internationally is now shifting away from the traditional defined benefit plan. Such plans are based on a predetermined formula that takes into account tenure of service and age, producing a figure that is known to all involved beforehand.

In its place are defined contribution plans which sets out how much the employee and employer would contribute, but the returns depend on fluctuations in investment returns.

Defined benefit plans place the onus on the plans’ administrators – often governments – to come up with the money when people hit a certain age. While efforts are made to grow the funds and deliver on promises, insufficient thought is put into what happens after the money is paid out.

“A lot of pension systems have traditionally been very focused on accumulating savings but haven’t thought about how to make that money last over time,” she says. “There is a lot more focus now on the post-retirement phase.”

This renewed focus could mean ending lump sum payouts altogether and drafting legislation for mandatory graduated payouts, as how it is done in the Singapore CPF (Central Provident Fund) scheme.

The age of non-retirement

Ralston feels that having an official retirement age can be a problem for a society benefitting from longer lifespans, and points to a trend in governmental policies which will formulate more flexible labour employment laws to allow healthy, older people to continue working and contributing to society.

“There was a time in Australia where 60 was the retirement age, and so people would mentally anchor to that point, and think ‘I’d stop working when I reach 60’,” she avers. Ralston says ongoing financial needs will necessitate the omission of an official retirement number.

This was evident after the global financial crisis of 2007, where she observed there were significantly more older people in the labour force. “I think working when you’re older is going to become a natural common thing,” she adds.