



Retirement Planning

Part 3 of a 4 part series.

Retirement from active employment is a reality that every employee must plan for. Associated with this phase of life are numerous social, psychological, and financial issues which must be tackled long before the assumption of retiree status. This series of articles deals with financial planning for retirement.

Part 2 of this 4-Part Retirement Series stressed the importance of commencing retirement planning at an early age. It was emphasised that "Time" is a key determinant of the size and quality of retirement facility you can build. This article develops these concepts and makes suggestions on the structuring of an appropriate "retirement fund" which has the potential of producing a range of income sources to benefit you in your "golden" years.

Q. What is a Retirement Fund?

A personal retirement fund refers to assets accumulated over a period of time identified and designated by you for use during retirement. Income from this fund can be used to supplement your employment retirement benefits. The structure of this will be dictated by your current age which determines the time horizon to retirement, that is, the length of working time remaining before your planned retirement. Time horizons can be identified as short-term, medium-term, and long-term, which respectively relate to the number of years to retirement. These horizons can be used as guides to determine the type of assets which can be included in your retirement fund.

Q. What instruments can be included in a typical fund?

A typical retirement fund, whether it is personal or group, can include any combination of the following instruments:

1. Fixed Deposits and Other Savings Plans;
2. Treasury Bills;
3. Corporate and Government Bonds;
4. Money Market Funds;
5. Stocks and Shares;
6. Equity-based Mutual Funds;
7. Annuities;
8. Entrepreneurial Pursuits (Real Estate, Small Business)

Q. What does each instrument entail?

Fixed Deposit

Also referred to as a time deposit or a certificate of deposit (CD), this is basically a savings account that pays higher than regular savings account interest rates but imposes conditions on the amount and period of withdrawals. With this savings plan, penalties are imposed for early encashment or withdrawal.

Treasury Bills

Treasury bills are short-term Government-issued debt instruments available for purchase by any individual or company. There are variations to the return on issues because of the different maturity dates. Corporate and Government Bonds. Bonds are debt obligations or IOUs issued by private and public entities to raise money for a variety of purposes relating to their business. This type of instrument does not give the purchaser ownership interest in the issuing corporation but generally yields favourable returns. Bonds can help you meet a variety of financial goals, and due to the fact that most have a specific maturity date, they can be a good way to ensure that your money is available at a future date when it is needed.

Money Market Funds

A money-market fund (MMF) is a very special type of mutual fund that is mandated to engage in short-term investments in low-risk securities. Compared to other mutual funds, they pay dividends on a short-term basis. Investment in a money-market fund preserves your principal, that is, your initial investment, while yielding a modest return.

Stocks and Shares

A share in a company gives the investor a share in its dividend which is declared once or twice a year. Stocks and shares also give to the investor, a stake in the company's assets and property and, at the company's annual general meeting (AGM), a vote proportional to the size of the investor's holding in the company's business.. Whilst it offers potentially high returns, it is accompanied by high-risk which can therefore result in capital losses.

Equity Based Mutual Funds

A mutual fund is an investment company that sells and re-purchases shares / units. Equity-based mutual funds are those in which the underlying investments are primarily backed by equities. The value of the investment is subject to price movements of the underlying securities.

Annuities

An annuity is a contract between you and an insurance company, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately upon retirement or at some other future agreed date. Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a guaranteed minimum amount.

Entrepreneurial Pursuits

Property, land and business ventures are some of the avenues that can be explored as investment options. Rental of buildings, apartments and houses can prove to be continuous sources of

earnings to you. Additionally, proceeds from alternative business ventures, the sale of land and property can provide a reasonable lump sum that can be utilized as capital for other investments.

Q. Do these instrument attract the same level of risk

The instruments identified do not all bear the same degree of risk. Some are riskier than others. The option to craft your personal portfolio is available to every individual. However, it is advisable that you have a balanced portfolio with a suitable asset mix, structured in accordance with your risk tolerance, financial situation, time horizon and goals. The following may be used as a guideline:

- Short term (10 years and less to retirement)- Persons occupying the short term retirement bracket ought to be more risk averse, and thus seek "safer" and more stable instruments that focus on maintenance of capital and lower yields, such as fixed deposits, treasury bills and money market funds.
- Medium term (10 to 25 years to retirement)- These persons may consider all of the aforementioned tools, including instruments with variable risk such as annuities and equity based mutual funds.
- Long term (More than 25 years to retirement) - Persons within the long term retirement category may be more inclined to include investment vehicles with longer dated maturities and those carrying greater risk in their retirement fund. As such, they may consider instruments such as corporate and Government bonds, stocks and shares and some entrepreneurial pursuits.

Your MONEY... Know It To GROW It!

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Retirement Planning Part 4 will explore potential funding sources.

