



CENTRAL BANK OF
TRINIDAD & TOBAGO



Planning for Retirement

Retirement from active employment is a reality for which every employee must plan. There are numerous social, psychological and financial issues that are associated with this phase of life, which should ideally be addressed long before the assumption of 'retiree' status. This article deals with financial planning for retirement.

Providing for one's retirement has become particularly important, not only in Trinidad and Tobago, but all over the world. Over the last five decades, improvements in health care systems have helped to extend life expectancy. Since people are therefore living for many more years after they retire from active employment, it is important that workers take responsibility for making adequate provision for the later years.

A common mistake of many employed persons is the belief that they should begin thinking about retirement only when they have crossed the age of forty or fifty years and the countdown towards retirement begins. On the contrary, planning for retirement must be identified as one of the critical financial goals that you must establish early in your working life. This deliberate approach to preparation and provision for your retirement cannot be overemphasized. The earlier you begin to fund your retirement needs, the higher the probability of your being better off in retirement.

Within recent times, many organisations have been encouraging new entrants into the work place to embark on a savings/investment programme. These programmes will generate a flow of additional income that would enable employees to augment their retirement benefits.

The following should be considered when undertaking your retirement planning programme:

- It is important to protect yourself against the real risk of inflation on the value of your funds over time. One of the ways of hedging or minimizing such risk is through prudent investment of your funds. The instruments in which these funds are invested must ideally provide a rate of return that is superior to the rate of inflation. While in general, current rates of return on various investments may not be attractive to the simple investor, the level of risk of the investment may be the factor to be considered.
- Streamline your expenses during your active employment years so that you will not be unnecessarily burdened with huge expenses when you enter into retirement (eg. make the necessary adjustments while still actively employed, so that before retirement the outstanding mortgage payments on your home will be repaid).
- Make adequate provision for your health services during retirement to reduce your cost of health care. One way of doing so is to become a member of a group health plan that would provide coverage into retirement.

In the early years of financial planning, you should take the necessary steps so that you do not depend on one source of income during retirement. One test of adequacy of financial planning for retirement is the extent of diversification of your income sources.

A typical retirement portfolio may include any combination of the following instruments:

- Fixed deposits and other savings plans
- Treasury bills
- Corporate and government bonds
- Money market funds
- Stocks and shares
- Equity-based mutual funds
- Annuities

- Entrepreneurial pursuits (real estate, small business, etc.)

The instruments identified carry varying degrees of risk. It is advisable that you have a balanced portfolio with a suitable asset mix, structured in accordance with your financial situation, risk tolerance, length of time to your retirement, as well as your financial goals.

For more information visit the NFLP website at www.national-financial-literacy.org.tt

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