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Take Charge of Your Financial Destiny

Financial Planning. Mortgage Management. Asset Protection.

Articles In This Issue:

Can You Rely On Your Property For Retirement Planning?

Every one of us desires financial independence. That is, being comfortably retired and able to work for pleasure, as compared to having to work to make ends meet even in one's twilight years. Despite this desire, not many of us actually give much thought to our individual retirement planning.

One of the reasons is that we tend to believe that our property will be able to sustain us financially till our golden years. This is especially so when we read about a HDB flat that was sold for close to $1 million (which is rare even at its very central location) – we believe that we can simply sell off the flat, downgrade to a smaller flat and live off the remaining proceeds for our retirement.

This article questions whether such a strategy is sound.

First and foremost, we need to work out the amount of retirement funds we need. This differs for each individual and depends on one's desired lifestyle and last drawn salary. Let us take the case of Mr Tan as an example. He is a 40 year-old man who intends to retire at the age of 60 with a retirement income of $2,000. In 20 year's time, based on 2% inflation, the future value of Mr Tan's desired retirement income will be $36,000 per annum. Based on inflation adjusted return of 3.92%, he would need $540,000 retirement fund at age 60 to support himself based on average life expectancy of 82.

Secondly, we have to bear in mind the constant need to have a roof over our heads. Let us return to Mr Tan's case. In order for him to rely on his property for his desired retirement income, two things must simultaneously happen in 20 years' time: One, the value of his single HDB flat would have to appreciate and fetch close to $1 million. Two, he will also have to ensure that he downgrades to a smaller 3-room flat that costs less than $400,000. Even if everything falls into place, he will still have to face other issues. For instance, if his children are still young or are not able to afford their own properties, he may not be able to downgrade even if he wants to. His family would need more space than what the 3-room flat may give. In this case, relying on your property for your retirement plans is not the best idea.

In the light of today's social and economic trends, retirement planning is not just a good idea – it is vital.

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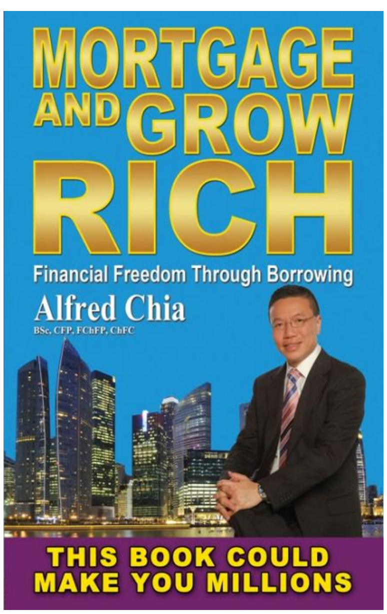

Thirdly, it is never wise to "cash in" the roof over our heads. We can only rely on our property investments for our retirement if we have more than two properties in hand. However, the recent property cooling measures by the government have sent out a strong message that one needs to treat their HDB flat as a necessity rather than an instrument to make money.

Back to Mr Tan's case – if he does own two properties, and still desires a future retirement income of $36,000, then one of his two properties must provide him with the rental income. Based on the current average rental yield for residential property at about 3%, this would mean that he requires an investment property of at least $1.2 million in value to provide the rental income.

Yes, we all dream of becoming landlords, when we are able to collect rent as passive income, but in order to live that dream we would need to come up with an appropriate action plan. Based on the current financing regulations, where one can only get 70% financing if he has more than one housing loan, Mr Tan would need to fork out at least 30% down payment, along with stamp duty, legal fees and other related fees. This would translate to more than $396,000. This means that Mr Tan would still have to work towards accumulating that funding to buy the investment property to provide him the retirement income he wants.

Besides these factors, another important factor for retirement planning is medical insurance, as every individual needs to cope with the health problems that come with old age. This is one key area that is normally not taken into consideration and taken lightly by many. Do think about it, an unexpected major illness can wipe out the value of one's property if one does not do proper planning.

There may be a false sense of wealth when our HDB flats appreciate in value. However, unless we use that value as a stepping stone to upgrade our property, we cannot translate the appreciated value into CASH. Too many owners think only about cashing out their assets – they don't always realize that all the other property prices have gone up too. Once they sell their property, they have literally to shut themselves out from owning any other property. It is certainly not fun to have to move to the beach and live in a tent, even if you have a full sea view!

In the light of today's social and economic trends, retirement planning is not just a good idea – it is vital. Yes, one can certainly rely on their multiple properties' rental income as retirement income. But in cases where one only has a single property, it is important to separate illusion from reality. Illusion will delay the necessary planning whereas reality will result in the urgency to put the plan in place.■