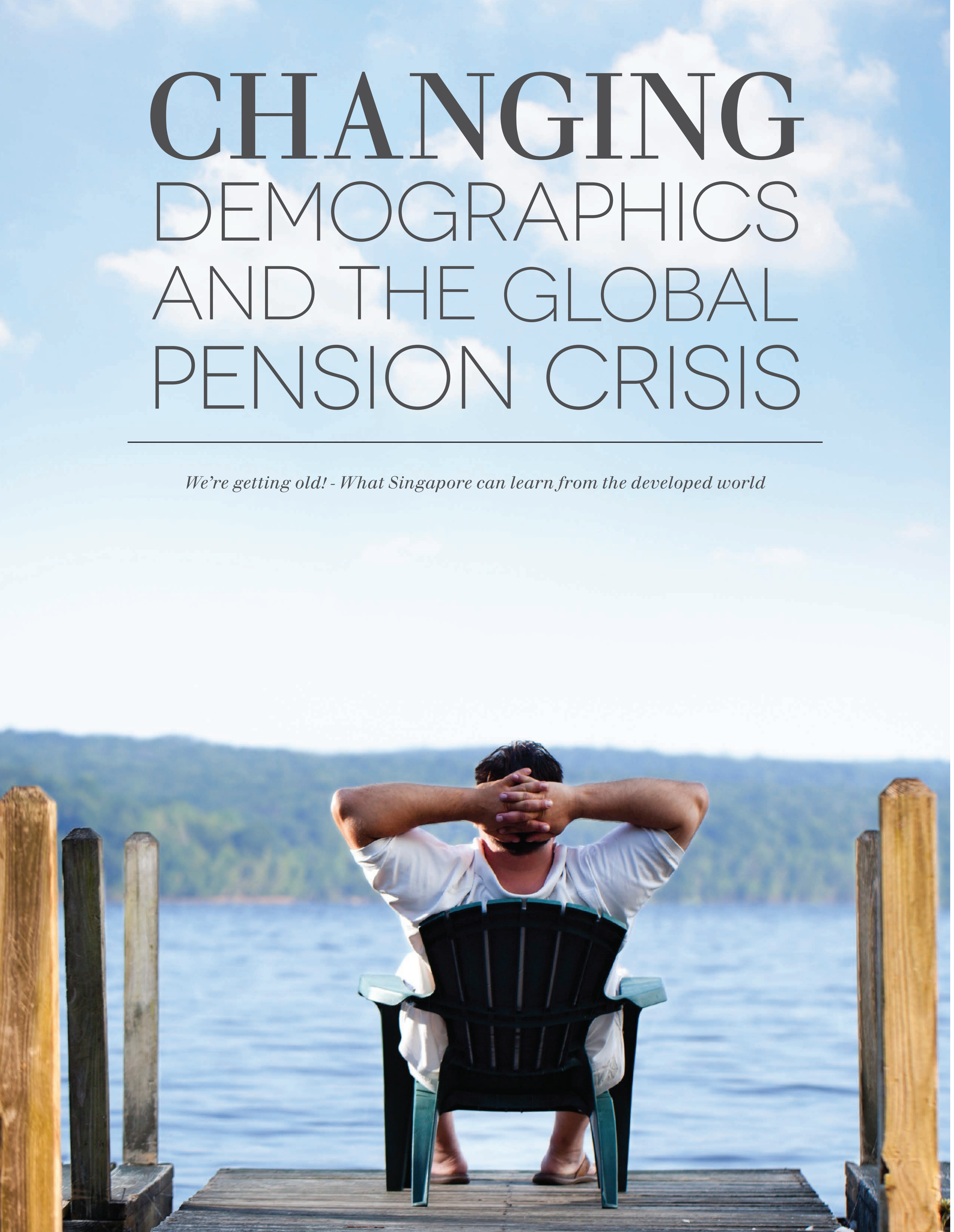

CHANGING DEMOGRAPHICS AND THE GLOBAL PENSION CRISIS

We're getting old! - What Singapore can learn from the developed world

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Life in Singapore is good. Personally, it is preferable to life in London or Hong Kong. As a Singapore PR now, I am very happy to be living and working here, and the development of the country that I have witnessed in my 7 years here has been incredible! But as with most of Asia and developing countries around the world, such infrastructure and economic growth come with a cost - inflation and higher costs of living. I ignore official inflation figures; to me, the cost of living has doubled since 2006. With changing demographics and ageing populations, the global pension crisis that much of the developed world have already faced, or are starting to face, will be a future problem for Singapore and much of Asia.

Yes that's right, the horrible 'C' word – Crisis. There is another crisis, other than the 'GFC' or Global Financial Crisis that we all need to be aware of, and that's the Global Pension Crisis. For many of us, and certainly all of us living in Asia Pacific (excluding Japan), awareness and preparation now is essential for survival later!

A GROWING NUMBER OF ELDERLY CAUSING A STRAIN ON A SHRINKING NUMBER OF WORKERS

In Asia and the developing world, development and inflation have led to higher costs of living. We all know about this and experience it first-hand every day. But also, life expectancies are increasing and birth rates are declining. These two occurring in tandem not only mean that we are living longer and therefore need more money to fund our lives, but also dependency ratios are getting higher. Dependency ratio can be defined as per below:

$$\text{(Total) Dependency ratio} = \frac{\text{(number of people aged 0 – 14 and those aged 65 and over)}}{\text{number of people aged 15 – 64}} \times 100$$

A high dependency ratio can cause major problems for a country. The largest proportion of any government's expenditure is likely to be on health, social security and education. Clearly the elderly and the dependent young are the groups most likely to use this, while the working population are the ones who will effectively fund this. In Singapore, if birth rates remain low, as they have been, then the bottom half of the equation, the working population, will ever decrease. As those of working age grow older and eventually become part of the 65 and over bracket, the top half concurrently increases. This leads to an increased dependency ratio and a strain on the economic resources of the government.

In January 2013, the Government of Singapore released the Population White Paper: A Sustainable Population For A Dynamic Singapore. It was a hot talking point in the press, social media, office coffee rooms and hawker centres alike. The focus was, of course, addressing the ageing and shrinking population. The opening paragraph of the white paper sets the tone: "Our citizen population reached a turning point in 2012, as our first cohort of Baby Boomers turned 65. Singapore will experience an unprecedented age shift between now and 2030. Over 900,000 Baby Boomers, more than a quarter of the current citizen population, will retire from the workforce and enter their silver years ". A pretty powerful opening! It goes on to mention the point I raised above: "…falling birth rates coupled with increasing life expectancies will result in an ageing and shrinking citizen population and workforce". The first chapter continues in a similar vein and goes on to cover dependency ratios, and uses a slightly different, but more definitive, measure, namely 'old-age support ratio'. This very simply, and clearly, drives home the point:

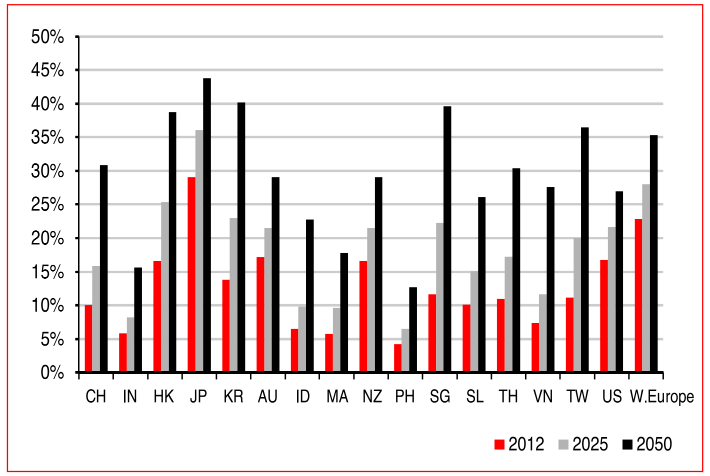
YEAR	CITIZENS AGED ≥ 65	CITIZENS IN WORKING-AGE BAND OF 20-64 YEARS OLD
1970	1	13.5
2012	1	5.9
2030*	1	2.1

So the estimate is that by 2030, there will be just 2 workers per retiree! That is an incredible strain on the system. So it is down to the individuals to start saving for their own futures, rather than relying on the state or children. If 2030 seems a long way off, it's not! Just think: if you are in your late 40's now, you will be retiring then, and if things do not change dramatically, you will most likely be retiring in a country where there are only 2 workers supporting each retiree!

WE ARE LIVING LONGER

Compounding the problem, as mentioned above, is that we are all living longer too, hence more years of living to fund! Back in 1970, the average life expectancy in Singapore, according to the World Bank, was 68 years old. The life expectancy today is 82. That's an extra 14 years to fund! And it's not just Singapore; Hong Kong has a similarly rising life expectancy – also 65 in 1970, and now 80 today. All across Asia Pacific, we are all facing the same problem.
Asian economies have been booming for decades now, thanks in main to a young and healthy workforce. That workforce is ageing and the number of elderly Asians is set to hit a billion 65 year olds by 2050 according to the United Nations. This is rapid ageing, and it is not only Singapore facing the problem, as outlined by the United Nations Population Department and HSBC chart below:

CHART 1. PERCENTAGE OVER 65 IN TOTAL POPULATION: GREYING FAST



Source: UNPD, HSBC

According to these estimates, all across Asia-Pacific, including the developed West, the same ageing population problem is upon us.

Furthermore, according to the Society of Actuaries, a married couple each aged 65 has a 50% chance that one of them would live to age 92. That is nearly 10 years over the average life expectancy. That is another 10 years of living to fund.

THE GLOBAL PENSION CRISIS

Who can be relied upon to help you with your larger retirement funding needs? The government? Your company? Your children? Or you? I say, take your retirement planning into your own hands. The developed West is experiencing a pension crisis, largely attributed to lack of savings, but also a failure in the provision of sufficient pensions by the government and corporations. State pensions across the developed world help in retirement funding but are far from enough, and the strains on the system, caused by the changing demographics discussed, the GFC, low interest rates, and other challenging economic conditions, mean they are therefore insufficient. Companies often help by providing pension benefits, though these are also not often enough. Think Enron, Lehman etc. - these pension schemes certainly did not help their employees retire early! These are some of the dangers in relying upon company pensions.

On top of corporate failure (or fraud), poor funding and bad investments are also key risks to the retirement planning of many relying on their corporate pensions. Take the UK for example - the huge pension deficits are not isolated but unfortunately, very normal. According to the Financial Times, reporting in March 2013: "UK companies reporting annual results for the year to March are expected to report an increase of more than £100 billion in their aggregate pension deficits…". This is not very good news for those hoping to retire using company pension schemes. Major multi-nationals are not excluded, with Royal Dutch Shell, BT Group, Lloyds Banking Group, BP and BAE systems, among those with the largest pension liabilities. Will the pensions still be solvent and even in existence by the time members have retired?

Company pensions do not inspire confidence and should therefore not be relied upon for retirement planning.

In Singapore, company pensions are less common and most Singaporeans have the CPF (Central Providence Fund) to help provide healthcare, retirement needs, and housing. Employers and employees contribute to this - sounds good, especially in the context of the pension crisis in the UK! But what if you are an entrepreneur? What about those self-employed? What about Singaporeans working overseas? Is your CPF going to be sufficient to provide for your retirement needs? Or, what if you have spent the majority of your CPF savings on housing, and then upgrade to a condo, and then to a landed property? How much will be left to fund retirement? Singapore is one of the wealthiest countries in the world on a per capita basis; however, over 60% of this wealth is tied up in bank deposits or illiquid assets such as property, which generate little or no income. It is likely that whoever you are and whichever of the above questions applies to you (maybe all of the above!), you will still have a shortfall come retirement. Singapore has the lowest levels of government social spending versus Hong Kong, Japan, South Korea and Taiwan. This puts the responsibility for retirement security firmly on the shoulders of its individual citizens.

Japan also faces its own well-publicised pension crisis. There are already over a quarter of the population over 65 - that's 30 million Japanese of retirement age! In 2009, the European Commission estimated that the old-age dependency ratio would be 73.8% - that is the number of over 65s as a percentage of working population.

These are all lessons Singapore and developing Asia can learn from. China has a huge problem ahead. The World Bank predicts that by 2050, 34% of the total population will be over 60 (that is over 500 million people assuming static population growth!). While Singapore's is of equal urgency, the good news is that we are a far smaller island and the government has been actively trying to address the issues. Now, we as individuals need to do our part and start taking retirement planning seriously. The CPF and a property is not a sufficient retirement plan. Let's learn from the problems faced by our more developed friends overseas and address the problem before it escalates beyond our control. It is not too late!

CHANGING DEMOGRAPHICS MEAN THAT RETIREMENT PLANNING IS MORE IMPORTANT THAN EVER BEFORE

So, the landscape has changed – retirement needs and long term financial planning need to keep pace. There is a need for significantly increased income in retirement due to inflation. There is also a need for significantly increased assets to provide this income as we are living longer. The solution is easy - either spend less, retire later, or save more (or all three!). I think for most, the preferred route today is the latter, to save more. After all, do you want to holiday in Batam or Johor this year, or do you want to go to Europe? Do you want to sell the golf club membership? What about working into your 70s? What about selling your car and taking the bus everywhere?

Work out, with the help of your Financial Adviser, how much you need to save and what vehicle is the best one(s) for you to utilise for your private pension. You might need to save more than you want to or more than you can afford. That is quite normal; the key will be starting as soon as possible, even if it is with just a small amount. The peace of mind at knowing that you have started saving for your future is nice and the sooner you start to save, the sooner it can start to grow. The average inflation rate in Singapore over the past 12 months was 4.4%, so if you have taken out a 1 year bank deposit with a 1% interest, you would have actually lost 3.4%. Keeping money in the bank is not prudent in this low interest rate environment.

> *"The peace of mind at knowing that you have started saving for your future is nice and the sooner you start to save, the sooner it can start to grow."*

So don't delay the planning any longer. Enjoy your 'Golden Years' with your family; don't struggle to make ends meet and burden them. Take retirement planning into your own hands and seek professional advice today by visiting a financial planner who can help you draw up and implement a plan to ensure a comfortable and enjoyable retirement.