BAD NEWS, APPARENTLY

A recently concluded study done by OCBC Bank and Singapore Management University (SMU) unveiled that most Singaporeans are poor money managers and are ill prepared for their retirement. *Smart Investor* looks at this alarming trend.

BY HAROLD TOH

SINGAPOREANS UNPREPARED
A recent study on money management behaviour of Singaporeans found that a majority of the respondents were not prepared for retirement. It also found that Singaporeans are generally poor money managers “who invest too little too late” as many had started to save only after they got married.

The survey examined the money-management behaviour of about 1,000 Singaporeans at various stages of their life. It also highlighted that many Singaporeans are overly dependent on earned income as their main source of wealth accumulation, and primarily poor money managers.

As a result, these may leave many Singaporeans ill-prepared for their retirement and any emergencies such as retrenchment.

Generally, Singaporeans at age 55 have CPF balances of about S$90,000 for their golden years. In addition, there is an average of about S$60,000 in the form of liquid assets and investments. The combined sum of S$120,000 will carry the retiree for the next 20 or 30 years, giving a monthly income of S$500.

“The amount collected from downgrading is not factored into the arrived retirement figure of S$120,000,” says Professor Francis Koh, associate dean of SMU’s Lee Kong Chian School of Business.

Yet, this sum is unlikely to be sufficient for the retirement years unless other forms of assistance is available, added Prof Koh.

“It is important that Singaporeans save and invest actively during their working years,” he added.

Feedback from industry experts claim that the additional amount from downgrading might not be substantial because of soft prices in the property market. Moreover, segmented downgrading on a wide scale might even cause property returns to fall because of the oversupply.

The study also reported that 41 per cent of retrenched workers are not re-employed within a period of six months, and will only be able to pay their expenses for 5.24 months (Median Expense coverage Ratio). More crucially, 16 per cent of workers only have one month of coverage before facing financial difficulties.

The group identified by the study that is most vulnerable includes workers who earn less than S$3,000 per month, and have relatively low savings of S$14,000. At the same time, 37 per cent of workers do not have regular savings and 60 per cent have an expense coverage ratio of about six months.

BASIC SAVING PRINCIPLES
Ideally, when should you start saving? The better question should perhaps be: when do you need the money? According to OCBC Bank’s head of Wealth Management, Mr Nicolas Tan, “you should start an investment or savings plan early, and not when you get married. This is because you’ll need the money when you start a family.” He adds, “very often, clients seek advice too late. It is never too late. Our advice to clients is start planning now. The investment now might not be substantial, but at least there will be returns.”

Meanwhile, Mr Tan summarized the report by adding a few basic saving principles. “The power of compounding will help over a period of time even if the annuity in the beginning is small. Make sure you practice basic money management. Finally, we need to start now and make improvements gradually in order to achieve our plan.”