FM Letter: Q2 2015

Databank
Leadership

Retirement planning: Why it Matters

Retirement planning is rarely a subject that is talked about in Ghana, today. While there have been reforms to the nature of pensions (which are widely seen as positive by capital market operators), hardly anything has been done on the "individual planning" side of things. I can understand why. It's easy to be distracted by today's financial challenges such as rising costs of living; access to quality and affordable education; healthcare and housing; reliable access to water and power... the list is endless. While these may be legitimate reasons to defer your retirement investment planning to a later date, the failure to properly plan for your retirement could lead to tragic consequences at the time when you need it the most.

In this letter, I will submit five reasons why you should actively start planning towards your retirement, starting today!

1. Reduction in "Income"

The first thing that hits most retirees (particularly, those with very little/no accumulated savings/investments) is the significant drop in income. **This makes sense because once you retire, you are no longer working to earn a living to support a lifestyle that you may have gotten used to for the last few decades.** Income received from an 8am-to-5pm job (e.g., salary, other benefits) is replaced by a lump sum pay-out from your tier 1 or 2 contributions over the years; the monthly stipend from the same; and the proceeds from investments done in anticipation of this period of retirement. Those who wait until there are only a few years before retirement lose out on decades of unrealised investment gains, primarily because they did not take ownership of their own retirement. They failed to start preparing for their retirement themselves by coming up with their own "nest egg" outside the formal/mandatory pension schemes available in the market.

> **GHC 801.64**
>
> The average monthly pension paid out by SSNIT to beneficiaries in the month of December 2014.
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> *Source: SSNIT Monthly News Sheet (March 2015 edition).*

2. Increase in health care costs

Over the years, I have noticed that the mileage landmarks for servicing cars have narrowed considerably. Simply put, the number of checks that a car is recommended to have in a year, increases with the car's age. In this respect, people are like cars. **The older we get, the greater the likelihood that we will need to get medical attention more frequently to make sure we are healthy.** While we may still feel young at heart, over time age begins to take a toll on our body. Our strength diminishes, and the older we get the more we may need to rely on others to help us do the things we once took for granted. SSNIT's Monthly News Sheet for March 2015 lists Hypertension, AIDS Related Illnesses, Malaria Fever, Septicaemia and Accident/Poisoning as the top five (5) causes of death of beneficiaries in January 2015 (NB: The total list comprises 23 illnesses/diseases). With a number of these conditions commonly associated with the older generation, clearly, there is the need for today's retiree to expect a sharp rise in

3. Emergence of "Hidden (start-up) Costs"

There are also hidden "start-up costs" to retirement. Formal sector workers (for instance) may have been provided with a house and/or car by their employers, which will revert back to the employer upon retirement. **The new retiree will need to then use a portion of their lump sum payment to fund the purchase of these things, at a substantial cost, leaving them with very little to get other equally important things done.**

Some workers "come around" just before they are about to retire, and start planning for it by putting in place a venture that is expected to earn them income during that period. Aside the fact that such a venture is risky and time consuming, it does not come cheap. It will likely involve getting office/shop space for a number of years; stocking up/furnishing the same; hiring workers to man the shop/office, etc. As a new retiree, such costs can threaten your living prospects if those ventures are being financed with your lump-sum pay-out.

4. Ongoing costs

One thing that many retirees also don't account for are expenses that continue even when full-time income stops. Two examples are child care and parental care. Many young people are opting to start families later in life as they attempt to build their careers first. The end result is that many of these people will enter retirement with children who are still in school (i.e., secondary school or university), and whose fees still need to be paid. Likewise, if your parents are still alive when you retire, it is likely that their financial needs will be even higher. They will be more dependent on you and will have much higher incidences of health-related issues. These are all costs that you need to think about. You therefore need to ensure that you've planned properly both for yourself and for your family members who may still be relying on you during your retirement.

5. You deserve to enjoy your retirement

You will spend the greater part of ***your*** life – decades, in fact – working your fingers to the bone to make ends meet (for personal, professional and family reasons). That's why we believe there should come a point where you can enjoy the retirement that you've worked towards for so long. Retirement should be a time that you take vacations that are long overdue, open up that farm that you've always wanted to, take up a hobby or a sport (e.g., golf, tennis, fishing). **Retirement is about your financial independence! Ideally that should mean you don't need to rely on stipends from your children, who are building their lives, just to "get by" in retirement.** Whatever you get from you children should be a nice bonus. Studies have also shown that with improvements in technology and medicine, people are living longer now than they were a decade earlier. In this respect, properly planning your retirement is a certain way to ensure your financial independence during that period.

Get started today – if you haven't already!

Planning for your retirement is key. However, planning without action is futile. It is time to start thinking about and planning for your retirement. It's as easy as 1-2-3.

Step 1: Complete the Databank Retirement Questionnaire
Step 2: Visit a Databank office near you – you've got 10 locations to choose from
Step 3: Ask about how the Databank Balanced Fund (BFund) can help get started towards that financial retirement plan

I look forward to partnering with you on your investment journey towards retirment.

Sincerely,
Nii
Nii Ampa-Sowa
Chief Investment Officer
Databank Asset Management Services Limited

Databank - Retirement solutions for everyone

At Databank, we have a number of unique solutions to assist individuals and institutions to prepare for their retirement. We have a dedicated team of fund managers – licensed by the Securities and Exchange Commission and the National Pensions Regulatory Authority – who manage a number of schemes under the new pension law. Our Institutional desk manages a number of benefit portfolios for firms (large, medium sized, small) looking for investment solutions for their staff. With over 20 years of experience in managing money for people, our clients can be assured that their funds are in the hands of the best in the business in Ghana. For individuals looking for a retirement solution outside the three-tier pension scheme in Ghana, we have a unique product for you – Databank Balanced Fund (BFund). BFund is Ghana's first balanced fund. It gives you the best of both worlds for your investments. With BFund, you get the stability and security of a money market investment plus the potential for higher returns that come with equity investments. Invest towards the retirement you want. Invest in BFund.

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Retirement planning checklist

How ready are you for your retirement? Fill in your answers in the table below and then complete the calculation below to get your answer.

1. How old are you now?	1	
2. What age do you want to retire?	2	
3. How many years do you expect to be in retirement (assuming you live until age 85)?	3	
Ongoing costs		
4. Do you expect to be paying school fees for any of your children during retirement? If yes, a. how much do you expect to pay (monthly estimate) b. for how many years into your retirement		
5. Do you expect to be taking care of your parents (financially) during your retirement? If yes, a. how much do you expect to pay (monthly estimate) b. for how many years into your retirement		
6. How much money do you need on a monthly basis (in today's cedis) to retire comfortably?	6	
Current savings/investments		
7. How much money do you currently have invested towards your retirement?	7	
8. Are your retirement savings kept separately from other funds that you would rely on in case of an emergency, or to pay school fees? Or, is it the same pool of money you're using to meet the various needs?		
Additional income sources		
9. What other sources of income will you have during retirement? 10. How much are you expecting these sources to contribute on a monthly basis?		
11. For how many years of your retirement do you expect to have these additional sources of income?		

To calculate how much money you will need when you are ready to retire, please fill in the blanks below:

Step 1: (2) ___________ - (1) ___________ = _____________ (number of years to retirement)

Step 2: (6)* ___________ x (3) ___________ x 12 = _____________ - (7) _____________

= _____________ (amount of money needed to fund your retirement)

Step 3: (Step 2) ___________ / (Step 1) ___________ = _____________ / 12

= _____________ (amount of money you need to save on a monthly basis to achieve your retirement goal)

*Note: Please consider your answers for questions 4 and 5. **Please note that the result is not impacted by inflation and return.

The difference between saving and investing for your retirement

Your rate of return can make a big difference in how much you need to set aside monthly to achieve your goal. Let's assume, for example, that you need GHC 1,000,000 to fund your retirement and you've got 20 years to do it. Do you know that you would need to invest over GHC 2,400 per month if you're getting a return of 5% a year (the average return on saving accounts) versus GHC 316 per month if you're getting 20% a year. That's a major difference. Don't just save. Invest toward your retirement.

Call Databank at 0302 610610 to find out how we can help you achieve the retirement you deserve!