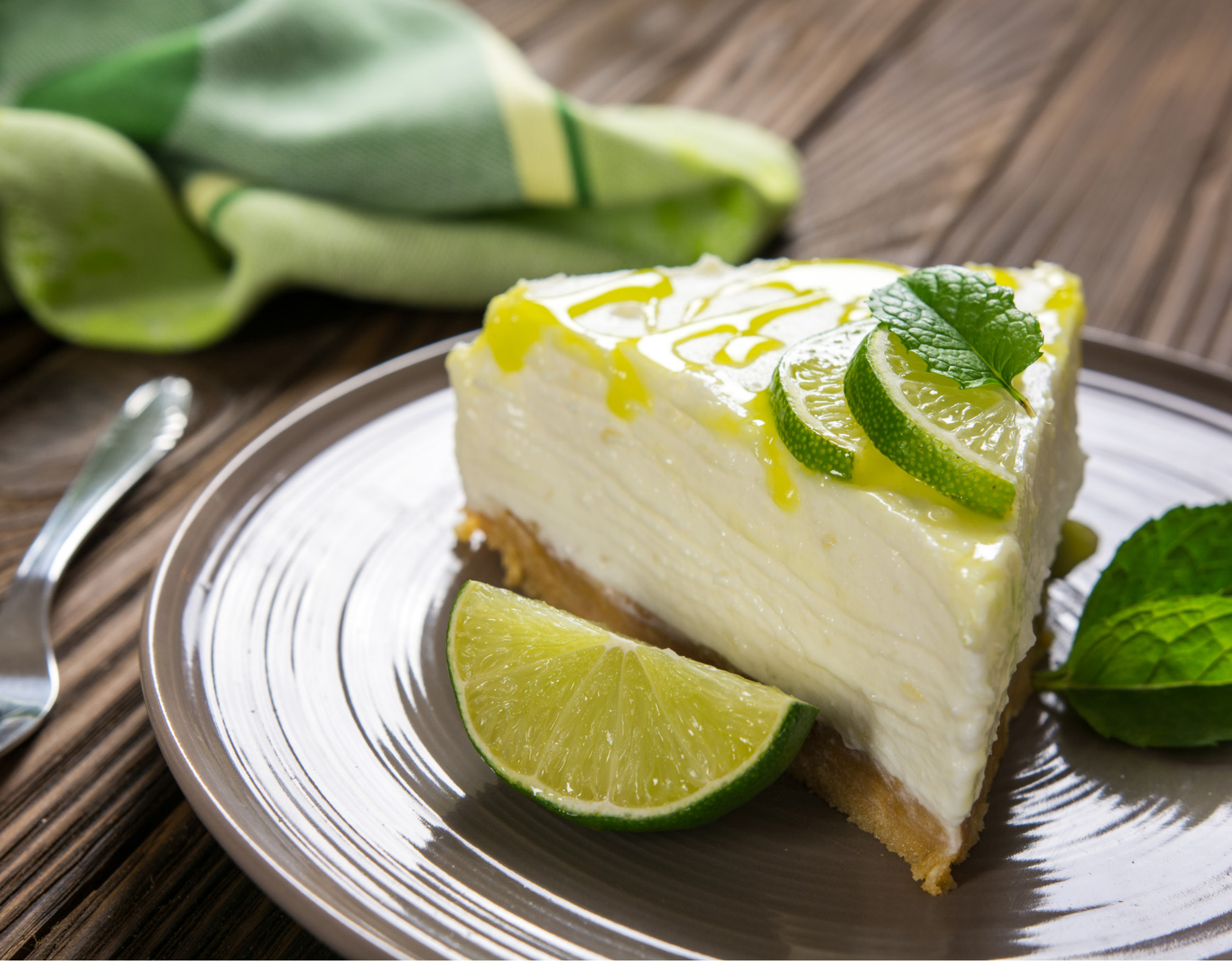


Coffeebreak

03/2021

The Divide | A Social Experiment

Tackling the Complexity of Retirement Spending

The Expat Wealth Blueprint Podcast

Invitation To Webinar on Integrated Shield Plan Changes

Providend

Dear Valued Client,

With 8th March being International Women's Day and 2021 declared as the "Year of celebrating SG Women", there were a myriad of articles relating to women. There was the launch of a children's book titled "Awesome Women of Singapore", 7 women who are pioneers in social work, public health, sports, aviation and the arts were inducted into the Singapore's Women Hall of Fame, there was even a forum article suggesting that women should serve national service to help boost birth rates (serving NS together allows them to interact, thus enabling relationships to be forged was the argument).

As to be expected, there was an article on how women tend to be less invested than men, and a smaller percentage feels confident or knowledgeable enough to invest. The key reason for this has been attributed to women being too preoccupied with their various roles and responsibilities, leaving little energy for financial matters. We would have read of several research which show the same outcome: that on average, women still do 70% of household chores. Beyond the physical tasks, it is also the invisible labour involved in managing the household and family, what is known as the mental load. For a humorous explanation on what is mental load, **read here**.

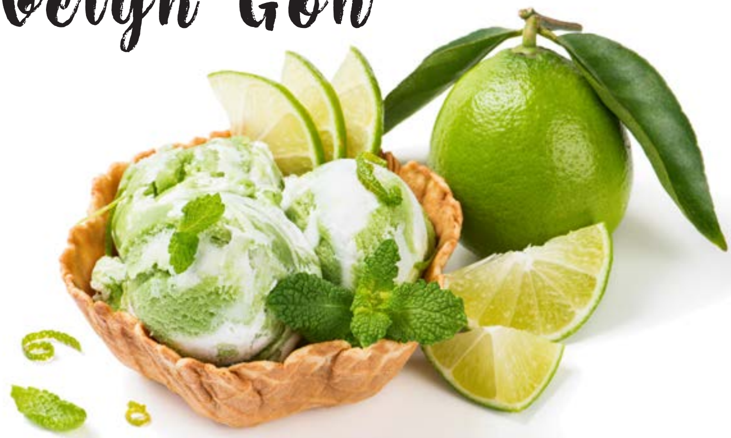
As a working mother of 3 school going children, I identify with the challenges and demands that modern women face and yes, the mental load is real. But I tend to think that just as women has multi-faceted roles, the reasons that women tend not to be so financially savvy is multi-faceted as well. For one, I have great difficulty hiring women Client Advisers and I have my hypothesis of why this is so, but well, I will leave that for another time.

At Providend, we always encourage prospective clients who are married to engage in our advisory process together. We believe money is never an end by itself, but an enabler to achieve what is truly important to the family in the pursuit of their purpose and life goals. Yes, some ladies may not be too interested when we reach the more technical bits, but I have never met a lady who has no views at all about what she wants to achieve with the family money. Every lady I have met has some thoughts about what they want to do for themselves or their loved ones. And once they see how the wealth plan comes together to ensure high certainty of achieving their life goals and purpose, no matter what happens and in a comfortable manner, they tend to be more involved and engaged in our ongoing lifelong conversations.

At Providend, we have always seen it as a sacred trust that our clients placed on us to partner them in their wealth management journey. I am happy to see more women engaging in money conversations, whether it is about their own wealth or the collective wealth of their families. We hope to continue empowering more women to take charge and make wise decisions with their money along their wealth journey.

Warmest regards,
Deputy CEO & Chief Advisory Officer

Evelyn Goh



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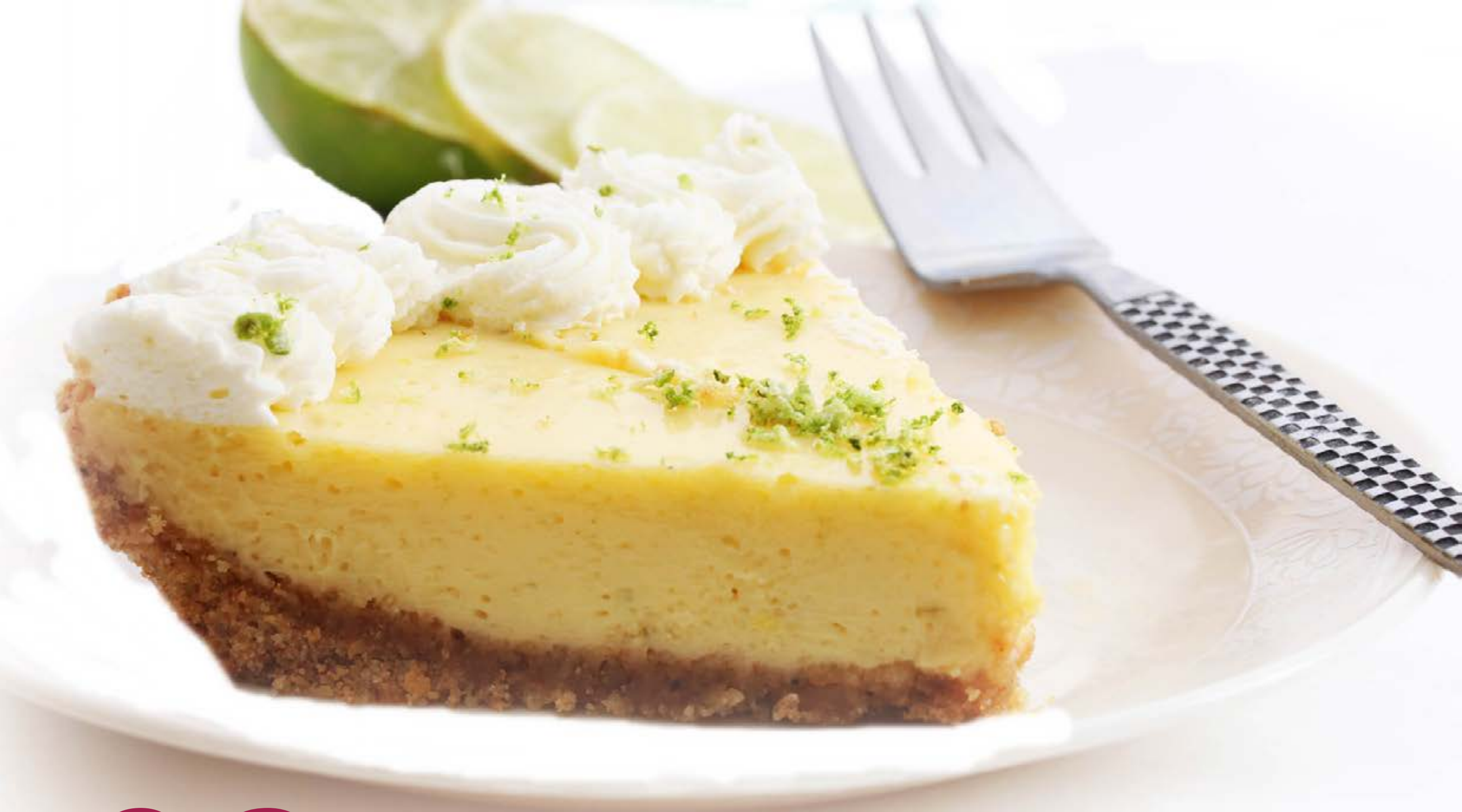


02

Tackling the Complexity of Retirement Spending

Christopher Tan, Chief Executive Officer

In conventional retirement planning, advisers often assume that their clients' annual expenses (adjusted for inflation) remain flat throughout their retirement years. Therefore, many retirement solutions and products are designed to meet this kind of need. It is also a lot easier to design retirement plans and products with a flat annual payout than one that can cope with fluctuating expenses throughout clients' retiring years. But what if retirees' expenses actually changes at different phase of their retirement life? Several years ago, when I was a member of the CPF Advisory Panel, we briefly discussed about whether retirees will actually spend more or less in the later part of their retirement. But as this topic was not part of the terms of reference given to us, we need not and did not land on a conclusion. Having said that, we did recommend that CPF LIFE has an option for escalating payout and this has been implemented since 2016.

In January 2020, J.P Morgan Asset Management (JPMAM) released a research paper titled "Three Retirement Spending Surprises". Through its process of understanding the real-world spending patterns of more than 5 million J.P. Morgan Chase households to evaluate retirement behaviours, it uncovered three patterns: a lifetime spending curve, a retirement spending surge and a high degree of retirement spending volatility.

A Lifetime Spending Curve

JPMAM's research indicated that on average, spending steadily climbed in households between the ages of 20 and 40 and peaked in households in their late 40s and early 50s, after which, JPMAM observed older households spending less. In addition, JPMAM also discovered that not only how much people tended to spend change by age, what they spent their money on also changed. Putting into numbers, say a 60-year old today spends $15,000 a month which included $3,000 for groceries and $1,000 for healthcare. A 70-year old today may spend lesser, say $10,000 a month which included $1,500 for groceries but $1,500 for healthcare. The question then is, how much will the 60-year old need in 10 years' time when he turns 70? Conventional retirement planning simply use the CPI as a proxy to maintain purchasing power (of $15,000 monthly) of the 60-year old in 10 years' time but do not consider the possible lower expenses of a 70-year old and where his expenses will go to. This is important as inflation (or deflation) for different expenses can vary. JPMAM's research showed that this can lead to overstating actual spending needs by as much as 26% by the age of 95.

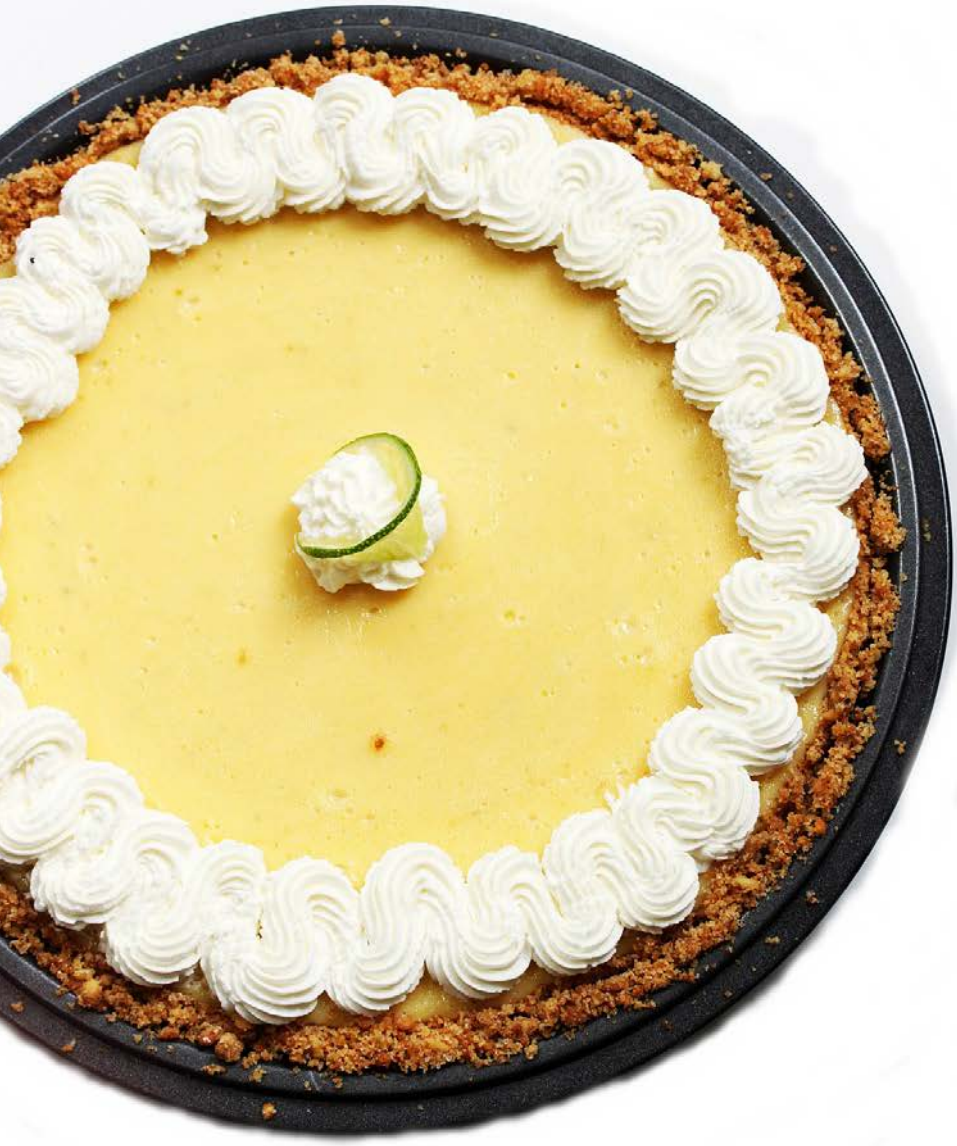
A Retirement Spending Surge

JPMAM's research also took a closer look at household spending during the critical five years around the retirement transition period – 2 years before and three years after retirement. They discovered that retirees' spending experienced a significant increase that peaked in the month of retirement and then slowly dissipated in the following three years as people move into this new life stage. JPMAM suggested that anecdotal observations indicated that this relatively short-term surge is frequently due to increased travel, housing-related changes such as relocation or renovation and other types of changes as people transit into retirement. The key takeaway from the research is that people don't reduce spending in retirement overnight and often use more capital earlier than might be expected as they prepare for a new life stage.

Retirement Spending Volatility

Finally, JPMAM also noticed that while there is a general spending surge at retirement, based on median behaviours, there is also wide variation in spending at the individual household level, particularly early in retirement. They compared the average spending in the 12 months prior to retirement to annual spending in each of the three years after and found that almost 80% of the people experienced substantial changes in spending. About 24% spent considerably more or less (+/-20%) and 56% experienced increased or decreased spending temporarily. JPMAM concluded that the above showed that the vast majority of people do not start retirement and then immediately begin a new, static lower spend rate that continues throughout their non-working years. The key takeaway by the researchers at JPMAM is that spending volatility can remain prevalent early and in throughout retirement and this can have important ramifications for appropriate risk and liquidity level. What this means is that it is important to ensure that retirement and investment strategies designed for retirees will have to be able to cope with this spending volatility. Having too much equities in a retiree's retirement portfolio can be a problem in a down market when you need to spend whether planned or unplanned. But having too much in cash or bonds may not yield enough returns to support the lifestyle aspiration of the retirees.

Although the findings of JPMAM did not surprise me, I was impressed with the granularity of the research. Since more than a decade ago, we have often said that the withdrawal phase of retirees is a lot more complex than the accumulation phase and conventional retirement planning approach may not help prepare retirees adequately for retirement. In our planning for our retiree clients, there is the need to help retirees mitigate the risks of longevity, inflation, investment (which includes volatility risk, sequence of return risk and the possibility of lower returns), overspending and the worsening of health during the retiring years. Overlay that with the retirees' spending curve, spending surge and spending volatility adds another layer of complexity to the plan. To top it all, we need to integrate all the retirement assets that the retirees have, which can include properties, pension fund (such as CPF), insurance endowments, annuities, equities, bonds and other investments such as managed funds and ETFs to meet their uneven income need in retirement. And we have not even talk about balancing current spending needs with leaving behind a financial legacy. One thing is for sure, there is a need to really listen to our retiree clients, to understand their money values, important relationships, hobbies, interests, purpose and life goals in order to develop that perfect spending plan. But no matter how perfect the plan can be, it must be flexible enough to be adjusted. This is because retirement spending during the retirement years is unpredictable and filled with uncertainties. It has to be, since one is spending down over two to three decades. During this period, the world will change and investment returns will fluctuates. Clients' spouses and their health may change. Their family situation and their aspiration may change too. Therefore, a lifelong conversations (at least once a year) with our clients is absolutely critical to respond adequately and effectively.



03

Introducing Our Expat Wealth Blueprint Podcast

We are happy to annouce the launch of our Expat Wealth Blueprint Podcast – simple approaches for managing personal wealth of $2 to $20 million, hosted by our Head of Expat Advisory Division, Max Keeling!

You can now listen to the podcast on 5 different platforms:

Spotify Podcasts music Google Podcasts PodBean

To get started, check out our first episode where Max shared some of his top tips and guiding questions that will help you in figuring out your 'magic number' in this episode. We have a video version with subtitles on our YouTube channel as well!

04

Invitation To Webinar on Integrated Shield Plan Changes

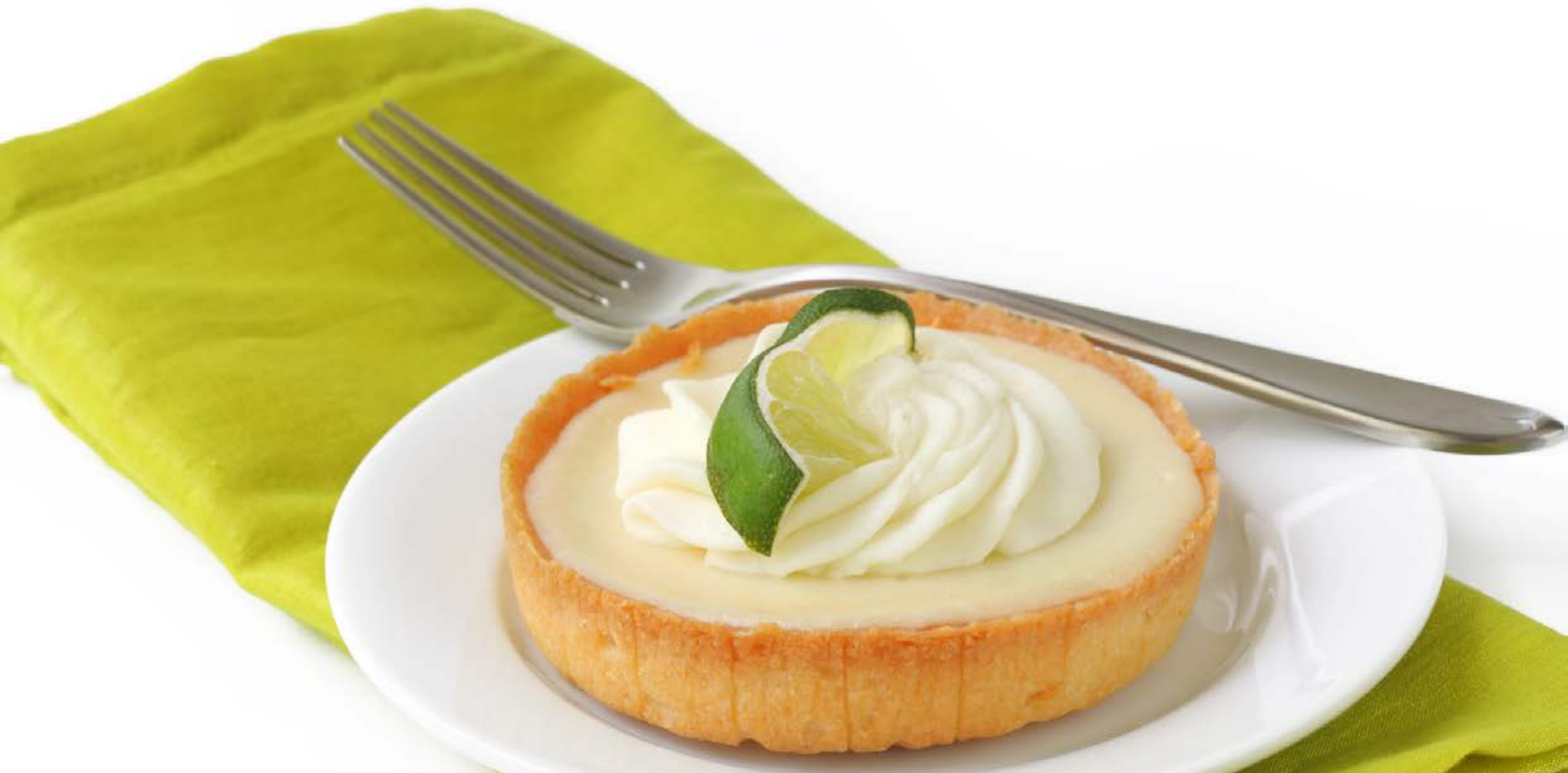
Tuesday, 6 April 2021 | 7.30pm to 9.00pm

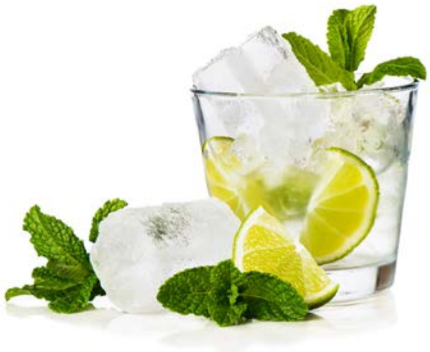
In recent months, Integrated Shield Plan (IP) providers have started informing a certain group of policyholders about the impending changes from 1 April 2021, which affects the size of insurance claim on their IP. Policyholders who previously bought a full rider on their IP would be transited to a co-payment rider when they renew their policy after 1 April 2021. This latest move is part of the national approach to curb rising healthcare cost and to keep IP premium sustainable.

In this webinar, you will learn about:

- What are the key changes to the IP rider
- Who will be affected by this change
- What is the impact on claims and how to keep it affordable
- Should I make changes to my rider or even switch insurer
- Do I need to inform my insurer before going for a medical treatment

Register Now





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See You Latte!

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