

Financial Management for Retirees

Pre-Retirement Innovations and
Options for Result (PRIOR)



Retirement



- Action or fact of leaving one's job and **ceasing to work**
- Enough **passive income** that covers expenses to last his **lifetime**

Retirement

- Not about age
- Having enough assets to finance a lifestyle until you die
- Get to choose to do what you deem is meaningful to you

FINANCIAL LIFE STAGES VIDEO

**How much is your monthly
expenses?**

Active vs. Passive Income

Active

- Income derived from labor or work
- Primary income – main source of income such as salaries
- Additional income – income from sideline, over time pay, part time

Passive

- Investment income you earn even when you do not work
- Income earned from assets, investments or both
- Usually from rent, dividends, interest, pension, royalties and capital gains

Labor or Work



Rent



Dividend



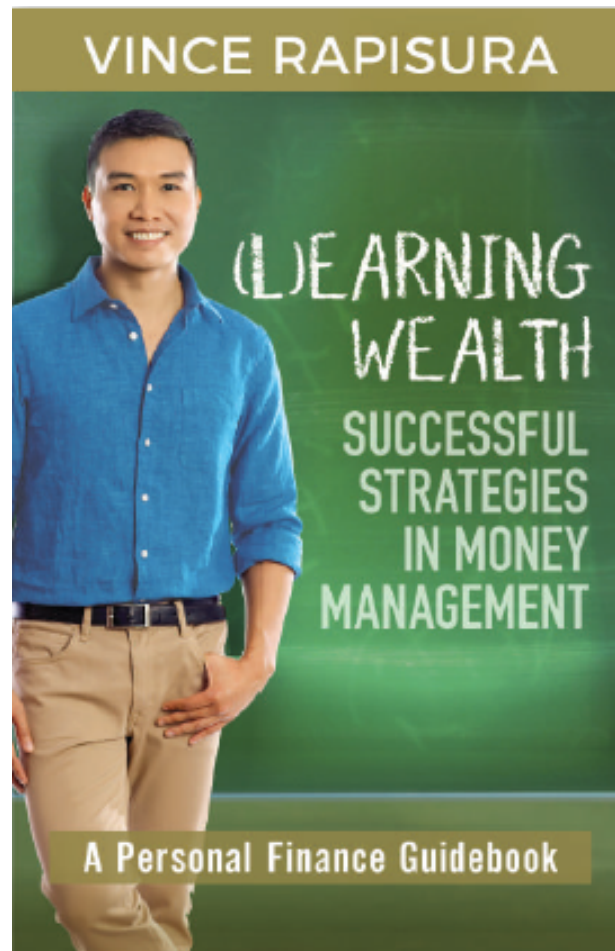
Interest



Capital Gains



Royalty



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Vince Rapisura



@vincerapisura



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Pension



SOCIAL SECURITY SYSTEM



GSIS

Total Passive Income

Passive Income	Amount
Rental income	
Interest income	
Dividend	
Capital gains	
Royalty	
Pension	

Active vs. Passive Income

Active

- Fund basic **needs**

Passive

- Fund periodic **wants** and further increase investments

**Monthly Passive
Income**

**Monthly
Expenses**

$$\frac{\text{Monthly Passive Income}}{\text{Monthly Expenses}} = \text{Financial Life Stage}$$

Financial Life Stages

Financial Life Stage	Passive <u>Income</u> Expenses	Suggested Age
Start Up	0%	21-22
Independence	1% to 10%	23-25
Growth	11% to 25%	26-35
	26% to 50%	36-45
Stabilization	51% to 75%	46-55
	76% to 99%	56 - 65
Freedom	> 100%	>65

TEACHER BENJIE'S FINANCIAL FREEDOM

Retirement Myths



Myth 1: Retirement is About Age

- Retirement age \neq Financial retirement
- You can plan your age of retirement at any age of your choice
- Have enough passive income to cover expenses until death
- You are able to choose what you want to do when you are financially retired
- Key in retirement: know who you are – put a price tag to your lifestyle

Myth 2: Retirement Planning is Done Later in Life

- Best time to start retirement planning is as soon as you join the workforce
- If you fail to plan early you will most likely die poor
- Provide maximum contribution to retirement plans early
- Follow 5-15-20-60 rule

SSS Retirement Benefit

Starting Age of Contribution	Projected Monthly Pension
21 years old	PhP14,700
31 years old	11,500
41 years old	8,300
51 years old	6,400

- Age of Retirement: 65
- Monthly Contribution: PhP1,760 (Highest)
- Rate of Return: 19%
- Payback Time: 5 years

GSIS Retirement Benefit

Starting Age of Contribution	Projected Monthly Pension
21 years old	
31 years old	
41 years old	
51 years old	

- Age of Retirement: 65
- Monthly Contribution: PhP
- Rate of Return:
- Payback Time:

Myth 3: My Children are My Retirement Plan

- Parents should not expect their children to carry the financial burden of taking care of them
- Your retirement plan should be composed of:
 - Pension
 - Insurance
 - Emergency savings
 - Portfolio that generates passive income
- Practice family planning

Myth 4: The Best Time to Start a Business is When I am Retired

- Risk and age are inversely proportional
- Establishing a business requires time and energy
- At this age you can:
 - Use money outside of your retirement fund
 - Consider being an advisor or a board of director
 - Pursue a hobby instead

Where to place investments?

- Rental properties
- Time deposit in rural banks
 - Limit to 500,000 for PDIC insurance
 - Get interest quarterly
 - 5-year term – tax exempt
- Bonds
 - Treasury bills
 - Corporate bonds with strong track record

Myth 5: Insurance in PH is bad, it can't help in retirement planning

- Pre-need companies closed not insurance companies
- Beneficiaries gain financially due to insurance
- If life is valuable then you have to insure it
- Life insurance is for protection and income replacement NOT investment
- Beef medical insurance is key

Do retirees need insurance?

Retirees need Life insurance if they have...

- Children less than 21 years old
 - Grandchildren are not your dependents
- Dependents
 - Physically/mentally challenged children, spouse or parents
- Debt that will be passed on to spouse or estate
- Spouse is not self-sufficient (may be sick etc.)

Financial Goals Review

- Establish when you want to stop to work
- Decide how much you need
 - Household bills
 - Car
 - Pursuing a hobby
 - Holidays and entertainment
 - Rainy day money
 - Helping family
- Calculate how much you need to reach your goals
- Agree on what you're willing to sacrifice
- Determine what you want to leave behind for your loved ones

Investment Instruments

Age of Retirement: 65

Item	Instrument
Household Bills	Savings, Pension Plan
Car	Savings
Hobby	Savings, Pension Plan
Rainy day money	Savings, Insurance
For children	Savings, Insurance, Real estate properties

10 COMMANDMENTS OF RETIREMENT PLANNING

10 Commandments of Retirement Planning

1. You shall have a house
2. You shall have a budget for basic needs (food, clothing, utilities, medicines etc.)
3. You shall have a pension or passive income
4. You shall have appropriate insurance coverage
5. You shall get out of BAD debt

10 Commandments of Retirement Planning

6. You shall have 9 months worth of monthly expenses as emergency savings
7. You shall fix all inheritances before you die
8. You shall have a budget
9. You shall leave a legacy behind
10. You shall have fun

Owning a house

- Goal is to have a mortgage-free house during retirement
- House purchase price should not exceed 3 years worth of salary
- 50m² of space per person should be enough

Basic Needs

- Account for your basic needs (not wants) and create a budget
- Pension or passive income should be enough to cover your basic needs
- YOUR basic needs not your entire clan's needs

Pension: SSS and GSIS

- Protect your retirement fund
- Do not gamble your retirement fund

Diagnostic: Are you retired?

- Do you understand that retirement is not about age?
- Do you have enough assets that earn passive income to finance a lifestyle of your choice until you die?
- Can you support your lifestyle until you die even without the help of your children or relatives?
- Do you have adequate insurance coverage?
- Do you get to choose to do what you deemed most meaningful to you?



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