

Retirement: Spending needs and income requirements



Retirement expenses

- Estimate your retirement expenses
 - Categorize into essentials and non-essentials
 - Consider lifestyle changes
- Adjust for inflation
 - Use 5% average inflation rate
 - Get future value of present value expenses

Future value of present expenses

- Monthly expenses now: PhP25,000
- If the inflation rate is 5% p.a., what is the future value of my monthly expenses now, if I retire in 15 years?

Future Value Formula

$$FV = PV * (1 + i)^n$$

Future value of present expenses

Future Value Formula

$$FV = PV * (1 + i)^n$$

$$FV = \text{PhP}25,000 * (1+.05)^{15}$$

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$$FV = \text{PhP}25,000 * 2.0789$$

$$\mathbf{FV = PhP51,972}$$

Watch TVM video



bit.ly/SirVinceTVM

Retirement fund

- Estimate your retirement duration
- Calculate retirement fund needed if retirement duration is 30 years
- Assume a 5% rate of return on investment
- Your retirement fund is depleted to 0 after 30 years

Annuity

- Annuity: series of equal payments at regular intervals

$$FV = \text{PhP}51,972$$

$$\text{Annualized: } 51,972 \times 12$$

$$\text{Annuity: } \mathbf{623,664}$$

Retirement fund

Present Value of an Annuity Formula

$$PV = \text{Annuity} \times \left[\frac{1 - (1+r)^{-n}}{r} \right]$$

$$PV = 623,664 \times \left[\frac{1 - (1+5\%)^{-30}}{5\%} \right]$$

$$PV = 9,587,467$$

Retirement income

- Estimate your SSS/GSIS and (corporate) pension plans
- Passive income sources
 - Rent
 - Dividend
 - Interest
 - Capital gains
 - Pension
 - Royalty

Activity

- Magkano ang estimated monthly retirement expenses mo ngayon?
- Ilang years pa bago ka magretire?
- Ano ang average inflation rate?
- Ilang years kang magreretire?
- Ano ang average return on investment?
- Use RP5-H1 excel file

5% Retirement Fund

Rule of Thumb

5% Retirement fund rule

- Divide your annual retirement expense by 5% to get your target retirement fund
- Live off the 5% returns without depleting your retirement fund
- Why 5%?
 - Realistic to find 5% return on investment
 - Average inflation is 5%

5% Retirement fund rule

Retirement fund = Annual expense ÷ 5%

Retirement fund = 623,664 ÷ 5%

Retirement fund = 12,473,280

ANG PAGYAMAN, NAPAG-AARALAN AT NAPAGTUTULUNGAN

