FINANCIAL LITERACY SERIES

PENSION & RETIREMENT:
PLAN NOW TO SAFEGUARD YOUR FUTURE
AGENDA

🚀 What is Retirement and Retirement Planning?
🚀 4 Keys to Living a Comfortable Retirement
🚀 Things to Consider
🚀 Next steps
FACT OR FICTION?

• 90% of savings accounts in The Bahamas have $5,000 or less

• FACT!
FACT OR FICTION?

• You can live solely on National Insurance in retirement.

• FICTION!
FACT OR FICTION?

- Only 30% of companies in The Bahamas have company sponsored pension plans.

- FACT!
FACT OR FICTION?

• It doesn’t make sense to save for retirement until you have a decent salary and have been working for 10+ years.

• FICTION!
Retirement & Retirement Planning

- Retirement: the withdrawal from one’s occupation or from one’s active working life.

- The retirement age in The Bahamas is 65. Anything before that would be considered early retirement. Some companies have earlier retirement ages.

- Retirement planning is the process of determining retirement income goals and the actions and decisions necessary to achieve those goals.

- Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program and managing assets.
4 KEYS TO LIVING A COMFORTABLE RETIREMENT

SET GOALS & MAKE A PLAN TO ACHIEVE THEM

MAINTAIN A BUDGET

• What is your income?
• What are your expenses?
• What adjustments can you make to save more towards retirement?

SAVE CONSISTENTLY

• Save at least 5 - 10% of your salary monthly
• What is your retirement number? Save consistently so that you can meet that goal.

MINIMIZE DEBT

• Being debt free in retirement reduces your expenses
SET GOALS AND MAKE A PLAN TO ACHIEVE THEM

What are your retirement goals?

• Retire with $1 million dollars

• The 80% rule, i.e., you need 80% of your pre-retirement income to maintain your current lifestyle. If you made $100,000 per year, you would need savings that could produce $80,000 per year for roughly 20 years, or $1.6 million.

• Travel often

• Retire debt free?

• Retire early?
SET GOALS AND MAKE A PLAN TO ACHIEVE THEM

HOW MUCH YOU NEED TO SAVE TO RETIRE

Millions of dollars

<table>
<thead>
<tr>
<th>Desired annual retirement income</th>
<th>$40K</th>
<th>$50K</th>
<th>$60K</th>
<th>$70K</th>
<th>$80K</th>
<th>$90K</th>
<th>$100K</th>
<th>$125K</th>
<th>$150K</th>
<th>$175K</th>
<th>$200K</th>
<th>$250K</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1.25M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1.5M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1.75M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2.25M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2.5M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$3M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$3.13M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$3.75M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$4.38M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$6.25M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Estimates based on a 4% withdrawal rate.

www.cfasociety.org/bahamas
SET GOALS AND MAKE A PLAN TO ACHIEVE THEM

Make a Plan

“If you fail to plan, you are planning to fail.” ~ Benjamin Franklin

- Having a comfortable retirement requires planning in advance.

- It is recommended that you begin saving for retirement as soon as you receive your first paycheck (typically age 21), however it is never too late.

- A lot of persons end up working longer or relying on family members due to failure to plan.
SAVE CONSISTENTLY

• It is recommended to save at least 5 – 10% of your income towards your retirement.

• Use a retirement calculator to determine how much you need to save per month to meet your retirement goals.

• Be disciplined!
SAVE CONSISTENTLY

Your savings will be worth $645,762.

## Sources of Income in Retirement

- Company Sponsored Pension Plan
- Individual Retirement Plan
- Other Investments (Stocks, Bonds, Mutual Funds etc.)
- Real Estate
- Other savings
- National Insurance

[www.cfasciety.org/bahamas](http://www.cfasciety.org/bahamas)
What is a pension plan?

Pension plan: a retirement plan that requires an employer to make contributions into a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.

Types:
- Defined Benefit Pension Plans
- Defined Contribution Pension Plans
**What is a defined benefit pension plan?**

- A defined benefit pension plan is an employer-sponsored plan where the employer guarantees that the employee receives a defined amount of benefit upon retirement regardless of the performance of the plan’s underlying investments. Employee benefits are calculated using a formula that considers several factors eg. years of service, age and salary history.

- “Defined” because the employer knows the formula for calculating the benefit ahead of time.

- **EMPLOYER BEARS THE RISK.** If poor investment returns result in a funding shortfall, the employer must make up the difference. Companies are shifting away from DB plans it can be costly if funding shortfalls occur.

- Retirement payments can be lump sum or monthly
**Defined Contribution Pension Plan**

<table>
<thead>
<tr>
<th>What is a defined contribution pension plan?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Defined contribution pension plan: a plan where the employer makes specific plan contributions (usually a % of salary) which usually match the contributions made by employees.</td>
</tr>
<tr>
<td>• <strong>EMPLOYEE BEARS THE RISK.</strong> Final benefit received by the employee depends on the plan’s investment performance. The company’s liability ends when contributions are made.</td>
</tr>
<tr>
<td>• Some defined contribution plans: employee makes the investment decisions (investment strategy).</td>
</tr>
<tr>
<td>• Typically have a vesting schedule which indicates how long it takes for the employee to be entitled to the company contributions. (typically 5 years)</td>
</tr>
</tbody>
</table>
IMPORTANT QUESTIONS TO ASK ABOUT YOUR PENSION PLAN

• Is the pension plan mandatory?
• Is it a defined benefit or defined contribution plan?
• If defined contribution, what is the contribution rate? (% of salary)
• How much does the company contribute? (% of salary)
• Can I contribute extra (voluntary contributions)?
• What is the plan invested in? Who makes the investment decisions?
• If I leave the company or retire, do I receive a lump sum payment?
IMPORTANT QUESTIONS TO ASK ABOUT YOUR PENSION PLAN

- How long until I am fully vested?
- Vesting schedule: determines when you are eligible to receive the employer’s contribution.

<table>
<thead>
<tr>
<th># Years of Service</th>
<th>Vesting %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 1</td>
<td>0%</td>
</tr>
<tr>
<td>1 - 2</td>
<td>20%</td>
</tr>
<tr>
<td>2 - 3</td>
<td>40%</td>
</tr>
<tr>
<td>3 - 4</td>
<td>60%</td>
</tr>
<tr>
<td>4 - 5</td>
<td>80%</td>
</tr>
<tr>
<td>5+</td>
<td>100%</td>
</tr>
</tbody>
</table>
INDIVIDUAL RETIREMENT ACCOUNT

• An individual retirement account is an investing tool that individuals use to earn and earmark funds towards retirement savings. The plan can be invested in stocks, bonds, mutual funds etc. depending on the plan features.

• This is popular for self employed persons, pastors, and those without a company sponsored pension plan.

• Allocate a % of your salary towards your individual retirement account to be invested according to your risk tolerance, age and retirement goals.

• If you are saving for retirement on your own, you have to be even more disciplined.

• Utilize salary deduction/ automatic bank debit
OTHER INVESTMENTS

• Stocks
  o Common stock
  o Preferred stock

• Bonds
  o Government bonds
  o Corporate bonds

• Real Estate
  o Vacant land
  o Multi-family/ single-family

• Mutual funds
  o Bond Funds
  o Stock Funds
  o Balanced Funds
  o Money Market Funds

• Term deposits

• Savings accounts
## Asset classes, risk, and time

### Retirement getting closer?
A less risky approach to investing could help safeguard your savings.

### Lower risk, lower return

**Short-term**
- Don’t offer the growth potential of stocks and bonds, but tend to be more stable.
  
  **Role: “Stability”**
  - Short-term investments help balance the ups and downs of both stocks and bonds.

  **What to remember**
  - Trying to preserve your money may seem the safest course, but if the inflation rate outpaces your interest rate, your money won’t go as far.

**Bonds**
- Have offered lower returns than stocks, but carry less risk, too.
  
  **Role: “Cushion”**
  - Bonds help buffer the stock market’s ups and downs.

  **What to remember**
  - The bond market is volatile, and fixed income securities carry interest rate risk—as interest rates rise, bond prices usually fall, and vice versa. Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

### More risk, higher return

**Stocks**
- Strong growth potential, but come with a greater risk of loss.
  
  **Role: “Fuel”**
  - Stocks give you the chance to go for growth.

  **What to remember**
  - Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Your investment in a stock could be worth less if and when you decide to sell it.

Source: UC retirement benefits
NATIONAL INSURANCE

• National insurance should only be considered a supplement in retirement

• Based on actuarial reports, the National Insurance Plan will end by 2029 if drastic actions are not taken. The National Insurance Board 2016 Annual report revealed a deficit $13.4MM i.e. benefits paid out exceeded contributions taken in.

• Possible actions to increase the future viability of the National Insurance Plan include;
  o Increase contribution levels by both employer and employees
  o Increase the retirement age from 65 to 70 years
  o Reduce level or amount of benefits paid out
MAINTAIN A BUDGET

Budget example – INCLUDE RETIREMENT SAVINGS IN YOUR BUDGET!

<table>
<thead>
<tr>
<th>Income</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest/ Dividend income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent/ Mortgage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings (retirement &amp; other investments)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Aim to have excess income – this will allow more flexibility in your budget for retirement savings.
MINIMIZE DEBT

Reducing debt reduces your expenses in retirement

• Best scenario: mortgage, car loans, credit cards paid off by the time you retire

• Pay down the highest interest rate loans first
  o Credit cards typically 18 – 22%
  o Car/ consumer loans 6 – 15%
  o Mortgages 4 – 7%

• Avoid borrowing against your retirement savings
THINGS TO CONSIDER

- Longevity risk
- Largest expenses in retirement
- Increased medical expenses
THINGS TO CONSIDER

Longevity Risk

• People are living longer due to medical advances
• Living until 90 = 25 years in retirement
• Will you outlive your assets?
• What to do?
  o Save more
  o Work longer
  o Purchase an annuity

The probability of living to a specific age or beyond if you are 65 years old today

Count on longevity: Life expectancy tells only half the story. Plan on the probability of living much longer, perhaps 30+ years in retirement. For example, there is a 66% chance that one spouse will live to age 90 or beyond.

Source: CNA 2010-2012 Life Tables, J.P. Morgan Asset Management
THINGS TO CONSIDER

Largest expenses in retirement

• Housing
• Utilities
• Healthcare
• Travel
• Food
THINGS TO CONSIDER

Increased Medical Expenses

• Once you have stopped working, typically you will have to pay for your own health insurance

• Doctor visits may become more frequent

• A Fidelity Investments study in the US showed that the average 65-year old couple retiring in 2018 would need about $280,000 to cover medical expenses in retirement. ($133,000 for a man and $147,000 for a woman)

• What to do?
  o Save more
  o Stay healthy

Source: Fidelity Investments. These are the estimates for the last 15 years that Fidelity has been calculating this dollar amount.
NEXT STEPS

- Make a list of your retirement goals
- Make a plan to achieve your retirement goals
- Enroll in your company sponsored pension plan or start an individual retirement plan
- Review your retirement savings regularly
“As in all successful ventures, the foundation of a good retirement is planning.”

*Earl Nightingale*

*Radio personality and motivational speaker*
“Retirement – a time to enjoy all the things you never had time to do when you worked.”

Catherine Pulsifer
Motivational Writer
THANK YOU!

Questions?