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INVESTMENT ADVISORY

MBMG IA Update

www.mbmg-investment.com June 2014

Retirement Planning: Mind the Gap & Compound that Interest!

Despite the relatively low cost of living, many expats working in Thailand still neglect to put money away for their retirement.

When thinking about saving for when we stop working, several important questions crop up: when should we start putting money aside? How much should we allocate each month? With mortgages, children's education, caring for others and the cost of everyday living to deal with, can we even afford to save?

Planning for retirement is often placed at the bottom of our priority list: some may think that putting money aside is something to consider much later in life. Spare cash in the bank can go on more immediate rewards, such as a holiday, a car or that new gadget you've been craving for. After all, the gap can be filled by making higher contributions at a later date, right?

Wrong. The problem is that waiting to save actually costs you money in the long run: over a few years a large gap develops in your pension, which could result in you working for considerably longer than you would like, or even need to.

Exercise your rights and compound that interest

The best solution to retirement saving is compound interest; proof that the sooner you start saving, the better. Money invested today creates greater wealth at retirement than a greater amount invested several years down the line.

Here's an example of how this works in practice – if a 45 year-old starts to invest USD 20,000 a year and a 21 year-old invests USD 5,000 a year at the same interest rate, both until they are 65, the result is as follows:

	Annual investment	Total investment	Interest rate	Value at 65 years old
45 year-old	20,000	400,000	7.5%	874,644
21-year old	5,000	220,000	7.5%	**1,440,176**

That's some difference. Some people may have a package where their employer will match up to 50% of their retirement plan contributions. If you are in this situation, make sure you take full advantage of it - after all, it's free money and can grow into a significant amount.

Of course you may one day wish to change jobs; there are very few jobs for life nowadays. If you do make a move, be sure not to cash out of your retirement plan where you can avoid it. Instead, you might be able to switch the investment to your own retirement plan or to your new employer's scheme. Depending on the jurisdiction involved, you could avoid tax penalties and maybe even keep the money tax free. Over time, you could notice a huge difference in the amount accumulated.

Prioritise the future and seek professional advice

Saving for and managing a retirement plan is perfectly feasible with the right professional advice. In fact retirement planning should be a top priority, especially for baby boomers and generation X-ers, even if it means making some sacrifices.

Example:

Say you are an expat in Thailand and you intend to be here for **5** years.

- THB 40,000 per month savings becomes THB 2.6 million after 5 years if it's growing at 7.5%.
- Reinvesting this with the same return over 20 years, means that pot becomes almost **THB 11 million.**
- The equivalent in today's terms of around **USD 339,000 GBP 199,000,** and **EUR 249,000.**
- By the time you reach retirement age this capital alone could be generating around **USD 17,000** per annum if invested for a modest fixed return at 5%.

The reality is we cannot take out a loan to pay for retirement, so we must prioritise saving for when we stop working. Financial planning should be carried out as early in your working life as possible. This is precisely where an advisor's objectivity and professional knowledge can be highly valuable.

There should be no gap in retirement plan contributions. A professional advisor can help prioritise goals, explore the strategies available to reach them and regularly review the make-up of a portfolio.

It is not only important to establish a target asset allocation strategy, but also to continually adjust and rebalance the portfolio. After you become comfortable with a particular level of risk, it's important to ensure your portfolio remains in sync with the broader macro-economic trends.

Many people are reluctant to make changes, as they become emotionally attached to investments which have done well. They lose sight of the fact that markets tend to move in cycles and conditions which favoured certain investments in the past may have changed.

A professional advisor can propose changes to a portfolio with impartiality and no attachment to particular shares or sectors. They will take your wishes and interests into account and help you keep your risks to a minimum, so that you can have a financial plan that will work well for you.

For further information contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

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