

Chapter 28

CASE STUDY: HOW TO USE THE RETIREMENT SCENARIOS MODELING SYSTEM

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CASE STUDY

This is in continuation of the previous scenario case study where Mr. and Mrs. X have portfolio assets and liability as such.

What Mr & Mrs X (Age 45, 43) Have

- ⇒ MYR 1.7 mil Cash Deposit
- ⇒ SGD 250k Cash Deposit
- ⇒ MYR 900k total EPF
- ⇒ MYR 400k External EPF
- ⇒ MYR 250k Shares
- ⇒ MYR 800k Annual Household Income, 2% annual increment
- ⇒ MYR 400k Annual Expenses, 4% annual personal inflation
- ⇒ Mr X — Senior Marketing Director Position
- ⇒ Mrs X — Part time home business
- ⇒ Children #1 — 7 years old
- ⇒ Children #2 — 13 years old
- ⇒ Insurance Policies totalling MYR 25k annual premium

Mr & Mrs X Properties Portfolio

Existing Properties

- ⇒ Condo #1 — 630k/350k/3k/2k
- ⇒ Shoplot #1 — 900k/800k/5k/5k
- ⇒ Condo #2 — 990k/750k/0k/4k

Upcoming Properties

- ⇒ Shoplot #2 (mid 2017) — 300k/250k/1.2k/1.2k (GRR)
- ⇒ Shoplot #3 (mid 2017) — 280k/200k/1.2k/1.3k (GRR)
- ⇒ Condo #3 (end 2018) — 450k/370k/0k/1.9k (+30k)
- ⇒ Condo #4 (end 2018) — 670k/540k/0k/2.9k (+30k)

What they want to achieve is listed here:

What Mr & Mrs X Want to Achieve

1. *Mr X to retire from his current position to a more flexible time consultancy business by 50*
2. *Wants to know if this is possible by 50, otherwise the max to retire is at age 55*
3. *Wants to buy a condo in SG at S\$ 1.2 mil latest by 2019, unwilling to pay more than S\$ 5k/month, knowing he can take a mortgage until age 65 only*

What Mr & Mrs X Want to Achieve

4. *Wants to fund both children tertiary education starting at age 19 at Singapore. Current indicative fees circa A\$ 60k, today. Currently children in international school, costing MYR 30k/year each*
5. *Factor in annual vacation expenses MYR 25k*
6. *Live with monthly post retirement expenses of MYR 15k in M'sia or S\$ 10k in S'pore, until age 80 with at least MYR 2 mil legacy for children*

What they want to know, the questions are listed here:

What Mr & Mrs X Want to Know

1. *Able to retire at age 50 with status quo?*
2. *If #1 is not possible, what will be the expected age can retire, if want to achieve Goal 3 — 6?*
3. *If extend work to 55, how much better would the financial roadmap be assuming status quo?*
4. *How would Goal 3 — 6 impacted if being retrenched now and jobless for 1 full year?*

What Mr & Mrs X Want to Know

5. *How much expenses reduction needed during pre and post-retirement if insist on retiring at age 50*
6. *If #5 is not feasible from the expenses reduction standpoint, what is the worst case scenario of retirement goals, provided Goals 3 — 4 are non-negotiable while Goals 5 — 6 can be reduced?*

What Mr & Mrs X Want to Know

7. *If Mr X were to take a paycut which reduces household income by 50% and willing to extend active work until age 60 for a less stressful position, would Mr X be still able to achieve Goal 4 (Priority 1) and reduced* Goal 6 (Priority 2), while foregoing Goal 3?*
8. ** What will be the reduced amount (pre and post retirement expenses need)?*

Here is a snapshot of a preview of how we do fee-based financial planning.

Retire Year	Year	Age	Child 1 Age	Child 2 Age	Opening Asset Balance	Annual Expenses	Asset After Withdrawal	Asset Gain(Loss)	Asset Expenses	Asset Balance	Average Return Rate	Returns Sum	Return Sum Reinvested	Additional Asset	Income	Closing Balance
<p>Instructions</p> <p>1. This spreadsheet shows the summary of how to do fee based financial planning. We will give you a preview and a basic explanation of how this framework helps you to plan for your retirement. If you are already retired or heading towards retirement, then fee based retirement planning can help you to visualize how long your assets will last and how it impacts your financial goals and these around you.</p>																
<p>Mr. X has purchased a condominium and paid \$ 5,00,000 for it.</p>																
<p>This shows the portfolio of assets and liabilities Mr. X and Mrs X have. It shows their income and expenses.</p>																
<p>Cells I7: I30 shows the 4 year university expenses of 1st child</p>																
<p>Here the income stops coming as Mr. X does not wish to work after 51.</p>																
<p>Mr. X still needs to pay for his children fees and condominium even after his income has stopped after the age of 55. The balance of his retirement corpus has turned negative at age 63.</p>																
<p>Cells I13: I16 shows the 4 year university expenses of the 2nd child.</p>																
<p>Mr. X still needs to pay for the condominium even though he has stopped working after age 53.</p>																

Now essentially this is how to summarize a summary of how fee-based financial planning can tell you that might look a bit a lot of figures and in my lot might overwhelm you. But this is to give you a preview of how this whole framework helps you to plan for your retirement. If you're heading to one and if you're already retired, help you to visualize how long your assets will last until what age and considering how it impacts your financial goals and others around you. It is not to overwhelm you with too much up of figures and whatnot because if you engage fee-based financial planning as a client and adviser, we are going to spend a lot of time going through how one thing affects another and how this whole change one variable or change a few variables and how the whole thing actually can affect your entire financial roadmap. So this is how it goes.

Normally on a financial road mapping or scenario modeling, you have something like your current year, your age, and also put in. So it's very easy to visualize your children's age and the liquid assets normally or any assets in liquid form that can fund your future financial goals. You have probably quite a lot of expenses which refer to your day to day expenditure, all are annual figures, this is called asset after withdrawal which essentially means that what you have and then what you need to spend on that particular year. You should have allocated that at the beginning of the year. That is why this is an amount that was deducted and annual expenses need against your opening asset balance and this is to help you visualize how a financial asset gain or loss could be something that might disperse of, something that is unexpected like a stock market downturn or whatnot you need to buy a car. So this is where it depletes your liquid assets.

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The spreadsheet displays financial data from 2017 to 2070. Key columns include: Retire Year, Year, Age, Child 1 Age, Child 2 Age, Opening Asset Balance, Annual Expenses, Asset After Withdrawal, Asset Gain/Loss, Asset Expensed, Asset Balance, Average Return Rate, Return Sum, Return Sum Reinvested, Additional Asset, Income, and Closing Balance. Callouts provide context: 'Mr. X has purchased a condominium and paid \$5,00,000 for it' (Year 2020); 'This shows the portfolio of assets and liabilities Mr. X and Mrs X have. It shows their income and expenses.' (Year 2020); 'Cells I7:110 shows the 4 year university expenses of 1st child.' (Year 2024); 'Here the income stops coming as Mr. X do not wish to work after 55.' (Year 2055); 'Mr. X still needs to pay for his children fees and condominium even after his income has stopped after the age of 55. The balance of his retirement corpus has turned negative at age 63.' (Year 2063); 'Cells I13:116 shows the 8 year university expenses of the 2nd child.' (Year 2063); 'Mr. X still needs to pay for the condominium even though he has stopped working after age 55.' (Year 2070).

Moving forward we will discuss an asset being expense, this is to segregate what is the asset that is being expensed out of your annual income. Essentially after deducting these two asset gains or loss and asset expense you have your asset balance that will be your project that average return rate. It is a very conservative figure. Thereafter you have your absolute return sum which is a percentage out of your asset balance over here. You have your return sum reinvested and that is why this column exists, then it is very likely for most people their profit from the investment, not 100 percent or being reinvested that somebody will use it for vacation and other purposes, so that's why it's accounted for. There is one additional asset it could be a bonus something you did not expect, a downfall meaning something a windfall that you have to liquidate some of your properties which are not included in this asset balance and this will add on to your total balance which actually before it gets carried over to the following year if you have your annual income expectation as well. Annual income in this scenario analysis represents the time. So I expect to sell these few properties so that he can fund a very expensive property purchase for his stay which needs about five hundred thousand. And because of that, he needs to prepare to liquidate some of the existing properties to fund this. You can see this whole roadmap how it comes to and you can see that income stops at the age of 55 because that is where he stops working. But at the same time, this asset is an obligation. This is called an education fund for the first children and this is for the second children this is. So it was at a time when the first child is 19 you had to go to four years this would be the expected factor expenses and you can see that why here it never red because this scenario shows that he works until 55 Years, he no more generate income but at the same time he needs to still pay for his condominium purchase that was here until he is 65 years old. At the same time need to fund these children's education when he's no longer generating income and this is how this snapshot tells you who does these columns in red. Because if he were to continue doing what he's doing with this income and stop working at 55, he's going to face a shortfall right at 63 which is represented by the red over here. Along the way, you have things like the spouse EPF or a pension fund, retirement fund, the public retirement fund that can be used to fund everything. But again that would not be enough because I can project that by what age you're going to run out of money if you stop working at 55, compared to if you were to stay in that job with all those expected increments and in that position and you prolong extended working until 60. Now we'll see things improve. But at the same time, you have to notice that this money or retirement asset if nothing changed in terms of funding for your education and what not still paying for the new condo purchase here when he is 47 years old. You can see that if extend the road map; he will only run out of money at 70.

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Mr. X has purchased a condominium and paid \$ 5,00,000 for it.

This shows the portfolio of assets and liabilities Mr. X and Mrs X have. It shows their income and expenses.

Cells (7:110) shows the 4 year university expenses of 1st child.

Here the income stops coming as Mr X do not wish to work after 55.

Mr. X still needs to pay for his children fees and condominiums even after his income has stopped after the age of 55. The balance of his retirement corpus has turned negative at age 63.

Cells (11:116) shows the 4 year university expenses of the 2nd child.

Mr. X still needs to pay for the condominium even though he has stopped working after age 55.

So ideally it seems that if nothing change and you insist on buying that property at the age of 47, insist on spending on children education expense like this, you will run out of money at the age of 70 compared to if you work to age 65. You can see that there's a lot of difference over here. The fact is this scenario becomes much better. There's no cell highlighted by red means there is no shortfall even if he would live under the age of 80. So this is a powerful thing about scenario analysis modeling or financial road mapping in a true sense of fee-based financial planning.