

# Money Wise

Monday Money Wise • Tuesday Property  
Wednesday High Life • Thursday Learning  
Friday On the Road • Saturday Technophile

Monday, September 3, 2012 Jakarta Globe

## Is Retirement a Time to Enjoy Life or Barely Survive?

Colin Bloodworth

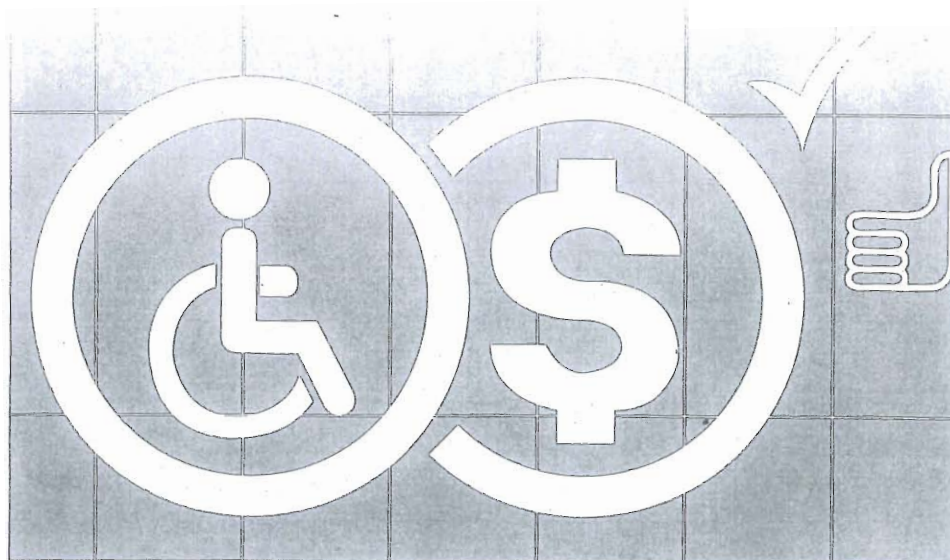
Last week's column discussed how improvements in health care and lifestyle are helping people to live a decade or two longer than the previous generation. But it also talked about the downside, in that for many, the quality of life in those bonus years can be diminished by financial hardship or even abject poverty. This is the result of a combination of the inability of work forces to sustain support for an ever-growing army of retirees, dislocation in the financial markets and the failure of individuals to anticipate and prepare for their likely needs in retirement.

The issue is irrelevant in large segments of the population in poorer countries because they have not even experienced employment, let alone retirement. For them life continues in the hope that they can count on family support in later years. But for those who have grown up with parents and grandparents, who enjoyed the luxury of pensions at the end of their working lives, the future is looking less rosy. The pension cake may be the same size but there are far more people who are looking for a slice of it.

In the developing world, governments can ignore the issue and leave the responsibility for the aged to the private sector or traditional family support. But if a country wishes to become an advanced and progressive nation, it has to develop a social system to look after the old just as it has to provide education for the young. Not an easy task when income from taxes and other sources is limited while other needs such as defense and infrastructure are considered more important.

In the developed world, however, governments are in a state of crisis as people have become accustomed to generous benefits from the state. European governments recognize that the status quo cannot continue but are coming up against strong opposition as they try to reduce benefits and force people to work longer.

While it can be costly politically, they really have no choice; there are more and more unproductive mouths to feed. Even injustices such as the British government's refusal to unfreeze the pensions of expatriate retirees in a number of coun-



tries including Indonesia are allowed to continue on the grounds of cost. The social security system in the United States is under similar stress. Westerners are going to have to accept that they can no longer count on their home countries to adequately support them in retirement.

Do companies have a responsibility?

Yes, and some of them take it seriously. In the past, Indonesian companies would reward long-service employees by paying a single lump sum on their last day in accordance with the labor laws. The fact that the money would likely evaporate in days was not their problem. Progressive companies are now paying real pensions although if they are not linked to the cost of living they will also evaporate as inflation takes its toll. In recent years we have seen a relatively stable rupiah but if the situation should change, local pensions could become worthless unless inflation-proofed. Companies should make provisions to protect pension schemes in the event of a currency collapse.

The situation facing companies in the west is again very different. Decades of socially conscious governments and strong unions have resulted in company benefits that people in the rest of the world only dream about. A man working all his life in one company could expect a pension equivalent to perhaps two thirds of his final salary and this would be protected against inflation.

But these very benefits have come back to haunt companies like General Motors and British Airways which are massively burdened by their pension schemes. While past obligations have to be honored, almost all companies have now abandoned the concept of pensions linked to salaries and have moved to pensions where employees in the future will have to take on the investment risk. The best companies can do is ensure their pension funds are managed well. Employees should also monitor how their pensions are being managed.

What can individuals do?

Early action is critical. The first thing is to recognize that we cannot count on governments or companies to provide adequately for us in retirement. There is no "quick fix" nor is there a simple formula that anyone can follow. The quality of retirement that awaits us will depend more on our actions than those of states or corporations. So what should we do? Let's look at this next week.

Colin Bloodworth is the president director of Professional Portfolio International Indonesia.