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MONEY MATTERS

'MY HOME IS MY PENSION'

Where the vast majority of people living in western countries are concerned, retirement means an end to getting up early in the morning and going to work and the beginning of a new way of life with free time to enjoy life that is no longer funded by the weekly or monthly paycheck but by one or more hard-earned pensions.

In most western countries there is an inflation-proofed regular state pension scheme. Most people will also have some form of company pension or maybe a number of smaller pensions from different employers they worked for during their career. Many, realising that those pensions may still not be enough to support an acceptable lifestyle will have invested in private pension plans.

Ideally, a pension should provide an income for life, sufficient to meet all contingencies and to maintain a comfortable standard of living. If it is a state pension it does indeed get paid for life. But most state pensions will barely cover the basic essentials. This is where a company scheme can significantly boost income, particularly where someone worked for the same employer for a lifetime. For those who had the foresight to supplement the two pensions with an additional personal pension or two, the golden years should be worry-free and financially secure.

The reality however is that very few fall into this category. To ensure that pensions last a lifetime many companies and private pensions pay annuities which guarantee they will be paid for life, possibly with ensuing reduced spouse benefits. But due to the very low interest regimes that have prevailed in the past decade or two these annuities have proved insufficient and most are not protected against inflation so their purchasing power reduces as the years pass.

So much so that in the UK the government changed the rules in 2015 so that the locked and secure pension pots that provided an income in retirement could be accessed, in full if requested, at the early age of 55. A disastrous policy which will result in poverty in old age for those who promptly spent much of it or did not have the knowledge or will to ensure the money would last a lifetime. According to a recent report in a Financial Times publication two thirds of this year's retirees risk running their pensions dry, leaving them only with a mediocre state pension.

What about expatriates' pension plans?

This is a different picture altogether. While the pension plans for many living in their home countries can range from inadequate to generous, many long-term expats have no pension plan at all! This is because they either opted out or were not permitted to remain in domestic state and/or company schemes and chose not to take out personal plans.

That doesn't mean their future in retirement is bleak as many will have ongoing income from businesses or rental properties and perhaps large deposits in cash accounts or bonds. They will live as frugally in retirement as they did during their working lives. The rewards for venturing into the wide world beyond familiar shores have enabled them to amass significant wealth which will see them comfortably through retirement. In my years of completing financial fact-finds in Indonesia including Bali, I have met many career expats who have no pensions at all as such but they often have significant assets in some other form. But not all are in this good position!

'My home is my pension'

This has often been the answer when I ask a potential client what pension plans he or she has. A family home after all is for most people the biggest investment they will make in their lifetime. While some will allocate part of their earnings to build or purchase a property and the rest of their earnings to build up wealth in financial or other assets, there are some who allocate a disproportionate part of their earnings to acquire a property which may be beyond their means. While they can enjoy their splendid property for many years they may find they have overreached themselves and have limited cash resources later on. Some face the prospect of a bleak retirement unless they can sell the property. This situation is known as 'property rich but cash poor'.

I know of many such cases. The problem with property is that while it is highly desirable to own one, it can also be a serious burden in difficult times. We are in such difficult times right now in Bali and elsewhere where properties are difficult to sell and the situation may be aggravated by loss of a job or a business downturn due to the pandemic.

Sometimes *'my house is my pension'* can be a valid solution if you live in the right place and the timing is right. In the US and UK for example you can obtain an 'equity release' from a financial institution. This could provide a lump sum, convertible to an income, which could see you comfortably through retirement. There are conditions of course and if the money is not repaid the financial institution will retain control of the property.

Then there is the option of 'downsizing' where you no longer need a large property, particularly if the 'birds have flown the nest,' so you sell it, buy a smaller property perhaps in a lower cost area and live off the price differential.

Finally there is the option of selling and moving into a rental property or even taking on a long lease, which would cost much less than purchasing. You would no longer have a property to leave to your estate, only the cash residue from the sale. There may be little or nothing left if you live to 100 so making the money stretch out has to be taken into account!

So what solutions are there?

You may be among the very rich in terms of assets. You may own a castle but if you have no cash to pay the bills you are technically insolvent or bankrupt. Same applies to companies. Right now there are airlines that own dozens of planes and other assets. But due to the pandemic there are few passengers so most planes are grounded. The income is insufficient to meet expenses so unless loans can be raised the companies are bankrupt.

This is a real problem facing even giants like Garuda who cannot count on unlimited support from a cash-strapped government. Since all airlines are in similar predicaments there is little possibility even of selling the assets. While we are talking about pensions we have to realise that survival is the priority right now for many individuals and companies. But the situation is abnormal and only temporary.

Once the large majority of people everywhere are fully vaccinated life will return to normal, and there could be prosperous times ahead. Many people and businesses have actually profited from the pandemic and many more who have simply kept their jobs have accumulated savings that are just waiting to be spent. There will be plenty of opportunities. In the US right now there is a shortage of staff to run businesses that are reopening. The same will no doubt be the case in Bali.

For those with plenty of time to plan your futures, keep in mind the pitfalls of relying on your property to support you in retirement. Make sure your growing wealth is based on holding assets in addition to property. And while ample cash reserves are essential, make sure you build up wealth in diverse financial growth assets. Don't rely on cash for the long term. Inflation will eat into your bank deposit as fast as mice will eat the cash you keep under the mattress!

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