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The Statistics put out by the Financial Services Commission (FSC) indicates that only approximately 11% of the Jamaican Workforce are members of a Registered Pension Plan. Over \$700 Billion Dollars were invested in Registered Pension Plans as at December 31 2021 of which 37 % were with Life Insurance Companies who have been major players in the Pension Industry providing Retirement Income for many Jamaicans.

RETIREMENT PLANNING

Why is retirement planning so important?

Retirement is such an important topic that affects everyone. Many of us have an ideal age in mind when we want to retire; and these days, it's trending to an earlier age, for example 40 - 45 years old. We all fantasize about what we will be doing when we stop our 9-5. However, not many persons fully understand how to prepare, when to start, how much do you need and what are the sources of income you need to keep in mind to meet the lifestyle you are envisioning.



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What constitutes a good retirement plan?

A good retirement plan involves not just your finances but also ways to stay healthy mentally and physically.

A good retirement plan includes emergency funding, insurance planning, investment planning, retirement planning.

- It isn't waiting until you retire or wait until you are near to retirement to start planning. You will need to invest in a retirement plan and save enough money to be able to pay you an income when you are retired so start early!
- It's not depending on family and children. Some of our children may not be able to help as they would like especially after they start their own families.
- It's not having one source of funds, like that house or apartment you may have that you plan to rent which is popular in Jamaica. It's great that you have that income but ensure you have a steady income just like a salary that you can depend on in the form of a government approved retirement plan.
- It's NOT investing on your own without knowing if your investment rate will keep up with your future needs. It is best to save in a tax-efficient retirement plan that is well managed to beat inflation.

When is the ideal time to start and why?



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Like most things you plan for in life, the earlier the better! If you started planning at age 20 vs 45 there is a huge difference in terms of how much money you will have invested. If you opened a pension plan, and contributed let's say J\$5000 from you were 24 and retired at 64 this, this means that your fund value could grow to \$47 million in 40yrs at a yield of 12%. Versus if you started contributing at 40 and only saved 24 years you would probably end up with about \$7million. Starting a retirement plan early ensures you have more money invested to pay you an income for the years that you will be in retirement.

I urge clients when you sit with an Advisor to start early no matter how small the contributions are.

As I mentioned earlier a good financial plan incorporates investment planning. Don't put all your eggs in one basket; having just one retirement plan through your Individual Retirement Account may not be enough. The key thing is that these sources will support each other!

You need investment which is placed in the right mix of instruments growing at the right rates to meet your future needs. We call it diversification, which is important for balancing and increasing the opportunities for positive growth in your investments.

What percentage of salary is recommended?

Under the current Pensions Act of Jamaica each client can contribute to one government approved retirement plan not exceeding 20% of total gross income.



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One rule of thumb is that you will need to be getting approximately 75% of your income in retirement to live comfortably. Why not 100%? Ideally you should have less bills, like a mortgage and car loan, but medical expenses could increase also funds to take more vacations as you have more time. So this really is a guide in determining how much you need to save depending on what your lifestyle will be at retirement.

What happens if you are self-employed what are your options?

As business owners, we know there is a strong temptation to put everything back into the business. Reinvesting profits, but you have to prioritise YOU just as everything else in your business. You can start an individual retirement plan and benefit from the tax-deductible benefit!

Also, if you have people working for you, and you don't help them to set up a retirement plan, YOU the business owner will become their retirement plan. They will be coming to you for help in hard times, ill health, and when they are no longer working. I remember a company had called us in to open pension plans for their staff because they realised when a staff member went on retirement their savings was quickly depleted and, in a month, or 2, they were back at the company asking for financial assistance. So, we urge business owners to get their staff enrolled in an individual retirement plan and you could also contribute towards that plan and enjoy tax-deductible benefits on those contributions as well but it is not mandatory.



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What happens when you change jobs?

When you change jobs while having an individual retirement plan, if contributions are salary deducted and paid by your employer, you simply have your new employer submit contributions to your plan. Your income may increase so we encourage you to increase your contributions as well and maximise the 20% of your gross income that you are allowed to contribute to a government approved retirement plan.

Likewise, you might be in between jobs you would then stop making contributions if you are no longer earning an income for the time being. Do ensure you restart your contributions though as soon as you start earning again

What happens at retirement?

When you get to retirement the funds that you would have accumulated in your formal retirement plan will be used to purchase an annuity for you which will now allow for you to receive a continuous stream of monthly income in a structured manner. You will receive 25% tax free portion of your fund value along with the remaining 75% of your pension funds paid out on a monthly basis. And your



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pension may be paid to you until age 85 or until you pass away depending on the type of annuity you choose when you retire.

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Also during retirement if you had long term supplementary investments for retirement then these become accessible to you for emergencies or as the need arises for you to access these funds.

So just to recap it is important for you to:

- Start early
- Contribute as much as possible
- Diversify the sources of income
- Stick to the plan and keep the funds long term
- Get a structured pay out plan that will manage how you use the funds

We have come to the end of the program we thank Jamila Taylor Chair of the IAJ Life Underwriters and Claims Administrators Committee for being our guest today.



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Kerry Ann

If you have any questions or queries

CALL OUR HELP LINE AT 888 429 5425 OR EMAIL US AT IAJ@CWJAMAICA.COM and we will note your queries and respond you, you can also reach us through our Facebook contact, you can direct message us on Instagram at Insurance Association of JA or message us on Facebook at The Insurance Association of Jamaica (IAJ).

CLIVE MULLINGS: THANK YOU FOR JOINING US, FOR ANOTHER PROGRAMME IN THE SERIES, "INSURANCE AND YOU".