HSBC

7 Steps to Retirement Freedom

We all share the aspiration of attaining financial freedom one day, when we can spend all of our time and energy to pursue our dreams, or simply to enjoy life. Unfortunately, not everyone is well prepared for their golden years when you can exit the rat-race. Here are some tips if you are not sure where to start.

1 Winning at the starting line

The earlier you start planning for your later life, the more time you have to save and to utilise the power of compound interests to maximise your retirement pot. As an example, for someone who wants to retire at 65 and only starts saving at 40, the total amount that he needs to save will be 1.3 times of the amount he would need to put aside, had he started at 30, to achieve the same retirement saving goal[1].

2 Clarity on what your retirement could look like

According to HSBC's 2020 FinFit Survey conducted[2], among more than 1,500 respondents, over 40% did not know how much they would need to retire. Without a clear goal, one would never know how he can attain financial freedom.

Everyone's retirement dream is different and you shall have a clear view of what kind of retirement lifestyle you desire. You can start estimating how your day-to-day living expenses, such as food, housing, transportation, etc. may change once you reach retirement. You shall also budget for any dreams that you may like to fulfil – for instance, round-the-world trip, learning something new. This will help you to determine a "living-in-retirement" budget. With the help of a retirement calculator (many of which are freely available online), you can then determine a retirement saving target tailored to your retirement.

If you have no idea as to what your "living-in-retirement" budget may look like, you may refer to HSBC Retirement Monitor (available on HSBC Hong Kong's website at www.hsbc.com.hk/retirement) which provides reference budgets under different retirement lifestyles, based on actual statistics of Hong Kong retirees.

3 Stick to your saving plan

Sticking to your saving plan diligently is crucial to the success of your retirement planning. To help you build up a good saving habit, you may consider setting up a dedicated account for retirement and set up direct debits to move money into the dedicated account regularly. You may also consider using financial products where you need to contribute to it on a regular basis (e.g. wealth-accumulating insurance products, monthly stock saving plans, voluntary MPF contributions, etc.)

4 Select suitable financial products

There are many factors which will influence your choice of investment vehicles. First you need to understand your investment objectives. Generally speaking, whilst you are saving up for retirement, the primary objective of your portfolio shall be long-term growth that will at least beat inflation. You will also need to consider how much risk you are willing to take and your tolerance towards short-term market fluctuations. More-risky assets, such as equities, may have more volatile short-term performance, but shall out-perform other less-risky assets, such as bonds, in a long run.

Specific retirement products including Qualifying Deferred Annuity Plans (QDAPs) and MPF Tax-deductible Voluntary Contributions (MPF – TVC) also carry a tax break where your contributions towards which (up to a cap) can be offset against your taxable income. You may consider utilising this to enhance the effectiveness of your retirement savings.

5 Review your progress regularly

For many different reasons, your retirement pot may not grow according to your original plan. That is why it is important to review your progress regularly, and where required, take remedial actions to bring yourself back on track, or to make changes to your plan (e.g. deferring your retirement).

A point to note is that retirement investment is a long-term game and one shall not get overly worried with short-term market fluctuations. Worse still, some people will try to time the market and trade frequently to try to capture short-term market ups and downs, which lead to a chance of "buying-high, selling low". For retirement savings, the best way is to leverage on "dollar cost averaging" by investing in the same portfolio regularly, such to average out the impact of short-term movements of the market and achieve a more stable overall return over time.

6 Protect yourself and your family

Whilst provisioning for your retirement is largely about saving, you shall not forget how to protect yourself and your family in case of adversities, which include loss-of-income, accidents, critical illness, or even premature deaths. Furthermore, as you age into retirement, the likelihood of incurring unexpected medical expenses will become higher. You shall therefore consider purchasing appropriate insurance policies to mitigate such risks.

7 Professional assistance

Planning for retirement comprehensively can be quite complex. Apart from gaining more knowledge on the topic yourself, you may also seek help from relevant professionals who can help you to develop and to implement a suitable retirement plan for you.

Act now and achieve your retirement freedom.

Learn More

[1] Assuming an annual investment return of 5% and an annual inflation rate of 3%.
[2] 2020 HSBC FinFit Study (June 2020), for details please refer to www.hsbc.com.hk/finfit