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## We all need to become millionaires

PERSONAL INVESTING

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**One must have cash reserves of about RM1mil to be able to maintain one's current lifestyle 20 years after retirement**



Ooi Kok Hwa: The key principle here is we need to have cash reserves of more than RM1mil to be able to maintain our current lifestyle 20 years after retirement.

WE need to become millionaires when we retire! A lot of people have misconceptions about being millionaires. To them, being a millionaire means they should own total assets – by adding up their total cash, house, Employees' Provident Fund (EPF) contribution and car – that are worth RM1mil and above.

They believe that once they achieve one million cash, they should enjoy themselves by driving big luxury cars and staying in bungalows.

In reality, all of us need to become millionaires when we retire at age 55. Based on our computation, we need to own total cash, including all money in savings, fixed deposits and EPF, which have total value of more than RM1mil.

The key principle here is we need to have cash reserves of more than RM1mil to be able to maintain our current lifestyle 20 years after retirement from age 55 to age 75. This is on the assumption that we can live up to 75 (the average lifespan of Malaysians).

### Financial requirements at retirement age of 55

Money required per month to maintain lifestyle (RM)	Minimum achievable annual target return			
	3%	5%	7%	10%
3,000	1,579,599	1,307,635	1,100,691	874,884
5,000	2,632,664	2,179,391	1,834,484	1,458,139
7,000	3,685,730	3,051,148	2,568,278	2,041,395
10,000	5,265,329	4,358,783	3,668,969	2,916,279

\* Assumption: the required money per month grows based on the annual inflation rate of 3.5%.

Based on our computation (*see table*), if you are now 35 years old and your current monthly expenses are RM3,000 per month, assuming you are only able to generate a return of 3% (the return from fixed deposits) on all of your savings and the RM3,000 will grow by the average historical inflation rate of 3.5% per annum, you would need RM1.6mil when you retire at age 55.

This amount will be enough to maintain your current lifestyle for the next 20 years after your retirement at 55.

However, if you need to spend RM5,000, RM7,000 or RM10,000 per month, then you need RM2.6mil, RM3.7mil and RM5.3mil respectively at your retirement age of 55.

In short, you need to become a millionaire when you retire even if you only maintain a simple lifestyle after your retirement. You will not be able to use this money to buy a big luxury car or a bungalow, as you really need the money for the next 20 years.

Thomas J. Stanley and William D. Danko have conducted research on the reasons why some Americans become wealthy. They discovered that a lot of them live well below their means.

Unfortunately, we notice that some Malaysians do not have enough money when they retire. Some of them may not be aware that they really need to accumulate that amount of money when they retire. Some may be aware, but they may have used up all their savings to support their children's education. As a result, they need to find a job after retirement.

Some may have difficulties finding a job. A lot of companies may prefer to employ a young graduate rather than a retiree unless the latter is willing to accept a lower pay.

We also believe that a lot of investors are quite worried about having enough money for retirement. They are also concerned that their money may not be enough to protect them against inflation. Hence, besides controlling our expenses, we also need to know how to grow our money.

Looking at the table, different minimum achievable annual target returns can provide different required amounts for retirement.

For the current monthly expenses of RM3,000, if you are only able to generate a 3% return per annum, then you need to have RM1.6mil for retirement whereas you only need about RM900,000 if you are able to generate a return of 10%.

However, higher returns come with higher risks. We need to understand our risk tolerance level. We need to equip ourselves with adequate investing knowledge if we intend to generate higher returns.

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