

Retirement financial planning: obstacle or opportunity?

Szymon Idzikowski, Fund Analyst at Abu Dhabi Commercial Bank, is concerned about the poor financial understanding and preparation for retirement. But a more professional approach is at hand from the wealth advisory industry for those wanting greater financial security.

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DZIKOWSKI ADDRESSED THE AUDIENCE AT THE Hubbis Middle East Wealth Management Forum on January 24, highlighting the surprising statistic that fewer than one in four baby-boomers feel financially ready for their retirement.

This was based on findings from a study by the Insured Retirement Institute in 2017, who also found that of those already in retirement, two thirds wish that they had started saving earlier. The difficulty faced by these retirees is a lack of knowledge and expertise, with only a third reporting that they were confident in their investment skills.

Idzikowski echoed Benjamin Franklin who once said that there are only two things that are cer-



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tain in life: death, and taxes. Idzikowski in this case added that retirement was also highly likely for most people and wondered therefore why so few people properly prepare their finances.

Riches to rags

“In the United Arab Emirates,” Idzikowski proposed, “most Western expats are unable to access the type of retirement investment opportunities they would have in their home countries.”

Therefore, instead of planning for retirement properly, Idzikowski pointed out that there is a reliance upon, and mis-use of, the end-of-service benefit, even though the amount provided by this benefit is generally insufficient to support retirement of the standard these retirees would hope for.

Idzikowski warned that “although ex-pats often begin to save in their home countries, the amounts are still inadequate due to lack of proper long-term planning and investment”.

Idzikowski noted that a study by Middle East Asset Management in 2015 found that only a quarter of ex-patriot retirement funds are invested in mutual and life products. He pointed out that “it is closer to a third for Western expats, and conversely, Arab expats invest most of their retirement money in property and shares.”

While Idzikowski argued that there is no one right way to save for retirement, each decision has consequences. He noted that investing in property can introduce liquidity issues in times of financial need.

Obstacle, or opportunity?

Idzikowski delved deeper into the reasons behind the questionable decision-making and variable outcomes regarding investment for retirement, citing “a lack of knowledge and expertise” as the most common hindrance to comfortable funding levels to cater for lifestyle expectations in retirement.

“This could be seen as a problem,” remarked Idzikowski, “but it could also be an opportunity. The pension market has been seeing a tremendous growth in the last 10 years. It grew from \$10 through \$20 trillion around 2004 to more than \$40 trillion by 2015.”

“There are notable differences in investment returns of different asset classes,” Idzikowski pointed out. For example, according to the JPMorgan Asset Management study, investing in riskier assets between 1996 and 2015 would have yielded an annualised 11% return, investing in the larger US corporate names would have achieved about 8%, gold would have returned 5%.

“Meanwhile,” Idzikowski said, “an average investor would have gained only a 2% return during that same time period, clearly underlining just how important it is to make the correct investment plan and decisions.”

Over many years this very low annual return compounds up to a huge shortfall in retirement funds, whereas a more professional approach and balanced risk and reward strategy will achieve a more optimal outcome.

Target date funds return retirement nest-eggs

A middle-ground between the

riskier high-yield investment investments and the lower-yield assets and portfolios, Idzikowski proposed, is the Target Date Fund. He said that “although Target Date Funds will perhaps not top the chart in terms of performance, they could earn very comfortable returns, very feasibly two or three times higher than the typical ‘do-it-yourself’ portfolios that all too many future retirees have adopted.”

Idzikowski proposed that especially in the area of retirement, a safer, middle-of-the-road option such as Target Date Funds will appeal to many investors, due to a disciplined, transparent and cost-efficient approach.

End-of-service extras

Idzikowski also touched upon the recent proposal by the government for an additional option to be made available with the end-of-service benefit, that of an investment savings plan, similar to that seen in many Western countries.

He remarked that the plans appeared encouraging, although warned that for this to work, the end-of-service benefit would have to be funded, and in many cases, it is not, as there are no regulations currently.

“In the meantime,” concluded Idzikowski, “investors wanting to prepare properly for their retirement can be assisted by wealth advisers, who can provide them with the requisite additional knowledge and the best products to not only achieve sensible returns on their investments, but therefore achieve their retirement goals.” ■