

## **CNA Report**

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### **Nobel Prize winner shares views on retirement planning**

By Pamela Almeda, Channel NewsAsia | Posted: 25 October 2007 0006 hrs

SINGAPORE: A life annuity should be a key component of one's portfolio in retirement planning, said 1997 Nobel Economics laureate Professor Robert Merton.

The Harvard Business School professor was in Singapore on Wednesday for a silver industry event.

In planning for retirement, Prof Merton said what is important is to identify one's life goals – from the quality of life you want to have, to how much you plan to leave for your loved ones.

He added that one key investment for retirement is to first establish a life annuity, which is a financial tool that pays you regularly for the rest of your life once you retire.

Prof Merton said: "A kind of vehicle that is very efficient is a life annuity that is ideally adjusted for inflation and that becomes the core part of what you're investing. Once you've established that, it gives you a floor for life. At that point, you can use whatever resources you have and invest them somewhat more aggressively for other goals."

As life expectancy is much longer these days, the professor added that one's portfolio must take into account inflation, as well as changes to the standard of living.

There are investors who park most of their funds in equities, expecting these to yield higher returns in the long run.

But Prof Merton said there is always a possibility that stocks may underperform.

"In 1989, the Nikkei was around 39,000. Today in 2007, after many years, it's back to 17,000 or 18,000," he said.

Prof Merton said it is more prudent to be well-diversified when planning for retirement.

Investors should also be careful when choosing financial products to avoid being burdened by hidden costs in their bid to get the best returns.

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