FINANCIAL SNACKS

The pay cheque syndrome

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One can feel vulnerable knowing that the pay cheque will stop coming after retirement. That can cause us to go for anything that generates a regular income at the expense of the opportunity to benefit from a more profitable option.

EMPLOYEES are all used to it. We receive our pay cheques at the end of each month. We spend on what is necessary and if there is any balance left, it is either saved or invested. And that sounds pretty comfortable and easy.

When we retire, the pay cheque stops. Just the thought of this makes us feel so vulnerable that we begin to look at different sources of regular income even though it may be a long way before it happens. This is called 'the pay cheque syndrome' – the 'financial addiction' that makes us prefer anything that generates a regular income even to the extent of sacrificing the opportunity to benefit from a more profitable option. Below are three common examples:

■ Deposits

Despite the low returns, conservative savers like the income they can derive from such instruments. This option is preferred despite knowing that deposits are not the place for our retirement funds due to inflation and consumption risk.

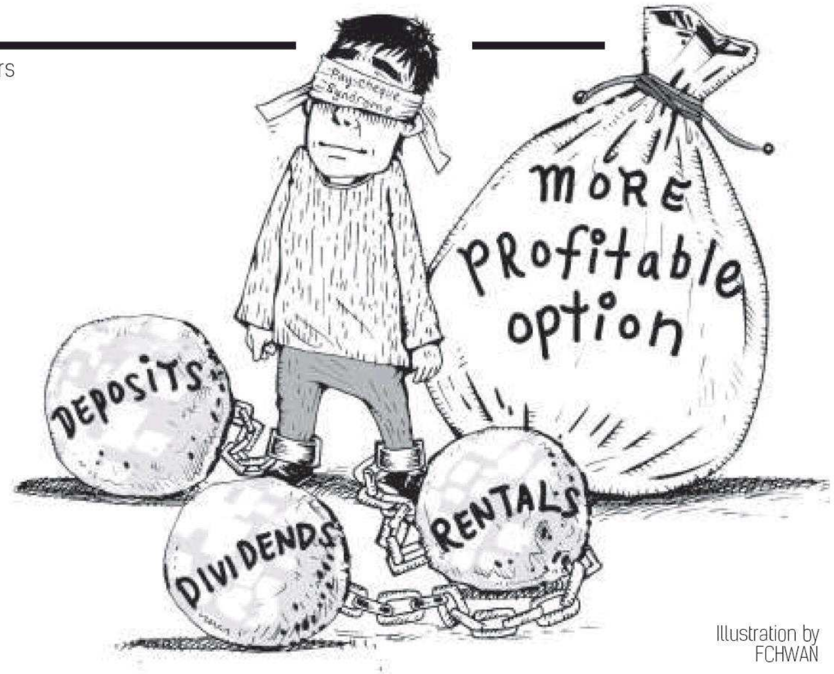
■ Dividends

Some unit trust investors judge the performance of a unit trust fund from the amount of dividends distributed rather than on a total return basis. They usually prefer to invest in a fund just before a dividend declaration and ignores the fund's suitability to their personal needs and risk profiles. Income declared and received is essentially the same as income not declared and reinvested back into the fund. Your unit trust consultant should be able to explain this to you.

■ Rentals

Some property investors are more interested in rental income than capital growth of a property. Ask your financial planner to do a cost-benefit analysis of holding a property for rental income versus selling it for a capital gain especially if the property has appreciated in value over the years. Furthermore, do understand how net rental yields are calculated so that all hidden expenses from holding the property are accounted for.

If you have not yet retired, having the pay-check syndrome can be costly to you as you can possibly end up with an unsuitable portfolio or losing out on growth opportunities. Understand the concept of total return and not just returns from interests, dividends or rental so that you avoid the mistake of holding too much income-generating assets long before you even retire.



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