THE MONEYSENSE GUIDE TO

PLANNING FOR YOUR FAMILY'S FINANCIAL FUTURE

PRODUCED BY

ifpas
Insurance and Financial Practitioners Association of Singapore

Life Insurance Association

AN INITIATIVE OF

MoneySENSE
A National Financial Education Programme for Singapore

MoneySENSE – A National Financial Education Programme

In October 2003, the Singapore Government launched a national financial education programme called MoneySENSE. MoneySENSE brings together industry and public sector initiatives in financial education to enhance the basic financial literacy of consumers. MoneySENSE is a collaboration among various government agencies – the Monetary Authority of Singapore (MAS), Ministry of Community Development, Youth and Sports (MCYS), Ministry of Education (MOE), Ministry of Manpower (MOM), Central Provident Fund Board (CPF Board) and People's Association (PA) – and other private sector bodies and community organisations.

In conjunction with the Family Festival 2004, MoneySENSE has worked with the Insurance and Financial Practitioners Association of Singapore (IFPAS) and the Life Insurance Association, Singapore (LIA) to jointly launch this financial planning guide, "Planning For Your Family's Financial Future". Through the daily exploits of the Lim Family, this guide explains the key concepts of financial planning. It also provides practical tips on how a family can draw up a financial plan, develop a family budget, ensure sufficient coverage for their medical and insurance needs, and consider plans to build up a retirement nest-egg.

Published in November 2004

THE LIM FAMILY

GRANDFATHER LIM

Grandfather of the family, who retired at the age of 65. Very prudent and conservative in the management of his money.

MR WISELY LIM

Father of the family, working as a Supervisor in an MNC. A responsible father who places the family above himself. Always thinking about how he can better meet his family's needs.

MRS LIM TAI TAI

Mother of the family. A housewife who prides herself in being able to spot a good deal when she sees one, but has little knowledge about personal finance.

MR YUPPY LIM

Son of the family. Full of dreams and ideas but unrealistic about goals.

MISS BRIGHTY LIM

Daughter of the family. A bright spark with dreams of becoming the first millionaire in the family.

MISS BIBI LIM

New born of the family. The joy of everyone in the family.

Where did all our money go?

During dinner one day...

Darling, I think we need to re-adjust our family expenditure. Now that we have Bibi, we seem to run out of money every month.

Don't worry hubby, we have enough savings in the bank.

That is for emergencies, dear.
We need to have a proper financial plan.
Failing to plan is planning to fail.

That's right, son! You need to establish a family budget to better monitor your spendings, just like I did when I raised you up.

Not many families in Singapore have the habit of setting up a family budget. It is important that families monitor their spendings through a family budget as many money-related stresses come about due to poor budgeting habits or lack of planning.

Like Mrs Lim Tai Tai, it is easy to assume that you will always be able to afford all the little luxuries in life, as long as you have enough savings in the bank.
The problem only hits you when the bill arrives at the end of the month, and you find you have difficulty coping with the many demands on your family income.

Where did all our money go?

4 EASY STEPS TO PREPARE A FAMILY BUDGET:

1. **Create a list of all your monthly income (what you earn).**

2. **Create a list of what you plan to spend (targeted expenses) and a list of all your actual monthly expenses (what you spend). If your expenses are not incurred monthly, prorate them on a monthly basis.**

   For example, if you have paid $110 for a TV licence at the start of the year, this is equivalent to $9.17 per month.

3. **Set aside a fixed amount of savings every month. As a guide, you should have savings equivalent to 6 months of your salary as emergency funds at any point in time.**

4. **Develop a budget and follow it in a disciplined manner.**

Learning Tool 1

Fill in your current monthly income and your targeted and actual expenses in the Family Budget Template provided on page 8. It is important to involve your family members in drawing up a family budget so that everyone understands the importance of this exercise.

To buy or not to buy?

While Wisely was filling in the family budget template...

Pa, can you give me some money? I want to buy a watch.

But you already have a watch!

Mine does not have full chronograph function.
All my friends have it. Come on... Pa....

My dear grandson, you must know the difference between "Needs" and "Wants". To own a watch may be a "Need", but to have a top-end model is a "Want".
And most "Wants" are usually not necessary.

Our decision to spend is usually motivated by "needs" and "wants". "Needs" are related to the essentials in life, something you cannot "live without".
"Wants" are usually things that we desire, such as luxury items. More often than not, our "wants" are not absolutely necessary.

To buy or not to buy?

Before you spend on anything the next time, ask yourself the following questions to determine whether it is a "want" or "need"...

"What is my reason for spending on this item? Do I really need it?"

"How would things be different if I had it? What would happen if I did not have it?"

"Do I need to spend more if I had it? Are there cheaper alternatives?"

Learning Tool 2

Look through the monthly expenses you have put down in the Family Budget Template on page 8 and determine the "needs" from the "wants". Put "1" against the "needs" and "2" against the "wants". Now you will be able to identify which items to trim to help you save more money. Remember to involve everyone in your family so that the family budget becomes a shared responsibility.

My Family Budget Template

MONTHLY INCOME

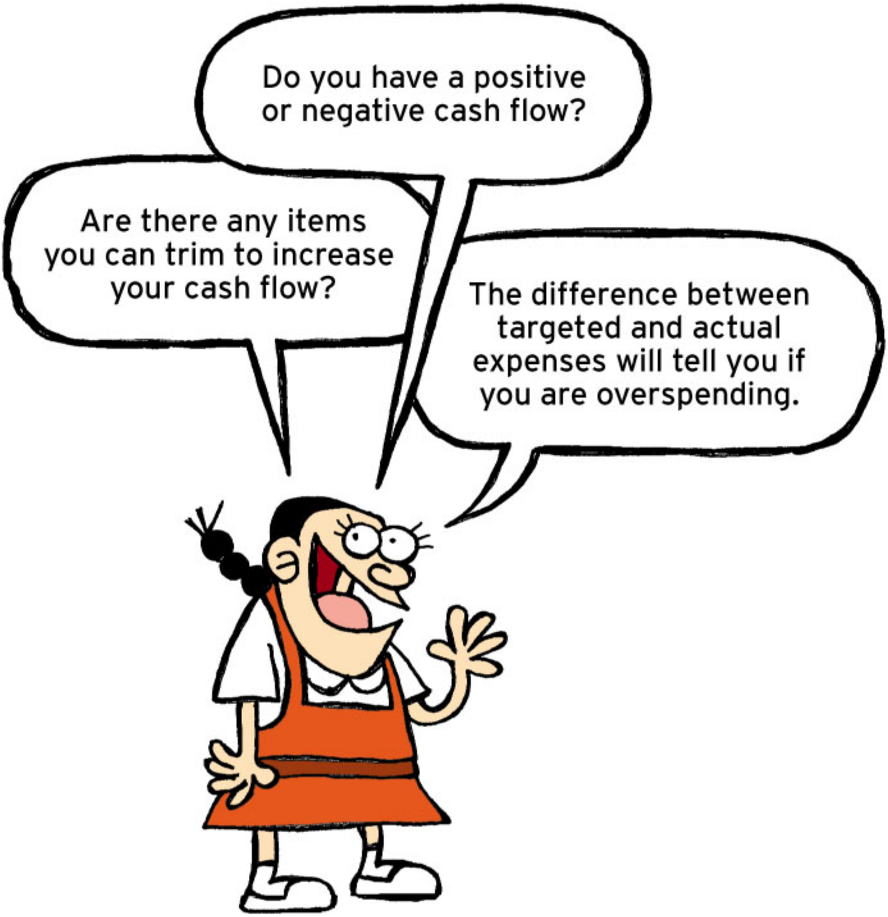
Average monthly take home pay (includes dividends, interest, rental income, and cash profit from selling shares)	$

MONTHLY EXPENSES USING CASH (Priorities: 1 - needs 2 - wants)

	Actual expenses ($)	Targeted expenses ($)	Priorities
Fixed expenses			
Savings			
Mortgage repayments (cash) / Rental payments			
Conservancy and property taxes			
Insurance			
Income tax			
Children's education			
Allowances for parents and children			
Maid			
Transport			
Car loan repayments			
Motor insurance and road tax			
Car park fees			
Petrol and maintenance expenses			
Public transport			
Utilities and household maintenance			
Utilities bills			
Home telephone			
Mobile phone			
Cable TV & Internet			
Food and necessities			
Groceries			
Eating out			
Clothings and personal maintenance			
Health and medical			
Miscellaneous			
Tour and family outings			
Entertainment			
Hobbies and sports			
Others			
TOTAL			

■ Net Cash Flow = Total Income – Total Expenses

My Family Budget Template



Make copies of the budget template on page 8 to keep track of your monthly expenses. Record your actual expenses and compare them with your targeted expenses. Check if you have achieved your targeted expenses at the end of each month.

Is financial planning only for the rich?

Dear, the MoneySENSE talk I attended last night was really useful! Now I understand the importance of financial planning.

Aiyah, we are not rich enough to do financial planning. We do not have that much money to make such grand plans for our future anyway. Only the rich can afford to invest.

That's where you are wrong, dear. Financial planning is not about investments only. It starts from something as simple as family cash flow management to knowing exactly how much we need for our children's education and our retirement.

Oh, I always thought that just having savings in our bank account is good enough...

Financial planning is the process of solving financial problems and achieving financial goals by developing and implementing a financial plan which takes into account a person or family's current situation and future goals.

Financial planning consists of the following six areas:

1 CASH FLOW MANAGEMENT

This deals with how you allocate your income to meet daily expenses, and how you set aside sufficient money and other assets to meet future financial goals.

Is financial planning only for the rich?

2

RISK MANAGEMENT
This is one of the most important areas of financial planning. It means making sure that you have enough family income in the event of unforeseen circumstances such as pre-mature death, disability or illnesses.

3

INVESTMENT PLANNING
This involves putting your assets in different financial instruments to meet your investment goals and to grow your wealth.

4

RETIREMENT PLANNING
This focuses on building up wealth during your working years to achieve financial independence when you retire.

5

TAX PLANNING
This deals with minimising your taxes through the use of various tax benefits and incentives.

6

ESTATE PLANNING
This final phase of planning allows you to plan for the transfer of your assets to your beneficiaries with minimal hassles and estate taxes.

What are our priorities?

The first step in financial planning involves identifying your financial objectives and goals. At different stages of your life, you will have different needs and face different challenges. It is important to identify your priorities so as to make realistic goals and efficient use of your financial resources.

In your 20s

At this age, you are likely to have started working. You are concerned with meeting your day-to-day needs while setting aside some savings for your marriage or first home. Although you are unlikely to have significant financial commitments, you should make income protection your top priority. In addition, you should ensure you have sufficient insurance to cover contingencies such as sickness, critical illnesses and disability. Any surpluses after setting aside some cash savings to meet short term goals should be invested in financial assets that will give you better return for your money.

In your 30s and 40s

At this age, you are likely to have set up a family and have children. With greater financial commitments and responsibilities towards your family, adequate protection for your family becomes even more important. You should review your insurance coverage to reflect your increase in salary and family responsibilities. You will also be concerned with having enough savings for your children's education. A certain amount of your cash surplus should be allocated to retirement funding as the earlier you start, the easier it is to achieve your goals.

What are our priorities?

In your 50s and beyond

Once your children become financially independent and your home mortgage and other financial commitments have been more or less paid up, it is time to review your insurance coverage. Bear in mind that this is the time you will most likely suffer from illnesses. You should consider a long term care plan which will be useful in the event you are unable to take care of yourself anymore due to sickness or disability. With few years left to retirement, it is important to review your financial assets to ensure you have enough funds for retirement.

Learning Tool 3

It would be easier for you to make realistic financial goals if you identify your priorities.

Make sure you review your Priorities List regularly especially at different stages of your life, and every time your family circumstances change. These include events such as starting work, getting married, buying a home, making an investment, having children or reaching retirement.

INDICATE YOUR PRIORITIES BY TICKING THE APPROPRIATE BOX

	Low	High	Medium
Protect family assets against premature death or disability			
Protect family income against critical illnesses			
Provide cover for hospitalisation expenses and critical illnesses expenses			
Provide cover for old age disabilities			
Save for children's education			
Provide for retirement			
Save for short-term goals (3 – 5 years, e.g to buy a new car)			
Save for medium-term goals (6 – 10 years, e.g to reduce mortgages)			
Estate planning			

How much are we worth?

Honey, the Ravindahs are so rich!
They just bought another condominium and a new car!

Dear, a person's net worth is not determined by the assets he owns. If they took up huge loans to purchase the assets, they are also increasing their liabilities.

Oh, does that mean our net worth may be higher than theirs, even though we stay in a smaller house and drive a small car?

Possibly, my dear.

The next step in financial planning involves looking at your current financial situation and assessing your net worth. Net worth is the difference in value between your assets and liabilities. We must be mindful not to incur additional and unnecessary liabilities while in the process of accumulating our assets.

How much are we worth?

Learning Tool 4

COMPLETE THE BALANCE SHEET BELOW TO DETERMINE YOUR NET WORTH

ASSETS	Lim Family	Your data
Cash / Cash equivalent		
Current account	$10,000	
Savings account	$4,000	
Fixed deposit	$20,000	
Others	–	
Total Cash / Cash equivalent	**$34,000**	
Personal Use Assets		
House (Residence)	$320,000	
Car	$53,000	
Country clubs	–	
Others	–	
Total Personal Use Assets	**$373,000**	
Invested Assets		
Private properties	–	
Shares / Unit trusts	$13,000	
Bonds / Treasury bills	–	
Others (Cash values of life insurance policies etc)	$20,000	
Total Invested Assets	**$33,000**	
CPF Savings		
Ordinary Account	$12,500	
Special Account	$7,400	
Medisave Account	$19,240	
Total CPF Savings	**$39,140**	
TOTAL ASSETS	**$479,140**	

LIABILITIES		
Mortgage loan balance	$101,000	
Car loan balance	$25,000	
Credit card balance	-	
Overdraft balance	-	
Other loans (Student loan, renovation loan etc)	$10,000	
TOTAL LIABILITIES	**$136,000**	

■ Net worth = Total Assets – Total Liabilities

Net worth of Lim family = $479,140 - $136,000 = **$343,140**. What is yours?

How much coverage is enough?

Finally we have completed listing our assets and liabilities. Besides setting aside cash savings equivalent to 6 months of daddy's income for rainy days, we need to save for your education and make sure that there is enough money to cover our family's expenses in case daddy is not around anymore.

Choy! It's not good to talk about such things, hubby!

Well, that's what financial planning is all about, preparing for the unexpected, dear.

Pa, how will we have enough to pay for everything?

My dear brother, don't you know there is something called "Insurance " ?

That's right, girl. Through careful use of financial instruments such as insurance and investment funds, we will be able to meet our financial needs and goals.

How much coverage is enough?

Life insurance gives you and your family financial protection against death, permanent disability and critical illnesses. The following are some common insurance plans:

WHOLE LIFE PLANS

With whole life insurance plans, you get lifelong protection as long as premiums are paid. Most whole life policies build up cash values which can be withdrawn in the form of a policy loan in case of an emergency. "Riders" to cover for illnesses and total permanent disability can be added to the basic plan.

ENDOWMENT PLANS

An endowment policy is aimed at building up your savings over a fixed policy term. The policy pays the sum assured and any bonuses you have built up at the end of the policy term, or when you die or become totally and permanently disabled during the policy term. Depending on your needs, an endowment policy can serve as an all-purpose savings plan, a children's education savings plan or a retirement plan.

TERM INSURANCE

With term insurance, you get protection for a fixed period. It pays the sum assured only if you die or become totally and permanently disabled during this period. Term insurance has no surrender value when the policy ends or terminates prematurely. However, the cost of this type of coverage is usually lower than that of a whole life plan. Term insurance usually comes in terms of 5 to 40 years and is renewable when each term ends.

INVESTMENT-LINKED INSURANCE PLANS (ILP)

Investment-linked insurance plans invest in different investment instruments while providing you with optional insurance coverage that you can vary according to your needs.

How much coverage is enough?

**Do you know how much insurance coverage is enough?
Here's a simple exercise to determine how much you need.**

Using Chart A (which shows the lump sum needed for every $1,000 of income required each year), let us go through the Lim family's income protection needs.

CHART A

Years to last	Lump sum needed	Years to last	Lump sum needed
10	$9,162	21	$17,351
11	$9,983	**22**	**$18,011**
12	$10,787	23	$18,658
13	$11,575	24	$19,292
14	$12,348	25	$19,914
15	$13,106	26	$20,523
16	$13,849	27	$21,121
17	$14,578	28	$21,707
18	$15,292	29	$22,281
19	$15,992	30	$22,844
20	$16,678		

Note: This chart is computed using the annuity payment method and is based on a reinvestment rate of return (inflation adjusted) of 2%.

Assuming the Lim family needs $30,000 annually and the family income protection fund should last until Bibi becomes independent at age 22:

	Lim Family	Your data
A Yearly Income required	$30,000	
B Years required	22	
C Every $1,000 per year will require (From Chart A)	$18,011	
D Total lump sum required (A x C / 1,000)	$540,330	
E Total Liabilities (From balance sheet)	$136,000	
F Current Funds available (Cash/cash equivalent + Invested Assets + CPF savings + Current insurance coverage*)	$556,140	
G Total coverage required (D + E – F)	**$120,190**	

* Assuming Wisely's current insurance coverage is $450,000

Learning Tool 5

You can now calculate the coverage you need for your family income protection using the template above. More information on life insurance can be found in the MoneySENSE Guide "Your Guide to Life Insurance" at www.mas.gov.sg/consumer.

How to afford high education costs?

Do you know how much you would need to set aside for your child's education?
Below is an example of the annual education cost for Bibi in a local university.

EXAMPLE OF ANNUAL EDUCATION COST IN A LOCAL UNIVERSITY:

Tuition Fees	$6,000
Food	$2,500
Books / Stationery	$1,000
Transportation	$1,500
Personal Expenses	$2,500
TOTAL	**$13,500**

From the above example, a 4-year university education could cost you $13,500 x 4 = $54,000.

Using the inflation rate at Chart B, the cost of a local university education for your child in 20 years' time will be $54,000 x 1.49 = $80,460!

Sometimes, the cost of education may rise faster than the inflation rate. This means that you will require more funds!

CHART B

Years	Inflation factor
1	1.02
2	1.04
3	1.06
4	1.08
5	1.10
6	1.13
7	1.15
8	1.17
9	1.20
10	1.22
11	1.24
12	1.27
13	1.29
14	1.32
15	1.35
16	1.37
17	1.40
18	1.43
19	1.46
20	**1.49**
21	1.52
22	1.55
23	1.58
24	1.61
25	1.64
26	1.67
27	1.71
28	1.74
29	1.78
30	1.81
31	1.85
32	1.88
33	1.92
34	1.96
35	2.00
36	2.04
37	2.08
38	2.12
39	2.16
40	2.21

Note: Assuming inflation rate of 2%

How to afford high education costs?

EDUCATION FUNDING

Some of the options you can consider to save for your child's education include:

- Putting your savings in a bank deposit
- Buying an endowment plan
- Investing in a longer-term investment product

POWER OF COMPOUNDING

A financial instrument with a higher rate of return can help you to achieve the same goal with a smaller amount of savings every year. And the earlier you start saving, the more wealth you can grow. However, any form of investment will carry a certain degree of risk.

Do you know that if you want to have $50,000 in 20 years' time, you need to set aside $187.50 per month if you invest in an instrument that gives you an annual rate of return of 1%? However, if you only start saving 10 years later, you will need to save $395 per month!

So start to set aside savings early. With the power of compounding, even setting aside $100 in your savings account every month (assuming 0.5% interest rate) could potentially bring you $25,300 in 20 years' time!

Money not enough... for retirement

Nowadays things are getting so expensive!
A bowl of noodles only cost 20 cents in the old days. Look at the price now!
$3 for a small bowl of noodles!

Pa, this is inflation at work.

Yah, when I retired at 65, I thought my savings would be enough to last me till 80. Looking at the way things are going now, I wonder if it's even enough to last me beyond the next few years.

Don't worry Pa, you still have me.

I know you are a filial son.
But you are already trying to make ends meet.
That's why I saved for my retirement years ago.

Money not enough... for retirement

DO YOU KNOW HOW MUCH YOU NEED WHEN YOU RETIRE?

Below is an example of how much Wisely Lim will need when he retires.

EXAMPLE:

Assume Wisely is currently 45 years old. If he continues working until he retires at age 62, he will be able to accumulate another 17 years (62 - 45) of income.

He would like to retire with an annual income of \$18,000 (in today's dollar). Due to inflation, by the time he retires, this sum will be equivalent to \$18,000 x 1.4 = \$25,200. (See Chart B, item for 17 years)

Assume a life expectancy of age 83 for males (for females, assume life expectancy of 88 years), he will need to provide for 21 years (83-62) of retirement income.

He will thus need to accumulate \$17,351 (See Chart A, item for 21 years) x \$25,200/\$1,000 = \$437,245 by the time he retires at age 62.

Using the above example, you, too, can work out how much you would need to accumulate for your retirement.

Money not enough... for retirement

Some financial planning experts say that, as a rule of thumb, you need at least 70% of your last annual income to maintain your current lifestyle during retirement.

Many people have the misconception that their CPF savings would be enough to see them through their retirement.

Remember that CPF savings are only meant for basic retirement needs. If you contribute regularly from the time you start work, you will only have enough CPF savings for a life annuity to provide a monthly retirement income of 20% to 40% of your last take-home pay and Medisave for your basic healthcare needs by the time you retire.

Depending on your retirement lifestyle needs, your CPF savings alone may not be enough for your retirement. You thus need to ensure you have your own savings and investments to supplement your CPF.

If you are thinking of generating some income during your retirement, you can consider the following:

- **Annuities**
- **Savings or investment accounts**
- **Certificates of Deposit**
- **Reverse Mortgage**

Speak to a financial adviser if you wish to find out more about these options.

Learning Tool 6

Plan early for your retirement. Your CPF savings can only cover basic retirement needs. Use the CPF Retirement Planner at **www.cpf.gov.sg** to find out if you have enough for your golden years.

Why invest? Can't we keep our money in a biscuit tin?

Pa, I heard some news at the coffee shop.
They say ABC's stock price will rise soon!
Perhaps it's a good time for you to invest?

Son, we should adopt a long-term view for investment.
Market timing is not a safe way to invest.
Besides, market talk is seldom true. There are many factors to consider before making an investment.

Investments? That's too risky! Better to keep cash, like what I do. Having your money close to you is always the safest bet.

No, Pa, investing prudently is necessary in order for our money to grow. Our purchasing power will be eroded over the years due to inflation if we do not grow our money through careful investments.

Why invest?
Can't we keep our money in a biscuit tin?

People often view investments as being very risky.
In fact, investing is all about maximizing the returns on your savings using various kinds of financial instruments.
Some of the more common types of investments are:

- **Fixed Income Securities (Bonds)**

These are debt instruments issued by either the Government or corporations to raise funds.
Investors (lenders) are usually repaid the original investment amount at maturity.
When you hold a fixed income security, you will also receive interest (or coupon payments) periodically.

- **Equity Investments (Stocks or Shares)**

Equity is a form of ownership in a corporation.
An investor's stake in the corporation depends on the number of shares he owns as a percentage of the total number of shares issued by the corporation.
Shareholders have the opportunity to benefit from capital appreciation of the shares and may receive dividends.

- **Unit Trusts**

A unit trust is an investment fund managed by a professional investment manager. It consists of investments in one or more of the three basic asset classes – cash, bonds and stocks.

Why invest?
Can't we keep our money in a biscuit tin?

Investment-Linked Insurance Plans

An Investment-Linked Insurance Plan (ILP) is an investment fund managed by a professional fund manager, which has an added insurance component. Similar to unit trusts, ILP offers different investment objectives to suit the risk appetite of policyholders.

BASICS OF INVESTING

1. Identify your investment objectives and time horizon.
2. Consider the risks you can bear and your expected returns.
3. Decide on an appropriate asset allocation. This means how you allocate your savings among various asset classes including property, stocks, bonds and cash.
4. Consider how you can diversify your investments.
5. Conduct your own research to choose the right professionals who can help you with your investment.
6. Consider the transaction costs of your intended investments.
7. Monitor your investments closely and review your investment objectives periodically.

More information on investments can be found in the MoneySENSE Guide "Introduction to Personal Investing" at **www.mas.gov.sg/consumer**

Insurance and Financial Practitioners Association of Singapore

Established in 1978, Insurance and Financial Practitioners Association of Singapore (IFPAS), formerly known as Life Underwriters Association (LUA) is the premier professional association representing financial practitioners. Its 6,000-plus members represent more than half of the membership of the insurance-based financial industry.

The primary objectives of the Association are:

- **To provide a central organization for insurance and financial practitioners involved in the promotion and distribution of insurance and financial products and services.**
- **To promote ethical and professional practices of practitioners engaged in the insurance and financial services profession.**
- **To promote continuous professional and educational development of practitioners engaged in the insurance and financial services profession.**
- **To promote and safeguard the common interests of the members of the Association and the public.**

In addition, a number of member benefits such as professional indemnity insurance schemes for its members are telling indicators of an Association that has come of age together with the profession.

The change of name and the Association's well-defined initiatives can be described as the springboard to push IFPAS forward in its vision to be a united professional body that can give stature to financial services professionals through training, education and community service

For enquiries, please contact:

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Life Insurance Association

The Life Insurance Association (LIA) is a trade association comprising twelve direct insurers and three reinsurers who are licensed by the Monetary Authority of Singapore (MAS) to transact life insurance or life reinsurance business in Singapore.

Its objective is to promote the growth and development of the Singapore life insurance industry and to protect interests shared by life insurers and life insurance policyholders. To meet these objectives, the LIA undertakes various activities each year with current emphasis on:

- **the development of the life insurance industry in consultation with MAS;**
- **promotion of standards of industry practice;**
- **promotion of public awareness of life insurance.**

For enquiries, please contact:

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10 THINGS TO DO
TO HAVE A BRIGHTER FINANCIAL FUTURE FOR YOU AND YOUR FAMILY

Have you planned for your financial future? Find out how well-planned you are by checking the boxes applicable to you:

- [ ] I have set up a monthly budget.
- [ ] I have an emergency fund consisting of 6 months of my monthly salary.
- [ ] I have identified my financial goals and objectives.
- [ ] I know what my net worth (assets minus liabilities) is.
- [ ] I have a proper plan to reach my financial goals and objectives.
- [ ] My family and I are adequately covered against risks such as illness, accidents and loss of income.
- [ ] I know how much CPF savings I will have when I retire.
- [ ] I know how much I need for my retirement and have started building up a retirement fund.
- [ ] I have started putting aside some money in investments to grow my wealth.
- [ ] I review my financial plan regularly.