

# {Wealth Management}

## FINANCIAL PLANNING

# RESOLUTIONS

It is the time of the year to take stock of one's life. Financial Planning Expert David Choo tell us how.

**N**ew year resolutions may have passed out of vogue but the beginning of a new year inevitably puts me in a pensive mood. Like all Singaporeans, I am happy the many calamities in 2005 have given us a pass and even the ever present dangers of terrorist attacks and avian flu remain threats only.

Our economy is holding up well and national household wealth has gone up, even despite rising medical cost and children's education. I think it is all too easy to become complacent and take things for granted. One way to sober up is to do a stock take of one's life, review the year that has gone and learn from the things we have done wrongly or failed to do. And to look ahead and review your goals for yourself, your family and your corporate life, social life, spiritual life and financial affairs.

In this article, I will concentrate on just a financial review. For me, a financial review covers three main areas:

1. A personal balance sheet to show me where I stand financially.
2. personal income and expenditure statement to show me my financial performance over the 12-month period.
3. A review of my "financial planning" covering risks protection, savings and investments, retirement plan, estate plan and tax plan.

### PERSONAL BALANCE SHEET

A balance sheet shows the financial standing at a point in time, usually end of the month and also the financial year. A personal balance sheet lists all the assets at current value on one side and the liabilities at current value on the other side. If assets exceed liabilities, the person has a positive nett worth. But a positive nett worth may be due to big non-cash assets (e.g. property) and the person can still have a cash flow problem – thus, the oft-heard "asset rich, cash poor Singaporean".

If the nett worth is negative, you are in debt and it would be essential to work out a debt repayment plan. Such a plan comprises three action steps:

Ways to earn more and use the extra earnings to repay debt. Ways to spend less and use the difference to repay debt.

Ways to restructure your debts to save on interest payments, wherever practicable. Take into account other costs of debt refinancing like legal expense and stamp duty.

In extreme situations, you can try your luck and charm by trying to get your debts forgiven or reduced.

If you have been preparing personal balance sheet over the years, a year-to-year comparison will show whether you are getting wealthier or poorer. Many people do not monitor their financial health and can get into a state of shock when they discover that they are technical bankrupts or close to it.

### PERSONAL INCOME EXPENDITURE STATEMENT

A personal income expenditure statement is like a company profit and loss statement and shows the financial performance over a period of time, usually one year. Increase in income is usually greeted with cheer, but hold your celebration until you reach the last line which is income less expenditure (corresponding to the nett profit or loss line in a company's profit and loss). If

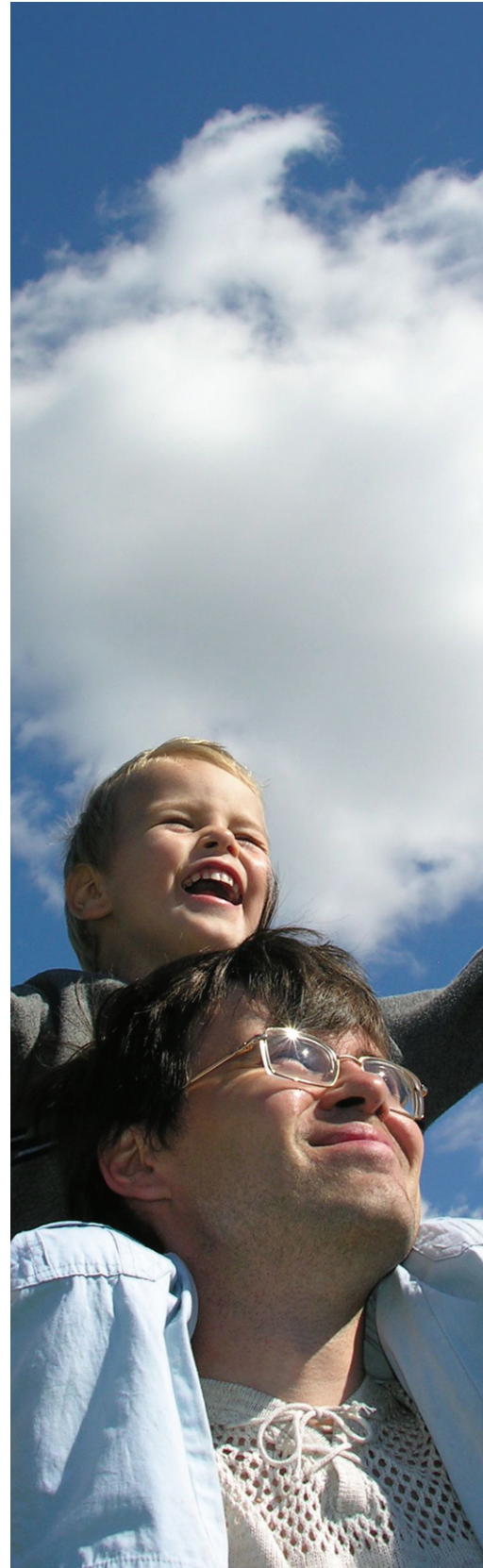
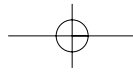


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there is a positive nett income less expenditure, you will have savings (if you are doing on a cash received and spent basis).

You will soon learn that it is not what you earn per se, but what you are able to save (and invest) which makes you richer each year. There are many who are able to save regularly on a \$3,000 salary when others with a \$5,000 salary are getting deeper and deeper into debt.

A look at the expenditure items will reveal why. One financial resolution worth making is not to spend on things (e.g. games, equipment, entertainment

system, etc.) which you cannot pay with cash. Hire

purchase is an expensive way of buying things even if no initial deposit is required.

Looking at many Singaporeans' income-expenditure statements, it is clear that car ownership is one of the biggest expenditure items. Many financial woes of the lower salaried car owners would be solved if they get rid of their cars.

Extra income earned from tuition or giving tennis lessons can make a vital difference to some households. Part-time work in addition to one's regular work is also becoming more common but one

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downside is the sacrifice of family time and health. The quest for better income drives many into trying other jobs or even going into business.

But there are risks that must be faced and career moves must be decided carefully. Younger Singaporeans, perhaps regarding their parents as their safety net, seem to be unduly reckless, often resigning from one job before securing the next. Many retirees also seem to think that with CPF money, they can turn into successful businessmen and entrepreneurs overnight. Generally, one resolution that retirees might want to make is to set aside what they need for retirement in safe investments like annuity or bonds, or well-diversified unit trusts with low volatility.

### REVIEW OF FINANCIAL PLANNING

Everyone would benefit from having a financial plan drawn up. You can have one done by a certified and qualified financial planner for a few hundred dollars to a few thousand dollars. You will also be able to get a plan done for free by some planners and advisers if you appoint them to provide the products.

If you have a plan, you need to review your plan annually, at least, to see whether your financial goals are still valid. Certain goals may have been fully achieved. Some may have become more important, while others cease to be a priority.

For examples of financial goals and investment concerns, please see chart.

### EXAMPLES OF FINANCIAL GOALS

#### INCOME PROTECTION

- Provide source of income when disabled
- Ensure lifestyle of family is not affected by my death
- Ensure money is available for major medical expenses
- Ensure family and I are compensated for loss due to personal accident

#### CHILDREN'S EDUCATION

- Take care of my children's university education

#### RETIREMENT FUNDING

- Ensure there is income for stress-free retirement
- Provide funds for taking care of long-term nursing need

#### ESTATE AND TAXES

- Ensure my spouse does not need to be burdened with all death taxes
- Create legacy to pass on to my spouse and children

#### OTHERS

- Be debt free
- Have a decent wedding and honeymoon
- Educate and upgrade myself
- Upgrade my home
- Be my own boss
- Take care of my dependants/charity when I am not around.



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