Towards financial wellness: Set your priorities and commit to a plan

Saving for various financial objectives may sound daunting but once you get started, half the battle is won. BY GENEVIEVE CUA

MOST Singaporeans are aware that they need a financial plan to serve as a guidepost towards financial wellness, particularly as they get older.

Life, however, throws numerous curve balls that could derail the best-laid plans, including the health and economic crisis that is Covid-19. How do you strike a balance among competing financial goals, and still ensure that in the long term your retirement is adequately provided for?

Millennials and those in the "sandwich generation" are hard-pressed between competing goals. Prudential's *Saving for 100* report, drawn from a survey of over 1200 individuals, found that millennials are braced for a financial squeeze. While they are saving to support their ageing parents, only 30 per cent expect their children to care for them when they themselves retire.

The reality is that amid rising life expectancy, the nuclear household with just one or no children means that the family as a traditional pillar of support in one's old age is rapidly diminishing.

This makes it even more imperative that savers of any age today must take action to enhance their savings for the future, even as they juggle immediate, near-term and longer-term financial objectives.

Angeline Alexander, Prudential Singapore head of high net worth and affluent segments, says it is essential to prioritise your needs.

"We need to have a clear understanding of our various financial needs – for example, funding our children's education or supporting our aged parents, in order to know what to prioritise at different points in time. We also need to know the state of our financial wellness, to identify the gap between what we can manage and how we can meet our various financial needs. Given limited financial resources, there will be trade-offs."

She adds: "Whatever the scenario, what's important is to take all our needs into account when doing our financial planning. This way, we can work towards accumulating sufficient funds to allocate to all our financial needs."

The Pulse by Prudential app has a Wealth@Pulse component to get you started and simplify your journey. The app has an artificial intelligence-powered digital assistant Ruby, and features to help you set and track financial goals.

The following steps will help in drawing up a financial plan, which you may do in consultation with a financial adviser.

■ Ascertain your current financial position. Make a list of your assets, including amounts in investments and Central Provident Fund (CPF) account, and liabilities which comprise all loans.

■ Work out your monthly cash flow. Inflows include salary and income from assets such as rentals and dividends. Outflows are your expenses, which should include amounts that go towards household expenses, maintenance for elderly parents, children's tuition fees, loan repayments and insurance. The balance remaining after expenses gives you an idea of the amount you will be able to save or put to work in higher yielding investments. Nothing, however, is cast in stone; that is, there may be expense items here and there that you may be able to reduce to raise your net cash flow.

■ Keep a rainy-day cash reserve. This reserve may be the equivalent of 1.5 to two months' salary, and serves as an emergency fund.

■ List your financial objectives. Start with near-term goals such as the purchase of a car, or a family holiday. If your children are young, saving for their tertiary education qualifies as a longer-term goal, typically spanning around 17 to 20 years. Then there is also retirement, which may be 30 or even 40 years away.

■ Set your priorities and commit to them. A good exercise is to list your needs and wants in two columns. You may desire a family holiday every year or even twice a year, but is it a priority?

Amid rising life expectancy, the family as a traditional pillar of support in one's old age is rapidly diminishing. It is even more imperative that savers of any age today must take action to enhance their savings for the future. ILLUSTRATION: PIXABAY

If retirement is a priority, then a good habit to cultivate is to pay yourself first – that is, ensure that when you receive your salary, immediately set aside the proportion that you wish to save for retirement. This is in addition to your CPF. Within the CPF, the Retirement Sum goes towards the CPF Life, an annuity scheme giving you a basic level of future income in retirement. Depending on your expected lifestyle in retirement, however, the CPF Life income may be insufficient.

For children's education, you may aspire to send your children overseas for a university degree. Do your research on the likely expenses and build in an inflation rate, which may be as much as 10 per cent for US universities.

■ Match long- and short-term financial goals with portfolio allocations. Time horizon and your personal risk tolerance are major factors in how assets are allocated in a portfolio. A long time horizon of over 10 years, for example, means that you are able to take more equity risk. A short horizon of five years suggests a lower-risk portfolio. As you approach the time when you need to draw on funds for your financial need, the asset allocation should shift towards lower-risk assets. This helps to mitigate the risk that a sharp market downturn causes a steep shortfall just when you need the cash.

Ms Alexander says: "Having individual portfolios aligned to each financial goal can help you manage them better in a more focused way, given the different targets and timelines for each goal. On the other hand, having too many individual portfolios may increase costs due to a greater number of transactions or regular fees attached to investment products. We can strike a balance by grouping similar financial goals and investment strategies into a single portfolio of assets."

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In terms of personal risk tolerance, it may be tempting to seek as much safety as possible. But it is also important to be aware of the trade-off, particularly in a long-term portfolio. Safe assets may give the comfort of a minimal potential loss. But you run the risk that unless you save a large amount, the portfolio not only fails to meet your financial objectives, it also fails to keep pace with inflation.

It is important to revisit your portfolio at least annually, and certainly when your circumstances change. Ensure too that your portfolio is diversified to provide a buffer against specific company or market risks.

■ Consider estate and succession planning. This may sound like a very long-term objective, but it is arguably part of prudent risk management, particularly if you run your own business and have liabilities. The absence of estate taxes in Singapore does simplify estate planning to a degree, but there is much more to the process than tax minimisation. If your assets are complex and span multiple jurisdictions, for example, professional advice will help to make you aware of potential vulnerabilities and possible solutions. Estate planning ultimately sets out not only to ensure a smooth transfer of assets to your children, but it also seeks to ensure your family stays cohesive through generations.

Saving and investing for various financial objectives may sound daunting. But once you get started and commit to a plan with a regular saving or investing habit, half the battle is won.

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