

# Effects of Trends on Financial Planning

TUESDAY TIMES ISSUE #73



# TUESDAY TIMES

## Effects of Trends on Estate, Retirement and Financial Planning

### Introduction

One important hallmark of a professional, whether the individual is a financial adviser helping a client to navigate the trends or a military officer leading a team of troops, is to see the facts as they are, and not what they ought to be. Two important reports were published on the public domain in recent times. The two reports are the Singapore Census 2020 report, which was published on June 2021; the other report is the Global Burden of Disease (GBD) 2019 which was cited in the Ministry of Health website. These reports have wide estate, retirement, and financial planning implications, which are the subject matter of this writing.

### Global Burden of Disease (GBD) 2019 Report

The GBD study began in 1990 as a single World Bank-commissioned study which quantified the health effects of more than 100 diseases and injuries for 8 regions of the world, giving estimates of morbidity and mortality by age, gender, and region. It also introduced the disability-adjusted life year (DALY) and health-adjusted life expectancy (HALE) as two new metrics to quantify the burden of diseases, injuries, and risk factors. Let's see the data from GBD 2019 report, which is cited in the MOH website.

Based on this report, the Life Expectancy (LE) of Singapore residents at birth for male and female is 81.4 and 85.7 years, respectively. Comparing these figures with the 2006 figure of 77.8 and 82.6 years, Singapore residents' longevity has increased. In the same report, the Health Adjusted Life Expectancy (HALE) of Singapore Residents are 71.7 (for male) and 73.8 (for female). HALE is the number of years in full health that an individual can expect to live given the current morbidity and mortality conditions. If you combine the LE and HALE data, it shows a Singapore (male) resident can expect to live the last 9.7 years of his life suffering some form of illness, critical or otherwise (for Singapore female residents, the last 11.9 years is likely to be in some form of illness).



## Effects of GBD 2019 data on Financial Planning

These data have implications in financial planning. First, one needs to have a bigger retirement capital to mitigate the longevity risk as one is living longer. Second, the later years of one's retirement can expect the living expenses to increase due to expected illness (as shown in the HALE data). This means that the tradition assumption that one plan for lesser expense during retirement, which is the standard methodology being taught in many formal financial planning courses, needs to have a rethink. HALE data also point towards the need to maintain a critical illness insurance policy, long term care policy, and hospitalization and surgical policy beyond the retirement age till life expectancy.

## Singapore Census 2020

The Singapore Census report is a decennial report, meaning it is published once every 10 years. It spells out, amongst other trends, the demographic, family, and matrimonial trends. The latest report, which was published in June 2021, shows some disturbing trends.

First, the Singapore population is aging at a faster rate. In 2010, there are 13.5 residents aged 65 years and over per 100 residents aged 20 – 64, whilst in 2020, this figure stands at 23.5. Second, the data shows the family structure is getting smaller, this is evidenced by the lower number of children born into each family in 2020. Third, the data also reflect the changes in attitudes towards marriage and parenthood. The proportion of married residents dropped, and the number of those that are divorced or separated increased. More residents are staying as single, and there is a larger share of widowed residents among women than men.

### a. Effects of Census data on Financial Planning

The Census data brought up an inconvenient issue. As couples are married and having children at the later age, this could create a dilemma where a parent needs to choose between planning his or her retirement or child education, especially so when financial resources are limited. Logically, longevity risk is more serious, and hence it should be given priority; emotionally, however, providing for a child education is always given a priority.

Also, in view of a smaller family structure, the child's death or illness can create a financial and emotional havoc on the parents. The reason is because, the parents will have an immediate financial stress of taking care of the child, and may also be encumbered with the long term financial impact, as they will have one less child to support them in their retirement years.

Hence, it necessitates each child to have at least one life insurance or critical illness policy, not so much for the parents to profit from their child's unforeseen circumstances, but to enable the parents to recover emotionally from the loss or illness of their child.

### b. Effects of Census data on Estate Planning

It is crucial to have a formal estate planning done to ensure the surviving spouse, who is likely to have lesser family support, have sufficient capital, income, and liquidity to live to her or his remaining years.

Second, it is also crucial for the adult children of a family to consider their elderly parents in their estate plan. If in the unfortunate event where the child pre-deceased the elderly parents, it is important to have meaningful estate being given to the elderly parents to help mitigate the parents' retirement living cost.

### c. Effects of Census data on Retirement Planning

Just like the data shown in GBD 2019, the longer life expectancy warrants a realistic acceptance of a bigger retirement capital needed, a longer duration of saving or investing for retirement, and maybe a lowering of retirement expectation. The smaller family size will mean there is lesser help from one's own family members if one outlives his or her retirement capital or is impacted with a critical illness during the last 10 years of his or her life expectancy.

### d. Effects of Divorce on Estate, Retirement and Financial Planning

No married couple would like or envisage a situation where their marital relationship may possibly end in divorce, but it happens, and the data shows its occurrence has increased over the years. There is a need to rebuild the divorce parties' estate, retirement, and financial planning all over again. This transition from married to being single is an event with lots of negative and depressive emotions. Hence, the role of a financial adviser, which requisites significantly, a strong sense of objectivity and being data-driven, is invaluable in such situations, when assisting these clients.

## Conclusion

As you can see, by studying data, we can find areas of estate, retirement, and financial planning concerns which are crucial for clients' well-being. Targeted training courses can also be created by equipping advisers with the right skills and knowledge to be relevant and succeed amid trends. And, when we are able to help clients navigate through the complexity of trends, our standard and standing as a professional financial adviser will certainly increase.



### ABOUT THE AUTHOR

Allen Lim is a licensed financial practitioner and holds the AFC, ChFC®/S, CLU®/S & FChFP designations, and has a Certificate in Law (Estate Planning).

He is the current IFPAS 1st Vice President, heading the Education & Training department.

AN ONLINE PUBLICATION BY IFPAS © 2021

Insurance and Financial Practitioners Association of Singapore All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of the publisher.

