



INSURANCE AND FINANCIAL
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the **A****B****C**S of financial planning

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People sometimes associate financial planning with the purchase of a financial product. As such, it isn't unusual that some individuals may proceed with a purchase after being informed how good the product is for various reasons. This choice of a particular product, may have also been reinforced, with some comparisons. Not that this is wrong, but financial planning is more than just buying a financial product. Is this important? Yes. It involves the process of meeting your life goals through the proper management of your finances. Thus, with this at heart, to unpack the key areas of this meaningful process, the following paragraphs may help to underpin the fundamental "ABC"s of financial planning, which you can take reference from, for your financial planning journey.



ASSESS YOUR SITUATION, GOALS AND OBJECTIVES

Every one of us is unique. The reason is because we have different concerns as well as goals. Akin to a doctor checking and assessing our body to see what's wrong before the medication can be prescribed to treat sickness, the same principle, in essence, is applicable for financial planning. We should first do a needs analysis to assess our own situation, goals and objectives, and then take stock of what we currently have.

This enables us to have an overall picture before mapping out the action plan and strategies for us to achieve the desired effects. Such approach can then help guide us along our financial planning journey. It is like the cover page of a jigsaw puzzle, which gives an overview of the picture, before one can start putting together the individual pieces in the right place, with that end effect in mind. Hence, with the most important component in place, such as knowing one's objectives and current financial situation, action steps can then be taken with a view to identify suitable plans that will eventually help recreate that cover page of the big picture, in reality. Adding, it will be good to conduct regular reviews to ensure our financial planning remains relevant and current with times and development, so that it's tracked steadily to meet those goals and objectives.

BBUDGETING AND CCASHFLOW MANAGEMENT

Budgeting and cash flow management are two related components, that follows the needs analysis, when assessing one's situation. Cashflow is often referenced as the lifeline in view of the critical role it has in our personal finances on a daily basis, just as blood is, for the human body. With the COVID-19 situation affecting jobs and livelihood, it is important for individuals to look at their budgeting, to find ways to increase their cash inflow, and reduce their expenses to minimise outflow.



One can adopt the concept of "paying yourself first" by saving some money aside before budgeting for expenses. In terms of budgeting, one can adopt the "50/30/20" guideline, whereby 50% may be used to take care of needs and essentials like utilities, housing, groceries and transport, 30% on wants such as hobbies and travel, whilst 20% may be set aside for savings. It will also be good if one can pay off and reduce debts, where applicable, so as to minimise interest payment and over-exposure to liabilities and debts. Also, with proper budgeting and cash flow management, it will help one to build up six to twelve months' worth of living expenses such as emergency cash as well as accumulating a surplus for wealth creation, to meet those goals and objectives.

DOING WEALTH ACCUMULATION AND WEALTH PROTECTION

For wealth accumulation, one will often start saving and investing to accumulate more wealth, or probably to plan for certain goals. Some of these goals include planning for children tertiary education, or saving and investing for retirement planning. It is beyond the scope of this article to discuss these topics in depth. But one can refer to specifics on retirement[1] & investment planning[2] respectively from Tuesday Times articles indexed below, for more details.

After making a conscious and painstaking effort at saving and investing to accumulate more wealth, it is also needful to ring fence them with wealth protection by having relevant insurances in place, so that this would not erode and deplete, should unforeseen risk events arise. Some of these risk events include hospitalisation due to accidents or sickness and the 3Ds (premature death, disability and dreaded diseases a.k.a critical illness). With insurance in place as a wealth protection tool, it can take care of income replacement, debt cancellation or medical expense payment/reimbursement, in those difficult circumstances. To expand on this area, one can take reference from Tuesday Times article[3] “5W1H of Personal Insurance Planning”.



The most important thing to note for doing wealth accumulation and wealth protection is not about getting “the best plan”. It is more about understanding how these plans work and how they fit into the planning process to meet a particular objective. It is also important for one to be comfortable with the plan and the decision.

ESTATE AND LEGACY PLANNING

After doing “life” planning” with the “ABCD” takeaways, we now can shift the needle towards “after-life” matters, with estate and legacy planning. Though this is sometimes felt as a taboo word in Singapore and in Asia, death is certain and inevitable. As such, it is important for one to do their estate planning to ensure their estate is distributed according to their wishes, so that it would minimise the financial impacts and other implications that may arise for their families and loved ones, as well as prevent delays, dispute or even going into intestacy should an unforeseen or premature demise arise. “Success to Significance with Estate planning via “L.E.G.A.C.Y” principle” article[4] meaningfully captures the essence of making that transition and thus may serve as a helpful guide. It will be even better for one to engage a lawyer or estate planner, in relation to estate planning, particularly in view of the significance and impact this has on the lives of loved ones, into the distant future, across generations.



CONCLUSION

The “ABCs” of Financial Planning sounds easy, however it isn’t as straight-forward or simple. Hence, It will be better if one can work with a trusted and competent financial practitioner to go through the proper financial planning process as expressed in the above passages, so that it may help achieve your financial goals over time, whilst preserving a peace of mind in the present. In conclusion, it is hoped that this article may serve as a useful guide and compass. With this, begin the wonderful process of navigating your life goals. Chart the course ahead, load it up with the cover, together with pieces of the jigsaw that recreates that page, and relish every stage of your financial planning journey!



ABOUT THE AUTHOR

Tan Seng Chuan is a licensed financial practitioner and an active member of IFPAS. He holds the ChFC®/S, CLU®/S, IBFA and AEPP® designations.

Notes:

- 1.1-<https://www.ifpas.org.sg/file/ISSUE11.pdf>
- 2.2-<https://www.ifpas.org.sg/file/ISSUE31.pdf>
- 3.3-<https://www.ifpas.org.sg/file/ISSUE8.pdf>
- 4.4-<https://www.ifpas.org.sg/file/ISSUE27.pdf>

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