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BONDS & ISSUES

FirstPrincipal financial

OVERCOMING THE TSUNAMIS IN YOUR LIFE

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I was vacationing in Japan in March when catastrophe struck. I am indeed fortunate to have escaped the tragedy that unfolded.

First, a 9.0-magnitude earthquake hit the NE coast of Japan, followed by a huge tsunami that laid a path of destruction, eventually resulting in nuclear fallout.

Amidst the multitude of lives lost, homes and possessions that were destroyed, the Japanese face an uncertain future. What's enviable is their stoic response, high level of preparedness and orderliness shown. This strong human spirit that prevails will see them through in rebuilding their lives and possessions. After all, the Japanese have overcome both natural and man-made disasters before but only because emergency preparedness is part and parcel of life and fortitude a state of mind.

Upon reflection, are we as ready and equipped as the Japanese? Are you aware that in our lifetime, we will all face tsunamis, not the natural type but financial in nature?

Drawing a parallel between tsunamis and financial planning, interestingly, shows up certain similarities.

LET'S EXAMINE HOW A TSUNAMI IS FORMED:

- The start of a tsunami is usually not visible at the surface as it starts from the deep ocean.
- While the timing of the tsunami hitting the coast can be roughly estimated, the strength of the tsunami will be difficult to gauge, and can only be fully realised when it reaches the shallow coastal areas.
- When it strikes, the level of destruction and the cost of rebuilding will depend on the strength of the tsunami and the soundness of your "financial" house.

SIMILARLY WITH FINANCIAL PLANNING:

- The need to plan financially is usually not obvious in the early stages of our life, for the motivation to purchase insurance is low when our bodies are healthy. The tendency at this stage in life is often to accumulate savings to build wealth for marriage, purchasing a home and starting a family. **Long-term objectives such as child education and retirement take a back seat as we may feel that there is more than enough time to address these issues later on in life.**

- While the timing for when funds are required for child education and retirement can be determined in advance, the same cannot be ascertained concerning our health, as to when this may fail. **Hence, it's always beneficial to plan early for insurance coverage when both good health and relatively low premiums are to our advantage. The funds needed to address healthcare protection, child education and retirement objectives can be estimated in advance.**

- The consequences of one's lack of preparation financially will be more severe the less prepared we are and the less time we have to address them. For example, once our health fails, it will be difficult to secure the necessary insurance coverage. **As for child education and retirement, money needs time to grow. Realising too late that we have inadequate funds will make it difficult to achieve our accumulation goals.**

What lessons can we learn from the standpoint of financial planning?

TSUNAMI PREVENTION #1

HEALTH AND EARNING CAPABILITY

- Good health should never be taken for granted. Accident and illness often strike when you least expect it and the cost can be significant.
- Families with sole breadwinners will be at higher risk.
- Secure adequate and comprehensive insurance cover early in life for yourself and your dependents (including parents).
- Protect your key assets such as your home though mortgage insurance.
- Establish your Will and Trust so that your assets will be distributed with ease, and in accordance with your wishes upon death.

In case you're unaware, YOU are the most important asset to your loved ones. Taking up adequate and comprehensive insurance cover is truly an unselfish act of love, addressing your responsibility and provision for your loved ones, even when you are no longer able to.

TSUNAMI PREVENTION #2

CHILD'S TERTIARY EDUCATION

It is every parent's desire to secure a good career for his or her child. A sound education is often the key to achieving that objective. In planning for your child's tertiary education, living expenses will have to be included as well. Why? Because living expenses for your child will be markedly higher when she reaches tertiary age at 19, or 21, for your son after serving National Service.

With education fees escalating at about 5% p.a., coupled with rising inflation in living expenses, the cost of tertiary education can be significant. For an education overseas, it could be several times higher. It's best to start early, knowing that this timeline is finite and funds will be needed as your child reaches tertiary age.

TSUNAMI PREVENTION #3

YOUR RETIREMENT

Let' assume a scenario of being at age 40 now, retiring at age 65, with an assumed mortality age of 85. That means you only have 25 years to accumulate enough resources to live out 20 years of retirement. Hence, your retirement lifestyle will be dependent on how well you plan during the next 25 years.

Living past age 85 or being saddled with long-term poor health will weigh heavily on your retirement funds. Are you saving enough? Are you growing your cash though savings and investment plans? Have you taken up hospitalisation and disability plans to safeguard your retirement monies?

Money takes time to grow. Hence, the earlier you put your money into productive use, the better. After all, shouldn't our money work at least as hard as we do?

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START PLANNING EARLY, AND ALWAYS BE FINANCIALLY PREPARED!

What are the obstacles that prevent us from achieving our financial goals?

- Denial in the extent of financial needs to be addressed.
- Lack of knowledge on how to go about addressing our financial needs.
- Complacency, having the belief that everything will work out on it's own.
- Attitude of enjoying now, and worrying about the future later.
- Fear of financial commitment and a low-risk tolerance.
- Not prioritising time and resources toward a financial plan.
- Procrastination.

Our financial future lies in our very hands. The potential consequences due to one's failure to plan can have devastating effects.

- It can incur severe financial stress on you and your family, with surviving dependents having to take on multiple jobs to support the family.
- Having to seek financial support from relatives and friends can present a potential loss of dignity and a sense of embarrassment.
- Your child's potential may not be fully maximised, hence missing out on good career opportunities.
- Working past retirement age and taking on multiple jobs just to get by.

WHY LEAVE FINANCIAL PLANNING TO CHANCE WHEN YOU HAVE THE ABILITY AND CAPACITY TO ADDRESS IT NOW?

It's easy to fall into complacency in safe and sunny Singapore where almost everything works like clockwork. Moreover, we are relatively immune to natural and man-made disasters, but these assumptions can never be guaranteed. Hence, it's best to actively guard against the unexpected.

Adopt the right mental attitude toward your financial plan. Engage a trusted financial adviser to help guide you along the way and review your plan periodically. Delay no further! Start building your financial house with a solid foundation and strong pillars, so that it will withstand the financial tsunamis that will come your way.

"Most people do not plan to fail but simply fail to plan."

It's a personal choice. Take charge of your financial life TODAY!

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