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BONDS & ISSUES

FirstPrincipal financial

AGE 30-40s

THE SANDWICH YEARS

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If you are aged between 30 and 40, these are probably the most challenging years of your life. A typical individual, let's name him John, would be best described as follows:

- Married, with children
- Upwardly mobile in his career, and in the most critical stage of career development and advancement
- Average income of S$5-10k per month
- Owns a home and a car

Moving forward, as John climbs the corporate ladder, he will find himself facing unique opportunities, as well as challenges.

A summary is presented in the following table *(please refer to next page)*.

As what the scenario shows, John can expect to reap exciting opportunities to achieve his life's aspirations. However, each would also be demanding on his resources. Therefore John should weigh each decision against it's corresponding impact; examine carefully how each commitment will encroach on his other financial objectives and thus prioritise his resources accordingly.

This is no simple feat and John will do well to seek the help of a trusted, independent financial adviser. The financial adviser will construct a comprehensive financial review and help John structure a plan to address his various financial objectives. This review should be done periodically so as to take into account changes in John's circumstances at every stage of life. An annual review also enables John to monitor his progress towards his various financial goals.

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OPPORTUNITIES | CHALLENGES

FAMILY PLANNING

To support each child, John is looking at a long period of financial dependency of up to 25 years for each child. Financial commitments can be expected to increase as the children grow up.

To secure adequate funds for the children's tertiary education and associated living expenses, John would want to set up a child education plan. If John's desire were to school his children overseas, more funds would need to be accumulated to meet this objective. Investing in a combination of endowment and investment plans would be recommended.

To ensure that he can provide for his dependents for a given period of 25 years, family income protection would emerge as an important priority given John's commitment to support his family and parents.

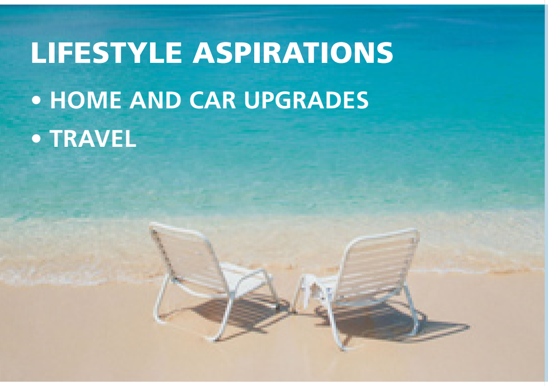
Such a priority will be heightened if

- John becomes the sole breadwinner, should his wife decide to become a homemaker to raise the kids full time, or
- John's ageing parents are financially dependent on his regular contribution for their retirement needs.

THEREFORE, JOHN SHOULD SEEK A COMPREHENSIVE AND ADEQUATE INSURANCE COVER BY TAKING UP THE FOLLOWING INSURANCE PLANS:

- A combination of whole life and term plans covering Death, TPD and Critical Illness
- Disability Income plan
- Hospital & Surgical plan
- Personal Accident plan

Managing a balance of time spent at work and with the family. This will be a challenge for John as he faces increasing job responsibilities as he rises up the corporate ladder. Moreover, John may be required to travel overseas extensively during the course of his work.



LIFESTYLE ASPIRATIONS

- HOME AND CAR UPGRADES
- TRAVEL

Debt obligations rise significantly. It's important not to over leverage, while balancing lifestyle aspirations with other objectives such as retirement and the children's education.

Due to John's heavy financial commitments, it would be important to protect his family from creditors and preserve the roof over their heads. A mortgage reducing term assurance plan (MRTA) would be ideal in this case.

As large amounts of cash and CPF funds are committed to these areas, cashflow management would be a key priority.

As John's salary increases, his personal income tax may become rather significant. Hence, it would be advantageous for John to participate in the Supplementary Retirement Scheme (SRS) to save on his tax expenses, and at the same time, grow his retirement funds.

FURTHER EDUCATION

For enrichment or to facilitate advancement in the career

Whether done locally or overseas, this will cause a drain on personal resources. There will also be a heavy opportunity cost in terms of time and loss of income, especially if John decides to study full time.

Thus, it would be important for John to weigh the decision carefully before embarking on furthering his education.

EARLY RETIREMENT

To do so, John has to plan for retirement as early as possible by:

- Paring down debt as aggressively as possible, the main debt component being his housing loan;
- Managing lifestyle expectations even as income rises, so as to increase his ability to save; and
- Channeling surplus cash and CPF increments to savings and investment plans, with the objective of achieving potentially higher returns.

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