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FirstPrincipal financial

# THE BABY BOOMERS: NAVIGATING THE RIVER OF LIFE

BY **KENNETH SOH** B.BUS (FINPLAN), MBA (SWM), CWM
ASSOCIATE DIRECTOR, PERSONAL FINANCIAL SERVICES

In the last issue, we featured the concerns of the 30s and 40s, a category commonly known as the sandwich class. Here, we are looking at another group of the sandwich class, those of us in our 40s and 50s, commonly known as the baby boomers.

At this age, things are much clearer and we know where we are heading in life. Many of us are settled in our careers; we have aggressively reduced the mortgage on the house, and are now looking into how to prepare for retirement. Nonetheless, there are still the children to plan for, and parents to take care of. These financial issues are still pertinent, in addition to planning for ourselves.

This article does not propose to provide all the answers to the issues that will be discussed here. However we do hope to build awareness and stimulate action on the part of the reader. If certain things strike a chord with you, speak to our First Principal Adviser to gain assistance in navigating the increasingly, meandering river of our financial life. Whether we are the "trout" that braves the waters and swim against the tide toward greater financial stability, or the pebble that gets washed downriver, depends very much on what action we take. Like it or not, inactivity is an activity.

## ISSUES TO CONTEND WITH

For those of us with children, they will probably be between late primary school and university. Over and above regular school fees, co-curricular activities, tuition and enrichment classes are an added expense. During this period, our parents are also in need of attention. Not only is their health deteriorating, they are increasingly in need of company and long-term nursing care. Rising inflation will keep us longer at work so that we can continue to provide for the family, which also means less time to be with the family that we are providing for. All these will add to the stresses of modern day living.

By now, we realise we have been in the workforce for at least 15 years, and retirement is only 10, 20 years down the road. Physically, we are starting to slow down. Even with regular exercise, we are not as nimble as we used to be. We deal with issues like high blood pressure, heart disease, diabetes, gout – you name it. We've even lost some friends to cancer!

So that's life! We've lived it. We've learned to cope. But the question is, do we want better?

## FINANCIAL PLANNING – PANACEA TO A BETTER QUALITY OF LIFE

The key panacea is to take control of our lives. Our finances can be improved to ensure that even if our health cannot be completely salvaged, at least we can live our lives in relative peace and dignity. There are concepts we must well keep in mind if we are to be "trout".

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## CONCEPT #1 **INSURE FOR RISK, NOT FOR RETURN**

**Life is full of risks. The mere lack of activity does not negate risk. It merely exposes us to other types of risk. Where risk is concerned, we can accept the risk, transfer the effect of that risk to somebody else, or reduce the exposure to that risk.**

As 40-50 year olds, the needs of our dependants will probably be at the highest. On one hand, schooling expenses for our children are at their highest, and on the other hand, our parents have retired from their jobs and also need our support. Our untimely removal from this earthly scene at this point in time will have the most impact. It is the financial aspect of this impact that we must transfer to the insurance companies. If we have not already done so, a review of the insurance protection we put in place when we were in our 30s is in order, as the needs of our dependants would have increased. As a general rule, we should provide enough protection to last our dependents until the time they no longer need to depend on us.

**Medical costs are escalating. While this year's inflation rate is expected to be between 6 and 6.5%, medical inflation has been around 6% for quite some time.**

We need to ensure that we have enough funds to support any expenses that we require when we are ill. While it is difficult to tell how long funds would be needed, or even how much should be set aside, one thing is certain, being in the middle of an illness is not the time to run out of money.

**Some fundamental protection against the high cost of medical expenses warrants mention:**

### HOSPITALISATION INSURANCE

This is a critical piece of the health financing puzzle. It is a certainty that we will be hospitalised in our lifetime, and more so as we pass the 40-year mark. Various forms of benefits are available, and while some forms of benefit have only a co-insurance and a deductible element, there are some forms of benefit that pay the entire hospitalisation bill, up to an annual or a lifetime limit.

The next question is the type of cover that needs to be effected. We should insure for risk, and not for return. While a term plan would usually suffice, we could look at whole life plans for the critical illness benefit that they carry, all the way beyond the age of 65. This will likely be the last time we will be buying a major illness plan. Given our age band and creeping health concerns, premiums will start escalating thereafter. Medical underwriting will increasingly be more difficult, as health issues will mean higher premium loadings, exclusions or even rejection of our insurance applications.

Last but not least is the premium-paying period. Most of us would not like to have to finance our protection expenses throughout the duration of our lives. The good news is that there are excellent programmes in the market that limit the premium-paying period from five years to a maximum of 20 years. The "bad" news is that the premium paid per period is higher. These plans compress the total amount of premiums we would have paid our entire lives to the period of limited payment we choose.

## CONCEPT #2 **DON'T DIE FINANCIALLY KEEPING YOURSELF ALIVE**

### CRITICAL ILLNESS INSURANCE

If we should live to a ripe old age, the probability of us suffering one type of major illness or another is high. Given such odds, a judicious provision against the expenses incurred treating and surviving a major illness would be wise. There are many types of major illness cover available, and it is important that we take the time to look at those that will work for us.

### ELDERSHIELD

This is a long-term care programme that pays a benefit of up to $3,500 per month for the rest of our natural lives, should we become unable to perform three out of six activities of daily living. This programme is offered only to persons age 40 and above, and is an opt-in programme. While not being able to perform activities of daily living may not seem particularly intimidating, the care we will require will be especially tiresome and expensive for our caregivers, and the condition is a long term one. Eldershield helps to defray some of that cost by financing the day-to-day expenses incurred to take care of us. Not much, that is true. But as the saying goes, half a loaf is better than none, especially to our caregivers.

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## CONCEPT #3
## RETIRE GRACEFULLY, NOT IN RESIGNATION

**In retirement planning, what varies most among us is the quantum of retirement funding needed.** Not many would put aside a large sum of money for an event many years into the future because the event does not seem to be urgent. We are also aware that the more we need to set aside for the future will require that we save now on a regular basis.

On many occasions, the amount to set aside is based on what we feel is necessary rather than the type of lifestyle we would like in the future. It is alarming that few of us take retirement planning seriously. We forget that almost a third of our natural lives will be spent in retirement! It is a mistake to think that retirement is a time for us to rest from all our labours. If we have not provided enough for our retirement, we will still have to labour long after the time we should have retired.

As 40-somethings, we must realise that time is no longer on our side. If we have not already started saving, now would be a very good time. Sit down with a good adviser and work through what you need, taking into consideration the following:

Do not take into consideration the allowance or financial support we think we may get from our children while in our golden years. The future is unpredictable.

Our needs must determine the strategy we adopt and not the other way around. Too many people reduce their needs, so that they do not need to stretch reaching their retirement goals. Although it is true that reduced goals will save us some effort in providing for our retirement, the proverbial joke will be on us at the tail end of our retirement when we run out of money.

While many of us may consider ourselves moderate risk-takers, we soon come to realise that not taking enough risk will not earn us any favours in the retirement funding department. If we have not already started saving for our retirement, now is not too late, but it does mean being a bit more aggressive in the investment department.

## CONCEPT #4
## MONEY MAKES MONEY

**Lastly, and more significantly, is the matter of growing our resources.** So goes the adage: We should not just make money by working for our money, but by letting our money work for us. On average, we have another 20 more years of working life to maximise our financial resources.

While we have a plethora of instruments available to us, we need to be prudent in employing the right tools for the job. High returns is not everything because high returns also entail a higher level of risk that needs to be borne. Work with what is necessary to achieve our goals, and no more.

While it is our opinion that investments should not be undertaken lightly, and preferably only with the help of trained professionals, there are some general rules that should be followed:

**DIVERSIFY –** As much as this rule applies to the food we eat, it also applies to our investments. Too much of a good thing can be bad for our investment health. Diversify across sectors, across geographical boundaries and across investment types. The last thing we would want to do is to place all out "bets" on one horse, only to find that the horse has an injured leg!

**CLEAR, DEFINED GOALS –** We are not getting any younger. Any certainty in our goals will be a great help in helping us achieve them.

**DISCIPLINE –** Once again, time is not on our side, and unless we become more systematic in working through our goals, we are not going to reach them.

**DON'T DABBLE IN THINGS WE ARE UNFAMILIAR WITH –** We don't have as much time to recover from our mistakes. The closer you are to your 50s, the truer this principle is. By the time we consult our friends or begin to see a favorable trend, the opportunity for gain would have been long gone. Stick with what you know or seek the advice of trusted professionals.

## CONCLUSION

**The period between ages 40 and 50 is a truly invigorating period of our lives. Our children are growing, our careers have taken off, things are finally falling into place, and life looks good. But this is only a phase. And as true as autumn comes after summer, this season will pass into the next. It would be wise we set aside our resources in the time of plenty, for a time when no more opportunity is available for harvesting.**

**FIRST PRINCIPAL FINANCIAL PTE LTD**
24 Raffles Place #14-02 Clifford Centre Singapore 048621
Tel: 6220 5333 Fax: 6220 5377
Email: enquiry@firstprincipal.com
**www.firstprincipal.com**