

# **Financial Planning For Young People**

Guide to consumers on how to manage their finances over a lifetime.



**Tan Kin Lian**

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## About the author



Mr. Tan Kin Lian started work in 1966 and qualified as a Fellow of the Institute of Actuaries in 1975.

He joined NTUC Income in 1977 as the chief executive officer.

Under his leadership, NTUC Income became a leading life and general insurance co-operative in Singapore.

He teaches a course on risk management at a local university and runs a consulting and software development company.

He is the President of the Financial Services Consumer Association (FISCA), a non-profit organization formed to educate the public on financial planning.

# Introduction

Many young people study hard to do well in school and aim to get a well-paying job. They work hard to advance in their career.

They focus on their work and did not pay attention to two other important aspects of their life – their health and financial planning.

The damage from poor health will come later, but the damage from bad financial planning will affect them almost immediately.

I have written this book as a guide for young people to manage their financial matters.

The tips in this book are also suitable for older people who wish to review their financial planning later in their life.

This book is written in the context of the environment in Singapore.

Most of the tips are general in nature and can also be applied in other countries, but they have to be interpreted in the context of the environment in that country.

I have also written this book from the perspective of a person who starts work in the early twenties, works for 40 years to retirement and has an average life span after retirement of another 20 years.

If you do not fit into this profile of an average person, you will have to interpret the tips in this book in your own circumstances or seek financial advice that is relevant to you.

I hope that you will find this book easy to understand and relevant in helping you handle your personal financial planning.

Tan Kin Lian

# Budgeting

The first and most important task for a working person is budgeting, i.e. how to allocate the monthly earnings to current expenses and savings.

## **Current expenses**

Your current expenses should take up about 50% of your earnings.

The current expenses are for your food, clothing, travel, mobile phone and repayment of your study or other loans.

If you are staying with your parents, you have to make a monthly contribution to the household expenses, e.g. to cover your food and accommodation.

If your parents do not need this contribution, you should add it to your personal savings.

## **Savings**

This will leave 50% of your earnings as savings for the future, including the money set aside to buy your home.

I have obtained the figure of 50% required as savings after calculating the average duration of a person's working life and retired life and taking into account the expected return on investments and the effect of inflation.

If you are required to contribute to a compulsory savings fund set up by the government or your employer, the compulsory savings can be considered as part of the 50%.

For example, employees in Singapore have to contribute 36% of earnings to the Central Provident Fund (including the contribution by the employer).

They have to set aside 14% as their personal savings.

### **Discretionary expenses**

Holidays and vacation are considered as discretionary expenses. You should spend money on these activities only if you have spare money after setting aside savings and paying off the current expenses.

You should not borrow money or reduce savings for these discretionary expenses.



# Emergency Fund

Your priority is to build up an emergency fund comprising of six months of earnings.

If you save 15% of your earnings, you will need slightly more than three years to achieve this target.

If you can save 25% of your earnings, it will take you two years.

## **Bank account**

You should keep your emergency fund savings in a bank account. It does not matter if you earn a low rate of interest on the emergency fund.

It is more important that you can draw down this fund when you need money for an emergency, such as unexpected medical expenses, loss of employment or to make down payment for your home or car or a large purchase that you need urgently.

## **Interest on borrowing**

If you do not have this emergency fund, you may have to borrow on your credit card and incur interest at 2% a month or 24% a year.

If you purchase an expensive household item or laptop computer and pay by weekly installments, you may have to incur interest of up to 50% per annum.

By drawing down on your emergency fund, you can save on interest payments at 24% to 50% per annum. Many people did not realize that an emergency fund can “pay” this kind of return to them.

### **Suitable investments**

If you wish to invest your emergency fund to earn a higher return than the interest paid by the bank, you can choose an investment that can be withdrawn easily at a small penalty.

You can invest it in a fixed deposit with the bank or in short term money market instruments. You may also buy blue chip shares but there is the risk of a loss if you have to sell the shares in a bad market.

You should avoid investing the emergency fund in a life insurance policy, as there is usually a big penalty for early withdrawals or termination of the policy.

# Life insurance protection

You can buy life insurance for protection, i.e. to pay a large sum in the event of premature death due to accident or illness.

This is important if you are the breadwinner of a family and have young children to take care of.

You may also need the protection if you have to contribute to your parents, who depend on your earnings.

If you have young children, you will need life insurance for 5 to 10 years of your earnings. This will provide a fund to tide over this period while the family makes the necessary adjustment to an unexpected loss of the breadwinner.

## **Term insurance**

You can get a large amount of life insurance protection at a low cost, if you buy a term insurance policy for 25 years or shorter. This policy pays the sum assured in the event of death during the term of the policy and does not have any savings element.

If you earn \$50,000 a year and buy a term insurance to cover \$300,000 (about 6 years of earnings), you only need to pay a premium of about \$500 a year. This is the rate applicable for young people. It represents about 1% of your earnings.

## **Insure for 25 years**

You only need to buy a term insurance to cover the period until your youngest child reaches age 25.

After 25 years, you would have built up sufficient savings and do not need to rely on life insurance.

By that time, your children would have grown up and would probably be working. They will not be financially dependent on you.

If you buy a term insurance for 25 years or shorter, you pay a lower premium rate compared to a term insurance policy that covers a longer period or a whole life policy.

## **No payback**

A term insurance policy is for protection only. There is no refund of the premium if premature death does not occur. It is not an investment of your savings.

If you wish to look at life insurance as a form of savings, you should find out the expected return on the policy. This is covered in a later chapter of this book.

# Medical insurance

You do not need to worry too much about medical insurance, for the following reasons:

- If you are working, it is likely that your employer will pay for your medical expenses
- The chance of incurring a serious illness for young people is rather low and the cost of treatment is also quite modest

If you are not covered by your employer, you can buy an insurance policy to cover the expenses for the catastrophic illness.

An example in Singapore is the Medishield plan provided by the Central Provident Fund.

The premium for this insurance cover is quite low, as it only pays for expenses beyond a threshold and requires you to bear a share of the bill beyond this threshold, i.e. the co-payment.

You can make the co-payment from your savings and rely on the insurance policy to cover the large, unexpected bills.

If you wish to buy a more comprehensive medical insurance plan, you have to make sure that the premium is less than 0.5% of your earnings. Do not spend too much of your earnings on this type of insurance.

For most people, a serious illness is more likely to occur after they reach an old age or have retired. They can opt to be treated in a subsidized ward at a public hospital where the cost is quite modest.

By that time, they would also have adequate savings which can be used, if they need more expensive treatment in a non-subsidized ward or in a private hospital.

You should not pay too much for your medical insurance at a young age.

If you do not spend too much on medical insurance, you can save and invest the unused money in your personal savings fund.

# Invest your savings

The best way to invest your savings for the long term is in blue chip shares, i.e. the shares of large, well-established companies that have been operating for many years. These are the leading companies in various industries.

In Singapore, the average return on these shares over the past 20 years up to 2006 was 9.2% per annum. I do not have the updated figures up to 2012, but it should be more than 8% per annum.

Similar returns were achieved in blue chip shares in most other countries.

During the past 20 years, the return may be quite volatile from one year to the next. It may be very good in some years and quite bad in other years. Over a longer period, the good years and bad years will average out to give an attractive average return.

This average yield of 9.2% was based on the top 30 shares that form the Straits Times Index. Some shares performed better than the other shares during this period.

It is difficult for an ordinary investor to select the shares or to find the right time to buy or sell the shares.

You now have a simpler choice, i.e. to invest in an index fund, i.e. a low-cost fund that is invested in all of the 30 shares of the market index.

There are two such funds available in Singapore – the Straits Times Index Exchange Traded Fund (STI ETF) managed by State Street (trading under the SPDR brand) and by Nikko Asset Management. Both ETFs are quite similar.

### **Diversification**

By investing in the index fund, you do not have to worry about the bad performance of any individual share. The bad performance of some shares will be balanced out by the good performance of other shares.

### **Invest for the long term**

You do not have to worry about a market crash that may bring a large drop in the value of your investment. You only need to remind yourself that you are investing for the long term; any market crash will be temporary and the market will eventually recover.

If the companies that you have invested in remain in business, the value of their shares will recover in time.

It is more important for you to be well diversified in your investment, so that you will not be seriously impacted by the bad performance of any single share.

By investing in blue chip shares, the chance of the company going bust is small.



## **Dollar cost averaging**

During your working years, you will be investing a small sum of money each month. The actual market price in each month does not matter much, as the investments made over the year will be based on the average price that is prevailing during the year.

After you retire from work, you will be drawing out a small sum each month for your living expenses. The actual price of the shares or units in the index fund does not matter, as it will only affect the small sum that is being withdrawn. You will be getting the average price for the year.

The average effect produced by the investment or withdrawal of small sums of money during the year is called “dollar cost averaging”.

## **Future yield**

Although the blue chip shares earned over 8% per annum in the past 20 years, they may not earn this high rate of return in the future, due to the current low-inflation and low-interest rate environment.

They are likely to earn a return of 2 or 3 percent higher than inflation rate.

Nevertheless, they are likely to earn a better return compared to good-quality bonds.

For the future, we can assume a return of 5% per annum, or higher.

## **Low expense ratio**

When selecting your investment fund, you should consider the expense charge imposed by the fund manager.

The STI ETF has an expense ratio of 0.3%, which is probably the lowest in the market. Most of the actively managed funds, such as unit trusts, have an expense ratio of 1.5% to 3% per annum.

The difference of 2% in the yield due to the expense ratio can amount to 40% over a period of 30 years.

The proponents of actively managed funds with high expense ratio argue that their fund is likely to earn a higher yield over the long term compared to an index fund.

Studies have shown that this is not likely to happen. Over the long term, most actively managed funds do not give a better return than an index fund.

## **Strategy**

A good strategy for a long-term investor is to invest in the index fund, or to use it as a benchmark to compare against other types of investments.

For an investor who is not familiar with investments, a safe option is to choose the index fund, which is well diversified and to focus on the long term, to ride out the ups and downs and get an average return.

# Life insurance as an investment

Most consumers put a large part of their savings in a life insurance policy. It is important that they consider the yield of the policy, against the alternative of investing in an index fund.

## **Yield**

A good way to measure the yield of a life insurance policy is to look at the projected maturity benefit for an endowment policy and compute the yield based on the annual premium paid over the duration of the policy, which is usually for 20 to 30 years. This yield can be calculated using an Excel spreadsheet.

## **Traditional policy**

For a whole life policy, the yield can be calculated using the cash or surrender value (i.e. the amount payable on the early termination of the policy) at the end of 20 or 30 years.

Most of the policies that are sold today have a projected yield of 2% to 3% per annum.

## **Investment-linked policy**

If the consumer buys an investment-linked policy (ILP) which is invested in shares, the yield might be slightly higher at 3% to 5% per annum. However, this yield is still not attractive compared to investing in an index fund.

## **Effect of deduction**

A good way to look at a life insurance policy is to compare the amount shown as “effect of deduction” (shown in the benefit illustration) and calculate it as a percentage of the accumulated premium. This deduction is the total amount that is deducted from your premium to pay the expenses and cost of insurance, and include interest that should have been earned on the deduction.

Most life insurance policies have an effect of deduction of 30% to 50%. This is rather high.

A good policy has an effect of deduction of 20% or less.

If the consumer buys the term insurance and invests the savings in an index fund, the cost of the premium and investment charges will represent an effect of deduction of about 15%.

## **Cost of insurance**

The insurance company may justify the high effect of deduction with the fact that their insurance policy provides protection to the consumer.

If the consumer buys term insurance to provide the cover, the cost should represent about 5% to 7% of the premium.

## **Real reason**

The real reasons for the high effect of deduction are:

- High distribution cost
- High administrative expenses
- Cost of insurance
- Profit margin

## **Tax relief on premiums**

Life insurance premiums can be claimed for deduction from the taxable income.

In Singapore, the maximum allowed for deduction in a year is \$5,000 less the amount of employees' contribution to the CPF. Most working people contribute more than \$5,000 a year to the CPF, so this relief is no longer applicable.

If your CPF contribution is less than \$5,000 in the year, the difference can be used as tax relief on the premium paid under your life insurance policy.

For example, if your income tax rate is 10% and you are allowed to deduct \$2,000 of your life insurance premium as income tax relief, you will save \$200 in income tax for the year.

This saving in tax can be offset against the effect of deduction of the insurance policy.

## **High penalty on surrenders**

If you have to terminate a life insurance policy prematurely, you are likely to suffer a large penalty during the earlier years. The surrender value may be less than half of the premiums paid. This can represent a large loss.

It may take 15 years or longer for the surrender value to be equal to the premiums paid, i.e. the breakeven point.

By that time, you would have lost a large part of the return that could have been obtained by investing the premiums in a more productive investment.

## **Single premium policies**

Some life insurance policies provide a modest return to the policyholder that is better than the interest paid on fixed deposit.

These are single premium policies, where the distribution cost and other charges are at a much lower level, compared to the regular premium policies.

You can consider these single premium policies as a short-term investment.

The effect of deduction for these policies is likely to be around 10%.

## **Overview**

For the various reasons set out above, life insurance policies paid by regular premiums are not suitable as an investment.

# Investment choices

## **Index fund**

An index fund is a low-cost fund that is invested in the stock market index. This index usually includes the leading companies in the market. These are well-managed, established companies.

The key feature of an index fund is that the expenses are quite low and the annual expenses are usually less than 1% of the funds under management.

## **Actively managed funds**

The actively managed funds are also called mutual funds or unit trusts.

The fund manager aims to apply stock selection and market timing to earn a return that is higher than the stock market index.

The annual fees are higher than the fees charged on an index fund and usually range from 1.5% to 3%.

There are many funds in the market and the consumer usually finds it difficult to select the funds to invest in.

Some investors try to pick the funds that performed well in the recent years but this is not a good strategy. The funds that performed well in the past may not perform well in the future.

## **Exchange traded fund (ETF)**

An exchange traded fund has features that are similar to an index fund.

You can buy the ETF like any stock in the stock market. As the index funds are not available in some markets, including Singapore and Malaysia, small investors have to buy the ETF in place of the index fund.

## **Blue chip shares**

It is also a good strategy for investors to pick a few blue chip shares and invest in them for the long term.

The blue chip shares are those issued by the established, well-managed companies that have a long history of profitable growth.

Although these shares are expensive, compared to non-blue chip shares, they usually give a better performance over the long run.

You should study the shares carefully before deciding on the shares to invest in.

You should also diversify your investments, i.e. invest in at least 5 to 10 shares.

Do not put all your savings in just 1 or 2 shares, as you can be badly burnt if these shares perform badly.



## **Bonds**

You can also invest in the bonds issued by the government or the strong blue chip companies.

These bonds are issued for a certain period and guarantee a fixed interest rate, called the coupon, during this period. On the maturity date, the principal or invested sum will be returned to the investor.

If you can find good quality bonds that give a yield to maturity that is higher than inflation rate, you can invest a certain proportion of your savings in bonds.

However, if the yield is poor, it may be better to invest in the ETF for the long term.

## **Structured products**

These financial products are created by the investment banks and are sold by distributors, such as the retail banks and security firms.

Different types of products have been issued in the past, including the capital guaranteed products, capital protected products, credit linked products, currency linked products, equity linked products and variation of these products.

Most of these products are complex in their structure and are not suitable for retail investors. Several of the products did not produce an attractive return to the investors who held them for 5 years or longer.

Some of these products have turned out to be risky and have caused large financial losses to the investors. It is best for retail investors to avoid these complex products.

## **Opportunity funds**

These are special funds that are created from time to time to invest in special opportunities, such as certain emerging markets.

In some cases, these are sold to retail investors at a late stage and are the vehicle for the earlier investors to exit their investments at a profit. The retail investors who invest in these funds usually end up by holding these investments at an inflated price.

Before jumping into these investments, it is best to study the funds carefully. Where there are doubts, it is best to avoid them.

## **Special investments**

In this category, I include investing in land banks, gold bar schemes, wine investments and the like. These investments are usually not regulated by the authority.

The promoters spend a lot of money to market the investment products and may make unsupported promises of potentially high returns.

In many cases, the retail investors have been disappointed that the potential returns did not materialize. They usually find it impossible to sell off their investments, as there are no buyers.

These retail investments eventually have to write off their bad investments entirely or at a big loss, if they are fortunate to find a buyer.

Some of these investments are Ponzi schemes. The promoter takes the money invested by the current investors to pay off the high return promised to the earlier investors and siphon off the difference.

At some point in time, when the inflow of new money is not sufficient to pay off the earlier investors, the promoter disappears, leaving all the investors with useless paper for the money that was invested.

# Buying a home

Most people will use their CPF savings to pay for the down payment and for the monthly mortgage payment for their home.

They can use the savings in the Ordinary Account for the home purchase.

Most people will pay from the CPF as much as is allowed and will pay the difference in cash.

For planning purpose, it is useful to look at the total saving of 50% to be used as follows:

Purchase of home	25%
Retirement and other purpose:	25%.

To avoid over-investing in a property, you should set a limit on the purchase price of your property to be not more than 5 years of the family income.

If your family income is \$80,000, you should not pay more than \$400,000 for the property.

You should choose a repayment period to make sure that the property is fully paid up by the time of your retirement.

# Drawing down on your savings

Some of your long-term saving can be used prior to retirement and the remainder kept for retirement.

If the full amount is kept fully for retirement, the accumulated amount will represent about 12 years of the earnings at the time of investment

If half of this sum is used prior to retirement – for education, medical expenses and for unemployment, the remaining amount at retirement will represent about 6 years of earnings.

## **Draw down 30% yearly**

If you have 6 years of savings, you can draw down 30% of your pre-retirement income each year to meet your expenses during retirement.

If your pre-retirement income is \$5,000, you can draw down \$1,500 a month.

The savings is likely to last you for 20 years, which is the average life expectancy of a person who retires at the normal retirement age, which is currently 65 years in Singapore.

This saving plan assumes that you keep your investment in the index fund or ETF.

## **Buying a life annuity**

You can also take out your savings and use it to buy a life annuity.

You should compare the monthly payout from the life annuity against the drawdown that you expect to get from your own investment fund.

If the life annuity pays a monthly income that is not inflation adjusted, you can assume that the investment yield on your drawdown is 4% or 5% per annum (i.e. not 2% after deducting inflation).

You should also use the expected life expectancy. Most people are expected to live about 20 years after the normal retirement age.

## **Financial adviser**

If you are not sure about the calculation, you should consult a financial adviser.

The adviser may be able to do a detailed analysis to help you compare the merits of investing in a life annuity or investing on your own in the ETF.

Be prepared to pay a fee for this advice, as the financial adviser has to make a living.

# Your personal plan

Some people will not fit the profile of the average person that is explained in this book.

Some may start work earlier, others later. Some have better progress in their careers, others may stagnate. Some may be unemployed for a longer period than average.

The family circumstances and the number of children may differ.

Some people do well and may have more than the average savings while others may have less.

You have to look at your own situation. If you have more savings, you can choose to retire earlier or opt for a higher standard of living.

If you have inadequate savings, you may have to retire later or accept a lower standard of living.

You can approach a financial planner for advice. Be prepared to pay a fee for the advice.

Make sure that the financial adviser returns to you any commission that is paid to him or her for selling a financial product to you, as you are paying a fee for the advice.

# Suitable for older people

Although this book was written as a guide for young people, many of the tips are suitable for older people.

They will find the tips suitable to manage their personal investments, especially the tips on investing in blue chips, index fund or an exchange traded fund.

They will also like the tips on managing investment risks, such as diversification, investing for the long term and dollar cost averaging.

Many of them struggle with whether to buy a life annuity or to invest on their own. This is also covered in this book.

More importantly, the older people should use the tips in this book and their personal experience on financial management to give guidance to their children and set them on the right path towards prudent financial planning.



# Calculation tables

In this chapter, I shall present some tables that supplement what were described in the earlier chapters.

**Table 1**

This table shows the amount that will be accumulated by an annual savings of \$6,000 for various periods (years) at different rates of return.

Years	Annual	Yield on investment						
	Saving	0%	1%	2%	3%	4%	5%	6%
5	\$6,000	\$30,000	\$30,606	\$31,224	\$31,855	\$32,498	\$33,154	\$33,823
10	\$6,000	\$60,000	\$62,773	\$65,698	\$68,783	\$72,037	\$75,467	\$79,085
15	\$6,000	\$90,000	\$96,581	\$103,761	\$111,593	\$120,142	\$129,471	\$139,656
20	\$6,000	\$120,000	\$132,114	\$145,784	\$161,222	\$178,668	\$198,396	\$220,714
25	\$6,000	\$150,000	\$169,459	\$192,182	\$218,756	\$249,875	\$286,363	\$329,187
30	\$6,000	\$180,000	\$208,709	\$243,408	\$285,452	\$336,510	\$398,633	\$474,349
35	\$6,000	\$210,000	\$249,962	\$299,967	\$362,772	\$441,913	\$541,922	\$668,609

If you can save \$6,000 a year over 35 years (increased at the rate of inflation) and earn an investment yield of 2% higher than the rate of inflation, you will get nearly \$300,000 at retirement age.

This is the amount after adjusting for inflation, i.e. the nominal amount at that time will be higher, but that amount has been converted to the real value after adjusting for inflation.

It is the same as saying that inflation will be 0% for the next 35 years and you are able to earn 2% on your investment.

## Table 2

This table shows the monthly drawdown of \$300,000 (assumed to be 6 years of savings) for various periods (years) at various rates of interest

Years	Saving at retirement	Yield on investment						
		0%	1%	2%	3%	4%	5%	6%
5	\$300,000	\$5,000	\$5,151	\$5,304	\$5,459	\$5,616	\$5,774	\$5,935
10	\$300,000	\$2,500	\$2,640	\$2,783	\$2,931	\$3,082	\$3,238	\$3,397
15	\$300,000	\$1,667	\$1,803	\$1,946	\$2,094	\$2,249	\$2,409	\$2,574
20	\$300,000	\$1,250	\$1,385	\$1,529	\$1,680	\$1,840	\$2,006	\$2,180
25	\$300,000	\$1,000	\$1,135	\$1,281	\$1,436	\$1,600	\$1,774	\$1,956
30	\$300,000	\$833	\$969	\$1,116	\$1,275	\$1,446	\$1,626	\$1,816

If you are able to accumulate \$300,000 (in real value after adjusting for inflation) by the time you retire (say, at age 65) and you wish to draw down your savings over 20 years (say, up to age 85), and you can earn 2% higher than the rate of inflation, you can draw down \$1,529 a month.

This monthly drawdown can be increased by the rate of inflation in each subsequent year, i.e. you will preserve the real value of the monthly income.

If you expect to live longer than 25 years, you should draw down a smaller monthly sum, so that the savings can last longer.

# Conclusion

It is important for a young person to start financial planning as soon as they start work, with their first pay check.

You should set aside 50% of your earnings for the future, including the purchase of your home.

Your first priority is to build up an emergency fund of six months' salary and avoid borrowing at high interest rates to tide off an emergency.

You should invest your savings in investments that can give a yield that is 2% higher than inflation rate, such as blue chip shares, index funds or exchange traded funds.

If you invest in a life insurance policy, you should find out the projected yield and see if it is able to provide a good yield.

If you need insurance protection, you can buy a term insurance and pay a premium that does not exceed 1% of your earnings. Medical insurance should take not more than 0.5% of your earnings.

You should spend some time to read and understand the concepts that are explained in this book. You should also discuss these concepts with your friends and get a better understanding of the principles.

I hope that you have enjoyed reading this book, just as I had enjoyed writing it.

Tan Kin Lian

# Test of Financial Awareness

1. How much should a person set aside as savings each year, in addition to the savings in the Central Provident Fund?

- (a) 5% of earnings
- (b) 10% of earnings
- (c) 15% of earnings
- (d) 20% of earnings

2. How much money should be in the emergency fund that can be drawn down to meet an urgent and important financial need?

- (a) 3 months of earnings
- (b) 6 months of earnings
- (c) 12 months of earnings
- (d) 18 months of earnings

3. How should the emergency fund be invested?

- (a) In a life insurance policy
- (b) In long term government bonds
- (c) In shares
- (d) In a bank saving account

4. What is the best type of life insurance that gives the best value for money?

- (a) A policy that gives a cash value
- (b) A term insurance policy
- (c) A policy that covers critical illness
- (d) An investment-linked policy

5. What should be the duration of the term insurance or critical illness policy for a young person who has just started a family?

- (a) For the whole of life
- (b) For 40 years
- (c) For 25 years
- (d) For 10 years

6. Why does a life insurance policy give a poor yield on the savings?
- (a) A large amount is taken away as distribution cost
  - (b) The policy has a large “effect of deduction”
  - (c) A large profit margin
  - (d) All of the above
7. Why is life insurance not required for an elderly person, beyond age 65?
- (a) The children have grown up
  - (b) There is no loss of income to protect
  - (c) There should be sufficient savings
  - (d) All of the above
8. What type of investment gives the best long term return to the consumer?
- (a) Long term government bond
  - (b) Fixed deposit in banks
  - (c) Penny stocks
  - (d) Blue chip shares
9. What is the best way to reduce the risk of investing in stocks?
- (a) By diversifying the investments
  - (b) By investing for the long term
  - (c) By investing small amounts each time
  - (d) All of the above
10. What is the usual rate of interest charged on funding through credit cards?
- (a) 2% per annum
  - (b) 6% per annum
  - (c) 12% per annum
  - (d) 24% per annum

11. What is the usual rate of interest charged on instalment payments provided by the retailer?
- (a) Around 10% per annum
  - (b) Around 24% per annum
  - (c) Around 50% per annum
  - (d) Around 100% per annum
12. If you need cash for an emergency, what is the best way to borrow the money?
- (a) From family and friends
  - (b) From your emergency fund
  - (c) From credit card
  - (d) From loan sharks
13. What is the most frequent risk for young people?
- (a) Premature death
  - (b) Critical illness
  - (c) Loss of job
  - (d) A serious accident
14. How much should a young person pay to buy term insurance for \$300,000 payable up to 55 years?
- (a) \$500 a year
  - (b) \$1,000 a year
  - (c) \$2,000 a year
  - (d) \$3,000 a year
15. For a young person starting work, the first priority is to have
- (a) Adequate life insurance
  - (b) Adequate critical illness insurance
  - (c) An emergency fund
  - (d) Learn how to invest

16. If you save \$500 a month and earn 2% per annum over 35 years, what is the accumulated savings with interest?

- (a) \$210,000
- (b) \$300,000
- (c) \$370,000
- (d) \$555,000

17. If you save \$500 a month and earn 5% per annum over 35 years, what is the accumulated savings with interest?

- (a) \$210,000
- (b) \$300,000
- (c) \$370,000
- (d) \$555,000

18. If you save and invest \$500 a month over 35 years, and you earn a yield of 2% instead of 5% per annum, how much money do you lose?

- (a) \$90,000
- (b) \$160,000
- (c) \$255,000
- (d) \$345,000

19. What was the average yield on blue chip shares in Singapore over the past 20 years?

- (a) 2% per annum
- (b) 5% per annum
- (c) 9% per annum
- (d) 15% per annum

20. Over the longer term, which asset class gives the best return?

- (a) Government bonds
- (b) Corporate bonds
- (c) Blue chip shares
- (d) Emerging market shares

End of test

Check answer on next page

# Answers to the Quiz

Here are the answers to the 20 questions

1	2	3	4	5	6	7	8	9	10
c	b	d	b	c	d	d	d	d	d
11	12	13	14	15	16	17	18	19	20
c	b	c	a	c	b	d	c	c	c

If you get less than 16 correct answers, you should attend the financial planning talk ([www.fisca.sg/events](http://www.fisca.sg/events)).



## What others say

*Easy to understand. Simple to apply. An essential guide to prudent financial planning for all ages*

**Jonathan Chin, Edu-preneur**

*This book is concise and general finance advice to young people, is like from a father to son, without having to learn Finance jargon and knowledge. It tells young what to do, with brief explanation of the pros and cons. Though set out to be message for the young, it is also suitable for the old, how I wish I could read these 30 years earlier.... these are essence of a lot of financial principles and experiences.*

**Lee B H, engineering manager**

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