Implementing the Solutions Part II

By **John Kong and David Choo**

IN THIS SIXTH article on the series of Financial Planning, the authors address the matters that are involved in recommending solutions for the different financial objectives.

Financial Objectives

The first step is to identify the financial objectives together with the client and to state them clearly.

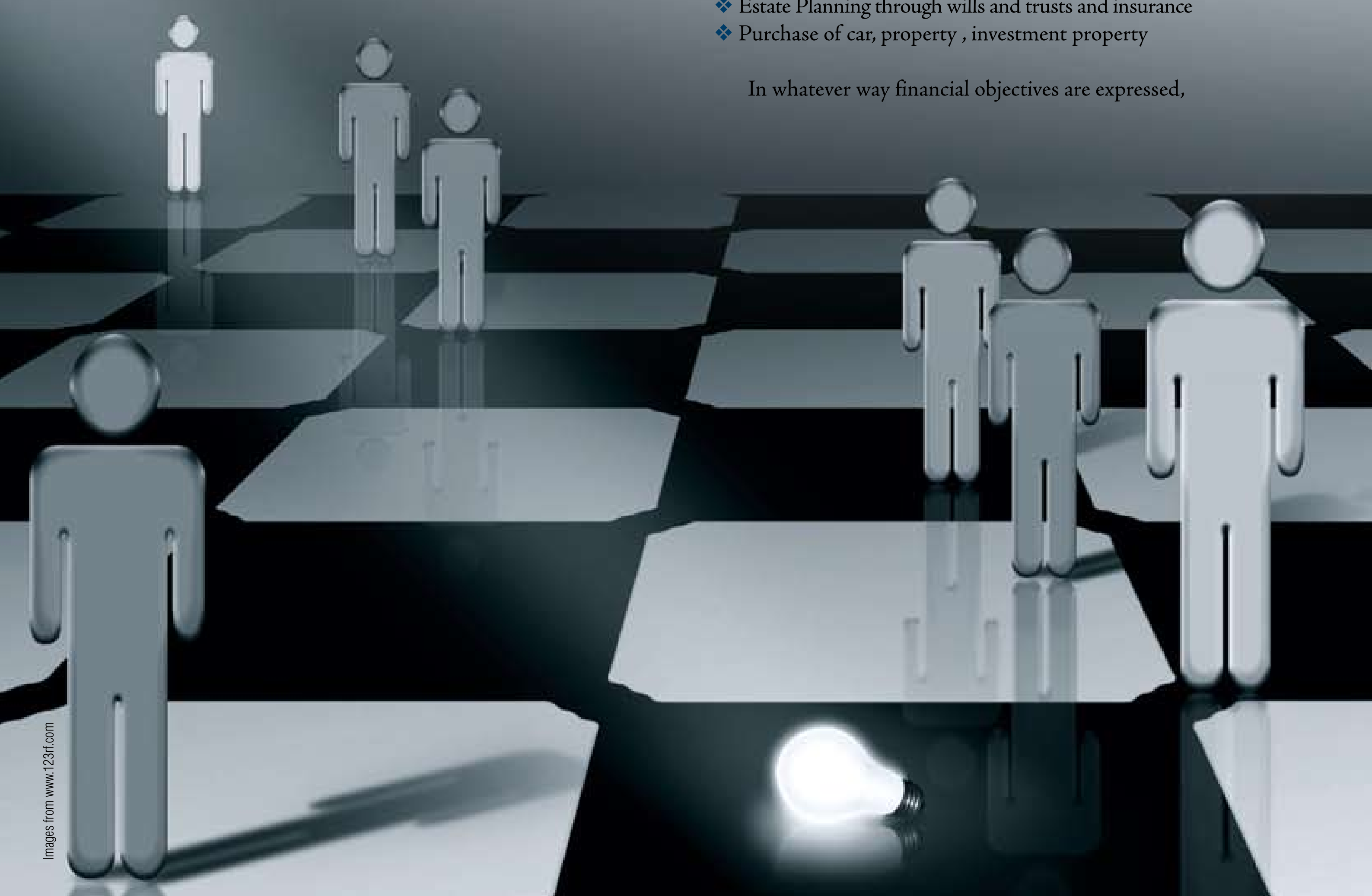
There are various ways to categorise financial objectives. A popular way is centered on wealth and the financial objectives are stated as follows:

- Wealth Protection - through risk management and insurance
- Wealth Accumulation - through savings and investments
- Wealth Conservation - through retirement planning
- Wealth Transfer - through estate planning

Another way is to identify the specific financial needs e.g.

- Protection against disability, medical costs, death
- Protection against creditors, potential liabilities
- Savings and Investment for children's education locally or overseas
- Savings and Investment for retirement
- Estate Planning through wills and trusts and insurance
- Purchase of car, property , investment property

In whatever way financial objectives are expressed,



care must be taken that they are comprehensive and pertinent to the client. Once the objectives are clearly stated in both figures and time period for achievement, appropriate action plan and strategies can be worked out.

The action plan to achieve effective solutions to meet the financial objectives should be spelt out with quantitative targets and time periods.

Choosing an adviser who is **trustworthy** and always **looks out for the client's interest** is of paramount importance.

Protection Planning

A protection plan would state the sum assured required for protecting against immediate death or total disablement and diagnosis of critical illness. The type of products would be listed with the premiums payable and for how long (limited payment feature).

Term insurance, when chosen as a solution, should state the term (period) of cover and why the period is chosen.

Medical plans are essential and the details of coverage must be such that the client's medical needs are fully taken of. Special attention must be paid to guaranteed renewability. Lifetime cover is considered essential today in view of the longer life span and high medical costs during old age.

Matters like Power of Attorney and Advanced Medical Directive may also be relevant to clients when disability planning is covered.

Retirement Planning

For retirement planning, the following are important:

1. Determine the planned retirement age and the years to retirement.
2. Determine the period of retirement years (agree on estimated year of death).
3. Determine the amount of money needed per month during retirement year and the inflation rate.
4. Compute the lump sum required at the start of retirement using a financial calculator
5. Determine the amount of money that is already available for retirement and what it will be at retirement based on an appropriate rate of return.
6. Compute the additional amount of money which must be saved and invested each month.
7. Agree with the client how this sum can be set aside and invested.

The ideal situation is when the client has the means to set aside the sum required per month for retirement but this is seldom the case. Nevertheless, it is important for clients to set aside whatever they can.

Investment

The solutions to meet investment objectives comprise the following;

1. Determine the investment target and the period to achieve it, e.g. Children's university education at child's 18th or 21st year.
2. Determine the amount that must be invested each month or each year.
3. Recommend the "instruments" or products which are selected according to client's objectives, financial situation and risk profile.
4. Determine whether the investment is by lump sum, regular savings plan (RSP) or combination of both.

The recommendation of products is an important part of the implementation process. This is the point which separates the men from boys. There are many factors to consider and the client must ascertain that the adviser's recommendations are really the "best" or most suitable for him.

The key things to look for besides the "attractiveness" of the funds are:

(1) The upfront fees - whether under non-wrap account or wrap account and what is the wrap or adviser fee per annum.
(2) The charges - the Fund Manager's charges and Administrative charges.
(3) The size of the fund and likelihood of it continuing or being closed.
(4) The currency and the currency exchange risk.
(5) The Fund Manager's track record and reputation and investment philosophy.

Savvy investors would be familiar with all these decision making factors. Investors who are not experienced or well-informed would probably need to depend on the advice and recommendations of the financial planner and adviser. In this case, choosing an adviser who is trustworthy and always looks out for the client's interest is of paramount importance. Beware of the adviser who is out to make a quick sale or who encourages "churning" i.e. to buy and sell frequently without good reasons in order to benefit from the fees (this applies to non-wrap accounts).

The offer of cash rebates especially for CPF investment is often an inducement for clients to trade more often and can lower the client's guards to the merits of the investment.

Estate Planning

Estate Planning solutions have to take care of a few areas:

- Preparation of a will or reviewing an existing will. This is a detailed process and great care must be taken over the contents of the will besides its legality.
- Advisability or otherwise of setting up a trust or several trusts to achieve the desired ownership of assets and their distribution while the client is still alive or has just passed away.
- Insurance policies to defray estate duty, if necessary or as a means of gifting.

Estate planning qualifies as a specialised planning and is often done separately. While a qualified financial planner or adviser can provide valuable inputs, it is advisable for clients to seek legal advice in the matter of wills and trusts especially when his estate comprises properties in other countries or he has business interests or multiple families.

Tax Planning

Tax Planning is considered a part of financial planning but usually handled separately. The qualified financial planner or adviser is able to pinpoint areas where improvements can be made but the solution should be in the hands of tax consultants for more complex tax matters. Usual issues covered are separate tax assessment, incorporation of business, contributions to CPF and Supplementary Retirement Scheme (SRS) to lower tax, and tax-free investment gains.

Coordination and Practice

For the majority of clients, there will not be sufficient funds to take care of all financial objectives. For many, after setting aside the premiums for insurance and medical policies, there is hardly any amount left for savings and investment.

Protection planning or wealth protection is a foundational part of the planning and must be done first for the financial safety of the clients.

Failure to make a killing in investment will not kill you financially but failure to insure might. You must recognise the financial monsoon drains of catastrophic medical cost, debilitating disability, premature death and astronomical education cost, or you will be swept away.

For clients with investible funds, good care must be exercised to fit the type of investments to the clients and not the other way round.

The financial plan must be coordinated in the sense that it will accomplish the objectives without causing duplication or gaps. Priorities have to be set wisely and scheduling may be necessary. CPF investments have to be treated with care especially when they are the only funds which are for one's retirement. Ironically, most investors treat their CPF investments more casually than their cash investment.

It is only the experienced and expert Financial Planners and Advisers who are able to come up with sound financial plans which would help clients do better with their finances.

The means of compensation for the Planner or Adviser (whether by fees only, by commissions only or a combination) is not as important as the character of the Planner and Adviser since it is only too well-known that fees can be overcharged, just as too high commissions can be earned. The best way is for the client to agree with the planner at the outset what should be the method of compensation.

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From my experience, certain clients are better served by fees only, others are served by commissions only, and yet others by a combination of both. The key factor is that clients' interest must be respected and served.

Once clients agree with the recommended solutions, the financial planner implements the plan and takes care of all the paperwork.

The final part of the process is monitoring which will be covered in the next article. Q

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