



# The Emerging Voice Of Sound Financial Advice

Good financial advice can make a world of difference to your financial well-being. Read on for a real-life case study of how one client actually benefited from this.

**M**R. BRYAN LEE (the name has been changed to ensure the confidentiality of the client), 35, is an IT manager married to a home-maker. They have two children aged 7 and 5. He earns \$8,000 per month (before CPF contribution and taxes).

They own a 5-room executive HDB flat, a mid-size car, and are repaying loans on both. They enjoy an upper middle class lifestyle – eating out during the weekends, buying new gadgets for their home and children, and taking annual vacations. Their life’s dream is to provide a good education for their children and to see them happily settled, while never being a financial burden to them.

Just a year ago, Mr. Lee felt like most ordinary residents of Singapore, who believed that lifelong financial security is something reserved for millionaires, and who could not foresee a clear end to their working lives. He was luckier than those who are in an even more precarious situation - those who simply believe that their financial security has been taken care of, with just their few existing insurance policies, or some randomly purchased investments, or even their expectations of subsidies from the government when they retire. Mere belief is a dangerous thing to rely on. Instead, actively knowing all the relevant facts – with professional advice - is what is required.

Over the years, they had bought quite a few insurance policies sold to them by insurance agents. Some of these agents were friends and family whom they found hard to refuse. Other agents were so persistent in following up with him, he bought policies from them almost just as a form of

compensation for their time and effort. Interestingly though, once they had sold the policies, these agents went almost completely out of touch. The only communication he did receive were reminders from their companies to pay his premiums and the occasional letter informing him of a reduction in bonuses.

Mr. Lee is considered to be a conservative person who had always chosen to buy the products from agents of well-known financial institutions. Besides insurance policies, Mr. Lee had also bought a few investment products from his local banks. These were almost always spontaneous decisions which were initiated by the banks’ sales staff. His investments included two capital guaranteed funds and some unit trusts that were considered ‘popular’ back then.

In Mr. Lee’s case, his ‘status quo’ regarding his financial holdings was finally disturbed when he received yet another notice of downward revision of bonus for one of his insurance policies. This revision was blamed on ‘volatile market conditions’. At about the same time, he checked on his investments only to find that many were still underperforming, even after holding them for a few years.

Mr. Lee realized that he needed to seek a second opinion from a financial adviser who would be able to provide him with a holistic, unbiased overview of his entire financial situation.

In the process of interviewing him, the financial adviser uncovered the following areas that were currently lacking in his financial plan:

1. **More coverage required, especially critical illness & disability.**
2. **Premiums paid are costly for the existing coverage amount.**

3. **Regular portfolio review and rebalancing are required.**
4. **A suitable investment plan that would suit his risk appetite.**
5. **A savings plan for his childrens' education needs.**

The financial adviser also conducted a thorough analysis of his present and projected financial requirements, with the aim of deriving the required rate of return at which his funds would need to grow, to meet his future financial needs.

Currently, at age 35, the amount of investible funds he has is \$70,000 (in liquid assets). He is able to invest \$1,500 per month for the next 25 years. He would require \$3,500 per month (in terms of current dollar value) during his retirement years. He intends to retire at age 60 and wishes to plan for a life expectancy of up till age 90. During his retirement years, his money will be invested in conservative financial instruments which will give a return of about 4% per annum (a constant inflation rate of 2% is assumed).

After a thorough analysis of Mr Lee's financial situation, the amount of liquid funds he would need at age 60, is \$1,557,300.

As for the funds required for his children's education needs, in addition to a starting capital of \$25,000, he is also setting aside a separate amount of \$500 a month, and he wishes to grow that amount to \$250,000 in 16 years time.

To meet his requirements, Mr. Lee needs to grow his current and regularly invested capital at an approximate rate of over 7% per annum.

To achieve his investment objectives, it was recommended that Mr. Lee hold a diversified portfolio of unit

trusts investing mainly in global equities. Other investment vehicles such as bonds, deposits, and structured products were inadequate to attain the above rate of growth over sustained periods of time.

Once his needs and financial goals had been established, the financial adviser commenced work on scouring the market for suitable plans that not only had customer-friendly clauses but which were cost effective as well. Although the companies were not as well-known as the big boys of the industry, they were very strong financially and able to pass savings to clients by quoting lower premiums, and were also able to include legal clauses which were beneficial to their clients in their contracts.

Table 1 gives Mr. Lee's existing insurance holdings – detailing the coverage he receives and the premium he has to pay. The total cash premium that Mr. Lee forks out annually for his insurance is \$12,952, for a sum assured of \$390,000 for death and Total & Permanent Disability (TPD) and \$190,000 for critical illness. In this situation, Mr Lee is actually "underinsured and overpaying".

After taking into consideration the various factors listed below, the required sum assured for Mr Lee was derived:

1. **Annual premium budget**
2. **Critical illness treatment expenses**
3. **Current and future expected income**
4. **Number of years of income to be replaced in case of death, disability, illness or accident**
5. **Liabilities**

The products (as listed in table 2) were recommended. It can be seen that there has been significant savings of \$5,464, →

**TABLE 1: BEFORE RESTRUCTURING**

	TYPE OF POLICY	ANNUAL PREMIUM	DEATH & TPD COVERAGE	CRITICAL ILLNESS COVERAGE	DISABILITY INCOME
Company A	Whole Life Policy	\$906	\$50,000	0	N.A.
	Whole Life Policy	\$2,520	\$100,000	\$100,000	N.A.
	40-year Endowment Plan	\$548	\$25,000	\$25,000	N.A.
	Medishield – Paid via Medisave	\$58	N.A.	N.A.	N.A.
Company B	20-year Investment Linked Plan	\$3,000	\$150,000	0	N.A.
Company C	21-year Anticipated Endowment Plan	\$5,920	\$65,000	\$65,000	N.A.
Company D	Structured Investment (single premium)	\$100,000	\$125,000	0	N.A.
	Structured Investment (single premium)	\$10,000 CPF-OA	\$12,500	0	N.A.
Company E	Investment Linked Plan (single premium)	\$25,000 CPF-OA	\$31,250	0	N.A.
		<b>\$12,952*</b>	<b>\$390,000**</b>	<b>\$190,000</b>	

\* EXCLUDES THE SINGLE PREMIUMS.  
\*\* EXCLUDES COVERAGE FROM SINGLE PREMIUM POLICIES.

**TABLE 2: AFTER RESTRUCTURING**

	TYPE OF POLICY	ANNUAL PREMIUM	DEATH/ TPD COVERAGE	CRITICAL ILLNESS COVERAGE	DISABILITY INCOME
Company A	Whole Life Policy (original policy)	\$2,520	\$100,000	\$100,000	N.A.
Company F	Term Plan that covers Death & TPD till age 60	\$835	\$250,000	\$0	N.A.
	Term Plan that covers 30 Critical Illnesses till age 60	\$2,025	\$0	\$500,000	N.A.
Company G	Disability Income Plan – pays \$5,000 per month till age 65 in the event of disability due to illness or disability	\$1,182	\$5,000	\$0	\$5,000 per month till age 65
Company H	Personal Accident Plan	\$166	\$100,000	\$0	N.A.
Company I	Decreasing Term Plan that covers Death & TPD till age 60	\$465	\$200,000	\$0	N.A.
Company J	A Medisave Approved Integrated Plan – Paid via Medisave (Suitable for A Class Private Hospital)	\$295	N.A.	N.A.	N.A.
		<b>\$7,488</b>	<b>\$655,000</b>	<b>\$600,000</b>	<b>\$5,000 per month till age 65</b>

→ or 42% of the original premium, and yet the coverage has been increased by 55% for death/TPD & 216% for critical illness.

The single premium policies were discontinued and the amount reinvested into unit trusts, due to the following reasons:

- Single premium Investment Linked Policy (ILP) is cost ineffective for both insurance and investment purposes.
- He did not need the protection provided by the ILP and single premium investment products because all his needs are taken care of by the new program.
- The cash value of the single premium investment products was redeemed and reinvested with suitable unit trusts.

Endowment policies offer a rather sluggish rate of growth and this would not be adequate for Mr. Lee's retirement funding. The cost for his insurance coverage was also considered high which was why they too were discontinued and the cash value reinvested.

Mr. Lee's revised portfolio provided him with immediate benefits:

- Insurance plan with limited premium payment term (payment will end before he retires), and yet provides sufficient coverage for life.
- 42% lower annual premium costs.
- Effects of the sequence of the various catastrophic events (disability, critical illness, accidents) were

considered in the construction of the portfolio.

- Greatly increased coverage amount in his working years.
- More "client-friendly" legal clauses in the contract.
- A comprehensive mix of products, each positioned in light of the other, versus an almost random addition of policies.

Satisfied, Mr. Lee noted that the whole process was by far a more rational approach – a simple comparison of available options in the market that matched his needs and the selection of the most ideal option vis-à-vis his resources.

## THE NEW EMERGING FINANCIAL ADVISORY LANDSCAPE

Ever since the enactment of Financial Adviser Act, new independently owned financial advisory firms are offering consumers with greater choice for financial advice that is not exclusively tied to any product provider (insurance or investment company). This new entrepreneurial setup ensured that client's, rather than product provider's, interests are considered first in providing holistic financial advice. As a client and consumer, it is beneficial to know that the wider choice available can make your hard earned money work harder, if you choose discerningly. **iFAST**

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