SPECIAL FOCUS

By Priya Rama

Strategising Investment Based on Income Bracket or Risk Profile?

How to save up more and be able to afford the high cost of future living.

KNOW YOUR INCOME BRACKET

KENNEY KHEW, LICENSED FINANCIAL PLANNER

PHILLIP WEALTH PLANNERS

Income plays quite an important role in deciding how we strategize our investment portfolio. For those in the low-income bracket, they should simply stick to EPF, and additionally PRS if they have extra cash.

Middle-income folks often fall in the sandwich generation category. These are people who have to take care of both their children and ageing parents. As a result, after deducting all the expenses, they have limited cash surplus in hand.

One suggestion is to utilise their EPF Account 1 to invest in unit trust funds, which are approved by EPF in order to achieve their retirement goals, without using cash in hand.

Use the dollar-cost-averaging (DCA) method of regularly investing a fixed amount every month for a fixed period of years, to mitigate the effects of market ups and downs.

In short, it's about saving for retirement using the method of capital preservation rather than capital liquidation.

By doing this, they can fully utilise the extra cash for other important matters such as children's education, or invest in PRS for tax relief and savings.

For instance, if one can save RM630 in taxes, they should invest the amount into moderately-risky mutual funds annually for the next 30 years.

The result might be surprising! The

HOW PRS WORKS FOR EMPLOYERS?

- An employer may channel contributions to one particular PRS provider, while his employees can choose the type of fund they prefer to contribute to by the said PRS provider.
- If an employee selects a PRS provider but does not make a fund selection, the employee's portion of contribution will be channelled to the default option of the PRS provider as follows:

Core Funds	Age	Asset Allocation
Growth Fund	Below 40 years	Maximum 70% in equity; 30% in debentures/fixed income and money market instruments
Moderate Fund	40-50 years	Maximum of 60% in equity; 40% in debentures/fixed income and money market instruments
Conservative Fund	50 years and above	80% in debentures/fixed income instruments of which a minimum of 20% must be in money market instruments and a maximum of 20% in equity

Source: PPA

future amount will be about RM59,510 for an average rate of return of 7% at the end of 30 years.

Alternatively, you could use the value-cost averaging (VCA) method to plan your unit trust portfolio, Unlike the DCA method, you do not need to invest a fixed amount for a fixed period of time.

As for PRS, business owners who don't contribute to their own EPF, can invest in PRS voluntarily, and receive a tax relief of up to RM3,000 per annum.

Not forgetting the fact that investing in PRS can be done at company level. Companies can help

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their staff towards contributing to PRS by deducting monthly from their salary, or paying bonus so that staff can reinvest the amount into PRS.

This is one great way to retain your staff and at the same time, help them investing and growing their money.

High-income earners have many options. Using EPF Account 1, they can not only invest in EPF approved unit trust funds, they can even up their risk ante and opt for an EPF-managed account.

The EPF-managed account invests your money in the local share market and is managed by professional fund managers. You can even choose the approved fund, whether conventional or shariah, according to you risk profile. This allows you to monitor closely the retirement figure whenever you wish to.

Another option is the Labuan Offshore Insurance Wrap Account. Presently, there are

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BENEFITS OF PRS

- Individual Tax Relief – up to RM3,000 per assessment year (in addition to deduction for EPF contributions) for the first 10 years.
- Tax Exemption – income received from PRS funds are tax exempted from Malaysia Income Tax.
- Flexibility – members can contribute to more than one PRS funds of their choice that are most suitable to meet their specific financial needs, at any time at their convenience.
- Low Minimum Contribution Amount – members can start contributing into PRS Scheme from as low as RM100.
- Employers Tax Deduction – employers are allowed to claim tax deduction from the business income based on the PRS contributions made on behalf of their employees, up to 19% of the employee's remuneration (together with any approved scheme such as EPF) for the first 10 years.

Source: PPA

four approved offshore company in Malaysia:

1. Hansard International
2. Archipelago Insurance Ltd
3. Premier Assurance (PA)
4. Investors Trust Assurance (ITA)

The offshore solution above can only be provided by a licensed financial planner. It is ideal for high net-worth individuals who wish to send their children overseas for education, or would like to retire overseas after retirement.

In addition, the investment is usually in foreign currencies to ensure that the fund isn't affected by the weakening or depreciation of the Ringgit.

TAKE CALCULATED RISKS

STEVE LIM, CHIEF LEARNING OFFICER
AFFIN HWANG ASSET MANAGEMENT


Steve Lim

Investing in any form, is related more to an individual's risk profile, and less so on one's individual income bracket.

If you're in your 20s, the ability to take on risk is probably higher. Thus, you could look at equities which give you a return of more than 10%. Just, bearing in mind that higher returns must come with higher risks.

But through proper asset allocation and diversification, one can spread your risk evenly across your investment time-frame.

For instance, let's assume you're investing RM250 monthly in a high-risk fund for 30 years, with a return of 12-15% - that's basically spreading the risk for three decades. Generally, the longer the investment time frame, the more aggresive a portfolio should be. But one can mitigate the effects of high volatility in their portfolio through diversification across various asset-classes.

However, if you're a conservative investor, and is content with a return of 5-6% and don't want to take on higher risks, then EPF or PRS may be sufficient.

Affin Hwang Asset Management is one of the eight PRS providers in the country. As a retirement saving mechanism, PRS is a useful retirement tool, because it not only forces you to save, but it also instills discipline by not allowing you to withdraw from the fund until retirement.

Furthermore, it allows you to make your own decisions as to which types of investments - high risk or low risk - you want to pursue.

Investing in PRS or other investment instruments may be more pertinent today, what with rising life expectancies and higher cost of living. Thus, it's an excellent complement to your existing EPF savings.

Just work up the maths. Let's say that you want to retire at 60 and ensure you receive an allowance of RM5,000 monthly to sustain your current lifestyle. At the same time, you don't want to deplete the savings because you wish to hand it down to your family upon your demise.

Even at your most conservative level, you would put your money into a fixed deposit. At the current financial rates, to receive RM5,000 monthly or RM60,000 yearly in the future, you would need RM1.7 million.

Now, the question is how many of us have even RM1 million in EPF when we retire. No ordinary Malaysians earning RM5,000 – RM15,000 a month can accumulate this amount.

Therefore, the shortfall needs to be supplemented through investing in other instruments, and PRS is one of the smartest way.

Figure 1: PRS Tax Relief

How much do you save?

This table provides you an illustration of the amount of tax savings you get from your annual RM3,000 PRS contributions.

Personal Taxable Income (RM)	Tax Bracket (%)	Tax Savings (RM)
20,001 - 35,000	5	150
35,001 - 50,000	10	300
50,001 - 70,000	16	480
70,001 - 100,000	21	630
100,001 - 150,000	24	720
150,001 - 250,000	24	720
250,001 - 400,000	24.5	735
400,001 - 600,000	25	750
600,001 - 1,000,000	26	780
Exceeding 1,000,000	28	840

Inland Revenue Board Income Tax Rates for Assessment Year 2016

Source: PPA

"I cannot stress enough on the importance of having a financial plan for all your live goals. A financial plan is like a GPS, which can locate your current location (financial status) and guide you to your destination (financial goals)."

ALLOCATE AND DIVERSIFY YOUR ASSETS

GOR SHEAU SHUENN, LICENSED FINANCIAL PLANNER BLUEPRINT PLANNING

With retirement savings as the primary focus, I would rather emphasise on proper asset allocation and regional diversification to an individual's investment portfolio, instead of focussing only on one.

EPF is an essential tool to have for retirement savings as an additional 12-13% monthly with a matchup amount from the employer, is effortless savings.

In the last 10 years, EPF's average dividend distribution is about 5.8% per annum, which is better than the performance of many other investment assets.

For those who are either self-employed or are in the high-income category, they should deduct 7% of their salary every month and contribute the amount to either EPF or PRS.

According to Lembaga Hasil Dalam Negeri (LHDN), contributions made by a company on behalf of their employees (including owners) are tax allowable as deductions against a company's gross income, subject to maximum of 19%.

When an employee contributes to PRS, he will be able to enjoy a personal relief of RM3,000 if he has contributed RM3,000 and above for the year **(Figure 1)**. Furthermore, in the last 3 years, quite a number of PRS providers have managed their funds well to deliver double-digit returns.

However, one concern when investing your money into EPF and PRS is liquidity. It is not easy to cash the funds out in case of an emergency.

Hence, we should also look into other instruments such as mutual funds, stocks, gold investment and savings in fixed deposit for emergency purpose.

Again, remember to properly allocate and diversify your assets to include mutual funds, fixed income and bonds, particularly in the US, Asia-pacific, Emerging Markets and of course Malaysia.

The right mixture of portfolio would enable you to breeze through market volatility and provide for your financial needs within the desired time horizon.

By Priya Rama

ENGAGE A PRO

YONG CHU EU, LICENSED FINANCIAL ADVISOR

FIN FREEDOM

No matter which income bracket you are in, saving at least 10% or above of your monthly salary is compulsory, otherwise your wealth isn't going to accumulate.

Before investing, one should first have an adequate insurance coverage, and build a sufficient sum equivalent to 6-9 months of his monthly income in case of emergencies.

If you're wondering which investment tool to opt for, you can either:

Yong Chu Eu

(a) Engage a professional – This option is good for those who lack investment knowledge and do not have the time to plan their finances. However, if you do not wish to hire a professional, then EPF and PRS is a good way to start investing.

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(b) Do-it-yourself (DIY) – This option is suited for those who have a passion for investment and have the time to learn and track their investments closely. Investing in stocks and bonds is encouraged.

I cannot stress enough on the importance of having a financial plan for all your live goals. A financial plan is like a GPS, which can locate your current location (financial status) and guide you to your destination (financial goals).

With a plan, you will have a bird eye view on how you can efficiently optimise your cash flow, re-structure asset allocations according to your risk profile, and steadily compound your existing resources toward the retirement.

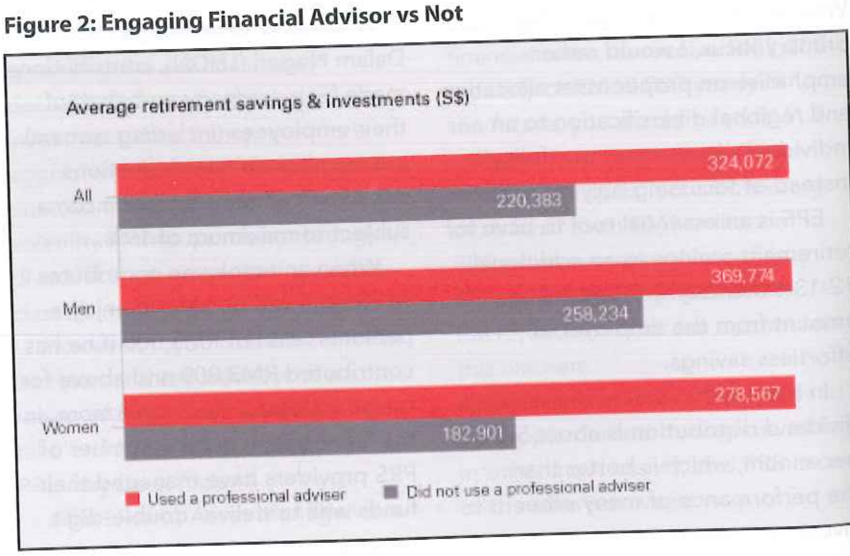
Along the way, if your goal is too high to achieve, or your resources are limited, you can still adjust accordingly. You can monitor from time to time to make sure that you still on-track, and if not, re-strategize appropriately.

However, if you find a holistic financial plan to complex, you could just focus on retirement planning. There are a lot tools available online that you can use to quantify your retirement needs and estimate the returns on each of your investment upon retirement.

Singaporeans who engage a financial advisor for retirement planning save close to 50% more

A study by HSBC on the future of retirement revealed that both men and women in Singapore, who have consulted a professional adviser for their retirement planning, are accumulating the most in their retirement savings and investments (S$324,072), 47% more than those who do not (S$220,383) **(Figure 2)**.

Figure 2: Engaging Financial Advisor vs Not



Source: HSBC

No doubt it takes a lot of effort to put all your financial goals, resources and gaps on a financial road map as well as study, enhance and monitor the plan from time to time. But trust me when I say it's worth all the effort.

FINANCIAL CAPABILITIES MORE IMPORTANT

TAN KIM BOOK, LICENSED FINANCIAL PLANNER
PHILIP WEALTH PLANNERS

Tan Kim Book

Income level may not be the consideration here. What's more important is an individual's financial capabilities, namely knowledge, skills, experience attitude and belief. It also very much depends on the different stages of life of an individual.

Young working adults can opt for a more aggressive investment approach, according to their risk appetite, to speed up wealth accumulation in more diversified investment tools, such as stocks, properties, options and futures, besides the mandatory EPF savings.

For those who are risk adverse, EPF, private retirement schemes (PRS) and mutual funds are some forms of investment accumulate and grow their wealth.

Though EPF saving is mandatory for employees, due to the high cost of living cost today, this alone is not enough to fund for our retirement.

Thus, investing additionally into a PRS account to supplement EPF savings is a good idea. In fact, PRS contributions offer more investment possibilities than EPF, and contributions can be made by both employers and employees.

This way, you'll be able to save up more for your retirement nest to be able to afford the high cost of future living.

Self-employed individuals or business owners may have the choice to either save in EPF or approved PRS depending on their preferences. There are many self-employed and business owners who do not have any form of savings, including EPF. They often view business income as retirement savings.

This is a very dangerous gamble, especially in an era of uncertainties in the business world. The main concern for this category of people is that they do not have a fix regular income, thus find it difficult to save. But that's not an excuse for not saving.

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Kevin Neoh

ENSURE LEGITIMACY OF INVESTMENT

KEVIN NEOH, LICENSED FINANCIAL PLANNER
VKA WEALTH PLANNERS

What's more important to consider is the risk-reward profile and cost of a particular investment, and most importantly, whether if it's regulated by the Securities Commission and Bank Negara Malaysia. Only then can it be considered a legitimate investment.

Also, before investing to build our retirement fund, one should first decide on the type of retirement lifestyle they desire to have.

This will allow us to understand and "guesstimate" the value of retirement funds one need to prepare prior to retirement age, and when we know this, we can also ascertain the rate of return we need to derive from the investment.

This is rather crucial because if I only need an investment to provide me 7% per annum, I don't have to invest into something that promises to pay me 15%, as the higher the potential return, the higher the risk.