

# Money Matters Course (Mar'21)

## Module I – Smart Money Management

- Set Financial Goals using the SMART technique

### Examples of Goals

- Getting married
- Buying a house
- Children's education
- Retiring with enough money

### Importance of (well-defined) goals

- Set priorities
- Provide **focus** and specific **direction**
- Vague/generalised goals are unhelpful, don't provide sufficient direction

### SMART Technique

- **S – Specific**
  - Goal is direct and detailed
  - On what you wish to accomplish
- **M – Measurable**
  - Goal can be measured
  - E.g. Stating amount of money needed to fulfill your goal
- **A – Action-oriented**
  - Goal can be broken down into actionable steps
- **R – Realistic**
  - Goal must be realistic
  - You must have the skills, knowledge and resources to reach it
- **T – Time-bound**
  - Goal has a due date
  - Indicates when you would want to complete the goal

- Draw up a Budget in 3 steps

### Purpose of a budget

- Helps **decide how** you want to save, spend and meet other financial commitments
- Helps you to **live within your means**, meet basic living expenses and achieve financial goals
- Provide a **sense of control** over money

### Step ONE (PLAN)

- Plan your spending
  - Meet current needs
  - Set aside for future needs
- List down all expenses on a monthly basis
  - Broadly divide into categories
  - E.g. Housing, living, work, personal expenses

### Step TWO (TRACK)

- How to make sure budget is correct: record every expense for 4 weeks
- Ways to track spending
  - Lo-Tech: pen, notebook, collect receipts
  - Hi-Tech: mobile apps (e.g. Seedly, Pocket Guard, Good Budget, Wally, Tosh!), download statements

### Step THREE (REVIEW & ADJUST)

- Review budget by comparing actual spending vs budget
- Adjust budget accordingly
- Other times to review budget
  - Getting married
  - Getting a house
  - A reduction in salary

- Manage your Money Better by using 3 Money Habits

#### Habit ONE (SAVING FIRST)

- Pay yourself first
- Start small, start early
- Use an automatic saving plan
- Consider setting up an endowment plan for better returns on savings

#### Habit TWO (SPENDING LESS)

- Wrong common way of thinking – *make more money to be happy in life*
- It's not how much you make that is problem, its how much you spend
- Tips
  - Go grocery shopping with a list and budget in mind to avoid overspending
  - Pack food from home to reduce expenses at work
  - Switch to a data plan that fits your usage

#### Habit THREE (SET-UP AN EMERGENCY FUND)

- Budget set aside as a financial safety net and for unexpected expenses (medical expenses, home appliance repair)
- Build up the fund by regularly setting aside money in a separate account
- As a guide, about 3 to 6 times of monthly expenses
- Helps to avoid using savings or credit in times of need

#### Summary

- Use SMART Technique to set financial goals
- Use a budget to manage your money
- Track your expenses to help keep within your budget
- Practice good money habits
  - Save first
  - Spend prudently
  - Have an emergency fund

### Module 2 – Using Credit Responsibly

- Good Money Habits and Avoid getting Trapped in Debt

#### Credit cards

- Spend on items you can afford
- Strive to pay for credit card bills in full and on time
- Key Features
  - Convenient mode of payment (no need for cash)
  - Monthly statements provided (itemised bill)
  - Grace period for interest-free payment (when no outstanding balances carried over)
  - Reward programs associated with cards (e.g. cashback, earn airline miles)

#### Overdraft

- Or also referred to as a “line of credit account” or “revolving credit facility”
- Withdraw from current account up to limit set by your bank
- Key Features
  - Write cheques or withdraw cash to pay for goods and services
  - Interest charged based on amount utilised
  - Can have joint account

#### Common Types of Credit and Loan Facilities

- Secured loans
  - Loan is secured by asset purchased
  - Asset becomes the collateral, can be claimed when borrower defaults on payment
  - E.g. Housing loans, vehicle loans
- Unsecured loans
  - E.g. Study loans, renovation loans, personal loans, overdrafts

#### Manage your Borrowings

- Using credit to buy something can help to manage our cash flow, realise our life goals

- But don't borrow beyond your means
- Not all debts are equal
- **Good debts**
  - Helps to potential increase your net worth
  - E.g. loans for a flat (net worth), an education (earning capacity)
- **Bad debts**
  - Borrowing impulsively or treating credit cards as "supplementary income"
  - Usually have high interest rates
  - Often becomes a liability in reaching your financial goals

#### How to use Credit Responsibly

- Scenarios: Pay in full, pay only the minimum required
- Debts do not occur overnight, result of accumulating rollover balances
- When charging purchases to credit card – **pay in full, pay on time**
- Do not make purchases you **cannot afford**
- Do not use a **cash advance or overdraft facility** to pay a credit card debt
- If there are already outstanding balances incurred, stop using the card and **pay off** as quickly as you can

- **Three Questions to Ask Before Deciding to take a Loan**

#### Summary

- Purpose of the loan
- Ability to service the payments over the loan duration
- Be open to other options
- Borrow responsibly
- **Don't rush into taking a loan!**

#### Consideration ONE (P – Purpose)

- What do you need the loan for?
- *Is it for a **big** ticket item?*
- *Is the type of loan **suitable** for the purpose?*
- *Is it to tide over expenses during **an unexpected event**, such as hospitalisation or retrenchment?*
- Buying things of short term value can accumulate to bad debt

#### Consideration TWO (A – Affordability)

- Can you afford the loan?
- *Can you handle the interest, does it fit in your monthly budget?*
- *How much can you **set aside** for the installment payments?*
- *Are you able to **service** the loan until **full settlement**?*
- **As a guide, not more than 60% of the gross monthly income should be used to repay debts**

#### Consideration THREE (O – Options)

- Are there other options that you may consider?
- *Buy now or save up?*
  - Reduce loan amount needed
- *Lower cost alternatives?*
- **Understand the Terms and Conditions of the loan**
  - Penalties for early redemption/late payment fees

- **Credit Report**

#### Information contained

- Compiled by banks and financial institutions in Singapore
- Details regarding payment behaviour
- Used by potential lenders to decide whether to approve your loan application

#### Credit Rating

- Banks will assess your credit worthiness before granting approval
  - Credit card or overdraft application
  - Requesting for credit limit
  - Loan application

#### Information Elements in Report

- **Total number of accounts with each bank**
- History of account status
  - When account was opened, closed off
- **Payment behaviour**
- **Previous enquiries**
- **Default records and adverse status information**
  - Payments overdue, whether bankruptcy process has been initiated
  - Shows if borrower is on any debt repayment plan with Credit Counselling Singapore (CCS)
- **Aggregate outstanding balance**
  - Outstanding borrowings at the time of credit report generation
- **Credit score**
  - Indicator on a grading scale
  - E.g. AA: lowest risk of default
  - Shows lenders whether you are a responsible borrower of credit
  - Good credit score does not guarantee approval, all loans are still subjected to the discretion of the bank/lender institution
  - Available for purchase or for free (if you meet the pre-requisites) at Credit Bureau Singapore (CBS) website – <https://www.creditbureau.com.sg>

### Summary

- Good habits to have when using credit cards
  - Spend within your means
  - Pay in full
  - Pay on time
- Before taking out a loan
  - Consider your purpose
  - Determine your affordability
  - Evaluate your options
- Credit Report
  - Reflects payment behaviour
  - Lenders *may* be more willing to extend additional credit when you demonstrate positive payment behaviours

## Module 3 – Introduction to Insurance

### Purpose of having insurance

- Better safe than sorry
- Insure for peace of mind
- Do not want your goals and plans to be messed up by known and unknown risks, keeps them on track
- **Protects**
  - A form of financial protection against a range of unplanned or unexpected events
  - E.g. Death of a breadwinner, total and permanent disability, critical illness, loss of belongings, damages to property like house/car
  - Hedges against such events that can drain your savings quickly and put you in financial hardship
- **Accumulates** for future
- **Distributes** wealth as a form of legacy

### Types of events insurance can help with

- Loss of **human life**
- Loss of **needs provisioning**
- Mitigate loss of **value goods** and **use of assets**

### Insurance can help to protect and provide for your family

- How your dependents will be financially supported in the event of death of total permanent disability?
- How will you continue to pay for household bills and service loan commitments if you are not able to work due to an accident or illness?

### Risks

- Insurance manages your risks

- Probability of something adverse happening (events) that turn things upside down
- Risk works against/disrupts your goals and plans
- *Would my death leave someone in a financial bind?*
- **Known** risks
  - Can **shift** or **transfer** them to the insurer for a small fee or premium
- **Unknown** risks
  - “Surprises”
  - Can **mitigate** or **reduce** their effects on your finances

### Types of insurance

- Hybrids of life insurance

Lower premiums	-->		Higher premiums
Term	Endowment	Investment-linked plan	Whole life
Temporary protection	Term protection and saving	Protection and investment	Permanent protection

- **Term life insurance plan**

- Protection for a fixed period
- Pays the sum assured upon the death or total permanent disability of the insured only during this period
- Has no surrender value when the policy ends or terminates prematurely
- Cost is usually lower than a whole life plan

- **Whole life insurance plan**

- Lifelong protection as long as premiums are paid
- Pays the sum assured upon the death or total permanent disability of the insured
- May have participating cash value (e.g. a share in the profits of the insurance company's fund)
- Cost is higher than term policies

- **Endowment plan**

- Lifelong protection as long as premiums are paid
- May have participating cash value
- Cost is higher than term policies

- **Investment-linked plan (ILP)**

- A policy with protection and investment components
- Pays the sum assured and the value of investment units upon the death or total permanent disability of the insured only during this period
- Link to investment with different portfolio of assets and risks to cater to different consumer preferences

# Characteristics of Each Type of Life Insurance

CHARACTERISTICS	TERM	ENDOWMENT	INVESTMENT-LINKED	WHOLE LIFE
COVERAGE PERIOD	Protection up to a specific age	Protection up to a specific age	May be up to end of life; as long as policy is held	Protection up to end of life
PURPOSE	Protection; Covers death and total permanent disability	Protection + potential to grow savings	Protection + potential to reap investment returns	Protection; Covers death and total permanent disability
UPON DEATH	Sum assured	Sum assured + accumulated bonuses, <i>if any</i>	Sum assured + value of units in the investment fund	Sum assured + accumulated bonuses, <i>if any</i>
SURRENDER BENEFITS	No cash value	Cash value (guaranteed + non-guaranteed bonuses, <i>if any</i> )	Cash value (of units in the investment fund)	Cash value (guaranteed + non-guaranteed bonuses, <i>if any</i> )

## Health and Medical Insurance

- Hospitalisation
  - MediShield Life – basic health insurance scheme
  - Benefits best suited for major procedures and treatment in public hospitals
  - Enhance coverage by purchasing MediSave-approved private Integrated Shield Plan
- Long-term care insurance (disability insurance)
  - CareShield Life, ElderShield – basic long-term care insurance
  - Providing financial protection against long-term care cost
  - CareShield: payouts from \$600/month (versus average cost of \$2150)
  - Increase benefits by getting long-term policies with private insurers

## Travel and related insurance

- Protect travellers from a variety of unfortunate events
- Events that may cause a financial loss before or during their trip
- E.g. trip cancellations, medical emergencies, travel delays, lost luggages

## Summary

- Insurances offers peace of mind
- Everyone (who can afford it) needs insurance
- The expense of not having insurance is nothing compared to **the expense of** living without it

## Insurance

1. Provides some measure of financial protection against a range of contingent events
2. Protects your plans and what you have been working towards from financial loss
3. Ultimately helps you reach your financial goals with assurance

## Helpful websites

- <https://www.comparefirst.sg/>