Consumer FAQs on Basic Financial Planning Guide ("Guide")

General

1. What is the purpose of this Guide?

Guides on financial planning are not new. Currently, various guides exist that highlight key aspects of financial planning. That said, different guides may lack some aspects that would contribute to a holistic financial plan.

The Basic Financial Planning Guide does the following:

- Provides a comprehensive set of rules of thumb for the key aspects of a holistic financial plan, namely emergency funds, insurance protection, investment and legacy planning;
- Highlights government schemes that can be useful for addressing financial needs;
- Provides simple product options; and
- Is a consistent guide that can be used across the Financial Advisory (FA) industry.

MAS has worked in collaboration with the FA industry – represented by the Association of Banking Singapore ("ABS"), the Association of Financial Advisers Singapore ("AFAS") and the Life Insurance association ("LIA") – to produce this Guide, and will work with the FA industry on how the Guide can be used in their financial planning conversations with customers.

With this Guide, we hope to demonstrate that financial planning can be as simple as taking 3 to 4 simple actions.

2. My FA representative did not use the Guide in our conversation, is this a breach of regulations?

Use of the Guide is not a regulatory requirement.

MAS strongly encourages FA firms and their representatives to make reference to the Guide in their conversations with customers. This would complement what many FA representatives are already doing, by pulling together information that would be useful for customers to consider when making basic financial plans.

The Guide provides a consistent and unified message for consumers, containing the key areas of financial planning and associated rules of thumb that can guide their considerations.

3. Must I follow the Guide's recommendations when purchasing financial products?

The Guide lays out basic and simple steps to set up a financial plan that are broadly applicable to most. This means that the Guide may not cater to every individual's specific needs, circumstances, and preferences. In other words, while the Guide provides guidance on how you can meet your key and basic financial planning needs, this guidance is not designed to be exhaustive.

For more customised financial planning that caters to your unique needs, circumstances, and preferences, you may wish to have a conversation with an FA representative.

Emergency Funds

1. Is an emergency fund of 3 to 6 months of expenses enough?

Setting aside at least 3 - 6 months' worth of expenses as emergency funds is generally an accepted rule of thumb, and should provide sufficient buffer for most people during emergencies (e.g. a medical incident, loss of job, or replacement of essential home appliances).

That said, the adequacy of emergency funds could differ from person to person and the emergency situation. For example, a freelancer with unpredictable income may want to set aside a higher amount for emergency funds to account for unexpected lull periods in their income.

2. I have not set aside 6 months of expenses as emergency funds. Can I still purchase insurance/investment products?

There are many approaches to building a financial plan to suit your needs and preferences. You may choose to embark on your financial planning journey by budgeting for all the recommended areas at the same time, or by focusing on one goal at a time. Nevertheless, planning for unexpected events such as a medical crisis by setting aside an emergency fund can bring about a great peace of mind. This is why having emergency funds is important.

3. Should I put my emergency funds into the stock market where returns could be higher?

It is important that an emergency fund is readily accessible in times of need. Hence, we <u>do not</u> recommend putting your emergency funds into the stock market which is meant for long-term investment. For instance, one may not be able to immediately liquidate his or her investment for emergency needs without incurring losses.

4. Why should I have emergency funds if I already have insurance?

Emergency funds are important as they can help you pay for non-medical emergencies that are not covered by your insurance. For example, should you be faced with a sudden loss of income, you would need ready cash for your monthly bills or to replace important home appliances.

In addition, some insurance policies operate on a reimbursement basis. An emergency fund would ensure that you are able to pay for and receive healthcare assistance without delay. That being said, the government has provided a safety net for patients who face financial difficulties with their remaining bills after receiving Government subsidies and drawing on other means of payment including MediShield Life, MediSave and cash. No deserving patient will have to forego important healthcare due to a genuine inability to pay. Please refer to MOH's website for more details (https://www.moh.gov.sg/healthcare-schemes-subsidies/medifund).

5. Can I use my CPF funds as my emergency funds?

No. This is because there are specific conditions tied to the use of your CPF funds, and they will be used to meet your retirement, healthcare, and home ownership needs.

Protection

1. What should I do with my current insurance policies in light of the rules of thumb provided in this Guide?

Should you find that you have purchased more/less coverage compared to the Guide's rules of thumb, you may wish to review your needs and preferences, to see if your existing coverage suits your unique circumstances. It is common for consumers to adjust their insurance policies and coverage at different life stages given that their needs and preferences might have evolved over time. Should you find that your circumstances have changed or would like to check if your current insurance policies continue to suit your needs, please reach out to your insurance provider or FA Representative for a conversation.

2. Why is the Guide recommending 9x annual income for Death & Total Permanent Disability coverage and 4x annual income for Critical Illness coverage? Can I purchase more/less?

These guidelines are based on LIA's most recent Protection Gap Study. The study found that:

- In the event of a death or permanent disability, an estimated amount of 9x annual income is needed by dependents (and insured in the event of permanent disability) to cover expenses, clear outstanding debts, and maintain a reasonable lifestyle for a period of time.
- Assuming a recovery period of 5 years from a major illness before the insured can return to workforce, the estimated amount of 4x annual income is needed to cover family needs, taking into account any necessary lifestyle adjustments due to a reduction in earning capacity. These needs include expenses and outstanding debt payments.

However, should you require more/less coverage based on your lifestyle or number of dependents, you may purchase more/less coverage accordingly. If unsure, you may wish to have a discussion with your FA Representative.

3. Is the Guide's recommendation of 9x annual income for Death & Total Permanent Disability coverage and 4x annual income for Critical Illness coverage achievable? Can I afford it?

Term insurance policies are a cost-effective way to ensure protection, especially when lower premiums are "locked-in" at younger age. The table below provides an illustration of median prices of term insurance plans on CompareFirst for two age groups:

	Female, non-smoker, aged 23	**Male, non-smoker, aged 45**
(a) Assumption of monthly take-home income	$2,500	$4,000

(b) Term insurance plan for death and total permanent disability (TPD)	Coverage: $200,000[1] Monthly premium: $40	Coverage: $300,000[1] Monthly premium: $70
(c) Term insurance plan with critical illness rider	Coverage: $100,000 Monthly premium: $50	Coverage: $200,000 Monthly premium: $130
(d) Total monthly premiums for (b) and (c)	$90	$200
(e) Monthly cost of insurance as a percentage of income	4%	5%

You may compare premiums and features of insurance products at https://www.comparefirst.sg

For more affordable options, explore:

- Group term insurance policies (e.g. MINDEF & MHA group term insurance policies applicable for Full-time National Servicemen and their dependents); and
- Direct Purchase Insurance. No commission is charged as this option does not come with any financial advice.

4. I am young and healthy. Why should I purchase insurance coverage for Death/TPD and CI?

It is important that you are adequately protected against loss of income due to severe accidents or critical illnesses. That is where insurance play an important role.

Furthermore, the younger and healthier you are, the cheaper your insurance will be, especially for Term Insurance Policies, where premiums are locked in at the point of application. Applying for insurance after developing health conditions may also result in you being denied coverage or having conditions imposed on your policy which prevent you from making a claim (i.e. exclusions).

5. My insurer has placed many exclusions on my current coverage. What should I do?

Please approach your insurance provider to discuss your options.

Please note that switching between insurers could come with unintended consequences for your insurance coverage, such as more exclusions due to changes in your medical conditions over time, or higher premiums. Hence, while you may approach other insurance providers to see the options available to you, it is important to understand what you are purchasing and read the terms and conditions carefully before deciding.

6. How was the rule of thumb of 15% of income for Protection needs derived?

There are many competing needs that you will need to balance when deciding on how to allocate your budget. This includes spending to maintain your lifestyle, large expenses such as your home purchase or child's education, as well as your longer-term retirement needs.

[1] Additionally, Singaporeans and Permanent Residents are also automatically enrolled into group term life insurance, Dependent Protection Scheme (DPS), upon making valid CPF working contribution. DPS provides insurance coverage of $70,000 (until 59 years old; and coverage of $55,000 from 60 to 65) for death and TPD. Premiums are deducted from CPF.

Hence, the Guide is recommending for you to spend at most 15% of your income on purchasing pure insurance products, so that you may allocate your funds to meet most, if not all, of your financial needs.

Please note that the rule of thumb is established based on cost-effective ways of obtaining protection coverage (i.e. purchase of Term Insurance Plans). This means that the cost of bundled products, such as Whole Life Insurance Policies, may exceed 15% of income as they cover both investment and protection. Do take note of the fees that you are paying for such bundled products.

7. My representative sold me a portfolio of policies that costs more than 15% of my income.
a) Can/should I continue to keep this portfolio of policies?
b) Have I been oversold? Can I request for a refund?

Budgeting is an important first step in any financial plan, and is an essential process customised to each persons' individual needs and preferences. While the Guide recommends that people spend at most 15% of their income on insurance protection, there are instances where this may not apply.

Do not be alarmed even if you find that your portfolio of insurance policies costs more than 15% of your income.

Start by reviewing whether this portfolio of insurance policies remains affordable for the long-term, where premiums may also increase. Should you find your portfolio of policies to be unaffordable, the Guide also provides guidance on the important areas of protection coverage that you may refer to when deciding what would form the backbone of your financial plan.

If you find that your portfolio is affordable in the long term, you should consider whether the portfolio continues to meet your needs and preferences before deciding if changes should be made.

If you do decide to make changes to your portfolio of insurance policies, do contact your insurance provider or FA representative to find out more about the options available to you.

8. My FA Representative sold me a policy that provides more than the recommended coverage amounts in the Guide. Can/should I continue to keep this coverage? Have I been mis-sold? Can I request for a refund?

Should you find that you have purchased more/less coverage compared to the Guide's rules of thumb, you may wish to take another look at your needs and preferences, to determine if your existing coverage continues to suit your unique circumstances. It is common for consumers to adjust their insurance policies and coverage at different life stages given that their needs and preferences might have evolved over time. Should you find that your circumstances have changed or would like to check if your current insurance policies continue to suit your needs, please reach out to your insurance provider or FA Representative for a conversation.

Investment

1. Why is the Guide recommending one to set aside at least 10% of income for investments?

We recommend consumers to save and invest early, to enjoy the benefits of compounding returns on your investments. This is important to meet your needs for large purchases (e.g. home purchase and child's education) and most importantly, your retirement.

However, the Guide also recognises that there are many competing needs that you will need to balance when deciding on how to allocate your budget. This includes spending to maintain your lifestyle, and purchasing insurance to protect yourself and your loved ones. Hence, the Guide's rule of thumb is that you set aside at least 10% of your income to invest in your near- and long-term future.

If you are able to put aside more funds, you are encouraged to do so.

2. What should I invest my money in? Who should I invest my money with?

The Guide provides general recommendations on the classes of financial products that you may consider for investments. However, the Guide does not provide specific product recommendations, considering that there are various financial products with different risk-return characteristics that suit investors with different risk profiles.

You may approach your FA Representative for advice, or refer to available online resources to get a better understanding of the options available, such as MoneySense's Investing Starter Pack (https://www.moneysense.gov.sg/starter-packs/get-started-with-investing).

3. I already contribute to my CPF. Why should I set aside more money for retirement?

Your CPF retirement savings will provide you with monthly payouts in retirement no matter how long you live. Ultimately, how much you set aside depends on your desired monthly payouts. It is important to plan ahead by assessing how much payouts you need to support your desired retirement lifestyle.

You may wish to explore the CPF Planner – retirement income (https://www.cpf.gov.sg/cpfplanner) or if you're aged between 55 to 79, the CPF Life Estimator (https://www.cpf.gov.sg/eSvc/Web/Schemes/LifeEstimator/LifeEstimator).

This will help you plan whether you need to consider topping up your CPF retirement savings to reach your desired payouts, and whether you should consider other sources of retirement income.

4. I am saving up for my short-term goals (e.g., child's education, first home purchase). Should I manage these monies the same way as my retirement funds?

Different investment products come with different risks. In general, products with higher potential returns will come with higher risks such as larger fluctuation in the value of the investments in the short-term, while products with lower potential returns are generally more stable.

Hence, it is important that you plan your investments according to when you expect to use the funds. For short-term goals, you should consider lower risk/reward investments. It is important to think about what happens if your investment suffers a loss. Will it impact your other commitments, such as loan repayments? Do not take the risk if you do not have the time to recover from your losses.

For longer-term investments, you may be able to take on higher risk/reward investments as you are able to recover from any short-term losses by staying invested and riding out the market volatility. That said, there is no such thing as a guaranteed investment that offers high returns without risk of loss.

5. Is there guidance on home purchases as well? This is an important part of financial planning.

The Guide suggests that you can set aside at least 10% of your income to invest in your retirement and to build up towards other financial goals, such as your home. For many Singaporeans, a home will be the largest purchase you will make in your lifetime. Hence, it is important to plan your finances and budget for a flat purchase with HDB's ABCs of financial planning and financial tools. You can find out more through HDB's comprehensive guide. (https://www.hdb.gov.sg/residential/buying-a-flat/working-out-your-flat-budget)