

Practical steps to finding your financial calm

CPF Board 00:07

Hey and welcome to Let's Talk CPF, a podcast where we bring conversations on CPF to your ears. Brought to you by the CPF Board, this podcast will answer common questions, offer tips and feature interviews with industry experts on CPF and financial planning. Thanks for listening, and let's get straight into today's episode.

Calvin 00:36

Welcome back to Let's Talk CPF. I'm Calvin, and today I have Hui Li, who is a working mum. She's here to find out more about basic financial planning. So you may know that you need to plan your finances, but how do you go about doing it? What are some considerations that you should have? What benchmarks should you be looking at? Well, today's podcast will explore this. Welcome to Let's Talk CPF, Hui Li.

Hui Li 01:00

Hi, Calvin. I'm glad to be here.

Calvin 01:02

So how are you doing, Hui Li?

Hui Li 01:04

Yeah, I'm generally well. But you know, as a working mom with two kids, it's hard to manage our finances. I mean, it's even hard to get enough sleep these days. And then, you know, the rising cost of living, the inflation, my salary doesn't keep pace with that. Yeah, and I still have to save up for my children's education, their enrichment class.

Calvin 01:07

So Hui Li, you mentioned that you are concerned about things like inflation, as well as you are saving for your children's education. So what kind of financial goals do you have?

Hui Li 01:41

Well, at different life stages, I had different financial goals. As a uni graduate, my goal was simple. I just needed to feed myself and have enough to socialise, engage in hobbies. Then as a working adult, adulting, right? So I thought about saving up for rainy days when I fall sick or, you know, start thinking about retirement, but now as a mother, whoa, my plate is even fuller. I have to raise my children, feed them, support their education, their enrichment and their aspirations.

Calvin 02:14

I totally can relate. I went through the exact same life stages as you did. So I think it's true, your financial goals would definitely change depending on your life stage and circumstances. But I think the principles of financial planning throughout each life stage still hold true. So for example, building emergency funds, also ensuring that there is sufficient insurance.

Hui Li 02:38

Yeah, those basics would stay the same.

Calvin 02:41

I think these are a lot of questions that many Singaporeans also face. You know, how much is enough? What is enough? Yeah, so hopefully we can bring clarity to what people might need, what is a good benchmark, what people should aim towards. So, okay, let's start with emergency funds. So, Hui Li, how much emergency funds do you keep?

Hui Li 03:03

We were advised to keep about six months worth of our expenditure as emergency funds, in case anything crops up, like someone falls sick, and then we have that money to spare.

Calvin 03:16

I think six months is a good gauge, it is also what the Basic Financial Planning Guide recommends. For myself, actually, I did have that six months, but I took out a huge sum because I had to spend on healthcare. But as you mentioned, I think having emergency funds of at least three to six months of expenses is indeed great in case anything happens to you. I don't think this should be limited to just your savings, especially, you know, if you intended to get a house. At CPF here, we encourage members to keep at least \$20,000 in your OA, in case anything happens to you. So for me, personally, very similar to you, I keep my savings in my savings accounts. I don't generally keep them in other instruments. I do know that some Singaporeans prefer instruments such as Singapore Savings Bonds as well as Treasury bills.

Hui Li 04:03

Yeah. What's the difference? Can you tell me more about Singapore Savings Bonds?

Calvin 04:08

Basically, Singapore Savings Bonds are essentially securities that you are lending to the Government. In return, they'll give you back the interest. So that's how Singapore Savings Bonds is like. Generally, they are very safe. The Singapore Government is a triple A institution rated by different credit agencies, so you can be quite well assured that the Singapore Government is capable of returning you the money. At the moment, I think Singapore Savings Bonds, the interest is quite attractive.

Hui Li 04:38

I see. Thanks for explaining.

Calvin 04:41

So Hui Li, how do you and your husband decide what kind of investments to buy?

Hui Li 04:46

We take a low to medium risk approach, because we are looking to invest for the long term. So generally, my husband is the one that brings home most bacon, so he does most of the planning. For investments, he prefers to take a diversified approach. So we do that using robo advisors, and we also do that by looking at some ETFs.

Calvin 05:10

Can I ask why did you all choose diversified ETFs?

Hui Li 05:13

I think the idea is that we don't think we can tell which companies would really do well in the long term. So to diversify is not putting it in one basket. In the long term, I think the trend for companies generally is to go up. So if we diversify, then we don't have to be so uptight about which company we are investing in.

Calvin 05:36

I think that is a great mentality that both you and your husband are applying for your investments. As you mentioned, rightfully that current trend so far has been that these investments, they usually go up over time, especially if you have a very long roadmap of where you want to be at. Usually it's better to have time in the market rather than timing the market. I mean, what a lot of people like to do is, you know, you buy low, sell high, right? But that doesn't always happen. It's really not easy to time, and if anyone is able to time, I would love them to tell me.

Hui Li 06:06

Yeah and I just don't have the time to monitor the markets.

Calvin 06:10

But I think it's also important that you invest the amount that you choose. So based on the Basic Financial Planning Guide, the recommendation is 10% of your take home salary if you are able to do so.

Hui Li 06:23

Okay, yes, I will bring this back to my husband to discuss more. Can you tell me a bit more about the Basic Financial Planning Guide? Is it something that's accessible and trustworthy? How is it different from other financial guides out there?

Calvin 06:38

So the Basic Financial Planning Guide is developed by the Monetary Authority of Singapore, or MAS for short. They work with institutions such as Association of Banks in Singapore and more. So within the Basic Financial Planning Guide, there are different norms for things like emergency savings, insurance protection, retirement planning, and you can also find specific guides for the stage of life you're in. For myself, I graduated from university about two, three years ago. So there's also a guide for

fresh entrants to the workforce. There's also a guide for working adults that are supporting aged parents, and also for people who are approaching retirement as well.

Hui Li 07:19

Wow, it sounds like you have something for everyone, and yeah, I can look into the specific section that's relevant for me.

Calvin 07:26

Yep, there are certain benchmarks that, for example, like the amount of critical illness coverage that you should have, so on and so forth. So, you know, these are benchmarks that you can take to your FA and then find out, you know, if you are over insuring yourself or if you are under insuring yourself,

Hui Li 07:41

Wow, that's really helpful, because that's a question I think about, it seems a bit subjective, you know, what is the amount that I need, and it can make it sound like you really need a lot more. And then maybe when I discuss with my husband, I think my husband is too conservative, so it's nice that there are some benchmarks.

Calvin 08:01

Yeah, definitely. For example, the death and total permanent disability, it's nine times your annual income. Critical illness is four times your annual income. I think another thing that people might be interested to know is, how much should you be spending on insurance? So the guideline is at most 15%.

Hui Li 08:20

How would you do your financial planning every month?

Calvin 08:23

So I would bucket my financial planning needs into three buckets. The first bucket would be emergency funds. So based on the Basic Financial Planning Guide, it would be good to have at least six months of expenses for your emergency funds. And then I have another bucket for protection, so that's insurance. And I have another bucket for investments. So maybe we can run through a hypothetical example?

Hui Li 08:47

Sounds good.

Calvin 08:49

You want to give me like a sample monthly salary?

Hui Li 08:51

What about \$3400 as the salary?

Calvin 08:54

Let me work out the math, assuming you have \$3,400 as your monthly salary. So after CPF contribution, you are left with \$2,720 for your monthly take home pay. Shall we assume that you spend maybe about \$2,000 a month?

Hui Li 09:12

Sounds reasonable.

Calvin 09:14

Okay, so if you are spending \$2,000 a month, then the rule of thumb for your emergency fund would be six times \$2,000, so that's about \$12,000 in your emergency funds. And then if we talk about investments, 10% of your take home pay. So that is about \$272 a month. So here you can choose to further bucket it. For example, if you will look at retirement, you can portion some of it for like, you know, into exchange traded funds or topping up the Special Account of CPF. And then we also have protection as well that we spoke about.

Hui Li 10:00

Wow, it sounds like the Basic Financial Planning Guide gives me quite good benchmarks on like how much to spend for each bucket.

Calvin 10:08

Yup, so just now I mentioned another bucket that we should look at is protection. But I think it's also a point to mention here that private insurance should supplement the national insurance schemes that the Government provides. So actually, there's a national insurance scheme called the Dependants' Protection Scheme. It is a term-life insurance scheme that provides a one-off payout up to \$70,000 until age 60. If you're above 60 years old, that's \$55,000 in the event of death, terminal illness or total permanent disability. It is automatically extended to Singaporeans and PRs upon their first CPF working contribution.

Hui Li 10:47

Yes, I noticed that.

Calvin 10:48

I think it's also important to consider how MediShield Life plays a part in your insurance planning. If you want an Integrated Shield Plan, then I think you need to consider how that fits within your monthly budget. And I believe for folks that are older than 30 years old, you also have CareShield Life. CareShield Life is a national long-term care insurance scheme that provides monthly financial support should you develop a severe disability. It covers all Singapore Citizens and Permanent Residents born in 1980 onwards, and the premiums can be fully paid by your MediSave. To recap, the Basic Financial Planning Guide provides us different benchmarks and considerations that will be very useful in helping us for different parts of our financial planning journey. If you're looking for the Basic Financial Planning Guide, you can find it on the MoneySense website at moneysense.gov.sg,

Hui Li 11:44

That sounds really helpful. Thanks so much, Calvin. I'll be sure to check out this Basic Financial Planning Guide on MoneySense website.

Calvin 11:53

No problem. So if you have time as well, you can also take a look at the different planners that CPF has. We have the Retirement Income Planner, Housing Planner, as well as healthcare and home ownership calculators that may be very useful if you're in a specific stage of life that needs it. It is never too early to plan for your retirement if you need more in person guidance, CPF has a "Ready for Life" festival that is coming soon, and you can also check out our Be Ready Portal at cpf.gov.sg/beready. Thank you Hui Li for joining me today, I'm Calvin, and this is Let's Talk CPF.

CPF Board 12:37

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