

Financial Planning and You



Financial planning is the process of achieving your life goals through the proper management of your finances. Having worked hard to earn your money, you would naturally want to ensure that your capital and income are optimally utilized to meet as many of your objectives as possible. This is where financial planning comes in. The secret to a successful financial plan is to know where you are now, where you want to go in the future, and figuring out how to get there.

A solid financial plan should address issues such as saving for your children's education, life insurance protection, retirement savings, estate planning, as well as strategies for optimizing your taxes. Malaysians are fortunate to have the Employees Provident Fund (EPF) as a savings mechanism for their retirement. The EPF also allows you to withdraw part of your savings before your retirement for purposes of purchasing a house, investing in unit trusts or for your child's education. However, with longer life expectancy and escalating healthcare cost, there may not be enough left for you to retire comfortably. Therefore, you should also look for alternative forms of financial planning. Generally, there are three categories of financial products available in Malaysia:-

1 Bank deposits

These are the most basic types of savings, which include Savings Accounts and Fixed Deposit Accounts. Although they are virtually risk-free, the returns are also modest. Nevertheless, it is advisable to put aside a fixed sum of money in bank deposits for emergencies and other seasonal expenses (e.g. school fees, insurance renewal, etc.).

2 Investments

These may range from property investments to equities, bonds and unit trusts. The risks and returns may vary, depending on forces beyond our control like economic fluctuations, natural disasters and war. Therefore, knowledge and understanding of the investment vehicles are crucial.

3 Insurance

Apart from personal insurance for life, medical, critical illness, accident and travel, there are also insurance for your house, car and business. Traditionally, insurance was considered as a low-risk savings plan, but this concept has been revolutionised with the launch of investment-linked insurance, whereby elements of investment are intertwined with insurance protection. This means that the sum insured may vary according to the performance of the investment.

The type of financial product you choose will depend on your risk tolerance, goals and the time it will take for you to achieve these goals. For example, if your goal is to save for your child's education, then you may want to consider investing in an Education Fund from a reputable unit trust company. However, if your risk tolerance is very low, you may just want to save the conservative way - by depositing a fixed amount into the bank regularly. On the other hand, if the time horizon for you to obtain the required amount is short and your risk tolerance is high, you may wish to place your money into equities.

Therefore, you must first examine your current situation before coming up with a strategy on how you may achieve your goals, given your current financial status and future plans. There are many financial planners from various financial institutions (e.g. banks, insurance companies, investment companies, etc.), who can assist you in drawing up a plan to meet your needs. To ensure a high standard of professionalism amongst financial planners, the Securities Industry Act stipulates that all financial planners must be licensed by the Securities Commission.

Nevertheless, even a good financial plan should be reviewed regularly and revised when necessary. As time evolves, the

economy may change. Our financial condition, risk tolerance and goals may also change over time. Therefore, we should always have a strong understanding of our finances, and invest only if we have excess funds after putting aside some money for emergencies. To get you started, the banking industry has come out with useful tips on financial planning, which is posted in the website www.bankinginfo.com.my. Banks have also organized road-shows and made visits to schools to help develop good financial planning and savings habits amongst the young. With a financial savvy nation, Malaysia will be able to enjoy sustainable economic growth.