

A Guide To Getting Advice

FINANCIAL PLANNING – Managing your finances to meet your lifestyle goals

- Planning for your children’s higher education
- An around-the-world trip
- Investing for your dream house
- Protecting your income for your family
- Increasing life expectancy and rising health care costs
- Inadequate retirement nest egg

These are hopes and fears that most of us are familiar with. But how confident are you of reaching them? Do you know that if you are one of the many Singaporeans who depend solely on your CPF for retirement, you can look forward to a retirement income of only \$750 or less?¹

To avert a potentially bleak retirement future for all Singaporeans, our government has sponsored initiatives such as the MoneySense (www.moneysense.gov.sg) program to improve financial knowledge among the general public. The private sector too has spent advertising dollars to urge Singaporeans to be financially prepared for retirement and other eventualities. As a result of the heightened interest and awareness, there is now a profusion of financial instruments and services in the market to help consumers attain their lifestyle objectives.

With increased choice, however, the possibility of leaving your hard earned money in the wrong places becomes greater.

So, how do you ensure that you have the right financial plan and instruments that will help you reach your lifestyle objectives?

WHAT IS FINANCIAL PLANNING?

Financial planning is the process of objectively assessing and managing your finances in order to achieve your lifestyle objectives.

A good financial plan provides direction and meaning to your financial decisions.

To use a simple analogy, financial planning is akin to planning a long and distant road trip. There are numerous decisions that need to be made and factors to consider before you embark on the journey. Even when your journey has started, you might realize that, sometimes, even the best-

made plans need to be changed mid-journey due to changing circumstances.

Financial planning is similar except the stakes are much higher, the journey is much longer and the consequences of poor planning are direr.

DO I NEED ADVICE?

It really depends on your unique situation.

With the wealth of information that can be easily found on the Internet, it has now become more feasible for individuals to independently manage their finances.

However, making quality financial decisions requires both an ample commitment to learn and research, coupled with a great dose of self-discipline. And even though the Internet provides a rich source of information, the sheer amount of information available can be overwhelming for a layperson. It takes a certain level of financial knowledge to make sense of the industry jargons, terminologies, concepts and methodologies.

Ultimately, the question is not whether you need advice per se. Rather, the question is whether you have the necessary **expertise** and **time** to do your own financial planning.

If your answer is “No” to either, it is wise and important to get sound advice from the professionals. These professionals will:

- objectively assess your financial circumstances
- advise you on how to achieve your lifestyle goals, and
- manage your finances and allow your money to grow for the future whilst ensuring you and your families are financially protected.

WHERE DO I GET ADVICE?

Whether you are planning for early retirement, saving up for your children’s university fees or aiming to ensure that you and your family are adequately protected, rest assured that there are trained professionals who have spent their careers serving many others with the same concerns.

The Monetary Authority of Singapore (MAS) regulates persons who provide financial advice to consumers under the Financial Advisers Act (FAA). The term Financial Adviser (FA) refers to a corporation and the individual providing the

advice is referred to as the Financial Adviser Representative (FAR). Exempt FAs are banks, insurance companies, finance companies, insurance brokers and holders of a capital markets services license.

It is important that you deal only with FARs from a licensed Financial Adviser. To find out if the person you are speaking to is a representative from a licensed FA, a “Financial Institutions Directory” on the MAS website (www.mas.gov.sg) provides a directory of all licensed Financial Advisers in Singapore.

It is also important for you to be aware that the type of advice given ranges even within the industry. It is important to know how these distinctions affect you.

FAs and Exempt FAs (Exempt FAs are banks, insurance companies, finance companies, insurance brokers and holders of a capital markets services license) can generally be grouped under 3 categories, based on the type of advice that they can provide:

1. Tied Advice

This refers to a representative of a life-insurance company. Insurance agents can only represent and recommend products from one life-insurance company.

2. Multi-tied Advice

As the term implies, multi-tied advice relates to the existence of an arrangement between the FA and more than one product provider. Banks typically have agreements to distribute the products of a single insurance company and a limited number of fund managers. Their representatives would thus be allowed to recommend products from the different product providers with which an agreement is already in place.

3. Independent Advice

The term “independent” refers to the advisers’ independence from commercial links with product providers which may influence their recommendations to consumers.

To prevent the misuse of the term, the FAA has strict guidelines with regards to the use of the term “Independent Financial Adviser” (IFA). The clear guidelines allow consumers the confidence in knowing that the Financial Adviser operates objectively and impartially, and is free from product bias. Among the requirements is the need for an Independent Financial Adviser to provide and advise on the products of at least four product providers.

As the onus lies on financial advisers on the usage of the term “Independent”, our usage of IFA refers to Independently-owned Financial Adviser. These are financial firms that are started and owned by experienced finance individuals and are not part of any financial institution.

FINDING THE RIGHT IFA FOR YOU

While the ability to advise on a wide range of products from various product providers does not necessarily mean that you are getting unbiased advice, the advantage of not being restricted to a limited selection is clear.

That said, there are also other factors that should be considered when selecting the right IFA for you:

1. **Areas of Expertise:** Some advisers focus on particular product areas so take care to choose the right one for your specific needs.
2. **Product Range:** Some IFAs represent only a few product providers in certain investment or insurance classes. You may want to find out from your IFA why this is so.
3. **Philosophy:** You may want to deal with an IFA that focuses on ethical investments or one that adopts certain best practice standards.
4. **Recommendation:** If a friend or relative has had a good experience with a particular adviser, that can often be highly reassuring to you in your search for an adviser – but be aware that your financial circumstances and needs may be different from theirs. Alternatively, if an adviser catches your eye, ask the adviser to provide the details of clients who are happy to talk to you.
5. **Technology Usage:** When an adviser has a broad client database to service, relying on pen and paper may not bode well regarding the service rendered to you. An adviser who utilises technology also shows that he tries to be efficient by streamlining processes.
6. **Platform Provider:** An adviser can only service you well if he has the right platform support so that he can focus more on you rather than on the administrative duties. Ask your adviser if he has the best platform in the marketplace.
7. **Remuneration Structure:** Ask if the adviser offers fee-only advice, commission-only advice or a mixture of fee and commission. You may wish to use the wrap account structure if you wish to invest for the long haul.

There are no hard and fast rules to getting the best advice, and it is difficult to quantify how trustworthy the adviser is. Just like any other product or service you buy, shopping around for advice is crucial. It is important for you to get on with your adviser, especially since you will need to share a certain amount of personal information with the adviser. **iFAST**

¹Source: Central Provident Fund Board website. Based on a CPF Minimum Sum of \$94,600, which is spread from age 62 until the CPF Minimum Sum is exhausted.