FINANCIAL PLANNING FOR NEW PARENTS

A practical guide to a comfortable future for your children and yourself

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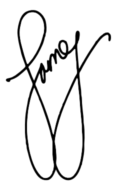
AUTHOR'S NOTE

Welcome to another of life's great milestones – being a parent!

At this point, I'm sure you're excited but yet unsure of what's in store. Perhaps you're wondering how to keep your financial life on track while planning for your family's future. We've put together this guide to help new parents avoid the common pitfalls when it comes to planning for baby.

In my experience helping young parents plan for the future, I have seen both happy and sad stories when it comes to raising a child. Successful parenting is often a combination of having the right plan and having the right decision making processes in place. As the years go on, the result of implementing that plan and making the right decisions can be seen as the child grows up to excel in all aspects of his or her life.

We hope that by sharing some of our ideas – especially with regards to the oft-neglected topic of budgeting – you will be able to pick up some practical ideas that will help you make the most out of this privileged journey of being a parent to your wonderful young child!



James Yang

About the author

James Yang is one of the top Senior Executive Life Planners at Great Eastern Life Singapore. When he isn't training other life planners, he is also a Certified Financial Planner (CFP®), Associate Estate Planning Practitioner (AEPP™) and author of The Wedding Diary – a financial guide to marriage.

An advocate of balanced financial planning through effective risk protection, accumulation and investment, he has inspired many with his radical but practical approach to financial planning. Through his holistic method of planning, James has touched more than 500 lives and families as they relook their financial journeys.

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YOU HAVE A NEW BABY – NOW WHAT?

Welcome to parenthood!

Caring for your new-born baby can be a challenging experience initially. But practice does makes perfect – once you've adjusted to your new role as a parent, the rewards are well worth the efforts you put in.

The first thing to consider is: What do you want for your baby? Your precious little addition to the family is the key to your hopes and dreams for the future. But as a friend once said: "Desire is useless without direction, goals and urgency." So, in order to gain clarity on how you will help him/her to achieve these goals, it's important to define what is most important for you and your baby. Let your motivations and dreams be the guiding star for your actions as a parent.

A short quiz

Answer the following questions:

Values

What 3 values do you hold dear?

Why are they important to you?

How can you realise these values in your daily life?

When these values are realised, what can you achieve in life?

How will you pass these values on to the next generation?

Your hopes and desires

How do you define hope?

What hopes do you think your child would have?

How is this hope important to you and your child?

Take a moment to brainstorm your response to this sentence:

When my child grows up, he/she will be …

PUT DOWN A SOLID FOUNDATION

Now you know what you want for your child, the question is how will you get it? Reaching a goal requires a plan – and in this case, you need a financial plan for your child's future.

While money alone cannot raise a child, your child's success is directly related to the relative advantages you help confer. A strong financial foundation will provide the necessary platform to help your child get started in life.

It is estimated that a middle-income family will spend more than S$250,000 to raise a child to adulthood. While that might seem a lot, the true cost really depends on your income, savings and goals for your child.

When it comes to planning for parenthood, the first step is to make sure that you have a rainy day fund for unforeseen expenses. As a financial planner, I've heard many horror stories. From pregnancy-related complications to chronic health conditions – there are many situations where a mother has to unexpectedly give up work during pregnancy or after the birth. Having the financial strength to weather these stressful situations can provide crucial emotional and psychological support for your family.

The first step is to create an adequate savings safety net for your family. Not only should you have a cushion of 3 to 6 months of income for emergencies, you should have an extra safety cushion of another 3 to 6 months of income for sudden child-related expenses. If you earn on average S$3,000 a month, then you would want to save up S$9,000 - S$18,000 for emergencies, and an additional S$9,000 - S$18,000 for child emergencies.

These emergency funds should be easy to access. This is not the time to speculate on volatile investments – your savings safety net should be stashed away in a savings account or fixed deposit. The important thing is to make sure that your funds are safe and liquid. Bank deposits are usually the preferred method due to their very liquid natures. Should you need to withdraw the money at short notice, you will not suffer any loss of capital.

FROM INFANCY TO ADULTHOOD

The next step is to figure out what expenses you will have. When it comes to budgeting for your child, one way is to break down the expenses by each stage of development: Your child's growing years (from 0 to 5), learning years (5-18) and adulthood. Let's look at each segment in more detail:

From 0 to 5 years

During these years, the most common expenses (other than the usual food and diapers) are health care and child care. One way to avoid huge expenses is to take out an insurance plan that will cover you for any unexpected expenses. Think about insuring yourself against hefty medical bills, and ensuring that your precious champion can get the best medical care should the need arise.

A solid critical illness plan offers a lump sum to tide you over should you lose income while taking care of junior during his illness and recovery. A disability plan will provide a monthly income to help with permanent care if your baby has a severe disability[1].

From 5 to 18

Here's when you need to help your child develop to his fullest potential – from preschool costs to enrichment classes, these can add up to a pretty heavy financial burden. There is also the potential to overspend – spending more money on education and enrichment doesn't guarantee success for your child. It's also important not to neglect his emotional and physical development.

A good rule of thumb is to limit your spending to no more than 15 per cent of your household income. If you are the sole breadwinner in the family, perhaps you could consider encouraging your spouse to re-enter the corporate world or take up a part-time/flexi-time work

[1] Great Eastern Life offers coverage such as Smart Protect, LifeSecure and SupremeShield. Please talk to your Great Eastern agent or contact us www.greateasternlife.com/contact for more details.

arrangement to help with the expenses.

Another way to cope with these expenses is by beginning the savings process earlier. Saving up and investing a lump sum before your child reaches this stage will let reap the rewards of cash back and bonuses[2].

From 18 onwards

This is your child's most important milestone – getting a tertiary education. Twenty years from now, university fees could be in excess of S$100,000! And if your child heads overseas, she/he would also need money for other expenses such as accommodation, food, travel etc.

When it comes to such a huge investment, the best thing you can do is partner up with Mr Time and begin the budgeting and saving process as early as possible, so compound interest works for you.

- If you start when your child is born, you will have to save S$1,748.97* a year for 23 years (total S$40,226) to save up S$100,000.
- If you start when your child is 10 years old, you will have to save S$4,640.27*a year for 13 years (total S$60,323) to save up S$100,000.
- If you start when your child is 15 years old, you will have to save $9,109.14* a year for 8 years (total S$72,873)to save up S$100,000.

As you can see, the later you start, the more it will cost you. So do consider investing as early as you can! And do consider endowment and investment-linked plans which can help you get started[3].

[2] The Prime Rewards programme from Great Eastern, for example, provides annual cash back of up to 14.3 per cent for the next 10 years after the fifth anniversary. If you do not have a lump sum to invest, consider the Annual Cashback Endowment instead.

* Assumes 7% interest rate

[3] Suitable plans of this type from Great Eastern include Prestige Portfolio, Smart Invest and Smart Protect.

PLANNING FOR YOUR GOLDEN YEARS

While saving up for your children's education and future is important, you should not neglect your own financial planning. Traditionally, parents relied upon their children for retirement security. As such, you might be sandwiched between taking care of yourself, your children and also your parents – all on one source of income.

Does this sound stressful? It does! That's why it's important to make sure your children avoid that burden by ensuring you have adequately planned for your golden years. Old age can be a financially draining time with hefty medical bills and expensive nursing care, so make sure that your children see you as an asset and not a liability, by saving up and investing for your own future too.

This way, you are also setting yourself as an example of self-responsibility and self-reliance. Your children can then learn from your good example, and lead a fruitful and financially prudent life as well.

Young parents might be daunted by the many expenses they face while saving up for the many expenses outlined above. Many initially choose to avoid the important but less urgent issue of retirement planning, but this is not a wise choice. As we learned earlier, time waits for no man. The longer one delays saving for retirement, the more one needs to save. Hence, it's better to start as early as you can, in order to better answer that sensitive question of retirement.

Use your CPF

One way to achieve your retirement goals is to enlist the help of your CPF Ordinary Account (OA). If you have a combined household income of S$10,000 (2 adults earning S$5,000 each), you can contribute up to S$2,300 a month to your OA. Assuming you set aside a reasonable amount for your mortgage repayment, you should be able to set aside S$1,000 a month towards retirement if you get a modest home and don't overstretch. This will let you accumulate your first half-million before the age of 60!**

But if you let Mr Time and a higher

** Assuming you start saving at the age of 30 at the prevailing CPF OA interest rate of 2.5%pa.

interest rate work together to compound your returns, you could be better off! For example, if you save into an investment-linked policy with 7% net compound interest, this can raise your returns to more than S$1.2million within the same period.

Supplement with insurance

Have you wondered what would happen to your family if you stopped bringing home the bacon? As I once jokingly told a couple – you are the ATM machine that produces the money! So it's important to make a plan when that ATM machine stops working.

Here is where life insurance steps in. Life insurance ensures that there will always be sufficient funds to achieve your family's goals, no matter what happens to you – whether it's an untimely death, or a severe illness. Consider essential products such as life insurance, critical illness coverage, and personal accident insurance to ensure that sudden twist of fate doesn't harm your family's future. Other plans can help protect your income through the good times and bad times[4].

In my opinion, the best love letter you can write to your family is a life insurance policy. Not only does it say that you love them, but the results speak for themselves!

[4] Great Eastern Life solutions for such coverage include Supreme Term, Supreme Protect or Smart Protect, and PaySecure. Please talk to your servicing Great Eastern agent or contact us at www.greateasternlife.com/contact for more details.

WHAT DO WE DO NOW?

We hope that this guide has brought you some fresh insights into parenting life, and that you now understand the importance of budgeting and planning for your child's financial future.

Before you start turning ideas into action, don't forget that different families have different needs and concerns – there isn't one perfect solution that fits everyone.

This is where a professional financial planner makes a difference. He will discuss your concerns and aspirations, before helping you develop a plan that will cover all the angles. A good planner will be able to flag any potential problems with your financial plan and make you aware of any blind spots. No professional financial planner will force you to accept some template solution, but on the contrary, will work with you to develop a unique plan that fits your very specific needs and wants.

Your planner should be someone you are comfortable with and who you feel is always a good listener and sounding board for your thoughts and ideas.

To find a financial planner that suits you, try the following:

- Look out for planners with professional certification such as Certified Financial Planner (CFP®) or Chartered Financial Consultant (ChFC™). These are industry-recognised awards that signify academic excellence in financial planning.
- Interview and assess the financial planner's logic during your first meeting with him or her.
- Figure out if the financial planner is more motivated to close a sale or if he or she is genuinely interested in understanding your goals, concerns and constraints. Stay away from those who are after a quick buck.
- Ask about his or her experience. Someone with a long track record or who has received key industry or in-house awards might be able to deliver a higher level of service.

Many people make the mistake of working with the first financial planner they meet, or simply rely on a planner introduced to them via family or friends. This planner may not be the best one for you – it's important to take the time to evaluate a potential financial planner before placing your trust in him or her.

When in doubt, always get a second opinion. Talk to more than one potential financial planner before deciding who to work with – pick the one that you trust and are comfortable talking to.

The saying goes: *"A thousand step starts with the first".* I would also like to add the following: *"A thousand step starts with the first right step!"*

Go on, get some great advice and have a great time parenting!

ARE YOU A SUPER PARENT?

Take this short quiz and find out if you are a super parent when it comes to your family's financial health.

1. If I were to receive S$30,000, I would:
   b. Use the full sum as down payment for a brand new car.
   c. Discuss with my spouse what debt or expenses we would like to repay.
   d. Seek the advice of a financial planner.

2. This is my idea of a budget:
   a. Budget? What budget? I spend my money on the items I want now!
   b. I try to make a budget, but I never have time for it.
   c. My budget is perfect; I hardly ever touch my money.

3. My attitude towards credit cards is:
   a. Spend first, think about the payments later.
   b. I use credit cards, but sometimes find myself wondering how and why I spent so much.
   c. I use credit cards to take advantage of the perks available. I also use my credit cards to help track my expenditure, as each card company sends a detailed statement.

4. When it comes to retirement planning, I think:
   a. What retirement planning? I cannot even cope with my expenses this month!
   b. I know it's important, but I just cannot find the time or resources to plan for retirement.
   c. I know I should think about retirement planning early, as time is our friend. Current expenses are equally important, but it's good to set aside some funds for the future.

5. When your little one asks for an expensive toy:
   a. I pay first to avoid embarrassment, and then pray that I can pay off my credit card on instalments.
   b. I scold my child – there's no sense in buying such an expensive toy!
   c. I take the time to explain to my child that sometimes it is worth waiting for a sale. I encourage him to make a plan to save up for this purchase, so that he learns to appreciate the idea of finding and creating value for things in life.

6. At the mall, you are torn between choosing a child makeover or a mind-mapping learning course. Which would you choose for your child?
   a. They are both good programmes so I go for both – even though doing so busts my monthly budget.
   b. I make a quick decision to choose just one of the

two courses.

c. I take the course materials home and discuss the merits of each with my partner, while considering how much I can afford and which programme appeals more to my child.

7. It is now the school holidays and your teenager has been spending all his time at the movies or hanging out with friends. You think:

a. Children nowadays experience too much stress;my child should enjoy life while he can.

b. Life is expensive; he should get a holiday job to help out with the family expenses.

c. Time is a precious resource; I hope my child knows about the varying value he can create out of the things he does.

If you answer ...

Mostly As: You are your child's own fairy god parent!

Your child's wish is your command! Does this sound familiar? Perhaps you have overly focused on your children's short-term desires and wants, while neglecting his long-term needs. Stop making haphazard decisions, and start budgeting for the various immediate, intermediate and long term needs of your children – there are no magic wands or instant miracles when it comes to parenting!

Look at your overall goals and objectives for your family and start planning your savings and investments. Don't forget to protect yourself by planning for your eventual retirement. If this sounds a bit overwhelming, consider chatting with a financial expert to figure out how to get started.

Mostly Bs: Super Parents in the making!

You've made some wise decisions, but also some wrong ones. Perhaps it's time to take a second look at what you can be doing better.

Have you considered the aspects of your financial life that could hamper your child's progress? For example, being sick or poorly prepared for retirement can add a lot more financial stress on your family, thus reducing the resources available for your child.

Having a proper budget is key. The next step towards improving your financial situation is to budget adequately for your personal goals – planning your next holiday, saving up for retirement and making sure you have adequate life and health insurance.

Mostly Cs – And the Super Parent Award goes to ... YOU!!!

Congratulations! You seem to have everything well taken care of.

Perhaps you found yourself nodding in agreement while reading this guide. Perhaps you even have ideas to share – do write to me if that's the case!

While everything might be smooth sailing now, consider having your goals, milestones and plans evaluated regularly. When life throws you a curve ball, you want to make sure you're on track for your goals, no matter what changes.

GREAT STARTS SMALL.
LIVE GREAT.

Great, meaningful changes to our lives oftentimes have small beginnings. At Great Eastern, we are more than just a life insurance company – we are a LIFE company. We champion these little changes, which change life for the better. For a better, healthier you. We want to encourage you to live great, every day, and created this series of guides to help you do just that.

Want to view them all? Simply go to www.greateasternlife.com/guides

We're regularly growing the list of topics for you.

REAP THE BENEFITS

These guides are part of the Live Great programme, which was created to help you live and feel well. Join us at https://www.greateasternlife.com/sg/en/personal-insurance/live-great/overview.html to find a host of wellness tools, handy mobile applications, health and wellness tips, invitations to expert talks and exclusive privileges to help you along your Live Great journey!

LET'S TALK ABOUT LIFE

Want to learn more about protection and retirement solutions from Great Eastern? Do get in touch with your Great Eastern Life Distribution Representative, or contact us at +65 6248 2211 or wecare-sg@greateasternlife.com

The Great Eastern Life Assurance Head Office
1 Pickering Street, #13-01 Great Eastern Centre Singapore 048659
Company Limited (Reg No. 1908 00011G)

Any Questions? We are happy to help!

Line : 6248 2211

Email : wecare-sg@greateasternlife.com

Website : www.greateasternlife.com