Chapter 1

Multiple-Choice Questions

1. **B**
2. **D**
3. **C**
4. **B**
5. **A**
6. **C**
7. **D**
8. **C**
9. **D**
10. **D**

Short-Answer Questions

Question 1

A financial expert may be a specialist in particular areas of financial planning, for example, tax planning, insurance planning, estate planning, or investment planning. In many cases, it may be a transaction-based or one-time service engagement. Often, financial experts also sell products such as unit trusts and insurance.

Unlike financial experts, a professional financial planner provides a life cycle, holistic approach to financial planning encompassing all areas of financial planning including money management, debt management, tax planning, investment planning, insurance planning, estate planning, and retirement planning. They are engaged for the long term to advise and assist the client from the construction of a financial plan to the review of the plan when there is a change in personal circumstances and yearly/periodic reviews of the plan.

Question 2

Investment planning is just one component of financial planning. Investment is generally a medium- to long-term activity. Before making investments, an individual should ensure he or she has adequate funds to commit over a period of time. The investor also needs to make sure the investments made are tax effective.

On the other hand, financial planning includes other aspects besides investment planning, such as risk management (insurance) and wealth distribution (estate planning).

Question 3

Suggested answers include:

- Conduct research and check the viability of the plan, for instance, if a person sets the goal of owning a house, they should find out and consider if they can afford all the costs of buying the house such as the price of the house and the downpayment and monthly instalments required.
- Compare the action plan against one's current cash flow to see whether the commitment to be made is within one's means.
- Perform relevant calculations on the recurring savings/payments one intends to commit to in order to see whether they match the facts, for example, whether one's monthly salary is enough to pay recurring loan instalments after accounting for daily living expenses and monthly savings.

Question 4

Example:
Goal: Buy a new car.

Specific (S): Buy a new car of make XYZ, model 2.0.

Measurable (M): The price of the car is RM34,900. The down payment is 10% and a five-year hire purchase loan with an interest of 5% is available from Bank ABC. The monthly instalment is RM654.
Action-oriented (A): Determine how much of net take-home pay to save monthly for the down payment and how to reduce living expenses to be able to meet the monthly instalments.
Realistic (R): After deducting monthly expenses, it is found that there is a stable cash surplus of RM1,000 a month. Hence, the financial goal is affordable and realistic.
Time-specific (T): Setting aside RM800 from the cash surplus of RM1000, with the remaining RM200 as monthly savings, it will take five months to save up for the down payment of RM3,490. It will take five years for the hire purchase loan to be fully paid.

Discussion Questions

Question 1

Some disadvantages include the following:

- A financial expert is often confused with a financial planner. Unlike professional financial planners they only address particular aspects of financial planning, usually in terms of investment planning, tax planning, insurance planning or estate planning. They do not provide a comprehensive, holistic financial plan.
- Many financial experts also earn income by selling products such as unit trusts, insurance and/or will-writing services. They provide transaction-based, one-off services. These piecemeal transactions may have implications on other financial issues that are not addressed. For example, they may not consider whether an individual can sustain their investment over the long term.
- They may neglect to review the plans periodically since they are transaction- and commission-based.
- Any other relevant answer

Question 2

- Individuals between the ages of 20 and 30 will typically be starting out in their careers. They need to ensure they are able to meet their living expenses and have adequate emergency funds. Budgeting and saving for emergencies are important. They may also have student loans and car loans to service, i.e., debt management issues. However, they may have little family commitments (early 20s) or perhaps are just married with a child or two. If they have dependents (children and/or non-working spouse), insurance planning for their children's education as well as medical insurance is required.

- Individuals between 40 to 50 would typically have school or college age children. They would probably be servicing a housing loan, car loans and credit cards. By the late 40s, they may be at the peak of their careers and income earning capacity. They should make sure they optimise their after-tax income. Insurance planning would be important if they are the breadwinner of the family. Investment planning would be important to supplement the children's education and wealth accumulation. Debt management continues to be important to make sure they are not over-leveraged.

- Above the age of 50, preparation for retirement becomes even more crucial. They should ensure that they have sufficient retirement funds to cater for longevity as well as inflation. They should also make a will and/or a trust for proper estate planning. Estate planning will be necessary to ensure the smooth transfer of wealth in case of the breadwinner's sudden demise.

Question 3

Answers may differ, but should include the following:

Financial security is earning enough money to cover basic needs such as food, housing, car (basic), travel and basic entertainment. Active income is still necessary.

Financial freedom is not having to work but all needs and wants are covered. This is because proper financial planning was implemented during the earlier years and active income has been converted into passive income.

Case Study

Question 1

- They need to ensure that they have sufficient funds to finance Jason's tertiary education (for four years) as well as provide for Josephine's education. This would be challenging as the cost of an overseas education is rising and may not be within their budget
- Another concern is that Kathleen's mother's savings may not be adequate to cover her long-term care
- Kathleen and Kenneth also need to consider the adequacy of their own retirement plans in view of the two concerns above

Question 2

- Children's education
- Kenneth and Kathleen could consider the option of their children doing their tertiary studies locally at a public university, a private higher education institution, or a foreign university with a Malaysian branch campus. This would be much cheaper. Also, they should encourage their children to study hard and try to qualify for scholarships from universities or private companies.
- Retirement plans
- Kenneth and Kathleen should not neglect their own retirement plans. If they have some savings from their children's education plan (see above), they can contribute towards their retirement savings. Otherwise, they may need to retire later to save enough funds.
- Long-term care for Kathleen's mother
- If Kathleen has siblings, she should consider asking them whether they are able to contribute to their mother's long-term care. They may also have some alternative or time-sharing solution for this. She should not bear the whole burden herself
- Kathleen could try to negotiate with her employer to allow her to work from home on some days. This will enable her to care for her ailing mother at home on some days and help save on the costs of long-term care
- Any other relevant answer