

Finding solace in a new financial climate

There's an even greater need now for good financial habits, argues **EUGENE SAY**

SAVING is often underrated. Youths today are more excited about learning investing tips than listening to their parents go on about keeping to their budget. The act of saving money is the most fundamental financial discipline everyone should master, regardless of age and financial status.

A survey conducted in 2010 by Wealth Management Asia Consultants, which conducts financial literacy programmes, showed how saving money remains an elusive concept for the young.

Of the 1,100 primary and secondary school pupils surveyed, six in 10 do not set aside savings before spending or end up not saving any money at all.

One in two pupils plan to start saving only when they start working.

These pupils are likely to carry these spending habits into their adulthood.

Those who do not consciously think about their spending habits will not be prepared for unforeseen events in life because of their lack of self-discipline.

Saving money is thus the first step in a long and possibly arduous financial journey.

The act of saving allows one to first accumulate funds, before being able to make any other financial decisions, such as investing and purchasing.

In the shadow of their parents, youths today are neither exposed to any financial liabilities nor possible emergencies.

They have little notion of financial independence, and seem to believe that their parents would provide for them in any difficulty.

As they enter the workforce and live on their own paychecks, these young adults lack discipline in considering the impact of every financial decision they make.

They tie themselves to big-ticket purchases like cars and houses, on top of spending indiscriminately on their every desire.

As a result, they become vulnerable to the many consequences of financial mismanagement.

Saving does not simply help one to accumulate money; it signifies the beginning of one's financial journey.

It evokes a sense of independence and ownership, allowing one to develop a consciousness of how his financial decisions impact his own situation.

Importance of saving and spending right

Spending prudently is critical if one is to save money. This involves clearly distinguishing between a need and a want when making a purchase decision.

Needs are items such as food, clothing and shelter which are essential for survival. Wants are items which are nice to have but not necessary.

These choices are not as easy as they seem. One just needs to look at the credit habits of young Singaporeans.

According to the Monetary Authority of Singapore (MAS), young adults aged 21 to 29 are responsible for 39 per cent of the increase in the number of new cardholders who do not pay their bills in full. They also account for a rising share of credit-card defaulters, up from 9.4 per cent in 2008 to 13.4 per cent in 2010.

Many Singaporeans fall into the trap of bearing larger credit loans than they can handle. They base their ability to undertake credit merely on their monthly income.

However, borrowing on credit is not a mere numbers game of setting aside part of one's cash flow to repay debts. It requires discipline and commitment to constantly repay liabilities as scheduled.

Such a responsibility is the price of living on future money to enjoy benefits today.

Some would even deem the usage of credit cards to be the

deployment of "weapons of mass financial destruction": the high interest rates charged for not paying on time could ruin one's finances.

Facing up to reality

Realities today further drive home the need for the young Singaporean to save and spend wisely.

For younger Singaporeans starting out in the workforce, the aspiration of building a comfortable life here has become more distant than imagined. This, after spending more than a decade pursuing academic qualifications.

A diploma-holder earns a starting pay of about \$2,000 while a university graduate earns \$2,800 on average.

Using current interest rates for paying a 30-year house loan and a five-year car loan, owning a \$300,000 four-room HDB flat and a \$130,000 Toyota Corolla would require a monthly instalment payment of around \$2,400.

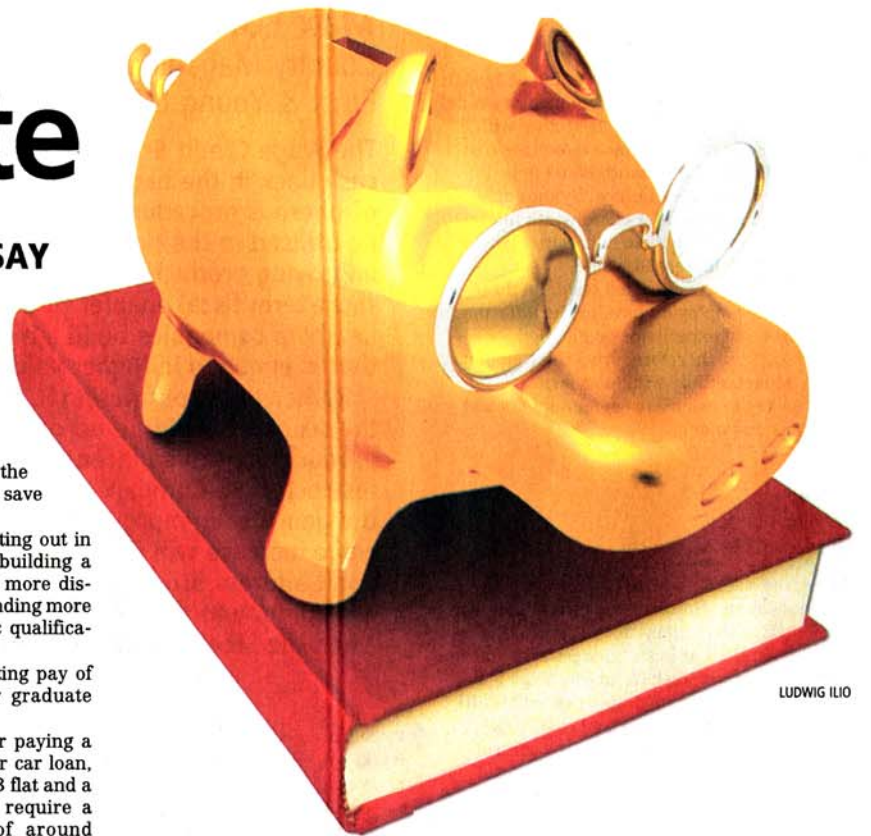
And that is only if couples moderate their expectations and buy a build-to-order (BTO) HDB flat in a far-flung estate.

A resale HDB flat in a mature estate would cost much more, let alone suburban condominiums. In the fourth quarter of 2012, the median price of a five-room flat in Ang Mo Kio, with cash-over-valuation (COV) above market prices, was \$640,000. This means that half of such flats transacted above this princely sum. The median price of a four-room resale flat in an outlying area like Punggol is already \$515,000.

The numbers speak for themselves.

In such a climate of high housing and car costs, raising a child becomes an even tougher financial decision to make.

Online parenting magazine *TheAsianPar-*



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ent last year estimated the cost of raising a child from infancy to 21 years of age to be at least \$340,000. This accounts for medical fees incurred during pregnancy and delivery, infant care, childcare, enrichment activities, education costs from pre-school to university, basic food and shopping, not including inflation or domestic help.

Holding on to yesterday's dreams would only create more dissatisfaction. The only place in the world where Singaporeans can be sure of finding a solution is within themselves.

Redefining success

We should redefine what wealth, happiness and success mean to the young Singaporean. New circumstances call for a new outlook;

the weather will always seem stormy if we focus only on the dark clouds.

Encouragingly, Singaporeans are shifting their focus towards intangibles defined by non-monetary values.

A survey by OCBC Bank last year highlighted a shift from the conventional 5Cs of cash, car, condominium, country club and credit card, to a new set of 5Cs which conveyed the importance of intangible value.

Some 65 per cent of the 2,100 respondents surveyed rated the "new 5Cs" – Control, Confidence, Community, Can-Do Spirit and Career – as more important than the old ones.

This finding shows that Singaporeans are looking beyond their balance sheets to define what is important to them.

Breaking away from the pursuit of material possessions unleashes a new mindset that measures things in terms of meaning and happiness.

According to the survey, 53 per cent of respondents find enjoyment in travelling, 12 per cent want to own a luxury car, and just 4 per cent want a country-club membership.

It is promising that Singaporeans are looking at spending in terms of achieving meaning and happiness rather than accumulating material possessions.

And as they spend, Singaporeans must look at what they have and buy within their means.

Beyond that, there should be a paradigm shift – from the pursuit of material goods to the pursuit of simplicity. After all, the best things in life are free.

The key to finding some comfort and peace in today's financial environment is to adopt the habit of saving, together with a view to incurring less debt.

This would be possible only by reinforcing good decision-making skills when it comes to one's finances.

The weather forecast may be ominous, but let's do our best and dance in the rain.

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He is one of the student trainers in the SMU-Citi Financial Literacy Programme for young adults in Singapore aged 17 to 30.

SMU developed the programme to teach finance and money management, and trains selected students to run it. The curriculum includes financial skills that help young adults manage their money, accumulate cash and gain a head start in life.