# INTRODUCTION

An old saying goes: "When we are young, we sacrifice our health to gain wealth but when we are old, we sacrifice our wealth to gain health." It is a vicious cycle, but not if we are prudent in taking care of our financial health at the early stage of our lives.

Where do you think your life will lead you? To good things, probably. You might hope to live long and happily ever after with plenty of money. You wouldn't hope for disasters to befall you, right? But will things turn out that way?

Let's categorise life according to three financial outcomes: awful, average and awesome. To have an awful outcome, that's easy: don't do anything. To be average needs a bit more work, as you would have to do something—at least, what a regular Joe does. To have an awesome outcome, you have just made the first step towards that: by picking up this book.

So, how will you live during your post-work life? Will you live an awful life where you have hardly enough money to get by? Will you live an average life where you have just enough for most things? Or will you live an awesome life where you can do stuff you have always wanted to do when you had more time?

Perhaps a better understanding of what I mean about financial outcome is to show you what is currently happening in our country. Many Malaysians end their years of working to start their retirement (I would prefer to call it “refirement” as it may be a wonderful time to pursue new dreams and create wonderful memories) with a lump sum of money that seems quite a lot, only to discover that it is woefully inadequate for the long haul.

In the 1950s, people passed on just months after retiring at 55 years old.[1] Therefore, the money they have accumulated can be spent lavishly on their retirement as it is not very long. From 1950 onwards, our lifespan has increased substantially to about an average of 75 years.[2] This means our retirement years have lengthened from one year to about 20 years. If we look at Singapore, people there are living longer[3] than us and if we play catch up—in about the time we all retire, we could live until 80 or 90. That is like working for 30 years and retiring for that length of time! And that is indeed a very long retirement.

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1 Asian Development Bank Institute. *“Innovative Approaches to Managing Longevity Risk in Asia: Lessons from the West”.* Asian Development Bank Institute Working Paper. April 2012. Available at *http://www.adbi.org/workingpaper/2012/04/13/5046.innovative.longevity.risk.asia/longevity.trends/.* Life expectancy has continued to rise at a significant rate over the past few decades around the world. The increase in Asia has been particularly notable, where life expectancy rose by 26 years from 1950 to 2010.

2 Department of Statistics Malaysia, *Abridged Life Tables 2013-2016.* Available at *https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=116&bul_id=TkpmM05EK3NBV0JRU1pmOUJnS3RCQT09&menu_id=L0pheU43NWJwRWVSZklWdzQ4TlhUUT09.*

3 K.S. Chia and Chong Siow Ann. “Singaporeans are living longer – but are they ready for old age?”. *The Straits Times,* 30 June 2017. Available at *http://www.straitstimes.com/opinion/a-lifetime-of-health-and-wealth-makes-for-good-retirement.*

Did you know that two-thirds of EPF members aged 54 in 2015 have savings of RM50,000 and below?[4] That is like living on about RM800 (poverty-line income) for the next five years and then running out of money. Let's say we are much better off and have about RM150,000 (three times better than the majority of EPF members). If we were to live for about 30 years post-retirement, we will have RM400 to spend every month (based on simply dividing the number of months from the nest egg). Seriously, how can we possibly live with just RM400 per month? A friend told me that the electricity bill for her two-bedroom apartment is already that much!

I am sure you would want a bigger nest egg. Surely you will have at least RM1 million when you retire? I hate to burst your bubble but if you are retiring in 20 years with RM1 million as your nest egg, it is likely that an inflation of only 3% will render your savings to be worth RM550,000 in today's money. That means you will be able to spend only RM1,500 of today's money every month for your entire retirement—rather depressing. What can you do with RM1,500 these days? Groceries, transportation and utilities will very likely wipe this out in no time.

What is even more alarming is that national inflation and personal inflation rates are not quite the same. National inflation is depicted by the official measure of inflation: the consumer price index (CPI). The CPI measures price changes in predetermined categories of goods and services. Food, housing, utilities and transportation

4 Kumpulan Wang Simpanan Pekerja, *"Risalah Persaraan Versi Bahasa Inggeris".* Available at *http://www.kwsp.gov.my/portal/documents/10180/154418/Risalah_Persaraan_Versi_BI_2014_28052014.pdf.*

feature heavily in the CPI.[5] The CPI will not match the individual case because as individual consumers, we may spend much more on healthcare and education, which is a mere blip in calculating the CPI. So the CPI hovers at 3% but our personal inflation might be more than that, as our own basket of goods differs from those in the CPI.

If you think that your cost of living has gone up much higher than the CPI, you are probably correct. We need to be aware of our own personal inflation rate. It is subjective and two things affect it: an actual increase in the same goods we purchase and the upgrade in our lifestyle. The easiest way to see it is this: was your total expenses last year more than that in the year before? If yes, how much higher in percentage? If it was 20%, did the prices of the goods you regularly purchase increase by 20% or was it because you also added some extra purchases. Most people with a 20% increment in salary (or a good bonus) will splurge on something straight away, e.g., a brand-new car or watch, a holiday, or anything that would enhance their living condition. If you did spend 20% more than the year before, your personal inflation for that year is 20%, which is considerably much higher than the national inflation rate.

Now, let's be conservative and assume a personal inflation rate of 6% (very low compared with 20%). Assuming you saved RM1 million for your retirement, then the value of your money at your retirement (20 years from now) is likely to be only RM310,000, which gives you about RM861 per month to live on. The truth is, personal inflation

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[5] Department of Statistics Malaysia, "Consumer Price Index Malaysia January 2015". Available at http://www.statistics.gov.my/portal/index.php?option=com_content&view=article&id=2635%3Aconsumer-price-index-malaysia-january-2015-updated-1822015&catid=71%3Aconsumer-price-index-malaysia-&Itemid=153&lang=en.

can easily be 6%, not just because of what was mentioned earlier about better living conditions, but also due to any hike in base rates (the official term now in Malaysia for base lending rates), GST (goods and services tax), and other fiscal (government revenue collection and expenditure) or monetary policies (control of money supply) used to influence the economy.

It's okay. When it is time to tighten our belts, I am sure we can. However, we are creatures of habit. Once we have enjoyed luxury, it starts to become a necessity! This would explain our increasing household debt. Once people have enjoyed a certain lifestyle, they will fight tooth and nail to retain it, often to the detriment of their finances.

The current scenario means that most people are retiring without enough money because of two main factors: they are underestimating the length of their retirement years and they are also underestimating the power of inflation in lowering the value of their money. These two factors hinder the quest to obtain a great financial outcome.

Let us look at what these two factors do to our planning.

## Length of Retirement Years

If you look at it simply, if you work for 30 years and retire for 30 years (what if you live until 100 years old?), you practically have to save 30/(30+30) during the time you are working in order to save enough for the time when you are no longer working. That translates to roughly 50% of your income, which you have to save every month now in order to be as comfortable as you are today or, maybe as uncomfortable as you are today. How many of us are able to save that much?

## Inflation

There is this famous rule called the Rule of 72. Albert Einstein was credited with this great mathematical discovery of compound interest. This rule simply means that if you take the interest rate or inflation rate and divide 72 by that rate, you will get the time it takes to double or halve your money. So if your personal inflation is 6%, the time it takes to halve your money is about 12 years. If your money is growing in an environment of 3%, you will take 24 years to double your money. With this rule, you can see how fast inflation will erode your money's value and how slow your money is growing at different rates of growth.

"No," you say, "inflation does not bother me. I do not feel any pinch at all." Either you are unaware that the prices of goods have been rising, or your income has risen at the same pace as or more than the inflation rate, which is great news for you. But do you remember how much a stick of ice cream was in the old days? Five sen? Twenty sen? How much is it now? RM1?

Let's look at the following table to see how much inflation has raised the prices of goods.

## PRICE OF COMMON GOODS IN MALAYSIA (IN 10 YEARS)

| Item | Price Then (RM) | Price Now (RM) | Inflation Rate |
|---|---|---|---|
| *Kuih* | 0.50 | 1.00 | 7% |
| Movie ticket | 7.00 | 15.00 | 7% |
| Coffee | 1.00 | 2.30 | 9% |
| Bowl of noodles | 2.80 | 5.50 | 7% |
| Newspaper | 0.60 | 1.20 | 7% |
| *Roti canai* | 0.60 | 1.40 | 9% |
| Glass of plain water | 0.20 | 0.50 | 10% |

From the table, the rate of inflation for the last 10 years all hovered around 7-10%. If you want to go back even further, ask your grandparents how much a piece of *kuih* cost 60 years ago. It was only five sen. I have seen *kuih* going for RM2 in the malls! I remembered a time a piece of *roti canai* cost 30 sen. How can it be RM1.40 today?

Can you see how quietly inflation lowers the value of our money? We need to be aware of this and ensure our money grows in tandem with inflation so we do not see its value shrink.

Improving your financial outcome is particularly important as having a safety net helps you make better decisions and you will be less vulnerable to financial shocks. Many of us have to tolerate difficulties in life because we do not have the means to get out of a desperate situation, be it a bad job, a lousy relationship, or a failing business venture. Many of us work so hard because we do not know any other way to get to where we want to be. In the end, we go through a lot of stress, which wreaks havoc on our health, careers, relationships and mental state.

At times we see people cruising their whole lives, looking like they are always winners. Some of them may have been born with a silver spoon in their mouths but most went through life the hard way. In the process, these winners figured out some guiding principles in life, which enabled them to remain successful. This book is about those principles. It is not rocket science. However, most people never internalise these principles enough for them to take effect.

This book will start you off with the heart of the matter: your situation where you determine where you are now in terms of your finances by looking at simple financial data in your life. Armed with this information, you can start heading off to the kind of financial outcome you wish to achieve in your post-work years. Crunch the numbers you need to get to where you want to go.

It is important to stay focused by keeping your eye on the ball, i.e., how to go from Point A (now) to Point B (the future). It presents a simple map to your ideal financial outcome and how to achieve this by breaking the journey down to smaller parts. This chapter also gives you little tips you can use immediately to move closer towards a better financial situation. Then, we proceed to getting hands-on: preparing to embark on the real thing. The key is how much money you are saving and wasting. We also look at where to park your long-term money and how much that is growing for you to be able to reach your destination.

Once you are prepared, you can then start flexing your muscles: what you can do now. We will discuss how to build a Financial Aims portfolio to sustain you in your goal of accumulating for long-term funding. We will also tackle how to avoid scams with enticing deals that may rip you off your hard-earned money, which leads us into setting up a fund for emergencies, just in case. Managing life's major expenses is also on the chart to help you navigate these difficult decisions.

Building your immune system helps us deal with misfortunes. Go beyond emergency funds and delve deeper into tools to help you tackle those dreaded "D"s, such as death, disability, disease, disaster, divorce and debt. While changing your financial outcome, you might feel like having cold feet. Complications may bring about fear in executing your plans. Learn how to sidestep these snags or reframe your mind to see them differently. This chapter also helps you address those situations in a practical manner so that you can proceed to enrich your financial life.

Finally, attain peace of mind. The last chapter gives you a few pointers to succeed at improving your personal finances and an option for tomorrow if you cannot accomplish things today. It reminds you of what it means to have a healthier financial life by absorbing the "nutrients" peppered throughout this book.

Ready? Let's get started!