Ageing with dignity

Small changes for informed and wealthy single lady, Sara

▶ BY CATHERINE KHOO

We plan for many things. We plan our vacations, we plan our weekends. But very few people plan on becoming disabled or ill, leaving work for an extended period of time, or providing for eldercare. More often than not, we hear about ageing relatives or friends who are dealing with a sudden and serious health crisis and need assistance to get them through their daily lives. Many people have a superman complex and think that they will never be hurt or get sick. Others simply procrastinate or delay putting their financial affairs in order until they are older.

Sara, 56, is a permanent resident who has worked and lived in Melaka for the past 20 years. The single lady lived with her aunt until the latter passed away last year. She takes care of the double-storey link house without the help of a maid. She supports her 78-year-old mother, who lives in Singapore. After the sudden death of her aunt, Sara began to worry about how she would manage when she gets older. What will happen when she is no longer able to live a full and independent life due to physical restrictions or mental impairment? She was also worried about her assets in both Malaysia and Singapore. What if she were to outlive her wealth? More importantly, she wanted to know how she could age happily and without worry, given her current situation. So, she sought professional advice from a licensed financial planner.

When we met, Sara shared how her aunt had been struggling before she moved in with her. Sara wanted to start planning early. So, we talked about her preferred lifestyle and healthcare. We also discussed retirement, long-term care and estate planning. She has made some investments but is not familiar with the different investment avenues that are available. Her current insurance coverage of RM300,000 for death and critical illness is insufficient.

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SARA'S EXPENSES: BEFORE AND AFTER

	CURRENT (RM)	RECOMMENDED (RM)
Annual income	265,000	265,000
Living expenses + tax	193,000	170,000
Savings/Investment	24,000	72,000
Surplus	48,000	23,000

FINANCIAL GOALS

GOAL	DESIRED ANNUAL AMOUNT (RM)	START YEAR	END YEAR	INFLATION RATE	COST TO FUND @ TODAY (RM)S
Retirement age		60			
Current lifestyle	193,546	2012	2015	4	738,334
Retirement lifestyle (after tax)	84,000	2016	2036	4	1,360,092
Annual vacation	10,000	2016	2026	4	92,838
Long-term care	30,000	2026	2036	4	230,210
Settle house loan	20,000	2012	2017	4	104,247
Support family	18,000	2012	2022	4	180,339
Buy a car	50,000	2017	2017	4	45,458
Total cost today to fund all of Sara's financial goals					2,751,518

NET WORTH

Total assets:	RM1,658,818
Total liabilities:	RM200,000
Net worth:	RM1,458,818

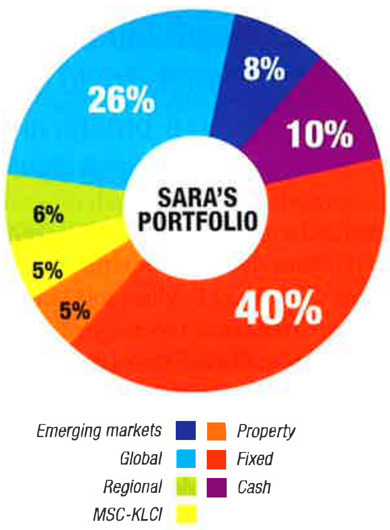
FINANCIAL RATIOS

Solvency ratio:	87.9%
Debt to asset ratio:	12.0%
Savings ratio	21.5%

As she is single and earns a very good income, Sara tends to spend lavishly and unnecessarily. After we went through her expenses, she managed to cut unnecessary ones and channel the extra savings into a structured investment portfolio to help her to meet her financial objectives.

Based on our discussions on variability of investment returns, we determined that her tolerance for investment risk is moderate. An understanding of Sara's risk tolerance helped us to define an investment strategy that she will feel confident maintaining through the market's ups and downs.

Sara believes in a balanced approach to investing and does not have a strong bias towards cash, fixed income or growth-type investments. From my financial analysis, Sara needs to save an additional RM4,000 a month to fund all her financial goals. This increases her investment funds to RM6,000 a month. Her portfolio is likely to include a variety of investments from each of the major asset classes (see below).



Traditionally, family members provide homecare for each other when they are aged or ill. In Sara's case, she has no one. We discussed her preferences and the various issues that may arise in the different stages of eldercare. Then, I provided Sara with an overview of what she should look at:

1. If she wants to stay at home, she should start evaluating assisted-living costs, such as hiring a home health aide, live-in maid or nurse, medical costs and household maintenance. She needs to look at which assets are to be used to fund the costs.
2. If she prefers not to stay at home, she should look at care options, such as community programmes, assisted-living centres and nursing homes. The location of the centre and the type of services provided are important.
3. She should also plan her estate. It should spell out her wishes and her choice of charities and religious organisations.

Sara wrote a will and set up a living trust to maximise her assets. She named six organisations that will receive funds from her estate. Sara also increased her disability and critical illness coverage to RM1 million to partly fund her living trust and her long-term care. She also appointed a trust corporation to handle her assets in Malaysia and Singapore upon her death or disability.

To age gracefully, Sara should have a health and wellness plan so as to avoid diseases, and make modifications to her lifestyle. It is also very important for Sara to continue being involved in community and social activities that are meaningful and purposeful. She has recently joined a cycling club. ▪

Catherine Khoo is a licensed financial planner attached to the Financial Care Centre of wealth solutions provider CWA. To submit your case study for a makeover, email pmmail@bizedge.com, attn: Money Makeover