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Seven Keys to Money Happiness

The government says that structural unemployment is here to stay. Some experts predicted that even in good years, we would still face a minimum unemployment rate of 3-4%; in bad years, probably even 6-7%. Your year end bonuses are cut. Your company told you that despite the economy recovering, you are still going to get a pay-freeze this year. For those who do get some increments, it is probably barely enough to cover the rate of inflation.

So you wonder when you would ever achieve financial bliss, the day when you can stop worrying about your finances or when you have enough money to survive on if you were to stop work now. Surveys have shown that finances are the #1 worry among Singaporeans. Sure, some say money cannot buy happiness. But as the Chinese saying goes, “Without money, all things are impossible.” After digging through some literature and studies done by academics, I can safely conclude that there is “in fact” a connection between income and happiness. Of course, you don’t have to be a multi-millionaire to be happy. In fact, based on some studies, having greater than $100,000 of annual household income does not contribute very much to financial happiness.

How much you earn isn’t everything; many other factors count in the equation of financial happiness. One key factor is that you are in CONTROL of your personal finances. Control over your finances plays a critical role in determining your life’s happiness, more than control of your weight (though many women may disagree), your health, your occupation or your relationships.

After counselling hundreds of people on improving their personal finances, I have come to a conclusion that there some critical habits that you can change to improve your feeling of control. Compiled below are *six*.

1. Budgeting

If you are earning an average income of $40,000 per annum, based on 45 working years, you will earn a total of around $1.8 million in today’s dollars. If inflation averages 3%, this becomes $4 million. But how much are you likely to save? Some Singaporeans say, “If I earn significantly more than what I get now, I will be OK.” But honestly, you probably wouldn’t be.

I have clients that earn as little as $2,000 per month and as much as $50,000 per month. They ALL have a problem with saving money. The more we earn, the more we spend. People who have worked for at least a few years can easily testify to that. Some of the fresh graduates when I first meet them earn about $2,000 per month. Three years down their working career, some of them draw as much as $5,000 to $6,000 per month. Guess what? They feel poorer than they first started out. This is naturally so when you have all your credit card bills to pay, your car mortgage to service, a family to support, country club membership to pay and many other miscellaneous expenses.

Therefore, it is wise to do a monthly cash flow budget, so that you know where your money goes. It is perhaps the first step to finding the extra dollars for saving and investment. You don't have to invest in fancy PDA or anything like that to do the job, a pen and a piece of paper would do it just as well.

2. Pay your bills as they come and minimise credit card debt

People who pay their bills as they come rather than stockpiling them are a happier lot. Clearing your bill immediately would instantly free your mind from "worrisome debts". I understand that in the local context, being able to afford a house, a car or home renovation means taking on debts, but as long as we are not spending too much, they don't stress us out. Credit-card debt is a totally different issue. If you rid your life of never-ending credit-card debts (i.e. carrying a balance on your card that you don't pay off every month), you will definitely be much happier.

There is no benefit to prolong your debts. Take the next 10% of what you are earning and use it to pay off your debts or repay the debt that has the minimum payment as compared to others. That way, you would be able to pay off bills fast and not incur further interest charges.

3. Avoid punting and silly risks

Buying the occasional Toto and 4-D are some Singaporeans' indulgences, which is all right, as long as we don't have unreasonable expectations like: "I plan to retire by winning Toto".

One thing that bothers me, however, is the number of "get rich quick" schemes advertised in The Straits Times nowadays. Examples include headlines like 'Secret and Proprietary Option Trading Methods', 'Empowerment Seminar to Create the Millionaire in you', 'Sure-Win Tips on Stock Picking' and 'Making Money in both Bull and Bear Markets'. Clearly, the operators of these schemes understand human psychology as they entice people in getting rich fast. Who wouldn't want to become a millionaire overnight? The question is: does it work?

Think about it, if these 'get-rich quick' schemes are effective, why don't these operators use them to get rich themselves? It's obvious, isn't it? These schemes don't work. I bet the scheme operator uses your money to do what you should be doing, paying their own mortgage loan and investing in shares.

The message is simple. High returns usually mean high risk as well. Don't let anyone fool you into thinking you can get high returns with low risk. Some level of risk is needed to generate a reasonable return. So, investor should understand the risk of the investment they are going into so as to make an informed investment decision.

4. Protect your family and yourself

Doing all you can to shelter your family and yourself from financial hardship is very important. Once you have set aside an emergency fund of three to six months of living expenses, you should be seriously thinking of taking care of three protection needs: Death, Medical and Disability – three cornerstones of insuring "You", which is your greatest asset. I believe that you should be buying as little insurance as you need. But for most people, these protection needs are quite a lot. Let me elaborate a little on the three cornerstones I have just mentioned.

Death cover provides a pool of funds to your dependents in the event of your untimely death, to make sure that the family that you so painstaking work for does not tumble when you are gone, and that they can continue to live life as normally as they previously did. Nothing can compensate the death of a loved one, but if the financial aspect is well taken care of, it makes things a little more bearable.

Medical cover ensures that a significant part of your medical bills are taken care of in the event of an accident or a severe illness. Some would suggest that they don't need any medical insurance because they are rich enough to pay for their medical bills. In fact, many may be rich enough to pay but not liquid enough. One of the most stressful things when you are sick is deciding which assets you have to liquidate to pay the medical bills. Medical cost is one thing that inflates more rapidly than inflation itself. And given that the Singapore government aims to reduce health subsidy in the upcoming years, medical cover becomes even more crucial.

Disability cover is an often ignored protection that most people should be seriously considering. The whole idea is to insure your earning ability, which is one's greatest asset. What we are telling you is NOT that you should insure the "golden goose" that lay the golden eggs; neither should we attempt to insure the "golden eggs". But what we should be insuring is the "golden goose's ability to lay golden eggs". Most insurance plans only pay out when the golden goose drops dead or is critically ill, but this is not enough. What is the golden goose is partially disabled? For example, almost no insurance plan would pay a teacher if she loses her voice and have to quit because she can no longer teach. Similarly, no insurance plan would pay a pilot if he is grounded because his diabetic condition affects his eye sight. However, a properly designed disability income program would ensure a monthly income payout if you cannot perform your primary occupation because of an injury, accident or any illness (this need NOT be one of the 30 major illness).

5. Live well below your means

Being frugal is the cornerstone of wealth building. Yet, too often, the big spenders are so sensationalised by the local media that we receive the false impression that all millionaires lead an extravagant lifestyle. Nothing can be further from the truth. People whom I talk to who are financially carefree are usually living well below their income. They still pamper themselves with the occasional splurges and frequent holidays. But trust me, these folks do their sums.

You should always discuss with your spouse on both your spending habits and hopefully arrive at an amicable consensus. Note that most people will never become wealthy in one generation if they are married to people who are big spenders. A couple cannot accumulate wealth if one of them is a hyperconsumer. Few can sustain profligate habits and simultaneously build wealth. Singaporeans generally build wealth by keeping a tight budget and controlling their expenses, and they maintain their affluent status the same way.

One suggestion is to live in a less affluent neighbourhood than what you can afford. This may sound counter-intuitive, as a typical Singaporean's dream is to live in the biggest and most expensive house that he can afford. Imagine the amount of money you have to spend to "put up a front" if you are rubbing shoulder with the ultra-rich. When you upgrade to a luxurious condo, you are not only required to service a bigger mortgage, your whole lifestyle would have to be upgraded just to keep pace with your neighbours and not be the "odd ball" in the neighbourhood. I could literally see the financial disaster many of my clients are courting when they bite a bigger piece of cake than they can swallow by buying an expensive luxurious condo.

Remember, "The lower your lifestyle, the greater your true wealth". How so? Say A earns $50,000 a year, spends $20,000 in a year and has $200,000 in saving. B earns $300,000 a year and spends $250,000 in a year and has $1.5m in saving. According to my definition of wealth, A is wealthier than B because if both of them lose their income, A can survive for 10 years based on his saving of $200,000 whereas B can only live for 6 years. Wealth, to me, is the duration your savings can last based on the lifestyle you are used to if you stop work *now*. This is the same definition that Dr. Thomas Stanley used in his bestseller "Millionaires next door". The jargon 'Financial Independence' is then defined as the point where if you stop work immediately, you have enough to live comfortably for the rest of your life.

6. Don't plan to save cash

Look at your monthly budget. You should have $600 left over every month and save $7,200 a year but where is the money? From my experience, Singaporean can't save cash, or they simply save only to spend it all later. These folks faithfully put aside $600 every month, only to wipe it all off with a long December holiday. Some prefer to spurge on furniture and electronic gadgets, others on cars and house renovations. The money vaporises nevertheless.

A typical Singaporean worker's mindset is "I work so hard so I need to spend money to pamper myself". Notice the logic, work hard and spend hard, work harder and spend harder. The only solution to this vicious cycle is to ensure that you have some structural saving program to help you set aside a certain percentage of your income every month.

There is this interesting argument on whether you should buy a permanent insurance plan or a term policy and invest the difference. In my opinion, IT DOESN'T MATTER! We can argue till the cows come home, but the ONLY important thing to do is simply to get STARTED. Most Singaporeans simply can't get themselves off the starting block. How are you going to finish the race if you don't get started in the first place? Some practical tips are listed below.

- Top up as much as possible into your CPF account if you are a self-employed.
- If you are above the 40 years old, make sure you use your entire SRS cap every year.
- Get yourself started in a profit participating insurance policy or variable life policy or 'Buy Term and Invest the Difference'. Just get started in 'something' and see it through.
- Be persistent in setting aside at least 10-15% of your income every month; never waiver in this.
- Immediately invest or allocate any unexpected windfall you receive, like a bigger than usual bonus. Chuck it away before you spend it away.

7. Learn from the financial mistakes you commit

No matter how well you plan, things may go wrong sometimes. Thus, it is important to keep your composure and work yourself out of the difficult situation. The road to financial success is paved with mines and bobby traps. If you are caught in one or two, don't give up. Just pick up the pieces and move on. Remember that 'what does not kill you only makes you stronger and wiser'. Martin Luther King once said in his famous speech, "The measure of a man is not what he stands in moment of comfort and convenience but what he stands in challenge and controversy." Additionally, one successful financial planner stated, "Your growth into a financial adult is usually accelerated during the most challenging times."

We all strive for the mountain top experience – the time when we are recognised for our hard work – but real growth is found in the valley. Everyone strives to attain the mountain top experience, but in fact, no one can live on the peak of Everest for long. As one acclaimed mountaineer put it, “You can spend a maximum of 20 minutes on the peak of Everest. But you spend any longer there, you would die. You either run out of oxygen or sunlight and there are corpses there to prove it.”

Hence, when you are the staring at the worst financial storm of your life, remember the rainbow could be just minutes away.

Set your heart on making the above seven habits a part of your life. If you find it too hard to make drastic changes to your financial habits all at once, focus and work on them one at a time. The most important thing is to get started and never give up. And see you in the financial heavens soon!