Money $ense

Getting Smart With Your Money

AKPK
Agensi Kaunseling Dan Pengurusan Kredit
Credit Counselling And Debt Management Agency

Money Sense

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Published by:

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Credit Counselling And Debt Management Agency

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First Edition 2008

ISBN 978-983-44004-0-8

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FOREWORD

The Credit Counselling and Debt Management Agency or more commonly known as Agensi Kaunseling dan Pengurusan Kredit (AKPK) was set up by Bank Negara Malaysia in April 2006. I feel truly honoured to lead this organization from its inception, which prioritizes on promoting personal financial literacy to all Malaysians.

Over the last 26 months, approximately 50,000 individuals have sought the free credit counselling and debt management services of the agency. Our 40 odd counsellors from 9 locations nationwide have worked passionately to assist many of these distressed borrowers and help put them back on track with their finances.

More than 50% of those who sought our assistance were below the age of 40. Many of them said that they got into financial trouble because they had low level of understanding of basic financial literacy.

This claim was further endorsed by the findings of a focus group study, done with 80 young working adult graduates in various disciplines, who had been working between 1 - 2 years. All these working adults agreed that early personal financial education is important and believe that if they had been taught personal financial education, they would be better able to manage their finances.

These findings and real life encounters by our counsellors with financially-distressed young adults, made us to come out with 'Money $ense.'

Money $ense aims to teach you skills on how to manage your money wisely so that you can spend within your means and achieve your financial goals with ease. The book also puts emphasis on being in control of your finances regardless of whether or not you are facing financial problems. Besides that, Money $ense illustrates how important it is to always be financially prepared for life's uncertainties, as how you use your money today will have an impact on how you live tomorrow.

Money $ense – a book about getting smart with your money is indeed a common sense guide on money matters.

It is important that we, **"Make Prudent Financial Management Our Way of Life**."

Mohamed Akwal Sultan
Chief Executive Officer
July 2008

ACKNOWLEDGEMENT

Many individuals worked tirelessly on the development of this book.

Our heartfelt thanks goes to all the AKPK counsellors who provided valuable feedback on issues affecting thousands of financially distressed individuals they have assisted. Their input helped us develop topics we believe will assist young adults avoid similar pitfalls.

Our deepest appreciation also goes to both the previous and present Ministers of Higher Education for their foresight in recommending personal financial education as a subject to be included in all universities.

We also extend our gratitude to the Vice Chancellors of the institutions of higher learning in Malaysia, who had, without hesitation agreed to make this subject available for their respective institutions.

To Bank Negara Malaysia, a special thank you for the dedication and continuous support towards our mutual objective of promoting financial literacy.

Last but never the least, thank you to the rest of you for supporting the agency's vision by working tirelessly towards the development of this book.

Mohamed Akwal Sultan
Chief Executive Officer
July 2008

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PART A
GETTING STARTED

CHAPTER 1
WHY EVERYONE NEEDS FINANCIAL PLANNING

1

ABOUT FINANCIAL PLANNING

What do you do when you want to get somewhere?

You probably ask yourself –

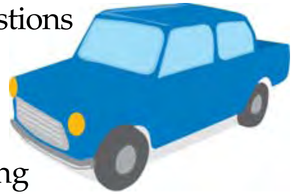
What is the best way to get there?
Will there be traffic jams?
Is it better to take the LRT or bus, or should I get someone to drive me there instead?

There are therefore many options open for you to choose from.

To get the best option, evaluate the ones available to you. Think about what you need to do, ask yourself questions and then make your decision. These are steps in the process that is known as planning. Planning can be for the short-term, medium-term or long-term.

It is the same in financial planning, except that the time frame is over a longer period. Ideally, you should be looking as far ahead as your retirement years.

Financial planning involves asking questions about your future, your dreams and goals. It is thinking about what you want to do in your life, such as getting married, buying a car or a house, having children and planning for their education.



To achieve your life dreams and goals, you need to plan from the financial aspect. In financial planning, you look at how you will be budgeting, saving and spending your money over time.

Steps in financial planning

There are five steps in financial planning:

1. Assessing where you are now in financial terms.
2. Setting goals.
3. Creating a financial plan.
4. Implementing the plan.
5. Monitoring and reassessing.

We will talk more about these steps in the following chapters of this book.

Benefits of financial planning

Many people think that financial planning is a hassle and that it stops them from doing fun things. If you consistently live on a budget surely you would have to give up fun activities now, wouldn't you? Think about it, if you have to save, you can always budget your money in such a way that you have some for going out with friends and having a good time.

If you set a good financial planning habit, you can always ensure your have enough for more fun in the future!

With your very own financial plan, you will:

- have more control of your financial affairs and be able to avoid excessive spending, unmanageable debts, bankruptcy or dependence on others;

- have better personal relationships with people around you, such as your family, friends and colleagues, because you are happy with your life and you are not going around borrowing money to make ends meet or expecting handouts from others;

- have a sense of freedom from financial worries because you have planned for the future, anticipated your expenses and achieved your personal goals in life;

- be more effective in obtaining, using and protecting your financial resources throughout your lifetime, not only for yourself but also for the people you love.

In other words, when you have a good personal financial plan, you will be more informed about your future needs and the resources that you have. You will also have peace of mind knowing that you are in control.

Your Personal Financial Planning Process

Life stages and financial goals

In your adult life, you will go through various stages, from starting a career to retiring, from being single to getting married, having children and sometimes being single again. At various phases in your life, you have different priorities, responsibilities and financial goals.

Each stage of your life presents different investment opportunities and challenges. Discipline and perseverance play a key role in maintaining a reliable financial strategy. As your life changes, so do your needs and goals. Sound financial planning can prepare you to meet them successfully.

When you are in your 20s, you will be looking at money and spending it differently from when you get into your 50s. For example, when you are single, you probably want to have enough money to make a down payment for a car or go on a holiday with your friends. After you get married, you may want to buy a house. Later, when you have children, you would want to plan for their education and maybe even start a retirement fund.

As your needs are different your financial priorities will adjust to meet your varied needs at different points of your life. Therefore, what you do with your money as you go through your adult life depends on your financial goals. We will be looking at how you can achieve your financial goals in the following chapters of this book. Nonetheless, it is worthwhile to point out here that to achieve your financial goals, you need to save your money!

UNDERSTANDING THE VALUE OF MONEY

Time value of money

Imagine that you are offered a sum of money and asked to choose whether you want the money now or one year later. Better yet think about this, what could RM 1 buy you in 1990, what could it buy you today and what would it be able to buy you in the future? Now would you choose the money now or money later?

You can see that it is really not that tough of a question. Anyone and everyone would surely choose to have the money now. Instinctively, you would know that money you have now, i.e. at the present time, is worth more than the same amount in the future.

This is a key principle of economics that states as long as money can earn interest, any amount of money is worth more the sooner it is received. This concept illustrates the time value of money, also known as 'present discounted value'.

Now let us understand this idea. Say you deposit money into an interest bearing savings account at a 5% interest rate, RM1,000 saved today will be worth RM1,050 in one year (RM1,000 x 1.05). On the other hand, RM1,000 received one year from now is only worth RM952.38 today (RM1,000 divided by 1.05). Here multiplication is used when the ringgit amount is deposited in an interest bearing account. This is because from now to a given time in future it would continually yield interest.

Division is used to represent the losses that arise during the period that a ringgit amount is not in an interest bearing account. It is that simple!

From this illustration you can observe that money has a time value. All things being equal, the present value of money is greater than the value of the same amount of money at any given time in the future.

The power of compound interest

How important is it to begin putting aside money for savings right now, instead of some time later?

Please refer to the example of three individuals – Ahmad, Siti and Zainal – in APPENDIX 1. Each of them consistently invests the same amount of money, i.e. RM3,000, which earns the same interest return of 10% per year. But they start investing at different ages – Ahmad at age 18, Siti at age 22 and Zainal at age 30.

When all three retire at age 55, Ahmad has more money than Siti and Zainal. He has RM467,913, whereas Siti has RM449,773 and Zainal has RM360,300.

Ahmad has not only more money at age 55, he has also invested the least amount of money, i.e. RM15,000,

compared to Siti who invested RM24,000 and Zainal who invested RM75,000.
The outcome in the example above is due to the effect of compound interest. It is the additional interest earned on top of the original saving amount plus the interest received.

The power of compound interest is that with compound interest, the earlier you start saving, the greater the interest accumulated on your original investment. This simply means the more money you keep aside now- the faster you can fulfill your dreams. When is the best time to start saving? Well NOW of course!

How compound interest works – annually and monthly

If you put RM10,000 in the bank that draws 5% interest per annum, you will have RM10,500 at the end of the year. If you leave the entire amount in the bank for another year, you will then have RM11,025. In the second year, not only will you get interest on the original investment, you also receive interest on the interest you earned the prior year. This is called compounded interest, i.e. interest applied to interest.

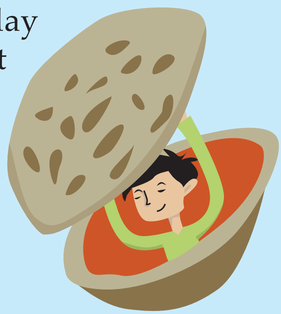
Compound interest is important to investors who are able to leave their investment to grow over long periods of time. The RM10,000 investment mentioned above, when invested for 10 years at 5% per annum, will be worth RM16,289! Can you believe that?!

If the interest rate of 5% is compounded on a monthly basis, the monthly interest rate is 0.42% (5% per year divided by 12 months). If the same amount of RM10,000 is invested based on 0.42% per month and invested for 10 years, it will be worth RM16,401, which is RM112 more than if invested at a yearly rate of 5%. Therefore, you will gain more if you invest in an investment that pays interest on a monthly instead of yearly compounded basis.

Compound interest can be what we call a double-edged sword. It can work both to your advantage and disadvantage. It can help give you more return on your investment as the benefit of compounding interest means you will earn more interest income the longer you keep your money invested. In contrast, if you have a loan or credit card debt, you can end up paying more interest if these debts are calculated on a compounded interest rate. This is because if you delay your loan or credit card repayment for a longer time, you will be charged more interest, eventually making it increasingly difficult for you to settle your loan or credit card debt.

IN A NUTSHELL

- Financial planning is important to provide you with peace of mind, security for your future and a better quality of life.
- Financial planning is essential in achieving your life's dreams and goals.
- Provided that money can earn interest, money you have at the present time is worth more than the same amount in the future.
- It is important to begin saving your money NOW. The sooner you start to save, the greater the benefit of compounded interest.
- You will earn more interest if your investment pays interest on a monthly instead of yearly compounded basis.
- Compound interest is a double-edged sword. If you delay payment on a loan or credit card debt, you will end up paying more interest.



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CHAPTER 2
POWER FROM YOUR MONEY

SETTING YOUR FINANCIAL GOALS

Why is this important?

In a football game, the objective of the players is to get the ball into the opposing team's net. They make move after move, adopt one strategy after another, all to bring the ball forward and into the goal.

Now could you imagine playing football with no objective? All your favorite players will simply run around this huge green field with a ball, not going anywhere, not achieving anything, but worst of all- not scoring any GOALS! There is no football game without an objective.

Just like football players, you also need to have objectives or goals in your life. Goals help give you direction, as they guide you towards achieving the life that you want. Without goals you may wake up one day just to realize that the best of your years has gone by and you have yet to achieve anything!

Aside from being an essential aspect of daily life, it is important to note that money is a vital tool to help you work towards your goals in life. As discussed in Chapter 1, you need to manage your money through financial planning. One of the steps in this process is to set your financial goals.

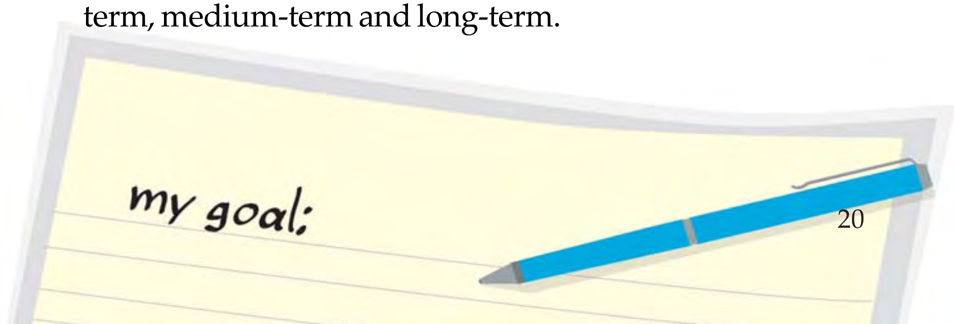
How to set your goals

Your financial goals will help you determine where your money will come from and what it will go towards.

When setting your financial goals, pay attention to what you value and believe in life. Without knowing what is important to you personally, it will be difficult to set satisfying financial goals. When you understand what your values and beliefs are, you will find it easier to set financial goals that you can achieve.

Write down your financial goals. Just having these goals in your thoughts are not enough. You are very likely to forget the goals that you have set or you may even have unconsciously changed them in your mind. Writing down financial goals will increase your chances of achieving them.

When writing down your financial goals, be as specific as possible. What is the point of writing: "My goal is to have lots of money in the bank". What do you mean by "lots of money"? Is it RM50,000 or RM500,000 or RM5,000,000? Be specific and write your goals in terms that can be measured. Break down your goals into those that are short-term, medium-term and long-term.



Simple Steps in Setting Your Financial Goals

Step 1

Identify and write down your goals, e.g.

- buy a new car
- save for the down-payment for a new house
- go on holiday
- pay off credit card debt
- plan for retirement.

Step 2

Break each goal down into those that are short-term (less than 1 year), medium-term (1-3 years) and long-term (more than 3 years) so that they are easier to monitor and achieve.

Examples:

Short-term Goals (less than 1 year)

- To save RM5,000 in six months.
- To pay the deposit for a new car.

Medium-term Goal (1-3 years)

- To pay the deposit of RM 20,000 for my first house.

Long-Term Goal (more than 3 years)

- To save RM100,000 within five years for my retirement account.

Use the table below to help you in writing down your financial goals:

My Financial Goals		
Short-term	Medium-term	Long-term

An important goal – saving for emergencies

What would happen if you suddenly could not afford to pay for your education? Would you sacrifice your goal of attaining a degree or would you have a back-up emergency plan?

In life, there are many uncertainties that you might face. From a minor breakdown of your vehicle to the more serious death of the sole breadwinner in your family, unexpected events are well, unexpected.

Unexpected events, which may be disastrous and unfortunate in nature, can happen to you or members of your family. In most of these situations, money would be needed. It is extremely important that you are always prepared with the right tools and knowledge for situations that require you to think on your feet and deal with problems you might not be used to otherwise. An emergency fund is one such tool you can use.

When you list your financial goals, include saving for an emergency fund. As a general guideline, have an equivalent of at least 6 months' worth of your basic living expenses in your emergency fund. It is desirable to put aside about 12 months' worth.

Example: If you need about RM1,500 a month to pay for your living expenses, including fixed payments such as housing loan or rent and insurance premium, as well as electricity and water bills, you should have at least RM9,000 in your emergency fund (i.e. RM1,500 x 6 months). If possible, keep aside RM18,000 in the fund (RM1,500 x 12 months).

It might be hard at first when you start working to have that kind of money kept aside, but make sure you build it over time-every little amount will help build your emergency fund. Remember to make a conscious effort to save.

Assets and liabilities: what you own and owe

In financial planning, you need to assess where you are now in financial terms, i.e. what you own and what you owe, how much money you have and after making the various payments, how much money there is left.

When doing this, two types of personal financial statements come in handy:

- Your personal balance sheet;
- Your cash flow statement (discussed in the section on "Budgeting Basics" of this chapter).

These statements will help you to:

- provide information about your current financial position and a summary of your income and expenditure;
- measure your progress in meeting your short-term, medium-term and long-term financial goals;
- maintain information about your financial activities, such as investments and spending patterns;
- provide data you can use when preparing tax forms or applying for a bank loan.

Your personal balance sheet reports on what you own and what you owe:

- What you own (assets) – Include items such as cash, savings, real estate, unit trusts or shares in companies.
- What you owe (liabilities) – Include all types of loans, whether to your bank, family or friends, as well as credit card debt and payments that are due, such as house rental and utility bills.

A personal balance sheet is your financial scorecard, which you can use to regularly assess your financial standing. It can be a reference point in making money-related decisions.

An example of a personal balance sheet is provided below, which you can use as the basis to prepare one for yourself. This personal balance sheet has a positive net worth because the value of the total assets is more than the total liabilities.

Item	Asset RM	Liability RM
Bank Accounts		
Savings accounts	5,237	—
Current accounts	3,532	—
Fixed deposit accounts	25,835	—
Cash on hand	1,235	—
Properties		
Apartment	250,000	189,532
House	—	—
Land	—	—
Jewellery	7,695	—
Car	60,000	36,572
Investments		
Employee Provident Fund	55,267	—
Unit trust	15,982	—
Shares	—	—
Bank Loans		
Credit cards	—	11,278
Study loan	—	6,238
Borrowing from friends & family	—	—
Hire purchase of furniture & electrical goods	—	10,672
Total	**424,783**	**254,292**
Net Worth	**170,491**	

Knowing your net worth

Your net worth is your total assets minus your total liabilities.

You will have a positive net worth if you own more than what you owe. When this happens, congratulations! This means that you are in a healthy financial position.

However, having a high net worth does not guarantee that you will never face financial difficulties. You can have a high net worth and still be in for a rough time. So how is it possible for someone with a positive net worth to get into problems? Assets that are not liquid! When assets are not liquid (easily converted into cash) there could be potential problems looming ahead. Let us see how this is possible.

Say you have a house as your asset (where you live in), but you do not have cash in your wallet or bank account and you have already defaulted on your credit card payments. The most pressing thing now is, you need money for your daily expenses. Out of a job with no possible way of making one ringgit, you decide to sell your house for money to support your expenses. Here is the problem. You cannot sell your house immediately to get money because the house, being an illiquid asset, is not easily sold and finding a buyer may take several months. It is also where you and maybe your family live. You really cannot sell your home unless you have somewhere else to go.

It is easy to conclude that being financially healthy means having a balanced portfolio of assets so that you will not be short of cash at any time. That way you can ensure that financial freedom will be in your grasp.

When you owe more than you own, you have a negative net worth. In this situation, you are unable to pay your debts when they are due because you do not have enough money or assets that can be easily converted into cash. You are actually in financial trouble and may be made a bankrupt (Read more about insolvency and bankruptcy in Chapter 8).

Your net worth gives an idea of your financial position on a given date. Do not consider your non cash items as cash as it may not be easily disposed.

Deriving your net worth

Step 1 – List the things of value that you own

Cash and its equivalent, such as savings accounts, fixed deposits, money market accounts

Investments, such as stocks, bonds, unit trust funds

Retirement funds, such as EPF, personal retirement accounts

Property, including other real estate or personal property that will increase in value

Personal belongings that can be sold for money such as jewellery, gold bars, art and antiques (state them at fair market value, i.e. prices that a willing, rational and knowledgeable buyer would buy).

Step 2 – Total up your assets

Step 3 – List the things that you owe to others

Loans, including your mortgage, student loan, bank loans and other loans

Credit card balances

Taxes owing, such as real estate taxes, income tax

Money owing to relatives, friends and others

Balance of instalment payments for consumer goods such as furniture, TV

Step 4 – Total up your liabilities

Step 5 – Assets – Liabilities

If the number is positive, pat yourself on the back. You should plan on how to increase your net worth. If it is negative, don't despair, because you can take actions to improve your position.

There are several ways you can increase your net worth. These include:

- Increasing your savings.
- Reducing your spending.
- Reducing your debts.
- Selling some of your non-income generating assets/ belongings.

BUDGETING BASICS

Budgeting and spending plan

In financial planning, it is important to prepare a budget (A blank budget sheet is attached in APPENDIX 3. True, living according to a budget requires a lot of discipline but it helps you to:

- live within your monthly income.
- keep aside money or savings.
- reach your financial goals.
- prepare for financial emergencies.
- develop good financial management habits, with regular check-ups of your cash flow and net worth.

Prepare your budget at the beginning of the month or on the day when you receive your monthly salary.

When you prepare your personal budget:

- Refer to your financial goals. Compare your budget to your financial goals to see whether or not you are achieving them. For example, if you have targeted on putting a down payment to buy a car in one year, make sure you do monthly checks to ensure you are keeping money away towards your goal.

- Estimate your income for the budget period. This covers your salary, commissions, allowances and other sources of money.

- Put aside at least 10% of your income for your savings (20-30% of your income as savings will be better because you are creating a bigger pool of money for your future retirement).

- Put aside some money for your emergency fund.

- Estimate fixed expenses for the budget period. These are expenses that must be paid or spent, and include house rental, loan installment payments, credit card payments and insurance premiums.

- Also estimate variable expenses for the period. These cover items such as petrol, groceries, electricity and water bills.

- Aside from that, estimate your discretionary expenses, i.e. for items that you can choose whether to spend or not spend. They include gifts, hobbies, entertainment and holidays.

To prepare a successful budget, remember:

- Be patient and disciplined. A good budget takes time and effort to prepare. Do not give up because you feel that there is too much to do!

- Be realistic. If you have a moderate income, do not expect to save a lot of money in a short period of time.

- Be flexible. There will be unexpected expenses and changes in the prices of groceries and other items. Revise your budget when needed.

- Set aside an amount of money to enjoy yourself. You are young and will want to have a night out with friends or to watch a movie.

Remember: a budget will work only if you follow it!

Tracking your cash flow

Preparing your personal budget is not the end of the process. You need to monitor your actual spending every day, especially where your money is going. Another term used for this is managing cash flow– the actual inflow and outflow of cash during a given period of time.

Total cash received during the time period	minus	Total cash outflows during the time period	equals	Cash Surplus or Cash Deficit

Your most important inflow is probably your income from employment. You may, however, have other sources of income, such as a business income and interest earned on savings and investments. Outflows would be living expenses, loans and other financial commitments.

If you have a cash surplus, that is fantastic! Put the money away in your savings. However, if you have a cash deficit, take another look at your spending. Try postponing any purchases or payments for the time being. Try not to use your emergency fund unless it is absolutely necessary. If you have to use your credit card, use it as your last resort as using your credit card will only add towards expenses for the coming months.

In preparing next month's budget, base it on the balance brought forward from the previous month.

Make sure you review and revise both your budget and spending plan regularly. If you need to decrease your spending, look at expenses you can do without or cut down. A good idea is to take a look at expenses involving food and entertainment. You may even have to revise your financial goals, if some of these are not realistic in relation to your monthly income.

- *Your balance sheet outlines your financial net worth.*
- *Your budget tells you how much is your planned income, saving and spending to achieve your financial goals.*
- *Your cash flow statement tells you what you received and spent in terms of cash over a period of time.*

Below is an example of a statement that combines a personal budget and cash flow statement. In this example, the person has spent more than his budget due to unforeseen circumstances, i.e. a car breakdown and extra traveling using the car, resulting in additional spending on petrol, toll and parking expenses as well as food.

Personal Monthly Budget with Personal Monthly Cash Flow in one Statement		
Monthly Income	Budget	Actual Cash Flow
Job #1 (net of EPF, SOCSO and PAYE tax)	RM3,450	RM3,450
Job #2	RM0	RM0
Other sources	RM0	RM0
Total monthly income	**RM3,450**	**RM3,450**
Less monthly fixed savings (10% of monthly income)	**RM345**	**RM345**
Less savings for emergency funds	**RM100**	**RM100**
Monthly income net of savings	**RM3,005**	**RM3,005**
Less monthly fixed expenses		
Rental of room	RM300	RM300
Car payment	RM650	RM650
Car insurance	RM0	RM0
Total monthly fixed expenses	**RM950**	**RM950**

Less monthly variable expenses		
Food	RM550	RM650
House utilities	RM0	RM0
Handphone bill	RM85	RM97
Bus and taxi fare	RM50	RM30
Gas and oil	RM200	RM270
Parking and toll	RM150	RM198
Car Repairs	RM250	RM598
Total monthly variable expenses	**RM1,285**	**RM1,843**
Less monthly discretionary expenses		
Medical expenses	RM70	RM0
Clothing	RM150	RM0
Entertainment	RM100	RM186
Household items	RM100	RM392
Personal items	RM150	RM163
Gifts	RM100	RM0
Other expenses	RM100	RM0
Total monthly discretionary expenses	**RM770**	**RM741**
Excess (Deficit) Income	**RM0**	**RM529**
Excess of income over expenses + fixed savings + emergency funds = extra savings. (If the amount is negative, you have spent more than your monthly income)		

LIVING WITHIN YOUR MEANS

Knowing your needs and wants

When you live within your means, you are spending money based on the money you have. At the same time, you are putting aside money as savings to meet your financial goals.

It is so easy to overspend. Products are constantly marketed on TV and billboards as well as in magazines and newspapers. It ultimately depends on you to be strong-willed to resist all these forms of temptation. You can do so by understanding what influences your spending and what your needs and wants are.

What is a 'need'?
A need is something you must have, that you cannot do without. An example of a need is food. You need to eat to live. Otherwise, you would not survive for long.

Now what is a 'want'?
A want is something you would like to have, which is not absolutely necessary. Jewelry is a want because you do not really have to wear it for survival.

In today's world, for example, a mobile phone with basic features is a 'must have' for communicating with other people. However, one that has Bluetooth, a music player, camera and video, and GPS is a 'nice to have' mobile phone.

Knowing the difference between a need and a want, will make a significant impact on your spending behavior and, ultimately, your financial future. The decisions that you make in regard to what you need or want will affect your budget and your monthly spending.

Spending wisely

When you want to buy something, ask yourself – Is it something that I need? Can I afford the money to buy it? Your personal budget and cash flow will help you answer this question. Check if you have previously allocated to spend on this item or have already overspent your cash for that month.

If it is a want, consider not buying it or spending less for something similar so that you can put more into your savings. When you do this, you are spending wisely and living within your means.

Making sensible purchasing choices and spending wisely will prevent you from creating financial difficulties for yourself and others. Handle your personal finances in a responsible manner, it is easy if you just learn to say 'no' to purchases you cannot afford.

Delaying gratification

Do you remember your childhood days when you wanted an ice-cream and your mother said that you could have it later, after you finish your homework? Do you remember asking your father if he could buy you a new bicycle and he said that you could have it later, if you did well in your exams? In both situations, your parents were teaching you to delay gratification.

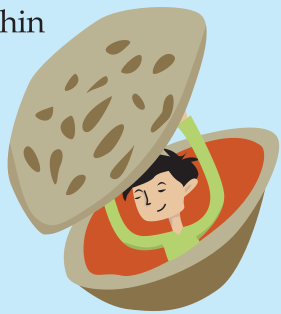
Throughout your adult life, there will always be someone that will try to influence you into spending your money. If it is not your friend asking you to go out to dinner, it will be the sales promoter at the hyper-market asking you to buy their product.

Take the time to think whether it is necessary to spend the money and if it is something you can afford within your budget. Remember when you say ‘no’ to spending money now (by delaying gratification), you are one step closer towards achieving your financial dreams.

In life, there are always alternatives to choose from. Look into different substitutes for your needs and wants. Change your perceptions, if necessary. Instead of buying a car, using the public transport might be a good alternative to moving around the city. You will save money and furthermore contribute positively to the environment.

IN A NUTSHELL

- Setting financial goals are important to achieve security and financial freedom.
- Your financial goals must reflect your values and beliefs.
- Write down your financial goals in specific terms, then categorise them into short-term, medium-term and long-term goals.
- Saving for an emergency fund should be one of your financial goals.
- Your personal balance sheet shows your assets and liabilities and net worth at a given point in time.
- Preparing a budget and tracking your cash flow is part of an ongoing process that requires patience, discipline and flexibility.
- It is very important to live within your means.



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CHAPTER 3
FINANCIAL PRODUCTS AND SERVICES

BANKING FACILITIES

Bank Negara Malaysia (BNM) has produced a series of informative pamphlets on banking products and services. These pamphlets are available in any bank branches around the country. If you cannot get them at a bank branch near you, log on to BNM's website at www.bankinginfo.com.my

Basic banking services

All banking institutions offer basic savings accounts (BSA) and basic current accounts (BCA) to Malaysians and permanent residents.

These accounts can be operated under individual or joint names.

They operate in the same way as ordinary savings or current accounts do, the difference is you can only perform basic transactions with these accounts at a minimal cost or for free. You are only allowed to open one BSA and one BCA per bank.

The banking services available to you with a BSA or BCA are:

- **Over-the-counter:** Account enquiries, deposits and withdrawals, fund transfers within the same bank and bill payments.
- **ATM:** Balance enquiries, withdrawals and fund transfers within the same bank.
- **Deposit machines:** Cheque and cash deposits.
- **Interbank GIRO:** Interbank fund transfers.
- **Internet banking:** Account enquires, bill payments and fund transfers.

Savings account

A savings account (SA) allows you to deposit your money into an account and receive certain interest with no stated maturity. It is available at all banking institutions in Malaysia. The minimum deposit to open an SA differs from bank to bank.

You can make deposits into or withdrawals from your SA whenever you need to. You can apply for an ATM card, which allows you to withdraw money from the bank's ATMs and perform other transactions.

Some of the common transactions you can perform are:

- Cash or cheque deposits.
- Withdrawals.
- Account enquiries.
- Fund transfers within the same banking institution.
- Bill payments.
- Interbank transfers (GIRO).
- Online banking.

Current account

A current account (CA) is a deposit account that can be used for either personal or business purposes. A CA allows you to use cheques to make payments. It is available at all banking institutions in Malaysia. Some of these institutions offer interest-bearing CAs while some do not. Monthly statements will be delivered to you free-of-charge every month to help you keep track of your transactions.

You will be able to do the following as a CA holder:

- Cheque payments.
- Cheque and cash deposits.
- Account enquiries.
- Withdrawals.
- Fund transfers within the same banking institution.
- Bill payments.
- Interbank transfers (GIRO).
- Online banking.

Things to remember with both your SA and CA

- Keep your account numbers and PINs confidential.
- Keep your account statements, passbook and ATM card in a safe and secure place.
- Destroy or shred cancelled cheques.
- Immediately inform your bank if you have
  - changed your address or telephone number
  - lost your ATM card, passbook, cheque or chequebook
  - noticed any discrepancy in your bank statement.

Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia or PIDM)

In September 2005, the Malaysian Government introduced the deposit insurance system, which is managed by PIDM. This system protects depositors against the loss of their deposits if a member institution is unable to meet its obligations to depositors. The deposit insurance is automatic, i.e. you as a depositor do not have to do anything for it to take effect. You also do not have to pay any fees for the deposit insurance.

The deposit insurance currently covers businesses and individuals up to a maximum RM60,000 per depositor per member institution, including the principal balance and interest or return. The types of deposits covered include savings and current deposits, fixed deposits and investment deposits.

For more information, go to www.pidm.gov.my

Financial Mediation Bureau

The Financial Mediation Bureau (FMB) is an independent body set up to settle complaints, disputes or claims between you and financial services providers, who are members of the FMB, as an alternative to going to court. The disputes may be related to banking, financial, insurance or takaful matters.

The following matters, however, will not be considered:

- General pricing.
- Product policies or services of the members.
- Credit decisions (approval, rejection and rescheduling of loans).
- Fraud cases (other than for fraud cases involving payment instruments, credit cards, charge cards, ATM cards and cheques for which the limit is not more than RM25,000).
- Cases that are time-barred for more than 6 years.
- Cases that have been or are referred to the court and/or for arbitration.

The FMB will only deal with a complaint that has initially been lodged with the institution concerned.

Click on www.fmb.org.my for more information.

Banks differ in the terms and conditions relating to their products and services. Make sure you know what these are. Always compare amongst the various banks to get the best deal for yourself.

ISLAMIC BANKING

Islamic banking is a banking system that follows Shariah (Islamic law) principles. Guided by Islamic economics, it prohibits *riba* (collection and payment of interest), *usury*, trading in financial risk and *haram* (unlawful) business ventures.

In Malaysia, we have the opportunity to choose between the conventional banking system and Islamic banking system. There are banks in our country that are solely Islamic. However, conventional banks have also set up divisions that specialise in Islamic banking.

Contrary to what some people might think, Islamic banking is for all individuals regardless of their religious beliefs.

The purpose of Islamic banking is similar to conventional banking, except that Islamic banking operates according to Shariah rules on transactions, known as *Fiqh al-Muamalat*. The basic principles of Islamic banking are the sharing of profit and loss and the prohibition of *riba*. Amongst the common Islamic concepts used in Islamic banking are profit-sharing (*Mudharabah*), safekeeping (*Wadiah*), joint-venture (*Musharakah*), cost-plus (*Murabahah*) and leasing (*Ijarah*).

Islamic banking in Malaysia is monitored by the National Shariah Advisory Council set up by BNM. In addition, Islamic banks and conventional banks that offer Islamic banking products and services are required to establish their own Shariah advisory committee or appoint consultants to advise them and ensure that their operations and activities comply with Shariah principles.

INTERNET BANKING

Banks in Malaysia are now encouraging their customers to do as much of their banking on the Web. Internet or online banking refers to performing banking transactions over the computer through a bank's secure website.

Internet banking has advantages for you as a customer. You can bank from the comfort of your home or office, during or outside of banking hours, and from anywhere you can get Internet access. All you need is a web browser and normal Internet connection. No special software or hardware is usually required.

The services offered through Internet banking allow you to:

- check your bank balances and statements.
- submit applications for new accounts, credit cards and loans.
- place fixed deposits.
- transfer funds between accounts (own and third party).
- pay bills, credit cards, loan instalments and insurance premiums.
- create, change and cancel standing orders.
- request for cheque books and statements.
- check the status of your cheques.
- request for stop cheque payments.
- apply for Banks Drafts and Telegraphic Transfers.

You sign up with a bank that offers the service to you with existing accounts, such as savings account, current account, credit card and loans. There are also banks that offer special accounts designed for Internet banking for existing as well as new customers.

Make sure the features of the special accounts are suitable for you and do not get attracted by special offers that may not be relevant or meet your needs. Shop around for the best deal. You can go to BNM's website for a list of banks offering Internet banking.

Subscription to Internet banking services is currently free, although this may change depending on the banks. Fees may also be charged for some services such as Interbank fund tansfers, telegraphic tansfers and requisition for new cheque books.

Check with your bank regarding their fees. Banks may offer more competitive fees for using the Internet to conduct your banking activities as compared to using other channels such as the branch counter service.

Secure banking on the Internet

There are concerns about the safety of information and the security of transactions on the Internet. Those involved in the business, including banks, are continually working towards making the Internet a safe and secure channel. But the risks will always be there.

Always make a print-out for each banking transaction that you do using the Internet. This will allow you to refer to it if there is a mismatch of your balance with the statements the bank sends you. It also serves as an easy reference for you and the bank staff if you want to trace the transaction.

Overall, Internet banking offers a safe way to conduct your banking transactions when adequate security precautions are taken:

- Keep your Login ID, password or PIN confidential.
- Change your password or PIN regularly.
- Do not store your Login ID and Password or PIN on the computer.

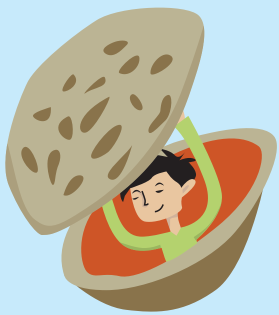
- Check that you have logged into the right website.
- Ensure you are in a secure website by checking that the Universal Resource Locator (URL) begins with 'https' and look for a display of a closed padlock symbol on the status bar of your browser.
- Check your transaction history details and statements regularly.
- Do not leave your computer unattended while connected to the Internet banking service.
- Always sign-off at the end of each session and clear the memory cache and history after logging out from the website.
- Protect your personal computer from viruses and malicious programs by installing an up-to-date firewall and a reputable anti-virus program. These firewall and anti-virus programs must be updated regularly to be effective.
- Avoid downloading files or software from sites that you are unfamiliar with or click on hyperlinks sent to you by strangers.
- Avoid sending any personal information, particularly your password or PIN, via ordinary e-mail.
- Avoid using shared or public personal computers to conduct your Internet Banking transactions.
- Do not have other browser windows open while you are banking online.
- You are advised to disable the 'file and printer-sharing' feature on your operating system.

There is always the possibility of something going wrong or of you making a mistake. If you encounter any problems, contact the customer services of your bank immediately with details of the transactions and problems encountered. Your bank will have records of all your transactions and they will be able to assist you in this matter.

As with everything else that you do, read and understand the terms and conditions of the Internet banking service that you have signed up for, particularly in regard to unauthorised or fraudulent transactions and in case you have complaints. It is good to meet the customer service officer to understand these fully before you decide to use Internet banking.

IN A NUTSHELL

- Banks offer a variety of products, services and facilities to meet your financial needs.
- Consider various aspects when choosing the right bank for you.
- Islamic banking offers you an alternative to conventional banking.
- Contrary to what some people may think, Islamic banking is for everyone, regardless of religious belief.
- Internet banking is a convenient way to do your banking.



PART B
ACHIEVING YOUR DREAMS

CHAPTER 4
BUILDING WEALTH

We have discussed in Part A that the way to become smart with your money is to build your wealth by owning more than you owe. In Part B, we will go further into discussing how you can build your wealth and at the same time plan for uncertainties.

THE SAVING HABIT

Make your saving automatic

A saving plan is an essential part of your financial plan. Without a saving plan, you will not be able to achieve your financial goals. We suggest that you save at least 10% of your salary every month. It is even better if you can save 20-30% because this will translate into more money for your future. Remember that the more you save now the easier it would be to achieve your financial goals.

There are several ways that this percentage of your monthly salary can be put into your savings account in the bank. You can:

- write out a cheque every month and deposit it into a savings account;

- carry out the transfer on the ATM;
- transfer money from your current account to your savings account via Internet banking every month.

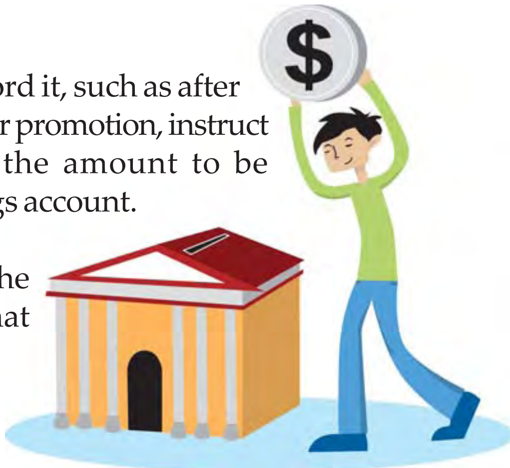
It is good if you are doing any of the above. However, after a few months, you may forget to do so or find some reason to use the money for something else instead of putting it into your savings account. You would have broken the pattern and, once broken, it is possible that you will not get back to your saving plan.

So how do you make sure that you keep to your saving plan? Simple – by making it automatic!

Give an instruction to your bank to transfer at least 10% of your monthly salary from your current account to your savings account every month. Have the transfer done as soon as your salary is credited into your current account. What you do not see or have, you would not miss. In the meantime, the amount of money in your savings account will just grow and grow, bringing you closer to your financial goals.

As and when you can afford it, such as after you have received a raise or promotion, instruct your bank to increase the amount to be transferred to your savings account.

When you have saved the total amount of money that you had planned,



transfer the whole sum into a fixed deposit or some other account that can earn more returns.

However, continue to instruct your bank to make the monthly deduction. Never stop it as this would break your habit. The money that you are 'automatically' saving can go towards another financial goal.

INCREASING YOUR NET WORTH

Building wealth is about increasing your net worth, which we covered in Chapter 2. Your assets minus your liabilities equals your net worth, which can be positive (assets more than liabilities) or negative (liabilities more than assets).

In this chapter, we will focus on increasing your assets through savings and investments.

Your investment goals

Once you are saving on a regular basis, you will need to start making important decisions about how to invest your money. Now how do you do this? Easy, you can invest money sensibly by first stating your investment goals.

But how do you come up with investment goals that fit your needs?

Well, there are some crucial questions you should think about when coming up with your investment goals, let us take a look at some questions below:

- What are your financial goals? Why do you need to save and invest your money?
- How much money do you need to save and how much to invest to achieve your goals?
- How long do you have to save or invest your money to achieve your goals?
- How much risk are you willing to take?
- How much return do you expect from your savings or investments?
- What sort of sacrifices are you prepared to make to achieve these goals, e.g. changing your lifestyle and spending habits?

Be realistic when you consider your answers to the above questions. Look at your sources of income and see how much you can consistently save and invest. Your financial and investment goals should be reasonable and achievable.

> *Remember to make your financial and investment goals reasonable and achievable.*

Investment risk and return

Keeping your money in a savings or fixed deposit account with a bank is the safest form of investment. The return (i.e. the interest rate) is lower compared to other forms of investment, but it is not risky. You can go to sleep at night and not be worried about your money.

Of course, by keeping your money only in savings or fixed deposits, you would not be able to build your wealth as fast as you would like to. However, keep in mind that although other form of investments can give you better returns, they also sometimes carry greater risks, i.e. there is a greater chance of such investments losing their value.

For example, if you invest your money in the stock market, you face a greater risk of losing your money than if you were to keep it in a savings account. Share prices move up and down, depending on many factors. You may have bought the shares of a company at RM5 per share, but this price can go up to RM7 or it can go down to RM2.

When you invest your money, you expect to earn a return on that money. A return on an investment is usually stated as an annual percentage. If you buy shares at RM10 a share and the price goes up to RM10.80 after one year, then your rate of return is 8%.

The actual return on an investment would, however, be after you have deducted related expenses. If you buy a house, for example, and then sell it, you will only know your return after you have deducted items such as legal fees, agent's commission, stamp duty and bank loan interests.

Remember: when choosing your investment, the higher the return, the greater the risk.

Don't put all your eggs in one basket

What happens if you put all your eggs in one basket and you drop the basket? It is very likely that all the eggs will break. Similarly, when you invest your money, do not put it all into one type of investment. If something happens to that investment, you would lose all your money. It is important to diversify.

It is smarter to put your money in different types of investment. In other words, plan for a balanced portfolio of investments. Spreading your money across a variety of investments is the key to spreading your risks. When you do this, you are highly likely to benefit substantially from your investments while eliminating chances of financial losses.

How you invest is partly determined by your investor profile, i.e. whether, as an investor, you are aggressive, moderate or conservative. Many people actually fall in-between these types.

If you are a moderate investor, you might invest a high portion of your money in different asset class such as unit trust funds and the balance in fixed income investments such as fixed deposits. The amount that you assign to an asset class could be further divided among different segments such as a bond or equity fund.

If you are an aggressive investor, you might consider investing in more volatile investments such as shares.

On the other hand, if you are a more conservative investor, you might consider diversifying your money among less aggressive investments such as bonds and fixed deposits.

No two investors are exactly alike! You are the only one who can decide which options to choose and how much to spread your savings amongst the types of investment products available.

TYPES OF INVESTMENTS

The more common types of investments available in the financial marketplace are explained below.

Cash and fixed interest investments

Cash investments are the most common form of investment in Malaysia, covering products such as bank savings accounts and fixed deposits.

They provide easy access to your money when you need it, and there is no chance you could lose any capital – so they are very secure.

However, while they do offer security, they usually provide very little income and no capital growth. In actuality they can be quite risky in the long-term because inflation erodes the value of your investment.

For most investors, cash and fixed interest products are suitable for:

- use as a transaction account.
- keeping cash on hand for short-term expenses and emergencies.
- short-term savings where they cannot afford any risk to their capital.

Shares

Shares (also known as equities or stocks) represent ownership in a company. When you buy a share, you become a part-owner in the company and become entitled to share in its future value and profits.

Shares in a company offer growth to investors in two key ways:

- As the overall value of the company increases, the value of the shares also increases.
- You can earn dividends when the company chooses to pay part of its profits to shareholders as income payment.

Shares have the potential to generate very high returns. However, they also have the potential to fall in value if the company's performance drops.

Shares are generally suitable for investors who:

- want to build a nest egg for medium and long-term financial goals.
- have a longer investment time-frame.
- are comfortable with some volatility in their investment value over the short-term, in exchange for higher returns in the long-term (in terms of dividend income and capital gain).

Unit trust funds

In a unit trust, money from hundreds of individual investors are pooled together to buy a large number of different assets. Professional fund managers decide what percentage of the fund should be invested in each asset class, and also which countries, industries and companies have the best prospects for good returns.

Each investor then receives 'units' in the fund, with each unit representing a mix of all the underlying assets such as shares, bonds and fixed deposits.

Unit trust funds are an ideal option for people who:

- are new to investing.
- are happy to outsource the selection of investments to professional managers.
- have a small initial amount to invest (with the option to make regular additional contributions).
- are seeking investment diversification to minimise risk.

Property

Property is one asset class that most Malaysians are familiar with. Property investment offers value to investors in two ways:

- Properties increase in capital value over time as house and land prices rise.
- You can earn rental income from tenants.

Like shares, property prices go up and down and have periods of sustained high returns and sustained low returns, so property is generally only suitable as a long-term investment. One of the most important factors to consider when buying property is its location.

Property is generally suitable for investors who:

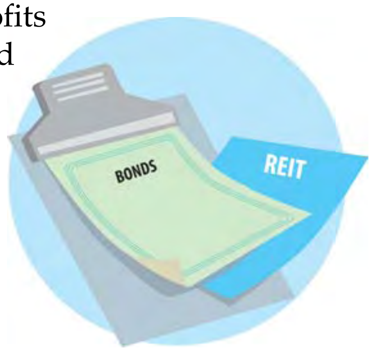
- do not require 'emergency' access to their money.
- have a long-term investment time-frame.
- have the ability to meet mortgage repayments if interest rates rise or if the property is not being tenanted.

Other types of investments

Other types of investments are:

- **Bonds:** When you buy a government or corporate bond, you are 'lending' your money for a certain period of time at a predetermined interest rate. In return, you receive a steady income stream through regular interest payments.

- **Real Estate Investment Trust (REIT):** This is similar to a unit trust except that the investments are in property and real estate. The profits from such investments are passed on to investors in the form of dividends.



FINANCIAL SCAMS

When investing your hard-earned money, be very, very careful of get-rich-quick schemes. Such schemes promise that you will get very high return with little risk. They also promise that little skill, time or effort is needed to get the high return, and that you can obtain wealth by working at home.

These get-rich-quick schemes are frequently advertised in magazines and newspapers, while the truly illegal ones (scams) are often promoted on the Internet through spam and e-mail and offered via cold calls and sms's.

Some of the features of these schemes are:

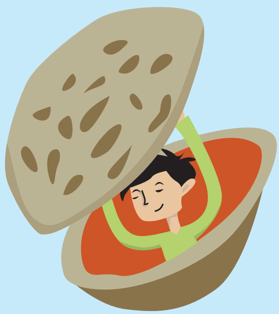
- Promise of high returns of 20-30% a month with little or no risk.
- The offer is for a limited period only so you are asked to sign up immediately.
- The scheme is in another country and you cannot check on its office or confirm its status from the website of any regulatory body.
- You are asked to give confidential information such as your bank account number.

What must you do when you come across an attractive offer to make you rich?

- The golden rule is do not be greedy and make instant decisions. Always check with friends, family and professionals whether such investment opportunities are genuine or not .
- Find out more about the offer before you decide to invest. Be suspicious with an investment that offers high return, low risk and free of investment costs, as it is unlikely that a business can provide all these.
- Even if the investment offer is being introduced or recommended by someone you know very well or a family member, always be mindful of the intention behind the offer because no investment is easy and can make you lots of money quickly.
- An investment that is not legal is not the type of investment that you want to make. Such an investment is risky and you can be caught for investing illegally.

IN A NUTSHELL

- In order to build wealth, start saving and investing NOW.
- You need to increase your assets in order to increase your net worth.
- Diversify your investments in order to spread your risks.
- The higher the return you get from an investment, the greater the risk.
- Be very careful of get-rich-quick schemes.



CHAPTER 5
PLANNING FOR UNCERTAINTIES

5

WHY YOU NEED INSURANCE

What is insurance?

When you make a financial commitment, such as purchasing a house by borrowing money from the bank, you have locked part of your future income. Should there be an unfortunate natural event (death or disability) or an economic catastrophe (retrenchment), where your ability to meet these commitments have been impaired, the possibility of losing your hard-earned asset is real.

There is a financial instrument that you can purchase to protect you from such an eventuality – insurance. It is a means of giving you a financial buffer or protection in case something happens to you, your family or your belongings.

Purpose of insurance

In offering you such protection, insurance is providing you with a peace of mind. The money you put towards insurance will enable you to:

- pay for damages to your personal belongings or to replace items that had been stolen (provided such items are insurable);
- pay for medical bills when you or your family members are hospitalised;
- take care of your monthly living expenses, debts and financial commitments when you are not able to work due to a serious illness or an accident;
- provide some financial support to your family in the event of your disability, serious illness or death, particularly if you are the breadwinner of the family.

How does insurance work?

Upon payment of a relatively small fee (known as a premium), a licensed insurance company will replace items lost or damaged due to an insured peril, such as fire, accidents and theft. However these incidences must occur during the insurance period up to the limit of the sum insured.

The insurance company sells policies to thousands of people and the premiums collected becomes part of a common fund. Not all who pay the premiums will be affected by misfortune and when some do, they are not affected at the same time. The common fund helps all those who contribute to share risks.

The insurance industry in Malaysia is regulated by Bank Negara Malaysia (BNM). To help the public know more about insurance, BNM has produced a series of booklets, which you can get from branches of insurance companies. Alternatively, you can log on to www.insuranceinfo.com.my

TYPES OF INSURANCE

Life insurance

A life insurance policy insures you and your life against risks such as premature death, illness, disability and hospitalisation. It is important to have if there are people depending on you, whether they are young children or aged parents. The coverage period is usually more than a year and you have a choice of making premium payments monthly, quarterly, semi-annually or annually throughout the coverage period.

The main life insurance products are:

- **Whole life:** This offers lifelong protection but you must pay premiums throughout your life. The claim amount (sum insured), including bonuses, will be paid upon death, total and permanent disability or critical illness. Due to the long-term nature of the policy, the premium is higher than for term insurance and it provides cash value during the term of policy.

- **Term life:** This offers protection for a limited period of time only. The money will be paid only upon death, total and permanent disability or critical illness during the term of the policy and according to the amount agreed upon when buying the policy.

- **Endowment:** This combines protection and savings. This policy provides cash benefits at the end of a specific period or upon death or total and permanent disability during the same period. The coverage period is determined by the buyer.

- **Investment-linked:** This combines investment and protection. Under this policy, you get to choose the type of investment fund you wish to place your investment and the amount of life insurance coverage you wish to have. The amount of premium is flexible.

- **Medical and health:** This helps to cover the cost of medical treatment, particularly in regard to hospitalisation and surgery.

- **Mortgage reducing term:** This is usually a single premium policy with the coverage amount matching the scheduled outstanding balance of the loan. In case you default on the payments due to illness or disability or upon premature death, the policy will settle the loan and the bank will release the ownership of the house to you or your beneficiaries.

General insurance

General insurance protects you against losses due to theft or damages to your personal belongings. It also covers you if you cause damage to a third party, accidental death or injury as well as hospitalisation. The period covered is usually one year and you have to pay a one-time premium payment on an annual basis.

The main general insurance products are:

Motor: It covers your motor vehicle against theft, accident or fire. If you buy third party cover, you are insured against claims made against you by a third party for injuries or death of other person (third party) as well as loss or damage to the property of the third party that is caused by your vehicle. If you buy comprehensive cover, you are getting the widest coverage, i.e. third party injury and death, third party property loss or damage, and loss or damage to your own vehicle due to an accident, fire or theft.

House: A basic fire policy covers the building only against fire, lightning or explosion. A house owner's policy extends coverage of the building to loss or damage due to flood, burst pipes and other calamities as well. With a house holder's policy, the contents of the house, such as furniture, are covered against theft, flood and fire. This policy does not cover damage to the house itself.

Travel: This is good to buy when you travel overseas. It protects you against travel-related accidents, flight delays or interruptions, baggage lost in transit, medical and other expenses.

Personal belongings: This covers items such as computers, handphones, notebooks and cameras against loss or theft.

Before deciding on an insurance policy, make sure you check the perils and risks that are covered by various policies offered by different insurance companies.

TAKAFUL

As in banking where you can choose between conventional and Islamic banking products and services, the insurance industry in Malaysia also offers conventional insurance as well as takaful.

Takaful is insurance protection based on Shariah principles. You contribute a sum of money to a common takaful fund in the form of participative contribution. You undertake a contract (*aqad*) to become one of the participants by agreeing to mutually help each other, should any of the participants suffer a specified loss.

Both insurance and takaful have similar basic principles. For example, in both insurance and takaful, you must suffer a financial loss when the insured event occurs. While takaful offers products similar to conventional insurance, it has some unique features:

- The surplus of the fund is shared between you and the takaful company based on a pre-agreed ratio. The amount in the surplus fund is calculated after deducting expenses such as claims, technical reserves, management expenses and re-takaful.
- You are entitled to this surplus if you had not made a claim during the period of the takaful.

Family takaful

Family takaful is a combination of protection and long-term savings and usually covers a period of more than a year. It provides financial benefits if you suffer a tragedy as well as gives you investment profits. Contribution payments can be paid monthly, quarterly, semi-annually or annually.

The basic types of family takaful include:

- **Individual family:** With plans that include education, mortgage and health, you and your beneficiary will receive financial benefits arising from death or permanent disability. There are also long-term savings and investment profits are distributed upon claim, maturity or early surrender.

- **Retirement annuity:** This is a plan that provides you with a regular income upon retirement.

- **Investment-linked:** Combining investment and protection, part of your contribution is used to buy investment units while the balance goes towards providing coverage in the event of death or permanent disability.

- **Medical and health:** This covers the costs of medical treatment, including hospitalisation and surgery.

General takaful

This protects you on a short-term basis, usually for a one-year period, for any loss or damage to your property or personal belongings. You pay a one-time contribution on an annual basis.

The main types of general takaful are:

- **Home takaful:** A house owner takaful covers your home against loss or damage caused by flood, fire and other similar perils, while a house holder takaful covers loss or damage to the contents of your house. You may participate in either one or both.

- **Motor takaful:** You are covered against loss or damage to your vehicle due to fire, theft or an accident as well as bodily injury or death of a third party and loss or damage of a third party's property. As with general motor insurance, the two types of cover are third party and comprehensive.

- **Personal accident:** This provides you or your beneficiaries with compensation in the event of death, disablement or injuries arising from an accident. This plan is also available for a short duration, such as when traveling abroad.

For more on takaful, check out this website:
http://www.insuranceinfo.com.my

MORE ABOUT INSURANCE

Before buying an insurance policy

Buying an insurance policy, whether conventional or takaful, is an important decision. You must get as much information as possible before making up your mind on the best option that would fit your lifestyle.

It is very important for you to know:

- the types of policies and plans that are available, especially their features and benefits;
- the perils and risks covered;
- the terms and conditions, including pre-existing conditions and exclusions that are not covered;
- the amount of premiums that you must pay in relation to the sum insured, risks covered and period of coverage;
- the situations that allow you to make a claim and how you can make such a claim.

All life and general insurance have a legal document called an insurance policy or insurance certificate that states all the terms and conditions between you and the insurance company.

For life insurance, the premium depends upon a combination of factors, the main ones being your age and health. The older you are when you purchase a life policy, the higher the premium you must pay. This is because the insurance risk for your life is higher.

All insurance premiums are paid in the name of the insurance company and not in the name of the agent. Always buy insurance that gives you the greatest coverage and meets your needs at the lowest premium cost. You do not want to pay too much in insurance premium to the extent that it creates a financial burden on you.

How much should you insure?

The amount of life insurance to buy depends on how much money you need when you are critically ill or disabled due to an illness or accident. It depends on your lifestyle, living expenses, financial commitments and obligations.

If you are buying life insurance so that there will be some money for your family in the event of your death, you will have to decide on the amount of money your family will need to live without you.

You do not want to have too much or too little insurance. Your goal is to get enough or the right amount to help you meet your financial commitments in times of need.

Buying insurance

Buy only from insurance companies that are licensed by BNM.

When seeking advice, check that the insurance consultant or broker is licensed by BNM and is a member of the Malaysian Insurance and Takaful Brokers Association.

If you are buying life insurance through an agent, he or she has to be appointed by a licensed life insurance company and registered with the Life Insurance Association of Malaysia. A general insurance agent must also be appointed by a licensed general insurance company and registered with Persatuan Insuran Am Malaysia.

It pays to shop around. Use the Internet, read the product brochures, talk to people who have experience in buying insurance policies.

Insurance is generally bought for protection against unfortunate events so that you or your beneficiaries will not be in serious financial difficulties.

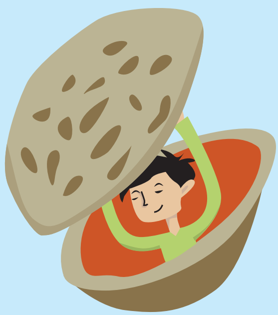
Making a claim

When making a claim, you must prove that the event you are insured against did happen. Be sure of the requirements of the insurance company. For example, if an insured personal belonging has been stolen, one of the documents you will need to provide is a police report.

What is important is that you must notify your insurance company as soon as possible after the occurrence of the unfortunate event. The process will be quick if you produce all the necessary documents when filing your claim.

IN A NUTSHELL

- The amount of life insurance to buy depends on how much money you need to support your lifestyle and pay your expenses when you are critically ill or disabled due to an illness or accident.
- An insurance consultant or broker has to be licensed by BNM and be a member of the Malaysian Insurance and Takaful Brokers Association.
- A life insurance agent must be appointed by a licensed life insurance company and registered with the Life Insurance Association of Malaysia (LIAM).
- A general insurance agent must be appointed by a licensed general insurance company and registered with Persatuan Insuran Am Malaysia (PIAM).
- When making a claim, ensure that you have all the documents needed by the insurance company to speed up the process.



PART C
MANAGING DEBT

6

CHAPTER 6
BORROWING BASICS

You may be tempted to spend more money than you have because of the availability of loans and credit cards offered by financial institutions. These institutions offer you money and credit on loan so you can buy a house, a car, pay your bills or go on a holiday. It is crucial to keep in mind that this money is not free. You have to pay it back – with interest!

Before borrowing money, make sure you can manage debts. Remember that you want to own more than you owe. You want to build wealth. If you borrow money, you should use it to make more money. Try not to pay for things that will not create value for you. Also, never use short-term loans, such as credit cards or overdrafts, to fund long-term assets like houses.

LOANS AND CREDIT

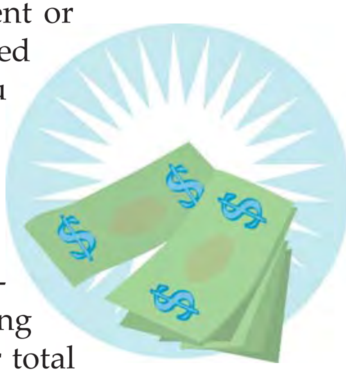
When you want to take a loan or use a credit card, ask yourself these questions:

- Is the product or service you want to buy important? Is it necessary?
- If it is important and you need to have it, can you afford to pay the installments?
- If it is a substantial purchase, such as a car or house, can you afford to put down a larger down payment?

- If it is something you desire, can you control the feeling and delay your decision to buy it since it is not that important?
- If you decide to take a loan or use your credit card to buy something, have you worked out your cash flow to see if you are able to repay the money you borrowed?
- Do you know the costs of borrowing and using your credit card? There are interest rate costs as well as finance charges such as late payment fees.
- Do you understand the consequences of failing to repay money you borrow? If you fail to do so, legal proceedings can be taken against you. You can even be made a bankrupt.

Unless you are able to increase your income, you need to give up something to make your monthly loan payment. Are you prepared to make this trade-off? For example, can you give up spending on your weekly entertainment to make payments on your loan and credit card debt?

No matter how careful you have worked out your monthly cash flow to pay your loan payment or credit card debt, something unexpected or an emergency can happen and you will need extra cash. Are you able to still meet your commitments if such a thing happens?



Hence, it is important not to over-commit on loans and purchases using credit card. As a general rule, your total monthly payments on all your loans and credit card debt should not exceed one-third of your gross monthly salary.

Licensed financial institutions

There are various types of financial institutions in Malaysia. Most people would usually use products and services of commercial banks in their daily transactions. Commercial banks are financial institutions licensed by Bank Negara Malaysia (BNM) to provide financial facilities to the public.

For a listing of licensed financial institutions, go to BNM's website at www.bnm.gov.my

Licensed money lenders

There are money lenders licensed by the Ministry of Housing and Local Government that provide loans to the public. However, unlike licensed financial institutions, they cannot accept deposits.

Unlicensed money lenders

There are also unlicensed money lenders, commonly referred to as loan sharks. Their operations are illegal. They charge very high interest rates and often use threats and violence on people who cannot pay back their loans.

Never, ever borrow money from a loan shark because you will:

1. *get a loan on very strict terms and conditions.*
2. *have to pay a very high rate of interest with daily compounding effect.*
3. *open yourself and your family to harassment if you get behind on your payments.*
4. *be pressured into borrowing more from the loan shark to repay one debt after another.*

TYPES OF LOANS

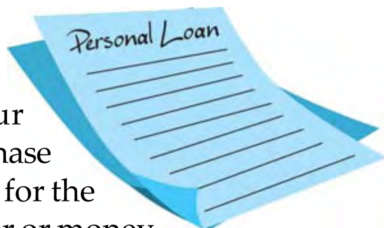
There is a wide range of loans and credit facilities available in the market. We will discuss the more common ones in this chapter.

Student loan

Student loans are offered by private organisations, government agencies as well as the Government to college or university students to help them pay for their higher education. The loans are provided at a very low interest rate and become payable when the students gain employment.

Most of the loans offered by the Government and its agencies, such as under the PTPTN fund, work on a revolving basis. This means that there is a fixed amount of money in their fund and payments made by previous beneficiaries are used to help new applicants. Graduates who do not pay back their student loans are, in fact, denying others from the same benefit.

Personal loan



This is a loan offered for your personal use, not for a large purchase such as a house or car, but more for the purchase of a personal computer or money to use towards your marriage. It is tempting to apply for this type of loan because the application process is usually fast and easy. Moreover, most banks do not require a guarantor or collateral. Conversely, some of the interest rates can be very high.

As stated earlier in this chapter, ask yourself some important questions before you apply for such a loan. Be clear about the purpose of application and whether you can afford to make the repayments.

Car loan

Most people want to have their own car as soon as they start working. They usually buy a car using a loan (also known as hire purchase or HP). If you do so, you become the hirer of the car while the financial institution is the owner. As the hirer, you pay installments to the financial institution based on their terms and conditions. You become the owner after completing all your payments.

As with any loan you take, ask yourself the important questions before deciding to borrow. Also work out your cash flow to see how much you can afford to pay in monthly installments. When you apply for a car loan, you can do so directly with the financial institution or through the car dealer, who will then submit your application to the financial institution.

As a hirer:

- Read all the fine print in the written agreement;
- Check and ensure that the purchase price and HP terms in the agreement are as agreed;
- Know your rights under the Hire Purchase Act;
- Know your obligations as a hirer so that you do not do anything to breach the agreement;
- Keep all documents, such as the agreement and receipts, in a safe place;

- Make your payments to authorised persons only as identified by the financial institution.

However, before taking up a car loan, check on the effective interest rate as it will work out to be much higher than the flat rate offered. Look at the following example of a RM50,000 loan at 5% interest per annum with a five-year tenure. The effective interest rate works out to be 9.15%.

Monthly installment:	RM1,042
Total interest payment:	RM12,500
Total loan + interest:	RM62,500
Approximate effective rate per annum:	9.15%

Hire Purchase Basics

Minimum deposit: This is about 10% of the cash value of the car but financial institutions can request for a higher deposit.
Interest rate: This is a fixed rate and the maximum allowed is 10%.

Effective interest rate: This is the actual interest that you pay after taking into account annual compound interest on the loan over its tenure.

Late payment charges: You will be charged a penalty if you are late in paying your installments. This interest is charged on a daily basis.

Guarantor: Financial institutions may require a guarantor who will be responsible for the unpaid portion of a loan including interest, if you default on your loan.

Insurance: You must purchase insurance as a cover for your car. Financial institutions require a car owner to undertake a comprehensive insurance policy.

Repossession: If you default on your payments, financial institutions can repossess your car as they are the legal owners.

When you do not make your car loan payments on schedule, financial institutions can repossess your car by engaging a registered reposessor. Having your car taken away from you can be a traumatic and embarrassing experience. Before taking any action, the repossessor must show you his identity and authority cards along with a repossession order issued by the financial institution. He must then make a police report and bring the repossessed car to a place indicated by the financial institution.

You will receive advance notice in writing, known as the Fourth Schedule, before your car is repossessed. This notice expires in 21 days after which you will receive a second notice 14 days after the Fourth Schedule is issued – this is a reminder to pay up or your car will be repossessed.

You will receive advance notice in writing, known as the Fourth Schedule, before your car is repossessed. Before the notice expires in 21 days, you will receive a second notice 14 days after the Fourth Schedule is issued – this is a reminder to pay up or your car will be repossessed.

To avoid repossession, pay the outstanding arrears before the notice period expires or return the car to the financial institution before the expiry date. You will still need to pay any outstanding amount less the value of the car.

If your car has been repossessed, there is still a way to get it back. The financial institution will issue you and your guarantors, if any, a Fifth Schedule notice within 21 days of the repossession. You can have the car returned to you if you pay all outstanding arrears or the due amount in full and other expenses incurred by the financial institution. Alternatively, you can introduce a buyer, e.g. a family member or friend, to buy the car at the price given in the Fifth Schedule.

Within 21 days of the Fifth Schedule issue, if you or your guarantors do not settle the outstanding amount, the financial institution will sell your car by public auction or give you the option to buy the car at a price lower than the estimated price stated in the Fifth Schedule.

Housing loan

The market for housing loans today is very competitive and financial institutions now offers all kinds of loans to attract customers. Some loans are even packaged with free gifts.

Do shop around, get as much information as you can and compare items such as interest rates before deciding on the loan suitable for you. As with other loan products, you can choose between a conventional or Islamic housing loan.

A housing loan is a large financial commitment, one that will stretch over many years. Think very carefully about the various aspects of such a loan before making your decision, some of which are as follows:

- Is the loan meant for buying a completed house or one under construction? Are you buying land to build a house?
- What is the value of the house or land you want to buy? How much can you afford to pay in monthly installments, depending on your monthly cash flow?
- Do you have enough money to make the down-payments and the cash flow to pay the loan installments?
- What are the incidental fees or costs that you have to pay? The more common ones are legal fees, stamp duties, processing fees and disbursement fees.
- Is the interest rate fixed or variable with the Base Lending Rate (BLR)?
- How flexible can your loan payments be? There are several payment schemes available.
- Is there an early termination penalty if you repay your loan in full before the tenure expires? Financial institutions may impose such a penalty because of the attractive rates they may have packaged for the loan.

Is it better to take a loan on a fixed or variable interest rate?

With a fixed rate loan, the interest is fixed and you therefore know the amount of instalments you need to pay. With a variable rate loan, the rate changes according to the Base Lending Rate (BLR). If the BLR rises, your interest rate will increase and your monthly repayments will be higher. On the other hand, if the BLR decreases you will benefit from paying lower monthly repayments.

There are also variable interest rate loans with fixed monthly payments where any changes to the interest rate will either increase or decrease the loan tenure.

A housing loan can be paid in the following ways:

- **Graduated payment:** This allows you to pay lower installment payments at the beginning of the loan. The amount will, however, gradually increase over time. This scheme is useful if you had just started working and your salary will increase over the years.
- **Partial prepayment of the outstanding loan:** You can shorten the loan tenure by making partial prepayments with your surplus savings or annual bonus. If done during the early years of the loan tenure, you can reduce your interest charges. There may, however, be restrictions on how much you can pay.

The principal sum of a loan is reduced each time an installment is paid.

As a borrower:

- Read and understand all the terms and conditions of the loan;
- Stick to these terms and conditions;
- Ask questions on all aspects of the loan to your satisfaction;
- Make payments on time;
- Check that you have accurate information on your loan account on a regular basis.

As with any loan, if you fail to pay your installments, the financial institution will take legal action against you to recover the loan.

Being a guarantor

You may be requested by a family member or friend to become a guarantor for his or her loan. Think carefully before you agree to do so because being a guarantor for a loan means that if the borrower cannot or will not pay the loan, you are legally bound to do so.

Should you agree to be a guarantor, make sure that:

- You read and understand the nature of the guarantee and the implications on you.
- You do not sign a blank or partially filled document.
- You do not become a guarantor to someone whose integrity you are doubtful of.
- You are aware of your liabilities if variations are made to the terms and conditions of the loan.

It is not easy to withdraw from being a guarantor. The decision is up to the financial institution, which may agree subject to conditions such as full repayment of the principal debt. Even if the borrower passes away, the financial institution can seek recourse from the guarantor if there are no other sources of repayment of the loan.

CREDIT CARDS, CHARGE CARDS AND OTHER CARDS

Credit cards allow you to buy items and pay for services electronically without using cash. When you use a credit card, the credit card acquirer will pay the merchant on your behalf and bill you later through your issuing bank. This makes purchasing things a lot easier.

A credit card can be a useful payment instrument if you know how to use it properly and wisely. Some of its benefits are as follows:

- It is a convenient and efficient method of payment.
- You can use the statement to track your spending for budgeting purposes.
- Some credit cards provide personal accident and travel insurance, depending on the type of card issued.

- Credit card issuers have introduced attractive schemes, such as zero-interest installment scheme, flexi-pay scheme and 0% balance transfer, to enable you to maximise on your purchases.
- You can also earn loyalty points for usage of credit cards, a reward that is unavailable when cash payments are made.

A charge card is similar to a credit card. While a credit card allows you to make a minimum payment when you receive your monthly statement, a charge card does not. With a charge card, you must pay the total amount due in full each month, failing which, late payment charges will be imposed.

A debit card is similar to an ATM card, except that you do not have to withdraw cash from an ATM. You can use the debit card at places where you pay for products or services. The amount spent will be immediately deducted from your bank account. Like a credit card, it is convenient to use a debit card because you do not have to carry cash with you.

A prepaid card can be used to make purchases but there is a spending limit equivalent to the amount of money you place on the card. It is like a prepaid phone card or a Touch & Go card where you have a fixed amount of money you can spend. When the amount placed on the card gets low, you can reload up to the maximum amount as determined by the card issuer. Debit and prepaid cards are better options for people who are not financially disciplined.

Normally, the credit card limit given is 2-3 times your monthly salary. If you use your card up to this limit, you are effectively spending at least 2-3 months of your salary in advance.

The credit trap of paying the monthly minimum

It may be tempting to just pay the monthly minimum due on your credit card statement. After all, it helps with your cash flow. Unfortunately there are consequences of paying just the minimum each month – you will incur interest charges and it will take you longer to settle your outstanding balance. The result? Huge debts in a short time frame. At present, most card issuers impose a finance charge of 1.5% per month, which is charged on a daily basis and compounded monthly.

You read earlier in this book about the effect of compound interest when you save your money. Compound interest also applies in this situation, where interest is paid on the principal amount plus the accumulated interest amount owing.

It is important to realize that the longer you take to settle your credit card debts by making minimum payments, the more money you will owe. With high interest rates, you will end up paying more money to the financial institution as compared to the original amount you paid for the product or service. Remember to always pay in full- this will ensure you keep out of financial trouble.

Log on www.bankinginfo.com.my to find the formula for calculating credit card interest payments. For examples of how two individuals manage their respective credit card debt, please refer to APPENDIX 2.

Tips on using credit cards

- Pay the amount due in full when you get your monthly statement to avoid paying interest.
- Do not use a credit card if you cannot make the monthly payments.
- Limit the number of credit cards you have.
- Do not use your credit card to get cash advances from an ATM. Each time you use your credit card to withdraw money, you are increasing your loan commitments in addition to paying upfront withdrawal charges and daily interest.
- Pay before the due date to avoid late payment charges and penalty rates.
- Be aware of the consequences of paying minimum amounts all the time.
- If you have a cash flow problem, pay the minimum amount for the present but pay the full amount as soon as possible.
- Always check your credit card monthly statement to ensure proper transactions and charges are recorded. The statement includes your transactions, any fees and charges, the due date of payment and the minimum payment. Call your bank if there is anything wrong with your statements, or you have not received it.

REPAYMENT AND DEFAULT

A good paymaster is one who pays his or her monthly loan repayments on time and in the amount required according to the terms and conditions of the loan agreement.

Credit Bureau

The Credit Bureau of BNM has been in operation since 1982. It collects credit information on borrowers, including private individuals, businesses (sole proprietors and partnerships), companies and government entities, and supplies the information back to lenders.

The Credit Bureau keeps information in the Central Credit Reference Information System (CCRIS), which is a computerised system that automatically processes credit data received from financial institutions and synthesises these information into credit reports. These reports are made available to financial institutions on request.

Each time you make a new application for a loan, the financial institution will check your payment history with the Credit Bureau. They will use the information to decide whether to give you a loan or not. Other than the Credit Bureau, there are also privately-owned companies that provide their clients, including financial institutions, with information on a borrower's repayment record and status of legal actions, if any.

Keep a copy of your CCRIS report to track your loans with financial institutions and monitor your loan and credit card repayment pattern. You can check whether you have a healthy repayment schedule and defaults or late payments appearing in your report. If your CCRIS report indicates late repayment or default, a financial institution has the option of denying any new loan applications because it indicates that you are not managing your loans well or you have financial difficulties

It pays to be a good paymaster because this will be reflected in your credit report. In fact, effective 1 July 2008, you are rewarded for being prompt in your credit card payments – financial institutions will impose finance charges on a tiered basis depending on your repayment behaviour.

For more information, click on:
http://creditbureau.bnm.gov.my

Debt repayment problem

Defaulting on loan payments and failing to settle your credit card debt can have terrible consequences. You will be sued by the financial institution. Your car or property will be auctioned. Your family members will be affected because they may have to help in paying your debts. Your guarantors, if any, will also suffer because legal action can be taken against them. You may become a bankrupt, a topic that will be discussed in Chapter 8.

You will suffer emotionally due to stress. You will be getting constant calls and letters from lawyers and lenders to demand that you settle your debts. In such situations, you can become unproductive and your work or health may be affected.

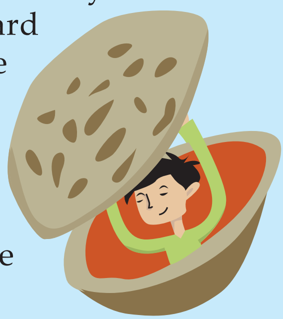
Some signs to show that you are in financial difficulty are:

- If you are not in control of your money i.e. your expenses are more than your income.
- You have more debts than you can manage to pay.
- You are only able to pay the minimum 5% every month on your credit card bills.
- You do not have any savings to meet personal or family emergencies.
- You get calls from debt collectors regularly.
- You are being served with legal notice of demand.

If you are facing any of the above problems, seek help and advice on your finances from a professional financial counselor as soon as possible.

IN A NUTSHELL

- When applying for a loan, ask yourself the purpose of the loan and whether you can afford to make the installments.
- Never ever resort to borrowing from unlicensed money lenders.
- Be aware of the terms and conditions of the loans you take.
- Always ask for the effective interest rate on all your hire purchase and fixed rate term loans.
- Your total monthly payments on all your loans and credit card debt should not exceed one-third of your gross monthly salary.
- Do not fall into the trap of using credit and charge cards as if it is 'free' money.
- Paying only the minimum monthly payment on your credit card statement can result in a huge debt due to the compounding effect.
- Aim to be a good paymaster so that you will have a positive credit report.



PART D

REAL-LIFE STRATEGIES

CHAPTER 7
LIVING YOUR LIFE

Living your life is essentially about making smart choices, whether it is choosing a career, buying a car or house. Making smart choices requires that you plan ahead, be informed about what is available in the market and avoid impulsive decisions. You would have gained a lot of ideas about planning your finances and managing your money in the earlier chapters. You will need to practise them in living your life.

YOUR CAREER

Like most people, you will need a job after you graduate. This job will be the first of many work experiences you will have that eventually shape your career.

Irrespective of what you choose to do in life, develop an interest in your respective fields and make sure you love and enjoy your job. It is better if what you do at work is something for which you have the necessary aptitude or talent. If you dislike mathematics, do not force yourself into a career in accounting. If you enjoy dealing with people, maybe a career in sales and marketing is for you.

Planning your career

Your career is going to take up the most part of your adult life so do take it seriously. The development of your career is going to determine the quality of your life. Therefore, plan properly. Each time you change jobs, ensure it is a positive career move that not only increases your income earning capacity, but would also widen your prospects.

No matter what your first job is, use it to learn the basics of surviving in the workplace. Develop your communication skills, both written and spoken – people who can write and speak well are the ones who are most likely to get ahead in a company. Practise your human interaction skills with all levels of employees. Take on assignments that can improve your knowledge and skills. Volunteer to take part in activities for opportunities to show your talents. Read as many management and self-development books as you can.

You may build your career in the same company throughout your working life or you may move from one company to another. Whatever the situation, if you are considering changing jobs, assess how the new job will add, not only to your income, but also to your knowledge, skills and career development. Will it move you towards where you want to go, career-wise? Or would it move you closer towards your financial goals? Whatever the reason you choose to move, ensure that it would benefit you in the long-run.

Your job is what you make of it. It would not be boring or mundane if you use it to develop yourself while you're contributing towards the company.

Your student loan

A student loan is an obligation and should not be taken lightly. Once you start working, begin paying back your student loan, if you have one. We have discussed earlier how important it is for you to do so. The student loan is a loan, not a gift. It is a legal as well as a moral obligation to pay it back so that others can enjoy the same benefit that you did.

If you do not pay back your student loan, it may hamper your chances of working for a good employer. You may also have a problem in getting financing from financial institutions later- this could potentially delay you from achieving your life and financial goals.

Your income tax

As an employed young adult, you need to pay your income tax. This is now done 'Pay-As-You-Earn' (PAYE) under the Scheduler Tax Deduction Scheme. Your income tax is deducted from your monthly salary and sent directly to the Inland Revenue Board (IRB) by your employer.

However, this does not mean that you will not pay any more taxes at the end of the year when the IRB assesses your total income earnings. It is your responsibility to declare all your sources of income to the IRB and pay the appropriate amount of tax. Sources of income that are taxable include:

- Salary and wages.
- Commissions.
- Bonus.
- Gratuity.
- Allowances (in cash or otherwise).
- Directors' fees.
- Pension and annuity.
- Dividend and interest income.
- Rental, royalty and premium income.

You are strongly advised to budget an amount from your monthly salary for income tax payment, in case the amount you actually have to pay at the end of the year is more than the amount that is being deducted from your monthly salary.

Under-declaring your income for tax purposes is an offence!

The IRB and you

The IRB knows how much you earn from the PAYE deduction made against your monthly salary. In addition, your employer must provide your name, address and income details, such as allowances or commissions, to the IRB monthly in the Earning Advise (EA) form.

Other than the EA form submitted by your employer, there is also the self-assessment tax form that you must submit to the IRB, in which you have to declare all other sources of income. At the end of the year, if your taxable income is more than what has been deducted from your PAYE, you will have to pay the difference to the IRB.

Under the self-assessment tax system, you have to work out and pay your own income tax. The responsibility is on you to calculate your own tax liability. You must complete and submit the Return Form by the deadline but no Notice of Assessment will be sent to you. Instead, you must calculate your own tax and pay the full amount. At the same time, you have to estimate the tax to be paid for the current year and make monthly payments during the year based on that estimate.

To find out what your monthly tax payment is, check out the IRB's Schedule of Monthly Deductions at: www.hasil.org.my

You are allowed to make monthly payments to the IRB directly or through selected financial institutions.

If you own a business, you will need to pay taxes for the profit that you make from the business. It is then advisable to have a tax consultant to advise you on proper tax planning based on the appropriate business entity such as sole proprietary, partnership or private limited company.

YOUR CAR

After you start working, one of your major purchasing decisions would be buying a car. A car is a convenient means of transport, not only for work but for other purposes as well, but there is more to owning a car than buying it. You need to maintain it, repair it when necessary and pay for costs such as road tax and car insurance.

Assuming that you have decided to buy a car, you then need to decide whether to buy a new or used car. People often think that it is better to buy a new car because the maintenance costs would be lower than a used car. That may be true but a new car can also have its problems and the depreciation of a new car is higher.

In order for you not to overstretch your financial resources, buy a used car that is in a good condition or a new car with affordable repayments. After all, you only want to get from A to B conveniently and in comfort. At this point in your adult life, you do not need to have a flashy or imported model. You can buy the car of your dreams when you can afford to pay for it later in your life.

Buying a car

The following are some useful tips in buying your car:

- Shop around for a car that is reliable.
  Ask for advice from your parents, family members or friends. If you decide to buy a used car, get a trusted mechanic to examine the car first.

- Work out the budget based on your monthly salary. Take into account the monthly car installments, monthly running costs such as petrol, toll and parking fees, annual expenses including road tax, insurance and regular service, as well as unexpected expenses to cover any repairs to the car in case of a breakdown or an accident.

- If you decide to apply for a car loan, shop around for a package based on affordability. It is always good to buy the car with cash but if using cash is too much of a burden, try saving more cash for the downpayment and apply for a smaller loan. Always ask what is the effective interest rate that you will be paying (as discussed in Chapter 6).

- Do not use your credit card to pay for the down-payment. You are not being wise because you will be getting yourself into a loan with high interest rates.

- Try to pay for petrol, annual road tax, insurance and car maintenance with cash instead of using your credit card.

- Avoid upgrading or modifying your car with a sound system, better tyres or additional accessories. These will not add value to your car.

Owning a car is not cheap. Before you buy one, make sure that you can afford to maintain it!

YOUR HOUSE

Buying a house ranks at the top of the financial decisions you will be making in your adult life, mainly because of the costs involved. The first house that you buy is usually for you to live in.

Why should you buy a house instead of renting one? The following are two good reasons:

- By buying a house, you will increase your net worth as you pay down your housing loan.
- Owning your own home brings a sense of pride and accomplishment. Not only is there more freedom with house ownership, there is also a greater sense of security in having a permanent roof over your head.

Own or rent – the financial angle

When owning a house, each monthly payment that you make is like putting money into a savings account. Each time the mortgage is paid, a percentage goes toward your net worth. This is like having money in the bank because it is something you can draw upon later in life if needed.

While rental rates can increase from year to year, the principal on your mortgage is going down with each payment you make. Plus – as the housing market grows, the value of your house increases as long as it is in a good location.

Although buying a house sounds great, it is not for everyone.

Buying a house is time-consuming, complex and may be a costly affair:

- Owning a house requires investment of your time. You have to take care of the garden, handle repairs and spend countless hours to keep things running smoothly.

You are, in fact, tied down to your house. However, as a tenant in a rented home or apartment, you have freedom to move about the city or country.

- Many small home improvements can add up to big dollars in upkeep expenses. If you rent, maintenance expenses are usually covered by the landlord.

- If you find that you are not thrilled with your new neighbourhood, you may find yourself 'stuck' until the value of your house increases enough to get back your initial investment.

- Once you become a home owner, anything can happen to unexpectedly bring down the value of the house – your area may be prone to floods during the rainy season or a highway may be built close by several years later. If you rent, you can just pack your bags and move.

When you rent, you can have freedom of movement. However, when you own a house, you will have a sense of financial freedom.

Location, location, location

When buying a house, do the following before committing yourself:

- Drive around the neighbourhood at different times of the day and week to see how your potential neighbours are like, both during the week and on weekends.

- Check the area for features that can add value to the house, such as schools, shops, a park and playground, public transport and surrounding businesses. Watch out for conditions that may make the area economically disadvantaged.

- Check if the property is located on freehold or leasehold land. Buying a house located on freehold land means that you have the right to the land for an indefinite period of time. The market value of the house is usually higher than if it is on leasehold land. A house on leasehold land means you never really 'own' the land because you have to return it back to the government after the lease period, usually 99 years. The market value of the house decreases as the date to the end of the lease gets nearer.

- Talk to property experts who can give you sound advice about the property market, suitable locations or types of property, such as apartments, condominiums or landed houses, which will increase in value.

Paying for the house

The most important question in buying a house is – Can you afford it? Like most people, you will look at applying for a housing loan.

The housing loan process is complex and you need to carefully analyse your financial position – your income, savings and cash on hand. Be honest about your past spending habits, present needs, and ability in not only getting a loan, but paying it off. You also need to calculate your debt-to-income ratio.

Look ahead as well in terms of possible increases in your income and the money you will need to maintain the house or renovate it in the future. All these affect your affordability when buying a house.

There are many types of housing loans offered, so shop for the best deal that meets your financial commitments. Save enough money and try to pay more than 10% of the purchase price as the initial downpayment to avoid applying for a large housing loan. You also need to have enough money for expenses such as legal fees, stamp duty and insurance.

You must be able to afford to buy and pay for your house. Otherwise, your dream home will turn into a financial nightmare!

So … you want to be a landlord

Investing in property can be a powerful wealth-building tool. Because of the money and time involved, do so as part of an overall investment strategy. Here are some questions to ask:

- What type of property investment will increase my financial worth?
- Because property is not liquid, i.e. it cannot be sold quickly, will this be a problem for me when there is a need for cash?

- Will I be able to handle long-term ownership and maintenance of the property, even if my cash flow is not consistent?
- What type of property investment will contribute to my retirement income?
- How much income do I expect from my property investment when I retire?
- Do I expect it to provide immediate income or long-term capital appreciation?

Are you willing to deal with the responsibilities of being a landlord? It is not an easy task. You will have to collect rent and there might be instances where it is unpaid or paid late. Your tenants may be unsatisfactory and you have to evict them. There are repairs to attend to, paperwork to be updated, income or deductions to be declared, taxes to be paid. Of course, you can hire professionals to take care of these matters for you – but at a cost.

The same considerations apply whether you are buying a house to live in or as an investment, the primary one being that of location. A good location helps you to attract tenants, get the rental income that you want and increase the value of your house.

Start with a small piece of property first so that you can manage the financial aspects. With experience, you can move on to bigger pieces of property, especially when you have made money from the capital appreciation from your sale.

MATTERS OF THE HEART

As you move through adulthood, you may meet the person whom you wish to marry. Marriage is a big commitment and should be entered into only if you feel capable of handling the responsibilities. With the romance come the real issues, including finances.

The wedding

Be realistic about your wedding expenses. You will be surprised at how much gifts, ceremonies, dinners, clothes, shoes, and wedding photos can add up to.

Like in other aspects of your life, have a budget. List the things that are necessary for the wedding. Discuss with your spouse-to-be on how much money you both can afford to spend. Get tips and advice from those who have been through it all on how to spend wisely for this important occasion.

Do not try to live up to the expectations of other people by going to the extent of borrowing from family members or friends, or even from the bank, to pay for your wedding. In fact, you should have been saving for your wedding as part of your overall financial plan. There have been many cases of couples encountering problems due to the large debt incurred during their wedding. Very often financial problems lead to other difficulties.

Marriage and family

As money is a sensitive topic, many couples can go through their entire married life and not talk openly about it with one another. It is extremely important that you and your spouse see eye-to-eye on money matters (please note that these pointers assume both of you are working):

- Your financial plan has to move from being an individual to a shared one involving your spouse.

- Decide on how to handle routine bills, paying for the family and children, household budgeting, as well as savings and investment.

- To pay for common expenses, save money on a monthly basis in a joint account. Remember to review the list of the common expenses often, at least once a month, to see if these expenses are increasing due to inflation or your lifestyle as a couple.

- If both of you decide to use credit cards to pay for some of the common expenses, it is important that the person who is going to use the credit card have access to the money from the joint account, so that there are no complications later in paying the credit card debt.

- Just as in your individual financial plan, you need to set aside an emergency fund as a couple to take care of those unexpected expenses that can happen to you, your spouse and family. Decide on an amount as common savings; any unused funds can be added to joint retirement fund.

- Talk about each other's investment style, including your respective risk appetite and preferences. It is wise to have a common investment portfolio to meet future financial goals, such as retiring together and living a comfortable life. These investments are also usually used to pay for your children's living and education expenses.

- You may need to increase your insurance coverage – life insurance, critical illness insurance, medical insurance and personal accident insurance.

Financial debts

This may sound harsh but do discuss with your intended spouse the debts that both of you will bring into the marriage, if any. Both of you should make a commitment to settle personal debts within a period of time after the wedding, if those debts cannot be paid off before you get married.

Should it become necessary to apply for a loan or even a credit card once you are married, you will need to discuss your ability to pay for that new debt commitment. Both of you must agree on the terms of payment and period to settle the debt.

You and your spouse should not hide from each other the topic of debt. Some marriages are reported to fail due to financial debts incurred by spouses.

Financial check-up

It is a healthy practice for a couple to prepare a monthly budget and spending plan, and track spending at least once a week using a family cash flow statement. The family's net worth (assets and liabilities) should then be reviewed monthly.

You and your spouse must review the household financial commitments and net worth every month. Make it a monthly affair and a fun exercise to do together. Talk about positive ways to improve the household financial commitments, find creative ideas and reasons to grow more money for each other and your family.

YOUR RETIREMENT

You are never too young or too old to plan for retirement. The earlier the better, but it is also better late than never.

Nonetheless, it is desirable to inculcate the saving habit at a young age. In fact, saving should be part of your lifestyle. It is wise not to rely solely on your EPF as your retirement fund because you may not have enough in your account to provide you with a comfortable lifestyle.

Young adults normally do not think they are going to retire one day. Retirement is difficult for people of all ages. Even people in their 40s do not want to face the prospect of retirement. They have obligations – there is the house, the children's education, the parents' healthcare, and 1001 things to take care of first.

There is also the fear of the unknown. Not knowing what will happen to you when you are old may sometimes prevent you from taking stock of your financial welfare. You prefer to live for now rather than plan for the future. Perhaps you are afraid of being told that you are not on track when you start to plan for your retirement fund. You know that you have spent too much money, your income-earning ability is not improving and you are not able to increase your savings.

If you start saving as soon as possible, you will be in better shape than you think you would be. If you have been regularly saving some money and cultivating saving habits, you will find it empowering for your personal self-worth.

By saving early in your adult life, you may find that you have enough to enjoy some of your money even before you actually retire.

Basics of retirement planning

As in any planning process, you need to know where you are at present:

- How much savings or assets do you have now?
- What is your monthly income?
- What is the percentage of your income contributed to EPF or other retirement plans?
- What rate of return do you want on your investments?
- How many years do you have until retirement to earn your money?

After analysing your current assets and liabilities, estimate your spending needs and adjust them for inflation. Then decide when you want to retire – at age 45, 55, 60 or 65?

Calculate the monthly retirement income needed for your desired retirement lifestyle. Your retirement planning should include debt reduction, budgeting, diversifying investments and, believe it or not, maintaining good health through diet and regular exercise.

The question of health is vital during old age. Health costs can be a major expenditure and a drain on retirement savings. Even if you have medical and life insurance that covers critical illness and disability, this may not include all the procedures and prescriptions that you need to have. Sometimes certain illness are only partially covered or not at all covered under insurance benefits. Therefore, adequate retirement planning has to be done for maintaining and living a healthy life.

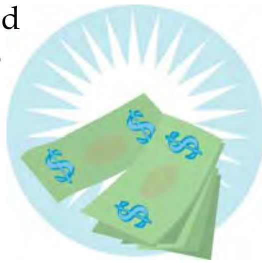
Retirement timeline

- Sign up for EPF on your first day of work. However, due to inflation, the money you will have in your EPF may not be enough for your retirement. Create a personal retirement account by opening a savings account with the bank and start saving at least 10% of your disposable income.
- For each increment in your age, increase your savings in your personal retirement fund by a certain percentage of your disposable income per year. For example, if you started working at age 25 with a savings of 10% (from your disposable income) and decide to increase your savings by 1% each year as you grow older, at age 26, you will save 11% of your disposable income and by age 35, you will be saving 20% of your disposable income.
- Earmark a portion of each raise or yearly bonus to your retirement savings. Make sure you provide in your monthly budget the amount of savings meant for retirement.

- While you are saving for retirement, review your investment portfolio for retirement annually to ensure that your money is growing according to your retirement plan.

A balanced life

While money is necessary in today's world, it is not everything. Do not make it the sole reason for what you do in your life. Health, family and spiritual wellbeing are important elements that contribute to happiness. We should also make regular donations and give to the less fortunate to alleviate their hardships and misfortunes. It is very important to create a balance in your life.



In a Nutshell

- You need to have strategies for living your life.
- Career planning is important so that you can increase your income-generating capability.
- It is essential that you repay your student loan and pay your taxes.
- In buying a car, affordability is key.
- There are other costs in maintaining a car, not just the loan installments.
- Buying a house is a major financial decision. Weigh out the benefits of renting versus buying a house.
- You and your spouse must be willing to frankly discuss financial issues and draw up a plan together.
- You are never too young or too old to plan for retirement.
- Work towards having a balance in your life, where money is not the sole reason for your existence in this world.

8

CHAPTER 8
GETTING OUT OF FINANCIAL TROUBLE

IN FINANCIAL TROUBLE

If you follow the advice, tips and guidance given to you in this book, you should not get into financial trouble. You will instead be managing your money wisely and on the road to becoming financially stress-free.

It is just not worth it in the long run to give in to your whims and fancies, spending as and when you like, without thinking about the future. If you do not plan your finances, it is very possible for you to spend more than you earn, putting you eventually into serious debt, which leads to financial trouble.

Being financially distress will affect your reputation, but that is not all – you will also be emotionally troubled, looking for money to pay off your debts and eventually your relationships with family and friends will strain. All these will affect your physical health, mental and emotional stability. You will end up in a never-ending spiral of problems- all because you failed to plan.

Your creditworthiness

As explained in Chapter 6, the Credit Bureau of Bank Negara Malaysia (BNM) maintains credit information on borrowers in its Central Credit Reference Information System and financial institutions are able to check on your status.

If you are in serious debt, you will be seen as a bad credit risk to any banker you may approach for a loan. Financial institutions have various criteria to assess the creditworthiness of potential borrowers. These include the borrowers' character, attitude towards their loan obligations as well as their capacity to pay their loans.

When you have a poor credit record, it will be difficult for you to obtain loans from licensed financial institutions.

What can happen

When you default on your loan, the financial institution will take legal proceedings against you. It will first obtain a judgement. If the loan is a car loan, the financial institution will act to repossess and sell the car. If it is a housing loan secured by property, the financial institution will foreclose on your property and sell it by public auction.

For unsecured loans, the financial institution has a number of options to execute the judgement it has obtained to recover its debts. These include writ of seizure and sale, garnishee proceedings, judgement debtor summons, and filing a bankruptcy order if the debt amount is RM30,000 and above.

If you are made a bankrupt, there are many things you are legally barred from doing:

YOU CANNOT

- Hold any public office without the approval of the Director-General (DG).
- Pursue any court action without the DG's permission.
- Leave the country without the court's or DG's approval.
- Be a company director or carry out your own business or be involved in the management of a company without the court's or the DG's approval.
- Be involved in the management of a company or be an employee of a company that is owned by your spouse or close relatives and their spouses.
- Be a committee member of any registered body.

LOOKING FOR THE SIGNS

Unfortunately, there are people who do not realise that they are in financial trouble. They carry on as they are, living in denial and making their situation worse by the day.

There are some tell-tale signs to indicate that you are in financial trouble and you must be aware of them. These are:

Credit Cards

- Paying only the minimum balance each month.
- Increasing the outstanding balance every month
- Going over your credit limit.
- Taking frequent cash advances.

- Missing payments, paying late, or paying some bills this month and others next month.
- Having your credit card revoked by the bank.

Loans

- Using the overdraft or automatic loan features on your current account frequently.
- Receiving second or third payment notices from banks or creditors for non-payment of debts.
- Being denied credit because of a negative credit bureau report.
- Borrowing money from family or friends to pay your debts.

Savings

- Using up your savings at an alarming rate.
- Having little or no savings to handle unexpected expenses or emergencies.

Expenses

- Depending on part-time jobs, overtime, commissions or bonuses to pay for your living expenses.
- Living from paycheck to paycheck.

Ignorance

- Not talking to your spouse or family members about money problems or arguing when you talk about money to them.
- Not knowing how much money you owe until the bills arrive.

If you start experiencing any of the above, get advice immediately. Do not wait until the problem gets bigger. The earlier you seek assistance, the easier it is to get out of the situation.

What can you do?

- You can contact your bank and work out an adjusted repayment plan to suit your cash flow.
- You can contact the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit or AKPK) for financial counseling and advice.

If you do not act immediately when you see the signs of being in financial trouble, it will only get worse...

AGENSI KAUNSELING DAN PENGURUSAN KREDIT (AKPK)

Set up by BNM, AKPK's vision is "to make prudent financial management a way of life for all Malaysians". It seeks to equip Malaysians to live their lives with good money management skills and debts that are manageable.

AKPK provides three main services free-of-charge to members of the public to help them to better manage their money:

- Financial education programmes and materials on the proper use of credit and basic money management skills as well as tips on how to use credit responsibly;
- Financial counselling and advice, providing individuals with an in-depth evaluation of their problems and how these may be resolved;

- Debt Management Programme (DMP), through which AKPK works with individuals in developing personalised debt repayment plans and consults with their financial services providers to structure manageable repayment schemes.

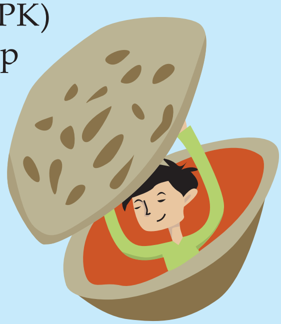
The DMP is provided to individuals who:

- have positive net income after meeting their expenses.
- are unable to manage their own debts.
- have loans taken from institutions regulated by BNM
- have loan exposure of less than RM2 million (as at time of publication).
- not under any advanced legal action.
- are not bankrupts.

More information about AKPK can be found at www.akpk.org.my

IN A NUTSHELL

- There are signs to indicate that you are in financial trouble. If you see any of these signs, you must take immediate action to get yourself out of the problem.
- Having unmanageable debts can affect all aspects of your life.
- Repayment track records are financial institutions' main criteria to assess creditworthiness.
- Financial institutions will take legal action against you for defaulting on your loan.
- Your creditor can make you a bankrupt if you fail to pay your loans.
- Being a bankrupt limits you in undertaking a number of things.
- The Credit Counselling and Debt Management Agency (AKPK) can assist you if you need help in managing your debt.



APPENDICES

APPENDIX 1
TIME VALUE OF MONEY
– Invest now rather than later

	Ahmad investing at age 18 at 10% interest return/year Invesment amount RM3,000		Siti investing at age 22 at 10% interest return/year Investment amount RM3,000		Zainal investing at age 30 at 10% interest return/year Investment amount RM3,000	
18	$3,000	$3,300				
19	$3,000	$6,930				
20	$3,000	$10,923				
21	$3,000	$15,315				
22	$3,000	$20,147	$3,000	$3,300		
23		$22,162	$3,000	$6,930		
24		$24,378	$3,000	$10,923		
25		$26,815	$3,000	$15,315		
26		$29,497	$3,000	$20,147		
27		$32,447	$3,000	$25,462		
28		$35,691	$3,000	$31,308		
29		$39,260	$3,000	$37,738		
30		$43,187		$41,512	$3,000.00	$3,300
31		$47,505		$45,664	$3,000.00	$6,930
32		$52,256		$50,230	$3,000.00	$10,923
33		$57,481		$55,253	$3,000.00	$15,315
34		$63,229		$60,778	$3,000.00	$20,147
35		$69,552		$66,856	$3,000.00	$25,462
36		$76,508		$73,542	$3,000.00	$31,308
37		$84,158		$80,896	$3,000.00	$37,738
38		$92,574		$88,985	$3,000.00	$44,812
39		$101,832		$97,884	$3,000.00	$52,594
40		$112,015		$107,672	$3,000.00	$61,153
41		$123,216		$118,439	$3,000.00	$70,568
42		$135,538		$130,283	$3,000.00	$80,925
43		$149,092		$143,312	$3,000.00	$92,317
44		$164,001		$157,643	$3,000.00	$104,849
45		$180,401		$173,407	$3,000.00	$118,634
46		$198,441		$190,748	$3,000.00	$133,798

47	$218,285	$209,823	$3,000.00	$150,477
48	$240,113	$230,805	$3,000.00	$168,825
49	$264,125	$253,885	$3,000.00	$189,007
50	$290,537	$279,274	$3,000.00	$211,208
51	$319,591	$307,201	$3,000.00	$235,629
52	$351,550	$337,921	$3,000.00	$262,492
53	$386,705	$371,713	$3,000.00	$292,041
54	$425,376	$408,885	$3,000.00	$324,545
55	$467,913	$449,773	$3,000.00	$360,300
Total Investment	RM15,000	RM24,000		RM75,000

Ahmad has more money at age 55 compared to Siti and Zainal and he has invested the least, only RM15,000.

Important notes:

a. Investment return will fluctuate over the years due to economic and stock market conditions. Some years may be lower than 10% per year and some years may be higher than 10% per year. Therefore, the total investment value may be more or less than the original investment amount.

b. The total investment that Ahmad, Siti and Zainal will get at the age of 55 will be as stated above only if the annual investment return is consistently at 10% per year.

APPENDIX 2
Clearing Your Credit Card Debt - Example 1

Steven has 3 credit cards, each with a credit limit of 5,000. He is struggling to manage his finances because he presently owes a total of RM10,000 on his credit cards. He has only been paying the monthly minimum payment of 5% on each card. Steven's monthly salary is RM3,300 per month. After deductions (EPF, SOCSO and tax), his take home pay is approximately RM 2,882 per month.

For this example, it is assumed that the interest rate on each credit card remains at 18% per year, which comes to 1.5% per month, and that Steven chooses to handle this situation on his own without any negotiation with the bank, cancellation of cards or assistance from 3rd parties. In addition, Steven has to service his car hire purchase instalment of RM525 per month, rental of RM650 per month, as well as his day to day living expenses which amount to RM900 per month, leaving him with about RM300 in discretionary income, which he tries to save every month, but usually, most of it goes to his parents.

A summary of his outstanding balances and the monthly minimum payments of 5% are listed below (all figures are in RM):

Name of Bank	Bank A (Master)	Bank B (Visa)	Bank C (Master)	**TOTAL**
Limit	5,000.00	5,000.00	5.000.00	
Balance	4,500.00	3,500.00	2,000.00	**10,000.00**
Minimum 5 % Payment	225.00	175.00	100.00	**500.00**

Steven's total outstanding credit card balance is RM10,000, equivalent to almost 25.25% of his annual gross salary of RM39,600.

Percentage of Total Minimum Payment from monthly take home salary: 17.35% (this leaves Steven with only RM 2,382 to live on the whole month!)

Steven wants to know how to clear all his credit card debt! Is there a solution? Thankfully, yes, but it requires self-discipline and effort.

Steven must firstly acknowledge the fact that he overspends and needs to cut back. Otherwise, his spending habits will lead him into the poorhouse!

Secondly, Steven needs to stop usage of all his cards. Thirdly, Steven needs to devise a plan to systematically pay off each card ***by adding more to the minimum payment each month***. However, as he has more than 1 card, he will need to tackle one card at a time.

Let's begin by re-ranking his credit card balances in order of the lowest balance first. We will begin by attacking the card with the lowest balance.

In addition, Steven has some cash savings of RM1,500. We shall utilize RM500 to pay off a portion of his debt with Bank C (Master).

The balance of RM1,000 in his savings shall be retained for emergencies. Steven then makes a commitment to pay an additional RM225 per month on top of his minimum payment for Bank C, while maintaining the minimum payments on the rest of his cards.

For the sake of simplicity, we will apply the same monthly payment amount on Bank A and Bank B each month.

Steven also agrees to commit a total of RM700 each month to pay off his debt. This means he has to live according to a strict budget and control his lifestyle. Watch what happens after 6 months of following this plan (note: the balances are calculated AFTER making payment):

Name of Bank	Bank A (Master)	Bank B (Visa)	Bank C (Master)	**TOTAL**
Limit	5,000.00	5,000.00	5.000.00	
Balance	4,500.00	3,500.00	1,500.00	**9,500.00**
Minimum 5% Payment	225.00	175.00	75.00	**475.00**
Monthly Commitment	225.00	175.00	300.00	**700.00**
Month 1 Balance	4,339.13	3,374.88	1,218.00*	
Month 2 Balance	4,175.84	3,247.87	931.77	
Month 3 Balance	4,010.10	3,118.97	641.25	
Month 4 Balance	3,841.88	2,988.13	346.37	
Month 5 Balance	3,671.13	2,855.32	47.06	
Month 6 Balance	3,497.82	2,720.53	0.00	**6,218.35**

* *The balance for Bank C becomes RM1,500 after deducting RM500 from Steven's cash savings.*

Here's how we calculate the on-going interest and outstanding balances after making payment each month:

Using Bank C (Master) as an example:		
Outstanding balance:	1,500.00	
- less payment	300.00	
Balance before interest	1,200.00	
+ add interest (1.5% per month)	18.00	
Balance (carry forward)	1,218.00	(see Month 1 Balance for Bank C)

In the space of just 6 months, Steven has successfully reduced his outstanding credit card debt to RM6,218.35! In addition, Steven has settled his credit card with Bank C (Master) in full, leaving him to deal with only 2 more banks!

This is quite an achievement. Now, let's continue with his attack plan by now targeting Bank B (Visa). Remember, Steven has made the commitment to utilize RM700 per month on all this credit cards. This means that Steven's monthly commitment will not change. Thus, the payment of RM300 that he used to make on Bank C must now be added to the minimum payment on Bank B. The chart now looks like this:

Name of Bank	Bank A (Master)	Bank B (Visa)	Bank C (Master)	**TOTAL**
Limit	5,000.00	5,000.00	5.000.00	
Balance	3,497.82	2,720.53	0.00	**6,218.35**
Minimum 5% Payment	174.89	136.03	0.00	**310.92**
Monthly Commitment	225.00	475.00	0.00	**700.00**
Month 7 Balance	3,321.91	2,279.21	0.00	
Month 8 Balance	3,143.37	1,831.27	0.00	
Month 9 Balance	2,962.14	1,376.62	0.00	
Month 10 Balance	2,778.20	915.14	0.00	
Month 11 Balance	2,591.50	446.74	0.00	
Month 12 Balance	2,402.00	0.00	0.00	**2,402.00**

In the space of 1 year (12 months), Steven has reduced his original credit debt of RM10,000 to RM2,402! This is 75.98% of his debt amount!

A great achievement indeed! At the end of 12 months, Steven is done paying off Bank B. All he then needs to do is continue with the same strategy, this time, take the payment of RM475 per month and add it to the minimum payment for Bank A, which would amount to RM700 per month, until all his debt is fully settled. By paying RM700 per month on Bank A (Master), Stephen would settle this card in another 3.5 months. All in all, he took a year and almost 4 months to settle his credit card debt, simply by re-adjusting his finances, targeting the credit cards in a systematic fashion, and exercising some measure of self-control.

With his credit debt out of the way, Steven can now focus on serious savings and investments towards achievement of his life goals. He would need to ensure that he uses his credit cards more prudently and to always pay off his credit card bills in full. He would also need to design a realistic budget to help him manage and monitor his cashflow each day, week and month so that he would not accidentally spend beyond his means.

Clearing Your Credit Card Debt - Example 2

John has 5 credit cards, each with a credit limit of 10,000. He is struggling to make ends meet because he presently owes a total of RM37,300 on his credit cards. John's monthly salary is RM 3,300 per month. After deductions (EPF, SOCSO and tax), his take home pay is approximately RM 2,882 per month. 3 Years ago, John was earning RM5,000 per month, and it was during those years that he applied for his credit cards. Due to his higher income at that time,

the banks extended him credit limits twice his monthly gross salary. However, he was subsequently retrenched and struggled to obtain a new job. When he finally did get a job offer, he was forced to accept his now lower salary. The lower income, however, created difficulties in paying his credit cards and as a result, he has only been barely paying the monthly minimum payment of 5% on each card.

The interest rate on each credit card is currently 18% per year, or 1.5% per month (see box below on ***The Real Interest Rate on Your Credit Card***)

The Real Interest Rate on Your Credit Card

Recall the earlier chapter that spoke about compound interest, which is interest upon interest added to the principal.

The credit card interest rate of 18% per annum needs to be divided by 365 days, i.e. 0.0493% per day!

Using the following mathematical formula for daily compounding:
[(1+0.000493)^365-1] = 1.1971-1 = 0.1971 or 19.71%

Therefore, 19.71% is the effective interest rate of a credit card.

A summary of his outstanding balances and the monthly minimum payments of 5% are listed below (all figures are in RM):

Name of Bank	Limit	Balance	Minimum 5% Payment
Bank A (Master)	10,000.00	9,800.00	490.00
Bank B (Visa)	10,000.00	9,500.00	475.00
Bank C (Master)	10,000.00	9,000.00	450.00
Bank D (Visa)	10,000.00	6,000.00	300.00
Bank E (Master)	10,000.00	3,000.00	150.00
	TOTAL	**37,300.00**	**1865.00**

John's outstanding credit card balances of RM37,300 is 11.3 times his gross monthly salary. With a nett take home pay of RM2,882 per month, John has to commit 64.71% of this amount in order to meet the minimum 5% credit card payment. This will only leave John with RM1,017 to meet his other expenses for the month, such as rental, his car hire purchase payment, food, utilities, study loan repayment and so on.

Clearly, John is in a financial predicament. His debt burden is too heavy and he would lack sufficient funds for his living expenses and emergencies.

If he were to continue on his present path, his credit card balances would keep on increasing (credit card interest compounds DAILY!) and he would soon be unable to service his debt, default on his payments, and face legal action from his financial institutions.

Thankfully, there is a solution, but it requires willpower, discipline and effort, and possibly, assistance from 3rd parties.

Firstly, John must acknowledge that he has a serious debt problem and he must cancel his credit cards immediately

Secondly, he can negotiate for a lower interest rate and longer but fixed duration to pay off his debt. He may either negotiate directly with each bank or he may opt to seek out the services of a 3rd party, such as a credit counseling agency, to assist him with the negotiations.

Thirdly, he must tighten his belt and exercise self-control and dicipline and stick to the repayment plan with determination.

John recalculates his expenses and meets with all his banks to negotiate a manageable structured repayment plan. Assuming all his financial institutions agree to reduce the interest rate to 9% per annum with fixed monthly repayments, John would be able to commit RM950 per month. The banks would then convert all his outstanding credit card debt into term loans which according to this example, would be paid off in approximately 4 years. However, John would have to experience his credit card facilities being terminated and he would lose the privilege and convenience of using them. His restructured repayment plan would now look like this:

Restructured Credit Card Repayment Plan C

(Term loan conversion at 9% interest per annum over 4 years)

Name of Bank	Outstanding Balance	Fixed Monthly Payment
Bank A	9,800.00	250.00
Bank B	9,500.00	240.00
Bank C	9,000.00	230.00
Bank D	6,000.00	150.00
Bank E	3,000.00	80.00
TOTAL	**37,300.00**	**950.00***

At a reduced interest rate of 9% per annum, John's monthly commitment is now just about half of what it used to be and this certainly eases the pressure off of him, enabling him to meet his payments each month as well as take care of his own needs, and perhaps put aside a small amount each month for savings and emergencies.

* This was derived from a financial calculator using the *'time value of money'* formula.

APPENDIX 3

Personal Monthly Budget with Personal Monthly Cash Flow in one Statement		
Monthly income	Budget	Actual Cash Flow
Total monthly income		
Less monthly fixed savings (10% of monthly income)		
Less savings for emergency funds		
Monthly income net of savings		
Less monthly fixed expenses		
Total monthly fixed expenses		
Less monthly variable expenses		
Total monthly variable expenses		
Less monthly discretionary expenses		
Total monthly discretionary expenses		
Excess (Deficit) Income Excess of income over expenses + fixed savings + emergency funds = extra savings. (If the amount is negative, you have spent more than your monthly income)		

APPENDIX 4
Resources

Websites

- Banking: www.bankinginfo.com.my
- Insurance: www.insuranceinfo.com.my
- Bank Negara Malaysia: www.bnm.org.my
- Financial Mediation Bureau: www.fmb.org.my
- Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia or PIDM): www.pidm.gov.my
- Ministry of Domestic Trade and Consumer Affairs: www.kpdnhep. gov.my
- Agensi Kaunseling dan Pengurusan Kredit (AKPK): www.akpk.org.my

Reference materials and books

- ***Smart Money-User*** by Carol Yip, 2007, published by Kanyin Publication
- ***The Money Book, A CAP Guide to Managing Your Money & More***, published by the Consumers Association of Penang
- ***Banking Info* and *Insurance Info*** booklets, published by Bank Negara Malaysia
- ***Personal Money, The Edge Magazine on Managing Your Finances*** *magazine, The Edge Communications Sdn Bhd*

"It is not how much you earn;
it is how you spend what you earn."

Money $ense will open your mind to things you should be prepared for financially when you enter the competitive job market. The book explains what you should start doing early in life to achieve your financial dreams. It aims to ease your financial worries by providing you useful tips to manage your money and plan for the future. This book teaches you how to live well with the need to save and invest for tomorrow to ensure your financial dreams turn into reality.

In essence, Money $ense is all about helping you make sense of your money. It is a common sense book no young adult should be without.

ISBN 978-983-44004-0-8
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