# MONEY SMART

## OWN YOUR FINANCIAL DESTINY


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All these add to the total expense ratio, which is typically expressed as a ratio of the total assets under management. The total expense ratio for a Singapore-listed equity ETF is between 0.3 per cent and 0.6 per cent a year. In contrast, a typical expense ratio range for equity unit trusts here would be 1.2 per cent to 1.8 per cent.

There may also be an initial sales charge of up to 5 per cent when investing in unit trusts, while investors incur only brokerage fees when transacting in ETFs, adds Mr Lee.

## ADVANTAGES OF ETFS

### 1. TRANSPARENCY AND LOWER RISK

There is clarity on where your money is invested. You gain access to real-time information and prices on your portfolio, and you know exactly what stocks or assets are included in the ETF you buy into. ETFs reduce the risk that may result from investing in single stocks. Retail investors enjoy access to quality blue chips when investing in ETFs that track indices such as the benchmark Straits Times Index and S&P 500.

### 2. DIVERSIFICATION

Diversification reduces risk exposure and volatility. It is prudent to expand or vary your investments from a single instrument by buying into a basket of securities. ETFs allow you to spread your risks easily across various securities and markets.

ETFs are an alternative investment to holding cash. Make your savings work harder with better investment planning and by broadening your portfolio with different asset classes. So consider tapping equities, fixed income, commodities and alternative investments that suit your risk appetite.

### 3. EASY TO BUY

Buying an ETF is as simple and convenient as buying a listed stock, says DBS Vickers Securities. And you can trade securities listed on foreign exchanges and invest in emerging markets conveniently.

### 4. BETTER LIQUIDITY

An ETF offers better liquidity than unit trusts. This is because you can trade an ETF on the market during the day, while unit trusts are priced only once a day, says Mr Kelvin Goh, head of investments and wealth advisory at OCBC Bank.

### 5. MUCH CHEAPER

ETFs are much cheaper than unit trusts, adds Mr Lee, which in turn means all things being equal (for example, gross performance), the end investor gets better results net of fees.

## 7 RISKS TO CONSIDER

Not all exchange-traded funds (ETFs) are created equally; some have more complex structures and are exposed to more risks. As with all investments, buy into an ETF only if you are comfortable with its structure and potential risks. ETF risks are fundamentally determined by the performance of the underlying holdings, the volatility and risk of the markets or sectors in which the ETF invests and the investment style it follows, says DBS Vickers Securities.

### 1. MARKET RISK

You are exposed to market risk or volatility of the specific underlying asset or market the ETF tracks. This risk cannot be diversified and during adverse conditions when prices of stocks, bonds or commodities decline, the ETF's value will decline accordingly, adds DBS Vickers Securities.

### 2. FOREIGN EXCHANGE RISK

Investors are exposed to fluctuations in foreign exchange when the ETF is priced in a different currency from the investor's local currency. This can potentially increase or erode returns.

## HOW SSB WORKS

The Singapore Savings Bond (SSB) programme was introduced to expand the range of simple, low-cost investment options available to individual investors to help them meet their long-term financial goals and retirement needs.

The Monetary Authority of Singapore hoped that SSB investors who are new to investing would consider other instruments for long-term investment as they gain a better understanding of saving and investing.

Fully backed by the Government, the SSB is a principal-guaranteed, risk-free, affordable and low-cost investment option.

The SSB rate steps up over time, so over a 10-year period the average interest is generally higher than that for fixed deposits.

You will need at least $500 to invest in these bonds, lower than conventional Singapore Government Securities (SGS), which require $1,000. Corporate bonds usually require $250,000. The investment amount must be in multiples of $500. You can invest up to $200,000 in a single SSB issue and hold up to $200,000 at a time.

Financial experts say SSBs are intended to be a safe, flexible and long-term instrument. They are a good complement to CPF and retirement schemes and should be considered as an investment option in a diversified portfolio, which could comprise a combination of SSBs, fixed deposits, shares or/and exchange-traded funds and unit trusts.

Mr Sam Phoen, co-founder of Wateram Capital, says investors can easily improve returns by switching to higher-yielding SSBs whenever the yield gap is large as there is essentially no cost to "early redemption" (other than the $2 ATM fee), unlike a bank's fixed deposit.

The interest rates of each SSB issue are based on the average SGS yields the month before applications for that issue open. The SGS yields are market-driven and hard to predict with a great deal of certainty on a month-to-month basis.

Still, Mr Phoen notes that, in the short term, the one-year interest rate is likely to stay around 2 per cent, as the market assesses the slowing global growth environment and the United States Fed's likely next move.

"The flat yield curve is likely to persist for a while longer, so don't expect big increases in the hold-to- maturity average 10-year interest rate, which is likely to hover around 2.2 per cent."

DBS rates strategist Eugene Leow expects SSB yields to be broadly stable over the coming few quarters and the average 10-year yield to be about 2.2 per cent.

## FIVE THINGS TO CONSIDER WHEN YOU TURN 55

### 1. DON'T WITHDRAW YOUR CPF SAVINGS

The CPF survey indicated that 40 per cent of CPF members did not make cash withdrawals after turning 55. This allowed them to keep earning attractive, risk-free interest. If they later decide to withdraw their savings, they can receive them within a day with PayNow.

### 2. TOP UP TO ENHANCED RETIREMENT SUM (ERS)

People who want to have higher retirement payouts can top up to the prevailing ERS of $256,500 at 55. This will allow them to receive monthly lifelong payouts of $1,910 to $2,060 from age 65. And if you have surplus savings, you can continue to top up to each year's prevailing ERS after 55 to get higher monthly payouts from 65.

### 3. BUILD UP HEALTHCARE SAVINGS

Members who reach 55 and have not met their Basic Healthcare Sum (BHS) can transfer funds from their CPF Special and Ordinary accounts to their Medisave Account, up to their BHS. They must first have the Full Retirement Sum (FRS), or Basic Retirement Sum (BRS) with sufficient property charge/pledge, in their Retirement Account.

Members can also apply to transfer their Special and Ordinary account savings to their loved ones' Medisave Account if the recipients are over 55, up to their BHS. For members who turn 65 this year, their BHS will be fixed at $54,500, which will not change for the rest of their lives. A loved one can be a spouse, sibling, parent, grandparent, parent-in-law or grandparent-in-law.

Medisave Account savings can be used to pay for your own and your immediate family members' medical expenses, as well as the premiums of approved medical insurance schemes, like MediShield Life.

### 4. TOP UP OR TRANSFER TO YOUR LOVED ONES

In addition to enhancing your own retirement, you can also consider transferring some of your savings to the CPF accounts of your spouse and other loved ones. The Government made it easier to do this in 2016. Members can now transfer their CPF savings above the Basic Retirement Sum, rather than the Full Retirement Sum (FRS), to their spouses.

From Oct 1, there will be a lower threshold for members to make CPF transfers to their parents and grandparents. You will be able to transfer CPF savings above your BRS to your parents and grandparents if you have sufficient CPF savings, inclusive of property pledge or charge, to meet your FRS.

Right now, you can transfer only CPF savings above your FRS to your parents and grandparents.

There were 15,789 top-ups and 4,345 CPF transfers to spouses above the FRS last year.

### 5. PAY OFF YOUR HOME LOANS

Around 13 per cent of members had used their CPF withdrawals at 55 to pay off loans. But if you use your CPF Ordinary Account savings to service a mortgage, note that CPF contribution rates drop over time. Furthermore, a smaller proportion of our contributions goes into our Ordinary Account as we get older, so it's important to pay off the mortgage as soon as you can, says the CPF Board.

## FOUR THINGS TO DO WITH YOUR WITHDRAWABLE CPF SAVINGS

### 1. INVEST IN EQUITIES

Mr Lam advises customers to assess their financial position and establish their retirement needs before allocating their funds to optimise returns. Keep in mind that the average Singaporean's life expectancy is increasing — it's 85.2 years for women and 80.7 years for men.

Mr Lam notes: "Should you choose to withdraw your CPF funds, taking into account the increase in life expectancy, you should note that your investment horizon is also extended.

"If so, you might consider allocating a portion of your funds in assets which may yield higher returns over a long horizon (but are in turn higher risk) such as equities or exchange-traded funds."

Ms Chung Shaw Bee, head of wealth management at United Overseas Bank, says one income-generating option you could consider is multi-asset funds that have a focus on generating regular payouts. "You could also consider investing in a globally diversified portfolio of bonds as holding different asset classes enables you to hedge against risks across market cycles."

### 2. RETIREMENT-RELATED INSURANCE

To supplement the CPF Life payout, you can consider putting aside some money in retirement insurance plans, such as annuities that can provide an additional source of stable income.

Besides annuities, life insurers have been rolling out retirement insurance plans that come with flexible premium payment terms and different payout periods to cater to your financial needs.

### 3. ENDOWMENT INSURANCE PLANS

Ms Chung says that you could diversify your retirement investment portfolio by investing in short- to medium-term insurance endowment policies. Such policies can offer lump sum proceeds at different maturity periods, so you get a staggered payout, or monthly cash benefits if you prefer higher liquidity. The yield from endowment policies can also hedge against the effects of inflation.

### 4. SINGAPORE SAVINGS BONDS (SSBs)

As interest rates inch upwards, the SSB is gaining popularity among retail investors. SSBs, which are fully backed by the Government, are a principal-guaranteed, risk-free, affordable and low-cost investment option.

The SSB rate steps up over time, so over a 10-year period, the average interest is generally higher than that for fixed deposits. To invest, you will need at least $500, lower than conventional Singapore Government Securities (SGS), which require $1,000. Corporate bonds usually require $250,000.

If you hold your SSB for the full 10 years, your return will match the average 10-year SGS yield the month before your investment. In the past 10 years, the 10-year SGS yield has been between 2 per cent and 3 per cent most of the time. The average interest rate a year for the October issue of SSB is 2.42 per cent.

SSBs may be a viable option for your withdrawable CPF funds, particularly when the average returns go beyond 2.5 per cent. So continue to watch this space.