Not sure what to do with your first salary? Tips to get a head start in your financial journey for first jobbers. – Transcript

CPF Board 00:07
Hey and welcome to Let's Talk CPF, a podcast where we bring conversations on CPF to your ears, brought to you by the CPF board. This podcast will answer common questions, offer tips, and feature interviews with industry experts on CPF and financial planning. Thanks for listening, and let's get straight into today's episode.

Ning Xin 00:33
According to the 2022 Joint Autonomous Universities Graduate Employment Survey, a fresh jobber is drawing about $4,200 a month. So if you have just graduated and found your first job, how should we go about managing this sum of money? And where do we even start? Hello and Ning Xin from CPF Board, and today we have Albert from MoneyOwl on the show with us. Hello, Albert. Welcome.

Albert 00:57
Hello, Ning Xin. Thank you for having me here today. I'm Albert from MoneyOwl. My work involves conducting financial literacy workshops for working adults in both the private and public sectors. I also support my colleagues from the advisory and marketing departments with subject matter expertise on topics ranging from insurance to investment, CPF, and estate planning. Now Ning Xin, do you recall when you were a student, what were your expenses like?

Ning Xin 01:25
My parents covered lodging in terms of hall fees and me staying at home on the weekends, they also provided allowance for food, transport, they covered my study needs, phone bills, medical and also a little bit extra for entertainment.

Albert 01:40
Great. Now that you imagine you're a fresh graduate, on top of taking over the costs that you mentioned above, you now have to plan for your finances, insurance, and maybe even service your study loan. A commonly used guide is the 50/30/20 rule after factoring in CPF contributions.

Ning Xin 01:58
Tell us more about this rule!

Albert 01:59
The 50/30/20 rule is where you allocate 50% on needs, 30% on wants, and 20% on savings. However, this is not a one size fits all. And we can always adjust accordingly. Wise financial planning is not just about saving and investing, but also about mindful spending. The first step to financial awareness is to

know where you are spending on. Tracking your expenses guards against lifestyle creep, we're working adults slowly increase their spendings as they feel richer with their increased income. I have seen some who get mired in debt issues when they borrow to fund spendings beyond their income. There is a negative impact on their various financial goals, and this puts them on the backfoot in their journey to financial wellness. Now, how can we go about doing this? Let me go into how we can track each expense and classify them into two categories. Generally, we have fixed expenses and variable expenses. Fixed expenses are those that don't vary from month to month, such as your phone bills and insurance premiums. Variable expenses are your food, travel and entertainment spendings. This bucket is easier to adjust and keep within your limited budget for the month. Now perhaps with a bit of careful planning, you might end up with some surplus. Take this as a bonus, and maybe treat yourself to a bit of self care. It may be tedious in the first few months. But once you get the hang of it, things just run on autopilot.

Ning Xin 02:56
Let me try summarising this. So you allocate your budget from your monthly salary according to the 50/30/20 ratio, which is 50% on needs 30% on wants and 20% on savings. This will allow us to track our expenses, which we can then practice mindful spending. Then we pull out all our bills and bank statements, spendings and sort them into fixed or variable expenses. Now that we've got a big principles, where should I go if I require more info or tips for starting to plan my finances?

Albert 04:12
I believe it's important to start building your repository of personal finance knowledge and with knowledge comes awareness and hopefully, a motivation to take action. Start from an area where you feel that some potential interest and usually for the younger folk, it's somewhere along the lines of investing.

Ning Xin 04:31
So what approach should we take when sifting through this information?

Albert 04:35
Generally, I will go for official, verifiable, or even a peer reviewed resource question the authenticity and reliability of a particular resource before adopting any ideas. For myself, I prefer to consume the news via the social media handles of major news agencies and click into the headlines that interests me rather than to read through the whole newspaper. Likewise for you, it is also consuming little bits of financial planning information over a medium that you are comfortable with. Social media is a great place to start with little nuggets of information on financial literacy. A couple of personal finance social media handles I personally enjoy The Woke Salaryman and The Simple Sum.

Ning Xin 05:24
Oh yeah, I follow these creators as well.

Albert 05:26
They break down complex personal financial concepts into bite sized content as we scroll through our social media feeds. This is an easy way to consume information and grow our knowledge. As you

progress, you may encounter more complex scenarios or questions. There are communities online where you can seek opinions from others. One such platform is Seedly where I also contribute from time to time. Why I like this is because it features discussion boards where you can post questions, and these discussions are parked under various categories such as adulting, investing, insurance, and more. They are moderators who ensure that the content is kept in check. But a bulk of the responses tend to be personal opinions. Now when you feel you're ready to take action, and require a more personalised approach to start your financial planning journey, you may seek advice from a licensed financial advisor, including MoneyOwl I usually recommend for clients to do a comprehensive financial plan as a start, which serves as a roadmap in their journey of life. It provides a snapshot of your financial health and analysis of your CPF savings, a review of your insurance needs and also investment planning.

Ning Xin 06:47
After our financial stocktake, the natural next steps would be to actually decide how we should manage our finances beyond daily prudence. We've heard a lot about insurance. We've also covered using CPF to finance healthcare in an earlier episode with my colleague from the CPF healthcare insurance department. But what else is there and what might we need to consider in terms of insurance as we embark on our adult life?

Albert 07:11
As you level up in the game of life, your character needs protection against certain life risks such as death, or disability or major illness, or even a potential retrenchment. These events will either cause your income to stop permanently or for a very long time. Other than the loss of income, you may also incur unexpected large medical expenses. We all have MediShield Life and that covers the basic, but your coverage should be tailored to your needs. If you require more, you can upgrade it to a higher level of protection, such as Integrated Shield Plans depending on your healthcare expectations. When it comes to severe long term disability, we all have CareShield Life once we turn 30 years old. For those younger than 30, you may consider getting a disability income insurance plan. Beyond plans to cover medical costs, we can also add on body armour such as a simple term life insurance, or critical illness insurance. I have two general guidelines on insurance. Number one, insurance is primarily meant for protection. There are many tools on the market to help you grow your wealth and insurance may not necessarily be the best option. Number two, insurance premiums should be viewed as an expense. Buy as much insurance as you need. But aim to spend as little as possible on the premiums. Getting insured adequately does not have to cost an arm and a leg. As we are starting out, we are trying to minimise monthly expenses as much as possible. One way is to explore the use of group insurance as these are some of the cheapest around. I definitely agree. As a first jobber, I remember always trying to get the most value for money. But what is group insurance? And if it's such a good deal, is there a catch to it? Good question. Group insurance can either be automatic inclusion through employment or voluntary participation through a membership of a group. It may be worthwhile to look into what kind of insurance coverage you will be getting when you consider job offers. One thing to note is that when you leave the organisation, you will lose the insurance cover. For guys, we have the MINDEF-MHA Group Term Life Insurance, which is one of the few portable group insurances. This means that we can still be covered after national service and our spouses and children are eligible too. Group insurance is a cost effective way to complement our personal insurance portfolio.

Ning Xin 09:52
Got it. So in essence, know your needs, compare between the different types of insurance and don't forget that premiums are part of your fixed monthly expenses. It is important to get covered for what you need. Is there anything else we need to look at?

Albert 10:07
Yes, after covering your bases, suiting up with shield and armour, we can now improve our weaponry to fight the monsters of your short and medium haul financial goals. These can be anything from saving your first $10,000 to planning for the solo trip to Europe. Some may even have an eye on saving for your BTO with your partners. You can explore growing your money through different platforms and instruments. Once you have saved up about six months of expenses as emergency funds, make a life decision first, then a financial decision to support it. Invest according to your life plans and don't just chase returns without an objective. Choose your weapons or investments according to your time horizon and risk profile.

Ning Xin 10:57
How can we go about doing this?

Albert 10:59
It is not so much about what you invest in. But how you invest, we can follow some general guidelines. Number one, diversify. As the saying goes, Don't put all your eggs in one basket, spread your risk exposure and cast your nets wide. While some companies do well, some may not. Having a big enough base ensures that you have more winners to offset the losers in your portfolio, thereby improving your chances at a positive investment experience. Number two, use low cost instruments. If market returns are out of our control, we should then control the cost of our investments. Every dollar saved is a dollar earned on your investment returns. Thirdly, asset allocation. Just like a balanced diet, we all have an allocation to fit our financial situations. On our plates, some may require more carbohydrates, some may require more protein. Likewise, some may require more in equities and some more in bonds. Asset allocation is more important than picking sectors or industries. All listed companies aim to be profitable and generate returns for their shareholders. For example, a 6% return on a technology stock is the same 6% return on the healthcare stock. When these returns come may depend on prevailing market conditions. Lastly, go for a long term approach. As the saying goes time in the market is more important than timing the market. It is a futile attempt to try and time the market because markets are and will be volatile. Now there is one big mistake for beginners is when the markets are down, they panic sell. Rather than checking on your investment every other day. May I suggest for you to look into your portfolio as you approach various life stages and do a stocktake of your financial assets before major milestones such as buying your first property or starting a family.

Ning Xin 13:16
I'd like to cut in here to remind everyone that your investments should be based on research and not hearsay.

Albert 13:22

Yes, markets will go up in the long run due to population growth and the increased demand for goods and services. In turn, the earnings of these listed companies will continue to increase causing your stock prices to rise. I believe your mastery of the sword is more important than how good or how expensive your sword is. Do your due diligence and read up on your options. Study them carefully before making any decisions. Look for a trusted adviser, someone else's elite weapons may not be a good fit in your hands and your life plans.

Ning Xin 14:02
Have you ever heard of people earning insane profits after buying into a particular product and then feeling far more? The temptation to just go into the market after seeing others good and money seemingly quickly and easily without much research can be strong. We are also inundated with tips from FinLit influencers but we should always conduct our research from credible sources. Albert, do you have any tips on how we can manage these feelings?

Albert 14:28
Yes, I agree. It can be quite daunting, especially in this age of information. There is no shortage of information, but to discern the quality and reliability of information is another thing. I myself am quite lazy and often find ways to make my life easier. One example is to watch a 20 minute YouTube book review rather than to read the book myself. I came across this book review titled The Millionaire Fastlane by MJ DeMarco. In the book, the author discusses the concept of getting rich quick. Nobody said that it was easy to study the fundamentals of the stock market and pick the one stock, which generated double digit returns overnight. Neither should we look at the likes of Mark Zuckerberg, and think that they became rich overnight. It all took years of hard work and sacrifice. As the saying goes, no pain, no gain. Becoming rich is a process and not a one time event. Unless of course, if you strike the lottery,

Ning Xin 15:33
I would love to strike the lottery too. But that chance is probably zero because I don't buy the lottery. I'm so risk averse that I don't ever want to lose that $1 at a quick pick, but I think I'm a lazy investor. Do you have advice for lazy investors and also some for those with moderate risk appetite with more discipline to monitor the assets regularly?

Albert 15:54
For lazy investors, a good place to start will be collective investment schemes such as ETFs, also known as exchange traded funds. These funds can track either a global or US market index. They offer diversification and asset allocation for a relatively low cost. Generally, you should have about 80 to 90% of your investments in conventional asset classes, such as stocks and bonds for the other 10 to 20%, you can explore alternative investments, which may give you a higher return, but also comes with potentially higher risk, and the need to monitor more regularly.

Ning Xin 16:36
Thanks for the advice. Going back to feelings of FOMO Have you felt FOMO yourself?

Albert 16:41

Yes, of course, I have seen in my circle of friends, some who have done well in their jobs, and were able to live a nice life with big cars and apartments. And I felt the pressure to keep up and ended up spending more than I should. This had an impact on my finances in earlier years as a young working adult. Looking back the amount that I spent could have been put into better use for accumulating for my longer term financial goals. The one piece of advice when being inundated with social media and peer pressure is to focus on your own race. Everyone has their own financial and life clocks running at their own pace. It is not easy, but we should learn how to measure success on our own terms, and not what society deems. The paths that we take also differ and it becomes quite pointless to compare material possessions. So focus on your own race and start your planning today.

Ning Xin 17:40
Thank you, Albert for being here. And with that you've been listening to Let's Talk CPF!

CPF Board 17:47
Before you go, we would love to hear from you. Email us with your questions or comments at podcast@cpf.gov.sg so we can create better content for you. You can also leave us a review on the platform you're listening from to help others learn about our podcasts. For the latest news, visit cpf.gov.sg/podcasts or follow our social media pages. Thank you once again until the next time, let's talk CPF.