MFPC
Malaysian Financial Planning Council
Competence.Ethics.Standards

Basic Financial Planning Guide

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1. Overall Financial Planning

Objectives:

a. To create the awareness of the importance of financial planning

b. To achieve financial independence or financial freedom before retirement age of 60

2. Coverage Inclusion

Financial Statement Analysis, Debt Management, Risk Management and Insurance Planning, Investment Planning, Tax Planning, Estate Planning, Education Planning and Retirement Planning.

01 PRE-ANALYSIS

(SHORT - TERM GOAL)

- Cash Flow Planning
- Net Worth Analysis
- Debt Management
- Risk Management
- Insurance Planning

(Pre-analysis phase is important for the initial financial planning to make sure the current financial situation is healthy)

02 WEALTH ACCUMULATION PHASE

(MEDIUM - TERM GOAL)

- Investment Planning
- Tax Planning

(Wealth accumulation phase is important to grow and accumulate the financial resources to the highest value)

03 POST-ANALYSIS

(LONG - TERM GOAL)

- Estate Planning
- Education Planning
- Retirement Planning

(Post analysis phase is important to sustain the cost of living after the ceased of permanent job)

3. The Holistic Process of Financial Planning

08
RETIREMENT PLANNING

4. Key Needs of Financial Planning

Priority
Cash Flow

Objective
• To have cash surplus yearly

Principle
• Maintain a yearly minimum cash saving of 3 to 6 months from cash outflow as the emergency fund

• Maintain a yearly of 10% saving ratio from total income (exclude from the statutory EPF contribution of 23%)

(More info on cash flow can be obtained from Malaysian Financial Planning Council, RFP, M1)

How to achieve?
Consider:
• Monthly budget

• Bank saving/ Malaysia savings bond/ Sukuk[1]

• Assets invested must be cash equivalent and high liquidity and capital protected.

[1] Malaysia savings bond and Sukuk refer capital markets instrument which offers income and potential capital protection by government.

Timeframe
• Short-term goal means to achieve cash surplus within a year

Try Malaysian Financial Planning Council – Budget Flow Calculator

https://www.mfpc.org.my/budget-calculator/

Priority

Financial Position

Objective

• To obtain positive net worth

Principle

• Maintain a yearly total asset > total liabilities

• Maintain a yearly maximum of 50% of total liabilities per total assets ratio.

(More info on net worth can be obtained from Malaysian Financial Planning Council, RFP, M1)

How to achieve?

Consider the additional resources for different personal assets[2] such as Unit trust, PRS, money market instrument, shares, insurance products and EPF self-contribution*

[2] Personal assets are ownership belonging to an individual that can generate future value

Timeframe

• Short-term goal means to achieve positive net worth within a year

Priority
Debt Management

Objective
• To meet the financing needs at lowest cost in long run

Principle
• A maximum of 35% of the debt service ratio.

• A maximum of 15% of the non-mortgage debt service ratio.

(More info on debt management can be obtained from Malaysian Financial Planning Council, RFP, M1)

How to achieve?
• Prioritize paying off high interest debts (e.g., credit card), to avoid high interest charges

• Consider top up the loan principal to reduce the high interest charges (when with excess cash surplus)

• Prioritize low effective annual interest rate for loan as because it takes into account the effects of compounding.

Timeframe
• Medium-term goal means to meet the financing needs at lowest cost within one year to three years

Priority

Risk Management

Objective

• To identify the personal risk tolerance level

Principle

• Very low risk with possible asset allocation (Equity: 0-10%; Debt and cash: 90-100%)

• Low risk with possible asset allocation (Equity: 10-30%; Debt and cash: 70-90%)

• Medium risk with possible asset allocation (Equity: 40-60%; Debt and cash: 40-60%)

• High risk with possible asset allocation (Equity: 70-90%; Debt and cash: 10-30%)

• Very high risk with possible asset allocation (Equity: 90-100%; Debt and cash: 0-10%)

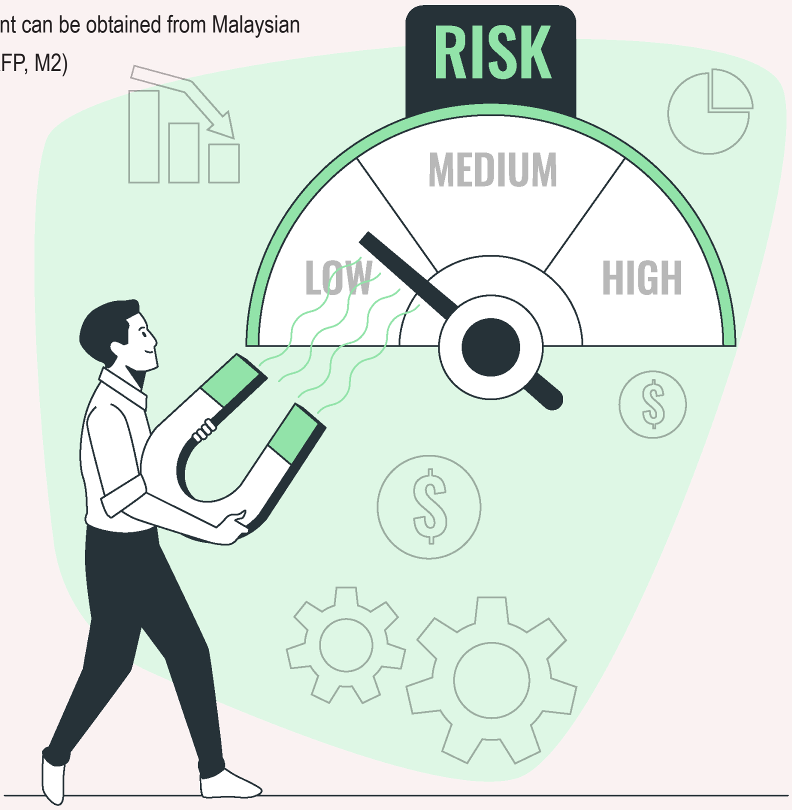
(More info on risk management can be obtained from Malaysian Financial Planning Council, RFP, M2)

How to achieve?

• Do not involve in riskier assets if the risk tolerance level is low

Timeframe

• Short-term goal means to identify the personal risk tolerance level within a year



Priority
Insurance Planning

Objective
• To have sufficient insurance coverage

Principle
• Sufficient insurance coverage
= Total available resources for insurance > total insurance needs

• At least to allocate 5% to 10% from total income to pay for insurance premium.

(More info on insurance planning can be obtained from Malaysian Financial Planning Council, RFP, M2)

• The industry benchmark:
10x annual income for death and total permanent disability; and 4x annual income for critical illness.

How to achieve?
Consider the additional resources:
• Insurance products, unit trust, PRS, money market instrument, shares, property investment and EPF self-contribution

• Do not involve in risky assets if the risk tolerance level is low

Timeframe
• Short-term goal means to have sufficient insurance coverage within a year

Priority
Investment Planning

Objective
• To restructure the current investment portfolio, increase the return through portfolio rebalancing

Principle
• The portfolio rebalancing at suitable risk tolerance. (**Refer to risk management)

• The return from portfolio rebalancing > the return from current investment portfolio

• Maintain a yearly of 10% saving ratio from total income (from cash flow) and invest in investment assets

(More info on investment planning can be obtained from Malaysian Financial Planning Council, RFP, M3)

How to achieve?
Consider investing:
• Unit trust, PRS, money market instrument, shares, property investment and EPF self-contribution

• Do not involve in risky assets if the risk tolerance level is low

• The consideration investing in different assets must be consistent with all the planning.

Timeframe
• Medium-term goal means to increase the return within one year to three years

Priority
Tax Planning

Objective
• To achieve the tax saving

Principle
• To utilize all the tax reliefs

• To aware of the rate of tax on chargeable income *(Refer to https://www.hasil.gov.my/individu/kitaran-cukai-individu/lapor-pendapatan/pelepasan-cukai/)*

(More info on tax planning can be obtained from Malaysian Financial Planning Council, RFP, M4)

How to achieve?
Consider utilizing:
• tax reliefs such as life insurance premiums, expenses on medical treatment, fees paid to childcare centre and etc ***

Timeframe
• Medium-term goal means to achieve the tax saving within one year to three years

Priority

Estate Planning

Objective

• To manage all the estates in an efficient way

Principle

• Nomination is documented for insurance and EPF.

• Will is documented for immovable property (houses, buildings) and moveable assets (cars, shares, investments, etc).

Refer to https://www.amanahraya.my/services/will-writing/

(More info on estate planning can be obtained from Malaysian Financial Planning Council, RFP, M5)

How to achieve?

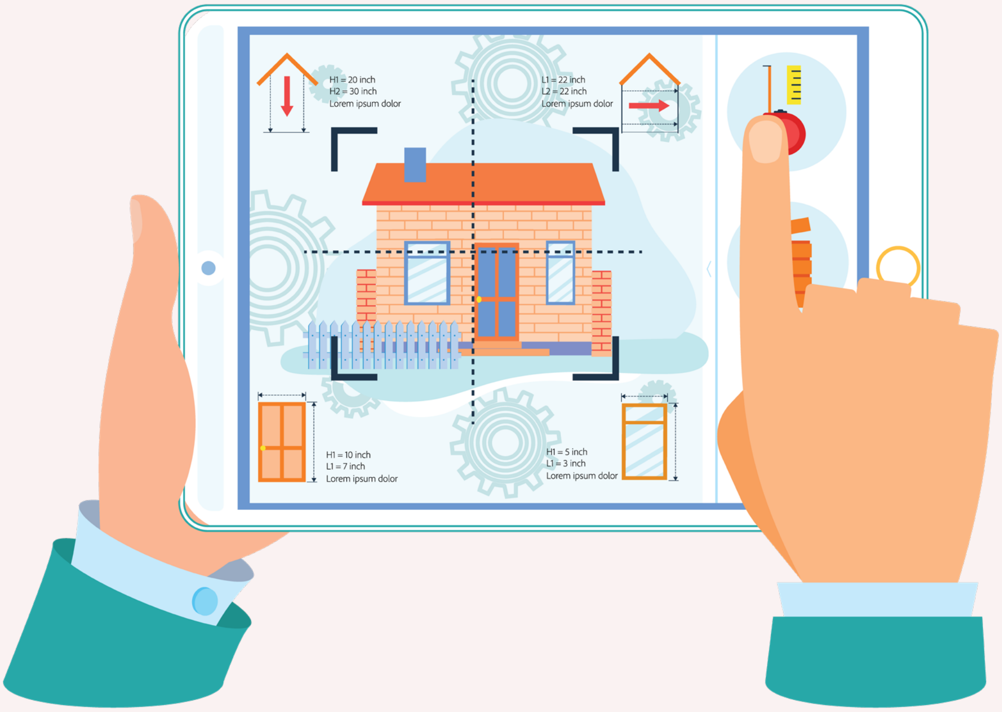
Consider making:

• Will, EPF and Insurance nomination

• Lasting Power of Attorney

Timeframe

• Medium-term goal means to manage all the estates within one year to three years



Priority
Education Planning

Objective
• To accumulate sufficient education funding

Principle
• Sufficient education funding = total available resources for education > total education needs (at least to have 5% to 10% extra)

• Maintain a yearly of 10% saving ratio from total income (from cash flow) and invest in investment assets

How to achieve?
Consider investing:

• National saving of SSPN, Unit trust, money market instrument, education insurance policy[1]

[1]The purpose of investment assets is for education funding only.

Timeframe
• Long-term goal means to accumulate sufficient education funding before the eldest started tertiary education

Priority

Retirement Planning

Objective

• To accumulate sufficient retirement funding

Principle

• Sufficient retirement funding = total available resources for retirement > total retirement needs (at least to have 5% to 10% extra)

• Maintain a yearly of 10% saving ratio from total income (from cash flow) and invest in investment assets

• (More info on retirement planning can be obtained from Malaysian Financial Planning Council, RFP, M6)

(More info on retirement planning can be obtained from Malaysian Financial Planning Council, RFP, M6)

How to achieve?

Consider investing:

• Unit trust, Private Retirement (PRS)[2], money market instrument, retirement insurance policy, EPF self contribution* and investment property and etc[3].

[2] Private Retirement Schemes (PRS) is a voluntary long-term savings and investment scheme designed to help you save more for your retirement.

[3] The purpose of investment assets is for retirement funding only.

Timeframe

• Long-term goal means to accumulate sufficient retirement funding before the retirement age of 60.

Notes:

**Self-contribution serves as an option to those who want to voluntarily grow their savings with EPF with a limit of RM100,000 per annum.*

***Refer to risk management*

**** Refer to https://www.pwc.com/my/en/publications/mtb/personal-income-tax.html*

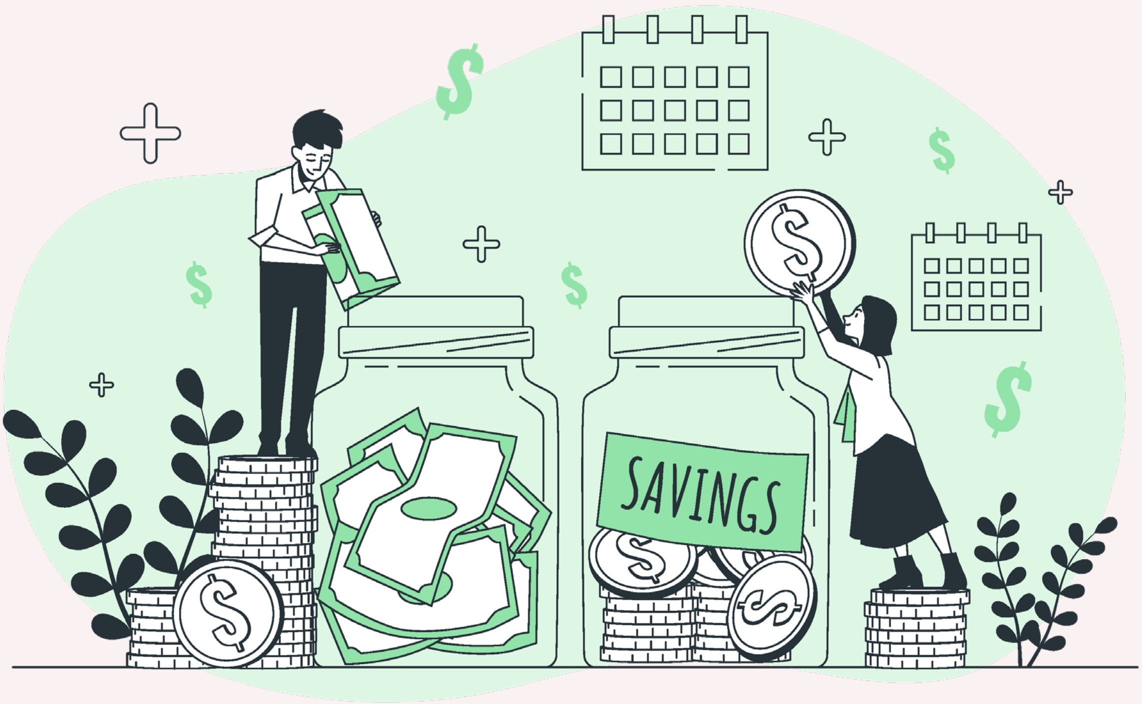
5. More Information in Financial Planning

Emergency funds

• To compute the emergency funds in the case of jobless, figure out the monthly household and personal expenses such as loan repayments, credit card expenses, insurance premiums, and tax expenses.

• Suggest to have at least 3 to 6 months of the total expenses. However, if the income is not fixed, at least 12 months of the total expenses.

• Recommendation: to review in yearly basic and impromptu.



Coverage for death, total permanent disability and critical illness

• i-Lindung is automatically extended to you upon a valid EPF working contribution.

• Online Purchase Insurance. Cheaper cost as this option does not come with any
commission for financial advisor.

• There are many programs offered by government linked agencies such as SSPN plus, PERKESO, to provide more affordable insurance premium.

• There is also free insurance (MySalam) for B40 category under the Malaysia MADANI.

• Recommendation: to review in yearly basic and impromptu.

Learn more about i-Lindung

https://www.kwsp.gov.my/ms/ahli/kesihatan/i-lindung

Learn more about PERKESO here

https://www.perkeso.gov.my/en/

Learn more about SSPN Plus here

https://www.ptptn.gov.my/simpan-sspn/simpan-sspn-plus/

Learn more about MySalam here

https://www.mysalam.com.my/mys/info/

EPF and your retirement

• Your EPF savings is of the primary resources to accumulate fund for your retirement from the moment you start working.Growing your EPF savings by making cash top up with a maximum amount of RM100,000.

• You can enjoy up to RM4,000 in tax relief.

• i-Saraan is a voluntary contribution initiative introduced by EPF. It offers an opportunity for self-employed individuals and gig economy workers without fixed income.

• Explore Government Housing Schemes Available for B40 And M40 Groups to save money for retirement.

• EPF provides flexible withdrawal scheme such as combination of partial & monthly payment withdrawal after retirement age.

i-Saraan is a voluntary contribution initiative introduced by EPF. It offers an opportunity for self-employed individuals and gig economy workers without fixed income to obtain government incentives for retirement purposes, subject to the established requirements.

Learn more about Government Housing Schemes

https://www.iproperty.com.my/property-insights/government-housing-schemes-for-b40-and-m40-groups-46188

PRS

• Private Retirement Schemes (PRS) is a voluntary long-term savings and investment scheme designed to help you save more for your retirement.

• Recommendation: to review in yearly basic and impromptu.

Learn more about "Make A Smooth Transition into Retirement"

https://www.kwsp.gov.my/member/life-stages/age-55-60-withdrawal

Learn more about Private Retirement Schemes (PRS)

https://www.ppa.my/

Estate planning

Estate planning involves:
• A Will is a legal document that details the fair distribution of your assets to your loved ones according to your wishes. These assets include immovable property (houses, buildings) and moveable assets (cars, shares, investments, etc).

• An EPF and Insurance nomination. This allows an individual to decide how your EPF savings and insurance coverage will be distributed when pass on or pre-mature death.

• A Lasting Power of Attorney. This allows an individual to appoint one or more trusted people to act and makedecision on behalf in the event of lose mental capacity.

• An insurance plan. This allows an individual to set out for future health and personal care.

• Recommendation: to review in yearly basic and impromptu.

Learn more about “Will Writing”

https://www.amanahraya.my/services/will-writing/

Enriching Golden Years for Parents by Millennials

Consider:
• Continue making voluntary cash top-ups to parents' EPF account, so that enable to obtain constant return yearly.

• Continue paying parents' existing Life and medical insurance premiums

• Continue preserving parent's dream with estate planning tools such as Will, Lasting Power of Attorney, EPF nomination and insurance nomination.

• Recommendation: to review in yearly basic and impromptu.

Financial Planning Education

Consider:
In line with MFPC's Mission and Vision
• To attend financial related workshops and conference.

• Request to attend financial planing programs with your employer / human resources management.

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Profesional Finansial Planing Education

Your Pathway to Professionalism

A Premier Financial Planning Designation of MFPC

6. The Future of Financial Planning for Public

The financial planning industry is evolving and leading to a bright future with a great demand and healthy growth until 2030.

a. Technology Development is Reshaping the Financial Planning Space

Financial planning and services are progressively going digital. The digitalization makes the online platform and tool become popular for public to track investment and get advice in more convenience way and lesser time consumption. The development of the Robo-advisor technology is well-progressed, a numerous testing and refinement are in progress like artificial intelligence (AI), hence public will have better experience and to enhance more personalized services and advices from financial advisor.

Technology is driving the public to manage their own financial data. For instance, the cloud-based software will assist a person to work smarter and streamline all the tasks.

b. Client Demographics Are Shifting

In different perspectives, the youngest baby boomer group is closer to their retirement life. This indicates that particular demographic or niche can be focused on such as group Gen Xers or millennials in the future.

A big lump sum in assets are shifted from baby boomers to the next generation through different wealth transfer platforms. For instance, if a couple client in their early 1970 who are concerned about the costs of elderly care may diminishing the wealth. This provides an opportunity for better interaction amongst the family members and children to develop a long-term care needs and train them on how to handle the assets before the decision is made.