

Financial Literacy Webinar series

(Session 1) #BePrudent: Take Control of your Finances

26 October 2020

1) During this situation, should we pay more to service housing loan or to invest with spare cash?

Housing loan is a long-term commitment with huge capital outlay, the main ones being downpayment and legal fees.

On the question whether we should pay more to pay housing loan or to invest with extra cash, let us look into the following rationale:

- Housing loan interest rate in Malaysia can range between 4.2% -5% per annum. If you can invest your money at a rate of return that outpaces your housing loan interest rates, then it might be worth doing that instead.
- There is a common wise saying that 'Invest in knowledge pays the best interest' – provided you know where and what best to invest.
- In this regard, we wish to highlight the following research findings on the awareness of risk and return as published by Financial Education Network (FEN) in its National Strategy for Financial Literacy 2019-2023:
 - a) Investors were found to have unrealistic expectation on the potential annual returns from the investment in capital market products; and
 - b) The perception of total loss investors are willing to accept reveals the lack of knowledge on the risk levels of capital market investment.
- Having said that, alternatively, what you can probably think of with the extra cash during this pandemic situation instead may be:
 - a) Spare for essential goods - food and medical;
 - b) Reserve for income protections, i.e. takaful and insurance; and
 - c) Top up savings, especially emergency fund as a cushion to face uncertainties e.g. loss of job or prolong pandemic.

2) How do you generally view Malaysian awareness on savings and being prudent, aren't we among the highest with our EPF etc...

- More concerted effort needs to be done to educate Malaysians on savings and being prudent as evident by the following research reports:
 - a) Based on AKPK's research conducted among Malaysian Working Adults (MWA) in 2018 or AFBes'18:
 - ✓ Financial well-being among MWA is at Average or Surviving level of 6.21 (Male: 6.05 & Female: 6.35).
 - ✓ Three (3) out of 10 have to borrow money to buy essential goods.
 - ✓ Two (2) out of 10 (18%) did not save in the past six (6) months.
 - ✓ 53% with income level with less than RM2,000 have no ability to raise RM1,000 for emergency purposes.
 - b) Now let us view the EPF research findings :
 - ✓ 41% of Malaysians rely on their EPF savings as the main source of income for retirement.
 - ✓ 68% of active EPF members do not achieve the basic savings recommended according to the age band.
 - ✓ The recommended minimum amount of basic savings at age 55 is RM240,000, which allows a monthly withdrawal of RM1,000 for 20 years post retirement.
 - ✓ 64% of active EPF members at age 54 have less than RM50,000 of their total savings.
 - ✓ Almost half of Malaysians are not confident of having an adequate stream of income for retirement.
 - ✓ 16% of Malaysians are very worried about household expenses in their old age.

3) A friend who was a former gambler has accumulated credit card debts to 6 figures. He has a stable job but clueless on how to rebound from his situation. He has no other assets and his take home pay can only pay the minimum amount of each credit card. What is the best way to deal with this situation to be able to pay back all his debts and finally save some money for his future?

- Our advice is to get early assistance from AKPK. Please log on to www.akpk.org.my and enrol in our Debt Management Programme (DMP) or, call our AKPK Powerline at 03-2616 7766 for assistance.
- For your kind information, in 2012, AKPK had a collaboration with the Gamblers' Rehabilitation Association in Kuala Lumpur to educate members with financial education. We will consider looking into reactivating our collaborative activities if possible.

4) Post moratorium - do you see surge in number of people requiring help particularly from AKPK and why

- Financial institutions have been pro-active in assisting their customers with Assisted Repayment Financial initiatives since pandemic COVID-19 commenced end of March 2020. As such, we do not foresee the significant increase in AKPK's customers who opt to seek independent advice or restructuring their multiple loans with various banks.
- Briefly, AKPK is an avenue to enhance financial literacy via financial programmes on basic management skills as well as tips on how to borrow and use credit responsibly. It also provides personal counselling and advice on better managing personal finances.
- Finally, in order to regain control on finances, AKPK also provides Debt Management Programme (DMP) and Small Debt Resolution Scheme (SDRS) for individual and Small and Medium Entrepreneurs (SMEs) respectively.

5) Hi, I'm saving for retirement fund. Which investment products should i keep for my retirement fund in order to diversify my savings? Fixed deposit, unit trust or?

- It is important to note that it would be wise to start savings for your retirement fund as early as possible. (It reminds of one of Encik Azizi Ali's books on saving a certain small sum every month, together with annual interests/profits accumulation will make you a millionaire at your desired retirement age)
- The following may be of help in making a decision:
 - a) EPF accommodates most of the well-known retirement fund managers in Malaysia;
 - b) For diversification purposes, you may need to 'Invest in Knowledge as it pays best Interest' – know and master your investment instruments as well understand the risk and return relationship;
 - c) There are many investment products available in the market, but you need to have a good mentor or financial advisor to guide you accordingly;
 - d) The investment products should be in line with your risk appetite; and
 - e) Please browse our power.akpk.org; ask.akpk.org.my or our Money Sense book to know more about the investable products.

6) Delayed gratification is easily said than done with all the temptations in the social media. Your comment please.

- Personally it all comes with the right mind set and discipline. The following may be some tips:
 - a) Know whether to spend or not to spend;
 - b) Set your financial goals – you will be guided financially;
 - c) Spend within your means and understand the needs and wants; and
 - d) Making the wrong financial decisions can affect your future finances, your mental health as well as your family.

7) Is it wrong to rely solely on government assistance as most lower class income are thinking that way?

- The government assistance should be treated as a bonus and not the main income. With the right mind-set and self-attitude, a person will have more sense of responsibility to succeed in life with less dependency on others.

8) Is it wise to invest during this time? If yes, what kind of investment would you advise?

- Before investing, one must meet these criteria:
 - a) Availability of emergency fund of 3 to 6 months;
 - b) Be Knowledgeable on the risks of investment;
 - c) Understand the different types of investable products;
 - d) Beware of financial scams; and
 - e) Follow a mentor or a professional in the subject.

9) Investors were found to have unrealistic expectation on the potential annual returns from the investment in capital market products.

- The perception of total loss investors are willing to accept reveals the lack of knowledge on the risk levels of capital market investment. Do seek adequate and appropriate knowledge to avoid being easily influenced by scammers or non-professionals.