

# Roadmap to Financial Freedom

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*Roadmap to Financial Freedom (RTFF)* provides many good examples to guide those with different financial goals due to different levels of financial resources and different needs. The book shows that financial planning is vital no matter what one's level of income as it provides personalized planning applying the know-how to create, preserve and grow one's capital values pre-, during, and post-retirement.

This book uses 12 real case studies to explain the 'Impacts of Additional Resources Vs Impacts of Additional Expenses' in the roadmap. It is also interesting to observe that many in the mid-income group in the 12 case studies generally ended up in a financial liquidation state at between 60 – 70 years of age. 'Financial liquidation' occurs when one's total available resources are fully exhausted or fall to zero level after a certain number of years post-retirement when active incomes cease.

Some of the top concerns identified are over spending (under-saving), over saving (under-treating), estimating wrong retirement age/cost, underestimating the value of insurance (risks transfer medically and financially), and not preparing for hefty educational expenses, etc. In short, the writer discusses optimizing financial wealth to pay for ongoing expenses/bills in a safe and sustainable way.

The writer explains the need to focus on Defining, Identifying and Testing (or conducting a Stress Test) before establishing a sound financial plan. We need healthy contribution along our journey towards the realization of our roadmap which will make us happy. The writer stresses that Unavoidable Expenses (or KPI) are the key to complete our journey early or to sustain later post retirement. Some of the very important KPI (Key Performance Indicators) mentioned are:

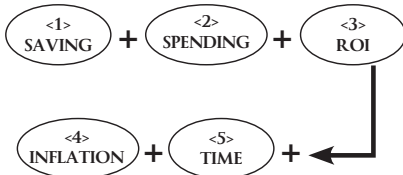
- Current Available/Accumulated Resources Pre-Retirement: *Investment Property, EPF, FD, Stock, Unit Trust, Cash/Cash Equivalent*



- Current Living Expenses Pre - Retirement : *Monthly Basic Living Expenses to Run the Family*
- Future Available/Accumulated Resources Post-Retirement: *Total Appreciated (Including Losses) Capital Values from Earlier Resources*
- Future Living Expenses Post - Retirement : *Affordable Basic Living Expenses Post-retirement till 70/75/80 years of age assuming adequate preparation for medical and education expenses.*

Starting Age	Monthly Saving (RM)	Interest P.A.	Compounding at 60 Y.o	Compounding Period (Years)
30	MYR 500	5.0%	MYR 416,000	30
35	MYR 500	6.0%	MYR 346,000	25
40	MYR 500	7.0%	MYR 260,000	20
45	MYR 500	8.0%	MYR 173,000	15
50	MYR 500	9.0% ↑	MYR 96,700 ↓	10 ↓

RTFF discusses the top five financial planning elements, namely saving, spending, ROI, inflation and time. Inflation will be the most important element in our road to financial freedom as it will eventually make or break the plan if we are not careful.



1. SAVING:

Other than relying on EPF as golden retirement funds, additional forced saving of about 20% has been proposed to fight capital liquidation more effectively. Savings grow and compound very well when the compounding time is sufficient. Below is a good example to demonstrate this and we may

conclude saving is only good provided we leverage the time we have. Real capitalization occurs only this way.

2. SPENDING:

The concept of save first, spend later holds true. Excessive spending will not benefit the optimization process, but it may kill it. Given the same RM1000 monthly expenses in present value could be inflated to as high as RM3,200 in future value. This is even worrying when this happens in a short time of 20 years. Imagine now how much you would actually need post retirement:

Starting Age	Cost of Living in Present Value	Inflation P.A.	Inflated Costs of Living in Future	Compounding Period (Years)
A	MYR 1,000	2.0%	MYR 1,486	20
B	MYR 1,000	3.0%	MYR 1,806	
C	MYR 1,000	4.0%	MYR 2,191	
D	MYR 1,000	5.0%	MYR 2,653	
E	MYR 1,000	6.0% ↑	MYR 3,207 ↑	

Yr/ Factor	Capital Inflation - 0%	ROI	Compounding After 30 Yrs	Compounding Effects
1	MYR 100,000	5.0%	MYR 432,000	1.00
2	MYR 100,000	6.0%	MYR 574,300	1.33
3	MYR 100,000	7.0%	MYR 761,200	1.76
4	MYR 100,000	8.0%	MYR 1,006,200	2.33
5	MYR 100,000	9.0%	MYR 1,326,800	3.07
6	MYR 100,000	10.0%	MYR 1,745,000	4.04
7	MYR 100,000	11.0%	MYR 2,289,200	5.30

### 3. ROI:

ROI or Return on Investment is the "Power House". ROI has the power of compounding which "will offset" the effects of excessive spending or even inflation. Setting a portfolio at 6-8% p.a is always a good guide as shown below. The magnitude of compounding effect is just amazing. Using this exercise, it is very educating to know that the end financial result could range between RM430K to RM2.29 Mil. This is not about risking your money, but it is about diversifying and allocating more wisely to enjoy the true benefits your capital is offering.

### 4. INFLATION:

Inflation is a crucial factor; it will eventually deplete your accumulated capital and reduce your purchasing power. It is the most negative factor. However, inflation is unavoidable, but we can control it with ROI. The

example below shows the depletion of future values. Using the same ROI table as above, and assuming the growth rate is 5%, the inflation rate is 6% and the adjusted  $i = G - I / (1 + I) = -1 / 1.06 = -0.9433$  for simulation #1.

Yr/ Factor	Capital Inflation - 6%	Adjusted $i$	Compounding After 30 Yrs	Compounding Effects
1	MYR 100,000	-0.9433%	MYR 75,251	1.00
2	MYR 100,000	0.0000%	MYR 100,000	1.33
3	MYR 100,000	0.9433%	MYR 132,533	1.76
4	MYR 100,000	1.8870%	MYR 175,211	2.33
5	MYR 100,000	2.8300%	MYR 230,991	3.07
6	MYR 100,000	3.7730%	MYR 303,760	4.04
7	MYR 100,000	4.7169%	MYR 398,568	5.30

### 5. TIME:

Time is the denominating factor. No matter how well we can plan, without time, it is not possible at all, simply because the portfolio can't grow, can't evolve and can't adapt to the planned changes. Using the same example as in 1. Saving, the more time we save, the more investment options we have, the more diversification we enjoy because we can plan and map more realistically without over risking due to lack of time.

To simulate this combination, the author presents a case study to evaluate the Effect When "No" Inflation if Mr. Tim were to retire at 50 years.

- We can conclude that If Tim were to retire at 50 years with RM3Mil today as his retirement capital and he prefers to deposit it with a



Starting Age	Monthly Saving (RM)	Interest P.A.	Compounding at 60 Y.O	Compounding Period (Years)
30	MYR 500	5.0%	MYR 416,000	30
35	MYR 500	6.0%	MYR 346,000	25
40	MYR 500	7.0%	MYR 260,000	20
45	MYR 500	8.0%	MYR 173,000	15
50	MYR 500	9.0% ↑	MYR 96,700 ↓	10 ↓

Yr/ Factor	Capital Inflation = 0% P.A.	Fd Rate P.A.	Adjusted <i>i</i>	Passive Incomes P.A.
1	MYR 3,000,000	4.0%	0.0%	MYR 120,000
5	MYR 3,000,000	4.0%	0.0%	MYR 120,000
10	MYR 3,000,000	4.0%	0.0%	MYR 120,000
15	MYR 3,000,000	4.0%	0.0%	MYR 120,000
25	MYR 3,000,000	4.0%	0.0%	MYR 120,000
30	MYR 3,000,000	4.0%	0.0%	MYR 120,000

licensed bank paying a 4% annual interest rate, his total resources may last him (assuming no inflation):

- A. Forever if he were to spend 10K per month.
- B. 25 Years if he were to spend 16K per month.
- C. 20 Years if he were to spend 18K per month.
- However, the problem is inflation is always there. If inflation is at 6% p.a, we need to model the *adjusted i*

G: Growth rate, 4% p.a from FD.

I: Inflation rate, 6% p.a as industry inflation.

*i*: Adjusted rate =  $i = G - I/(1+I) = 4-6/(1+0.06) = -1.887$

PV= -RM3,000,000,

PMT= RM120,000

FV= RM 0, Fully Exhausted,

*i* = -1.887

N= 20.3 Yrs to Full Capital Liquidation.

Now we can imagine how tricky it is to handle inflation during the mapping of the roadmap. Hence, we understand we cannot control inflation, but we can always control the ROI by promoting more asset diversification and allocation. If we do not plan our post-retirement expenses carefully, this portfolio is going to end up badly. The total loss of sustainability and financial conservation will be detrimental.

In RTFF, the author also recognizes the roadmap may head for gains or losses sometimes. RTFF also discusses the price of making mistakes. Therefore, it is vital that we manage the losses wisely without losing the power to recover ultimately.

It is indeed encouraging to know that the author uses an example to explain the total needs approach if a pre-mature death occurs due to a health crisis. Despite this not welcome assumption, RTFF applies insurance as a hedging tool to replace loss of incomes during crisis (young children and spouse not working) immediately while allowing the family to adjust and change their lifestyle accordingly. Nevertheless, if RTFF could model during death, accidental partial or full disability and diagnosis of critical illness, the case study is even more solid.

To optimize RTFF, the author developed a Networth Simulation (What You Actually Possess) to forecast various foreseeable financial outcomes. RTFF applies "Stress Test" to simulate the sustainability of networth after financial corrections in many different wise ways. Some of the useful parameters used are:

- Test 1: To "Restructure" from low performing portfolio of 3-4% to a higher 6-7% would actually "extend" the sustainability by an additional 10-15 years.
- Test 2: To "Raise" more educational funds while not depleting the sustainability of the valuable retirement resources after the optimization process.
- Test 3: To "Spend Less" on current and future living expenses to drive more capital conservation, reducing spending on luxuries such as vacations and an expensive lifestyle.
- Test 4: To "Extend" retirement age to 60 but this has been least discussed due to higher health awareness. Many would not continue to work if they are ready financially.
- Test 5: To "Increase" savings to increase the financial capacity, thanks to when we are actually

spending less on luxuries and unnecessary items. Thanks to Test 3.

- Test 6: To "Sell" non-performing properties, sell for cash liquidation to boost cash savings significantly as we are switching from interests bearing to interest earning.

Technically, if each of the tests is correlated carefully with proper calculation, projection and assumption, we could actually achieve a balanced and optimized portfolio. Of course, this is backed by ongoing and regular reviews (preferably on a yearly basis) to avoid losses, to monitor potential threats and to manage any depletions, if any.

## CONCLUSION

This is why RTFF promotes optimization of resources so that retirees can enjoy true and risks-free retirement. Optimization in this book promotes right and optimized combination of the 5 elements to rule out how much is enough, what if not enough, enough is enough? The key is when we harvest the benefits well, we want to create more non-financial wealth socially, physically and spending more quality time with family. ■

