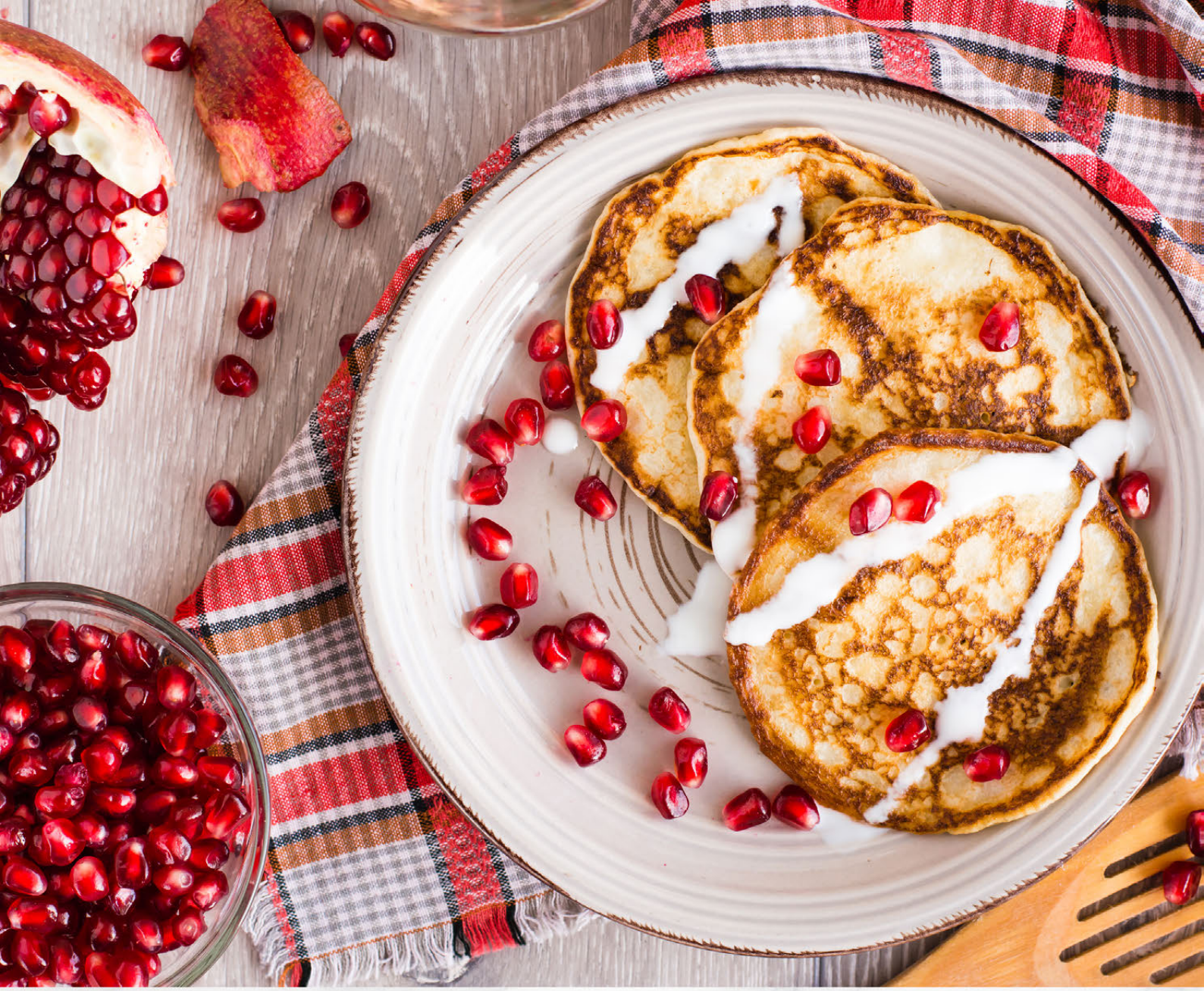


coffee break

06/2018

Kids On Retirement

Stocks Can Be Less Risky Than Bonds

New Advisers In The House!

What You Should Know About CareShield Life

PROVIDEND

dear client

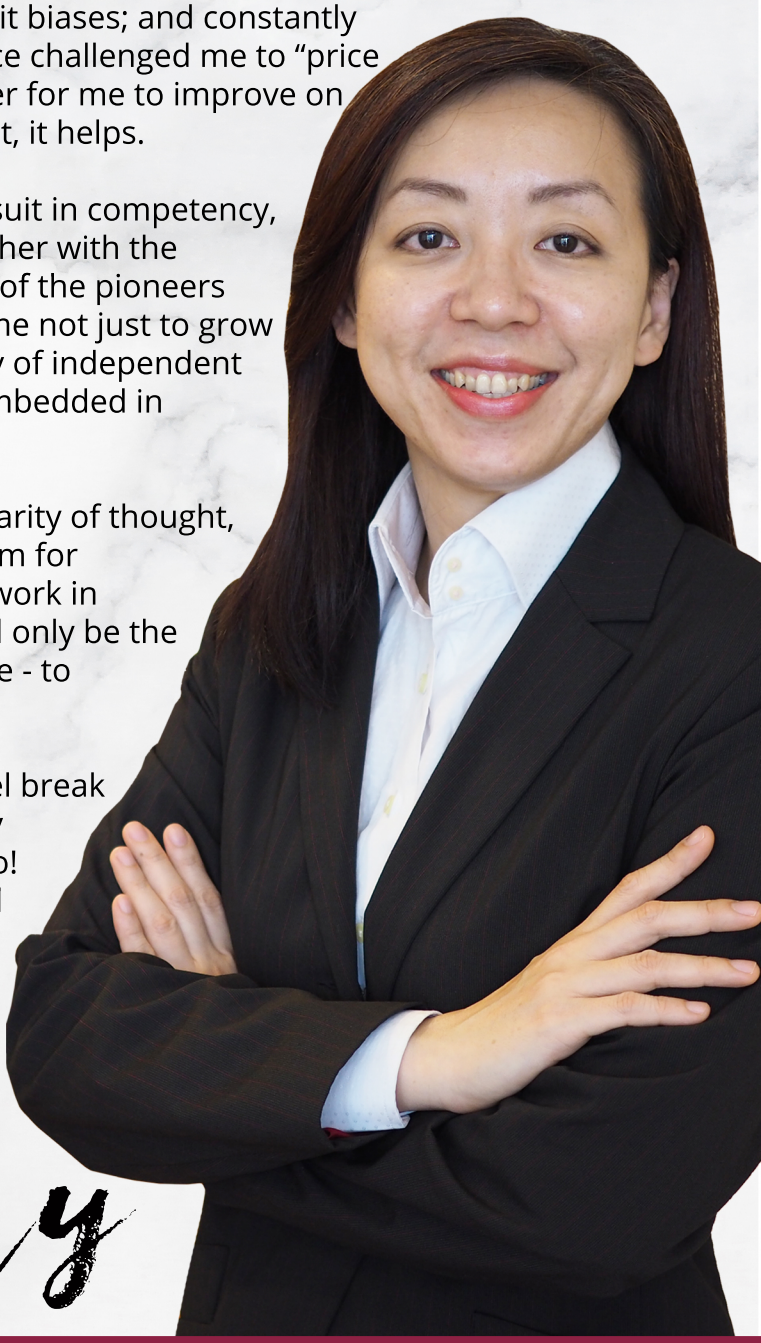
It had somewhat become habitual for me to label my Husband as the unromantic kind. Not that it affects our 18 years of marriage, but he frequently rationalise from travel plans, dining options to even whether a write-up should begin with a double-margin. Needless to say, he does not buy me flowers or gifts on special occasions and even keeps me updated with the same explanation that he does not want to pay the premium. He defends by saying that, when one recedes from expectations, there should not be surprises and change shall be the reckoning.

He deters himself from being associated with the black swan theory (excuses) but alludes his mental-mode to statistical evidence albeit biases; and constantly disciplines himself in his daily decisions. He had once challenged me to “price my conveniences” (which I don’t quite get it), in order for me to improve on unemotional decision-making for work, I must admit, it helps.

Compliance and the fervent belief of relentless pursuit in competency, had been a personal maxim in serving clients, together with the Providend family. The trust and immense guidance of the pioneers and leaders coupled with caring colleagues allows me not just to grow professionally but also assured me that the honesty of independent financial advises provided to clients are naturally embedded in Providend.

Learning from my husband’s constant nag on the clarity of thought, piecing up resources to make decisions with no room for unexpected changes, certainly helps in making my work in Providend straightforward and ensuring that it shall only be the sound and safe path for Providend to be sustainable - to protect our clients from fear and not just dangers.

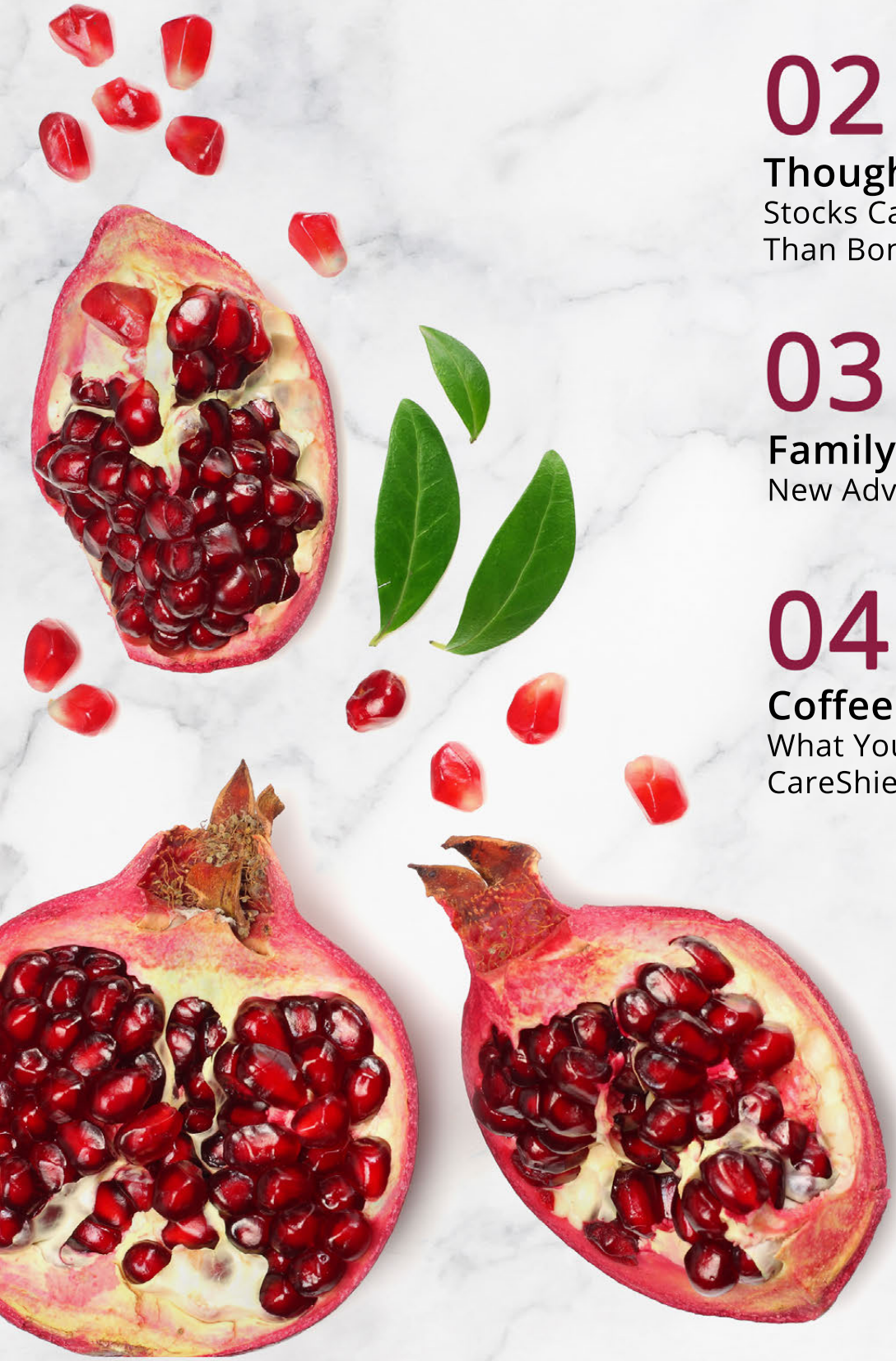
You might have well guessed, the coming June travel break with the kids was also planned and rehearsed in my husband’s mind (yes, with contingencies), a year ago! I believe that your June holidays had been a blessed one as well.



Warmest regards,
COO of Providend

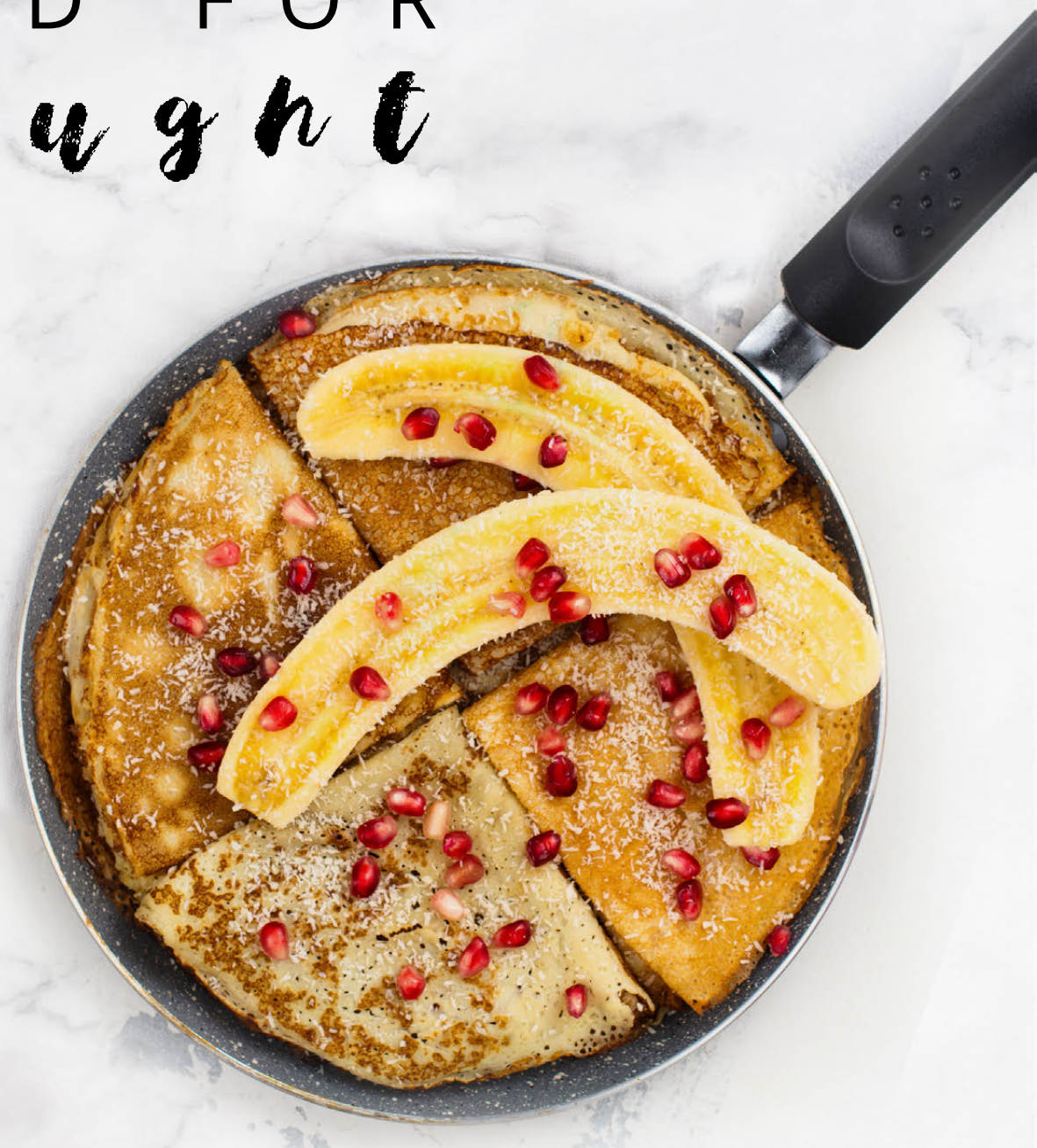
moon shary

content



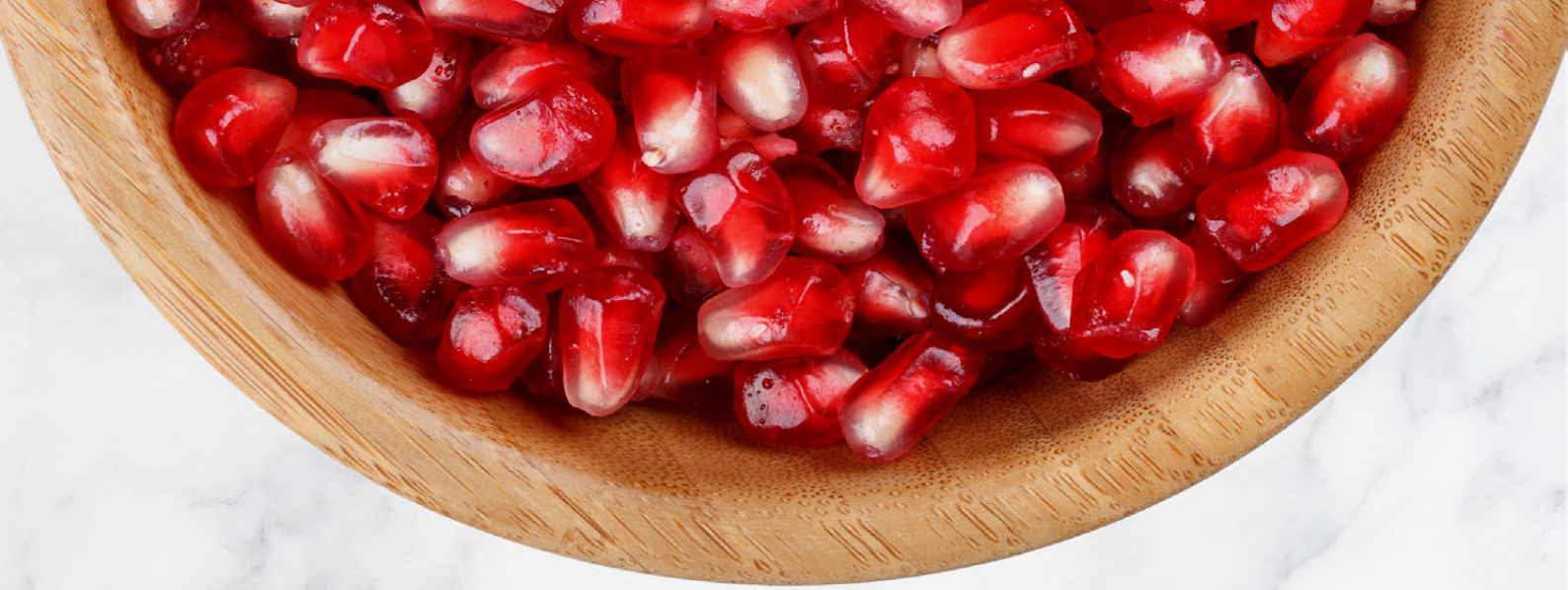
01

FOOD FOR *thought*



kids on retirement

PART I



02

stocks can be less risky than bonds

- Sean Cheng, Portfolio Manager

Investors are often told by the financial media and experts that stocks are riskier investments than bonds. So much so that it has become almost conventional wisdom, and to state otherwise risks making one look rather foolish. However, in his most recent letter to Berkshire Hathaway shareholders, this is precisely what a certain Warren Buffett did.

"It is a terrible mistake for investors with long-term horizons – among them, pension funds, college endowments and savings-minded individuals – to measure their investment 'risk' by their portfolio's ratio of bonds to stocks. Often, high-grade bonds in an investment portfolio increase its risk," Buffett wrote.

Why would high-grade bonds increase a portfolio's risk? Aren't high-grade bonds supposed to be safe?

"Investing is an activity in which consumption today is foregone in an attempt to allow greater consumption at a later date," Buffett stated. "'Risk is the possibility that this objective won't be attained."

In other words, Buffett defined risk as the likelihood of loss of purchasing power, which is effectively what money really is (anyone who doubts this should try paying for his neighbourhood coffee shop's chicken rice with 1965 prices).

He noted that back in 2012, a five-year U.S. Treasury bond had a yield to maturity of 0.88% per annum and that U.S. Treasury bonds were generally considered to be "risk-free" investments.

But there was one problem - the investor who bought the bond was in fact taking a relatively high risk because if annual inflation was anything higher than 0.88% in the following five years, he would have lost purchasing power. So taking inflation into account, high-grade bonds could actually increase a portfolio's risk. In contrast, U.S. stocks had earned more than 10% annually on shareholders' equity over time, so for stocks to beat 0.88% annually was "hardly a Herculean achievement", as Buffett put it. And the results proved to be the case, with U.S. stocks rising by 15.79% per annum from end 2012 till end 2017.

The inflation rate in the U.S. and Singapore has been low for a number of years now, so it probably hasn't factored in most people's thinking. However it is worth noting that inflation in the U.S. averaged 2.5% per annum for 25 years (1949 – 1973) before averaging 8.45% per annum in the next 10 years (1974 – 1983).

If you were an investor at the start of 1974 thinking that buying a ten-year U.S. Treasury bond would protect the value of your money, you would have been disappointed despite earning 6.99% per annum. A very decent return by any means, but it still lost out to inflation. U.S. equities, on the other hand, delivered 10.66% per annum over the same period.

There are several important caveats to take note of. The first one, as Buffett mentioned, is the investor's time horizon. In the short term – which I would suggest is anything within a five year period – stocks could very well be riskier than bonds.

However, the longer one's investment time horizon, the less risky investing in stocks actually becomes, and the greater the likelihood that stocks will outperform bonds.

Hence it makes sense for investors with multi-decade time horizons to invest into stocks rather than bonds.

The second caveat is that it depends on the investor's individual need, ability, and willingness to tolerate fluctuations in the value of his portfolio.

Stock prices are undoubtedly more volatile than that of bonds, and if the investor is unable to withstand the financial or emotional pressures to pull their investments out of the stock market when markets are down, he can certainly lose money.

Thus stocks may not be suitable for everyone – even if one has a long investment time horizon.

As an aside, many in the financial industry tend to equate volatility with risk, which is used to justify saying that stocks are in fact riskier than stocks. Buffett has posited that that they are not the same thing. "Though this pedagogic assumption makes for easy teaching, it is dead wrong: Volatility is far from synonymous with risk. Popular formulas that equate the two terms lead students, investors and CEOs astray," Buffett wrote in his 2014 shareholder letter.

Francois Rochon of Giverny Capital said, "Volatility is not synonymous of risk, but – for those who truly understand it – of wealth."

Indeed, investors with a long time horizon who recognize that volatility can present opportunity can benefit from market volatility.

One simple way to do so would be to follow the legendary mutual fund manager Peter Lynch's advice to just buy more stocks whenever the stock market falls by 10%, which should help you to achieve better than average returns over the long run.

The third caveat is that the probability of stocks being less risky than bonds naturally depends on what bond yields are like at the time one is investing. As mentioned earlier, the U.S. five-year Treasury bond yield back in 2012 was about 0.88% per annum, and the ten-year bond yield was about 2% per annum, so they were yielding below the U.S. long term average inflation rate of 3.27% per annum [1]. As of May 2018, the ten-year U.S. Treasury bond yield (and even the thirty-year bond yield) is now roughly 3% per annum. Our own ten-year Singapore Government bond is now about 2.5% per annum, which is slightly below Singapore's long term average inflation rate of 2.6% [2].

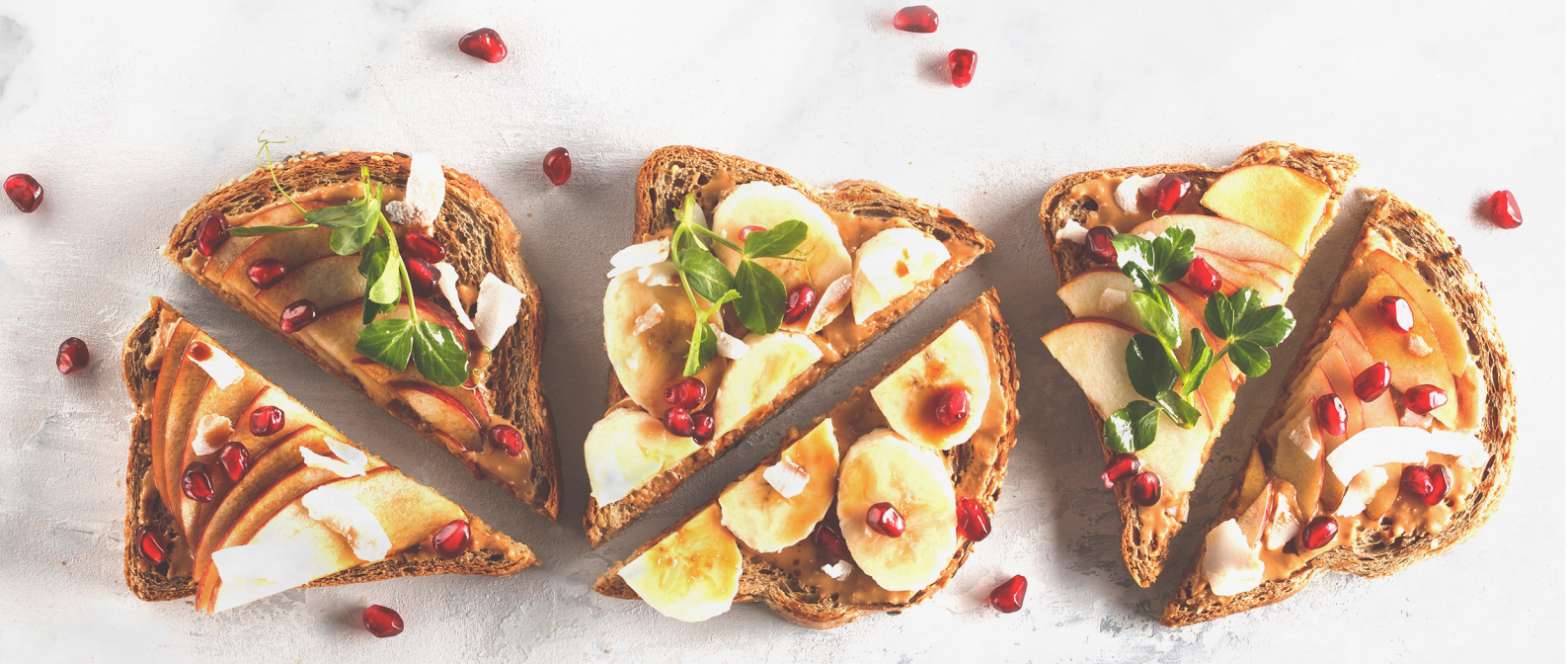
So if you are investing for the long term (such as for a retirement portfolio, for your children's inheritance, or even for a charitable cause) and you are willing and able to tolerate volatility, then considering how low-yielding bonds are now, it makes a lot more sense to be investing into stocks rather than bonds. Not only would the returns be better, but as Buffett put it – they would be less risky too.

[1] Trading Economics. "Singapore Inflation Rate." https://tradingeconomics.com/united-states/inflation-cpi (accessed June 4, 2018).

[2] Trading Economics. "United States Inflation Rate." https://tradingeconomics.com/singapore/inflation-cpi (accessed June 4, 2018).

03

family happening



damien tan

Client Adviser of Providend

Hi, my name is Damien and I joined Providend in April this year. I am happily married with a beautiful wife and two wonderful children, 5 and 3 years old. Prior to joining Providend, I have been working in the corporate finance industry for the past 15 years.

Like many, I was stuck in the rat-race, working hard to make a living and providing for my family. About 10 years ago, I started to ponder over what is really important to me, and what I really wanted to do in life. Fortunately, I am blessed to have met my mentor who inspired me to plan and work towards my life goals.

In 2017, after a decade of proper financial planning and execution, I achieved the milestone with the help of my trusted adviser. I was in a position whereby I can choose to leave the corporate world to pursue my passion in financial planning and education. It was a hard decision initially as I was at the height of my career, earning a good income.

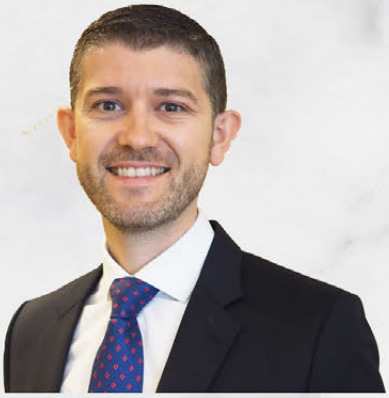
However, life is more than merely accumulating wealth and climbing the corporate ladder.

I wanted to use my financial knowledge to assist people in achieving financial wellness and be a trusted adviser to others, in a sales-driven industry where people are often sold products they may not need.

I am truly blessed and privileged to be able to join an institution that I trust and have a stellar team of peers who support me and drive Providend's values forward. Being surrounded by honest and kind-hearted colleagues each day, has had a positive impact on me, both mentally and physically.

I have never been happier at work. No more Monday blues and dragging my feet to work. I feel blessed that I can be a blessing to others every day and will continue to help more people achieve their life goals through prudent financial advisory.

Have a blessed and wonderful day everyone!



max keeling

Client Adviser of Ignite (Expat Advisory Division of Providend)

Hi everyone, I am a Chartered Accountant from the UK who has recently joined Providend to head up the expat division, Ignite, together with my wife Laura. I have worked in financial services for more than 18 years, starting my career at KPMG in the North of England before moving to Barclays Bank in London. Following a year-long sabbatical to travel Japan, China, South East Asia, Australia and New Zealand in 2010, I accepted a role transfer to Barclays Investing Bank in Singapore in 2011.

In 2016, I left Barclays to start an online financial coaching company and share my passion for life planning and low-cost investing. Supported by Laura, together we brought on coaching clients from all over the world including the UK, Switzerland, Singapore, Hong Kong, Dubai and Australia. We built a business that enabled us to work remotely whilst living 3 months at a time in Spain, Thailand, Bali and Australia.

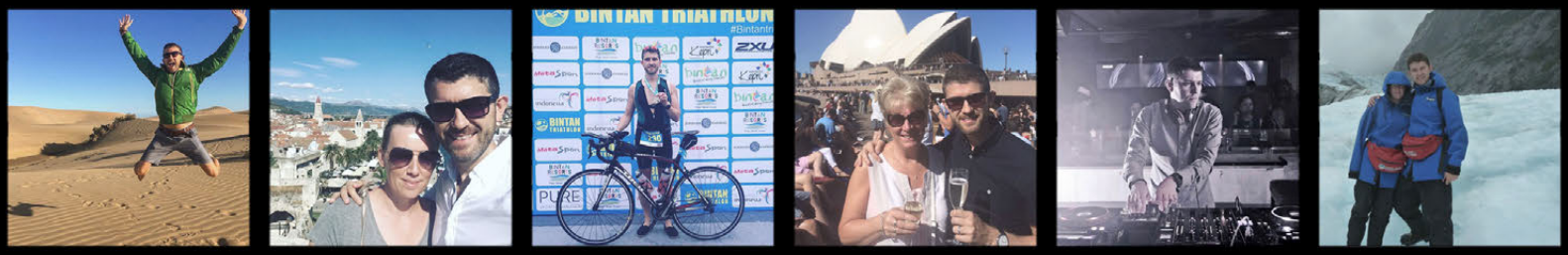
At the end of 2017, we began to look for a financial planning partner firm in order to expand our business and increase the number of services we could provide to clients. We were looking for someone who shared our investing philosophy of fee-only planning, cost-efficient investing, in-depth financial planning and best-practice client care. Providend was the clear choice from the start.

The creation of Ignite has happily brought me back to Singapore to focus on giving expats an ethical alternative to financial salespeople in the region.

I focus on in-depth lifestyle planning and working closely with clients to build exciting visions of their future.

Outside of work, I continue to explore my passion for financial planning and listens to podcasts and reads books on the topic. I have also completed several triathlons and plans to start training again now that I am back in Singapore. My alter ego as DJ Mr Max has also allowed me to play at many of the big venues in Singapore over the past 7 years.

As a couple, Laura and I enjoy travelling especially road trips across Australia. We have a house in Ibiza, Spain where the plan to spend as much time as possible and dream of owning a home on the Sunshine Coast in Queensland, Australia.



04

what you should know about careshield life

- Christopher Tan, CEO of Providend

One of the key concerns of Singaporeans is that as we aged, we might be hit with severe disability and as such do not have enough financial resources to take care of ourselves. Severe disability happens when one cannot perform three out of six of the activities of daily living such as:

1. Washing
2. Dressing
3. Feeding
4. Going to the toilet
5. Walking
6. Transferring (from chair to bed and vice versa)

ElderShield is a severe disability insurance scheme to help Singaporeans pay for their long-term care if they become severely disabled. It was launched in 2002. At launch, the plan (ElderShield 300) pays a maximum of $300 per month for 60 months. Subsequently, it was enhanced (ElderShield 400) to pay a maximum of $400 per month for 72 months.

ElderShield is an opt out scheme. Which means that at age 40, when you are invited to participate in the scheme, if you do not write in to indicate your wish to opt out, you are automatically enrolled in the plan.

The insurers appointed by Ministry of Health (MOH) in 2002 to operate ElderShield are Great Eastern Life and NTUC Income.

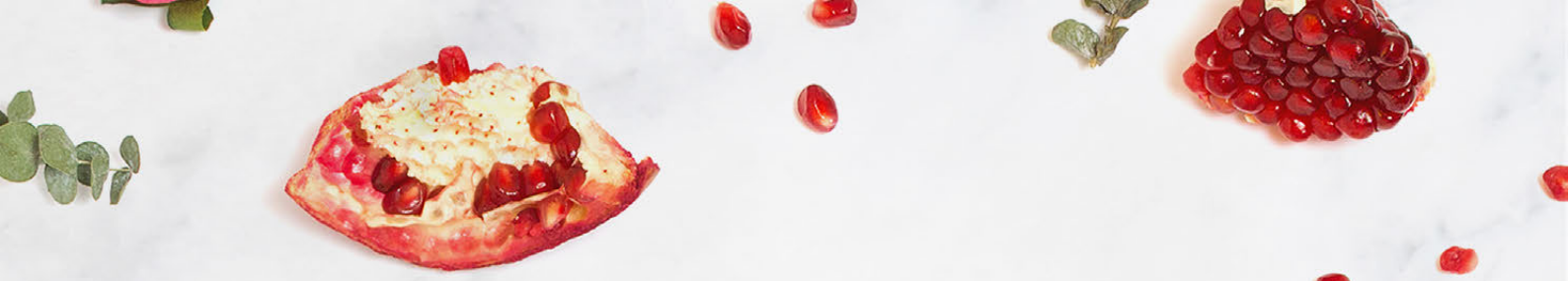
In October 2016, The ElderShield Review Committee was appointed with then task of enhancing the current ElderShield. The review was necessary because Singapore's need for long-term care will rise with an ageing population. 1 in 2 healthy Singaporeans aged 65 could become severely disabled in their lifetime. While Government subsidies, personal savings and family support will continue to provide significant support, there is room for insurance to play a bigger role in helping Singaporeans prepare for their long-term care needs through risk-pooling. In addition, the current ElderShield payout of $400 per month for 72 months might not be enough as medical cost has gone up over the years and because of advanced medical technology, the severely disabled are living longer.

After almost 2 years of work, the committee announced the enhancements to ElderShield on the 27th May 2018. The new plan will be called CareShield Life when implemented in 2020.

ElderShield vs CareShield Life

The table below shows the key differences between ElderShield and CareShield Life when CareShield Life is implemented in 2020.

	ElderShield	CareShield Life
Monthly Payout	$400	$600 initially rising at 2% p.a. till age 67
Coverage Options	Optional- Can opt out Exclude people with pre-existing disabilites	Universal- Compulsory Include people with pre-existing disabilites
Coverage Period	Lifetime	Lifetime
Starting Age	40 years old	30 years old
Payout Period	6 years	Lifetime as long as severely disabled
Premium Paying Period	Till age 65	Till age 67
Claims Process	1. Need separate disability assessment by ElderShield assessor 2. Need to pay 1st time assessor fee 3. Periodic reassessment needed 4. No framework to assess the impact of cognitive impairments on functional ability	1. Assessment can be conducted by qualified healthcare professional providing care to the policy holder 2. 1st time assessment fee is waived 3. Periodic assessment will be better targeted so that clearly permanently severely disabled claimants are exempted 4. Disability assessment framework will be used to explicitly consider the impact of cognitive impairment on functional ability
Pay From Medisave	Yes	Yes
Premium VS Benefit	Example: Premium paid (age 40-65)= **$4,600** Severely disabled for 10 years (age 67-76)=**$28,800 payouts**	Example: Premium paid (age 30-67)=**$7,800** Severely disabled for 10 years from (age 67-76)=**$144,000 payouts**
Administrator	NTUC Income, GE, Aviva	Government: CPF/AIC



Frequently asked questions regarding careshield life

1. How is TPD insurance different from CareShield life in terms of coverage and payout? Is there an overlap?

Total and Permanent Disability (TPD) is defined as loss of both arms, or both legs or both eyes or alternate of them. Or when a person cannot work anymore due to disability. TPD insurance provides a lump sum benefit for medium to longer term financial assistance, in the event of total and permanent disability which stops policyholder from working.

CareShield Life on the other hand, covers severe disability which is defined as when one cannot perform 3 out of 6 of the activities of daily living. It pays a monthly amount for life and it is meant to pay for part of the cost needed for long term care (LTC).

2. What are the other insurance policies out there that are most common amongst Singaporeans? What is the coverage like?

The most common would be TPD Insurance which usually comes bundled with death coverage, as well as Disability Income (DI) Insurance. DI protection insurance, replaces a portion of the policyholder's missing income and provides some financial stability, in an event of disability which prevents the policyholder from working temporarily or permanently.

For TPD, the payout is lump sum, depending on how much coverage you buy. They coverage term is usually up to age 70.

For DI, it covers up to 75% of one's salary. The coverage term is usually up to age 70.

As one can see, there is a protection gap from age 71 onwards. This is where ElderShield and the future CareShield Life comes in.

3. We have so many policies (life, PA, critical illness, hospitalisation etc), on top of MediShield Life and ElderShield/CareShield Life. How should we actually decide on what sort of insurance we need and which to buy? What are your recommendations?

There are a few principles about insurance that one has to remember:

1. The primary purpose of insurance is for protection, not savings or investment

2. First buy those insurance one will most likely affect your financial situation now

3. Buy as much as you need, pay as little as you can

With these 3 principles. This is the priority of needs:

1. Hospitalization Plan for the whole family - First with MediShield Life, and upgrade to IP, if you have budget

2. Buy death coverage (comes with TPD usually), for all income earners at home - This is for replacement of income upon death of the income earner

3. Buy critical illness coverage for all income earners at home - This is for replacement of income upon diagnosis of CI and the income earner cannot work

4. Have at least CareShield Life, and upgrade to the supplement if you have the budget

5. Buy Disability Income Insurance if you have the budget

But how does one pay as little as you can?

At Providend, we have always advocated the use of term insurance for coverage against loss of income due to death, disability or a critical illness. The premiums for term insurances are a lot lower as compared to whole life.

4. As compared to ElderShield, the payouts will be increased from $400 to $600, how would should one comprehend this increase in terms of its sufficiency and adequacy? Would a permanently severely disabled individual be able to cope with daily living with $600?

First of all, there is a need to understand the thinking behind this. CareShield Life is meant to provide the most basic LTC coverage that is sufficient for the lower-middle income group, which is defined as the 30th percentile ($1100 Per Capita Household Income). For this group of people, if they ever become severely disabled,

They can opt for nursing home care, the cost would be

Nursing Home - $2,400
60% Govt Subsidy - $1400
CareShield - $600
Need to Co-Pay $400 through personal savings/family support

Or they can opt for home and community care - $3100
Govt Subsidy up to 75% - $2,300
CareShield - $600
Need to co-pay $200 through savings and family support

I think for this group of individuals, CareShield would adequately provide for LTC. For the higher income group, they can opt to buy the additional supplement to improve their coverage.

5. Some say that given that the government has now taken over the scheme and that it is not for profit, CareShield Life should not be gender differentiated as on average, women earn less than men but expected to pay more premium. Is there really a need to gender differentiate the premiums?

It is important that the scheme is sustainable in the long run. Given that CareShield Life premiums are paid by men and women for the same number of years, but provides lifetime coverage, women would need to pay higher premiums to reflect their longer life expectancy (which means they benefit more than the men).

In addition, the risk of severe disability differs between men and women, especially beyond age 65, when premium payment has stopped.

As such, CareShield Life premiums are gender-differentiated to reflect the difference in risks.

For MediShield Life, premium payment goes on as long as the policyholder is alive. As such, because women is likely to live longer and therefore pay more premiums but the benefits are similar to the men, MediShield Life premium is not gender-differentiated.

6. What are greatest improvements and enhancements from ElderShield to CareShield life?

1. 50% increase in payout from $400 to $600 and payout is for life instead of just 6 years

2. Universal coverage from age 30 - even those who suffers severe disability can be covered

3. Claims and reassessment process made simpler

7. What are some limitations of CareShield life?

1. The payout is flat and not adjusted for inflation once you claimed - But this cannot be help, otherwise premiums will have to be higher.

2. After age 67, payouts do not increase anymore. If one suffers disability after age 67, the payout of $1200 may not be sufficient. Again, this cannot be help, otherwise premiums will have to be higher.

8. There'll be explicit consideration of impact on cognitive impairments on functional ability in the assessment framework. What are the thoughts on that?

Cognitive Impairment is defined as a decline in an individual's ability to remember, think, judge and learn. The decline can range from mild to severe. Severe cognitive impairment could affect a person's ability to carry out day-to-day activities. Dementia, for example can cause severe cognitive impairment.

For the new enhancement, the assessment framework would be modified to provide explicit guidance for ElderShield assessors to consider policyholders' ability to initiate a task, plan, and finally complete an ADL effectively and safely. This will allow cognitively impaired policyholders with higher care needs to consistently qualify for claims.

This is a good change to the current ElderShield. In the past, it is not clear how an assessor decides if someone with cognitive impairment can claim ElderShield. Hopefully, with this framework, more people who really need this payout can claim CareShield Life.

9. For the current cohort who are already enrolled under ElderShield, should they join CareShield Life when it is implemented in 2021? What do they need to consider?

While the enhanced CareShield Life is a better plan than ElderShield, whether the current cohort should join this enhanced scheme will depends on a few things:

a. Their age - If they are older, the amount of premiums payable will be very high, In addition, because they have a shorter duration (from their current age to age 67) to pay their premiums, premium affordability is an issue to consider.

b.Whether they are still eligible. Some may have opted out and currently have pre-existing disabilities.

c. They have already bought their ElderShield Supplement and would already be sufficiently covered.

The current ElderShield + Supplement Package is better than CareShield Life on its own. However, when the private insurers launch their supplement for CareShield Life, the current cohort can take a look at the premiums vs benefits then, to make a decision whether it make sense for them to switch over to CareShield Life + Supplement.

Summary

The details on CareShield Life for the existing cohort who are enrolled with ElderShield are not out yet. Over the next few months, the government will release premium amount and the kind of premium support available.

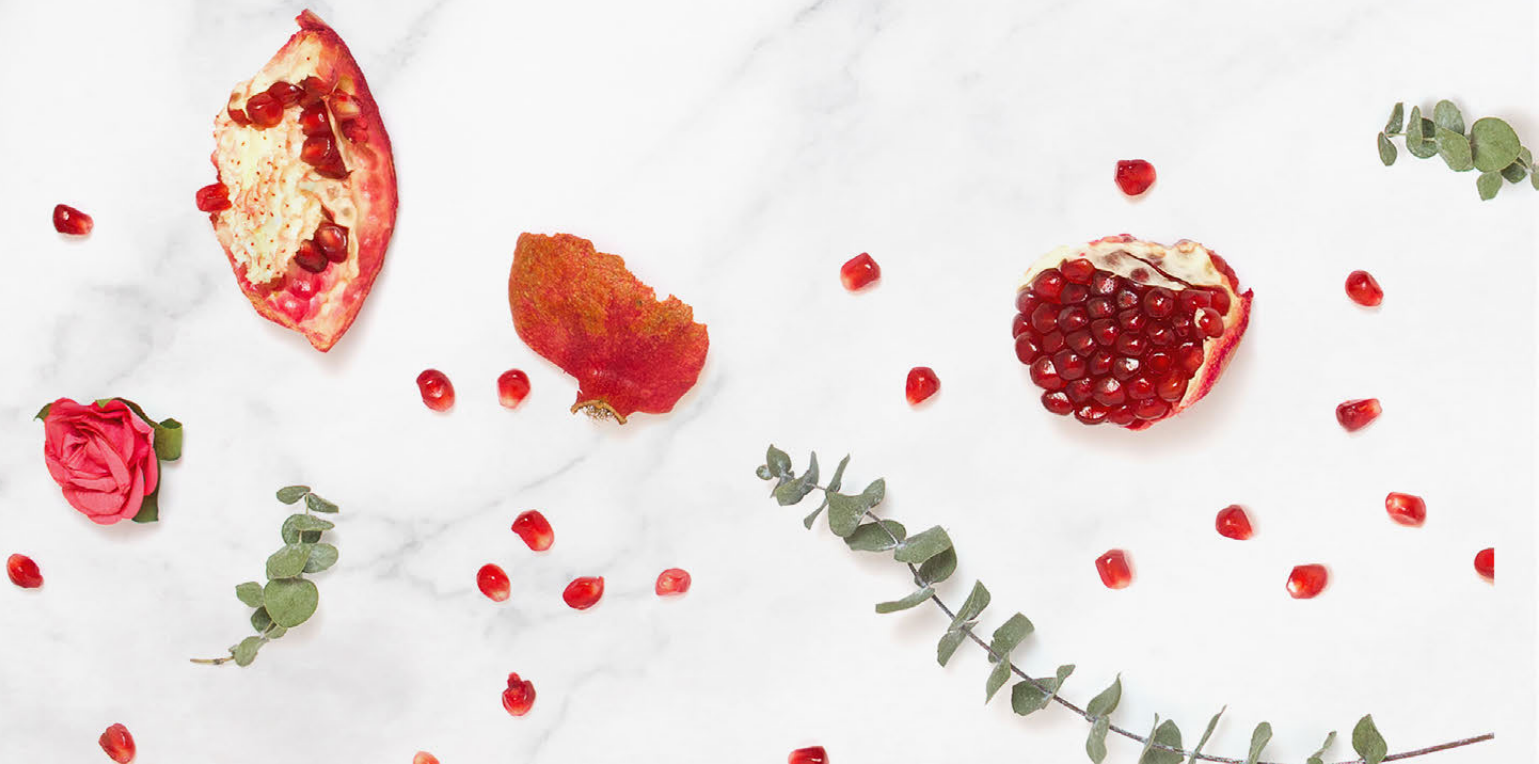
In addition, insurers will also launch the supplements for CareShield Life and give details of the premiums. One should only make a decision based on the following key considerations:

- Is your current ElderShield + Supplement better than CareShield Life in terms of premiums vs benefits?

- Is CareShield Life + Supplements better than your current ElderShield + Supplement in terms of premiums vs benefits?

- What kind or premium support you will be getting from the government to make it affordable for you?

We encourage you to consult your client adviser to discuss if you should switch to CareShield Life in 2021 when these details are out in the future.



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see you latte!

PROVIDEND

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