ARE YOUTHS READY FOR FINANCIAL INDEPENDENCE?

A Report

GYC
Grow Your Capital

THE CHALLENGE

Despite Singapore's wealth, our high cost of living[1] poses significant financial challenges to many Singaporeans. In August 2015, the Today article "Cost of living worry for many"[2] reported on this concern, referencing a survey of 2000 respondents conducted by Blackbox Research. Singapore has also slipped in the global ranking of retirement savings systems.[3]

Additionally, our ageing population and low birth rate mean that where several children once shared the cost of supporting their parents, that same financial burden now often rests on the shoulders of just one or two working adults[4].

The government has been expending resources to help older adults and retirees cope with the increasing costs of ageing. We aim to alleviate the problem with a different approach: by equipping Singaporean youth with the skills and opportunities to attain financial security in adulthood[5].

For most of them, relying on savings alone would not be enough, especially as time and inflation gradually erode their value. This insufficiency of savings makes it all the more crucial that the next generation learns to invest their savings wisely, and through that eventually attain financial security – ensuring that they would not have to struggle to support both themselves as well as their parents. ■

[1] "**Worldwide Cost of Living Report 2015.**" *The Economist*, March 2015.

[2] "**Cost of living a worry for many.**" *Today*, 14 August 2015.

[3] Huang, Claire. "**Singapore slips in global ranking of retirement savings systems.**" *The Business Times*, 19 October 2015.

[4] "**The Best is Yet to Be – Retirement Planning in Singapore: Trends, Challenges, and Solutions.**" DBS, 2014.

[5] "**Singapore Budget 2015: Assurance in Retirement.**" Ministry of Finance, 23 February 2015.

STARTING YOUNG

Why is it important for youth to start investing as soon as possible? After all, most (including some banks) would advise you only to start when you are older and have accumulated enough savings.

However, it is a fact of life that everyone will need retirement funds. Even the wealthy worry about not having enough money to sustain their standard of living until they die.

From a financial planning perspective and using simple mathematics, the earlier you start saving for retirement, the less you need to set aside on a monthly basis. For example, a 20 year old would just need to save **$158** per month for 40 years to have $1 million at age 60, assuming a compounded rate of return of 10% per annum. The total money invested would be about **$76,000**; the magical effect of compounding would take care of the remaining **$924,000**.

Compare that with someone who is 40, the average age when most people realise that they really need to start saving for retirement. That person will need to set aside **$1,317** per month for 20 years to get that same $1 million by age 60, assuming the same rate of return. That would come to about **$316,000** invested over 20 years. Roughly speaking, one would need to invest about 11–14% more per month for each year of procrastination, until about age 48 when it starts to increase exponentially. ■

Finding the right type of investment is also important. Being too conservative may result in a lower rate of return, and that in turn would mean having to set aside more per month, as illustrated below.

Amount needed per month to get $1m by age 60 (assuming **5%** annualised rate of return)

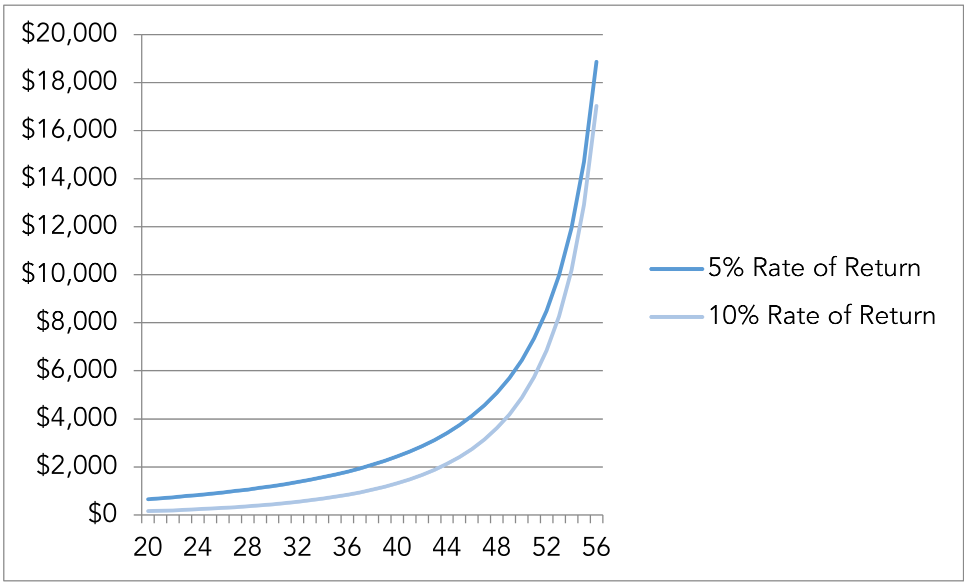
Age	Savings/ mth	Years to save	Total invested	Gains from compounding
20	$655	40	$314,544	$685,456
25	$880	35	$369,688	$630,312
30	$1,202	30	$432,558	$567,442
35	$1,679	25	$503,770	$496,230
40	$2,433	20	$583,894	$416,106
45	$3,741	15	$673,429	$326,571
50	$6,440	10	$772,786	$227,214
55	$14,705	5	$882,274	$117,726

Amount needed per month to get $1m by age 60 (assuming **10%** annualised rate of return)

Age	Savings/ mth	Years to save	Total invested	Gains from compounding
20	$158	40	$75,900	$924,100
25	$263	35	$110,624	$889,376
30	$442	30	$159,258	$840,742
35	$754	25	$226,102	$773,898
40	$1,317	20	$316,052	$683,948
45	$2,413	15	$434,289	$565,711
50	$4,882	10	$585,809	$414,191
55	$12,914	5	$774,823	$225,177

**numbers are rounded up.*

Amount needed per month to get $1m by age 60 (difference between 5 and 10% annualised rate of return)



As you can see, the earlier you start, the less money you'll need to invest to receive the same target amount at retirement than if you were to start later. The effect of compounding is amplified with time.

Unfortunately, the idea of starting a long-term investment plan may not sound appealing in a culture that considers instant gratification the norm. Most financial institutions prefer to sell you insurance instead when you are young (see page 23).

OBJECTIVES & METHODOLOGY

Our research sought to discover youth perspectives on investing in order to gain a better understanding of their financial behaviour and concerns. This research will assist us in attaining the following objectives:

1. Developing a suitable and affordable investment product for youth
2. Make investing accessible to them
3. Increase their awareness of the need for financial independence

We surveyed over a thousand youths from July to October 2015, primarily by gathering surveys from major university campuses across Singapore. We also obtained responses through online channels. We analysed the results and compiled them into this report in January 2016. ■

KEY FINDINGS

Millennials:

Are concerned about their future

They understand the importance of investing and want to make their money work harder

Lack financial knowledge

Most lack investment know-how and are unaware of the available products

Want to be independent

They prefer to make their own decisions, and are able to set aside money for investments

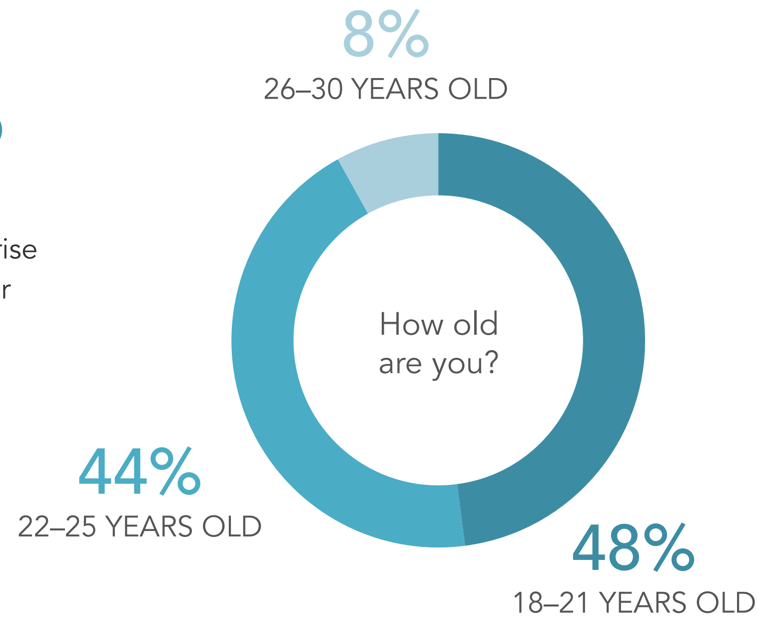
Are engaged with the web

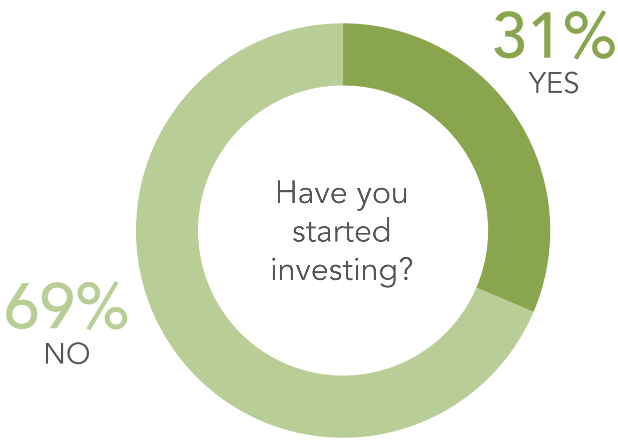
They want a digitally-enhanced investment experience

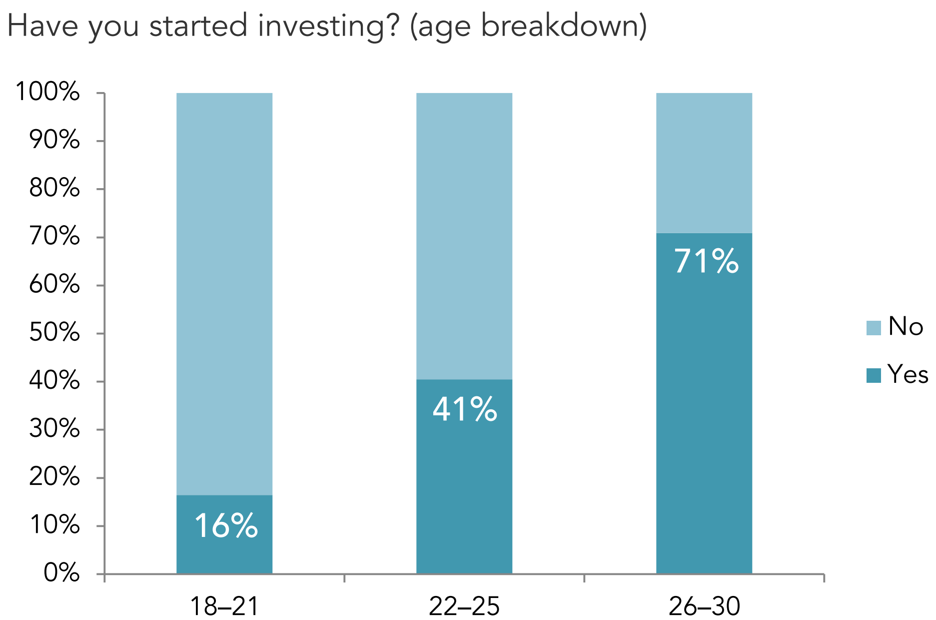
THE CURRENT SITUATION

More than two-thirds of respondents **(69%)** have not yet started investing.

The 31% who have started investing comprise **16%** of 18–21 year olds, **41%** of 22–25 year olds and **71%** of 26–30 year olds. ■

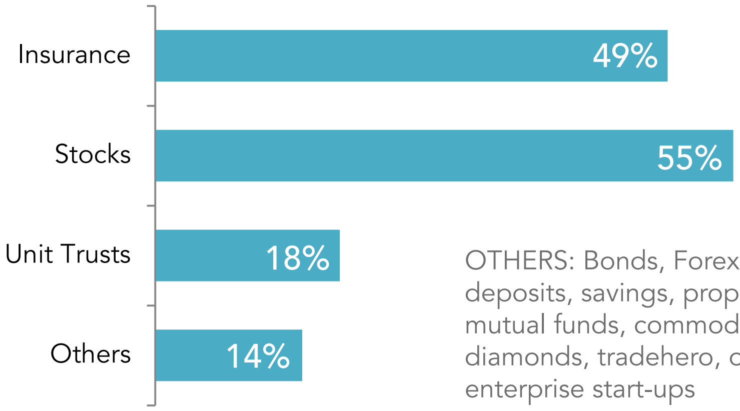






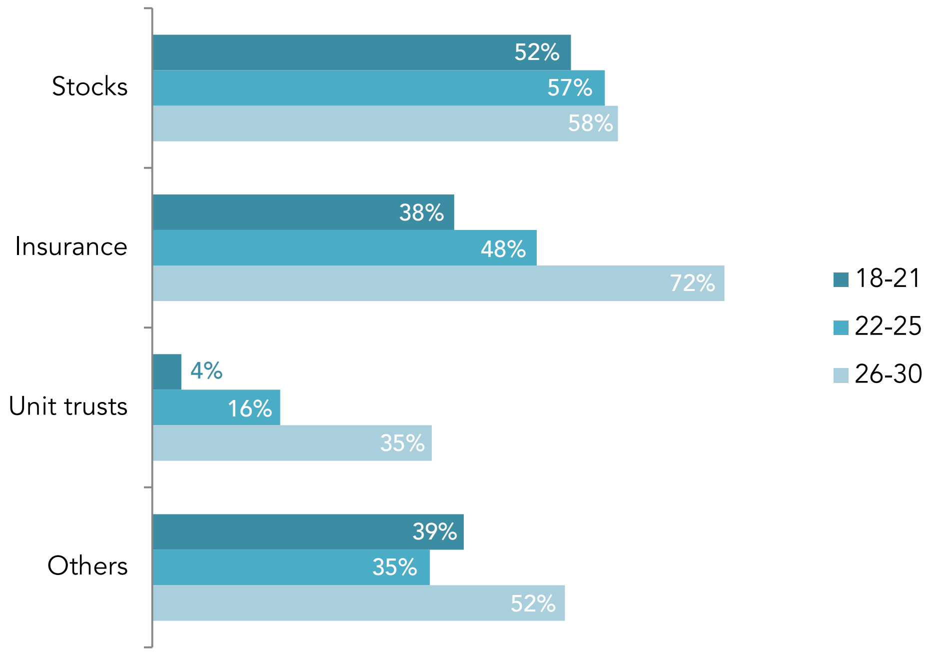
Which investment products have you bought?

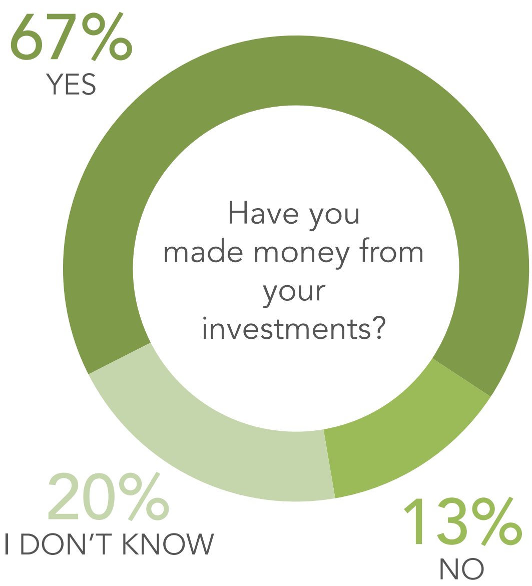
(multiple answers allowed)



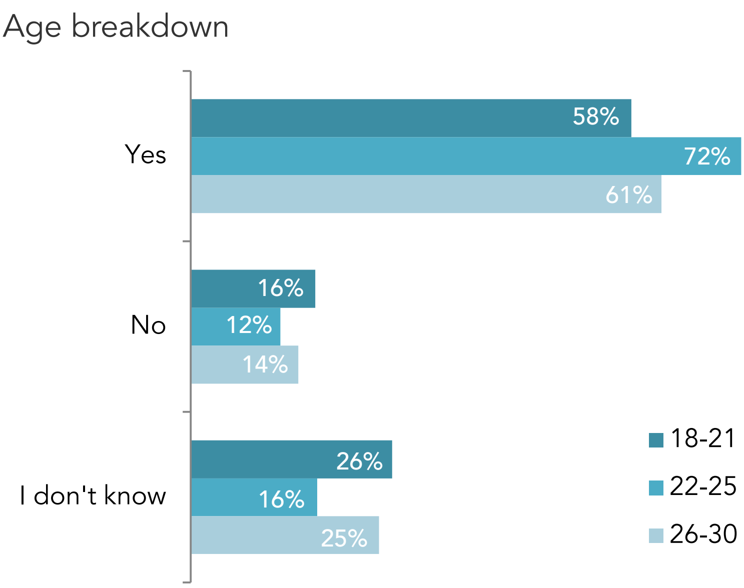
OTHERS: Bonds, Forex, ETFs, fixed deposits, savings, property, futures, mutual funds, commodities, gold, diamonds, tradehero, options, social enterprise start-ups

Age breakdown



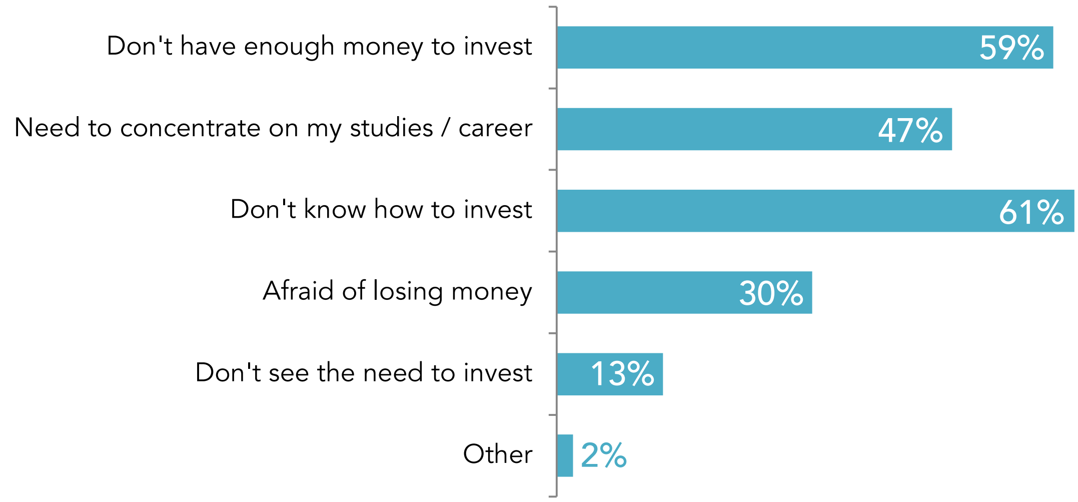


Out of those who have started investing, more than half are invested in stocks. **67%** have made money from their investments, while **20%** were unsure if they had. This might be due to a lack of product knowledge or not receiving any performance reviews.

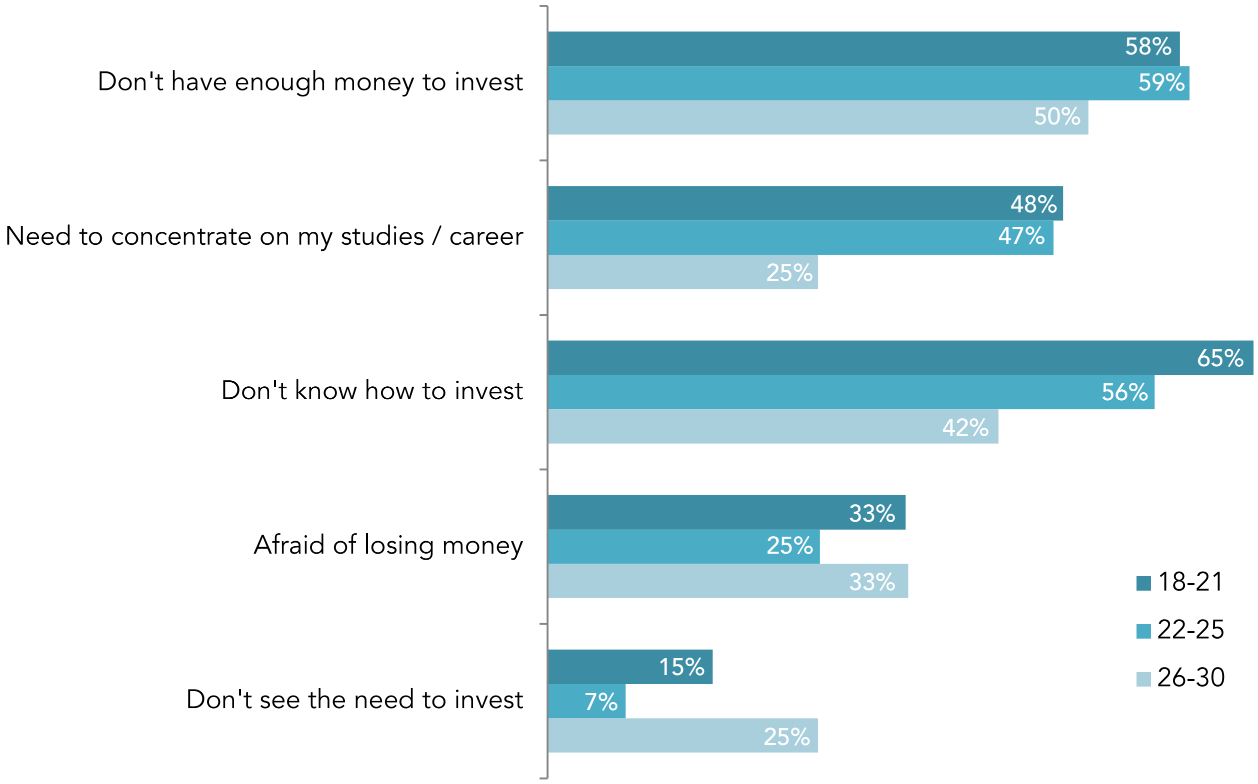


The roadblocks

If you haven't started, what's stopping you from investing?
(multiple answers allowed)



Age breakdown



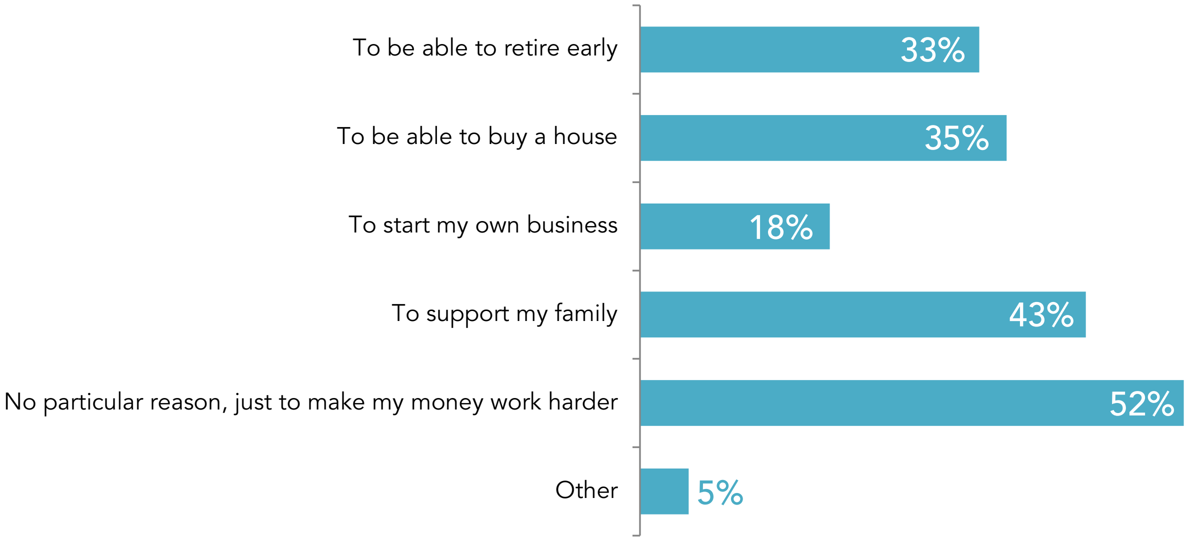
Among those who have not yet started investing, the most common reason for it is not knowing how to invest, followed closely by a lack of funds to do so and a need to concentrate on their studies.

Other reasons cited include having no time, saving up for other financial needs, wanting to wait until they have started earning a salary, and having no interest in investing.

Only **13%** do not see the need to invest.

Push factors

What would be your main reasons for investing?
(multiple answers allowed)



52% of respondents said they would invest just to make their money work harder. After that, the most common motivation is to support their families **(43%)**, followed by the ability to buy a house **(35%)**.

It is interesting that despite the relative youth of the respondents, about a third **(33%)** already express interest in saving for retirement, suggesting a practical, forward-thinking mindset.

Other responses include variants on wanting to get rich (14), to support a comfortable lifestyle (6), earn a passive income (6), achieve financial freedom (5), and to buy a car (4). ■

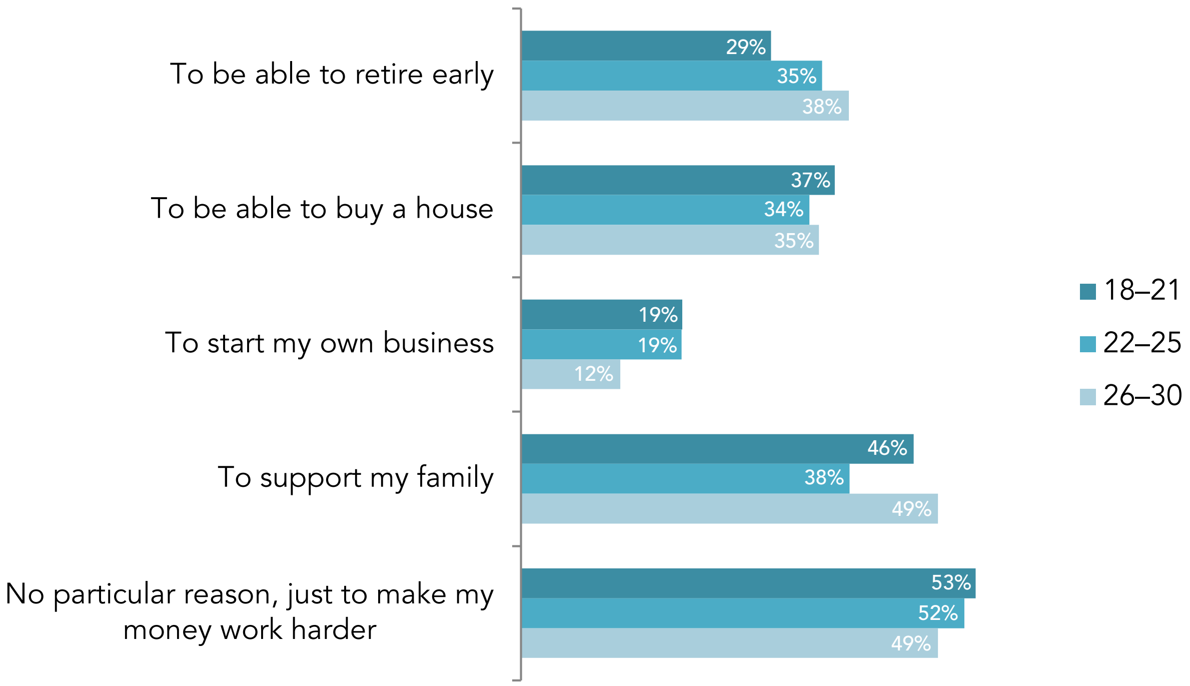
Breaking down the responses by age, we found that older respondents were more likely to list retirement as a reason to invest (**38%** of 26–30 year olds vs **29%** of 18–21 year olds).

Another significant disparity was in starting a business – while the proportion of 18–21 and 22–25 year olds who wished to do so were similar at **19%**, only **12%** of 26–30 year olds indicated an interest in investing to start their own business, possibly because at that age most of them would have already settled into conventional career paths or perhaps had already successfully started a business of their own.

There's also a curious dip: only **38%** of 22–25 year olds want to invest to support the family, compared with **46%** of 18–21 year olds and **49%** of 26–30 year olds.

As respondents get older, they are also less likely to invest for "no particular reason", suggesting that they develop more concrete investment goals with age.

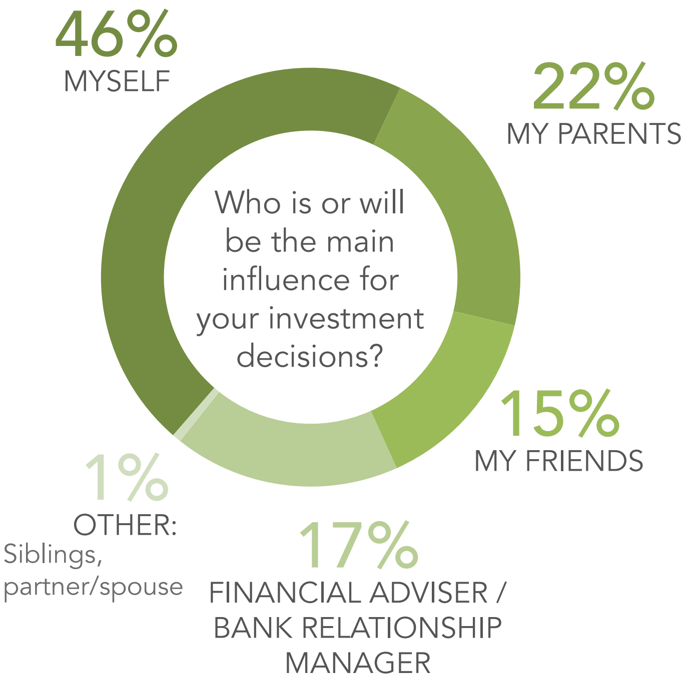
What would be your main reasons for investing? (age breakdown)

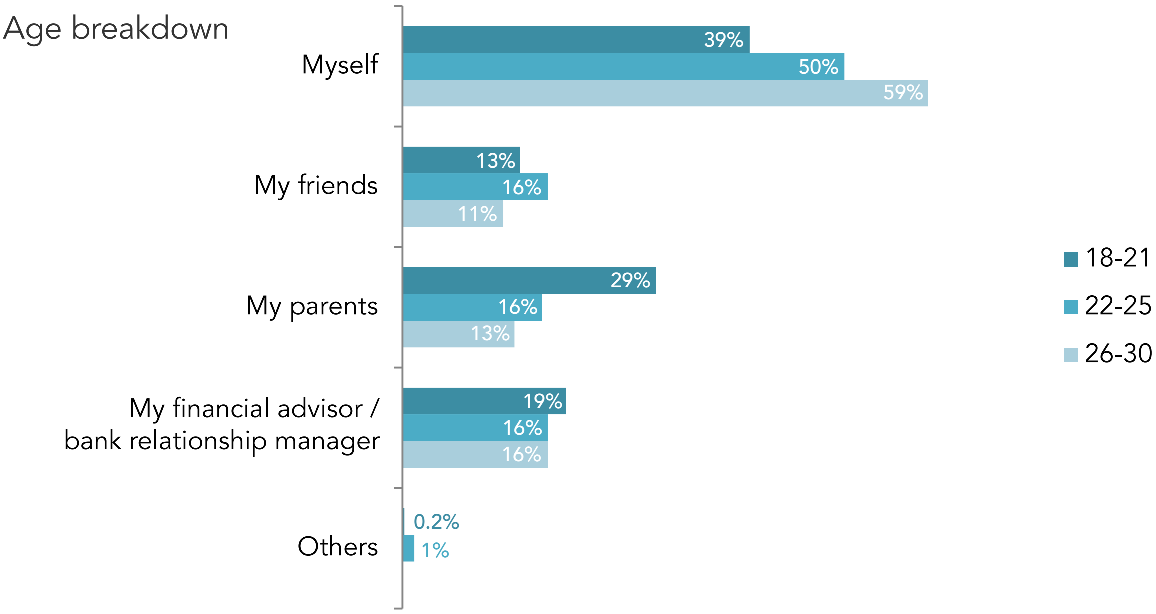


The independent generation

The majority of respondents **(46%)** reported that they themselves were the main influence for their investment decisions, suggesting an independent mindset and the desire to steer their own financial courses.

This result also suggests that financial institutions should be reaching out directly to youths rather than their parents, and tailoring material for this age group – for instance, by creatively utilising digital media to explain financial concepts and products in ways that are easy to understand. ■



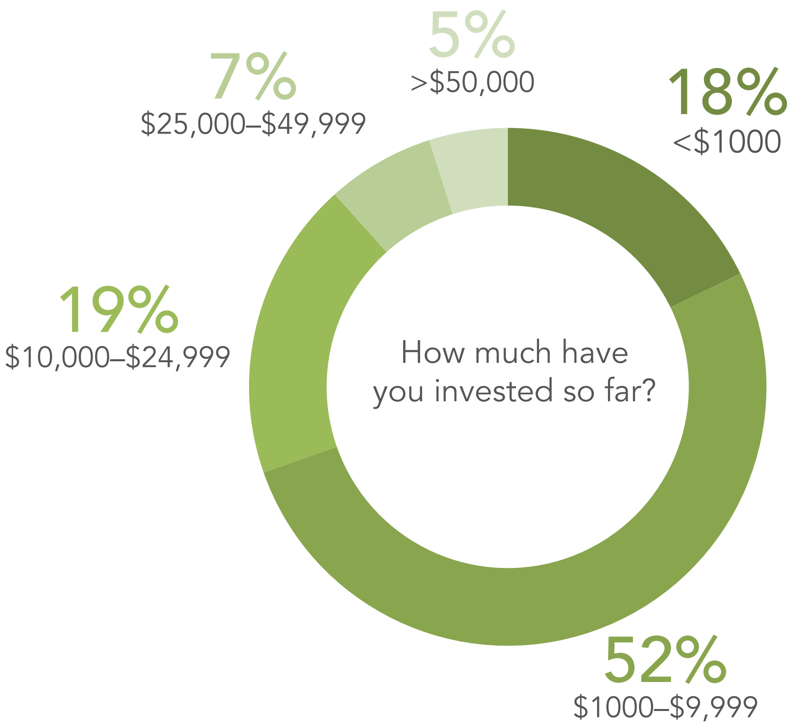


MAKING INVESTING ACCESSIBLE TO YOUTH

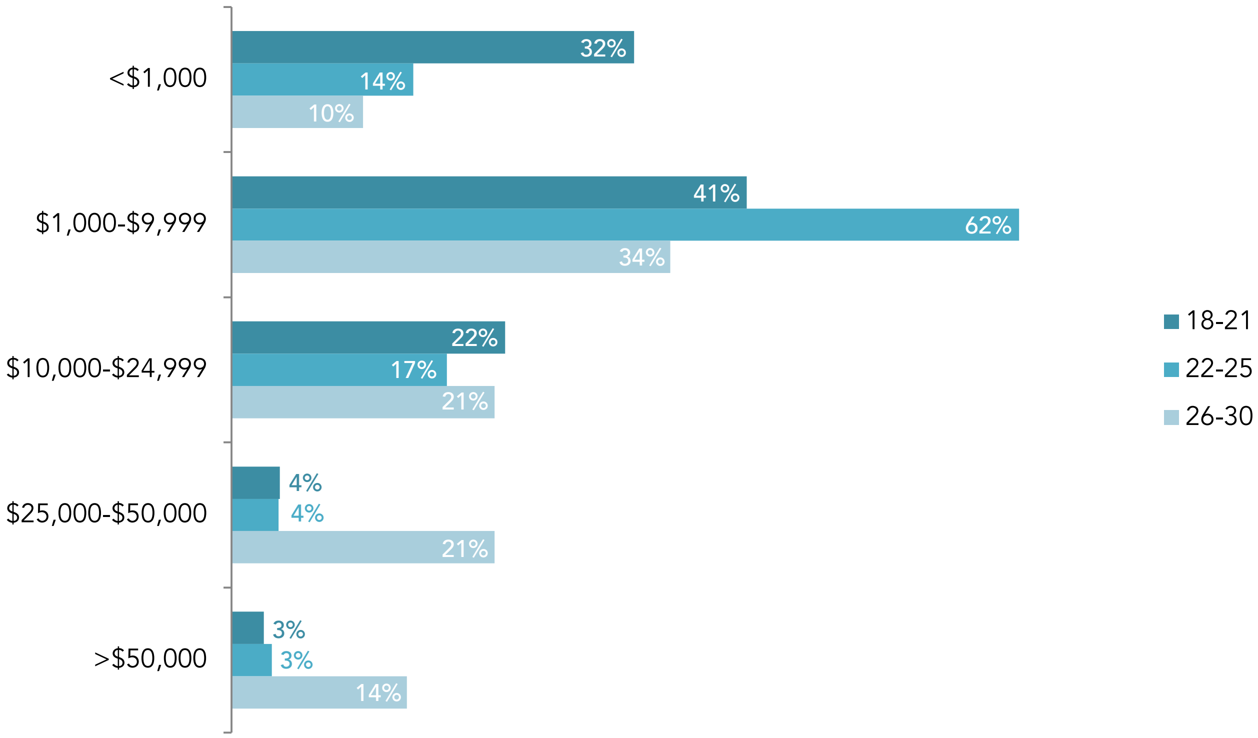
75% of respondents could only afford to invest between **$100** and **$500** a month. Apart from insurance endowment products, there are not many investment products in the market for this investment amount. Most require far larger lump sum investments than what many youths can afford.

Financial advisers and bank relationship managers also do not seem interested in doing business with youths, likely due to the pittance in commissions they could expect to earn. In addition, to sell an investment product to this group would require completing a much more challenging Know Your Customer (KYC) and Customer Knowledge Assessment (CKA) documentation as well as trying to find good reasons to justify recommending an investment product for this group. As such, the majority of youth investors are largely ignored and priced out of the market. In other words, a serious advice gap exists.

Some tied insurance agents may be able to find and sell insurance products with $100 to $500 monthly premiums. The relatively easier KYC requirements in selling an insurance product probably also help. Ironically, this may not be the right product, as most young people have a greater need to start investing than to buy protection products.

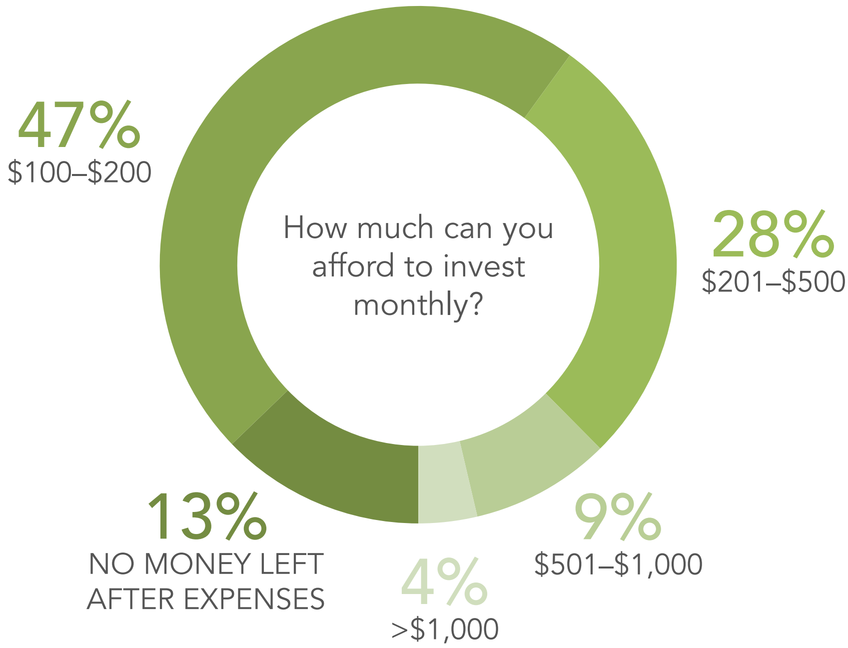


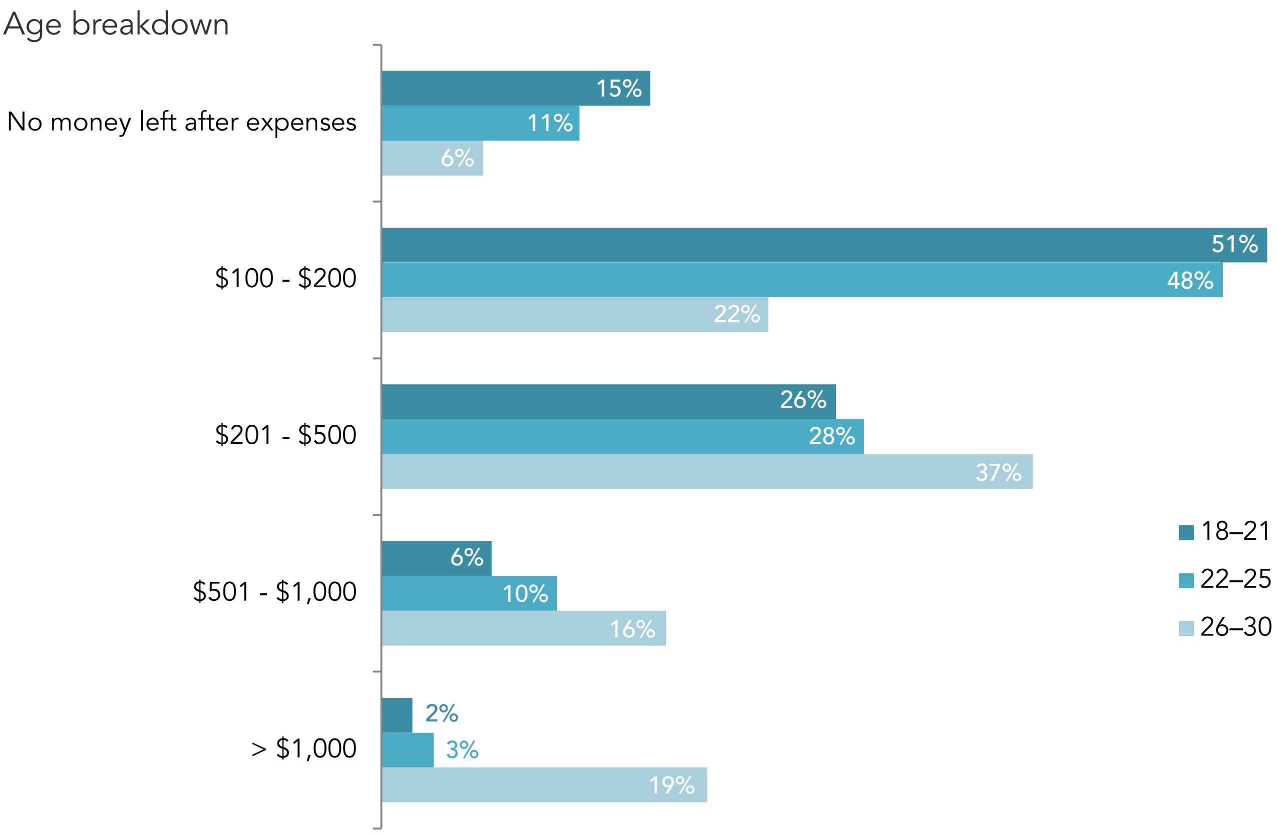
Age breakdown



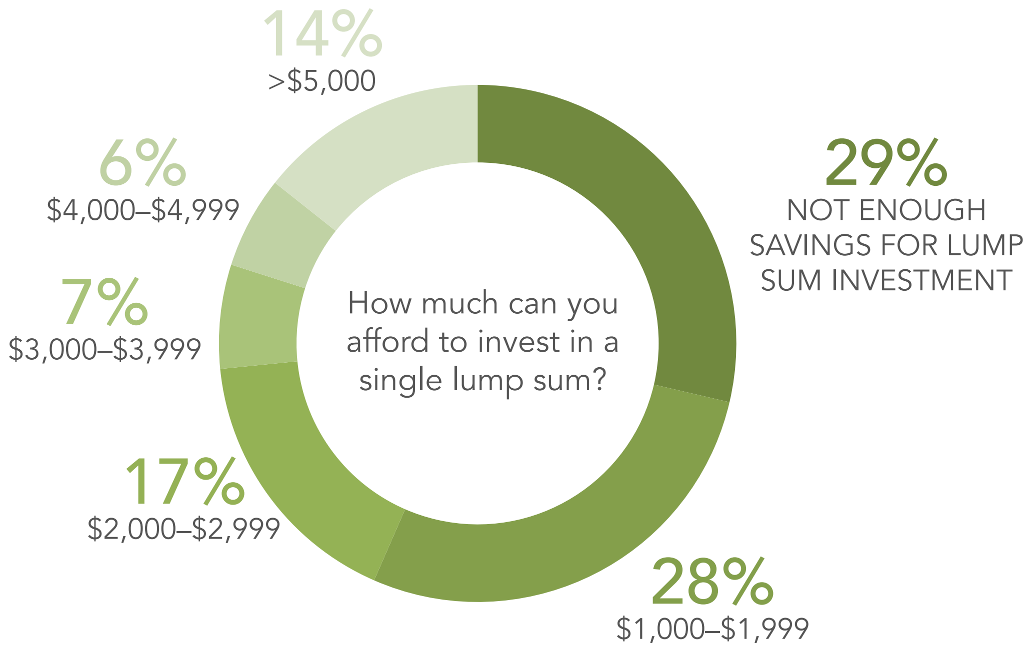
Despite the higher earning capacity of the older group (26–30 year olds), nearly 60% can only afford to invest between $100 and $500. Assuming a median starting salary for a university graduate of $3,300 (as of 2015)[6], this amounts to only 3–15% of their gross income, which seems rather low.

[6] **"Higher salaries for university graduates from NUS, NTU and SMU in 2015."** *The Straits Times*, 2 March 2016.

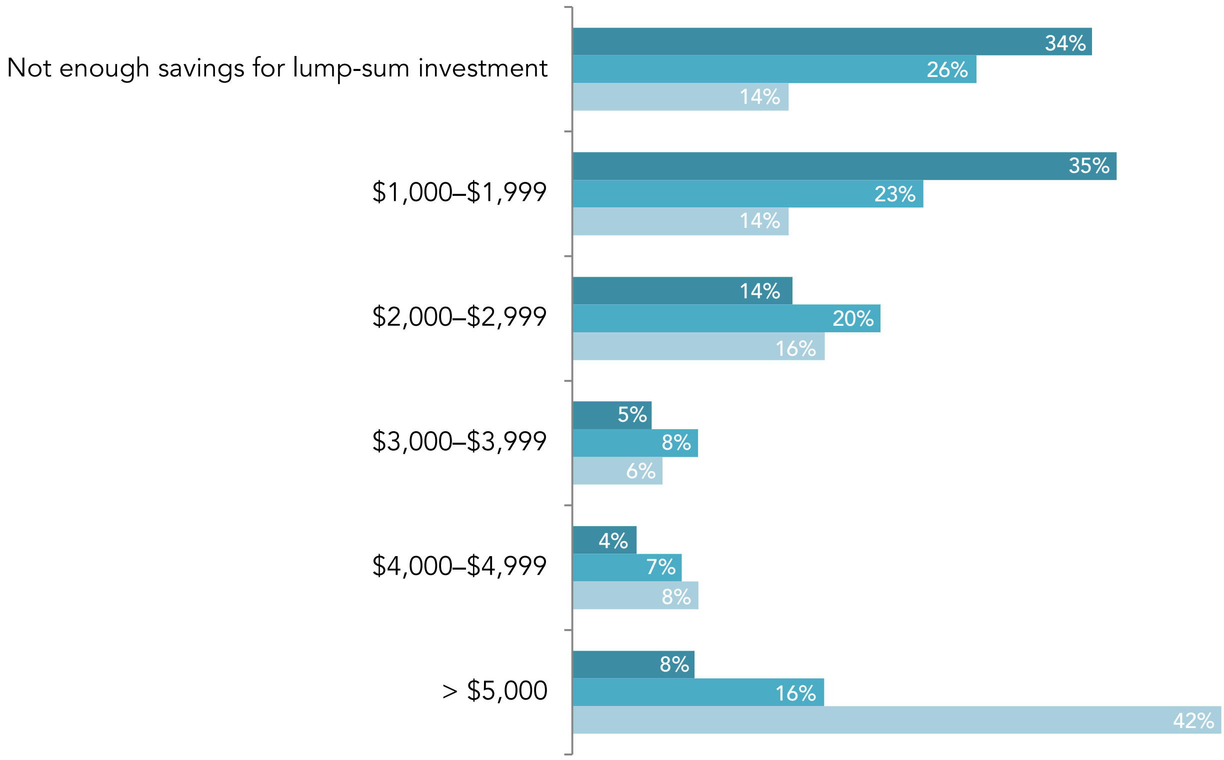


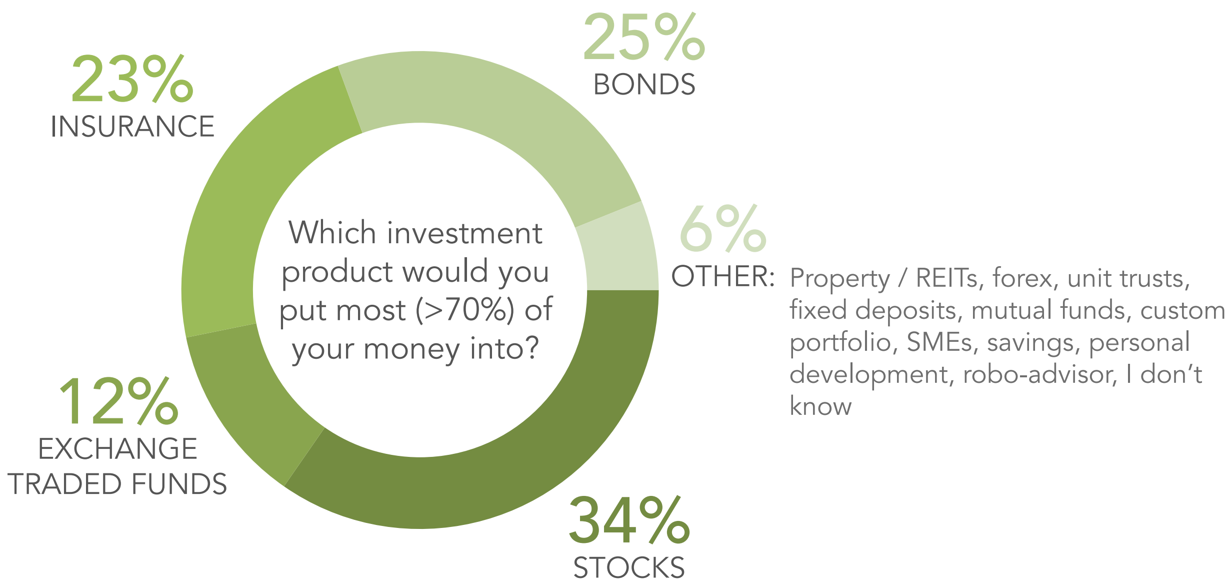


57% of respondents cannot afford $2,000 or more in a lump sum investment, which would make many investment products inaccessible for them as they have higher initial capital requirements. ■

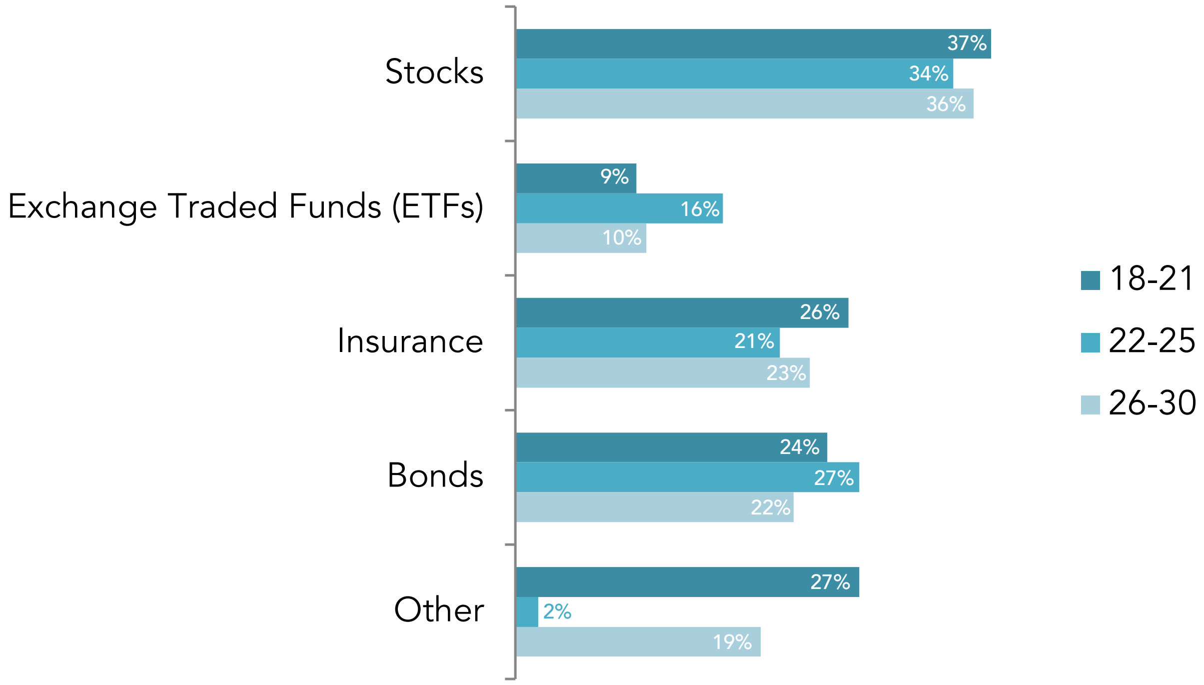


Age breakdown





Age breakdown



It is interesting to note youth investors' strong interest in stocks despite the low amounts of investible lump sums they have. Based on what they can afford, these would probably be limited to high-risk penny stocks. However, the skew towards stocks could also partly be down to it being a familiar-sounding product.

Nearly half would invest primarily in insurance products and bonds, suggesting risk aversion and a preference for 'safer' products. They might be unaware of how inflation could ravage conservative portfolios and leave them with much less than expected. Many would put most of their funds into insurance, which is primarily a protection instrument; this suggests they may need a better understanding of how investment and insurance work.

12% of respondents indicated a preference for ETFs. This is a relatively new product type in Singapore and is encouraging news for ETF providers.

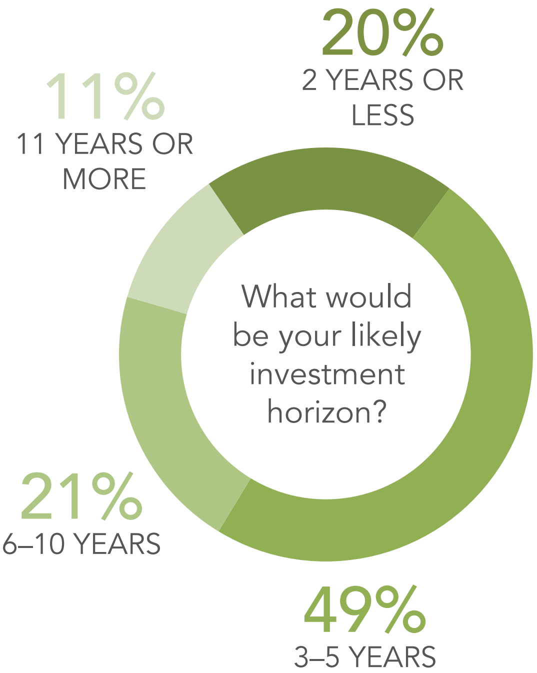
A significant number (35) wrote variations of "I don't know" in the 'Other' box, some saying that they did not understand what the different products were and would need to do more research first. ■

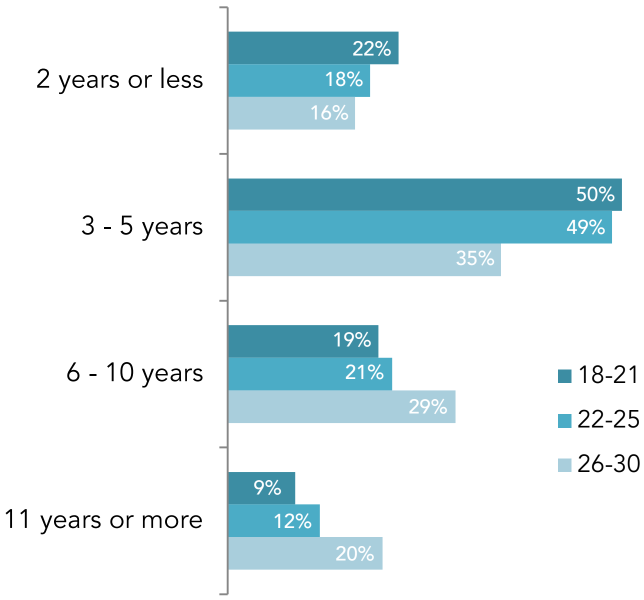
LOOKING TO THE FUTURE

Most respondents were short-term investors, with only **11%** considering an investment time horizon of 11 years or more.

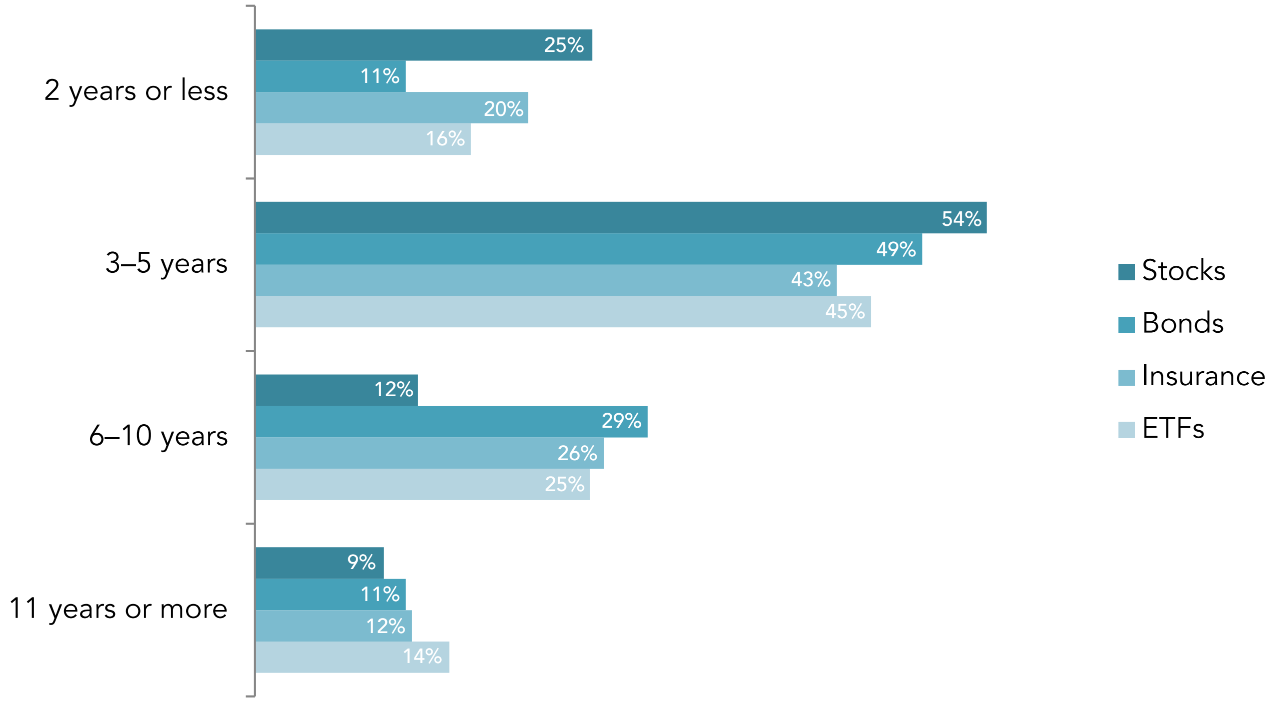
This number increased proportionally with age: while only **9%** of the 18–21 group would invest for 11 years or more, **11%** of 22–25 year olds and **20%** of 26–30 year olds would do so.

69% had time horizons of 5 years or less, suggesting short-term financial needs or an impatience for getting quick results instead of waiting it out for real returns.





Investment time horizon against preferred investment product



When measuring preferred investment products against time horizon, we find that those who selected stocks as their main product seem to prefer shorter time horizons – only **21%** would invest for 6 years or longer, vs an average of **39%** across the other three main products.

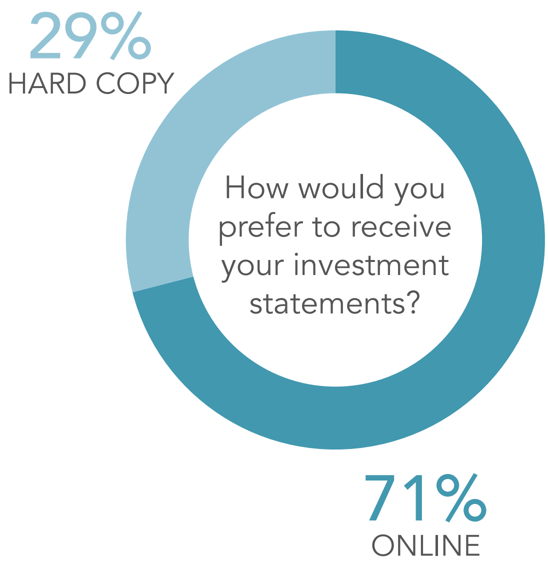
This could indicate a gambling mentality and a market-timing approach. Many respondents likely view investing as a way to quickly make big gains, rather than as part of a plan for long-term financial security. ■

GOING DIGITAL

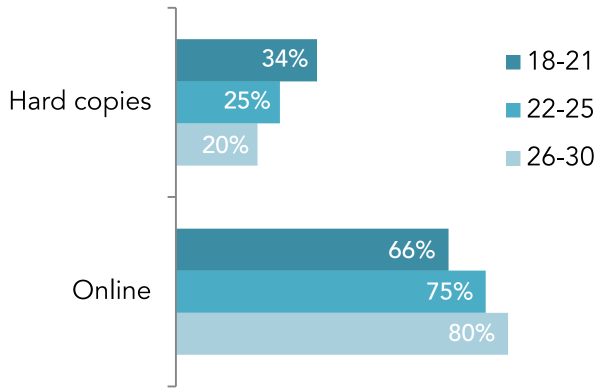
That **80%** of respondents prefer some online engagement in investing is no surprise, as our survey group is made up of millennials. In an increasingly digitised world, having **71%** prefer receiving investment statements online is also expected. It can be seen as validation and encouragement for the financial industry to develop more online services.

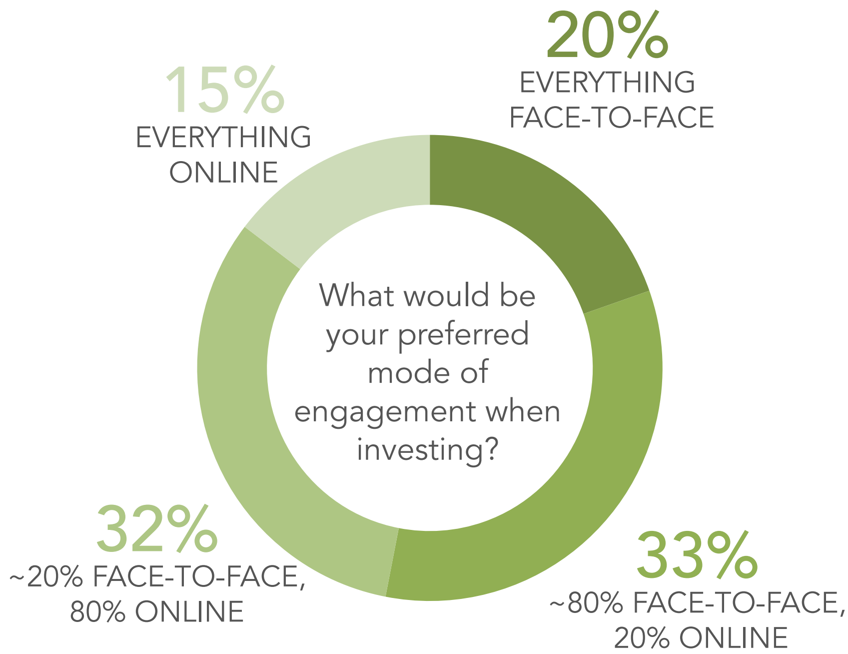
Furthermore, the fact that **20%** prefer only face-to-face engagement will have serious implications for firms and advisers that have shunned incorporating digital or online modes of engaging customers.

However, it is highly interesting to note that the majority (**65%**) desired a combination of face-to face and online engagement, contrary to mainstream messaging that millennials prefer online engagement where possible. We believe that the organisation that can effectively integrate human advisers with online services will be at the forefront of truly engaging its new millennial customers. ■

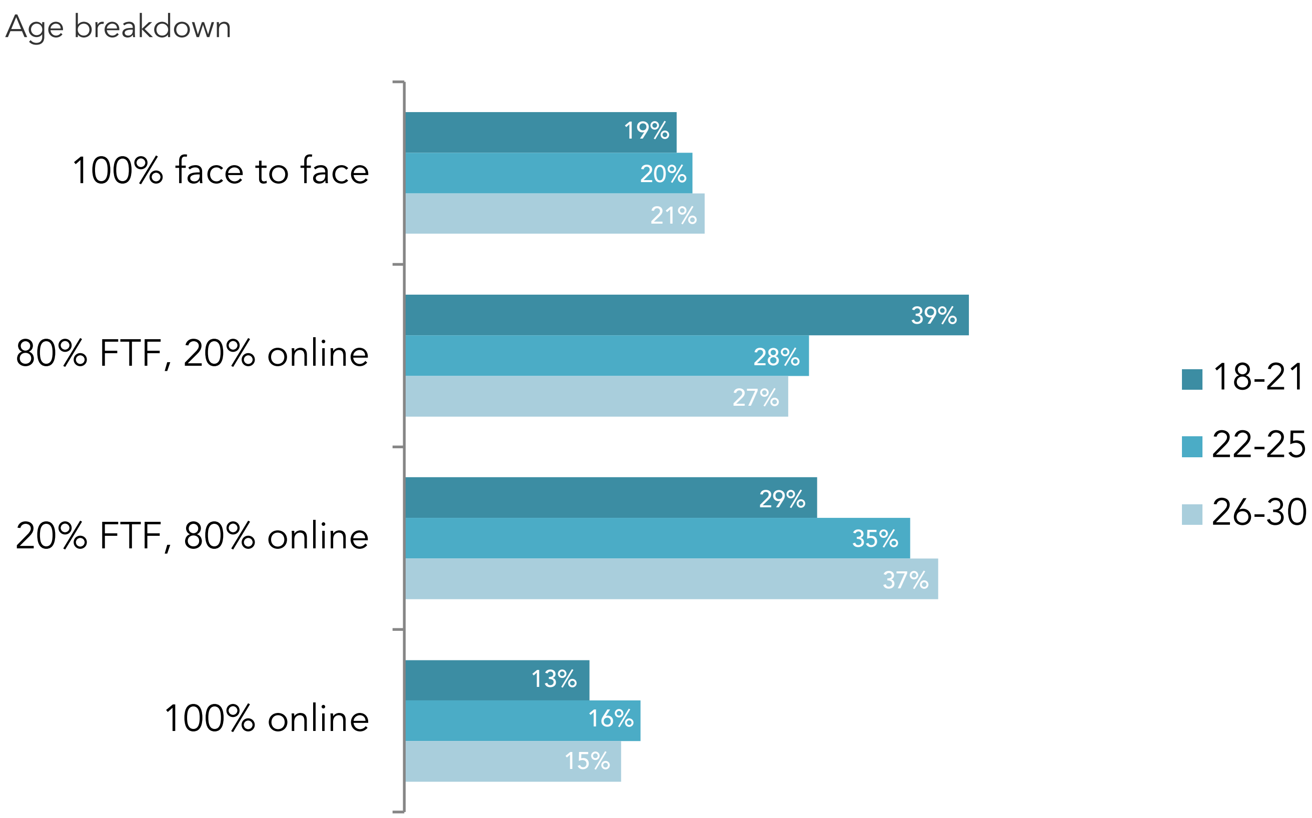


Age breakdown





15%
EVERYTHING ONLINE
20%
EVERYTHING FACE-TO-FACE
What would be your preferred mode of engagement when investing?
32%
~20% FACE-TO-FACE, 80% ONLINE
33%
~80% FACE-TO-FACE, 20% ONLINE



Age breakdown
100% face to face
19%
20%
21%
80% FTF, 20% online
39%
28%
27%
20% FTF, 80% online
29%
35%
37%
100% online
13%
16%
15%
18-21
22-25
26-30

INVESTING OPTIONS FOR YOUTH

In July 2015, we conducted a mystery shopping exercise with 7 major banks in Singapore. We assigned a few interns (aged between 21 and 23) to visit the banks and ask for suitable investments for a budget of **$100** per month.

All the banks directed them towards endowment or life insurance plans instead of investment options, while three also responded by getting staff members from the insurance arm to assist them. They said that these would be more suitable for them than investment products, but the minimum premium amounts required were over **$300** per month.

Only three of the banks brought up unit trusts. However, these had high initial lump sum requirements and monthly investment amounts that far exceeded what most young people can afford. One even directed them towards online platforms, as the $100 budget was far too small for the banks to be able to help them.

Interestingly, our own research revealed that 2 of those banks do have regular savings plans that fall within the range of $100–$200/ month, which **87%** of respondents would have been able to afford. For some reason, the bank representatives did not mention these to our interns. ■

WHERE WE GO FROM HERE

While it is commendable that most Singaporean youth seem aware of the importance of investing, the majority have not found themselves able to start due to a lack of know-how and a lack of affordable investment products in the market.

They want to be independent investors, relying primarily on their own research to make investment decisions. They also value face-to-face interaction with advisers while at the same time desiring some online engagement in the investment process.

The young are well placed to exploit the time compounding effect on their investments, provided they start early on their investment journey. Unfortunately, the current compliance requirements make it difficult for young investors to start – for instance, many would fail the mandatory Customer Knowledge Assessment (CKA) or Customer Account Review (CAR) which, although meant to protect retail investors, is also a double-edged sword in making it difficult for them to even start investing. Most banks and advisory firms would rather avoid the additional effort required to advise customers who have failed the CKA and CAR.

Our study leads us to the conclusion that there is a strong demand in the market for financial products tailored to Singaporean youth: one that allows a low initial capital investment and monthly contribution, and that is simple to understand and execute. The product alone is not enough – there must also be both human and online engagement in the investment process, as both are critical factors for its success. ■