

Philip's reply to questions on financial issues facing couples

1. *Can you provide 2-3 real-life case studies of couples who weren't completely 'honest' on financial matters with their spouses?*

E.g. one spouse may be more of a spendthrift compared to the other or a gambler etc.

Details required: ages, how they managed their wealth and the disputes etc.

I believe that disagreement on financial matters is one of the key causes of divorce in Singapore. It is therefore not surprising that money matters are one of the key discussion topics for most marriage preparation courses in Singapore.

I am hard-pressed to single out any clients who are financial irresponsible. Perhaps, this is because if they were, they would not have engaged my services in the first place.

However, it is quite common for me to come across couples with vastly different spending patterns. In such cases, usually one party is a spendthrift while the other is extremely frugal. Often, I advise them to arrive at a compromise. "Give and take" is the best approach for such couples, and it may take not only months but years of hard work before one party can fully understand why the other party is spending money the way he or she does, and come to terms with it.

In the course of my work, I can safely say that by and large, Singaporean women still uphold traditional values when it comes to marriage, so they still feel that the man should be the head of the household, and should therefore take charge of money matters. Even in the case of couples where the wife earns more, often she would still appear to defer to him. As their financial advisor, I usually play along even though it is apparent who is wearing the pants in the marriage.

Often, it is the innate risk-taking nature of the husband that lands the family in financial trouble. He may have gambled or invested in a risky venture or simply taken on too much risk on his investment, and ended up losing all or a big chunk of the money that was originally meant for buying a bigger home or a condominium near the primary school that the couple had wished to enrol the kids in, for instance. The wife usually finds out only much later when the stress of an investment gone badly makes her husband lose his temper or become quarrelsome all of a sudden.

In recent years, I have observed that housing is a big challenge facing young couples who are just starting out. I believe this will morph from a socio-economic issue into a political one that could become a hot-button issue during the next general election.

Many young couples nowadays are frustrated because they are not able or cannot afford to buy their ideal matrimonial home. To make their dream come true, they take up huge mortgage loans, which they may eventually have difficulty repaying. The danger for such couples is that when economic conditions turn sour, everything that can go wrong usually does so at the same time. For example, one spouse may lose their job, while mortgage interest rates start to soar. Tenants may also become hard to come by as property prices continue to adjust downwards.

Many couples I know are also susceptible to making investment mistakes that could set them back on their retirement plans by several years. When the economic climate is fairly good now, it is not uncommon for banks or fund managers to re-launch some of their higher risk investments like emerging market or commodity theme funds, or innovative products like currency swap which pays you interest in exchange for your commitment to take on a currency position as it hits a certain threshold.

I know of a couple in their forties now whose \$200,000 investment in a unit trust in 2000 was reduced to \$90,000 within two years. This was because they had sold off their investment near the bottom of the market cycle out of sheer panic. Another couple nearing their retirement lost over \$400,000 of their retirement funds in some China-related stocks during the recent financial crisis.

We may laugh at their stupidity, but history has an uncanny ability to repeat itself, as long as fear and greed continue to influence our decisions. Worse, decision-making for investments involving two persons is even more complicated. When one has higher risk tolerance than the other, this may cause conflicts when they cannot agree on whether to hold or sell an investment when it turns sour. So the husband may still be able to sleep well even though he has lost 15 percent of his money, while the wife may have restless nights thinking about how many extra square feet of space those losses could have bought for the family.

Sadly, many couples who make painful investment mistakes are among the smartest people I know. For example, there was a couple in their early thirties who bought into a Ponzi investment scheme which subsequently went bust.

The basic assumption before any investment is made should always be, "If it seems too good to be true, it probably is". An openly publicised "10 percent guaranteed annual return" should be enough to raise a red flag. In general, a couple should not breach the risk tolerance of the more conservative party, if they hope to preserve their marriage.

Lastly, it should be noted that risk profiling tests do not guarantee that a couple may make the right asset allocation decisions. An interesting observation about such tests is that the result for the same person may differ when market conditions change.

In a bearish market for example, most respondents would choose to be risk-averse. In the current environment where investors have been enjoying strong returns over the past two years, I suspect that more will be willing to take risks to achieve higher returns. However, this strategy may severely backfire if the markets pull back significantly.

2. A recent Fidelity study highlighted that 82% of couples surveyed do not agree on when to retire, whether to work part time in retirement or what to do with their free time during retirement. What are your comments on this

I think it is quite normal for the wife to decide to retire a few years earlier than the husband. Often, she does so to help look after the grandchildren when they come along. It is not very common for the wife to continue working full-time after the husband officially calls it a day. This boils down to the fact that we are still living in a traditionally Asian society where the man is usually considered the breadwinner even if he may not be earning as much as his wife.

Today, it is very common for couples to continue engaging in some form of part-time employment after they retire, possibly doing something that they truly enjoy. I know of one couple in their mid-sixties who are still actively engaged in their respective occupations, with no signs of slowing down. Then there is another 80-year-old man who still makes daily visits to the family factory to help keep a lookout even though his sons are running the show now.

In fact, retirement is a modern concept that was totally unheard of as recently as a century ago. In fact, there is a definition of retirement that goes like this, “removal from service after a fixed asset has reached the end of its useful life”. I am sure most people would not want to retire like this.

I believe that a good time to retire is when one has decided to devote his life to the pursuit of goals of higher intrinsic value after his basic daily sustenance needs have been met, as Abraham Maslow put it in his infamous hierarchy.

In layman terms, activities that can help fulfil such goals may include helping to look after grandchildren, or contributing to a particular field of knowledge like music or the arts, or simply taking better care of an ailing parent or spouse. In contrast, the notion of retiring just to play golf and smell the roses simply does not appeal or make sense to me.

3. What are some tips that couples can adopt to have a happy retirement and a financially healthy marriage?

To ensure that they have a financially healthy marriage, couples should determine from the onset how financial management duties are to be shared. To decide on this, it may be useful to first assess each other's strengths where such matters are concerned. The partner who is good in evaluating investments may want to take on a more important role in assessing the investment options for the family. Meanwhile, the partner who is better with administrative tasks can take charge of managing bills and bank accounts.

It is also not uncommon in many marriages for one partner to take the reins and handle all the financial decisions, provided both parties are agreeable. Couples should also discuss the level of trust that should be accorded to each partner, as this would, to a very large extent, determine how the duties are to be shared. For instance, there is a man I know whose family members had a gambling problem. He decided to let his wife handle their joint account. He did so not because he did not trust himself, but rather he hoped to give her a greater sense of security.

Secondly, they should have more than enough liquidity and be upfront about their liabilities. More cash in the bank may not yield good returns, but it will come in useful when there are unexpected external shocks. Debt, by contrast, can be a source of angst and an expense that drains the family's monthly income. Furthermore, it can prevent a couple from pursuing what they really want. Just imagine the impact it could have on your marriage when you discover that your partner has hidden a mountain of debt from you.

Thirdly, they should share with their partner how they were taught to handle money, if at all. Their upbringing would usually influence how they deal with their finances. Some were bought up in a permissive household where they were given money quite freely without

having to earn it; others may have come from a more modest background where family cash flow was tight.

Let us take the classic example of a saver who marries a spender. The couple clashes when the saver complains about how the spender splurges on luxuries. The spender, meanwhile, balks at the “miserliness” of the saver. Some of this angst could have been avoided if the partners had first recognised the value the other party places on money. An easy way to discuss this would be to ask what money means to the other person. Does it represent security, choice, or something else? The answer given will provide clues to the thinking behind the other person's spending decisions.

For a happy retirement, safety of the principal sum should always be the number one consideration before making any investments. Bear in mind also that most people usually over-estimate their propensity to take risk, only to realise that they have taken on far too much risk when they chalk up significant losses.

The single most critical risk facing a retired couple could be what is known as the “sequence of returns” risk. I am writing a piece on it now, but in short, early losses on a retirement portfolio may cause substantial and often irreparable damage to our retirement plan. So as our retirement age approaches, it is perhaps wiser to be more conservative when it comes to managing investments. This, I believe, is the foundation for a happy retirement.