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Road to Wealth– Part 2

by

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In the previous issue, we discussed about the first part of your roadmap to wealth. There are various factors that either help or hinder your effort to build up a strong financial foundation for the family. The key point is that you have to have discipline, consistency and stick to your plan. Bear in mind that it takes 10, 20 or even 30 years to be financially independent. In my case, I started working at the age of 18 right after finishing commercial school and I have been saving ever since. Now, I am 66 and financial discipline, I reached financial independent 20 years ago. Even so, I have not stopped saving.

We have already touched on three topics. They are:

(1) Regular health check up

(2) Start your savings today

(3) Look after your property

We now continue with additional ideas:

(4) Take out a life insurance. It needs hard work and takes a long time to build up your financial nest egg. Bear in mind that it is not going to be fast. If you are a young graduate starting out at the age of 22 and plan to retire at 62, you have 40 years to prepare and that is plenty of time. As a consequence, you do not have to save a lot every month or year. The magic of compound interest will help you to reach your financial goal and have sufficient money at retirement.

Nevertheless on your road to wealth, there could be accidents and mishaps. You may suffer a serious illness, out of job, etc. and a short cut to wealth is to take out a life insurance so that in time of need, you will have insurance money to cover the family expenses.

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The question is how much coverage you should have. According to some experts, it should be equivalent to five years of your household expenses. If you need Baht 50,000 a month or Baht 600,000 a year, five years would be Baht 3 million. Life insurance is a long term commitment and do not over insure because you have to pay premium 10 or even 20 years and nobody can guarantee that you will have money to complete the payment term. Therefore, do not burden yourself by taking out too much insurance.

The government support people to have insurance and allow a Baht 100,000 tax deduction provided that the policy is underwritten by a company doing business in Thailand and the coverage is 10 years or more including a whole life policy.

Lastly, bear in mind that even though every policy has a saving plan, it is an expensive way to put aside your money for retirement because with every Baht that you pay for the premium, only 54 satang go into your saving. The other 46 satang is paid to agent for his commission, insurance coverage, cost and expenses to administer your policy, etc. On the other hand, if you put Baht 100 into a saving account or buy Long Term Equity Fund (LTF) or Retirement Mutual Fund (RMF), you get full benefits of Baht 100 and these two funds allow to tax deduction upto Baht 500,000 per year each.

(5) Think about retirement. According to my computation, everybody should be debt free by age of 50 at the latest so that you have at least 10 years to focus on saving. As a result, pay off all your debtswhether home mortgage, car and credit card debts before you reach 50.

However, I recommend that everybody should plan for retirement at 35 so that you have 25 years to fulfill your goal. It would be unfortunate if you cannot retire all your debts to 50. By that time, your body is getting weak and expenses pile up such as cost of education for your children, healthcare and home repair. If you get to 60 and still have not save enough for retirement, what choice do you have? I suggest two options.

1. Defer your retirement. If you can postpone it by one year, then your income after retirement would increase by about 9% because you only have to look after yourself 19 instead of 20 years assuming you live until 80. Further, if you can retire at 65, your pension could go up by 50% because you only need another 15 years before you get to 80.

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2. Find a part time job after retirement but you should not start any new business. Keep your retirement money in a safe place for yourself because if you invest it in a business and it turns sour, then there is a good chance you could lose all the saving and will never ever find another retirement fund. In that case, you are backed into a corner.

Finally, people live longer and they want to spend the last days of their life with their grand-children. Therefore, try to put money aside so that you can use for their education. Luckily, there is no inheritance tax in Thailand so whatever you pass on to your kids, it is entirely tax free.

Good luck to you all.

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