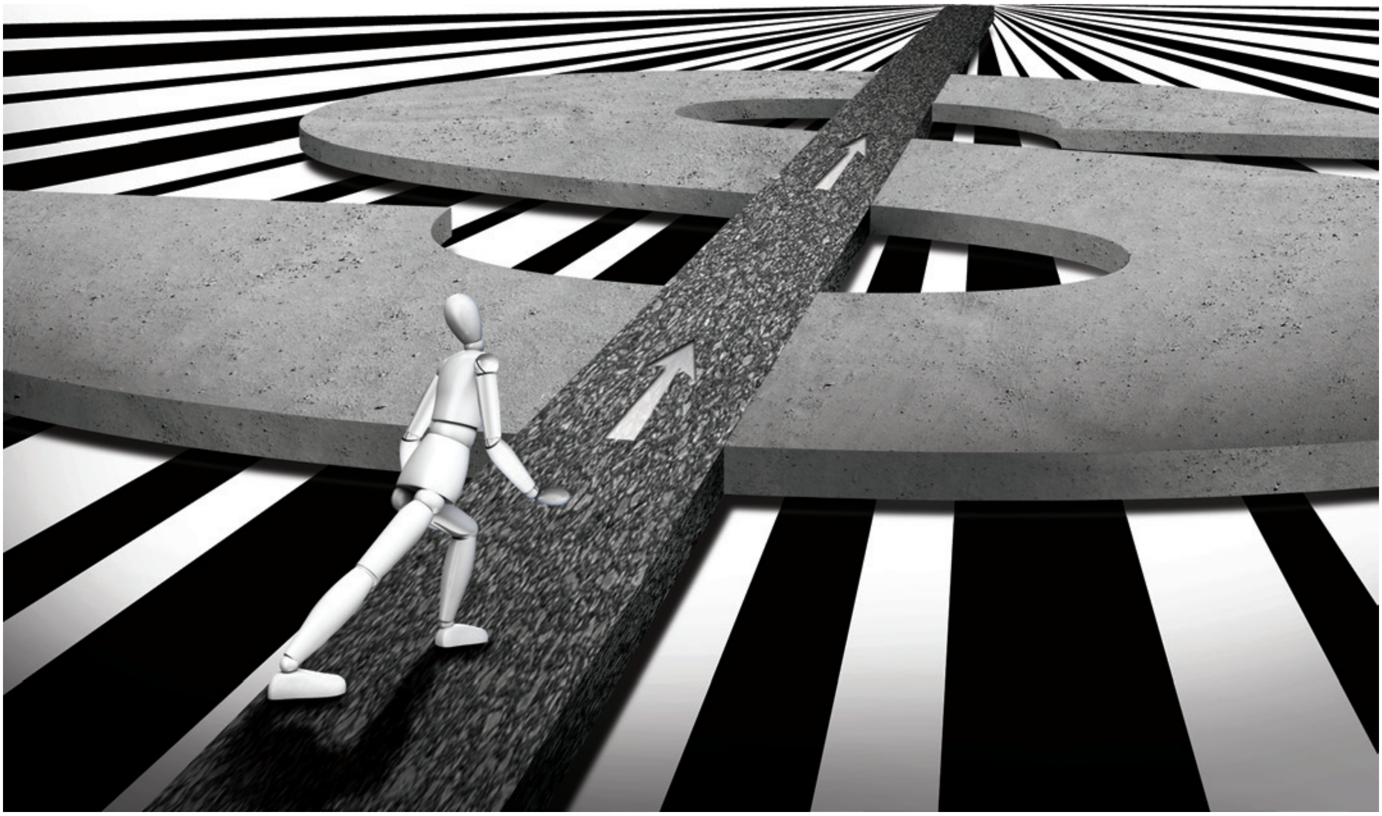

Financial Planning For Persons With Special Needs

By Wilfred Ling

In a mass media release by the Ministry of Community Development, Youth and Sports (MCYS) on 10 March 2010, it was announced that there will be a new scheme called the Special Needs Saving Scheme (SNSS). Currently, any payout upon death of the CPF Member is made in one lump sum to the beneficiaries or held by Insolvency and Public Trustee if the beneficiaries are still minor. Under the SNSS, the CPF Member can specify the payout in installment to their children who are Persons With Disability (PWDs) instead of lump sum. This scheme is targeted to be introduced in 2011 and will be administered by the Centre of Enabled Living (CEL) which was set up in November 2008 by MCYS.

As the details are yet to be officially released, there remain a few questions in every parent's mind. These concerns are:

1. Are the monthly payment fixed in quantum once the CPF member passes away? Will the CEL have the legal power to vary the payout depending on the situation of the PWD and inflation factor? For example, if there is an urgent need for a major operation, will the CEL have the leeway to increase the payout for medical expenses? If the payout is fixed in installment, frankly speaking there is not much value add since a computer program can be used to simply transfer monies from CPF to the recipient automatically without human intervention.

2. If the CEL has the power to vary the payout, on what basis will it do it? Will it have to abide by guidelines provided by the deceased?

3. Some PWDs have certain mental incapacity. For such cases, the recipient of these CPF monies will have to be someone else such as a court appointed deputy. The question is whether the CEL will monitor how these monies are spent by the deputy? Will CEL be willing to blow the whistle once it suspects deputies abusing their responsibilities?

Finally, will CPF monies be sufficient for the PWD? Based on my experience doing financial planning for clients, Singaporeans do not have much CPF monies in the first place. There is a Singapore saying, "no money no talk". On July 30 2005, Mr Tharman Shanmugaratnam, now currently the Minister for Finance, said in his speech at Taman Jurong Community Club that in 2004, only about 40% of active CPF members were able to meet the CPF Minimum Sum. To me, this is consistent with empirical evidence that Singaporeans are asset rich but cash poor. Properties purchased using CPF monies are not subjected to the CPF Nomination. Hence, if the SNSS is going to be part of the CPF Nomination framework, it will have to be realistic about the actual quantum of CPF monies which is available. For younger CPF Members, their contributions to CPF are skewed towards CPF Ordinary Accounts which are mostly used for mortgage installments. Hence, young parents who pass away earlier in life may not have much monies in their CPF for SNSS to be used as a viable instrument for their children with special needs. For older CPF members, the bulk of their CPF will eventually be used to purchase the CPF Life. If the CPF Member wishes to leave a meaningful sum for the purpose of using the SNSS, they will have to select the CPF Life Basic Plan. CPF Life Basic Plan has the highest bequest but the lowest annuity amount. In this case, the retirement needs of the CPF Member is being compromised.

Personally, I feel that the CPF monies are being used for too many purposes. CPF scheme can be used for housing, education, medical insurance premiums, retirement and now to fund the needs of CPF Members' children with special needs. The cake is being sliced too thinly. It is obviously not possible to fully rely on CPF monies to achieve so many objectives in Singapore. As for the SNSS, it may be better to use the simple approach. Since the amount in the CPF is probably going to be low, would it not be better to simply use the existing CPF Nomination framework and bequest the entire CPF to Special Needs Trust Company (SNTC) to manage? SNTC is the only non-profit trust company in Singapore set up to provide trust services for the benefit of persons with special needs (PSNs). SNTC is jointly supported by the MCYS and National Council of Social Service. The SNTC already has a system to address these three concerns mentioned above. This simple approach does not require CPF Board to do anything as it simply piggybacks on the existing CPF Nomination framework.

However, bequeathing the entire CPF to SNTC will not be enough. The quantum from CPF is too small due to its use for so many other purposes. The solution to this is that for parents whose child is PWD must to do some financial planning on their own. SNSS is one of the many tools parents can use. But before deciding which tools to use, there must be a game plan. The game plan is a comprehensive financial planning approach. Parents whose child is a PWD also have other constrain faced by many other Singaporeans such as the need to save for their own retirement, education needs of their children, paying off the mortgages and the on-going fear of retrenchment when the next economic downturn comes. To put things in perspective, if a PWD lives for another 20 years on the passing away of both parents and if the monthly expenditure is $1000, the present value of this amount is $240,000 assuming inflation and investment returns are equal. This is not taking into account medical expenses which tend to increase faster than the average inflation. Certainly the budget that parents must set aside is not small. The numerous priorities that parents have to juggle often increase the confusion and the outcome is simply procrastination. Schemes such as SNSS and trust services offered by SNTC are tools that can be used under the regime of Estate Planning. Estate Planning is part of the larger picture of Comprehensive Financial Planning which considers all aspect of a person's financial situation. Parents in such situation will need to do a Comprehensive Plan themselves. Alternatively they can always seek professional advice. There are a few such professional planners in Singapore and they do this on a fee basis. ■

Mr. Wilfred Ling is a Chartered Financial Consultant with Promiseland Independent Pte Ltd. Mr. Ling is a fee-based professional financial planner and holds the regulatory license to provide financial advice to individuals. Consultation hours: Monday to Friday excluding public holidays, 9am to 6pm.

Contact: www.wilfredling.com