

## To Think Beyond Deposits

In a recent survey conducted by ACNielsen covering 14,000 people across Asia Pacific, Europe and the US, results revealed that Asians have the greatest inclination to save their disposable income. Apart from the Netherlands, Asia Pacific countries occupied the top 10 spots. Singapore ranked 6<sup>th</sup> out of the 28 countries surveyed.

In Singapore, a Household Balance Sheet (year ending 2003) issued by Singapore Department of Statistics reported that 'currency and deposits' constituted 42% of total household financial assets.

What drives us to save so much? Is it the lack of better alternatives, or is it our culture, or our lack of knowledge?

With low interest returns from saving deposits, surely it is not wise to place disposable income only in deposit accounts. Though saving deposits have generally been viewed as "safe and sound", they are not without risk – the value of money erodes over time due to the effects of inflation.

**Banks' Saving Deposit Rates & Inflation Rates, 1995 to 2004**

Year	Banks Saving Deposits (%)	Inflation (%)	Inflation-adjusted Interest (%)
1995	2.72	1.7	1.00
1996	2.72	1.4	1.30
1997	3.08	2	1.06
1998	1.43	-0.3	1.74
1999	1.34	0	1.34
2000	1.28	1.3	-0.02
2001	0.77	1	-0.23
2002	0.44	-0.4	0.84
2003	0.24	0.5	-0.26
2004	0.23	1.7	-1.45

Source: [www.mas.gov.sg](http://www.mas.gov.sg), [www.singstat.gov.sg](http://www.singstat.gov.sg).

Being the most liquid of all financial assets, cash savings is necessary to meet immediate or short-term financial needs. Financial advisers encourage a cash buffer level of not less than six months of expenses, even higher for specific needs situations.

However, just relying on saving deposits alone as a means to achieve personal financial objectives; lifestyle, education and retirement funding, would be a tough call.

Let us illustrate this with an example using data from the table

earlier. Assuming that John saved \$10,000 of his disposable income every year beginning in year 1995 till 2004, and interest earned is re-invested at the respective deposit rates. At the end of the 10-year period, the total interest earned amounts to \$5,289, which translates into annual returns of 1.14%.

If John could save at 2.50%<sup>1</sup> per annum, equivalent to the CPF ordinary account interest, he would have earned interest of \$12,033, which seems more encouraging. However, had John invested \$10,000 regularly rather than saved it in deposits over the same period; the cumulative returns would have amounted to \$64,427, at an investment return of 10.65%<sup>2</sup> annually.

**Summary Table of Illustration:  
Returns on \$10,000 over a 10-Year Period**

	Average Annual Returns	Cumulative Returns
Saving deposits	1.14%	\$5,289
CPF ordinary account	2.50%	\$12,033
Balanced Fund*	10.65%	\$64,427

Note: \* Investments in equity or bonds carry higher risks as compared to cash or cash equivalents such as bank deposits.

Many financial planners apply the Rule of 72<sup>3</sup> when advising their clients on meeting financial objectives. In the above illustration, it would take 63 years and 29 years for the saver in deposits and CPF respectively, and only 7 years for the investor, to double their money.

Saving deposits provide immediate access to funds albeit earning low interest. Any amount in excess of the "comfort level" should be channeled to investments, albeit carrying higher risks, - to fund future obligations or wealth accumulation. Adopting this approach, one is assured of achieving short and long-term objectives.

A high level of savings in deposits may seem financially assuring, but in reality, it may not be sufficient to fund your future needs. Through prudent investing and proper diversification, to mitigate the higher risks, investments can yield a higher return over the medium to long-term.

<sup>1</sup> Source: [www.cpf.gov.sg](http://www.cpf.gov.sg).

<sup>2</sup> Average annual returns of investing across asset classes. Source: [www.franklintempleton.com](http://www.franklintempleton.com).

<sup>3</sup> The Rule of 72 is a simple shortcut to estimate how long it will take to double money in an investment. This rule may be flipped around to determine the rate of return required to double money given a time period.