USING ACTIVITY BASED APPROACH AND ANALYTICAL HIERARCHY PROCESS IN COMPREHENSIVE ISLAMIC FINANCIAL PLAN CONSTRUCTION

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ABSTRACT

To establish a financial plan, householders need to consider various factors such as the life-cycle stage the householders are in, family status, economic status, economic environment and their objectives and preferences. Several approaches were introduced in order for a systematic application of financial plan to be constructed. The approaches are the personal risk management approach, goal-programming approach, activity-based approach and ratio analysis approach. This paper highlights the use of goal-programming approach and activity based approach in creating comprehensive Islamic financial plan for a client. A hypothetical example is evaluated and recommendations using both approaches are provided. The report for Activity Based approach will contain the activities worksheet for planning and recommendations that will be reflected in the balance sheet in from of assets, liabilities and net worth. In addition, goal programming approach will distinguished between high, medium and low priority of the recommendations that are to be adopted by the clients according to their evaluation. Both approaches lend easy understanding and tracking of clients' fund and records.

Introduction

The role of financial planners is to provide advice to their clients on how to establish financial goals as well as on financial products that suit the plan. In order to operate as a professional party that offers advice on financial plans, financial planners have to work within the established framework that governs their practice.

The discussion on the lack of a theoretical foundation in the financial planning industry was made by Cohen (1988), Warschauer (2002) and Black et al. (2002). Notwithstanding with the absence of the theoretical foundation, several financial planning approaches/models have been proposed in order to improve efficiency in the portfolio allocation process.

For example, Mason and Griffin (1988) suggest the use of accounting ratios when creating clients' financial plan. Puelz (1991) on the other hand proposes the goal-programming model that uses the analytical hierarchy process (AHP) to maximise multiple clients' objectives in order to emerge with an efficient portfolio allocation plan. In his model, processes are divided into several priorities such as high, medium and low. In relation to that, American Institute of CPAs (AICPA) suggested the activity-based approach that categorises the expenses, income and tax payable to specific activity such the risk mitigation activities, investment activities and retirement saving activities. The combination of the last two methods will be able to provide a client with a sensible and easy to understand plan.

The evaluation of priority as suggested in the Analytical Hierarchy Process (AHP) in the Islamic financial planning is even more needed since Shariah guidelines are to be observed and to be given ultimate priority in relation to the clients' needs. This paper will demonstrate the use of Goal-programming model and Activity-based approach using a hypothetical case to develop a plan that observes the Shariah principles.

Objectives of the paper

The objectives of the paper are:

1. To distinguish the issues in Islamic financial planning from conventional financial planning
2. To demonstrate the use of Activity Based Approach and Analytical Hierarchical Process as a viable approach for Islamic financial planning construction
3. To provide technical knowhow on Islamic financial planning construction based on a common financial situation of clients seeking financial planning advice .

Islamic Worldview of Financial Planning

The need to plan finances is called for Muslim individuals through the Islamic financial planning practices. The difference between conventional financial planning and Islamic financial planning is that the Islamic worldview of financial planning is derived from the Quran and the Hadith (Collection of Prophet Muhammad sayings). The understanding about Islamic worldview of financial planning can be clearly understood through the noble believes in Islam: Ibadah, Amanah and Al-Falah.

Financial planning is Worship (Ibadah)

"For seven years shall ye diligently sow as is your wont: and the harvests that ye reap, ye shall leave them in the ear, - except a little, of which ye shall eat. "Then will come after that (period) seven dreadful (years), which will devour what ye shall have laid by in advance for them,- (all) except a little which ye shall have (specially) guarded. "Then will come after that (period) a year in which the people will have abundant water, and in which they will press (wine and oil)." (Surah Yusuf verses 47-49)

From the above verses, it implies that proper planning and managing risk are among the important tasks in an individual's life in his journey to be a successful Khalifah or the trusted party given the responsibility to manage the world. As a Muslim, we should be able to educate our family to be grateful to all that we have been granted. Bring them to be aware of other peoples' sufferings and hardships, and the understanding that there are many others who live in worse conditions. This is very true in the event of death of family member. This is such a crucial event as many matters will come to a halt and without proper planning; hardship is a certainty to the deceased in his afterlife as well as to the surviving family members. That is why; proper planning in terms of sacrifice of time, money, emotions as well as efforts needs to be executed in view to avoid any hardship. Besides, there are abundant benefits which we can gain from them, such as spiritual upliftment, stronger family ties, and greater awareness of the challenges faced by others in the community. This of course would help us to achieve the ultimate quest of al-Falah.

Wealth is a Trust (Amanah) from Allah S.W.T

"Wealth and children are the adornment of the life of this world. But the good righteous deed that last, are better with your Lord for rewards and better in respect of hope." (Quran, 18:46)

The above verse shows that how the concept of wealth as belonging to Allah and mankind utilizes the wealth under his care is the cause of all frictions between men. Wealth is so powerful and influential for the conventional men are forever attracted to it. The verses also implies that Muslims are encourages to seek wealth and be engaged in wealth creation activities with the guidance of Shariah principles.

Wealth is a major means to achieve al-Falah

Achieving al-Falah is where one is being successful in this world and in the Hereafter. The concept of al-Falah is taken from the forms of a Good life (Hayat tayyibah) and paradise (Jannah).

Pursuing wealth is most encouraged in Islam as long as it is based on Shariah principles. This is because wealth is an important element in Islam for one to attain life goals as shows in the verses below:

"O you who believe! Shall I show you a commerce that will safe you from a painful doom?

You should believe in Allah and his Messenger, and should strive for the cause of Allah with your wealth and your lives. That is better for you, if you did but know. He will give you your sins and bring you into Gardens underneath which rivers flow, and present dwellings in Gardens of Eden. That is a supreme triumph." (Quran, 61:10-12)

Scope of Islamic Financial Planning

The Islamic worldview that we have mentioned above has formed the basis of Islamic financial components which are divided into four major areas namely Risk Management & Takaful, Islamic Investment, Zakat & Tax and Islamic Estate & *Waqf*.

Risk Management & Takaful

Conventionally, wealth protection is carried out through the purchase of an insurance policy and the main idea of risk management and takaful planning is the protection plan and this must be well understood. Therefore, it is crucial to execute the four basic steps in managing risk before one could come out with the protection plan:

- Established context and define parameters
- Assessment of risks (identification, analysis & evaluation)
- Treatment of risks (transfer, sharing, reduction or avoidance)
- Monitoring and reviewing

Islamic Investment

We have learnt that Takaful is the Islamic solution to wealth protection. Islamic Investment is the second component in Islamic financial planning and it can simply be defined as wealth accumulation according to Shariah principles.
One could have good investment planning when they have clearly understood the difference between saving and investment. Saving is where we put aside a portion of our income for future financial needs and investment is risking the amount saved to earn profits.

Zakat & Tax

Being the third component of Islamic financial planning, Zakat & Tax is among the most important elements. One should know that, important issue on zakat is the wealth purification aspects of it which obligatory upon the Muslims and the favourable treatment of zakat is paid to State Zakat Authorities by the Inland Revenue Board of Malaysia.

Islamic Estate & Waqf

The main understanding on this last component is its wealth distribution according to Islam and how Muslim can plan for their life in the Hereafter. Estate planning is the activities of planning of a person's asset upon his death. Where as Islamic estate is simply the management of assets of a Muslim upon his death. *Waqf* is an Arabic word that means charitable endowment. So, Islamic Estate & *Waqf* in the context of Islamic financial planning concerns primarily on what a Muslim leaves behind upon his death and how he should plan his estates according to Shariah principles.

The Development of Islamic Financial Planning Certification Programmes

Islamic financial planning is the product of Islamic finance and financial planning. The Islamic Financial Planning certification is the first comprehensive training and certification program in the world to produce Islamic Financial Planners. With the Certificate of Financial Planning (CFP) program as the benchmark, Islamic aspects are added to the syllabus and divided into 6 modules of the Islamic Financial Planning (IFP) program. The essence of IFP is to support financial planner capability of meeting the financial needs of the clients in conformity with the Shariah principle. Having said that, Islamic financial planners are crucially needed to provide the service of advising clients on how to plan and acquire wealth including financial assets that are Shariah compliant. Financial executives (FEs) in the Islamic banks and in the institutions providing unit trusts and takaful need to have this qualification. This is to ensure that Islamic financial institutions to be more competitive and can deliver better services compared to existing conventional financial institutions.

Financial planning is a regulated activity, requiring a license from the Securities Commission (SC) as per Schedule 2 of the Capital Markets and Services Act 2007. A Financial Planner as defined by SC is a person who analyses the financial circumstances of another person and providing a plan to meet that other person's financial needs and objectives'. To be a representative of a financial planning company, the person must hold either a CFP, ChFC or Registered Financial Planner (RFP) qualification. A qualified person for financial planning can apply to be a Capital Market Services License holder. He must have a minimum 8 years relevant experience and have net worth of RM 50,000. An SC licensed person is also required to fulfill the Continuing Professional Education (CPE) requirements. 20 CPE points per year is required for license renewal.

With the support of SC in terms of license requirement for financial planners, it is rewarding for the Islamic financial institutions (IFSs) to recruit FEs certified as financial planners. This is because the designation will project the professionalism of the IFIs in dealing with its customers.

Islamic Financial Planner (IFP) is a training and certification program designed especially for the professionals and executives serving the retail segment of the Islamic financial market. The program is joint collaboration between Islamic Banking and Finance Institute Malaysia (IBFIM) and Financial Planning Association of Malaysia (FPAM). The program coverage is similar to the broad areas of knowledge in FPAM's Certified Financial Planner (CFP) certification program but with the Islamic aspects of financial planning being integrated into each of the Islamic Financial Planning Modules. Table 1 shows the comparison between IFP and CFP modules.

Table 1: Modules of Islamic Financial Planner (IFP) and Certified Financial Planner (CFP) of Financial Planning Association of Malaysia (FPAM)

	IFP	CFP
M1	Fundamentals of Islamic Financial Planning	Foundation in Financial Planning
M2	Risk Management and Takaful Planning	Risk Management and insurance Planning
M3	Islamic Investment Planning	Investment Planning
M4	Zakat and Tax Planning	Tax Planning
M5	Islamic Estate and *Waqf* Planning	Estate Planning and Retirement Planning
M6	Financial Plan Construction and Professional Responsibilities	Financial Plan Construction and Professional Responsibilities

The Roles of Financial Planners in Household Portfolio Allocation

The main role of financial planners is to design financial plan that suits the needs of their clients. The advice can be in the form of comprehensive financial planning that deals with the whole range of issues in financial planning or 'slice' financial planning that focuses on certain segment of financial planning, for example risk management and investment planning. Basically, services offered are in line with the content analysis of personal financial planning. There are 101 content areas suggested in the CFP Board's current guide on CFP Certification[1].

[1]As reported in CFP Practitioner Survey 1999.

Major headings are:

a) General principles of financial planning;
b) Insurance planning and risk management;
c) Employee benefits planning;
d) Investment planning;
e) Income tax planning;
f) Retirement planning; and
g) Estate planning.

The above topics listed were based on the 1999 Job Analysis Study. The list is also used for the CFP® Certification Examination which indicates the topic coverage areas required to fulfil the pre-certification program and continuous education credit by the CFP Board. Based on Table 4.2 obtained from the first annual CFP Practitioner Survey in 1999, the percentages of CFP in the U.S provide relevant types of service are as follows:

Table 4.2: Numbers of Certified Financial Planners Practicing in Various Areas of Financial Planning

Types of Business	**Numbers of CFP Practitioners**
Financial Planning	56
Securities	16
Accounting	9
Tax Preparation	5
Insurance	5
Banking	2
All Other	3
Not Specified	4

Source: CFP Practitioner Survey in 1999, CFP Board. Available online: www.cfp.net/media/survey.asp?id=14. Accessed on 26th October 2004

Although the content and coverage of personal financial planning information is comprehensive, clients may also choose to hire personal financial planner at some critical points in their lives such as getting married, the birth of a child, making a major purchase decision and upon reaching retirement. This phenomenon is called 'slice' financial planning which is event-induced. On the other hand, clients may engage in contracts with their financial planners to manage the whole state of their financial plans. This is called 'comprehensive' financial planning.

Elmerick et al. (2002) empirically analysed the scope of financial planning services acquired from financial planners. They divided their observation into three scenarios where clients seek advice from independent financial planners:

1) Credit and borrowing purposes,
2) Saving and investing purposes and
3) Comprehensive financial plans.

They designed their survey to incorporate data on demographic and socio-economic factors such as age, education, race, marriage status, employment status and location. They also asked about the nature of services usually needed by clients. Other financial data from respondents was asked: income, net worth, amount of financial assets held and debt to income ratio. They found that, in general, there are 21.8 million US householders (21.2% of the population) using the services of financial planners. Most of householders had sought advice on saving and investing (11.8 million), followed by comprehensive advice (7.2 million), and 2.8 million specialised advices on credit and borrowing.

The process of financial planning outlined by the CFP Board consists of five stages. Unlike the perception of the general public financial planning is not simply about matching good financial products to suit clients' needs, but actually more comprehensive Financial planners, upon understanding their clients' goal, will conduct a research on products which not only involves product selection but the whole clients' financial situation. In brief, the lists of financial planning processes that have to be executed by financial planners with their clients are as follows:

a) Analyse needs and objective of clients;
b) Match objectives with appropriate products and services;
c) Implement the financial plan;
d) Provide the ongoing review on the plan;
e) Realise modifications to the plan.

Those plans are essential for financial planners to take account of their prospective clients' age and wealth financial situation as well as their level of basic financial planning knowledge. It will also helps the planners to be able to commit to a long-term relationship with their clients while trying to ensure that their business can enjoy long-term success.

There are several issues to be dealt with when financial planners are preparing to evaluate a client. For example, whether the client will cooperate during the process and commit enough time to the process. The evaluation process can be done via an initial interview with the client. The level of financial planning knowledge possessed by clients is also important as it is desirable that client can understand the extent of what the planner is offering at every stage of the process. The financial skills regarded as important are budgeting, cash flow management and debt management. Information on the overall picture of financial planning activities is also important. Interviews can be conducted to identify the level of understanding of clients on the above issues. They also must be briefed on the nature range of fees that they are subject to during the process of personal financial planning.

In practice, the process described above will be executed through a series of interviews with clients during the information gathering stage and re-evaluation of planning stage. In the course of suggesting appropriate products to clients, comprehensive research has to be done taking into account rates of return and levels of risk suitable to the client's profile. As for the actual construction of the plan, the use of software can be useful. There is a wide range of software available in the market as stand-alone products if the financial planners operate on small scale. The software executes the planning by introducing strategies and amounts to be set aside for each planning activity such as education funding and insurance coverage. Data sharing between each activity have to be made available in order to minimize data input time.

Although individuals hiring CFP rely on their financial planners to make sensible financial decision, they still have to evaluate the advice given by their planners. Clients have to understand the recommendations made and monitor their action continuously in order to avoid fraud. Various ways may be used to track actions and performance of the CFP. One way is to track returns by looking at the reports provided by the CFP. Any report should include the 'real' rate of return, i.e. the return after paying all advisors' fees and commissions. Some reports also include the real rate of return earned by investments that are similar to client's position. This is called a benchmark return. Having this benchmark helps clients compare their returns with the returns that other investors are getting.

Clients also have to read their account statements. These statements show the value of clients' net worth and the value of their investments. Clients may track how their investments are performing and what they are costing them. A monthly accounting report of the total gross commissions earned on a client's account is also regularly provided by a good CFP. This is part of a regular set of reports that every broker and financial planner receives from his or her firm and there is no law or regulation to prevent the adviser from sharing this report with a client.

Besides this, clients may also consult various organizations in order to select a good CFP. The National Association of Personal Financial Advisors (NAPFA) and the Certified Financial Planner (CFP) Board of Standards are two institutions providing vital information on how to select good financial planners. NAPFA's brochure 'Working with a Financial Adviser' provides criteria to consider when shopping for a financial adviser, along with other details about what a client can expect from the client-adviser relationship. The CFP Board of Standards publishes 'Your Rights as a Financial Planning Client', which describes the kind of treatment you deserve from your financial planner.

Using Activity Based Approach and Analytical Hierarchy Process in the Construction of an Islamic Financial Plan

In relation to specific models to be applied to client's financial plan, Puelz (1991) suggested a goal-programming model that can be used to help financial planners to allocate household portfolio. His model takes into account the subjective variables of clients as well as objective variables such as the cost of products and the rate of returns offered. Subjective variables, according to him, are equally important in the process of household's portfolio allocation.

Goals in his model may be generally divided into two: consumption goals which concern liquidity and portfolio goals which concern for the consideration of returns. He used the analytical hierarchy process (AHP) to maximise multiple clients' objectives in order to emerge with an efficient portfolio allocation plan.

In addition to approaches discussed, the American Institute of CPAs (AICPA) proposed an approach for managing their clients' personal finance called the 'activity approach'. The recommendation was formally made in the issuance of Statement of Position no.82-1, *Accounting and Financial Reporting for Personal Financial Statements*.[2] The SOP has clearly illustrated the activities worksheet

[2]Discussed in Mason and Griffin (1988)

for planning and followed it with recommendations for the preparation of projected financial statements that explain both financial positions of the assets and liabilities and changes in net worth.

An illustration of a common financial situation of a Muslim couple, Omar and Suhaila will be used to demonstrate the method of Activity Based Approach and Analytical Hierarchy Process (AHP) in Islamic Financial Planning.

The Illustration-Omar & Suhaila

Introduction

Omar and Suhaila have read about Islamic financial planning in a local financial magazine and have heard about Islamic Financial Planner were the first in Malaysia. They read that: "Whether you're in Malaysia or anywhere, financial planning is still the same. Firstly, an in-depth review of your current financial situation, and secondly, a personal financial plan that shows you how to achieve your goals and objectives for the future. In Islamic financial planning, the objectives are to plan for success in this world and the Hereafter. Because financial planning is a process, not an event, professional financial planners offer continuing advisory services and periodic reviews when needed. A financial planner provides impartial assistance and act in the best interest of the client."

They visited your office and personally met you. They would like to know more about Islamic financial planning from you and how it can help them create strategies in managing financial affairs to meet life goals. Thus, you had a dialogue session with them explaining the role of an Islamic financial planner and the Code of Ethics and Professional Responsibility that financial planners have to comply. After having raised several questions and feeling satisfied with your explanation, they decided to be your clients.

During the second client-planner meeting session on 30/4/2008 they were ready to be interviewed and to share their goals, as well as their plans and concerns with you.

Personal Information

Omar and Suhaila are 38 and 36 years old respectively and reside in Subang Jaya. They have been married for 8 years and have a daughter and a son; Juliana is 6 years old while Johan is 4 years old.

Omar's father died recently and he inherited RM65,000 in cash via a Faraid distribution. The father had written a will naming Omar as the executor as he was the eldest son. Most of his father's will have been carried out except for the setting up of a charitable endowment (*waqf*) for the benefit of orphans. The father himself was an orphan. The money for this endowment amounts to RM300,000 and currently is kept in a General Investment Account with an Islamic bank.

The couple has not written any Wills and knows little about Islamic estate planning, but is concerned with the Hereafter especially after their readings. They would like to start paying zakat on their wealth and to know how to reduce their taxes. Upon being enquired, Omar said that he never failed to pay the zakat fitrah for the family since married and makes regular donation as and when there are campaigns, such as for natural disaster victims, etc.

Omar also disclosed that he does not know how to execute his father's final wish and one of the reasons for wanting to engage an Islamic financial planner is to get qualified help to establish the *waqf*. Omar's mother is 68 years old and lives with one of Omar's younger sister. Suhaila's parents are both alive, and she has 2 older brothers and 1 younger sister.

Plans for Children Education

The couple wants to set up an education fund for each of their children. Omar and Suhaila anticipate that the children will begin attending college at the age of 18. They hope that their children can secure places in the local public universities but are willing to consider sending them to the reputable private colleges with overseas twinning program.

According to Omar's survey, the cost to study at local private colleges is about RM15,000 per year currently. This is based on the tuition fees of his nephew who is in his final year of Bachelor in Information Technology program. Omar would like to have the money for tuition and living expenses ready before the children begin their Bachelor program.

Employment and Income Information

Omar is the Head of Legal of a public listed company. He earns RM120,000 a year and is provided with a car costing RM100,000. Omar is covered under the group term life policy with benefit equivalent to 3 times his annual salary. The company also covers out-patient medical expenses for the staff and their families.
Omar contributes 11% of his salary to EPF while his employer contributes 14%. Omar expects his salary to increase by 7% per annum. At present Omar has RM250,000 in his EPF account.

Suhaila is a housewife but earns through her part-time work. Before married, she was employed by a recording company and has RM30,000 in her EPF account currently. Suhaila has a passion for music. During her free time she composes songs for local artistes. This year, she has received RM10,000 for her musical compositions.

Suhaila became a full time housewife after Johan was born. Since then, the couple had opted for a joint assessment for their income tax return. According to Omar, Suhaila had been composing over the last two years but it is only this year that she was getting paid for her songs. Suhaila said if things go well, she expects to receive another RM15,000 by November.

Financial Information

Omar plans to use RM45,000 of the inheritance money as a deposit to purchase a ready-built holiday cottage at Port Dickson, priced at RM200,000. He intends to finance the purchase by borrowing RM150,000 from a bank for 15 years at the rate of 10% per annum. The property developer has a scheme whereby owner can lease out the cottage for nine months of the year and use it personally when it is not let out, and Omar has decided to take up the offer. Omar expects to receive a rental income of RM15,000 per year under the scheme.
The house that they reside in, a double storey link, was purchased 8 years ago for RM150,000 in joint names. Omar and Suhaila took a conventional housing loan of RM120,000 with interest at 8% p.a. for a period of 25 years. The value of houses in Subang Jaya has appreciated tremendously and the house is now worth at least RM350,000, according to them. They are very proud of their home, which they have renovated according to their taste. They had spent about RM80,000 in renovation.

The family has a car which Omar had purchased two years ago mainly for Suhaila's use. The purchase price of the car was RM70,000 and Omar had paid a 20% down payment while the balance was financed by an Islamic hire–purchase scheme. According to Omar, he is paying about RM1,000 monthly via bank standing instruction and has another four years of installments to settle.

In 2005, Omar took a personal loan of RM5,000 from Suhaila which was taken from her Tabung Haji account to partially pay for his late father medical expenses. The amount is still outstanding.

Other assets owned by the couple are as follow:

Asset	In the name of:	Quantity	Account balance or Market value (in RM)
Wadiah Current account	Omar and Suhaila		70,000
Gold jewelry	Suhaila	600 grams	6,000
Tabung Haji account	Omar		300
Tabung Haji account	Suhaila		5,000
Maybank Stock	Omar	2,000 shares	16,800
KPJ Healthcare stock	Oma	1,000 shares	3,100
Tradewinds stock	Omar	2,000 shares	6,600
Guocoland stock	Omar	2,000 shares	3,000
PHEIM Asia Ex-Japan ubit trust fund	Omar	5,000 Shares	5,000
Philip Master First Ethical unit trust fund	Omar	5,000 Shares	2,000

Current expenses of the family include:

	RM	**Occurence**
Groceries	1,000	Monthly
Utilities	250	Monthly
Vacation	2,000	Yearly
Eating Out	500	Monthly
Car insurance	1,500	Yearly
Car Maintenance	2,000	Yearly
Petrol	250	Monthly
Golf fees, etc	200	Monthly
Books	800	Yearly
Clothing	4,000	Yearly
Charitable donations	500	Yearly
Juliana's preschool	400	Monthly

Both Omar and Suhaila carry credit cards. Their total outstanding balance currently is RM10,000. According to Omar, 80% of the expenses charged to his credit card are company related and fully reimbursable. Upon being reimbursed by his company, Omar would remit all to settle the related charges. Omar does not give fixed allowance to Suhaila for her personal expenses but provide her with the supplementary credit card. Suhaila's credit limit is RM1,000. According to Suhaila, her expenses are around RM700 monthly.

Retirement and other plans

Omar expects to continue working at least until 55. The couple plans to perform their Haj after Johan starts his secondary schooling. They hope Johan will qualify to enter a full boarding school, just like his father.

The couple's idea of retirement is quite simple. They would be happy if they are still living in their current house, have enough income to sustain themselves and are healthy. But, most of all, Omar and Suhaila hope to see their children do well in their lives and will continue to spend time with the parents.

The following assumptions are used for the purpose of financial plan construction:

1. Inflation rate is at 4% per annum.
2. Current average annual cost of a twinning a four-year Bachelor program in Malaysia is RM15,000 for tuition fees and another RM10,000 for living expenses.
3. It is assumed that the tuition fees will rise at 5% a year with living expenses rising at the rate of 4%.
4. Future EPF dividends are expected to remain at 5% a year.
5. On average, the rate of return on equity investments is 7% and on unit trusts is 6% per annum.
6. On average, the rate of return on fixed deposit accounts can be assumed to be 3% per annum.
7. Income tax will remain at today's rates.
8. No dividends are expected from the equities held and the market value is not expected to change substantially in the near term.
9. The all-in cost for Hajj package is RM15,000 per person currently. Price has been increasing gradually at 6% p.a. over the last 5 years.

As the scope of financial planning involves the several components, Activity Based Approach is suitable to be used to identify the financial issues of the couple. The activities identified are:

- (i) Cashflow and Liability Management
- (ii) Risk Management and Takaful
- (iii) Zakat and Tax
- (iv) Islamic Investment
- (v) Retirement
- (vi) Islamic estate and *Waqf*

In addition, to assist the couple to realistically practice the proposed plan, the Analytical Hierarchy Program (AHP) is also need to be provided. The couple may in the beginning adopt the financial program that are rated as high and leave the lower priority measures to the latter period when they are ready to do so.

The Plan-Omar & Suhaila

A detailed financial plan is provided based on the issues identified using Activity Based Approach and the priority levels suggested based on AHP model as follows:

I. Issues Identification

Financial planning component	Importance towards client's objective from first interview
(i) Cashflow and Liability Management	
Omar has parked the RM65,000 of the inheritance money in the joint current account – Need to highlight to Omar that in case of death, the inherited money does not form part of the matrimonial asset.	Low
After considering RM45,000 from the inherited money and RM150,000 from bank financing, Omar may need to liquidate some assets to raise the balance of RM5,000 to complete his purchase of the holiday cottage.	Medium
Need to assess Omar's affordability to purchase the cottage i.e. impact on his cashflow and how Omar to execute the purchase.	High

(ii) Risk Management and Takaful	
Through his employer, Omar is covered for RM360,000 on his life, and the family is covered for basic medical expenses – Need to assume basic risk management objectives, review takaful need analysis to identify specific area to protect and suggest appropriate takaful coverage including sum assured amount and type of takaful plan.	Medium
(iii) Zakat and Tax	
Couple wants to pay zakat on wealth and to know how to reduce tax – Need to identify the wealth that is subject to zakat and to show how zakat paid is treated in tax computation.	High
Suhaila is starting to earn income again - Need to show how opting for separate assessment is good tax avoidance way.	High
(iv) Islamic Investment	
Couple wants to have a college education fund for their children – Need to compute how much is needed for Juliana and Johan, and how to achieve the target amount.	High
Couple wants to perform Hajj in 9 years' time – Need to compute how much is needed, and how to achieve the target amount.	Medium
Omar's portfolio consists of mixed assets – Need to identify which are Shariah and Non-Shariah compliant;	Medium
Need to advise Omar how to re-structure his portfolio to be Shariah compliant	Low
(i) Retirement	
Even though the couple's retirement plan is simple – still need to estimate how much is needed during their retirement period and how to achieve the target amount.	Medium
(vi) Islamic estate and *Waqf*	
Omar has been named as executor by his late father to establish a *waqf* for the benefits of orphans and wants qualified help – Need to show how to establish the *waqf* and the key features of *waqf* i.e. enduring asset and continuous benefits to the needy.	High
The couple is concerned with their lives in the Hereafter but understand little about Islamic estate planning – Need to explain the importance of *waqf* and how Muslims can create *waqf*.	High
The couple has not written any Wills – Need to explain the basic Shariah rules of writing a Will and how *waqf* can be created using a Will	Medium
Need to demonstrate the impact of creating a *Waqf* by way of Will on the Estate value	Medium

Based on the activities identified and the priory set to the case, a financial plan is constructed for the couple to adopt.

II. Analysis and Plan Construction

Data gathered were analysed in the appendices and the findings are:

Financial planning component	Issues
(i) Cashflow and Liability Management **A. Net Worth Statement (Appendix 1)** As at 30/4/08, the net worth of Omar and Suhaila are RM 469,408 and RM174,446 respectively. **B. Cashflow Statement (Appendix 2)** For 2008, the cashflow for Omar and Suhaila are RM3,326 and RM25,000 respectively. This works out to a monthly surplus of RM277 for Omar and RM2,083 for Suhaila. Conclusion: Presently, Omar has the assets and Suhaila has the cashflow. **C. Purchase of Holiday Cottage (Appendix 3)** It is found that Omar's plan to purchase the cottage is more beneficial than putting the cashflow meant for the cottage in REIT. He should use RM50,000 from the inherited money instead of only RM45,000 as he had planned earlier. The remaining issue is: how is Omar to pay the monthly top-up of RM862 when his monthly surplus is RM277 only (see App 2).	Omar has parked the RM65,000 of the inheritance money in the joint current account – Need to highlight to Omar that in case of death, the inherited money does not form part of the matrimonial asset. After considering RM45,000 from the inherited money and RM150,000 from bank financing, Omar need to liquidate some assets to raise the balance of RM5,000 to complete his purchase of the holiday cottage. Need to assess Omar's affordability to purchase the cottage i.e. impact on his cashflow and how Omar to execute the purchase.
(ii) Risk Management and Takaful Omar has two major liabilities at present, namely, home (RM103,109) and car financing (RM48,000), totaling RM151,109. While the house is jointly owned with Suhaila, takaful coverage for Omar being the breadwinner should be for the whole balance outstanding. In case Omar dies or becomes disabled, the family needs roughly RM3,800 or RM4,600 per month respectively. Or, RM45,900 or RM55,500 yearly. The Takaful coverage needed on the life of Omar are: 1)RM103,109 for home financing using Mortgage Reducing Term Takaful for the next 17 years. 2)RM48,000 for car financing using Fixed Term Takaful for the next 4 years 3)RM850,000 for household expenses in case of death or disability of breadwinner using affordable Family takaful package. The total coverage needed above is roughly RM1,000,000. Assuming RM360,00 is by Omar's employer, he still needs RM640,000 of takaful coverage.	Through his company, Omar is covered for RM360,000 on his life, and the family is covered for basic medical expenses – Need to assume basic risk management objectives, review takaful need analysis to identify specific area to protect and suggest appropriate takaful coverage including sum assured amount and type of takaful plan.

(iii) Zakat and Tax

The list of zakatable wealth is per Appendix 1. Basically, Omar's wealth subject to zakat are the selected financial assets only, amounting to RM101,500. This is above the Nisab and the zakat when it is due based on this amount is RM2,538.

Suhaila does not have to pay zakat because her gold jewelry of 60 grams is below the allowable level of 800 grams, and her savings in the joint Wadiah account is below the Nisab of RM8,500.

The couple files their tax return jointly currently. Based on tax computations in Appendix 1, their tax payable for YA 2008 is RM14,503. However, if they choose separate assessment, the tax payable is reduced by RM540.

Couple wants to pay zakat on wealth and to know how to reduce tax – Need to identify the wealth that is subject to zakat and to show how zakat paid is treated in tax computation.

Suhaila is starting to earn income again - Need to show how opting for separate assessment is good tax avoidance way.

(iv) Islamic Investment

The calculation for Omar and Suhaila's children education fund is shown in Appendix 4. The total needed is RM368,566. This figure has considered the 5% and 4% inflation rate for tuition and living expenses.

Johan will begin his secondary schooling in 2017 and the couple wants to perform their Haj then. Considering specific inflation of 6% yearly, the total amount needed for Haj is RM50,684. Assuming a monthly saving of RM1,000 is deposited into an account that pays 5% return per year, the number of months needed to achieve RM50,864 is 46 months.

Shariah Compliant	Asset
No	Maybank stock
Yes	KPJ Healthcare stock
Yes	Tradewinds stock
No	Guocoland stock
No	PHEIM Asia Ex-Japan unit trust fund
No	Philip Master First Ethical unit frust fund

At present, the breakdown of Omar's investment portfolio is:

	Equity	Unit trust
Maybank stock	16,800	
KPJ Healthcare stock	3,100	
Tradewinds stock	6,600	
Guocoland stock	3,000	
PHEIM Asia Ex-Japan unit trust fund		5,000
Philip Master First Ethical unit frust fund		2,000
Total Value	29,500	7,000

Couple wants to have children college education fund – Need to compute how much is needed for Juliana and Johan, and how to achieve the target amount.

Couple wants to perform Haj in 9 years' time – Need to compute how much is needed, and how to achieve the target amount.

Omar's portfolio consists of mixed assets – Need to identify which are Shariah and Non-Shariah compliant;

Need to advise Omar how to re-structure his portfolio to be Shariah compliant

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(v) Retirement

Omar expects to continue working until he is 55 years old i.e. 17 more years to go. No estimation of how much is needed has been done for the couple due to simplicity of their financial goals for retirement. But it is estimated that in 2025, Omar will have the following:

Cash available upon 55	
EPF balance	573,005
EPF additions	1,300,200
less : EPF withdrawals	436,199
Net EPF balance	1,437,006
Investment - equity	109,151
Investment - unit trust	22,112
Investment - surplus savings	158,170
Total cash available	1,726,438
Put cash in REIT to generate income	103,586
Rental from cottage @ 6% yield	32,313
Annual	135,900
Monthly	11,325

Omar's cash of RM1.73 million and his investment in the holiday cottage can generate current income of RM11,325 per month.

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Even though the couple's retirement plan is simple – still need to estimate how much is needed during their retirement period and how to achieve the target amount.

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(vi) Islamic estate and *Waqf*

The RM300,000 kept in a General Investment Account can be deployed as soon as the *waqf* structure is identified.

Estate Value Estimation (Appendix 5)

Assuming the 1/3 provision for bequest is used to create a *waqf*, the value of Omar's and Suhaila's estate is RM552,939 and RM116,297 respectively.

The breakdown is:

	Omar	Suhaila
NET WORTH	469,408	
Add : Takaful proceeds	0	
Add : Death benefits from company	360,000	
Estate value after Debt	829,408	
Less : Matrimonial assets (if any declared)	0	
Estate value before Bequest	829,408	
Less : Bequest (max 1/3 of estate)	276,469	
NET ESTATE VALUE as at 30/4/08	**552,939**	**116,297**

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Omar has been named as executor by his late father to establish a *waqf* for the benefits of orphans and wants qualified help – Need to explain to Omar the ways to establish the *waqf* and the key features of *waqf* i.e. enduring asset and continuous benefits to the needy.

The couple is concerned with their lives in the Hereafter but understand little about Islamic estate planning – Need to explain the importance of *waqf* and how Muslims can create *waqf*.

The couple has not written any Wills – Need to explain the basic Shariah rules of writing a Will and how *waqf* can be created using a Will

Need to demonstrate the impact of creating a *Waqf* by way of Will on the Estate value

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III. Recommendation

In conclusion, based on information gathered and preceding analysis, these are the recommendations ranked by importance towards meeting client's objectives and needs:

A. High Priority

1. Islamic estate and *Waqf*

To immediately establish the *waqf* as stated in the Will of Omar's father is not only Omar's responsibility but also a noble act, because the sooner the benefits reach the orphans, the better it is for everybody.

Waqf can be established by giving away the money to a State Islamic Religious Council for the benefits of orphans. This type of *waqf* is known as *Waqf* Khusus or specific purpose charitable endowment. The SIRC acting as the Mutawalli or trustee-cum-asset manager will ensure that the *waqf* asset will be properly managed whereby only the returns will be spent for the orphans.

As such, it is recommended that Omar to meet Lembaga Zakat Selangor manager being the Selangor SIRC's agent for *Waqf* to execute the *Waqf* document and to hand over the RM300,000 currently parked in the GIA account.

To be concerned with the Hereafter is a good thing. Planning for the Hereafter financially is done through *Waqf*. According to a hadith, when a man dies all deeds come to an end except for: recurring charity, knowledge that are beneficial to people and a righteous son or daughter. To achieve recurring charity a *waqf* structure is prescribed. Through a *waqf*, the recurring charity is achieved because only the usufructs are spent for the needy. For example, like spending the rental income of a tenanted house.

A *waqf* can be created by giving away an asset during lifetime or upon death. If upon death i.e. by way of bequest, it is subject to 1/3 of the estate value. If during lifetime, no limit is imposed. Muslims can also participate in *Waqf* scheme organized by State Islamic Religious Councils by giving away in small installments. These *waqf* payments are treated as tax rebates.

With regard to Islamic will writing, there are 2 basic rules: 1) Bequests cannot be to legal heirs and 2) Bequests cannot exceed 1/3 of the estate.

It is estimated that the 1/3 portion eligible for bequest for Omar is RM276,469 and for Suhaila is RM58,149.

The full breakdown of the computations is per Appendix 5.

2. Zakat and Tax

Paying zakat is obligatory for the Muslims. Based on information tabulated in Appendix 1, the amount of zakat payable by Omar is RM2,538 and by Suhaila is none. Since Omar has never paid zakat on wealth before, it is recommended that the amount be paid immediately. This is considering: 1) Omar must have been accumulating the RM101,500 monetary wealth over a period of more than one year and 2) the wealth is many times over the Nisab.

An assessment of zakat in arrears for Omar is also recommended.

Currently, Omar is paying RM16,500 of taxes before rebate. Zakat paid to the authorities by individuals is treated as tax rebate. As shown in Appendix 2, there is no negative impact on Omar's wealth at all. In fact, there is ample room for Omar to pay his zakat in arrears while being neutral on his wealth.

Suhaila need not pay any zakat because her gold jewelry is within the permissible level of 800 gram, and money deposited in Tabung Haji is not subject to zakat – the zakat due is paid by the Tabung Haji management.

It is also recommended that Omar and Suhaila to opt for separate tax assessment. From tax computations in Appendix 2, the tax payable is reduced by RM540 by filing their tax returns separately.

3. Islamic Investment

The children education fund needs RM368,566 in total. The breakdown for Juliana and Johan, and how much is needed yearly is, as follow:

Year	Juliana	Johan	Total
2019	41,050	-	41,050
2020	42,948	-	42,298
2021	44,935	44,935	89,871
2022	47,016	47,016	94,031
2023	-	49,193	49,193
2024	-	51,473	51,473
	175,949	**192,617**	**368,566**

To meet the above funding requirements, it is recommended that EPF withdrawals be used. At 5% p.a. return, EPF fund grows the slowest compared to other investment alternatives. The main strategy is to take money out of EPF and let funds in Equity and Unit Trusts investments grow at faster rate. The timing of the withdrawals is per Appendix 4.

After considering inflation, the total amount needed for Omar and Suhaila's Haj is RM50,684. This amount is needed in 2017 when Johan enters Form 1.

To meet this RM50,864 amount, it is recommended that Omar to use the RM1,000 budgeted for family car after paying off the car in 2012. The savings should be deposited into Omar and Suhaila's Tabung Haji accounts. Assuming Tabung Haji pay 5% return per annum, within 4 years or by 2016, the funds for Haj would have been accumulated.

Omar's investment portfolio is not fully Shariah compliant. The breakdown is:

Shariah Compliant	Asset
No	Maybank stock
Yes	KPJ Healthcare stock
Yes	Tradewinds stock
No	Guocoland stock
No	PHEIM Asia Ex-Japan unit trust fund
No	Philip Master First Ethical unit frust fund

It is recommended that Omar to sell immediately the non-Shariah investments and re-invest in Shariah compliant investment within the same asset class.

4. Cashflow and Liability Management

The plan to purchase the Port Dickson holiday cottage is a good one, as supported in the evaluation in Appendix 3. It is recommended that Omar to use RM50,000 from the inherited money instead of only RM45,000 as indicated earlier, to complete the purchase. After considering bank repayment of RM1,612 and rental income of RM750 on monthly basis, Omar needs to top-up RM862 per month. This is troubling because Omar only has a small monthly surplus of RM277. However, Suhaila's cashflow is RM2,083 monthly. Refer to Appendix 2.

As such, it is recommended that the purchase of the holiday cottage be made in joint names of Omar and Suhaila.

B. Medium Priority

1. Islamic estate and *Waqf*

Pursuant to the earlier discussion, it is recommended that Omar and Suhaila to start allocating some money for participation in *Waqf* scheme by any State Islamic Religious Councils, and to consider drawing up a Will. Having a Will is recommended as it can expedite the estate administration process and can set up the *waqf*.

2. Risk Management and Takaful

Even though Omar and Suhaila did not indicate any need for Takaful protection, the analysis shows that **Omar needs additional Takaful coverage of RM640,000.** This coverage can be met through the various combinations of takaful plans. Basically, the RM640,000 is arrived at after considering the outstanding balance for the SJ house, family car, capital needed to sustain family expenses and the insurance coverage provided by Omar's employer. The detailed discussion is given in the Analysis section of this report.

3. Retirement

Due to simplicity of Omar and Suhaila's financial goals for retirement, no estimation of how much is needed has been done for the couple. But, it is estimated that in 2025, upon reaching 55, Omar will have cash of RM1.73 million from EPF, Equity, Unit trust, savings accounts and the investment in the holiday cottage fully paid. Together, these assets can generate current income of RM11,325 per month. Omar needs to asses if this amount is sufficient for his retirement. The detailed calculation is given in Appendix 4.

IV. The difference in treatment of Islamic Financial Planning and Conventional Financial Planning

The major areas of the different in treatment are:

1. Islamic estate and *Waqf*

Being Muslims, Omar and Suhaila's concern for the Hereafter must be equally met by the financial planner. Omar's responsibility to establish the *waqf* for his late father and the couple's desire to pay zakat are specific area that are unique for Muslims and are govern by Shariah rules.

In conventional financial planning, there is no requirement to comply with Shariah rules. As such, non-Muslim clients can set a charitable trust under civil laws and the client can give to charity as he pleases.

In writing a Will, a Muslim cannot bequest to his legal heirs and the bequest cannot exceed 1/3 of the estate. This Shariah rule does not apply to non-Muslims.

2. Zakat and Tax

Zakat is wealth purification. It is obligatory for the Muslims. It is not applicable to non-Muslims. In conventional financial planning, there is no concept of wealth purification.

Conclusion

The Activity Based approach for developing financial plan renders some advantages as compared to life-cycle and ratio analysis approach. In this approach, the construction of financial planning is divided into distinct activities, where each of them has to be planned in integration with each other. The report for Activity Based approach will contain the activities worksheet for planning and recommendations that will be reflected in the balance sheet in form of assets, liabilities and net worth. The priority approach in Islamic financial planning is needed since it helps the client to handle their finances practically as well as it is required for Muslims to prioritize certain activities such as paying zakat, debt to others and hajj planning. For Islamic financial planning to advance, financial planners may also venture into other approaches of establishing financial plan in order to create diversity of plan range for the benefit of the industry and the clients.

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