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Islamic Financial Planning
Towards Sustaining the Financial Wellbeing of Muslim Families in Malaysia Post Covid-19

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Abstract: Prior to the Covid-19 pandemic, it was reported that over 60% of the people in Malaysia only have enough savings to last them for less than 6 months in the event of loss of income. It is also reported that only 10.8% of urban Malaysian households have enough savings to withstand 'financial shocks' resulting from events such as job loss, economic crisis, physical impairment and death. The current Covid-19 pandemic had proven in stronger term that financial preparation is crucial for unpredictable situations such us the financial problems arising from the economic slowdown caused by movement control orders and lockdowns. Many households; especially those whose breadwinners were being laid-off by their companies, or had their salaries cut-off and asked to take unpaid leave – are in difficult financial situation. Only those with minimal debt obligations, steady income stream and enough financial buffer to pay for expenditures for the coming months are not in urgent need of any government assistance. Hence, it is high time to inculcate the knowledge of Islamic financial planning among Muslim families to ensure their wellbeing.

Keywords: Islamic Financial Planning, Financial Wellbeing, Post Covid-19

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Introduction

Financial planning has been increasingly important globally with rising income level of households, growing longevity of people and increasing sophistication in financial products and services. Prior to 1970s, only the wealthy were involved with financial planning, and the process was much simpler involving only investment and estate planning. 1970s witnessed a higher and wider demand for financial planning, due to a higher standard of living enjoyed by the middle-income group. Higher income levels and surpluses resulted in the need for individuals to obtain financial advice from professionals.

Current economic crisis as the unintended consequence of the Covid-19 pandemic has further proven the importance of financial planning and wealth management. In Malaysia, like many other countries in the world, households were facing financial difficulties due to: the breadwinners being retrenched by the companies who have to cease operations; or having their salaries cut by employers as a measure to reduce costs; and some are forced to take unpaid leave due to declining businesses. Worst still are the self-employed who are the most affected of all, where many are experiencing total job loss or reduced income levels. These dire states of affairs inevitably force the Malaysian government to assist the affected people with economic stimulus packages and outright financial aid to help reduce their burden (Lim, 2020).

Islamic financial planning is a step-by-step process of managing the wealth of Muslims. It is the process of determining how a Muslim individual can achieve success in the world and hereafter (*al-falah*) through the proper management of his financial resources. Islamic financial planning integrates the financial planning process with the financial planning components, which is in accordance with Islamic values and principles.

In Malaysia, dissemination of Islamic financial planning knowledge and skills was formalised as a certification programme known as Islamic Financial Planner (IFP ®) by Islamic Banking and Financial Institute Malaysia (IBFIM), in collaboration with Financial Planning Association Malaysia (FPAM) in 2007. A year later, Malaysia Financial Planning Council (MFPC) established another certification programme known as Shariah Registered Financial Planner (Sh RFP). As to date, there are 103 Associate Members and 921 Ordinary Members registered under FPAM and MFPC, respectively.

Wealth from Islamic Perspective

The word "wealth" literally means "abundance of valuable material possessions or resources", or "all property that has a money value or an exchangeable value" (Boykin, 2015). The pursuit of wealth is perhaps the most important human pursuit today, in the past and in the future. The general misperception about wealth is that Islam discourages wealth accumulation among ordinary Muslims as well as religious officials. While the actual fact is Islam encourages Muslims to acquire wealth, subject to the following conditions:

1. The accumulation of wealth must be done in an absolutely honest and legal manner
2. The management of wealth must be performed in a highly responsible manner. It must benefit not only its owner and family, but also the community as a whole.
3. Wealth must not in any way distract Muslims from their strong faith and submission to Allah SWT

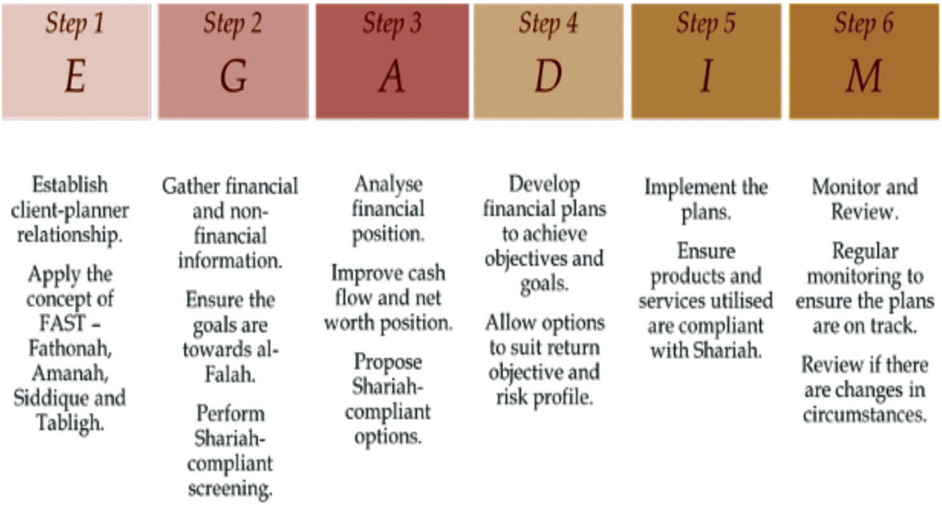
Quran explicitly explained rulings regarding wealth. Quran says in (Surah Al-Qasas: 77). *"Seek the other world (the Hereafter) by means of what Allah SWT has bestowed upon you, and do not be negligent about your share in this world. And do good as Allah SWT have done good to you, and do not seek to spread disorder on the earth."* Further reference can also be made to other verses in the Quran, such as: Al-Isra:12 and 26; Al-Furqan:47; and Al-Baqarah: 261 and 274.

Process of Islamic Financial Planning

Islamic financial planning adopts the six-steps process from the global standard practice of financial planning profession established by Financial Planning Standard Board (FPSB). The practice standard is adopted by all financial planning bodies around the world, including the FPAM and MFPC in Malaysia. It is known with an acronym EGADIM. It starts with establishing client-planner relationship, gathering financial and non-financial data, analysing the data, developing financial plans, implementing the plans and finally monitoring and reviewing the plans to ensure that they are on the right track to achieve the objectives. This six-step process by FPSB is adopted as a basis for a modified six-step process for Islamic financial planning as illustrated in Diagram 1:

Diagram 1.

Six-Steps Process of Islamic Financial Planning



Source: Authors' own

Basically, the six-steps Islamic financial planning process above, added the Islamic philosophies and concepts into the FPSB process, to make them compatible with Islamic teachings and injunctions.

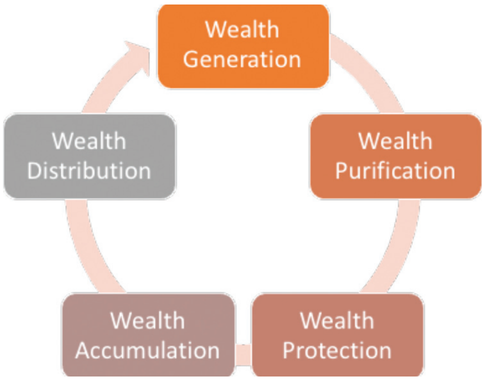
With the Covid-19 Pandemic and its adverse impacts on the economy and livelihood of many people, a more rigorous monitoring and review under Step 6 will be necessary. This may involve a restructuring of debt obligations, change in investment strategies, as well as liquidation of assets as and when necessary to meet the changes in income level and other circumstances of life.

Components of Islamic Financial Planning

There are five components of Islamic financial planning, which encompass the generation of wealth, purification of wealth, protection of wealth, accummulation of wealth, and distribution of wealth. These components of Islamic financial planning, which are adapted from IBFIM (2016), are illustrated in Diagram 2:

Diagram 2.

Components of Islamic Financial Planning



Source: (Shafii, Yusoff & Noh, 2016)

Wealth Generation

According to Nurizal Ismail and Muhammad Syafii Antonio (2012), wealth can be acquired in main two ways: *al-warātsah* (inheritance) and *al-kasb* (earning). Wealth earned through inheritance doesn't require efforts, it is passed from the owner to the rightful heirs. The heirs have to ensure that the estate left by the deceased is administered properly before it is divided among them according to their agreement or if agreement could not be obtained, they have to divide it according to *Faraid*. The second source of wealth generation is through earnings from occupation, either by engaging in business or working with organisations. Zulkifli and Saripuddin (2015) in his research outlined the Islamic business ethics as follows, including sincere intention, avoidance of Usury and cheating, and being just and trustworthy. Even for those who are working with organisation, they have to also observe their discipline and ethics to ensure that they are earning halal income. Once income is generated, they must spend it wisely by prioritizing the "needs" rather than "wants". Islam promotes moderation in life, as mentioned in Surah Al-Furqan, verse 67: *"And [they are] those who, when they spend, do so not excessively or sparingly but are ever, between that, [justly] moderate."*

In Islamic financial planning, wealth generated must be administered systematically by preparing two important statements: Cash flow and Net worth statement. This is crucial in assessing the current financial position. One needs to gather all his/her financial information and collect all the documents, e.g. bank statements, insurance/Takaful policies, investment statements, EPF statement and many more.

Once the statements are prepared, Shariah screening has to be performed by scrutinising all financial assets and their sources of financing. If there are any Shariah-non-compliant assets or financing, options to dispose the assets, or refinancing using Shariah-compliant financing products have to be considered.

Cash Flow Statement

Cash flow statement provides information on the movement of cash, i.e. cash receipts and cash disbursements, and it is usually prepared once a year to see the movement of cash for the past one-year period. It provides a report on the inflows and outflows of cash, identifying all the sources of income and the pattern of disbursing those incomes.

Cash inflows include all the sources of cash receipts, e.g. employment income, proceeds from matured endowment policies, rental and dividend income, proceeds from sale of personal assets, gratuities and employer's contributions to retirement account.

Cash outflows include all cash payment, which could be categorised into loan/financing instalment, household expenditure, personal expenses, luxury expenses and savings/investment. This classification will help us to make decision on cutting off unnecessary expenditure where there is a need to reduce cash outflows. It also assists us in assessing our pattern of spending, savings and investment activities.

After listing down all inflows and outflows, we can find net cash flows by deducting total cash outflows from total cash inflows. There are three possible net cash flows positions, and each has a bearing on our net worth.

- **Surplus net cash flow -** If total cash inflows is more than total cash outflows. Having surplus net cash flows will allow us to settle debt faster, and accumulate more saving and investment. This will increase our net worth.
- **Deficit net cash flow -** If total cash outflows is more than total cash inflows. In this situation, we usually have to withdraw our savings or increase our credit spending. This will decrease our net worth because assets will be depleted or liabilities will be increased.
- **Equilibrium net cash flow** - If total cash inflows is equal to total cash outflows. In such a situation, the net worth will not change as there is no additional funds for savings, investing and settlement of liabilities.

Once the cash flow position is determined, we should decide the next step of action. If the net cash flow is positive, we can move to developing our plans. However, in a situation where the net cash flow is at equilibrium, or worse, if the net cash flow is negative, we have to take necessary actions to improve the net cash flow position. The first option is by reducing the cash outflow. We have to scrutinize the list of expenditure and identify those unnecessary expenditure to be reduced, or if possible, eliminated. The second option is by increasing the cash inflow. We have to get additional income by doing extra hour job or part time job. Improving net cash flow position is crucial because without extra cash, we will not be able to execute any plan to achieve our objectives.

Budgeting

One way to manage cash flow is by budgeting. A budget is a plan on how much to spend based on the income that we anticipate to have for a certain period of time, e.g. annually, quarterly or monthly. Having a budget helps us to ensure that we will not be spending on unnecessary things. In other words, it helps us to control our spending.

A budget should be prepared based on the actual cash flow statement. Having the actual list of expenditure, one should decide what are the most important expenditure to be prioritized. The rule of thumb is, of course, the payment of instalments that may incur extra charge if they are delayed, or will cause disruption in life if the payment is defaulted. Examples are instalment for mortgage and car financing. Late payment will result in penalty and in the long run, the house will be foreclosed or the car being repossessed. Therefore, they have to be in the top of the list of expenditure. The same goes to all loans/financing with financial institutions. The next in the list are all utility bills, which services will be terminated if payment is delayed, thus cause disruption in life. However, if the service is not fully utilised, it is worth to be cancelled, e.g. cable TV and fixed-line telephone.

Luxury expenses, for instance, club house membership fee, beauty salon treatment package, dining out and overseas holiday, are the things to be considered for elimination if the cash flow really need to be improved. This is especially true in a pandemic scenario like Covid-19. Priorities must be re-set and re-adjusted. Money should be allocated for more important needs in life, for example, basic sustenance, healthcare, education fund, retirement fund and even for charitable purposes including *waqf* to help the less fortunate in the society. These will ensure the wellbeing of the family and the bigger society will be better safeguarded.

Net Worth Statement

Net worth statement presents a snapshot of our financial position at a particular date. It lists all our assets and liabilities, thus reveals how the assets are financed - either from our own money or from loan/financing. It finally shows our net worth, which represents our real amount of wealth at that point of time.

In listing all the assets, it is good to classify the assets into a few categories, e.g. cash and cash equivalents, investment assets and personal use assets. Liabilities should also be categorised into two types; short-term and long-term liabilities. These classifications will help us to take strategic steps to improve our net worth, if required.

After all the assets and liabilities have been listed, we can get the Net Worth amount by finding the difference between total assets and total liabilities. There are three possibilities for net worth position:

• **Positive net worth** – when total assets are more than total liabilities. This is a healthy financial position.

• **Negative net worth** – when total liabilities are more than total assets. This is not a healthy financial position. It could happen if one has a big amount of personal financing and multiple credit cards.

• **Equilibrium net worth** – very rare occasion, but not a good position to have as at any time, it can fall to the negative territory.

Net worth position can be improved by reducing debt or increasing assets. Both steps would require cash. Hence, one possible action is by liquidating the assets and use the proceeds to reduce the liability. It has to be coupled with cash flow improvement strategy so that the extra cash can be used to reduce liability or increase assets. This is known as debt management strategy.

Debt Management

Muslims, particularly the pious ones, will be likely to avoid unnecessary debt due to consciousness towards death, and what will happen to his soul thereafter, if the debt left unpaid. This is due to the hadith of the Prophet SAW, narrated by Abu-Hurairah: "The Messenger of Allah said: The believer's soul is suspended by his debt until it is settled for him" (at-Tirmidhi, 2013, p114).

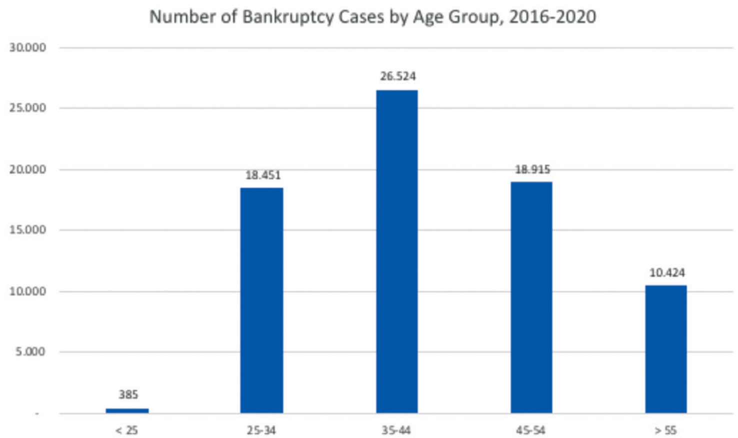
In another related hadith, the Prophet (SAW) was reportedly showing the enormity of unpaid debt upon death. Salamah bin Al-Ak'wa narrated that: A Janazah was brought to the Prophet and they said: "O Prophet of Allah, pray for him.' He said: "Did he leave any debt behind?' They said: "yes". He said "Did he leave anything?" They said: "No". He (the Prophet) said; "pray for your companion". A man among the Ansar who was called Abu Qatadah said: "Pray for him and I will pay off his debt". So, he (Prophet) prayed for him (an-Nasa'i, 2013, p. 145).

Among the strategies in debt management involves paying off the debt with high cost first, settle the small debt and stop taking new debt. The best way to avoid unnecessary debt is to live a moderate lifestyle – buy only things that you need and save money to buy things by cash. In Islam, moderation constitutes good behaviour in life (Surah al-Furqan, verse 67).

A pious Muslim is supposedly prioritizing the act of paying off debt, because once you promise to repay on a certain date and time, it became a covenant on you. Allah SWT warned believers several times in the Quran about covenants (*Surah Al-Isra: verse 34) "And come not near to the orphan's property except to improve it, until he attains the age of full strength. And fulfil (every) covenants. Verily! The covenants, will be questioned about*.

A pious Muslim is supposedly taking only necessary and meaningful loans with good intention of prompt repayment. In a hadith narrated by Abu Hurairah: The Prophet (SAW) said, "Whoever takes the money of the people with the intention of repaying it, Allah will repay it on his behalf, and whoever takes it in order to spoil it, then Allah will spoil him" (Bukhari, n.d, p. 3). According to Salisu (2016), a person with debt must update his will (obligatory will) regarding the amount of debt he owed to others. This is to ensure that his heirs are aware of the existence of such debt and take necessary action to pay it off after his demise. In a hadith narrated by Abd-Allah Ibn Umar the Prophet SAW is reported as saying: "It is not right for a Muslim who has property regarding which he must make a will that he should sleep for two nights save that his will should be written down with him". Jurists had unanimously agreed on the interpretation of "two nights" mentioned in the hadith as for Muslims to urgently make their wills because no one knows the unexpectedness of death over him. (Ajetunmobi, 1992). Indebtedness is found to cause serious impact to health (Adamu, Abdul Rahim & Hamed, 2016). On the other hand, unnecessary borrowing may affect the future welfare of family institution including children or even unborn generation. It also increases vulnerability of an individual to systematic risk and credit crisis. Indebtedness deprives the debtor of his independence of choice, as the creditors will have an influence on his financial decisions as he is bounded to the creditor. (Allain, 2012).

Debt is an act of exploiting available limited resources. Some of the young generation nowadays, especially, have the tendency to show-off their luxury lifestyle via social media. While, in reality, statistics have shown that many of them are sustaining their lives with multiple credit cards and other loans, where unfortunately, some had been declared bankrupts. (Martin, Hemananthani , Rahimy Rahim & Loshana, 2018). As at 31 December 2020, 44,975 individuals in the range of 25 to 44 years old have been declared bankrupts. They made up 60.2% of the total 74,699 individuals declared bankrupts from the year 2016 to 2020. Of this number, 35.38% is due to personal loan, 19.47% hire purchase loan and 9.79% credit card loan.



Source: Malaysian Department of Insolvency

Hence, debt management is an important strategy to improve the net worth of an individual. It is also significant to ensure the wellbeing of the family and the future generation.

As part of the response to the Covid-19 pandemic and the subsequent economic slowdown, moratoriums have been granted to loans and financings offered by financial institutions. This will allow for better management of liabilities by the affected people. However, those who can afford to pay their debts may want to take advantage of the current low rates of financing to continue paying their instalments, or even consider partially of fully settling their debts early to save money due to the rebates given for early settlements.

Wealth Purification

In Malaysia, some individuals are liable to pay tax on income accrued in, derived from or remitted to the country. Sources of income that will be taxed include gains and profits from trade, profession and business, salaries, remunerations, gains and profits from an employment, dividends, interests or discounts, rents, royalties or premiums, pensions, annuities or other periodic payments and other gains or profits of an income nature not mentioned above.

Taxable income is calculated by deducting the expenses incurred wholly and exclusively in the production of the income. The tax rate depends on the resident status of the individual which is determined by the duration of his stay in the country, as stipulated under Section 7 of the Income Tax Act (ITA) 1967. A resident individual is taxed on his chargeable income at graduated rates from 1% to 30% after the deduction of tax reliefs.

However, an individual with chargeable income of less than RM5,000 is not taxed. The chargeable income of an individual resident is calculated by deducting the personal reliefs from his or her total income. Tax payable on a resident individual is further reduced by rebates. Income tax matters in Malaysia are under the jurisdiction of Inland Revenue Board of Malaysia (IRB).

Tax planning is one of crucial subjects in financial planning. It is about strategizing to achieve legitimate tax savings. Tax planning is not about tax evasion or tax avoidance. Tax savings may arise from a timing advantage or a permanent advantage. A timing advantage involves the postponement of a tax liability to a subsequent year, with savings resulting from having the use of money now that would otherwise have been paid in tax. The deferral may also result in the taxpayer being assessed on income in a year in which a different rate of tax is being paid.

Some timing benefits also arise from the acceleration of deductions. The following are some examples of strategies applied in tax planning:

- Ensuring all reliefs and rebates are claimed
- Deferral of disposal of real property to take advantage of reducing tax rates
- Planning for allowable tax deductions
- Planning to take advantage of investment incentives
- Structuring of retirement gratuities
- Income splitting (via partnership, joint or separate ownership)
- Assignment of income and/or property
- Dividend imputation
- Maintenance of a negatively geared position
- Depreciation allowance
- Prepaid expenses

Tax avoidance, on the other hand, involves arrangement within the law which appears to take the taxpayer outside the scope of particular legislation. It takes the letter rather than the spirit of the law, and uses techniques which are forged to obtain tax benefits. In curbing tax avoidance activities IRB has been introducing various anti-avoidance provisions in the areas where tax avoidance has been practiced.

Tax evasion is another offence under ITA, which involves arrangements outside the law where liability to pay tax, having been incurred, is wilfully concealed or ignored.

There are various schemes and strategies of dubious legality developed to reduce or avoid tax, which is subject to severe penalties if it is exposed. In Islam, obeying the law of the land is a religious duty. Quran says (*Surah An-Nisa: verse 59) "O you who have believed, obey Allah and obey the Messenger and those in authority* *among you. And if you disagree over anything, refer it to Allah and the Messenger, if you should believe in Allah and the Last Day. That is the best [way] and best in result."* Therefore, Muslims should observe their responsibility in paying tax and apply tax planning method to reduce the tax payable amount legally.

As for zakat, there is no legal enforcement to pay zakat on Muslims in Malaysia. (Migdad, 2019; Zakariyah, 2020). However, Muslims must be aware of their responsibility to pay zakat in Islam, of which the failure to oblige is cursed by Allah SWT. The Quran says (Surah Al-`Imran: 180): *"And let not those who covetously withhold of that which Allah SWT has bestowed on them of His Bounty (wealth) thinking that it is good for them. Nay, it will be worse for them. The things which they covetously withheld shall be tied to their necks like a collar on the Day of Resurrection. And to Allah SWT belongs the inheritance of the Jannah and the earth, and Allah SWT is Well-Acquainted with all that you do"*

The Prophet SAW also described the punishment that will come to those who do not pay zakat on their wealth. In a hadith narrated by Abu Hurairah; the Prophet SAW said: *"[On the Day of Resurrection] camels will come to their owner in the best state of health they have ever had (in the world) and if he had not paid their zakat on them, they would tread him with their feet, and similarly, sheep will come to their owner in the best state of health they ever had in this world and, if he had not paid their zakat, would tread him with their hooves and would butt him with their horns... I do not want anyone of you to come to me on the Day of Resurrection carrying over his neck a sheep that will be bleating. Then he says, "O Muhammad (please intercede for me)". I will say, "I can't help you for I conveyed Allah SWT's message to you"*(Hadith Sahih Bukhari).

Furthermore, assets that are subject to zakat must be halal assets or income. It is compulsory to pay zakat on employment and professional income if the conditions and requirements are met. In addition, the amount paid for zakat is eligible to be claimed for income tax rebate, which will reduce the tax payable. This is one important element in zakat and tax planning as the rebate given is up to 100% of the amount of zakat paid by individuals. Fulfilling the responsibility to pay zakat not only helps purify the wealth, but also the soul of the zakat payer.

Wealth Protection

In Islamic financial planning, wealth protection means protecting the wealth from risks of premature death and total permanent disability due to critical illness and accident. It is also known as risks management for individuals, which is one of the most crucial areas in financial planning. Risks need to be evaluated before a proper risk protection plans can be developed. In general, there are two types of risk protection plan, i.e. income protection and debt protection.

Income protection is a plan to ensure that an income will be continuously provided even in the face of crises. It plays an important role in lives of individuals and that of their loved ones. Yet, the income protection gap is present in many families, who do not have financial compensation should there be a reduction/loss in household income due unexpected events. This is a global challenge and it's rising. In Malaysia, statistics revealed that over 60% of the population has savings that can only last them in less than 6 months in the event of income loss.

Income protection need is evaluated based on the age of the individual and his dependents, and also their condition. Let say Ahmad is a 30-year-old Manager earning RM20,000 monthly. Ahmad has two daughters age 6 years and 4 years old. His wife is a 30-year-old teacher earning RM4,000 a month. If Ahmad wants to ensure that his wife and two children would be able to continue their life as usual in the event of his premature death, he can have an income protection plan based on the age of his youngest daughter. As the youngest one is 4 years old, Ahmad can expect to provide a continuous income for the family until the youngest one reaches an age of independent, say 24 years old. Roughly, the amount would be RM4.8 million (RM20,000 x 12 x 20). If it is too much to be provided, Ahmad can reduce the amount to may be RM5,000 a month (as his wife is also earning income), which is translated to a total protection amount of only RM1.2 million. How to achieve this amount? Definitely impossible for Ahmad to save! In this regards takaful scheme can play a significant role in providing the protection amount required. Ahmad can participate in a family takaful scheme by paying a monthly contribution required to ensure that his family will be provided with the income replacement should anything unexpected happened to him. Another important plan is debt protection, which is a plan to provide the amount of money to pay off the debt in the face of financial crises due to premature death and total permanent disability. Debt with Islamic financial institutions are usually protected with takaful. For home financing, the Islamic banks usually require the customers to participate in Mortgage Reduction Term Takaful (MRTT) to ensure that if anything happen to the customer, there will be an amount provided by the takaful operator to pay off the outstanding financing amount. The same goes to Islamic hire purchase, whereby there is a Hire Purchase Reduction Term Takaful (HPRTT) to help customers in financial crises.

Islamic view on Risk Management and Takaful

In Islam, risk has to be managed properly to ensure a better future for the family during unexpected times. Risk management in Islam is guided by Quran; (*Surah Al-Baqarah: verse 26) "Would any of you wish to have a garden with date palms and* *vines, with rivers flowing underneath, and all kinds of fruits for him therein, while he is stricken with old age, and his children are weak (not able to look after themselves), then it is struck with a fiery whirlwind, so that it is burnt. Thus does Allah SWT make clear His Ayat to you that you may give thought?"*

This verse reveals the need of a breadwinner to take pre-emptive measures regarding the wealth to ensure a comfortable living for his family when he is stricken by the old age while his children are still young and incapable of providing for themselves. This clearly proves the importance of wealth protection in Islam.

Undeniably, one has to submit every single thing to Allah SWT. However, it should be done only after he had stretched out his hand to do the best that he can to change himself, so that he would be able to manage and to cope with unforeseen calamities or misfortune.

In dealing with risks in their life, Muslims are also urged to do their utmost to be prepared and then only seek protection of Allah SWT. In a hadith narrated by Al-Tarmizi and Ibn Majah, it was reported that the Prophet SAW told a Bedouin Arab, who left his camel untied to the will of Allah SWT: *"Tie the camel and then leave it to the will of Allah SWT"*

Another hadith narrated by Amir Bin Saad Bin Abi Waqqas further reinforces the need for wealth protection. In this hadith, the Prophet SAW said: *"Verily it is better for you to leave your offspring wealthy than to leave them poor asking others for help"*.

In this hadith, the Prophet SAW advised Muslims to protect the future welfare of family members. As death is certain to everyone, the loss of income suffered by the next of kin of the deceased can be reduced through the compensation awarded to them.

Wealth Accumulation

Wealth accumulation is a process where individuals save and invest money for the purpose of emergency needs, acquisition of assets, education planning for the children, hajj fund and also retirement needs.

Wealth accumulation is encouraged in Islam as mentioned by Surah Jumu'ah, verse 10: *"And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed."*

Savings simply means putting money in an instrument for the purpose of accumulating it over time. It is supposed to be safe enough to protect its value, thus usually associated to low risk. On the other hand, investment is normally explained as the choice by individuals to risk his savings with the hope of getting more money. In financial planning, investment refers to money that is put into a real asset; such as properties and commodities; and financial assets; which refers to money put in the banking system or the capital market.

In Islamic financial planning, all the real and financial assets used for wealth accumulation must be compliant with Shariah.

Emergency fund

Emergency fund is the utmost important fund that needs to be established by all individuals. It is a sum of money set aside to specifically cover any unexpected expenses that may come up due to unpredicted events, e.g. car breakdown, ceiling leakage, or even sudden illness. It also can be used to pay bills when suddenly one is out of job. The Covid-19 pandemic is one good example to prove the importance of an emergency fund. Nobody ever expect that in 2020, millions of people will be out of job due to this pandemic. Some just lost income due to the Movement Control Order imposed by the government to control the breakout of Covid-19. Those severely affected are without emergency fund in place. They have to resort to borrowing or selling of assets to survive. Luckily the banks, both Islamic and conventional, are giving moratorium to help reduce the financial burden. The insurance and takaful operators are also giving payment reliefs to further lessen the burden.

The rule of thumb in determining the amount of an emergency fund is 6 months. This is considered an ample period for an individual to look for a new job, in case of being retrenched. However, in the Quran (2:240), Allah says: *"And those who are taken in death among you and leave wives behind - for their wives is a bequest: maintenance for one year without turning [them] out. But if they leave [of their own accord], then there is no blame upon you for what they do with themselves in an acceptable way. And Allah is Exalted in Might and Wise".*

This verse can be a guide to Muslim family in providing an emergency fund of the family. By having a fund equivalent to one year of income, a family can continue their life without disruption if something unexpected happen. Emergency fund should be kept in an instrument which is low-risk to ensure the value will not be affected. The withdrawal process must also be easy to facilitate the needs during emergency. Islamic term deposit is one good choice for emergency fund.

Asset acquisition fund

Usually before a real asset, e.g. land, house, shop lot; can be purchased, money have to be accumulated either to buy it on a cash terms, or to be paid as a down payment, which the rest need to be financed using loan or financing. Thus, still it will involve investment in financial assets, such as fixed deposits, investment account, unit trust or stock market; to name a few. If the fund is for the down payment of a house, for instance, where the tenure is usually 3-5 years, the fund should be invested in a low to medium risk instruments like Islamic term deposit, Islamic unit trust or shares of Shariah-compliant dividend stock. Let say for a house, which costs about RM600,000, the down payment would be about RM60,000. At a rate of return of 5%, one would need to invest RM882 for a period of 5 years, to be able to have the RM60,000 down payment. If he can afford to invest RM1,548 per month, he can have the amount required in 3 years time.

Education Plan

Providing good education to the children is one of the main responsibilities of Muslim parents. It would help to develop children with high self-esteem, who will be capable of making good decisions; they will be proud of their accomplishments, willing to take responsibility and ready to cope with frustrations. (Muhammad & Rafikul, 2011). Bringing up good children is also part of the parents' responsibilities to the society.

In determining the amount to be accumulated for the education needs, parents have to decide on the type of programmes for the children to enrol in the future. Parents who are close to their children would be able to see the preference in their children while they are still young. If the child showed the passion in medicine for example, responsible parents should put their best effort to provide for the funding needs to fulfil the child's ambition. No doubt the cost of education is huge, especially for medicine. Yet, if the parents start investing earlier, with Allah's permission, the objective will be able to be achieved.

Investment for education fund can be started as early as the child reaches the age of 6-month old. If the age of entering university is 18 years old, the parents have 17.5 years to invest. Even by putting RM100 a month in a saving deposit, which the return is less than 1%, the child would have at least RM21,000 when he/she reaches the age of 18. It is enough for a 4-year Bachelor Degree in very good specialization in a public university in Malaysia, without the child having to take education loan.

Education planning is further facilitated by some schemes introduced by the government, such as, the Skim Simpanan Pendidikan Nasional (SSPN); or private schemes, like the various takaful education plans available in the market. Those participating in these schemes also enjoy tax benefits for their contributions to the schemes.

Hajj Fund

Hajj is the fifth pillar of Islam, which require quite a big sum of money to be able to perform it. Some people with small income are able to go for hajj at retirement age of 60, after putting minimum amount of regular saving throughout their working life. If there is a will, there will be a way. Hence, there is no reason for those earning good income not to go for hajj, which supposedly should become one of their priorities in life.

Total costs for hajj from Malaysia is around RM15,000, taking into account all the expenditure related to the preparation for hajj. That is if one goes with *mu'asassah*, which is highly subsidised by the pilgrimage fund, Tabung Haji. The setback of mu'asassah is the long queue in getting the turn to perform hajj. If one registers today, the chance to get the turn is around the year 2080. For a newly born baby today it will be at the age of 60! Tabung Haji, however, allows its depositors to appeal if they are already old and have sufficient fund to go for hajj. It is, however, dependent on getting an approval.

Due to the above situation, Muslims have to start investing early for their hajj fund. Minimum amount to go by private package is RM35,000 today. The price keeps on increasing due to inflation. Therefore, if one plans to go in five-year time, he/she has to factor in inflation in determining the total amount required for the fund, and start investing today using the calculation of present value annuity.

Some Islamic financial institutions also offer saving plans with takaful elements that provide benefits that include hajj, umrah and 'badal haji' funding. An example is the Smart Hijrah family takaful plan offered by Maybank Islamic with underwriting by Etiqa Family Takaful, and support from Tabung Haji Malaysia

Retirement Planning

Retirement planning is an arrangement to provide people with an income during retirement, that is, when they are no longer earning a steady income from employment. Retirement plans may be set up by employers, insurance companies, the government or other institutions such as employer associations or trade unions. The major issues faced by a worker are, how to prepare for and live in retirement.

In Islam, it is the responsibility of the children to look after their parents, especially when the latter become too old and incapable of sustaining themselves. It is an act of disloyalty towards Allah SWT if one neglects one's responsibility of taking care of one's parents. This act is regarded as an attitude of those who are proud and boastful. This is clearly stated in al-Al-Quran, "*Worship Allah SWT and join none with Him (in worship); and do good to parents, kinsfolk, orphans, the poor, the neighbour who* *is near of kin, the neighbour who is a stranger, the companion by your side, the wayfarer (you meet), and those (slaves) whom your right hands possess. Verily, Allah SWT does not like such that are proud and boastful*" (Surah al-Nisa: 36).

Even though it is a religious responsibility of the children, it is very much encouraged that parents voluntarily release their children from such a burden. This is perhaps based on the reason that their children are also responsible for their own families. Hence, one should consider the Islamic retirement planning tools and processes as one's preparation to be independent financially when one is old or retires from one's job.

The need to plan one's retirement becomes more obvious as the years pass. Even though in Islam children are responsible for caring for their parents, there is no Islamic injunction which precludes one from planning for one's benefit in retirement. Retirement planning becomes more significant as the financial impact and demands of modern society take their toll on the grown children's lives. When the cost of living goes up, the ability of the working population to care for those other than their immediate families will become increasingly difficult.

Ali, et al. (2016) in their research titled Financial Literacy and Retirement Planning of the Malaysian Workers found out that of 90 Malay workers who responded to the question whether they are positive about their retirement planning, only 45 responded agree while the other 45 gave neutral response. Other races, the Chinese for example, have more positive response with 33 of the 35 respondents stated agree to the question.

In Malaysia, there is a mandatory saving arrangement for employees under the Employee Provident Fund (EPF) to cater for their post retirement days. Sadly, this retirement arrangement is severely inadequate for majority of the contributors as pointed out by Khazanah Research Institute's senior research associate Hawati Abdul Hamid in an interview with The Edge in May 2020: "More than 80% of EPF contributors do not meet the minimum savings target of around RM240,000 by retirement age, and the bottom 20% of contributors average less than RM7,000 in savings." This is made worse during the Covid-19 pandemic, where contributors are allowed to withdraw from their already meagre savings under the i-sinar and i-lestari schemes to help them survive the difficult times caused by the prolonged MCOs that was meant to control the pandemic. To make matters worse, the minimum EPF contribution for 2021 is being reduced to 9% under the recent Budget 2021 proposal. This will mean less mandatory contribution into the retirement fund compared to the previous 11% contribution. All of these issues expose the inadequacy of relying on EPF alone for retirement and underscore the need for more aggressive and comprehensive retirement planning to cover old age and other contingencies.

Wealth Distribution

Wealth distribution is the final component in Islamic financial planning. It is a process whereby individuals need to plan on methods to distribute his/her wealth fairly and equitably among their heirs. Many Muslims, unfortunately, still do not have their wealth distribution plan due to the belief that Faraid is there to help manage their estate upon their demise. This belief is inaccurate as Faraid is actually the method of distribution. For the method to be applied, an administrator needs to be appointed. Failure to appoint the administrator, and failure of the appointed administrator to administer the estate, will result in the wealth left by the deceased being frozen. Statistics revealed that as at to date, about RM70 billions of estates had been frozen! Just imagine how the estate worth RM70 billion can be utilised to benefit their heirs. It is a waste of resources entrusted by Allah SWT for us to manage, when these assets are frozen.

Wealth distribution can also be done for the purpose of charity and investment for the hereafter. Sadaqah, hibah and waqf are examples of instruments for wealth distribution that will not only benefit the recipients, but also the givers, in this world and in the hereafter. These, however, need to be done while the owner is still alive. Sadaqah or donation can be done on monthly basis via salary deduction, direct debit or standing instruction. Nowadays, there are various mobile applications developed for the purpose of facilitating people to donate. If the donation is done to an institution approved by Inland Revenue Board (IRB). the donor will also get the benefit of tax relief. Hibah or gift, is one of the instruments that can be utilised to benefit family members, who are not under the category of heirs under Faraid. For a reverted Muslim, hibah can be used to allocate a portion of his wealth to his non-Muslim parents. The same can be done for an adopted child. Hibah can also be given to other parties such as a charity body or a foundation.

Waqf, derived from the word *waqafa,* means to stop or contain. It is defined as a practice of a *waqif* to surrender his property perpetually for the benefits of the public. *Waqf* is a blessed act by Allah SWT because the basic purpose of *waqf* is to be closer and gain the blessings of Allah SWT by way of spending wealth in His path and for His sake. *Waqf* is also a special form of donation due to its inherent mechanism of preserving the *waqf* corpus (*'aiyn al-waqf*) so that it can continue to generate benefit (*manfa'ah*) to its beneficiaries perpetually. (Zuki, 2012; Zakariyah, Zakariyah & Nor, 2021). That is why *waqf* is popular and preferred by many donors as it is perceived as a continuing charity (*sadaqah jariah*) that will continue to benefit not only the recipients but more importantly, the donors in the form of perpetual rewards (*thawab*) for as long as the *waqf* retains its benefits to the beneficiaries. As such, creation of *waqf* needs to be done properly by appointing an administrator (*mutawalli*) or a trustee, to manage and ensure that the *waqf* assets (*mawquf*) are properly maintained so that they will remain valuable and beneficial to optimise the benefits for the recipients (*mawquf 'alaih*).

Proper planning for wealth distribution will allow the owner of wealth to ensure that his wealth will benefit him in this world and the hereafter. Assigning the assets intended as *mawquf* under a will (*wasiyyah*) will allow the owner and his family to enjoy the benefits of the assets while he is still alive. The assets will only be transferred to the *mutawalli* upon the death of the owner. Under Islamic law, the portion allocated for the purpose of *wasiyyah* is limited to a one-third cap, with due consideration given to the rights of the heirs. This is to ensure that the family will not be left in the state of begging from others, as per mentioned in this hadith:

> "...and what you spend as charity from your property is sadaqah and your spending on your family is also sadaqah, and what your wife eats from your property is also sadaqah, and that you leave your heirs well off is better than to leave them poor and begging from people."
>
> *(Sahih Muslim, n.d, p. 3997)*

A number of innovative products are being offered to facilitate wealth distribution and legacy planning especially in the wealth management and takaful spheres. For example, a number of Islamic trustee bodies in the like of AmanahRaya Berhad and Salihin Trustee Berhad, offer wealth and legacy planning services. These services allow for individuals to plan for their wealth management and distributions, including for inclusion of *waqf, hibah* and *wasiyyah* for their family members and / or charitable and religious purposes. Similar services with additional features of takaful protections are also offered by some takaful operators as part of their family takaful plans. For example, as part of its family takaful legacy plan, AIA Takaful offers the choice of a rider under A-Plus Infaq where the participant enjoys additional sum to be paid to a chosen charity upon his/her death or total and permanent disability. Similarly, Hong Leong MSIG Takaful also offers optional riders in their family takaful heritage plan to cover for hajj, waqf and qurban in the case of death of the participants. Maybank and Etiqa also offers similar options in their Smart Waris family takaful plan that allows for waqf benefit to be paid to a waqf body appointed by Etiqa, that is currently MAIWP.

Conclusion

Financial planning has been playing a significant role for the well-being of individuals as well as family institutions globally. Islamic financial planning is a step-by-step process of managing the wealth of Muslims. With these steps, family institutions can manage their wealth and protect it as per stated in the objectives of Shariah. Proper planning of wealth can help them in mitigating the impact of pandemic, such as the Covid-19. Islam values wealth and encourages Muslims to take care of their wealth accordingly. Islamic financial planning is a very important tool in protection of wealth and sustaining the well-being of family institutions in Malaysia.

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