USAPANG PERA

Determining your financial starting point

Steps in Financial Planning

1. Your financial starting point: Knowing where you are financially
2. Set financial goals and priorities
3. Decide on timeframe and a budget
4. Match financial goals with source of income
5. Implementing and monitor you progress

Tools

- Money in, money out (MIMO)
- Statement of assets, liabilities and net worth (SALN)
- Financial health check (quick)
- Personal finance diagnostics (in depth)

MIMO

Money in = Money out

What is a budget?

- A summary of estimated income and how it will be spent over a period of time
- Create passive income from active income
- Prioritize needs over wants

Budgeting guide

- Budgeting rule for expected/regular income: save and invest as much as you can
  - <25K – 5-15-85
  - >25K 5-15-20-60
- Budgeting rule for unexpected income: balance of luxuries and obligations
  - Save or invest at least 50%
  - Spend at most 50%

Retirement age

- 100% of expenses is covered by passive income
- Average age to retirement is 75 years old (SEDPI research 2018 to 2023)
- 45% do not have passive income
- 35% have <10K passive income per month

Ways that people waste money

- Buying too much
- Buying on credit and not paying on time
- Not buying at the right time
- Buying the wrong things
- Going convenience (stores)
- Always going first class

SALN

Statement of Assets Liabilities and Net Worth

SALN

- List of what you have (assets); what you owe (liabilities); and what you own (equity)
- Creates awareness of your financial situation which aids in budgeting and planning

FHC

Financial health check

Financial Health Check

27 – 30 POINTS
Financially Sustainable

21 – 26 POINTS
Financially Secure

< 21 POINTS
Financial Start-Up

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Financial Health Check

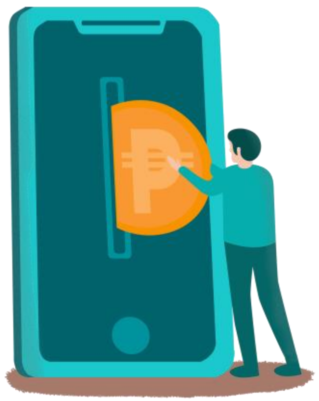
Financial start-up	61%
Financially secure	36%
Financially sustainable	3%
GRAND TOTAL	100%

27 – 30 POINTS
Financially Sustainable

21 – 26 POINTS
Financially Secure

< 21 POINTS
Financial Start-Up

Personal Finance



Diagnostics

Get these figures

SALN

- Cash
- Regular savings
- Time deposit
- Total assets
- Total liabilities
- Total net worth

MIMO

- Monthly active income
- Monthly passive income
- Monthly debt payments
- Monthly expenses

1. Do I have a financial plan?

- Clear purpose of each financial goal
- Financial goals have assigned priorities
- Each financial goal has a budget and time frame when these will be achieved
- The budget items have assigned sources of income
- Action plan in place for each source of income

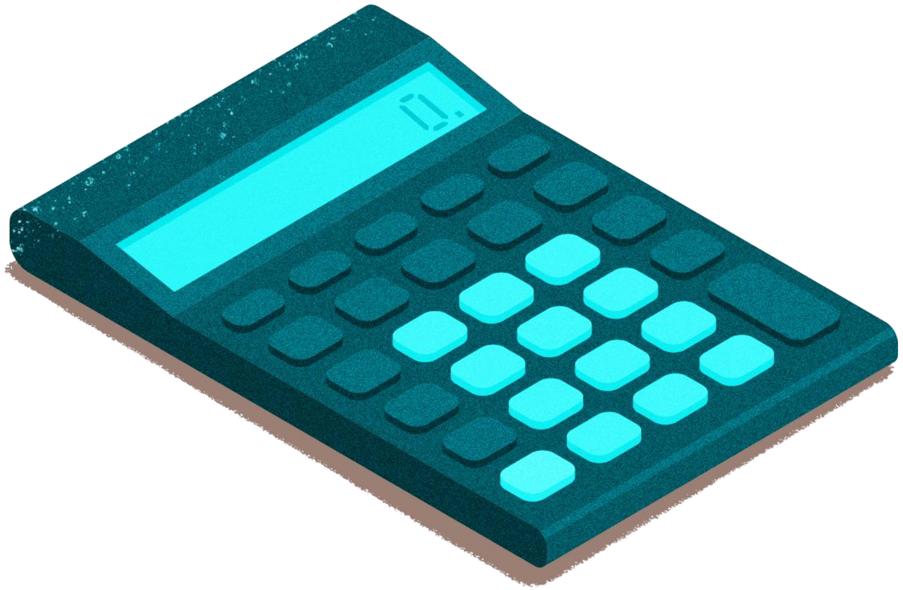
Question	Description	Score
1. Do I have a financial plan?	1 point each for every step of the financial plan	5

2. Does my net worth match its prescribed level given my age?

Assets = Liabilities + Net Worth

What you have		Who really owns it
ASSETS Stuff with you	=	**LIABILITIES** Someone else
		NET WORTH You

Accomplish SALN



Net Worth Estimate Multiplier

Age	Net Worth	Age	Net Worth	Age	Net Worth	Age	Net Worth
21	1	31	14	41	40	51	77
22	2.5	32	17	42	43	52	82
23	3.5	33	19	43	47	53	86
24	5	34	22	44	50	54	91
25	6	35	24	45	54	55	96
26	7	36	26	46	58	56	101
27	8	37	29	47	61	57	106
28	10	38	31	48	65	58	110
29	11	39	35	49	68	59	115
30	12	40	36	50	72	60	120

2. Does my net worth match its prescribed level given my age?

Question	Description	Score
2. Does my net worth match its prescribed level given my age	Advanced net worth	20
	Matched net worth	10
	Behind net worth	0

3. Do I have adequate emergency savings?

- Equivalent to nine months of expenses
- Should be liquid – cash or near cash investments
- Should be touched only in matter of life and death– unexpected, necessary and urgent

Question	Description	Score
3. Do I have adequate emergency savings	> 9 months of expenses	10
	4-9 months of expenses	5
	< 4 months of expenses	0

4. Do I have adequate insurance coverage?

- No dependents
  - Medical insurance equivalent to one year of income
  - Optional: Life insurance (term) equivalent to three years of income
- With dependents
  - Medical insurance equivalent to one year of income
  - Life insurance (term) equivalent to ten years of income

4. Do I have adequate insurance coverage?

Question	Description	Score
4. Do I have adequate insurance coverage?	≥ 100% coverage	10
	50% - 99% coverage	5
	<50% coverage	0

5. Am I not overburdened with debt?

- Solvency (Assets/Liabilities) should be greater than 150%
- Debt service ratio (Monthly debt payments/ Monthly income) should be less than 20%
- Debt used for productive purposes

Question	Description	Score
5. Am I not overburdened with debt?	> 150% solvency ratio ≤ 20% debt service ratio	15
	120% – 150% solvency ratio 21% - 50% debt service ratio	10
	<120% solvency ratio >50% debt service ratio	0

6. Does my budget include insurance, savings, and investments?

Budget Item	Percentage
Insurance premium	5%
Savings	15%
Borrowings OR Investments	20%
Expenses inclusive of tax	60%

- Percentage is based on monthly gross salary
- Focus on increasing income more and follow the budgeting rule

6. Does my budget include insurance, savings, and investments?

Question	Description	Score
6. Does my budget include insurance, savings and investments?	Follows 5-15-20-60 budgeting rule all the time	10
	Striving to follow 5-15-20-60 budgeting rule	5
	Does not follow 5-15-20-60 budgeting rule	0

7. Do I know the value of all my personal assets?

- Based on market value and not acquisition cost
- Assets are earning and appreciating rather than depreciating
- Value of SSS contribution
- Value of company pension or retirement benefit

Question	Description	Score
7. Do I know the value of all my personal assets?	Yes	5
	No	0

8. Does my age match the prescribed financial life stage?

Financial Life Stage	Passive Income Expenses	Suggested Age
Start Up	0%	21-22
Independence	1% to 10%	23-25
Growth	11% to 25%	26-35
	26% to 50%	36-45
Stabilization	51% to 75%	46-55
	76% to 99%	56 - 65
Freedom	> 100%	>65

Passive Income % of Expenses

Age	PI/Exp	Age	PI/Exp	Age	PI/Exp	Age	PI/Exp	Age	PI/Exp
21	0.0%	31	22.0%	41	42.0%	51	65.0%	61	90.0%
22	0.0%	32	24.0%	42	44.0%	52	67.5%	62	92.5%
23	3.0%	33	26.0%	43	46.0%	53	70.0%	63	95.0%
24	6.0%	34	28.0%	44	48.0%	54	72.5%	64	97.5%
25	10.0%	35	30.0%	45	50.0%	55	75.0%	65	100.0%
26	12.0%	36	32.0%	46	52.5%	56	77.5%		
27	14.0%	37	34.0%	47	55.0%	57	80.0%		
28	16.0%	38	36.0%	48	57.5%	58	82.5%		
29	18.0%	39	38.0%	49	60.0%	59	85.0%		
30	20.0%	40	40.0%	50	62.5%	60	87.5%		

8. Does my age match the prescribed financial life stage?

Question	Description	Score
8. Does my age match the prescribed financial life stage?	Advanced financial life stage	20
	Matched financial life stage	10
	Behind in financial life stage	0

9. Have I invested in myself to improve my financial knowledge and skills?

- Attended trainings and seminars
- Read books
- Network with people
- Do business or financial research

Question	Description	Score
9. Have I invested in myself to improve my financial knowledge and skills?	Yes	5
	No	0

Your Score...

Score	Interpretation
96 - 100	Congratulations! You have a very high financial literacy level. You most likely have planned for your retirement and have built as sizeable amount of portfolio that generates passive income for you. You are also able to plan for your future, and use debt to further enrich yourself. Continue with what you are doing and share your financial success.
76 - 95	You have high financial literacy level. Just a little push and a little tweaking and you are on your way to financial success. You most probably have a good portfolio and manage your income and expenses carefully.
51 - 75	You have average financial literacy level. You most probably live from pay check to pay check. You can afford conveniences in life but you use active income to finance these. You may also have been busy prioritizing requests of family members over your own. As a result, you need to work and increase your portfolio to create passive income.

Your Score…

Score	Interpretation
26 - 50	• You have poor financial literacy level. Your financial future may be in danger. You may feel the struggle to make ends meet. • Your main concern is how to cut expenses. At times, you are forced to take a loan just to cover expenses. • You also find it difficult to pay your bills. • You may have experienced a tragedy in your family and was not covered with insurance. • You may also have invested in something that promised high returns but turned out to be a scam. • You may have invested in a business of a friend or family and the business closed. • You're probably a naturalized citizen of your host country oblivious of the first world benefits not knowing that you're 'new' government does the most of your retirement and insurance.

Your Score…

Score	Interpretation
0 - 25	• You have very poor financial literacy level. You may be a financial wreck or may be in the midst of bankruptcy. • Your credit card may be maxed out or your family and friends may not like to extend loans to you. • Your income is not enough to cover your expenses. • You also find it difficult to pay your bills. • At the other extreme, you may still be living with your parents who subsidize your expenses.

ANG PAGYAMAN, NAPAG-AARALAN AT NAPAGTUTULUNGAN