earnest.

A Guide To Your Financial Journey

A personal finance e-book by

Metrobank

The Earnest e-book is a financial learning initiative of Metropolitan Bank & Trust Company (Metrobank). The content provided or made available in the e-book is for informational purposes only. For more information, read the Earnest disclaimer here.

First edition, August 2023

Getting better with money starts here

Welcome to Earnest!

Because you downloaded this e-book you are on your way to putting your financial journey on the right track.

We have seen how much Filipinos now are more aware of the need to get their finances in order. And while we've been providing education and business insights to our customers as part of our mission *(we come from a trusted bank, after all)*, we've observed that a lot of content about money has made its way to various social media channels and the internet, potentially confusing the public.

This is why we decided to create Earnest. This e-book aims to compile a comprehensive and credible body of information about managing your money, so you become financially secure and resilient. *And you sleep better at night*.

A book that grows with you

Earnest is an e-book that adds a new chapter every month with each chapter building on the previous one. So, you get a guide that handholds you as you get better and more comfortable with financial concepts.

Think of the Earnest e-book as your favorite streaming TV show—much like new episodes becoming available to you after a week or so, new chapters are published and made available to you every month. Of course, we will inform you by e-mail when new chapters arrive. But do check The Earnest microsite too, as we provide you with updates, new information, and resources to make learning fun.

We want to hear from you

As you dive into Earnest, we would be happy to hear from you. Let us know what you think about this e-book, or if you have suggestions—your comments are welcome! Drop us an email at earnest@metrobank.com.ph.

Let’s get started.
The Earnest Team | @Metrobank

What's Inside

What's Inside

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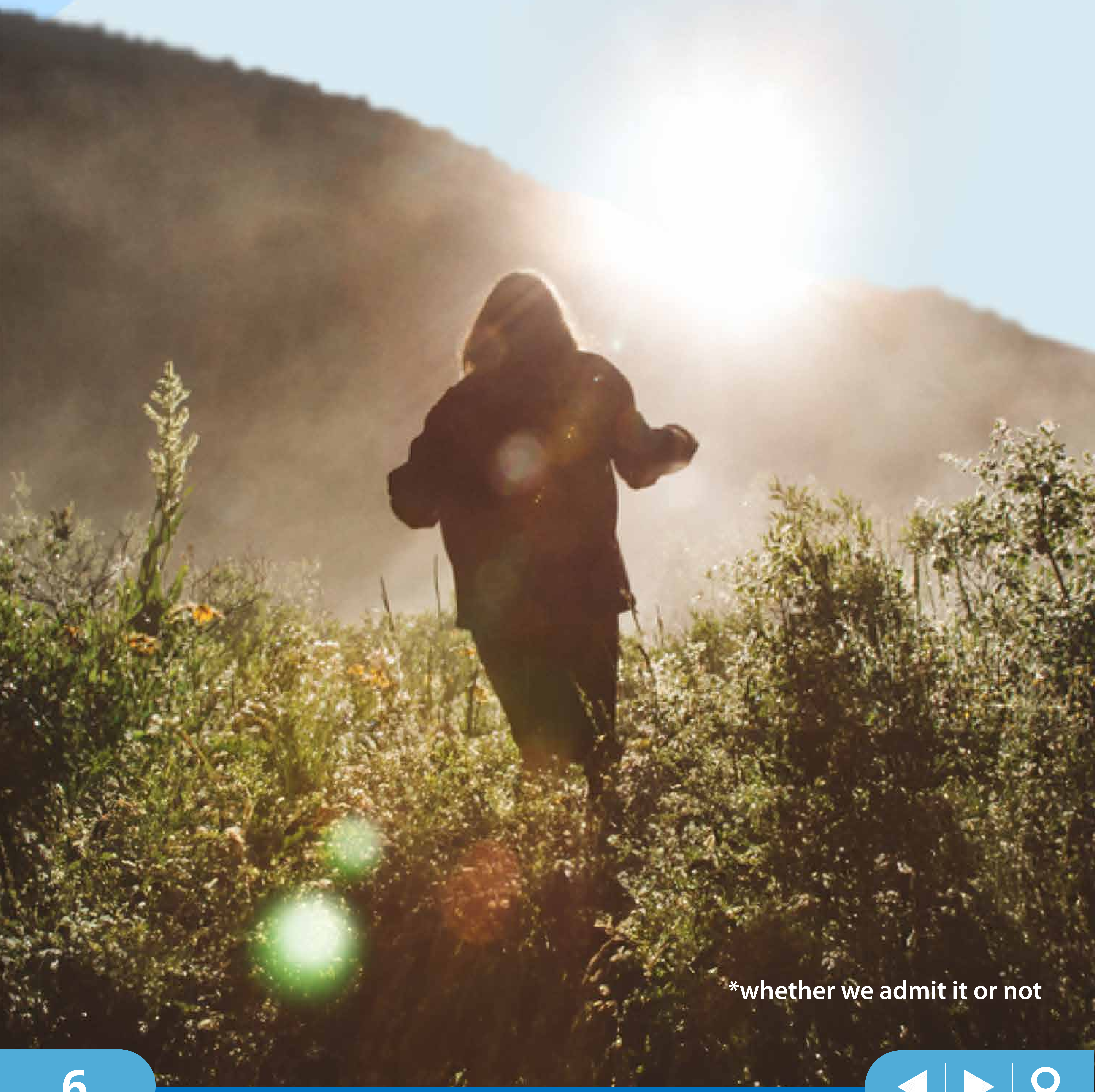
What's Inside

Knowing yourself is
the beginning of all wisdom.

- Aristotle

CHAPTER 1

Managing Money: A Journey We All Take*



*whether we admit it or not

What you will learn from this chapter:

- You're not alone in your money struggles. It starts with knowing
- Bad money habits and the consequences of making poor money decisions
- The influences behind your attitude towards money
- The key areas of financial health

Raise your hand if you can relate: Do you feel frustrated by the ever-growing list of your day-to-day living expenses? Are you stressed every time you have to open your billing statements? When was the last time you looked at your savings, without that feeling of dread?

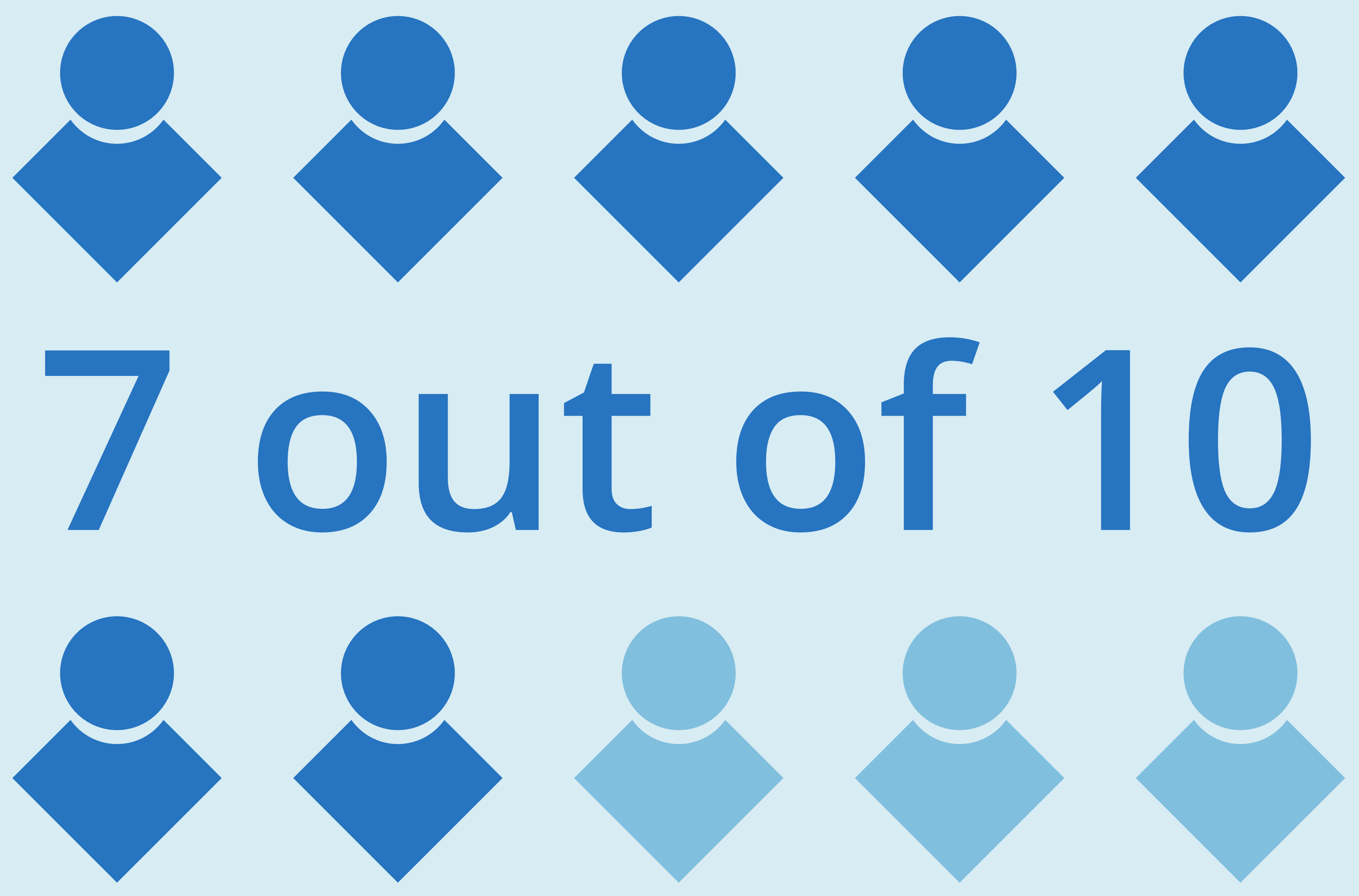
If any of these questions made you feel uneasy, take a step back, and allow us to help you achieve financial wellness. This means having control over your money, making responsible money decisions, and meeting your financial obligations.

FINANCIAL WELLNESS

Financial wellness is your overall emotional state about your financial situation–that is, your money relationship.

Of course, achieving it is not a walk in the park. And you're certainly not alone in your money struggles. As it turns out, it's more common than you think!

A study says 7 in 10 Filipinos continue to struggle with debt, while 55 percent of consumers still have a hard time paying for food and other necessities.



Filipinos are struggling with debt

Source: 70% of Filipinos stressed by debt

On financial security, the numbers are also worrisome. Another study done during the height of the pandemic revealed that only half of Filipino households can cover necessary expenses for two weeks if they lose their income.

5 in 10 Filipino households can only survive for two weeks if they lose their income

Source: Impacts of Covid-19 on Households in ASEAN Countries and Their Implications for Human Capital Development

Based on these numbers, it seems the average Filipino has yet to crack the code when it comes to managing his or her money.

Don’t lose hope! We’ll let you in on a little secret: Financial wellness knows no age, gender, or earning capacity. It’s not only for those who are doing well financially, and it doesn’t have to be a once-in-a-lifetime chance. Just as anyone can start, anyone can also start over.

And don’t worry if you’re not sure where to begin—this is what this e-book is for! Figuring out the steps is part of the journey, and we’re here to guide you all the way.

The Consequence of Being Lost

These are the downsides to making poor money decisions.

We can all agree that achieving financial wellness doesn't happen overnight. It's normal for people to suffer the consequences of their poor money decisions before deciding to act on them. Tell us: Which of these scenarios are you currently experiencing?

You borrowed money and can't pay it back

Are you guilty of treating loans, credit, and other people as a safety net? It's best to change that mindset before it does you more harm than good! If you keep using your credit card or borrowing money to bail yourself out, you're bound to get stuck in a vicious loop of growing debt every month.

You feel helpless during emergencies

You shouldn't be pressured into setting aside the money you may not have. But it's not an excuse to not have emergency funds either; you don't want to be exposed to situations that are hard to bounce back from, such as emergency household expenses, car troubles, or an unexpected trip to the hospital.

> If you keep using your credit card or borrowing money to bail yourself out, you're bound to get stuck in a vicious loop of growing debt every month.

You dip into your emergency fund just to keep up with the expenses

Setting aside funds to keep you going on a rainy day is important. Have a separate fund that covers your utility bills, food, and everyday expenses. Money for expenses and emergency funds are not the same.

You need a regular source of income that gives you peace of mind and stability, while the emergency fund gives you confidence and protection from a crisis.

You haven't saved enough to take a break, leave a job, or retire

Thinking of leaving your job and going on an extended break in La Union or Baler? Make sure you have enough savings to sustain your lifestyle. Your R&R time should recharge your battery, and not drain your wallet. The last thing you want is to worry about the financial burdens of taking time off!

You feel pressured about money all the time

You should strive to get out of living from paycheck to paycheck. Recent events like the pandemic have taught us that money matters are beyond our control. So let's do our best to know what we can control and build discipline when it comes to spending.

If you find yourself in any of these situations, now is the best time to start asking questions about financial wellness.

> “ Money for expenses and emergency funds are not the same; you need a regular source of income that is meant to give peace of mind and stability, while the emergency fund gives you confidence and protection from a crisis.

10 BAD PINOY MONEY HABITS

Don't let these poor money decisions weigh you down.

1

Spending beyond your means just to keep up with others

2

Treating kids as a "retirement plan" or "return on investment"

3

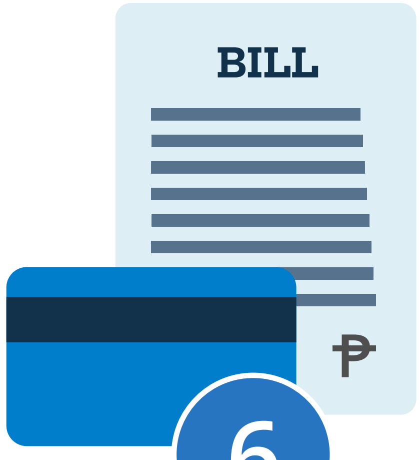
Relying on a family member to be your safety net

4

Waiting on bonuses to pay off a debt

5

Taking on multiple loans all at once



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Paying the minimum on your credit card bill

7

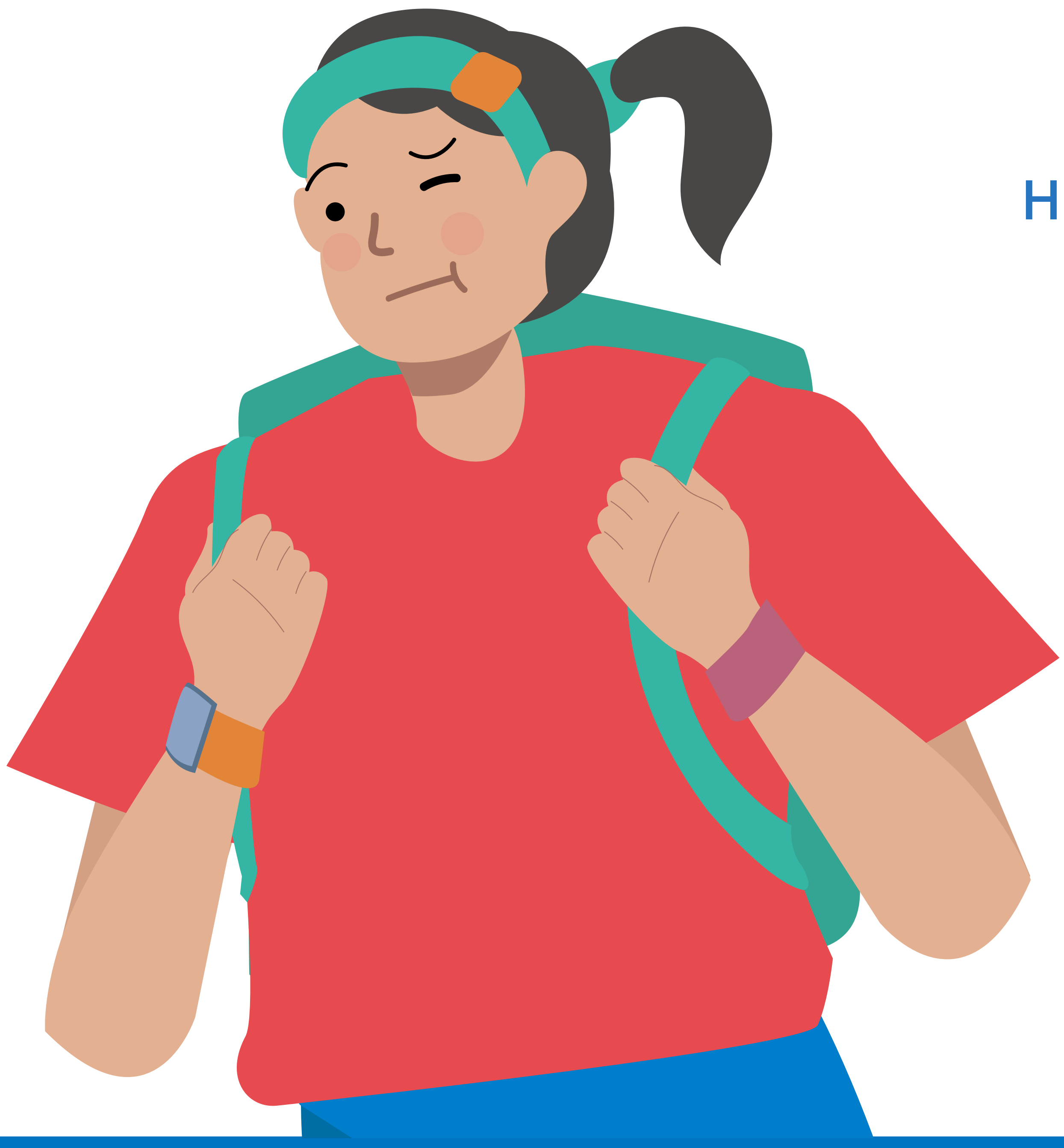
Paying for subscriptions you don't use

8

Keeping all of your money at home

9

Overspending during sales and promos



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Having a *"bahala na"* mindset when it comes to money

It Starts at Home

Everything you know about money is in your environment.

Now that you know the consequences of poor money decisions, the next step is to understand the factors that influence your behavior. Check these items below and see whether any of them ring a bell.

The things you learned from your family

Are you one of those people who belong to a family of big spenders? Are your parents more cautious with their money than others? Wherever you are in the spectrum, some of the money lessons instilled in your mind today were likely taught at an early age. No matter how many times you attend a financial literacy program, if the concepts are not honed, practiced, and encouraged at home, they remain ideas that no one acts on.

The movies, shows, songs, and magazines you love

Whatever you read, watch, or hear has always celebrated the idea of experiencing the finer things in life—from the most beautiful homes to the fanciest gadgets—all of which fuel your desire to spend and flaunt regardless of your financial situation.

Your social media feed knows what you like

Don't be a victim of the algorithm. Your Facebook, Instagram, and TikTok feeds are designed to show things that are likely to interest you, often resulting in FOMO (fear of missing out), a feeling that you "need" a certain kind of lifestyle—even more so when your favorite celebrities and influencers tell you which brands to buy and restaurants to try!

It's the company you keep

Take a good look at the people you spend time with at home, in school, or at work: Do you feel pressured to keep up with what they want to do? Depending on your social circle, when it comes to money, you're either expected to go big or go home.

It's hard to ignore your emotions

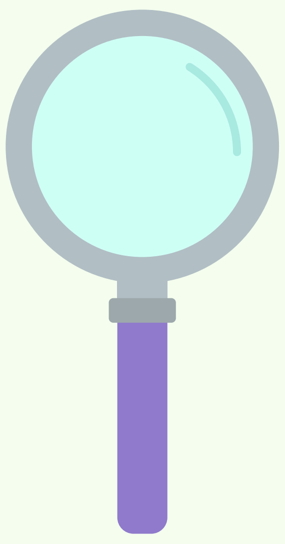
Whether you admit it or not, your spending behavior may also be driven by emotions, such as bringing a childhood dream to life (planning the perfect wedding), celebrating big wins (treating yourself for a job well done), and dealing with bad days (ever heard of retail therapy?).

> No matter how many times you attend a financial literacy program, if the concepts are not honed, practiced, and encouraged at home, they remain ideas without anyone to act on them.

Back to Basics

Spending is not the only thing your money is good for.

Financial health depends on whether you understand how money works in different aspects of your life. You may be wondering: Why am I learning about it just now?



FINANCIAL HEALTH

Your overall financial health hinges on how you manage your money. This includes how you budget (save and spend), how you invest, how you insure your assets, how you plan your retirement, and other financial components in your life.

This is why this e-book is very important; you want to equip yourself with as much knowledge as possible to make informed money decisions and minimize your losses as you learn what works for you. It starts with knowing the key areas of managing your money, which we'll delve into below.

- **Income: The money you're making**
  Your income covers all the money you take in from different sources, from your monthly salary and bonuses to earnings from your side hustles and investments.

- **Expenses: The money you're spending**
  Your expenses pertain to the money that you spend to sustain yourself. Control over how much you spend means you have more money for savings, investments, and insurance.

- **Savings: The money you're setting aside**
  Your savings refers to money from your income or investments that are meant to be set aside for your future. These funds serve their purpose when you encounter both planned and unplanned expenses.

- **Investments: The money you're growing**

  Your investments are acquisitions that entail money, to earn or save for the future. When done right, investing in businesses, stocks, bonds, or other similar money instruments provides a great rate of return, which in turn, can be your retirement fund.

- **Loans and Credits: The money you're borrowing**

  A loan gives you access to a fixed amount of money at the beginning of a specific transaction, such as buying a new home or car. On the other hand, credit allows you access to any amount of loaned money you need at any given time, such as converting your credit card limit to cash. Both are meant to be paid back—plus interest—within a specific period. Interest is the "cost of convenience" for having access to money now than later.

> When done right, investing in businesses, stocks, bonds, or other similar money instruments provides a great rate of return which, in turn, can be your retirement fund.

- **Insurance: The money that protects you and your loved ones**

This is a contract, represented by a policy, meant to protect you and your family from unplanned events in life. These life events can be anything from medical emergencies to catastrophes, and even diseases that can impact your earning ability. Insurance is also used to protect your assets, such as your home, car, and for some, wealth.

- **Retirement: The money you set aside for your golden years**

This is money or funds to help sustain the lifestyle you want when you choose to retire from work or when you are in your senior years. With the rising cost of goods in the Philippines, it is best to supplement your retirement money with other savings and investments. Ultimately, your money can either be used as currency (something that can be spent or saved), or as an asset (something that can help grow your money and build wealth).

THERE'S NO ONE FORMULA FOR FINANCIAL WELLNESS

Below are money lessons from people who learned them the hard way.

DON'T SETTLE FOR ONLY ONE SOURCE OF INCOME.

"I have a day job that pays the bills, but I was only able to grow my money once I started accepting freelance work on the side. It allowed me to invest in a coffee shop. There's no pressure to break even right away since I have other sources of income."
- Creative Director, 36

IT'S OKAY TO TALK TO OTHER PEOPLE ABOUT MONEY.

"It helps to disclose these things to people you trust so that you don't miss out on valuable advice that could help you manage your money better. It helps you make informed decisions."
- Product Marketing Assistant, 26

A BIG SALARY DOES NOT TRANSLATE TO SUCCESS.

"I thought my money problems would go away if only I was earning more. But your lifestyle and responsibilities change over time, and so do your expenses. It's not about how much you're making, but how smart you are with money."
- Social Media Manager, 34

MAKE SURE TO SET ASIDE FUNDS FOR EMERGENCIES.

"If you encounter an emergency that requires money and you're not prepared for it, you're likely to end up deep in debt, which is very hard to recover from. You'll thank yourself later for having an emergency fund."
- Senior Account Executive, 43

START AS EARLY AS YOU CAN.

"This is a lesson that holds especially true now that I'm older. While you're young, build your savings, invest in something you believe in, and don't splurge on things that have no value in your life in the long run."
- Office Manager, 54

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- The average Filipino has yet to crack the code when it comes to managing their money, with 70% of consumers admitting they continue to struggle with debt.
- Bad money habits, such as having a *"bahala na"* mindset when it comes to money, are hurting your chances of achieving financial wellness.
- Those who make poor money decisions are more likely to struggle with debt, have little to no savings, and constantly feel under pressure, among others.
- Whether good or bad, it's likely that your spending behavior is influenced by any or all of these factors: family, media, celebrities and influencers, culture, and emotions.
- The journey to recovery starts with the seven key areas of financial health: income, expenses, savings, investments, loans and credit, insurance, and pension.
- There's no special formula to financial wellness, as evidenced by the money lessons shared by the people we interviewed for this e-book.

READERS' SECTION

How Disciplined Are You With Your Money?

Let's start with an easy one: Encircle all the good money habits that you practice now. Doing so will give you a better perspective of your financial health and help you determine where you're thriving and lacking.

I set aside money for savings regularly	I have little to no credit card debt	Bills and loans are paid on time
I have multiple sources of income	I don't rely on others to pay for expenses	I don't purchase anything on impulse
Income and savings are on track	I do research before a big purchase	I have insurance that covers different aspects of life
I have enough savings to retire or take a break	I rarely deal with unexpected expenses	I don't feel pressured to keep up with others
I don't dip into savings just to get by	I am not easily swayed by sales and promos	I know when to hit "pause" on spending

JOURNAL

What's Your Financial Situation?

Use this space to evaluate yourself and reflect on where you are in your financial journey. There are no right or wrong answers here, so just be as honest as possible!

How is your financial situation right now?

What are the issues that get in the way?

Based on what you've learned, how can you improve your situation?

The lessons from this chapter will prove vital as we move along, so before we proceed, feel free to browse through everything again.

Next up: it's time to get you acquainted with your own financial health and help you determine the current state of your money situation, such as your income, savings, debts, and investments. Congrats on taking the first step!

Alice:
"Would you tell me, please,
which way I ought to go from here?"

The Cheshire Cat:
"That depends a good deal
on where you want to get to."

Alice:
"I don't much care where."

The Cheshire Cat:
"Then it doesn't much matter
which way you go."

- Alice's Adventures in Wonderland
(Lewis Carroll, 1865)

CHAPTER 2

Where are You in Your Financial Journey?

What you will learn from this chapter:

- How the COVID-19 pandemic changed the way Filipinos view financial health
- How to assess your financial health using a simple questionnaire
- Some tips on your next steps towards being financially healthy
- The signs that you're financially healthy

The thing about personal finance is that it's very similar to your physical health. They share these characteristics:

1. You know that you can always do better.
2. You're often unaware of a grave situation until it's too late.
3. There's always a nagging feeling that something is not as it should be.

With all the changes in our country and around the world, Filipinos are more stressed and anxious than ever about their financial situation.

During the COVID-19 pandemic, a study, by the research firm Forrester Consulting, revealed that 70 percent of Filipino consumers struggled with managing their debt.

That same study said 58 percent of Filipinos don't know how to start saving, and 60 percent don't know where to get reliable insights on managing their money. The lack of information and support only contributed to their anxiety.

A Metrobank study also confirmed that Filipinos' financial worries are worse than ever. On the bright side, the effects of the pandemic are motivating Filipinos to act decisively.

WHAT ARE FILIPINOS WORRIED ABOUT NOW?

1 Not having enough savings to help them deal with uncertainty

2 Losing their livelihood or income

3. Looking for other sources of income to cover for loss or reduction of household income

4. Paying off their loans

5. Avoiding illness and having coverage in case they get sick

Source: Market Research, Metrobank. Brand and Consumer Studies, 2022

The good news is that taking care of your financial health makes everything easier. After all, good financial health affords you the things you need for your physical, mental, and emotional well-being.

Recall that financial health hinges on how you manage your money, such as budgeting, investing, securing assets, and other financial components in your life. In turn, financial wellness reflects your overall emotional state.

Some wealthy people experience heavy financial stress, while some low-income folks feel secure and satisfied with where they stand financially. Thus, financial wellness has less to do with how much money you have than with your attitude and capabilities. Can you stick to your budget? Can you handle an unexpected expense? Do you feel overwhelmed, or do you feel inspired when you think about money?

> Financial health is about money; financial wellness is about a person's emotional relationship with that money.

If you're unsure about weathering those unexpected financial challenges, without turning to debt, then your financial health might be at risk. The best thing you can do today is to prioritize improving your financial health.

We struggle with poor financial health, but we're always treating the symptoms instead of the root cause. Instead of focusing all your energy on paying off your *"utang"*, for example, why not avoid borrowing money in the first place?

Checking Your Financial Health

How are you doing financially?

Now that we have defined financial health, let's see how you fared. If you're unsure about proceeding with the questions, put your mind at ease. While the assessment will help evaluate the state of your financial health, it is not the be-all and end-all.

Remember, this is just a starting point from which you can identify the strengths and areas of improvement in your financial health.

With that out of the way, start by reviewing and answering the questionnaire truthfully.

HOW FINANCIALLY HEALTHY ARE YOU?

For each statement below, rate yourself as honestly as possible with the following (1= Not Really, 2= Unsure, 3= A Bit, 4= Absolutely).

How do I feel about...	Rating
My current salary is enough for all my bills and still lets me save money.	
I can afford to keep up with rising prices of goods and services.	
I prioritize spending on what I need instead of what I want.	
I track my spending, so I know exactly where my money goes.	
I have a good relationship with my bank, so I can take out a loan with them.	
If I lose my job, I have 3 to 6 months' worth of savings to live on until I find new work.	
I can manage my debts without worry.	
I won't have to borrow money in case of a medical emergency.	
I have clear financial goals that I want to achieve.	
I have a detailed plan to reach my financial goals.	
I'm earning enough to support the family and still have savings.	
I have a plan to save enough for a comfortable retirement.	
I am aware of my investment options.	
I have a portfolio of investments.	
I have a backup plan in case my investments don't work out.	
Total Rating	

Date taken

To your financial health situation, get your total rating and check how you're doing on the next page.

How did you fare?

Rating	How is Your Financial Health?
53-60	**You're doing well** You've got a clear picture of where your financial health needs to be, and you're taking steps to get there.
45-52	**You're on the right track** If there are no drastic changes in your life, you can live comfortably. If something terrible does happen, chances are you'll get by cutting back on a few expenses.
37-44	**You're ready for growth** You experience the usual financial ups and downs, like most Filipinos.
15-36	**Check-in needed** There are more than a few challenges in your long-term financial situation, which can have you working past retirement age.

Did the results surprise you? Or are you a bit disappointed? Don't worry! This book is here to help you get better results next time.

This assessment is a simple one, inspired by existing financial health tests like this, this, and this one. As we mentioned earlier, this is just a guidepost to see where you stand now, financially. Knowing that will move you along your financial wellness journey and in making better money decisions!

A year from now, please come back to this assessment to check your progress and your appreciation and understanding of budgeting, saving, and investing, compared to when you were at the start of this chapter.

6 COMMON MONEY MYTHS

Avoid falling for these misconceptions.

1 Put all your money in a deposit account

Your money will lose value due to the rising cost of living, so explore investments that help it grow at a rate that outpaces inflation. If you need to hold onto a considerable amount of money, consider spreading it across several bank accounts.

2 Plan for retirement only when you're close to retiring

It's harder to build a nest egg if you put off retirement planning to your later years. The sooner you start, the more ready you'll be for retirement.

3 Making money is the end-all, be-all

We all need money to pay for the essentials of a fulfilling life. Achieving a financially healthy life means money should not control you; you should control money. The pursuit of money should not be the one financial goal that overshadows everything else.

4 Borrowing money is always bad

There is "good debt," and there is "bad debt"–which we will tackle in future chapters of the book. Good debt is money you can borrow to pay for things that increase in value, like a home that can appreciate. An example is your education loan that can improve your skills and as a result, increase your income. So good debt can be considered an investment, and borrowing money is not always bad.

5

Keeping quiet about your poor financial health

Struggling silently is a recipe for conflict, especially if your family depends on you. Don't be ashamed to share your concerns with your loved ones, especially if you need help. With their support and the lessons in this book, you will find your way. Remember, if you don't ask for help, you won't get it.

6

You need to earn more to start saving

If you're not living within your means, you probably can't save. The truth is, if you know how to budget, you can put away some money (regardless of how much you earn). On the other hand, if you explore ways to augment your income, you can earn and save more.

Now that you are more financially self-aware, it's time to move forward in your financial journey.

Figure out Your Next Step

What to do now that you're financially aware?

Your next step varies on the result of your assessment earlier in this chapter.

- If you got **"You're doing well"**, then continue what you're doing, and you'll be fine. Your future retired self will thank you for the steps that you take to achieve financial health.

- You have the right ideas if you got **"You're on the right track"**. All you need to do is turn those ideas into action, by saving, investing, and laying the foundation of your retirement plan.

- You'll get to where you need to go if **"You're ready for growth"** with the right motivation and guidance. Dedicate time and effort to balance your income and expenses so you can move to the next step in your journey.

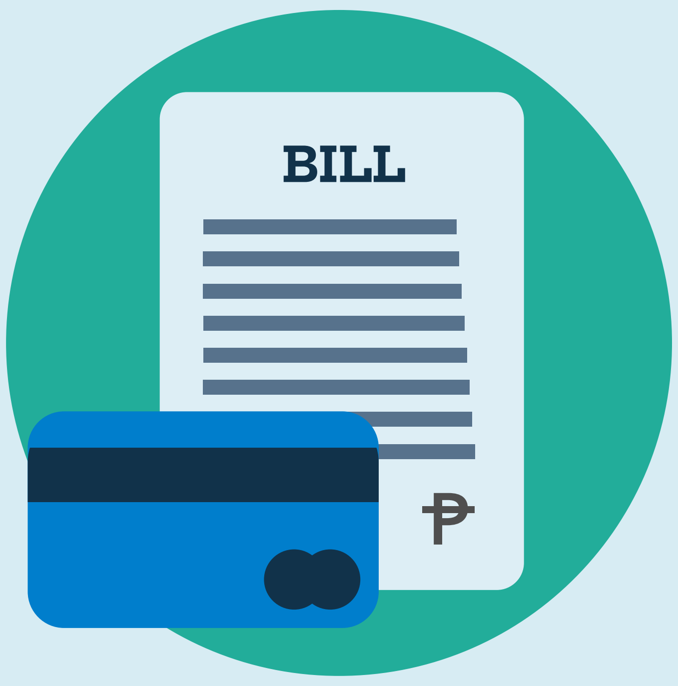
- Don't fret if you got **"Check-in needed"**. Self-awareness is an amazing trait. This should help you understand areas you can improve and act on. The tips provided in this e-book are a good start.

7 KEY SIGNS THAT YOU ARE FINANCIALLY HEALTHY

Let's see if you're ready for the journey to improve your financial health.

You pay your bills on time

A great sign of good financial health is the capability to pay all your bills, on time and in full, to avoid late fees and paying unnecessary interests. No need to pay before your due date unless you can earn points or rebates by paying ahead of schedule.



You have an emergency fund

This fund should cover 3 to 6 months of your average monthly expenses, if you don't have any dependents, and up to 2 years' worth of expenses if you have a family. Don't limit yourself to 6 months if you need more time for preparation. But don't put off raising your emergency fund, since you never know when you'll need it.

Your loans are manageable

Sure, you've taken loans, but they are for a business, a house, a car, investments, or other needs. Besides, you have a timeline for when you finish paying off each loan.

You save and budget money for important investments

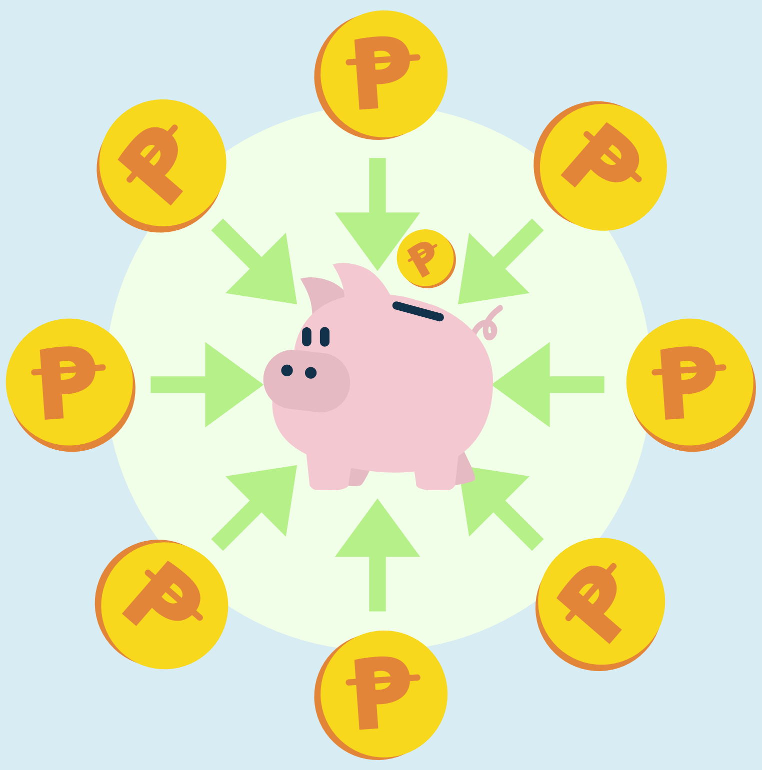
Set aside money for important purchases and investments like a house, a car, or the education of your (future) child.

You have a healthy spread of investments

Diversify and avoid investing in just one stock or fund. Not putting all your eggs in one basket minimizes your risk. Seizing opportunities that produce more eggs is better!

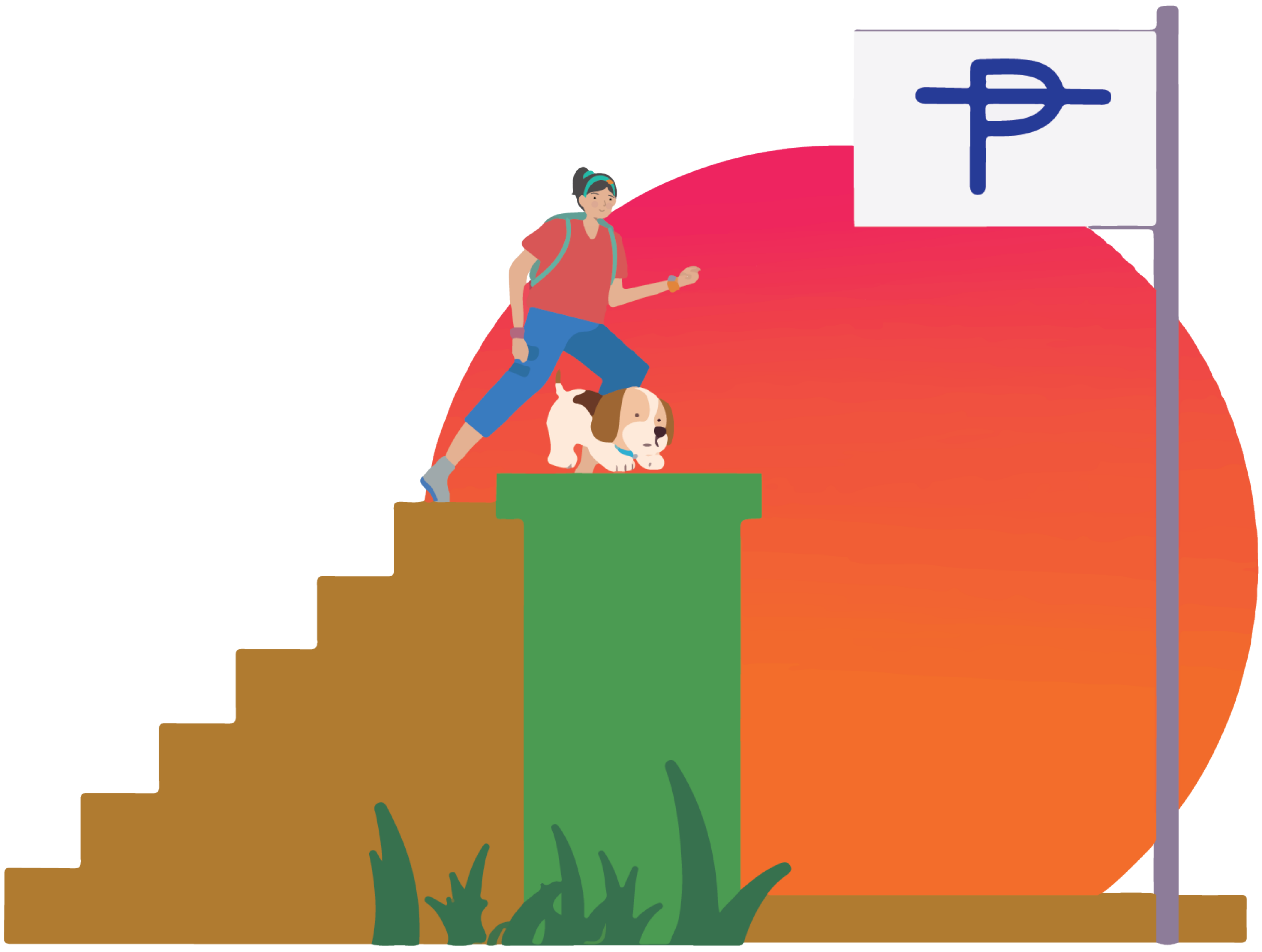
You have more than one source of income (ideally)

Having another source of income gives you a leg up in reaching your financial goals! This can be a side hustle, a small business, earnings from investments, or a rental property.



You bought insurance for you and your loved ones

Insurance prevents you from dipping into your savings during a critical illness that results in massive medical bills. It also makes sense to buy insurance for your home, car, and your business, especially when losing any of these will result in financial burden and stress.



Onwards to Your Financial Health Goal

Keep your eyes on the prize and your feet on the ground.

The first step is always the hardest and often the most important. Those things don't make the next stage any less crucial, especially if your goal is to improve your financial health. The road may not always be easy, but with the right tools and mindset, you'll get there eventually.

These steps will be discussed in more detail in the next chapters.

However, it would be helpful to identify them here so your financial journey will be easier. As always, remember that there's no one-size-fits-all solution for financial health.

1. Set your own financial goals before starting. These serve as guideposts to lead the way towards financial health.

2. Track your expenses so that you know where your money goes. This will also help identify which expenses you can cut to increase your savings or investments.

3. Learn how to maximize your loans. Pay them on time and in full.

4. Build an emergency fund that is readily accessible, preferably some of it in cash and most of it in a savings account.

5. Get insurance that fits your needs so you can be prepared for the worst.

6. Start investing!

Shortcut

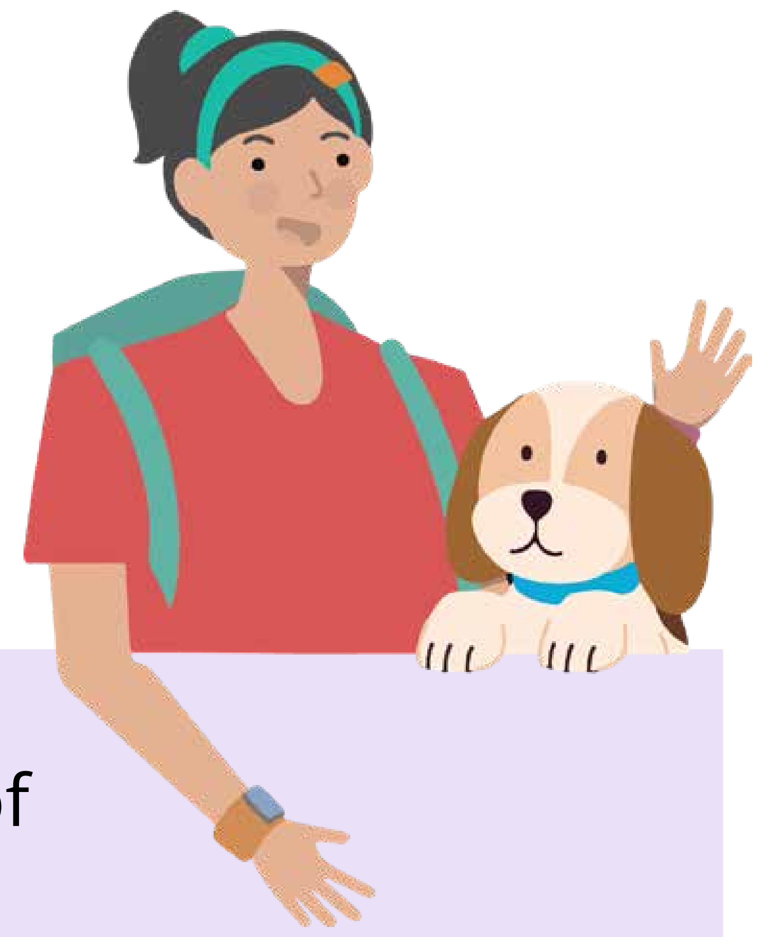
HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Knowing your financial health is a good starting point in setting your financial goals.
- Now that you are aware of some misconceptions about money, you can avoid falling into bad money traps.
- Having answered the **financial health questionnaire**, you know how to set your financial goals.
- Signs of good financial health include the capacity to pay bills on time, pay loans in full, set aside money for an emergency fund, plan for retirement, augment your income, insure yourself and your loved ones, and of course, invest.

READERS' SECTION

Here's Your Financial Health Checklist

Let's make your journey towards financial health easier to track with this simple checklist of things you can start working on now! This can also help you visualize your direction.



- [ ] Feel financially secure, even in the face of unexpected expenses
- [ ] Have a set of clear financial goals
- [ ] Pay all loans on time
- [ ] Have an emergency fund that covers 3 to 6 months' worth of expenses if you're single, and up to 2 years if you're the family's breadwinner
- [ ] Have insurance for you, your loved one's health protection, and your assets like your home, car, and business
- [ ] Have more than one stream of income
- [ ] Set aside money for a down payment for a house, a car, or further education
- [ ] Have a broad set of investments (stocks, bonds, and mutual funds)
- [ ] Start exploring your retirement options
- [ ] Start or invest in a business on the side

JOURNAL

Making Sense of Your Current Financial Health

Let's reflect on what you have learned so far in your financial journey. Don't worry, there are no right or wrong answers here, so answer truthfully.

What most surprised you when you evaluated your financial health?

Can you identify the areas of improvement when it comes to your finances? List them here.

What portion of the financial wellness journey are you most excited to start?

Now that you have an idea of your current financial health and the things you can improve to achieve financial wellness, you can learn to set financial goals and budget in the next chapter.

Take heart in knowing your areas of improvement financially is already half the battle. The other half is acting on your insights in this the next chapters.

Good luck! You’re well on your way to being financially healthy! Watch out for the next chapters of Earnest coming to your inbox.

The person who journeys aimlessly will have labored in vain.

– Mark the Monk

CHAPTER 3

Your Journey Starts with a Budget

What you will learn from this chapter:

- What is a budget and why do you need one?
- What are the considerations and principles of budgeting?
- What budgeting strategy fits you
- Get started with a budget

W*ala sa budget* is something you may have heard as a child when you asked your mom or dad for that new toy or the latest sneakers that most kids had. You may have been disappointed and have come to dislike those words, because you saw them getting in the way of what you wanted.

That budget and your parents' determination to stick to it allowed them to meet their financial goals for you and your family. Sticking to the budget meant that they were able to continue to put a roof over your head, provide food on the table, pay the bills, and set you up for a better life.

What is a budget? Simply put, a budget is like a map showing your total income and total expenses incurred over a period, say a month or a year. It lets you see where your money is coming from, where it is going based on how much is lacking, how much is in excess, and how you plan to spend. Having a budget also helps you set your short, mid, and long-term goals and how you can work towards them. It also serves as a building block to good financial health.

BUDGET

A budget is a spending plan that defines how much of your income is allocated towards expenses, savings, and investments over time.

By budgeting and sticking to it, you will find it easier to pay bills on time, build an emergency fund, and save for major expenses, such as a car or a home. Budgeting is an important life skill that can help you get better at managing money.

Key Principles in Budgeting

WHAT FACTORS TO CONSIDER.

Before you jump into learning how to budget, there are several principles that you must consider.

First, there is the cost of living. Filipinos, particularly those living in the National Capital Region, deal with one of the highest costs of living in Southeast Asia, while also having one of the lowest average incomes.

Government data in 2021 shows that the average annual income of a Filipino family in Metro Manila stands at just over PHP 417,000.00 or less than PHP 35,000 per month. While this may be enough to cover the daily expenses of a small family, there is often little left for savings and investments.

It is far below PHP 110,000, the average monthly income that another study found Filipino families need to be "happy." While money alone cannot buy you happiness, it is easier to be happy when you do not have to stress about having enough money for food or for paying bills.

The cost of living can vary, depending on where you live. Living in large cities often means greater economic opportunities and salaries, with higher corresponding costs. On the other hand, people who live in the province have lower costs of living, though earnings also tend to be smaller.

> Living in large cities often means greater economic opportunities and salaries, with corresponding costs.

The Cost of Living in the Philippines

Here is a snapshot of how much it costs monthly to live in major Philippine cities

	Single	Family of four
Makati	PHP 34,471.55	PHP 120,679.78
Manila	PHP 29,802.24	PHP 104,263.82
Quezon City	PHP 32,744.09	PHP 107,785.39
Cebu	PHP 28,016.46	PHP 98,730.84
Davao	PHP 30,569.08	PHP 107,553.08

Source: Numbeo: Cost of Living

While budgeting can be extra challenging for those with lower or *sakto lang* income, it is still doable. If you budget smartly, it can help guide your everyday decisions towards good financial health.

Second, consider your personal goals and situation. If you are single, now may be the best time to build your savings and investments. Are you married and with dependents? Look at the company benefits that are available to you and take the time to see how you can maximize them.

Are you also sending money back to your parents to help them make ends meet? Do you have something big planned on the horizon? Are you saving up for a wedding? A home? A car? Do you need to take that trip abroad this year, or can it wait?

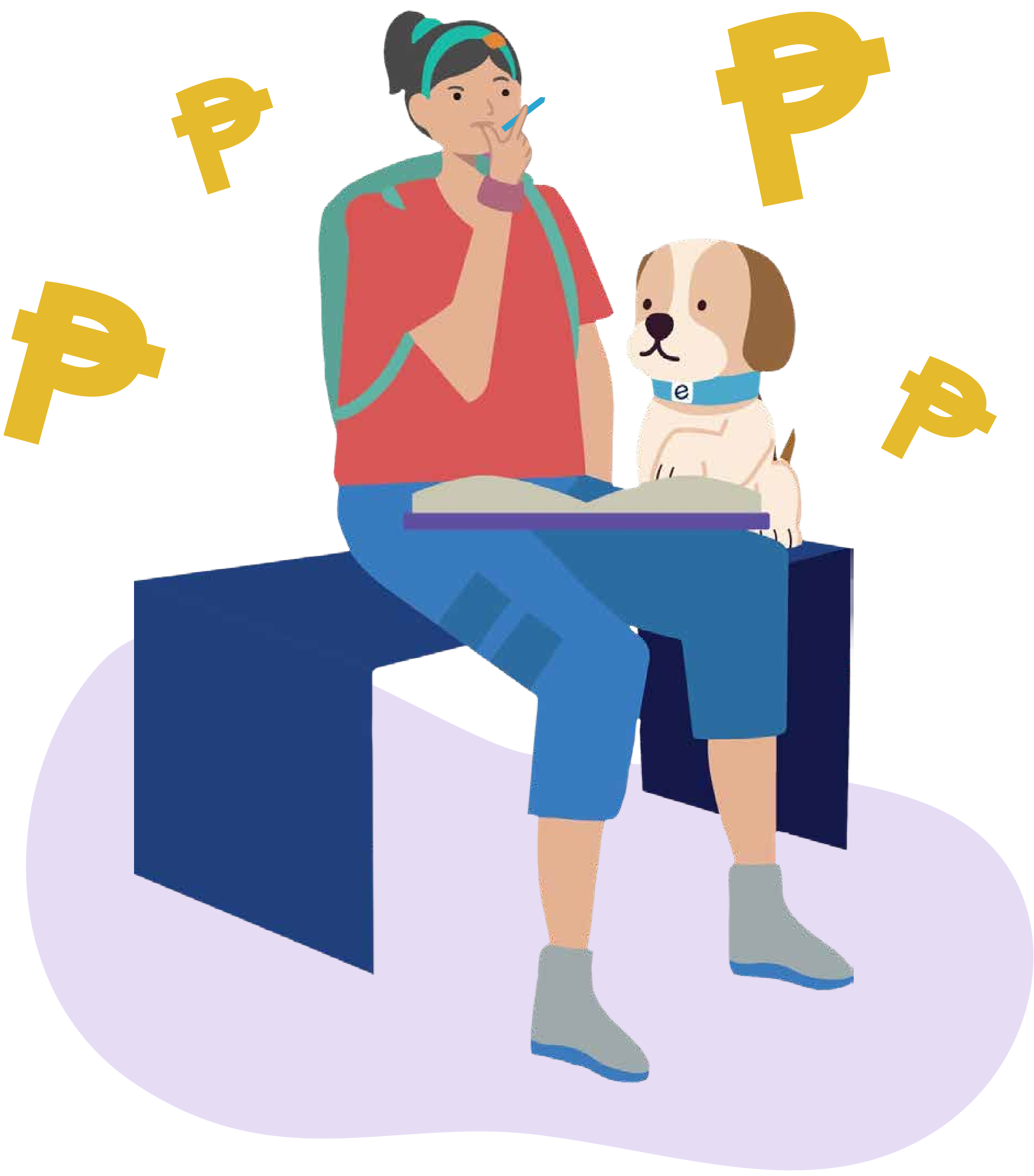
Third, think of how much time you need to save for the important things, while still being able to pay for your essentials, regular expenses, and bills. A sense of urgency is necessary to craft a proper budget so you can keep things realistic.

Lastly, have the mindset and determination to stick to your budget and get your house in order. While we cannot control things like the increasing cost of goods and services, and the wage market, we can control what we do with the money we have.

Living within your means is a matter of discipline and having the will to cut back on unnecessary spending by saying no to invitations or looking away from temptation.

Does your colleague have the latest gadget? Feel happy for them but remember what you are saving up for and be content with what you already have. If you feel left out whenever your friends go to a fancy café for coffee breaks, you can still join them while bringing your tumbler of delicious home-brewed coffee.

Remember, good friends will support your desire for better financial health and will respect you for saying *“wala sa budget.”*



Get Started with Your Budget

DEFINE YOUR GOALS FIRST.

A study shows that around 40 percent of Filipinos do not consciously plan their budgets because of low awareness of basic personal finance concepts, which makes budgeting more difficult to go into.

First, you should get rid of the fear that budgeting is too difficult to do, or that you need to understand math or have a finance background to do it. For all you know, you may have been budgeting since your first allowance or baon as a child.

You may not have a spreadsheet or a well-defined plan then, but when you made decisions about how much of your baon would go to your lunch, your snack, or after-school treat, and if you wanted to save a little each day for the weekend– you were budgeting.

Now that you are an adult with bigger decisions to make than buying a snack after class, it is time to sit down and look at how much you have, and make it work, so you can live the life you aspire to have.

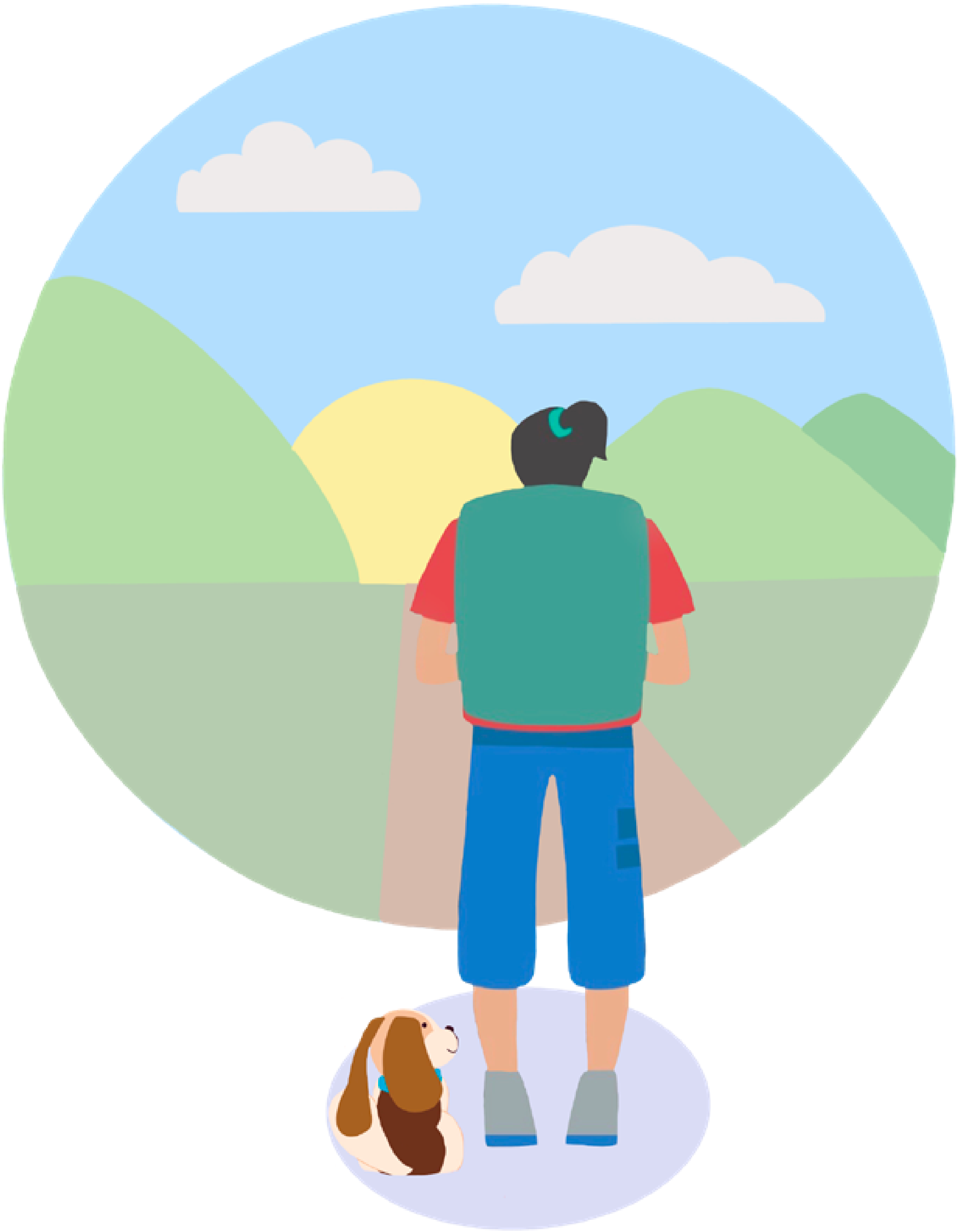
Start with the end in mind: Know your goals.

Ask yourself: Where do you want to be? Do you want to get out of debt? Do you want to have an

“X amount” of savings by the end of the year? Do you want to start your own business?

Remember, your goals are valid, whatever they may be. What you want out of life may not be the same as others, so do not worry if your journey looks different from everyone else’s.

To keep yourself from being overwhelmed, keep your goals simple, easy to do, and realistic. Take the baby steps you need now so you can set yourself up for giant leaps in the future.



Budget Baby Steps:
Little Things You Can Do Now

Ready your pen and paper and list down these steps to begin walking.

1

Define needs and wants and keep them separate

Your needs are things you cannot live without, or they are also called your essentials. Wants are the things that are nice to have but will be fine to live without or labelled as non-essentials.

2

Track spending versus income

Note your income–which includes your monthly paycheck, your earnings from a side hustle, an investment, or from regular remittances sent by a relative abroad–for the month, then subtract every expense you make. This will show the money you have left, so you do not end up overspending.

3

Define your "livable"monthly expenses

This is the amount that lets you stay on top of your spending, enjoy life, and sleep at night, while still being able to save.

4

Decide your priorities

Understand what you want for yourself now and in the future. But focus on your needs first. This helps you decide how much money goes towards savings and investments.

5

Allocate money for essential expenses

Set aside funds to pay off periodic expenses regularly and on time. Treat the amount of money distributed for essential expenses as untouchable or as if you have never had it in the first place, so you can have a view of what is left to spend, save, or invest.

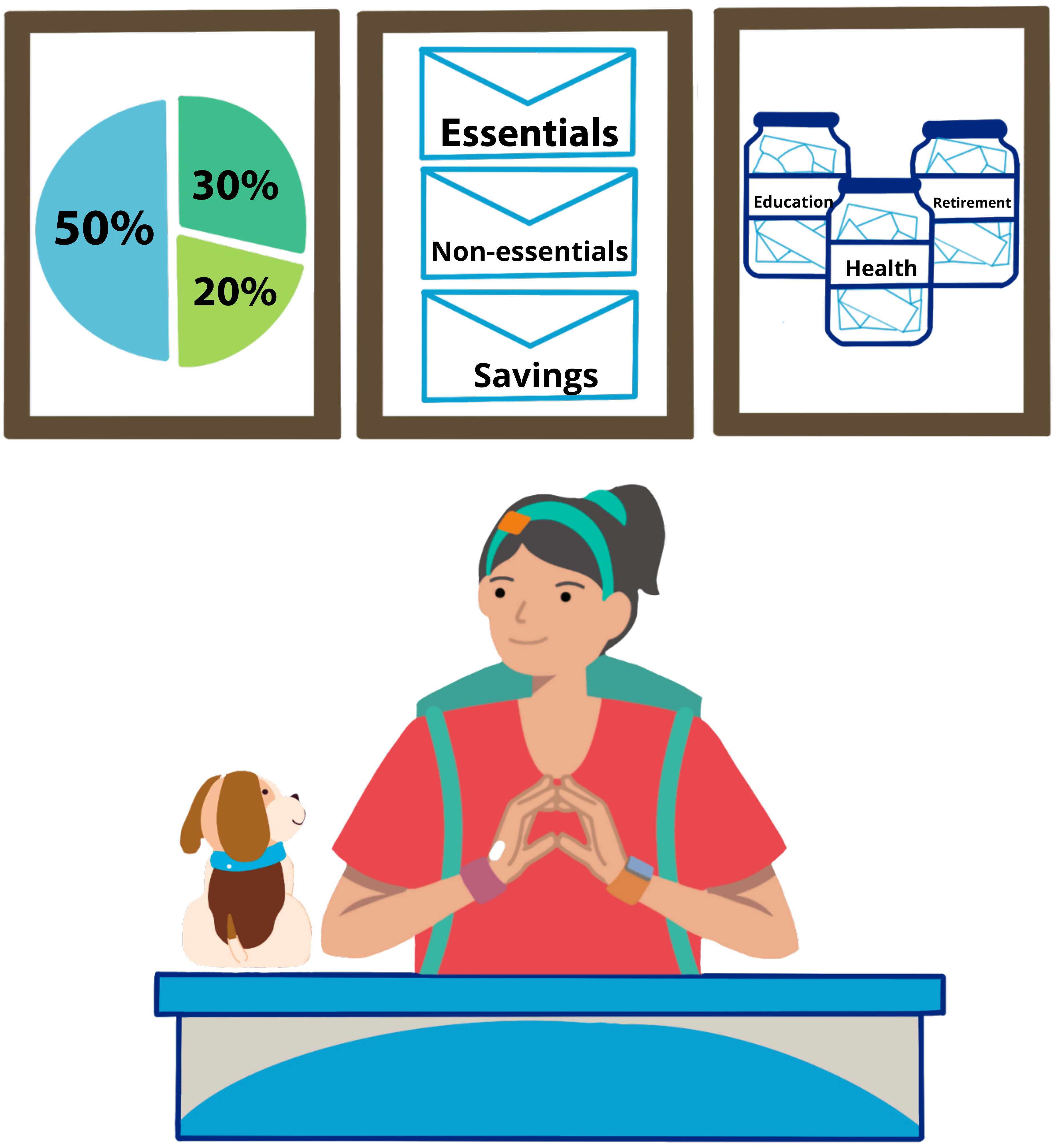
6

Allocate money for having fun

This money goes to your "me time" activities like a trip to a beauty salon, a road trip to the nearest beach, or a regular Friday night out with friends. Some people call this "fun money" which affords you simple joys that make you a happier and better person.

If you find that there is little or no money left for savings after summing up your expenses, look at your list of "wants" and rank them in order of importance. Take out those you can do without for the meantime and convert those expenses into savings.

And yes, have a budget for having fun (some call this "fun money"). Budgeting is very much like dieting–it is hard, and sacrifices must be made. But if you deprive yourself too much, there might be a bigger chance that you will find yourself cracking and so, binge spending. Remember, there is always a way to "save without missing out" or SWOMO. So treat yourself, and live within your means. The future you will thank you.



The Different Types of Budgeting

KNOW WHICH BUDGET WORKS FOR YOU.

Everybody's financial and family situations are different. There is no one-size-fits-all budget. To help you find one that works for you, here are some popular methods and approaches to budgeting.

1. 50-30-20 Budget

What is it? This method follows a 50-30-20 rule, where 50 percent of your monthly income goes to essential expenses (i.e., rent, transportation, food, and bills), 30 percent to wants or non-essential expenses (i.e., entertainment fund, unplanned trips, designer clothes), and 20 percent to savings and investments.

Who is it for? If you have disposable income and want to start a healthy savingsor investment fund, this budget scheme is for you.

Pros and cons: This method may work if you have a high income but may be very tight for Filipino households with incomes on the lower end of the economic scale. The allocations for this budget can be flexible and can be stretched to 60-20-20. If it does not fit your lifestyle, you can try 70-20-10, where 70 percent goes to essential expenses, 20 percent to savings and investments, and 10 percent to non-essentials or “fun money.”

2. The Cash Envelope Budget

What is it? This method uses the cash envelope system, which means you withdraw cash for your expenses when you get your paycheck. You then put cash into envelopes labeled for necessities like groceries and gas, fun money, or even charity.

Who is it for? If you are just starting to budget.

Pros and cons: This method prevents you from overspending and forces you into serious tipid mode. Once your envelopes are empty, you are forced to stop spending. This method will require withdrawing cash from your bank, and it can be more tempting to spend cash when it is in hand.

3. Reverse Budgeting

What is it? This method forces you to set aside money for savings before you even distribute some for paying bills and other expenses.

Who is it for? If you have enough disposable income, but still have trouble saving.

Pros and cons: This method allows you to prioritize saving and work your way towards investing and achieving good financial health. This, however, requires extra discipline in spending.

4. The Values-Based Budget

What is it? This method is all about spending money on things that matter to you and doing away with things that are not your priority.

Who is it for? If you want a budget that lets you live the life you want, this budget is for you. This method fits people with clear financial goals like allocating funds for your kid's education.

Pros and cons: This method allows you to pay for your basic living expenses and financial obligations but requires discipline in setting aside an amount for your children's education, a down payment for a new car, or a big family trip. Meanwhile, you cut down on your daily coffee latte or premium subscriptions, which does not bring long-term value to you.

5. The No-Spending Budget

What is it? This method prioritizes settling your bills first, then saving what is left. You are not spending it on anything else.

Who is it for? If you are short on funds or saving for a big purchase.

Pros and cons: This method is a good idea if you are saving for a big purchase or need to get out of debt. However, it is not something you can do for a prolonged period because there will be times where you need to spend extra for emergencies or any other unplanned expenses.

6. The Survival Budget

What is it? This method is the extreme version of the no-spending budget. You subtract essential monthly expenses from your income and reduce costs wherever you can. Whatever is left can be distributed for next month's expenses, paying off debts or saving.

Who is it for? If you are in financial difficulty or are barely making ends meet.

Pros and cons: This method forces you to learn to live on even less than your usual costs. This means taking out unnecessary costs, buying cheaper options, and even cutting back on some necessities. There will be no spending on fun for this budget.

7. The "No-Budget" Budget

What is it? This method is where you pay bills, save money, and spend the rest of the cash however you want.

Who is it for? If you are not in the habit of setting a budget.

Pros and cons: This method is simple to do, but it has no clearly defined allocation for savings or investment goals.

Now that you have an idea about the several types of budgeting, you need to ask yourself these questions in choosing how to budget:

1. Is the method simple and doable enough for you to stick to?
2. Is the method compatible with your lifestyle and income level?
3. Can this method help fulfill your financial goals?

If you find that the budget method you first chose is not really working out for you, it is OK.

Try a few of them before you find the one that is right for you. You can even produce a hybrid or customized one to suit your financial situation and needs. But before you jump into one of the various budget methods, let us look at the parts of a budget.

There are several budget templates you can find online, but all share common elements like a view of your total income, your expenses broken down into various categories, and the money left if you subtract your expenses from your income.

The Anatomy of a Personal Budget

This illustration shows you the various parts of a personal budget.

A. Income	D. Budget	Actual	Difference
Take-home pay			
Partner's income			
Other incomes			
Total income:			

B. Expenses: Essentials	Budget	Actual	Difference
Home rent (or mortgage)			
Utilities			
Grocery and *palengke*			
Expenses: Non-essentials	**Budget**	**Actual**	**Difference**
Shopping (beyond basics)			
Regular vacation or travel			
Gadget upgrades			
Total expenses:			

C. Savings & Investments	Budget	Actual	Difference
Emergency Fund			
Financial Products			
Personal goals			
Savings Account			
Total savings & investments			

A Money that comes in. Essentially, all your income streams.

B Money that is spent. These are items that use up money.

C Money that is stored or put away to grow. In this section, money is not spent but rather treated as an asset that can give back returns.

D Money that was planned to be spent, how much was actually spent, and the difference between the two.

This illustration shows you what a budget is made of. Now, you need to fill in the details of each part. We suggest putting in only your net take-home pay and taking out taxes and other mandatory deductions in your computation.

Meanwhile, put in all your expenses, separating the essentials (needs) from the non-essentials (wants). Expenses should be less than your income for you to have funds left over for savings, investments, and emergencies. In other words, looking at the example, “A” (income) minus “B” (expenses) should be equal to “C”.

If your expenses are equal to or more than your income, you need to cut back on some of your non-essentials before even considering touching your essentials. The other solution is to increase your income by creating new income streams.

Here are more details of each part organized and explained.

A **Income:** This is the part of the budget plan where you enter all your sources of income, including your monthly take-home pay, your partner's income (if available), and other income sources from your business, investments, remittances from abroad, and side hustles. Total monthly income is equal to the sum of all income sources after taxes.

B **Expenses:** There are two types of expenses—essentials and non-essentials.

Essential expenses consist of spending on your necessities or basic "needs". These include your home rental costs (if you are renting), mortgage payments (if you are paying for your home loan), utilities, groceries, household maintenance costs, cable, internet, and mobile phone expenses, and other necessary costs to cover your basic needs. Transportation cost also falls under this category, which includes car loan and insurance payments, repair and maintenance, and toll fees. If you commute, you must include that, too. Education costs, like tuition and supplies, are considered essential expenses, along with health insurance premiums, medicines, and out-of-pocket doctor's visit fees. Personal grooming and work-related clothing fall under this category. Credit card debt and personal loans, if you have these become essential expenses, as well.

MORTGAGE

Mortgage, also known as amortization, is a type of loan where a borrower agrees to repay a lender in regular schedules.

Meanwhile, non-essentials are expenses that are considered as "wants." This is where dining out or food take out expenses, shopping for luxury items and entertainment are added. Upgrades from your usual essential expenses, such as a visit to a premium beauty salon, a spa, or a family vacation abroad also fall under this expense category.

C **Savings and Investments:** This is the section where money is treated as an asset, rather than currency that is spent. When saving, ensure that you have your emergency fund fully funded. You also want to save for personal goals or store cash in interest-bearing accounts as an added protection against inflation. Items under investing include investment products like UITFs, mutual funds, time deposits, and other financial products offered by a bank, financial institution, or even the government, that provides returns or kita sa *puhunan mo*. We will cover details about investment products in a later chapter.

D **Budget, Actual, and Difference:** This is the part of the budget where you enter how much you plan to spend or allocate per line item (Budget), how much you spent (Actual), and the difference between the two.

The "Difference" is simply the result of subtracting the "Actual" from the

"Budget" values of each line item.

Why is the difference important? Because it tells you if you are overspending on a line item (if the difference is negative) or underspending (if the difference is positive). The difference will tell you if your budget needs to be adjusted or if your spending behavior is the one that needs to be corrected.

To help you get started, here are two real-life examples on how to budget.

- An individual income earner who has a PHP 35,000 net monthly take-home pay
- A dual-income family with two kids and with a net household income of PHP 110,000

Individual Income Earner: Noelle, 29, female

Noelle is an office employee who makes PHP 35,000 after taxes and other deductions. She shares the rent and utilities on an apartment that is just a short train ride to her office with two friends. Her company pays for her phone bill and provides good healthcare insurance. She also sends a small allowance to help support her parents in the province.

As a young woman with a steady monthly income, good company benefits, no debts, and reasonable recurring expenses, she is an ideal fit for the 50-30-20 rule that can help set her up for a financially healthy future.

Income	**Budget**	**Actual**	**Difference**
Noelle's Monthly take-home pay	₱35,000	₱35,000	₱0
Total income	₱35,000	₱35,000	₱0

50%

Essential Expenses	**Budget**	**Actual**	**Difference**
Rent (1/3 share of PHP 20,000)	₱6,667	₱6,667	₱0
Utilities (power, water, internet)	2,000	1,895	105
• Groceries and household supplies • Cafeteria meals • Other food expenses	5,833	6,800	-967
Transportation (MRT, Grab, taxi)	3,000	3,200	-200
Total essential expenses	₱17,500	₱18,562	-₱1,062

30%

Non-essential Expenses	**Budget**	**Actual**	**Difference**
• Shopping (luxury items) • Entertainment (subscription, recreation) • Personal costs (beauty salon, gifts) • Dining out and food delivery	₱8,000	₱7,500	₱500
Aid for parents	2,500	2,500	0
Total non-essential expenses	₱10,500	₱10,000	₱500

Total expenses	₱28,000	₱28,562	-₱562

Savings and Investments	Budget	Actual	Difference
Savings for big purchases/vacations	₱2,000	₱2,000	₱0
Savings for investments (Time deposit, high interest-bearing account, mutual funds)	2,000	2,000	0
Emergency fund	3,000	2,438	-₱562
Total savings & investments	₱7,000	₱6,438	-₱562

20%

NOTE: The percentages show the proportions of your budget allocation.

While Noelle stays reasonably within budget, she finds that she often spends more than she plans to on groceries and transportation. She tries to balance it out by spending less on what she wants. On months like this, she has a little less to put into her emergency fund.

Dual-income couple with kids: Gino, 32, male and Carla, 31, female

Gino and Carla are both managerial employees who jointly take home around PHP 110,000 after taxes and deductions. They are parents to four-year-old Angie and two-year-old Mia.

Their employers provide good healthcare coverage for each of them and their dependents. They can avail themselves of favorable rates for their home and car loan payments through their company benefits.

While their household income meets the “happy” amount for Filipinos, having two dependents means that their expenses are also much higher.

In addition to their individual needs and goals, they must prioritize the present and future well-being of their young children.

With a household of five–including the house help–the budget share of their essential expenses is much higher. Rather than following the ideal 50-30-20 budget, it must be adjusted to 80-15-5, with 5 percent of their income left for savings and emergencies.

Income	Budget	Actual	Difference
Gino's monthly take-home pay	₱60,000	₱60,000	₱0
Carla's monthly take-home pay	₱50,000	₱50,000	₱0
Total income	₱110,000	₱110,000	

80%

Essential Expenses	Budget	Actual	Difference
Home mortgage	₱28,000	₱28,000	₱0
Utilities (power, water, internet, mobile phone)	8,000	7,800	200
Groceries and household supplies	10,000	11,200	-1,200
Transportation and gas	8,000	8,200	-200
Auto loan payments	12,000	12,000	0
Education (pre-school tuition fee)	7,500	7,500	0
Children's clothes and basic shopping	2,000	1,750	250
• Healthcare (Medicine prescriptions, health and life insurance premiums, regular medical expenses -dental, doctor visits, eyewear) • Personal hygiene and grooming	5,000	4,500	500
Childcare (house help's salary)	7,500	7,500	0
Total essential expenses	₱88,000	₱88,450	-₱450

15%

Non-essential Expenses	Budget	Actual	Difference
• Shopping (luxury items) • Entertainment (subscription, recreation dining out, vacation) • Personal costs (beauty salon, gifts)	₱16,500	₱16,250	₱250
Total non-essential expenses	₱16,500	₱16,250	₱250

Total expenses	₱104,500	₱104,700	-₱200

Savings and Investments	Budget	Actual	Difference
5% Long-term savings (Time Deposit, high interest-bearing account)	₱2,500	₱2,500	₱0
Emergency fund	3,000	2,800	-200
Total savings & investments	₱5,500	₱5,300	-₱200

NOTE: The percentages show the proportions of your budget allocation.

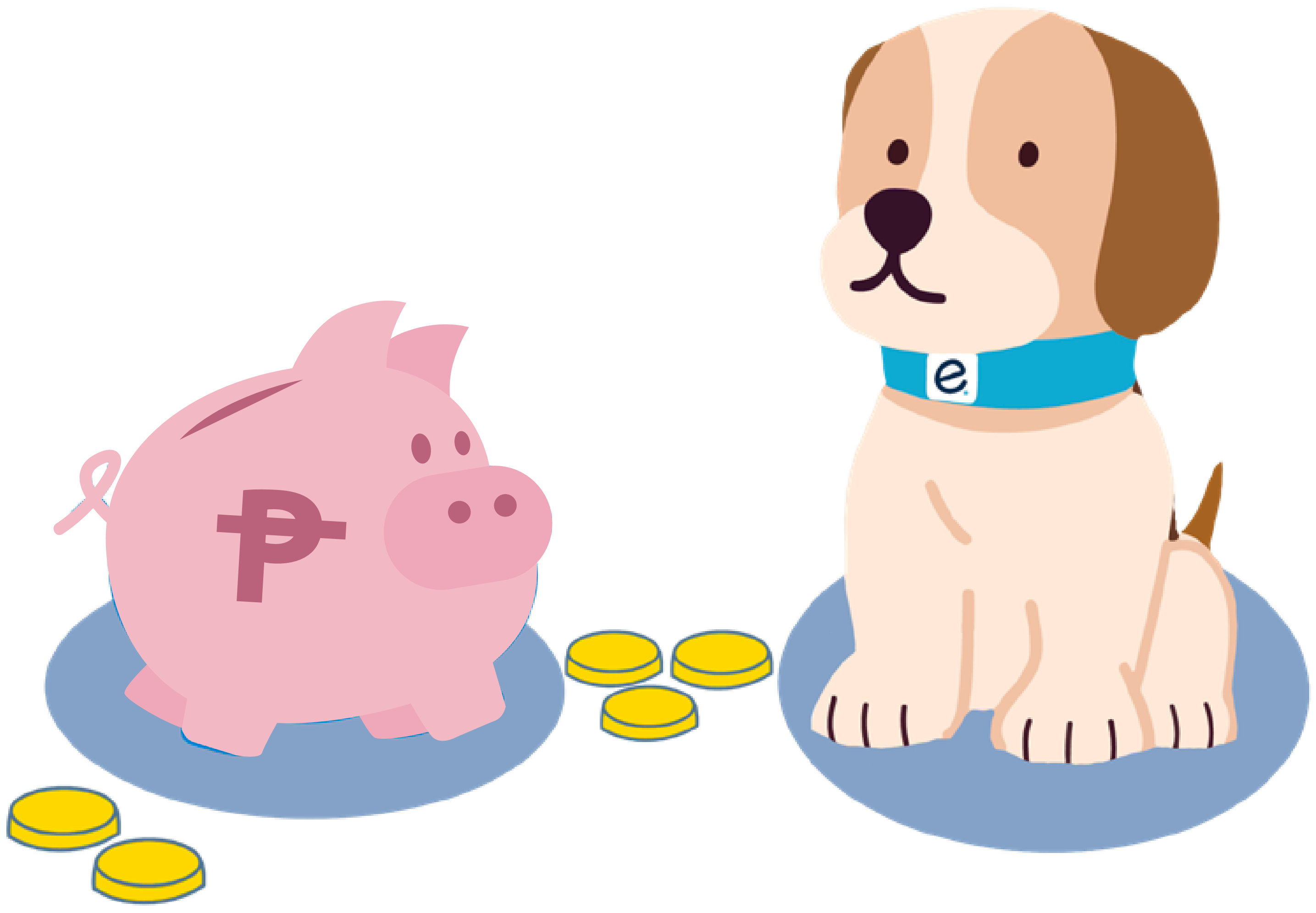
Gino and Carla find budgeting a challenge even with their above-average incomes. This is due to raising two children and ensuring they have a comfortable life. They tend to go over-budget on groceries and fuel because of fluctuating prices. They balance this out by cutting back on other items.

Their biggest expenses are for their house and car payments, which will become theirs once their loans are fully paid. They can expect to have more to spend or save once the expenses for their house and car are fully paid.

Before having children, they both used to take public transportation to work, but decided to avail themselves of Gino's company car plan so they could have a safer and more comfortable way to bring the girls around.

Instead of renting an apartment near their office, they bought a home in a secure subdivision, so the girls can have more space to play and grow. They have also had to give up trips abroad so they could send their daughters to private schools and to pay for house help, so they can both continue working while having someone to watch the children.

Do any of these budget strategies work for you? Do you have other budgeting suggestions or a template that is different but effective? Email us your experience with these budget plans or any other suggestions on budgeting at ***earnest@metrobank.com.ph****.*



Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- You need to budget. Budgeting is your spending plan that defines how much of your income is allocated towards expenses–including savings and investments–across a period.
- Whether your income is big or small, a budget can help you pay bills on time, build an emergency fund, and set you up for better financial health.
- Being on a budget takes discipline and sacrifice. Surround yourself with people who respect and support your budgeting journey.
- We cannot control the rising costs of living, but we can control how we live. Know the difference between needs and wants and live within your means.
- You can stretch your budget by maximizing company benefits and bonuses.
- People have different goals and situations, so there is no one-size-fits-all budget. Find or make one that works for you and do not compare your journey to others.

READERS' SECTION

The Earnest Ipon Challenge

Start with a target amount you expect to save in a month. Use the bingo card to divide your daily savings target to 24 amounts. The amount saved should add up to your target amount.

PHP 140	PHP 300	PHP 250	PHP 100	PHP 200
PHP 200	PHP 150	PHP 400	PHP 100	PHP 170
PHP 120	PHP 150	FREE	PHP 200	PHP 300
PHP 170	PHP 200	PHP 300	PHP 320	PHP 180
PHP 350	PHP 150	PHP 160	PHP 240	PHP 150

JOURNAL

Where Am I on My Budget Journey?

Now that you have learned about budgeting, read these questions, reflect, and write your answers below.

Am I happy with my current budget method? Can I do better?

If I made more money, would I end up saving more or spending more?

How can I stick to my budget and save up without feeling sorry for myself?

If you have reached this part of the e-book, you are well on your way to getting better with money. The next chapter will introduce you to setting your financial goals and how it can bring you closer to your life goals.

A goal is not about what you accomplish. It's what you become.

\- Michael Hyatt

CHAPTER 4

Heading Towards Your Savings Goals

What you will learn from this chapter:

- Why it is difficult to save
- What you need to save for
- Where to keep your savings
- Tips to boost your savings

Let us go deeper into one of the more important aspects of budgeting: saving.

Saving makes budgeting meaningful because it defines what you need to budget for, in terms of money and time. It sounds simple but why do you find it hard to save?

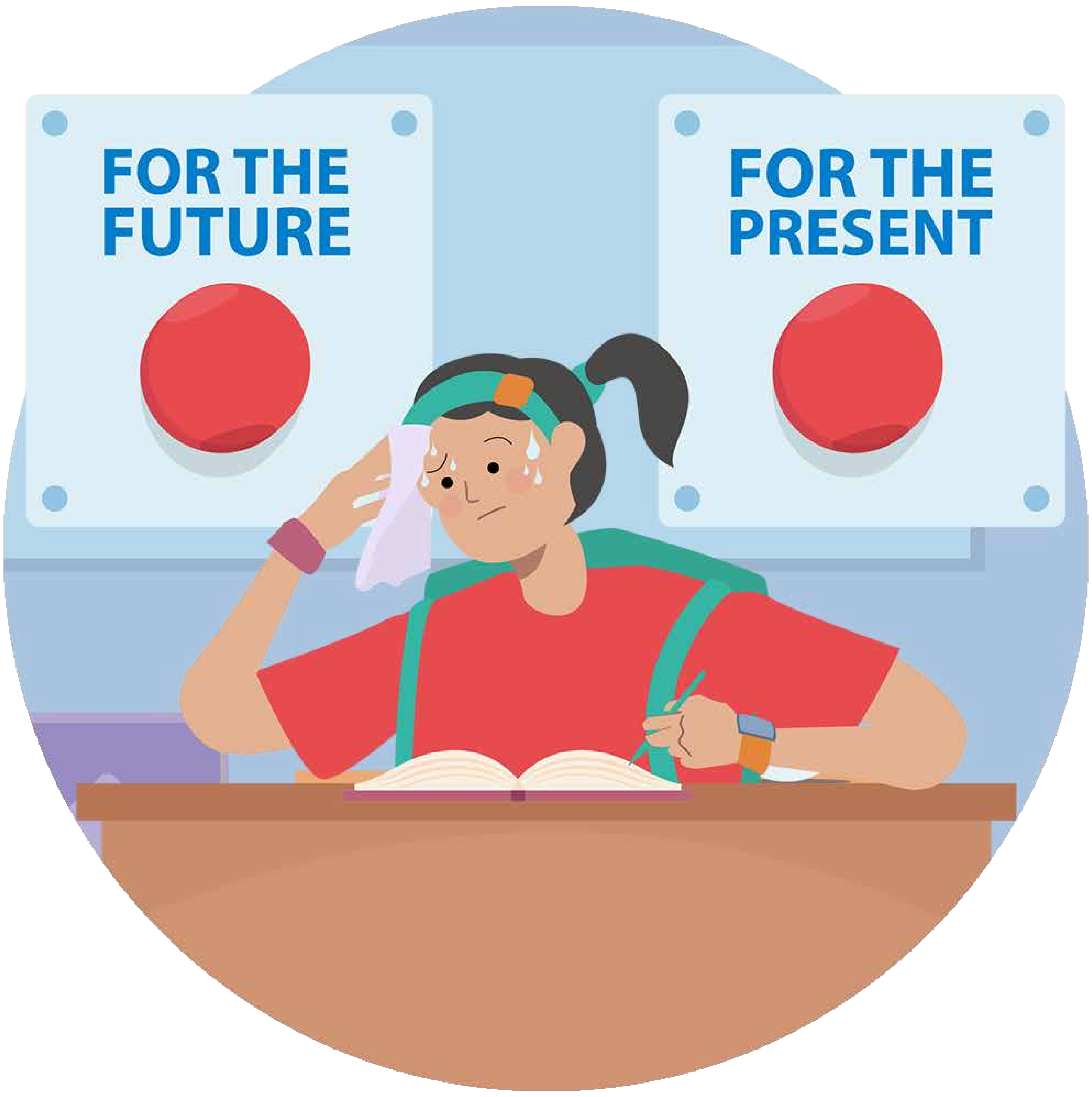
Many reasons hold Filipinos back from saving. Attitudes like *bahala na* and YOLO (You Only Live Once) keep them from preparing for the future. Some say they are not earning enough money to save. Or simply, there isn't enough money left to save. Some are only even starting to think about saving as they approach retirement.

A government survey in 2022 showed that 31.1 percent of Filipino households saved, which is a slight improvement from the previous year. This was due to their need to save for financial emergencies and medical expenses. Filipinos' attitudes shifted as fear and insecurity brought about by the COVID-19 pandemic gave them more reason to save.

Still, many find it difficult to save due to the lack of knowledge on how to boost their savings considering the increasing prices of goods and services, also known as inflation.

INFLATION

Inflation is the general increase of prices of goods and services over time, which affects the purchasing value of money.



What Do You Need to Save For?

Save for life's uncertainties.

Saving is not just for those planning retirement. It is for everyone—a high school student on a weekly allowance, a college graduate just entering the workforce, or an established professional.

As a rule, your savings should also increase as you grow older.

A survey showed that 77 percent of Filipino respondents planned to save more due to the uncertainties brought about by COVID-19, and more than half of them said they increased their savings by 50 percent. The study also indicated that these savings went into “low-interest savings accounts.”

INTEREST

An interest is the amount of money a bank or a financial service pays a depositor for keeping money in its facility. A bank borrows the money from the depositor for loans to other customers.

It should not take a pandemic to prompt you to start saving. There are financial emergencies–such as a personal accident, job loss or unemployment, car breakdown, or a death in the family–when you need money for these unplanned expenses. Your savings will give you some financial buffer, but will it be enough?

From the previous chapters, good financial health means that you set aside enough money to deal with uncertainties. That’s why an emergency fund should be one of your savings goals.

EMERGENCY FUND

An emergency fund is money you save that is accessible and secure for those unexpected events and financial emergencies. This fund should match the total amount of your living expenses for 6 to 12 months if you are single–and 12 months to 2 years, if you are married.

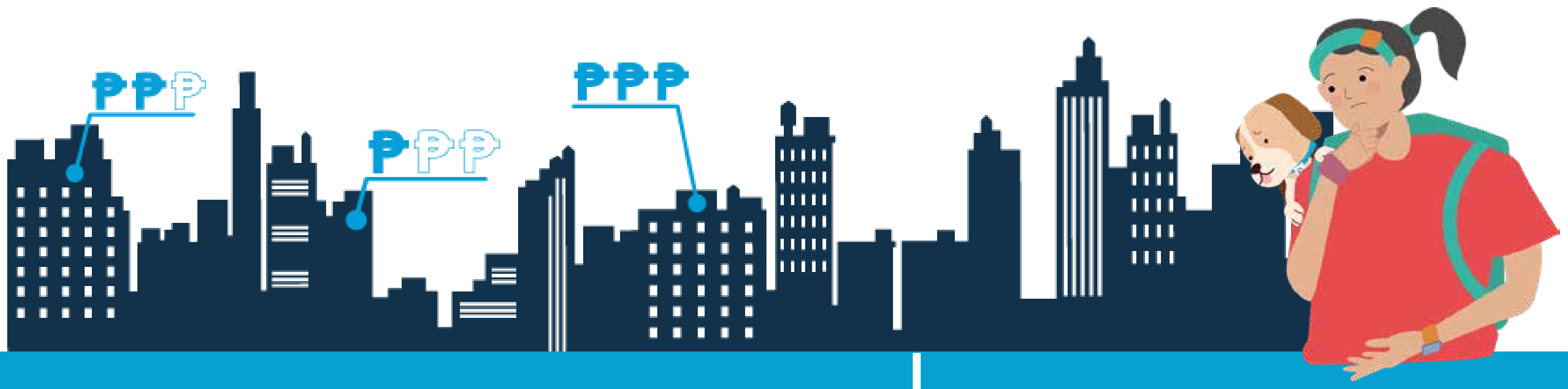
These are other savings goals that should motivate you:

Your Children's College Fund. Today, you need around PHP 70,000 to PHP 250,000 a year to enroll your child in one of the top universities in the Philippines. With inflation, imagine how much that tuition fee will increase in a few years. These tuition fees also multiply and vary depending on the number of children and the courses they take.

Own or Rent a Home. The cost of owning or renting a home depends a lot on where you want to reside and your capacity to fund the down payment and other fees. In Manila, for example, the cost of renting a one-bedroom apartment in the central business district can range from PHP 20,000 to PHP 55,000 a month. Rent can go higher for apartments with more bedrooms.

The cost of buying an apartment is a different story. It can cost you PHP 170,000 to PHP 302,000 per square meter for a property in the city center.

If you take out a home loan from a bank, you also shoulder about 20 percent of the selling cost for the down payment. Finally, you should consider other fees and taxes that add to the total amount you need to raise.



Type of Property and Location	Estimated Cost
One-bedroom apartment in city center (Manila)	PHP 20,000 to PHP 55,000
Three-bedroom apartment in city center (Manila)	PHP 60,000 to PHP 180,000
One-bedroom apartment in city center (Cebu)	PHP 20,000 to PHP 40,000
Three-bedroom apartment in city center (Cebu)	PHP 30,000 to PHP 75,000
One-bedroom apartment in city center (Davao)	PHP 10,000 to PHP 15,000
Three-bedroom apartment in city center (Davao)	PHP 25,000 to PHP 95,000

Source: Numbeo: Property Prices in the Philippines

Healthcare Service. This is another savings goal that is difficult to achieve because we save little, even less for health needs. The latest government data shows that less than 3 out of 10 Filipino households have savings, so unexpected medical bills can be a financial burden on families and individuals. Health or life insurance can cover medical expenses, but this depends on the amount of money you can set aside for paying insurance.

Starting a Small Business. Owning a small business is one of the goals many Filipinos aspire for, especially if they are considering other sources of income aside from their day jobs. Whether it is a side hustle or a full-time endeavor, owning a small business requires some money to start it.

A Comfortable Retirement. Early retirement–usually done between the age of 55 to 60–is a dream of many Filipinos. But how much do you need to retire comfortably in the Philippines? This depends on the lifestyle that you want.

One source of retirement funds for Filipinos are pensions. For those working in government, the Government Service Insurance System (GSIS) offers a pension fund that can be collected upon retirement. For those employed in private companies, they get it from the Social Security System (SSS). However, government data shows that a **huge population of Filipinos are not even covered** by any of the pensions available to them, thus they work beyond their retirement. Also, pensions are not enough to **sustain Filipinos in their retirement years**.

PENSION FUND

A pension fund is a pool of savings collected by an employer or a government agency during the working life of individuals. It is often regarded as retirement fund for the employed because it gives regular payouts soon after retirement.

An Emergency Fund. Very few Filipinos save for an emergency fund. When medical emergencies happen, many suffer financial distress, as they desperately find immediate sources of funds to cover the cost of hospitalization, doctor's fees, medications, and related expenses. In some cases, they drain what little savings they have left, or worse, they borrow money to fund this unplanned expense.

By now, you know that having money tucked away in a savings account offers you **peace of mind and increased happiness**. Having money to fall back on when financial problems happen also lets you sleep better at night.

Saving doesn't have to be difficult. You can save by simply living within your means. This means your lifestyle should match your income. Avoiding "lifestyle creep" is a skill that will pay off for you in the long term.

Are You Experiencing Lifestyle Creep?

As your income increases, so should your spending. Sounds logical, but it's not.

Lifestyle creep, also called lifestyle inflation, happens when your non-essential expenses increase at the same rate as your standard of living improves with "extra" income.

Ideally, money that's left after you spend on necessities should be saved or invested. Lifestyle creep happens when you use your extra income to purchase a designer bag, sneakers, or former luxuries that have become "necessities" like a mobile plan upgrade.

What Steps to Take to Achieve Savings Goals

Start with an emergency fund.

We learned that saving can be less of a challenge if we know what we are saving for.

An emergency fund is known as a “cash cushion” because it helps you fund unplanned expenses without touching the money you've set aside for spending on essentials.

Access to an emergency fund needs to be easy. This means you can withdraw cash anytime without having to wait. Keeping it in a time deposit, stock market investments, or even life insurance is not recommended. The rule is don't put your emergency fund in any banking or financial service that requires clearing or processing time before it's released to you.

Informal saving and lending schemes like paluwagan are also not recommended because they are very risky. Being unregistered and unregulated by the government, these schemes are prone to problems–say, someone runs away with the group's money. They may also unnecessarily limit access to your money.

PALUWAGAN

Paluwagan is a Filipino financial term that describes an informal form of saving and lending. It requires a group of people contributing a fixed amount of money into a pool of funds based on an agreed schedule. The pooled money is then given to a member of the group who acts as the collector or the manager of the funds. Any member can then borrow money from this pool of funds.

Keeping your emergency fund in a safe or home vault is also not a clever idea. You can lose it when an actual emergency causes damage to your home, like flood or fire, or when your money gets stolen or misplaced.

Where Can You Put Your Savings?

Smart savings strategies you can consider.

Instead of having your funds tucked away at home, placing them in an account that earns interest is a better way to achieve your savings goals. Keeping your money secure is the first smart step in saving.

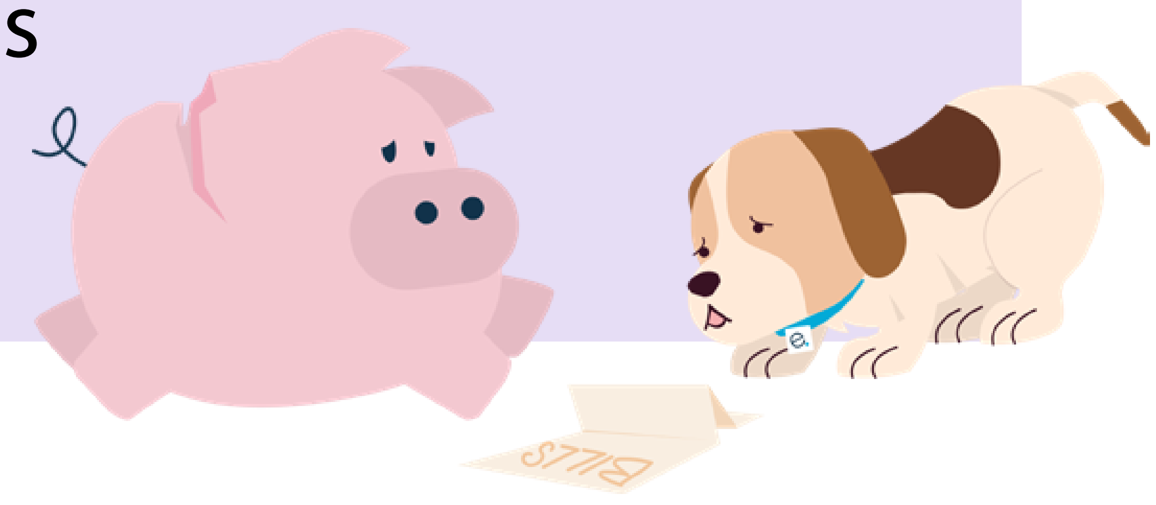
Choose high interest-bearing savings accounts over traditional savings with lower interests. High interest-bearing accounts are recommended for funds used for emergencies since they are easily accessible and secure. But remember to keep your emergency funds separate from your regular savings, which may be used for other purposes.

There's one more advantage to high interest-bearing accounts. Given the impact of inflation on your savings, this type of savings can lessen the impact of inflation on your money.

How can inflation affect your money?

By Bea Lejano

If you have a PHP 50 bill, you will know that years ago, this could have bought you a decent meal with chicken and rice at a certain fast-food restaurant. Now, this same amount could just afford you sides like a set of large fries.



This is the effect of inflation. Inflation is the general increase in the prices of goods and services over time. In simple terms, inflation makes you spend more on the same thing. For example, the same cup of your favorite coffee would cost you a lot more today than back in 2017.

Inflation is troubling if your salary or income stays the same. This would force you to live frugally, lessen your expenses, and be more wary of what you're buying.

As for your savings, if these are not invested, then you're in a way "losing money" over time. These savings can buy less and less of the same amount of goods because of inflation.

If you have investments and the inflation rate is higher than the interest rate you earn from these investments, then you are in effect, losing money as well.

To sum it up, inflation reduces the value of your money over time, so it is important to be mindful of how you manage and grow your money amid a high-inflation environment.

About the Author: Bea Lejano holds a masters degree in economics at the Ateneo de Manila University. She is a foodie and cannot function without coffee. She loves indoor cycling and tennis.

Aside from a savings account, you may also consider putting your money in a time deposit. Like a savings account, a time deposit earns you a fixed interest on your funds. However, it will only allow you to withdraw on a set date, or what's referred to as the maturity date. You may withdraw before its maturity date, but there will be fees deducted from the money placed in a time deposit. So the funds you keep in your time deposit are those that you don't need for the time being.

MATURITY DATE

A maturity date refers to the time when you can withdraw your time deposit without penalties.

Time deposits give better interest rates than your traditional savings accounts. In addition, the longer the maturity of time deposits, the higher the interest earned.

There are also other options like the MP2, a voluntary government savings facility that allows any Filipino, including members of the home development mutual fund, Pag-IBIG, to save and earn higher interests through dividends.

This savings facility requires you to keep your money with them for five years, which is the maturity period.

DIVIDENDS

Dividends in savings accounts are like interest payments. They are portions of the profits shared by a company or an institution with stockholders every quarter or every year.

Where to Put Your Savings

Here's a snapshot of options where you can keep your money

Traditional Savings Accounts

Pros	Cons
• Safe	• Earns lower interest
• Easy access to cash	• Must visit a branch or an ATM
• Earns interest	• Initial deposit required
• Easy to track spending	• Minimal balance required
• Can automate bill payments	• Charges transaction fees
• Covered by deposit insurance	

Recommended for paying off debts and automating bill payments. You may also put your emergency fund in traditional savings.

Non-traditional Savings Accounts (e.g., digital banks, digital wallets)

Pros	Cons
• Earns higher interest than traditional savings accounts	• Too easy to spend online
• Convenient online payments and fund transfers	• Cash withdrawal may take several steps
• Some transactions have lower fees	• No physical branches or ATMs
• Safe	• ATM fees
• Easy to track spending	• Limited amount for higher deposits
• Flexible initial deposit	
• Lower to zero minimum balance required	
• Offers cashback promos	
• Covered by deposit insurance	

Can be used to start an emergency fund or fund your other savings goals.

Time Deposit

Pros	Cons
• Safe	• After maturity, withdrawing cash requires processing time
• Covered by deposit insurance	• Can withdraw cash early but with penalty fees
• Earns higher interest than traditional savings	• Fixed interest earned
• Fixed period discourages impulse spending	• Higher minimum deposit required

Recommended for savings goals like a down payment for a home, a family vacation, or a college fund

Government "Savings" facilities (e.g., Pag-IBIG MP2)

Pros	Cons
• Earns tax-free dividends • Minimal initial deposit • Government protects and grows the fund	• Can withdraw cash early but with lower dividends

Recommended to add to your long-term savings goals like your retirement.

How to Boost Your Savings

Tips to consider when saving.

Assuming there are no significant changes in your income and expenses, here are ways to boost your savings.

Place money in interest-bearing accounts. Keeping your money in a bank is a safer and worry-free way of boosting your savings. You just need to prepare the minimum balance required for a deposit. You also have other options besides a regular savings account like a basic banking account that requires no initial deposit but has a low minimum balance.

Make saving automatic. There are ways to make saving automatic. Some financial services allow you to automate the transfer of a portion of your payroll to a savings account regularly. You can also prompt yourself to save every payday, by simply setting a reminder on your phone's calendar.

Create different accounts for different savings goals. Open an account with a passbook for savings goals that discourages you from accessing your money. You can use this account to save for a long family vacation, or a downpayment for a home or a car. For your emergency fund, a savings account that comes with an ATM card makes for easy cash withdrawal. For long-term savings, find an account that will not let you touch your money for a long time.

Pay off your debt. Set aside money to clear your debt. If you're unable to pay personal loans and credit card dues every month, finance charges and penalties can eat up on your savings. Prioritize paying your debts first, so you don't drain your savings.

Reduce your expenses. As discussed in previous chapters, it is important to be clear about your needs (by this, we mean your essential expenses) and wants (non-essential expenses). If you track your expenses according to your priorities, you will spend less. The "no-spending budget" and "survival budget" are useful approaches to reducing expenses. And with less expenses, you can put that money into your savings.

Use rewards or cashbacks from banks and credit cards. Take advantage of these benefits to save while you spend. Collect those rewards or cash backs from purchases made online or whenever you shop. While these amounts are small, every amount unspent is money saved.

Stay healthy. As the saying goes, health is wealth. Medical emergencies can put a strain on your finances, especially if you don't have an emergency fund. Staying healthy reduces chances for any unplanned spending on hospitalization and medication.

Get insurance coverage. Health insurance is your best protection and financial buffer when you face health issues that require more than a visit to a doctor. Depending on your capacity to pay, health insurance covers certain illnesses, medical procedures, and medications that can otherwise drain your savings. You can also consider insurance to protect your assets, like your home–in case of a fire–and other properties, including your business. More on this topic in the next chapters.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- It is important to know what you are saving for, so you can set clear and specific savings goals.
- Once you've figured out what you're saving for, it's important to know where you can put your savings. There are several options available to you.
- An emergency fund is the most important savings goal that you should set and aim for. This requires setting aside around 6 to 12 months of your living expenses for individuals, and more if you're married with children.
- There are practical ways to boost your savings using banking products and financial services that are available to you now. Know which one works for you.

READERS' SECTION

Writing Your Savings Goals

Your savings goal should be clear and specific. It should describe what the goal is, the target amount, and your timeline. You can start with this simple activity.

Instructions:

1. Write down your savings goals, each with a description, the amount you want to save, and how long you want to achieve them.

2. Break the goals into smaller chunks so you can do them easier. Make the goals specific and measurable.

3. Calculate how much you can set aside monthly for each goal. Remember to allocate 20 percent of your income to your savings.

4. Finally, be flexible. You can change the items on your list as needed.

Savings Goals	Amount to Save	Amount of Time to Achieve Goal
Example		
1. 4-day trip to Boracay with family of 4	PHP 60,000	Nov 10, 2023
2. New laptop for side hustle	PHP 40,000	Dec 5, 2023

JOURNAL

Save with More Confidence

Now that you know the what, the why, and the how of saving, it's time to read through these questions and reflect on your answers.

Are you saving for emergencies like hospitalization or job loss? If not, why?

Do you know where to save your money and make it grow? Can you describe it?

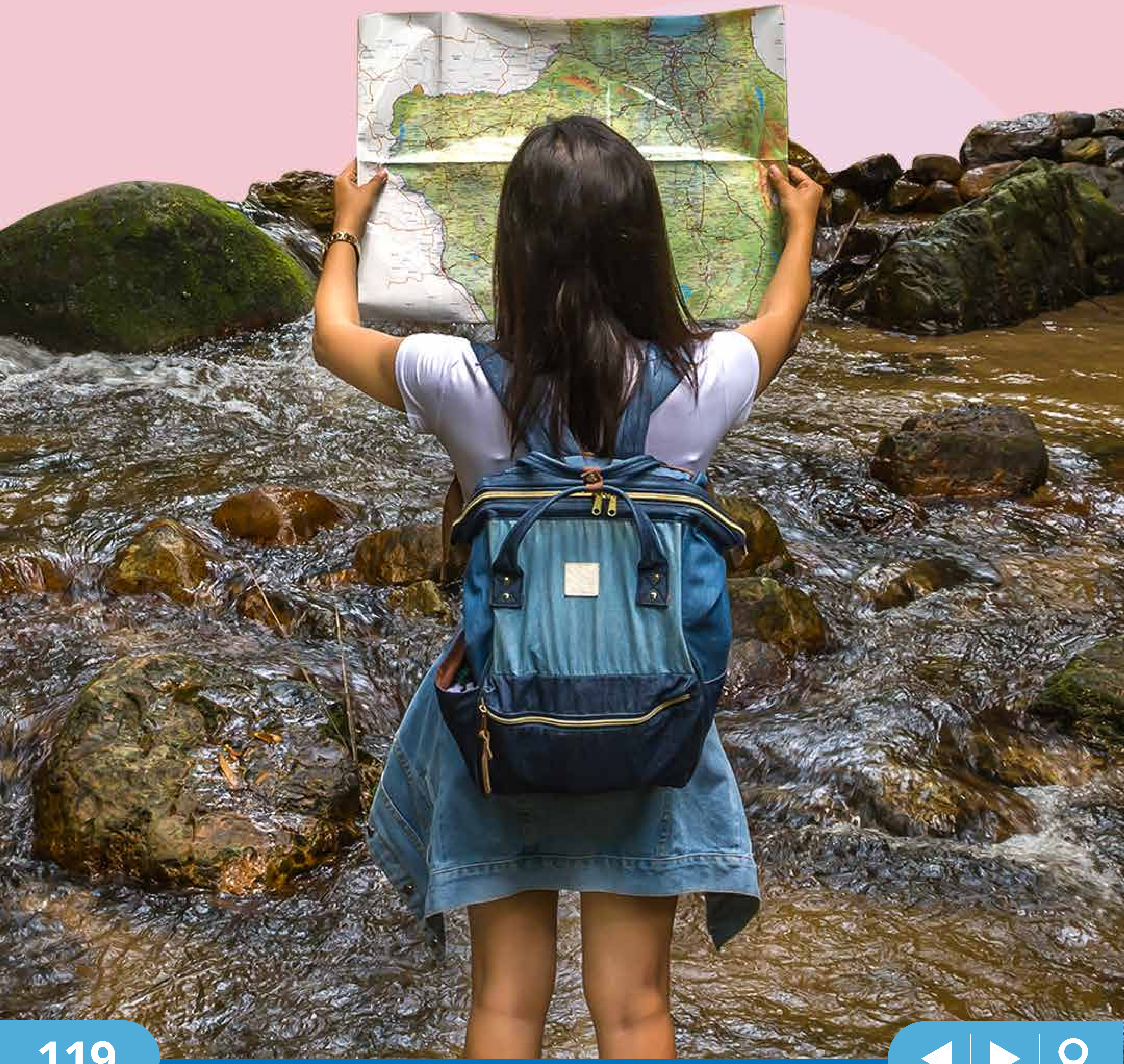
If you have savings goals for this year, how do you plan to achieve them?

Debt is one person's liability but another person's asset

- Paul Krugman

CHAPTER 5

Finding Your Way Through Debt



What you will learn from this chapter:

- What is debt?
- What is good debt? What is bad debt?
- Use your budget to manage debts
- Advice on how to pay off bad debts

In the earlier chapter on budgeting, you learned the importance of allocating money for debt payments.

As you head towards achieving good financial health, you might find your path blocked by debt or *utang*.

DEBT

Debt is money that you borrow and repay later. It is often associated with loans or funds that are used to purchase things you could not afford under current financial circumstances.

You are not alone if you are struggling to pay debt. People are stuck in the vicious cycle of utang, as they struggle to stretch budgets, while others live beyond their means.

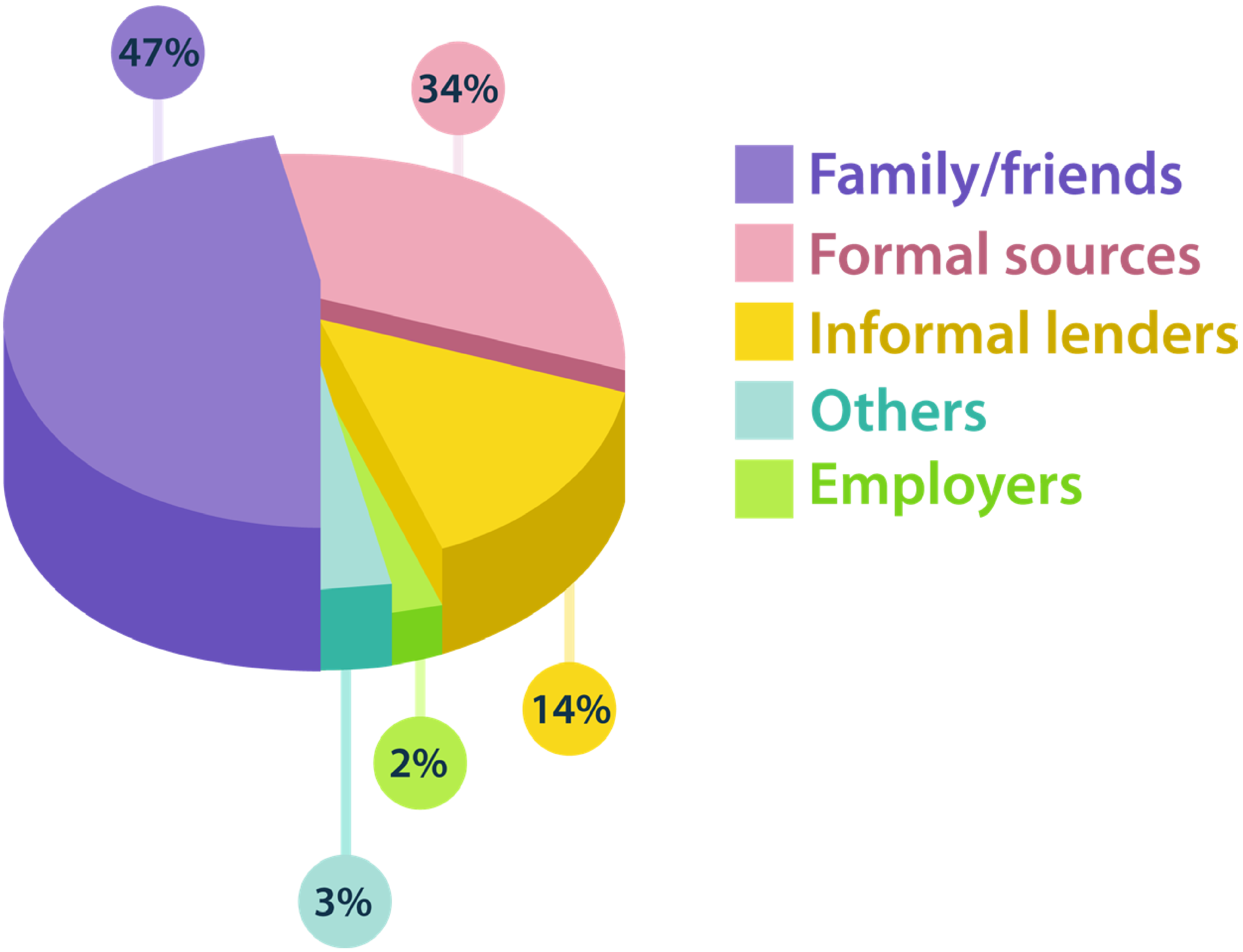
Meanwhile, Filipinos' *utang* culture, penchant for luxuries, bahala na attitude, and the need to belong, have also led to family conflicts and broken friendships.

In 2021, a government study showed that over 34.3 million Filipinos, or about 45% of the adult population, had **outstanding or unpaid debts**. Of those in debt, lower-income Filipinos tend to borrow more often than those who belonged to upper and middle-income segments. They borrowed money to cover daily expenses, fund financial emergencies, and pay for other debts.

Among the upper to middle-income Filipinos, they borrowed money to fund their small businesses or to buy a home or a car.

A closer look at government data revealed that a substantial chunk of these debts was not with banks or financial institutions. Instead, Filipinos borrowed mostly from family, friends, or informal lenders.

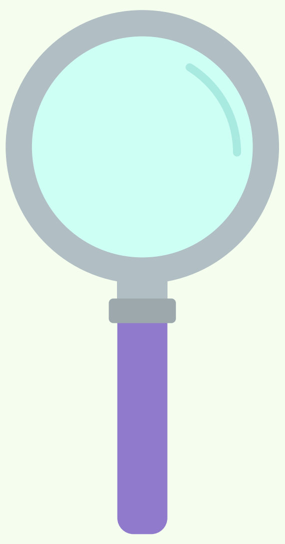
WHERE DO FILIPINOS BORROW MONEY?



Source: **2021 Financial Inclusion Survey - BSP (Bangko Sentral ng Pilipinas)**

Informal lenders are mostly loan sharks. These are private individuals and companies who are not licensed to engage in lending activities.

They appeal to low-income Filipinos because they can borrow money without collateral or documentary requirements. This comes with a price. They charge borrowers interest rates of up to 20% or more. This practice, also known as usury, is a crime in the Philippines.

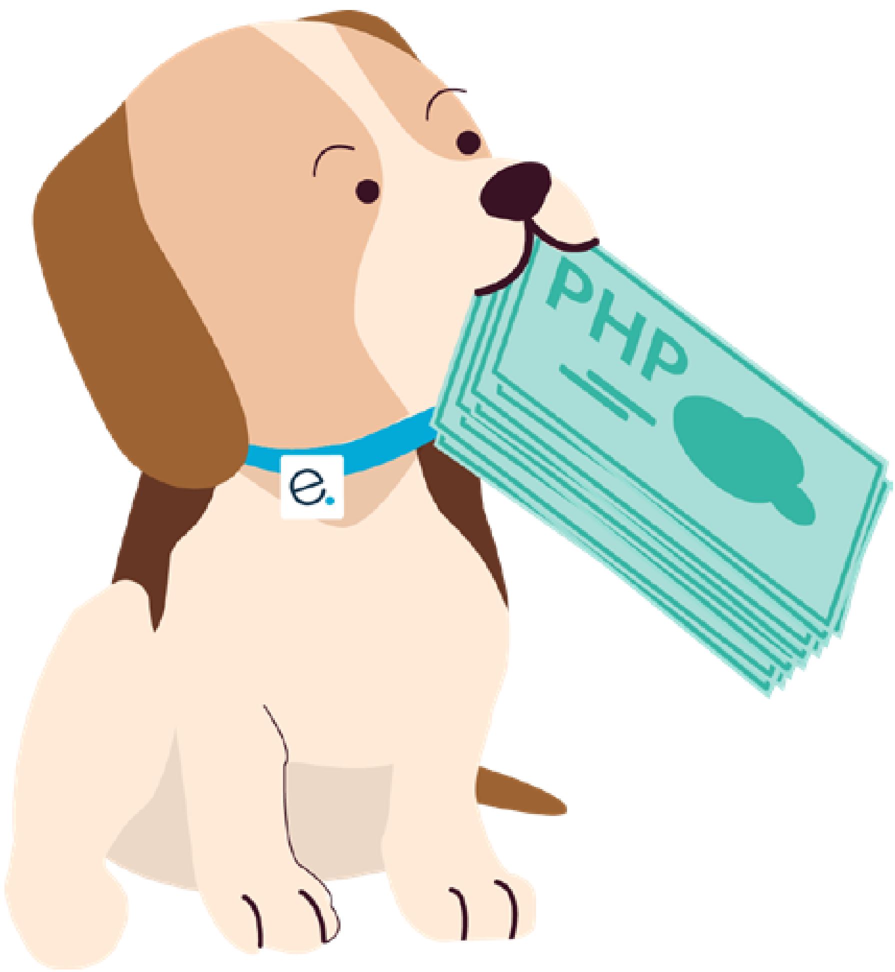


COLLATERAL

Collateral is an asset or item that you own that a lender accepts as security for letting you borrow money. If you are not able to repay, the lender takes the collateral as payment.

USURY

Usury is the practice of setting interest rates on a loan that are significantly higher than the limits set by law or government regulators. Usury is a crime in the Philippines.



What is Debt?

THERE ARE GOOD AND BAD DEBTS.

What is debt? How different is debt from a loan or a credit? When is debt good? When does it become bad, or worse, ugly?

Debt, *utang*, loan, or credit are interchangeable terms. Loans are associated with banks and formal institutions, where a borrower agrees to repay a certain amount of money over time along with an agreed interest. *Utang* is a Filipino term that means borrowed money.

Ideally, debt or money you borrow should be used to buy things that generate income–for example, real estate, which can be rented out to a tenant or used to set up a business. It can also be something to increase your value in life, such as an education loan to further your studies and open greater employment opportunities.

Here are the most common types of debt:

- A **personal loan** is money borrowed from a bank, a credit union, or any lending firm that is repaid in fixed monthly installments. Unlike a home or a car loan, a personal loan is unsecured, meaning it doesn't require collateral. For unsecured loans, a co-borrower is required because they have good credit and financial standing. This co-borrower can agree to pay a certain amount of the loan–not the total amount of the loan–if the main borrower fails to do so.

- A **credit card debt** is an unsecured debt. A credit card, typically issued by a bank, lets you buy goods and services with payments settled a month after purchase. The total amount you can spend–also called a credit–is set by the bank. Credit card debt happens when you do not pay the full amount due every month. You are charged with interest, penalties, and other fees on top of the unpaid amount.

- **Home and car loans**, on the other hand, are secured debts that require collateral. With home or car loans, the real estate or vehicle serve as collateral. Until you have paid the full amount of the loan along with interest, both items are considered the property of the bank or lender. If you default on these loans– or can no longer repay the amount borrowed– the lender can repossess these collateral. Under a home loan, the bank can foreclose your property and sell it to a new buyer.

REPOSSESSION

Repossession is the act of retaking possession of a home or car bought through a loan after missed payments.

FORECLOSURE

Foreclosure is a form of repossession but is used to refer to a defaulted or unpaid home loan.

- **Mortgage** is a type of loan where you agree to borrow money to buy real estate and pay following a regular schedule, called an amortization schedule. With amortization, the main balance or the original amount owed goes down over time as you pay a portion of the main balance along with interest. A mortgage is also debt associated with buying a house, a lot, or a condominium.

- **Cash advance** is a short-term loan often offered through a credit card, a bank, or other financial institutions. It allows you to withdraw cash from your existing bank account or via a credit card but only up to a certain amount. For credit cards, the amount is typically a percentage of your credit limit. Fees are often paid when cash advances are made.

- **Employer loan** is a type of loan offered to employees as part of a benefit. This loan is used for different purposes, such as paying unexpected expenses, making large purchases, or even paying off debt. For some companies, it is offered as a perk to attract or retain employees in an organization. For smaller organizations, employees ask for a cash advance on their salary, called a *bale* in Filipino. Payments are then deducted from future paychecks over time.

- **Government loans** are programs that are available to Filipino citizens and is meant to boost the country's economic and social development. These loans are available through various agencies, such as the Social Security System (SSS), the Government Service Insurance System (GSIS), the Pag-IBIG Fund, the Small Business Corporation, the Land Bank of the Philippines, and the Development Bank of the Philippines. They offer different types of loans to members, including personal, salary, calamity, and even housing loans. The other agencies offer business loans that support farmers and fisherfolks. Government loans attract citizens since they offer lower interest and flexible payment terms to members.

Meanwhile, these are the different sources of loans:

- **Microfinancing** is a financial service that offers **small loans to lower-income Filipinos**. These loans do not require a collateral, offer lower-interest rates, and often come with fewer requirements. Banks, usually rural or thrift banks, offer this type of loan to fund small businesses. Recently, financial tech services – also known as fintechs – offer microfinancing through digital lending platforms. With the goal of making it easy and convenient for Filipinos to access small loans, these digital platforms follow a credit scoring system to decide who can avail of these small loan.

- **Cooperatives**, or also known as "co-ops," are organizations that offer loans to members. Like a community, members pool their money to build a fund for loans. Each member can then borrow money at lower interest rates. Co-ops are not designed for profit. Their goal is to give members affordable access to credit. There are different types of co-ops that serve varying purposes, such as for health, agriculture, housing, and others. They attract unbanked people who are from communities not often served by traditional financial institutions.

- ***Paluwagan*** is an informal savings and credit system practiced by Filipinos. It involves a group of people saving and borrowing money together. Under this system, each member agrees to contribute a fixed amount of money to a pool on a weekly or monthly basis. Each member–often friends and family–take turns in receiving the pooled funds. *Paluwagan* is often attractive for those who don't have access to traditional banking. It is, however, open to fraud, that is when a member runs away with the pooled funds, and default or when members can no longer pay a loan.

- **Pawnshops** are alternative sources of loans because they do not require any credit history. Instead, you will have to bring a personal item you own as collateral in exchange for quick cash. Pawnshops, however, determine the value of your item and the amount they offer as loan. Compared to other short-term loans, pawnshops charge lower interest, but the assessment of the value of your item is often lower than if you were to sell it to the used-item marketplace. They also attract people who have no access to traditional banking services.

So, when does debt become bad?

- Debt turns bad when you start missing monthly payments and subsequently unable to pay the full amount.

- It becomes bad when it piles up and affects your financial health.

- There are debts, however, that are fundamentally bad like those offered by informal lenders who take advantage of your financial situation. These debts come with higher interests and terms that are disadvantageous to you.
- You also fall into bad debt if you get trappedin a cycle of borrowing money just to meet your day-to-day needs.
- Debts also turn bad because you've simply borrowed more than you can possibly pay.

Loans can, however, turn bad due to bad practices by predatory lenders. You can find these types of lenders taking advantage of desperate people who are looking for short-term loans.

Lenders of this kind offer loans at extremely high interest rates–up to 20% or more, charge hidden fees, and push deceptive terms that put borrowers at a disadvantage. These lenders would then harass borrowers for missing payments, causing financial distress to borrowers, their family, or even friends who are often listed as co-borrowers. If the main borrower can no longer pay, these lenders intimidate co-borrowers to settle the unpaid debt.

They go as far as shaming and threatening borrowers with legal actions like taking away a collateral of their choice.

There are also so-called payday loans, where borrowers take out short-term loans again with high interest and fees. This lending scheme requires borrowers to provide post-dated checks, access to their ATMs, or even their e-wallets to repay loans on their next pay day.

Considered a bad practice, payday loans done out of ATMs or authorized electronic fund transfers allow lenders to withdraw funds along with interest and fees directly from the borrower's accounts.

One bad lending practice targets overseas Filipino workers (OFWs). Lenders, mostly loan sharks, use the OFWs' passports as "collateral" in exchange for a small loan. This practice puts Filipinos at risk of becoming a victim of identity theft or fraud.

Scams are also making their way into cash advance types of loans. Lenders offer loans in exchange for a fee or advance payment. They ask borrowers to send money through an ATM, wire transfer, or electronic fund transfer, and then disappear without providing any money. Sadly, people who are desperate for cash fall victim to this type of a lending scam.

Finally, there is the practice of loan flipping, where borrowers are encouraged to take multiple short-term loans, one after the other, often done via an ATM. This practice eventually traps the borrower in a cycle of debt, with each new loan adding to the overall debt load.

These are just some examples of bad debts that you should be cautious of. It is often good practice to do your own research and a background check on lenders and their loan practices before you transact with them.

What Can You Do to Manage Debt?

Start with a budget.

Your journey to good financial health starts with a budget. The same thing goes for your journey to freedom from bad debt.

In chapter 3, debt payment is considered an expense in your budget. Simply put, your budget should have debt payments tagged under the essential expenses category.

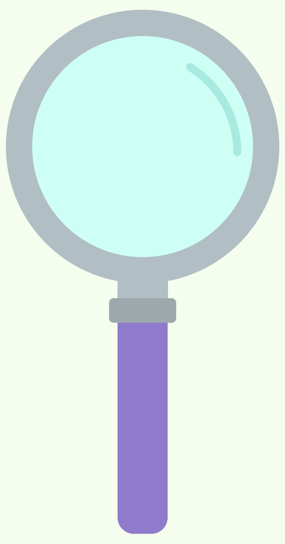
So paying your debt regularly should be a priority when it comes to managing your money.

While savings and emergency funds are important too, you may temporarily reduce or put them off to prioritize debt payments, or at least balance it out to favor settling dues on time.

> Debts come with interest. They tend to be higher than interest you earn in a savings account. So, prolonging your debts decreases your ability to save and invest. The sooner you can pay debts, the faster you can get back on track.

Your ability to pay off debt is a good barometer of your financial health. Being able to budget for it and paying it as scheduled means you can build your savings, emergency funds, and investments sooner.

Paying off debt is also a consideration in building and improving your credit score.



CREDIT SCORE

A credit score is a system used by banks and lenders to help them decide whether you qualify for a loan or a credit card. Several factors are considered including your loan payment history, your current debts, your available cash savings, among others.

Discussion on credit score and how it affects your credit standing will be tackled in the next chapter.

People Dealing with Bad Debt

HERE ARE STORIES FROM REAL PEOPLE WITH REAL DEBTS.

Now that you know the difference between good and bad debt, let's look at these stories of Filipinos dealing with debt.

Jet, a 40-year old husband with three children, found himself saddled with his father's business debts. This was in 2020 when his father suffered a stroke. Sadly, his father's company racked up over PHP 5 million in debt to suppliers.

Jet became responsible for his father's debts and for keeping the business afloat. He was forced to use the family's savings and sold their condominium studio unit to pay off his father's hospital bills. He and his wife are both working in corporate jobs.

He currently has about PHP 3 million of his father's debts to pay, which he aims to settle in three years.

Meanwhile, we have Rhea, a 34-year-old overseas Filipino worker and a single mom. She is one of many Filipinos who turned to informal lenders and their employers for loans.

Rhea makes around PHP 36,000 a month as a domestic helper. She admitted to borrowing money from her boss as part of a salary advance (also known as *bale* in

Filipino), and sometimes from loan sharks, to remit more money to her elderly mother and daughter living in her home province. Stories of Jet and Rhea show that breaking the bad debt cycle and achieving good financial health in the Filipino setting is a family affair.

Breadwinners should have an open and honest discussion about finances with all members of the family, so that everyone can make informed and responsible decisions about earning, spending, lending, and borrowing money.

Since Jet and Rhea are saddled with debts, they should consider taking the next set of advice on how to manage debts with special attention to paying off bad debts.

*If you have a similar story about dealing with debt, please drop us an email at **earnest@metrobank.com.ph.***

Talking to your family about debt

Talking about money among family members can be difficult, more so if it's related to debt. But debts can affect your family's way of life, so it is only practical and necessary to tell them about it. Here are quick tips on how to talk to your family about debt:

1. **Be honest**
   If you are in debt, your family must know. This will help them understand your situation.

2. **Commit to a plan**
   Tell your family that you are paying off your debts. Be diligent in pushing through with your plan.

3. **Set boundaries**
   Implement necessary changes, like setting budgets on your grocery and utility expenses.

4

Ask for their help

Other employed members of your household can pitch in to pay for expenses. Meanwhile, others can do their part by lessening their spending.

Practical Ways of Paying Off Bad Debt

ADVICE ON DEALING WITH DEBT.

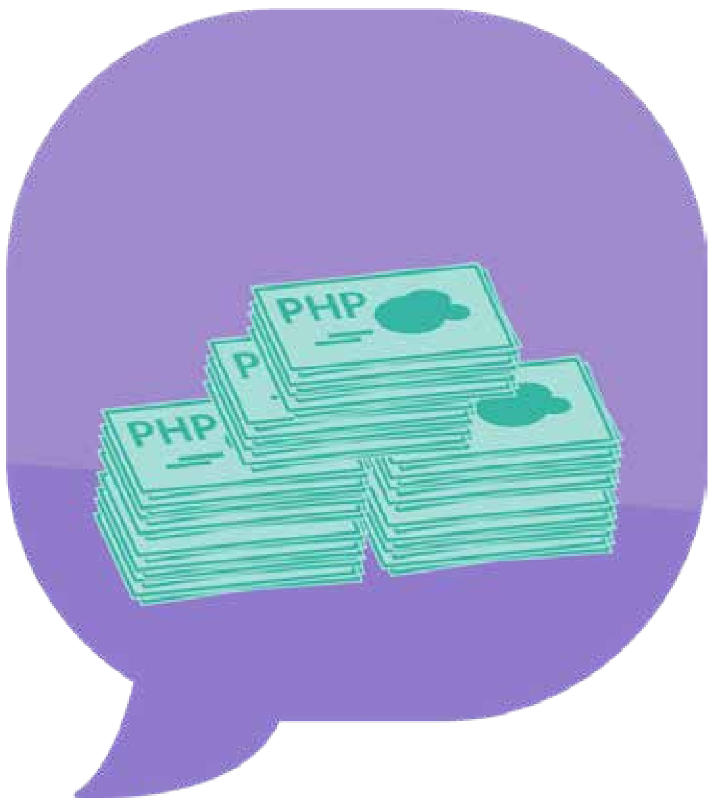
Dealing with debt is a tough and stressful experience. But it is an experience that you may deal with at some point in your life.

Whether you're dealing with credit card debts, car loan, mortgages, or even bad debts, there are several steps you can take to better manage it.

Assess your debts. First, assess the extent of the debt problem. Account for all your debts, including the balances owed, interest rates, and monthly payments. Doing this gives you a clear picture of the total amount of money you owe, and how much you need to pay and raise veach month.

Create a budget. Dipping into your savings is a bad way to start. Recalling Chapter 3, creating a budget is critical to managing debt. In your monthly budget, list down your monthly income and expenses, and decide how much you can give towards paying off debts. When you prioritize your debts, pay off those with the highest interest rates first. Another choice is to temporarily reallocate some of your money meant for savings to reduce debt.

Negotiate with lenders.
If you are struggling to settle your monthly payments, call up your bank or lender and negotiate new payment terms. Find a way to reduce



your interest rates or extend your payment period. Negotiate to also shorten the length of your loan. Longer loan terms may seem better because of the lower amount you pay every month. But the extended time means you end up paying more in interest. Shorter loan terms may mean higher monthly payments, but you pay less interest. So, it pays to be honest about your financial situation but explain your desire and your plan to pay off your debt.

Consider debt consolidation. If you are dealing with multiple loans, opt for debt consolidation. Do your research. Talk to banks or lenders who are willing to accept your debts and even offer advice on ways you can combine loans into one with manageable interest rate. Consolidation lets you take out one loan that is designed to pay off all loans. In this way, you can focus on repaying one lender every month.

Debt consolidation is an option among those who have multiple debts since you can negotiate for a lower interest rate than all debts combined. This is another option you can negotiate with your lender or your bank, where you can opt for a lower interest rate once debts are combined.

Look for expert and professional help. If you are deep in debt, find professional help from a credit counselor or a financial advisor from your bank. They can supply and create a plan for managing your debt, and even strategies and practical advice for reducing your debt and improving your overall financial health.

Dealing with debt is a challenging experience, but by taking these steps, you can take back control of your finances and hopefully be able to sleep well at night.

Here are other practical actions you can take to avoid getting into bad debt:

- Always check your financial health and prioritize your goals.
- Track your expenses and income, and live within your means.
- Pay in cash when making purchases. If you are a credit card user, settle the total

amount on time, and in full, if you can.

- When consolidating debts, negotiate for lower interest rates, if possible.

- Avoid borrowing money to buy things that lose value over time, such as the latest smartphone, unless it's something you need to significantly improve your way of life, such as a car that can get you to work more safely and comfortably.

- Work on building up your credit score.

- Build an emergency fund.

- Get insurance for emergencies, such as accidents, illness, fire, or death.

- Save up for big purchases, especially for non-essentials. Create a separate savings account or expected large expenses such as weddings, milestone events, or vacations.

- Don't be pressured by peers, family, and relatives.

- Avoid going into new debt to pay another debt. If you can, avoid taking on more debt.

- Identify debts that are just fundamentally bad.
  Hint: interest rates are sky-high.

Shortcut

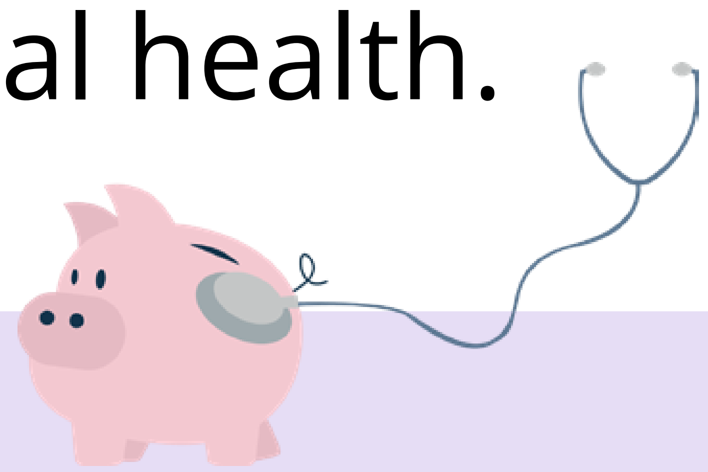
HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Filipinos suffer from *utang* culture. Low-income Filipinos borrow money to cover daily expenses, emergencies, and to pay off other debts. Mid- to high-income Filipinos borrow money to improve or increase quality of their lives.
- There is good debt and bad debt. Good debts help you improve your financial health and bring you towards wealth building, while bad debt can harm your financial health. There are debts that are fundamentally bad, such loans from informal lenders.
- Managing debt involves starting and sticking to a budget. Paying off bad debt should be a priority so you can get back on track to good financial health.
- Many Filipinos, regardless of how much they are earning, deal with debt. But as some real stories of people reveal, dealing with debt is not easy and needs to be a family affair.
- Finally, there are practical ways of dealing with debt. Start by assessing the extent of your debt and committing to a plan on how to pay it off. Always seek professional help.

READERS' SECTION

Create a Debt Payment Plan

You need to be patient and disciplined to get out of debt. Follow these steps and move closer to achieving better financial health.



Instructions:

1. Gather all records of debt to see how much you owe, and to whom.

2. List them down. Include the lender, balance, interest rate, and minimum payment.

3. Prioritize debts with highest interest rates first, while making minimum payments on other debts.

4. Choose what items you can cut back to free up cash. Pay attention to non-essential expenses and see what you can save.

5. Set specific goals and a timeline for paying each debt. Then track your progress.

Debt/Loan Description	Minimum Monthly Payment Required	Starting Balance	Actual Amount Paid	Date Paid	Ending Balance
Example					
1. Hospitalization of Mom	₱12,000	₱120,000	₱12,000	Jan 2, 2023	₱108,000
			12,000	Feb 2, 2023	96,000
			12,000	Mar 2, 2023	84,000
2. Home damage repair	₱5,000	₱ 40,000	₱5,000	Feb 15, 2023	₱36,000
			5,000	Mar 15, 2023	31,000

JOURNAL

Think About Debt

Now that you know the difference between good and bad debt and how to manage bad debt, reflect on these questions and write your answers below.

Do I have the tendency to spend money I don't have? If yes, why?

Why can't my emergency fund cover unexpected expenses and medical emergencies?

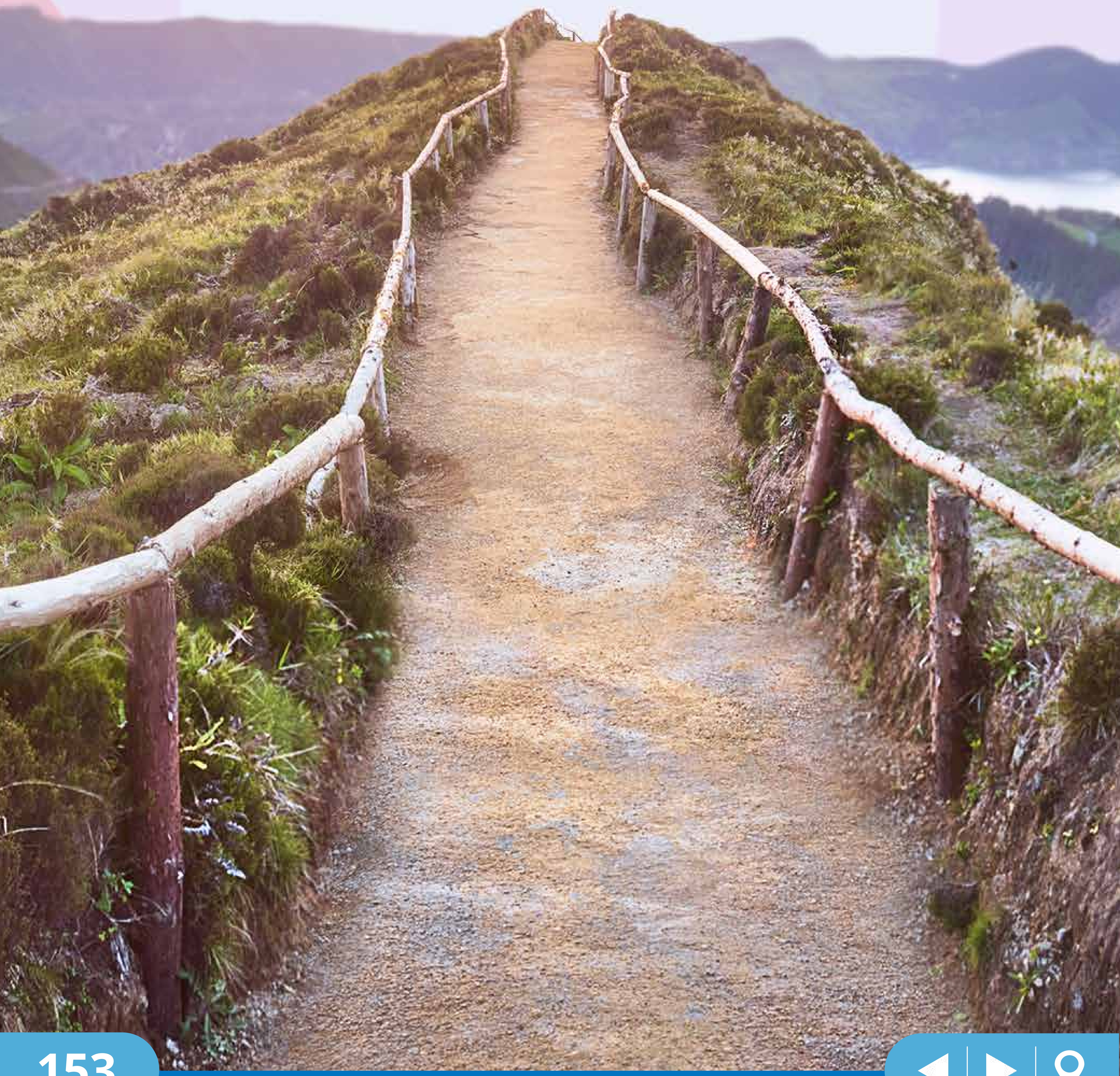
Do I know the difference between good or bad debt? If not, why?

Some people want it to happen,
some wish it would happen,
others make it happen.

- Michael Jordan

CHAPTER 6

Paving the Path to Understanding Loans



What you will learn from this chapter:

- What are loans?
- Why do you need to take out a loan?
- When and where can you take out a loan?
- Some tips on how to take out a loan

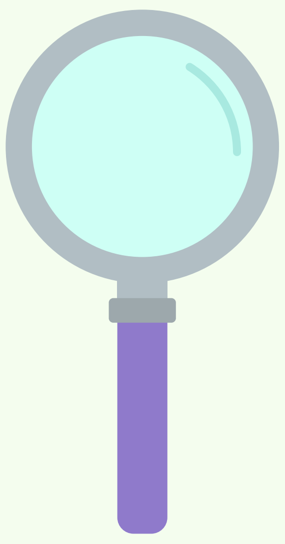
If you recall from Chapter 5, having bad debts can hinder you from achieving good financial health. Bad debts interfere with the savings portion of your budget, and thus affect your savings goals. It becomes even more difficult if you have a family, and if you are the sole breadwinner.

To avoid bad debts, you need to build financial discipline, which includes knowing how to budget, how to save for future needs and financial emergencies, and how to pay what you owe in full and on time.

There will be a time in your life when loans become essential to you. Loans are used to help fulfill milestones like buying a home, affording a car, or even growing a small business.

> There will be a time in your life when loans become essential to you. Loans are used to help fulfill milestones like buying a home, affording a car, or even growing a small business.

Loans bring long-term value when it enables you to level up your skills or even fund the operations of a small business to accommodate more customers.



LOAN

A loan is money you borrow that comes with interest.

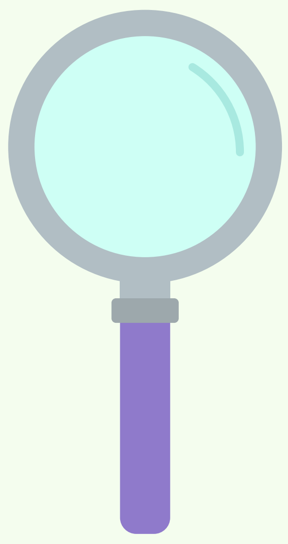
As a borrower, you are expected to pay back the equivalent of what you borrowed with interest. Moreover, a loan is made up of:

- The **principal** or the original amount of money that you borrowed
- **Interest** or the amount of money collected on top of your principal during a loan term

- **Loan term** or the agreed time that you must pay back a loan

Two types of loans are available to you: one is a secured loan, which requires collateral, an asset of item that you own that a lender accepts as security for letting you borrow money. Common collaterals accepted for secured loans are usually real estate and deposits.

The other is unsecured, which is offered as a one-time amount, or an amount that can be paid back gradually. It may also require a guarantor.



GUARANTOR

A guarantor is another individual that promises to pay back a loan if the original borrower fails to pay it back.

Why Do You Need A Loan

LOANS HELP YOU ACHIEVE SHORT AND LONG-TERM GOALS.

There are various reasons for you to take out a loan. The more common reasons include securing the additional amount you need for a downpayment for a new family car, or additional funding for education or a small business.

Depending on your current financial situation, a loan can help you achieve your personal financial goals. A loan can also help augment your income when your savings are not enough to cover the cost of a big-ticket purchase.

Loans provide access to additional money that your income could not fulfill at a certain time in your life. And since it is borrowed money, you can pay it back based on a chosen schedule.

The longer you choose to pay back a loan, the higher the interest or the total amount of money charged on top of the original amount you borrowed. In this instance, this is where you multiply the Principal x Interest Rate x Time. So, no matter how small the principal is, and no matter how small the interest rate is, if you are paying off a loan for a longer period, you will end up paying back the lender a higher amount.

These are other reasons why you need a loan:

Buying a car for convenience or a house for security. When you decide to have a family, buying a new car or a home are life goals that you want to achieve. Remember, while a car's value goes down due to wear and tear, it offers a means to go to work (and skip stressful commutes) or have road trips for the family. There are also psychological benefits like having some peace of mind and comfort that come with having a house that you can call your home.

Securing your children's future. If you have children, savings may not be enough to cover additional educational expenses. While saving up for your children's education is essential, you may not have enough for higher education, which costs around PHP 250,000 a year in a Philippine university. A loan can help supplement your current income, and thereby help manage your budget.

Loans covering an emergency. Setting aside money for an emergency fund must come first.

But if it's not enough, you can take out a loan to cover unexpected events in life due to medical and non-medical emergencies, natural disasters, or even personal accidents.

Starting a small business or upskilling.

If you are planning to run a small business, a business loan is something you can consider. The loan can pay for buying the necessary equipment, supplies, or even rent, that comes with setting up a new stream of income. This loan can also later fund expansion or the upgrade of your equipment and facilities.

Make sure you have a sound business plan that sees your business grow with the help of the loan, while the income that the business earns will hopefully pay for the loan.

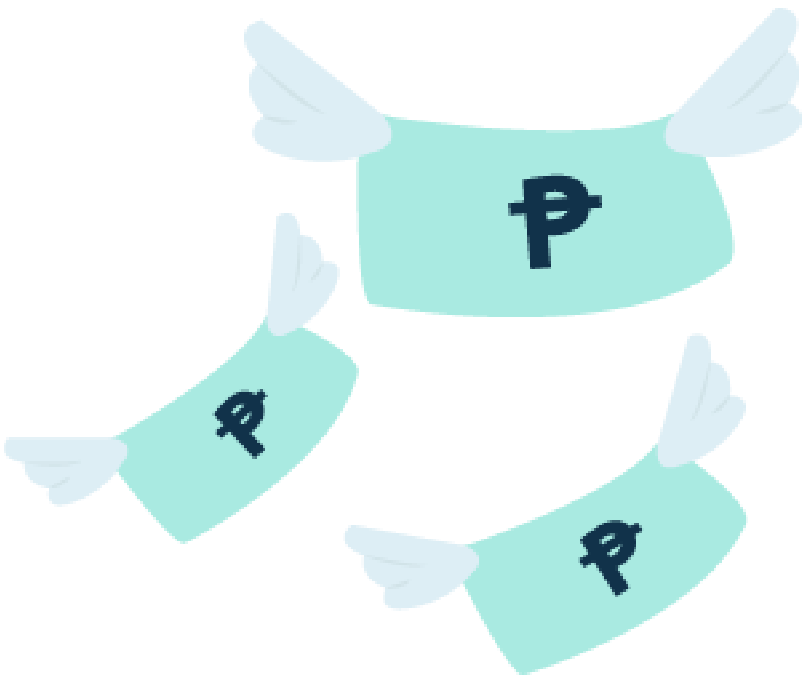
Would you rather pay in cash?

Some prefer paying in cash rather than taking a loan. So, what is the upside of paying in cash versus taking a loan?

- When paying in cash, you are not charged any interest. You only pay for the actual price of an item.
- Discounts are given when you pay in cash for a big purchase like a home or a car.
- Paying in cash forces you to spend within your budget.

Some prefer paying in cash rather than taking a loan. So, what is the upside of paying in cash versus taking a loan?

- It may drain your savings if you do not set aside money for specific purposes.
- You may not have enough cash to pay for an item.
- It is inconvenient and unsafe to carry around a lot of cash. You might lose it to theft or neglect.



When and Where Can You Get A Loan?

THINGS TO CONSIDER WHEN A LOAN IS THE ONLY OPTION.

You need to weigh your decision before taking out a loan, especially if you have heard about other people's bad experiences. But if you have financial goals that require a large amount of cash, then you should consider taking out a loan.

Before you start heading to a bank or a lender, here are some things to consider when taking out a loan, whether as a first-timer or as a repeat borrower:

Review your current financial health. From the lessons in Chapter 2, you need to look at your financial health first. Do you have existing debts, which you need to prioritize and pay off soon? Can your emergency fund cover unexpected expenses? Can you use your savings or extra cash to pay for a big purchase?

Define the purpose of your loan. Are you borrowing money to buy a car, a home, or to fund an education or business? Make sure your loan's purpose is clear. But consider that loans should help improve the quality of your life or will generate economic value for you, such as learning new skills which can help you get promoted in your job. Do not be tempted to loan to buy non-essential items during mall-wide sales or online shopping promotions designed to make you spend more than you can afford.

Determine your capacity to pay a loan back. Is your current income enough to pay for the money you will borrow? Do you have other assets that you can put as collateral? After you have checked your sources of income and your monthly budget, see if you have enough to take in a loan. If you are diligently budgeting, adjust it to fulfill your loan payments.

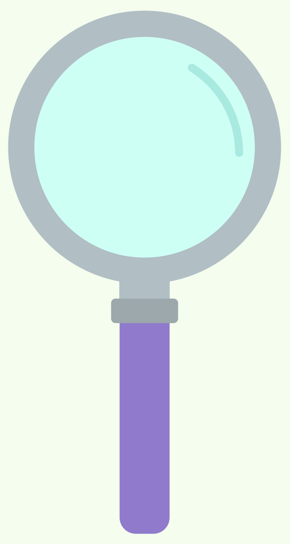
After the considerations above, know where you can borrow money from.

Banks offer a wide range of loans, from personal to home and car loans. Banks are regulated by the Bangko Sentral ng Pilipinas (BSP), so they follow strict requirements for evaluating borrowers, so that these borrowers can repay what they loaned. Banks also request collateral or a guarantor.

Lending companies are legitimate lenders that offer small loans to individuals and small-to-medium businesses. Their loan terms are short – from a month to up to 12 months, depending on the loan type. The interest rates, however, are usually higher than that of commercial banks.

Government institutions like the Social Security System, the Government Service Insurance System, and Pag-IBIG also offer multi-purpose loans to member individuals. The purpose of the loan varies from personal, home, or even expenses related to a calamity. The Department of Trade and Industry, the Department of Science and Technology, and the Small Business Corporation extend loans to small businesses in the agricultural and food sectors.

Lending institutions, specifically banks, use the debt burden ratio (DBR) to compute the loan amount you can repay, including the amount you can borrow. This is shown as a ratio of the needed loan payments to your monthly income. Lenders often use this to gauge if you are a capable borrower who can qualify for a loan, or someone who may not be able to commit to payments and is prone to default on a loan.



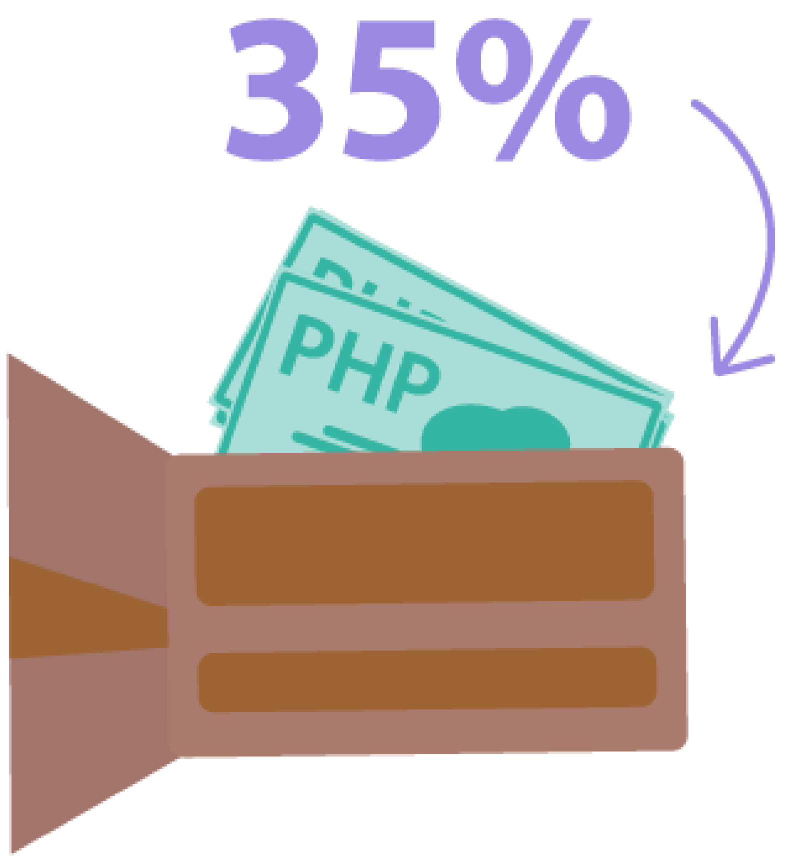
DEBT BURDEN RATIO

The debt burden ratio or DBR is your total monthly loan payments divided by your monthly income. It is expressed in percentage. The higher the DBR, the less your financial capacity to pay for additional loans.

DEFAULT

A default happens when a borrower stops paying debts due to lack of funds.

To understand your DBR, let's look at your monthly income and your total monthly loan payments. Let's say you are earning PHP 50,000 a month, and you are paying PHP 35,000 for loans every month, your DBR is at 70%, which is high. Given this DBR, a lending institution may give you a lower loan amount to make sure you have the money to repay the loan. The lender may also decide not to give you a loan at all.



Personal finance experts vary in their recommendations on the acceptable total monthly loan payments. As a guideline, your total loan payments should be in the 30%-35% range of your monthly income. If you can keep your total monthly repayments at that range, this will give you enough elbow room to pay for your essential expenses while saving or even investing.

So whatever reasons you have for taking out a loan, remember that you must first have the financial discipline and capacity to pay it back on time, and in full.

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Would you consider a brand new or used car?

Car loans are among the most popular types of loans in the Philippines because a car can provide you the mobility to bring you to work and conveniently take your children to school. However, you will need to bear responsibility for its care, which can be costly. Now, would you consider a secondhand car instead?

A brand-new car is often the first choice because of several advantages. There are few or no mechanical issues because parts are new. There is also a warranty from the manufacturer if there are issues. Overall, you have peace of mind that the car will run smoothly.

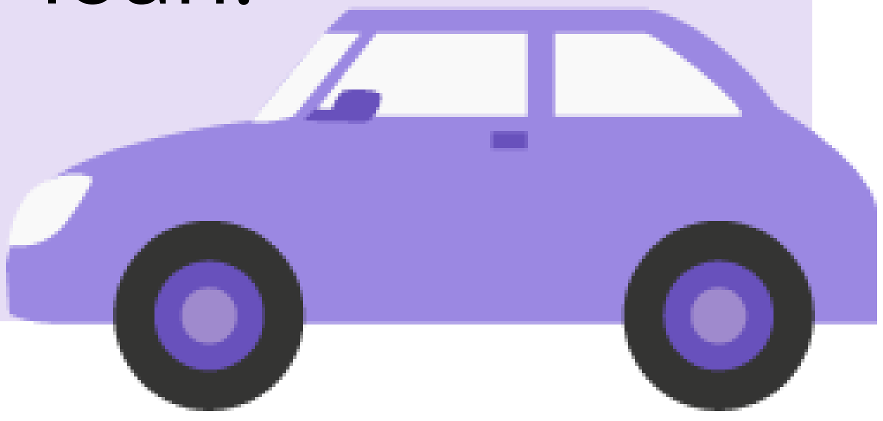
However, a new car comes with some disadvantages. It is more expensive, and if it was bought using a loan, the lender technically owns the car—not you—until you pay it in full and on time.

Meanwhile, a secondhand vehicle costs much less to buy, insurance costs less, and a well-maintained vehicle can work like it is brand new. Some of its disadvantages are mechanical failures due to wear and tear for older cars, requires more regular maintenance, and the transfer of ownership can be time-consuming.

If you are planning to buy a secondhand car, make sure you get it from a reputable dealer. If you are eyeing a used car from a private seller, you should do your homework on the car's mechanics or state so you would not be purchasing one that was flooded, stolen, damaged from a major accident, or have other issues that were hidden by a fresh coat of paint.

A secondhand car is relatively new if it is less than five years old, have only traveled an average of 10,000 kilometers per year, and is well and regularly maintained by the owner.

So, whatever your decision will be, there are loans available for purchasing a brand-new vehicle or a used one. Car loan experts vary in their recommendations as to how much of your income should go to car loans. Some recommend that it should be about 30%. But to avoid putting you in a difficult situation, 15-20% of your income should go to paying for a car loan.



What Lenders are Looking For

IMPROVE YOUR CHANCES OF GETTING A LOAN.

You are just a few steps away from getting a loan. Now that you know what and why you need to take out a loan, you need to prepare to face the person or people who will decide if you qualify for a loan or not.

There is a set of factors that can help lenders decide if your loan application is worth the risk or not. Knowing these can help you improve your chances of getting a loan.

Do you have collateral? Some lending institutions, especially banks, require collateral, which a lender can possess if you fail on your payment obligations. When you apply, take note of the assets you own that have measurable value, like real estate or a car.

Do you have capital? This is often asked by lenders for business loan applications. Capital refers to financial resources or assets that can be used to generate income. In the case of a business loan, lenders want to know if you have available cash and assets that could be used to fund your business.

Do you accept the conditions of the loan? If you are getting a personal loan, the lender will ask for more details about the purpose of your loan. If it is a small business loan, you will be asked about your business' revenues, growth opportunities, and potential risks. This evaluates if the loan would grow your business while ensuring returns.

Do you have the capacity to pay the loan back? Simply put, you have the capacity if your current income is enough to pay for your debts. A lender often asks for proof of your capacity to pay on an agreed payment term. Show the computation of your income and existing loans using the DBR method.

Do you have the right character profile to qualify for a loan? Character refers to your overall reputation, credit history, and personal background. If you are a first-time borrower, you need to build your credit history, for example. So, it is often good to start by showing previous loans, if any, or if you have a credit card and pay your monthly dues on time. As you grow your credit history, lenders would be more confident in granting you loans.

Stories of people who took out loans

The following stories are examples of people who took loans from a bank or a lending institution. Their motivations vary from one another, but each one weighed their decision and had good reasons to finally borrow money.

Story #1

Lee, a 35-year-old bank officer, was recently promoted. Her promotion boosted her monthly income to PHP 95,000 a month. She saved diligently and managed to put together PHP 1.5 million to pay for a condominium unit, which was worth PHP 3 million. Her savings were more than enough to cover the downpayment but she needed another PHP 1.5 million to pay for the rest of the cost to purchase the property.

So after carefully evaluating her financial situation, she decided to get a bank loan to cover about half of the condominium's cost. She used her savings to cover the downpayment and took a long-term loan for the remaining cost from a bank. She eventually managed to get a 10-year loan term at a 3-year fixed interest. This loan amounted to PHP 18,000 in monthly payments for the first 3 years. After which, she plans to negotiate with the bank for lower interest. All in all, her monthly loan took 19% of her monthly income, a manageable amount if we are to look at her DBR.

Story #2

Anne, 39, started an online business selling eco-friendly home products. She earns PHP 40,000 in monthly net sales. To help expand her business, she needed PHP 200,000 to rent additional warehouse space, buy additional stock of her products, and hire a part-time assistant for three months. She updated her business plan, which incorporated the additional cash infusion from the loan. The business plan highlighted that the loan could add about 70% of the existing monthly revenues to her business for the first three months. This amounted to PHP 68,000 in added monthly income.

She managed to get a business loan from the Department of Trade and Industry (DTI). The loan was for 12 months with an interest rate of 2.5% per month. Anne paid PHP 21,666 monthly. While her income was still relatively low compared to the monthly loan amount she was paying, she expects to grow her income due to long-term benefits from the loan.

Whether you are trying to get a loan for the first time or need to adjust your existing loans due to unforeseen changes in your financial situation, there is no substitute for coming in prepared.

Here are practical ways to negotiate for a loan:

- **Be ready.** Do your homework. Ready relevant documents like proof of income, bank statements, income tax return, and a valid ID. If you are renegotiating your loan, bring updated information about your financial situation. Remember to calculate your DBR and show that your loan payments are within 35%.

- **If it is required, ask for help from a guarantor.** Bring your guarantor's signed letter and their identification documents to help convince the lender of your sincerity and seriousness in using the loan.

- **Create a payment plan.** A payment plan details how you intend to pay back the loan, including how much of your income should go to the loan every month. When you negotiate with your lender, always ask for extended payment terms or lower interest rates by stating key reasons, such as your capacity to pay, the value of your collateral, or even potential returns from the loans you are asking.

- **Relax.** Borrowing is like applying for a job. Your confidence can also have a huge effect on the person's perception of you. Your lender wants to have an assurance that the person he or she is giving the money to is more than capable of using the amount and paying it back.

- **Have a list of lenders in mind.** If you do not get approved the first time, try others. Always have a list of lenders who you can approach. It does take a while to look for one who is willing to lend you what you need. Once you do, always remember to commit to the terms you agreed with the lender. You will never know if you need to ask for a loan from the same lender again.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- You need loans to secure funding for life's important milestones like buying a car, or home, or scaling up a business.
- Make sure you are borrowing from lending institutions, such as banks and government agencies, that are regulated by the Bangko Sentral ng Pilipinas or Securities and Exchange Commission.
- Loans are financial products that can help improve the quality of your life, especially if you are using them for education or to fund a small business that would generate income for you.
- Before taking out a loan, review your current financial goals, define, or describe the purpose of the loan, and check your financial capacity to know if you can pay the loan back on time and in full.
- Be prepared to negotiate with a lender. Ready relevant documents and updated information about yourself before you start negotiations.
- If you plan to buy a home or a car, how much can you afford to loan? Would buying a secondhand car be a better option for you, if you decide to forego a loan instead?

READERS' SECTION

A simple way to track your loans

It is easy to forget how much of your loans you need to pay every month. Here is an easy way to track them.

Instructions:

1. List down all your loans.
2. Split the three details: principal amount, loan term, and interest rate.
3. Use a free loan calculator to compute your loan payments.
4. Then, write down your monthly income and compare it with your loans.
5. Check your debt burden ratio = monthly loan payments/ monthly income. The percentage should not exceed 35%.

Loan Type	Principal	Annual Interest Rate (%)	Loan Term (Months)	Monthly Amortization
Example				
1. Car loan	₱500,000	30.26%	60	₱7,598
2. Home loan (first 5 years)	₱2,500,000	6.75%	120	₱28,706
			Total monthly loan payments (B)	

Debt Burden Ratio Calculation	Example	
Monthly income (A)	₱110,000	
Monthly loan payments (B)	₱36,304	
Debt Burden Ratio (A/B)	33%	

*35% is the maximum acceptable debt burden ratio

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Borrow with Confidence

It is better to understand what your short-term and long-term needs are, and if they can provide you with happiness and satisfaction. Remember, borrowing money requires financial discipline so you can pay it back in full and on time. Start with your goals.

What are your financial goals, and can you afford them?

Are you earning enough to achieve these financial goals?

To achieve your financial goals, should you take out a loan, and can you pay for it?

There's no harm in hoping for the best as long as you're prepared for the worst.

- Stephen King

CHAPTER 7

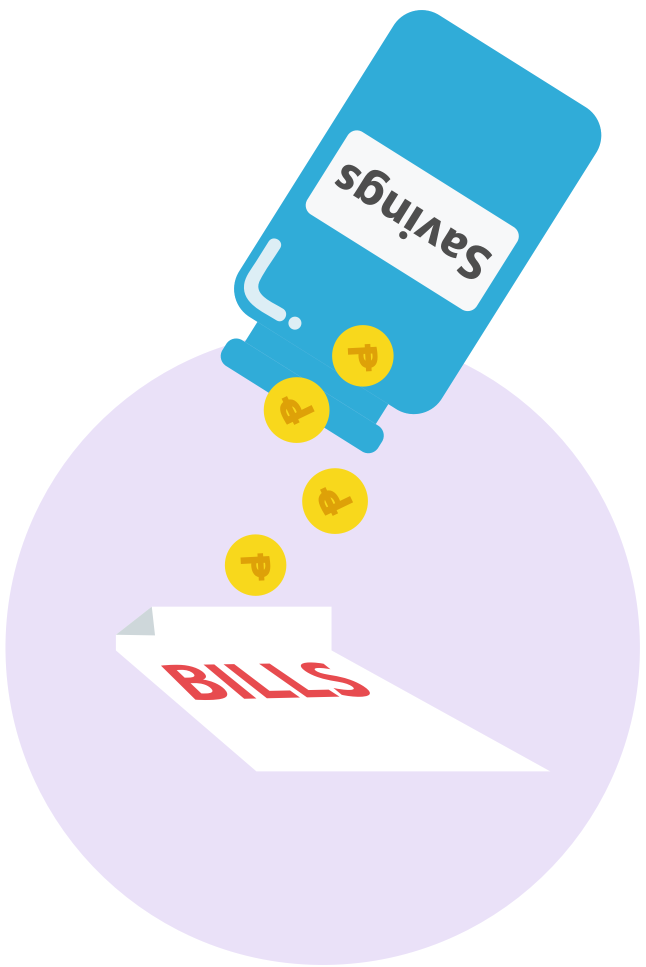
Insurance: Protecting You From Unexpected Events

What you will learn from this chapter:

- Why you need insurance
- What are the benefits of insurance?
- What you need to protect
- When should you get coverage?

Now that you've learned good budgeting and saving habits, dealing with debt, and how to make loans work for you, let's see how you can protect yourself, your family, and the gains you've made on your financial journey.

Mika, 26, single, and a corporate employee, didn't think she needed health insurance because her job comes with health benefits. However, when the pandemic struck, she fell ill and her health benefits were not enough to cover mounting medical expenses. Exhausting much of her personal savings, she decided to borrow money from her family and her employer to settle the additional hospital cost, which reached



PHP 1 million after being confined for weeks. A health insurance could have protected her from this unexpected expense that drained her savings.

Government data shows that 41.5% of the total health spending of Filipinos in 2021 were "out-of-pocket" payments, or spending that comes from their own savings and money borrowed from friends and family. Meanwhile, more than 50% of total health payments were for the government—through PhilHealth—and other so-called compulsory healthcare financing programs. Only 8.2% of Filipinos were voluntarily paying health insurance from private organizations.

Employed Filipinos are required to contribute regularly to PhilHealth, a government agency that provides health insurance to members. This government insurance, however, provides minimal protection and benefits, such as hospitalization and reimbursement of doctor's fees or medical costs.

Filipinos' negative perception of insurance is born out of the perception that the cost of getting one is expensive. Due to low financial literacy and misperceptions especially among those who have lower average incomes, some view insurance as exclusively for people with higher incomes. Whatever their reasons are for not getting insurance, government data in 2021 showed that the average Filipino spends PHP 10,000 on health services in a year. Having health insurance coverage can help spare you from paying for everything out of your own pocket.

INSURANCE

Insurance provides financial support to people covered by it when unexpected events, such as illness, natural calamities, accidents, or death, happen.

But beyond covering an individual, an insurance can also protect things you value, including your home or car, a small business, or even things you use to generate income.

This is the hard lesson that Rita, 63, had to learn. She runs a poultry business, which she inherited from her parents. As part of a business requirement, she bought fire insurance, which covered any potential loss or damage to her business facility. Unfortunately, 10 years after paying the insurance, she decided not to renew when it expired. So when a massive fire destroyed one of the poultry buildings, she was faced with PHP 18 million in damages and lost income.

Without fire insurance, she now needed to raise PHP 16 million to rebuild and was expecting to lose PHP 2 million per month in potential income from the business. She also had to let go of her employees who depended on her for their livelihood. She now needed to find ways to raise enough money by borrowing from family and friends, using some of her savings, and even taking on a loan from a bank.

Despite the obvious benefits of having insurance, both Rita and Mika had different reasons for not having coverage.

Here are some misconceptions that stop Filipinos from getting insurance:

> **"Insurance is expensive and it's only for those with higher incomes."** Francis, 36, is a graphic designer and a single father. *"Ang mahal ng premium, especially when they found out I'm a smoker."* Francis barely makes enough for himself and his child. "I don't have extra

[money] for insurance." Similarly, Lisa, 33, who works as a manicurist and is a mother of two, insists that insurance is only for those who earn a higher income. *"Pang mayaman lang yan. Basta mag-ingat lang tayo at magdasal. Si Lord na ang bahala sa atin."*

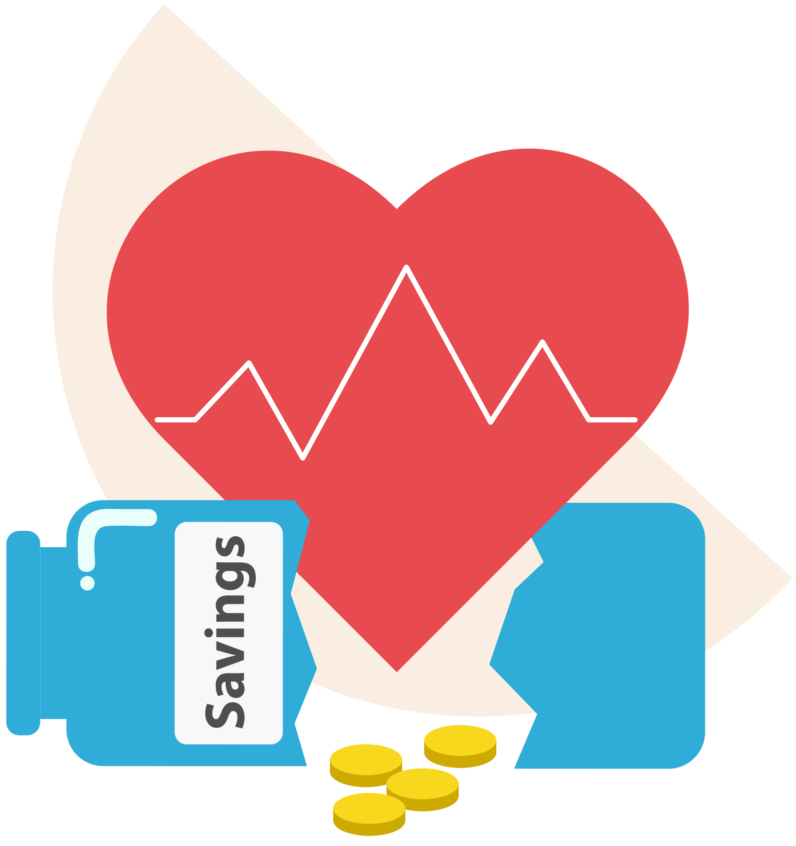
Fact: Insurance has recently become more accessible to Filipinos. So the perception that insurance is expensive is not accurate. For example, some insurance offered by reputable companies through financial tech firms can cost between PHP 50 to PHP 500 per year.

"My employer's health benefits are enough."

Single and healthy, Mika, 28, believes that her employer's health benefits are enough to cover her medical expenses.

Fact: Not all health benefits are the same. Depending on the employer's budget, some offer limited coverages or only reimburse partial amounts to pay for a medical emergency. In the case of Mika, her hospitalization benefits were limited, and could not cover her mounting medical expenses due to COVID-19.

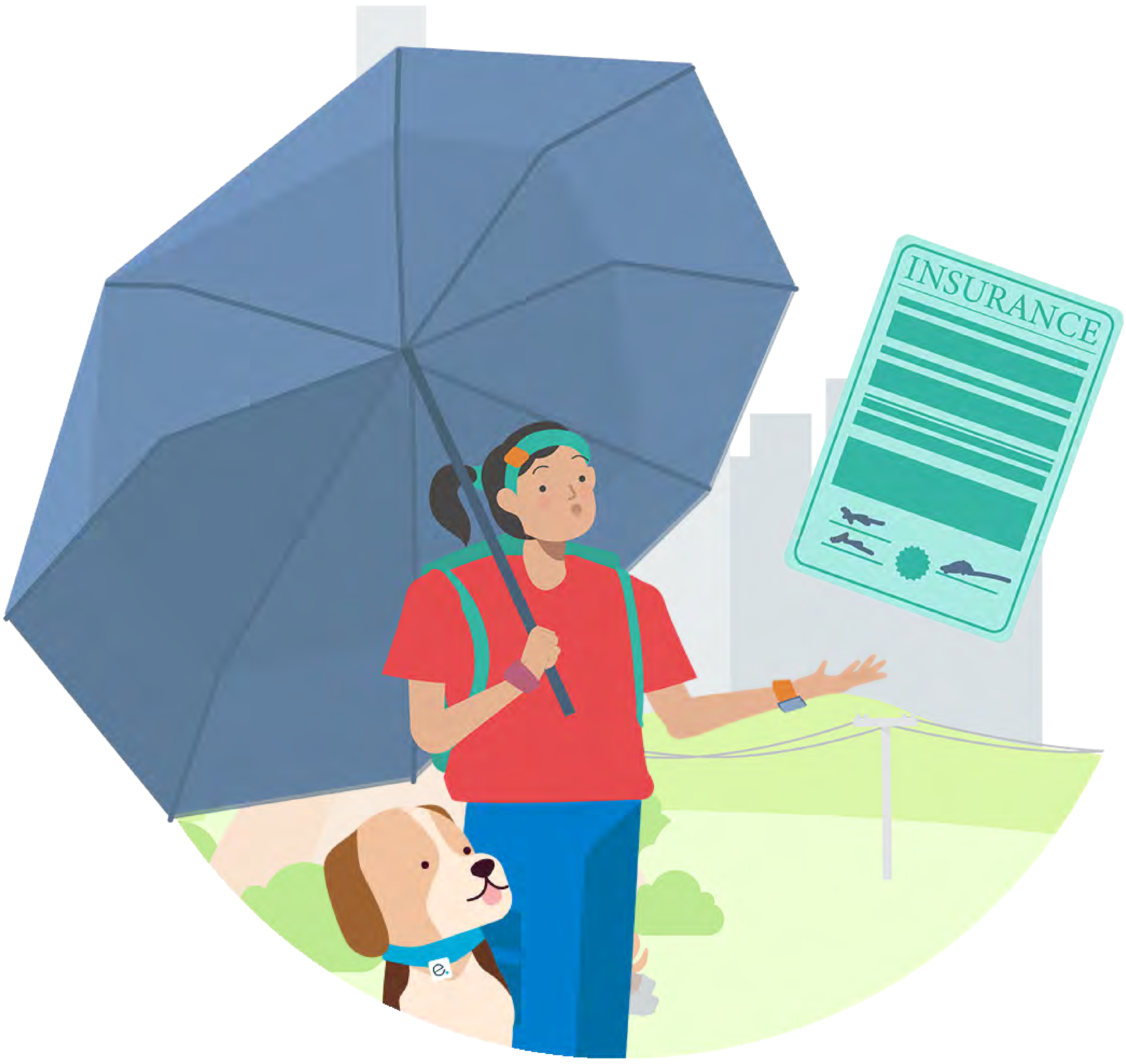
“My savings are enough to cover medical emergencies.” Jane, 40, married, is a software engineer who thinks she has enough money to cover unexpected medical expenses. She, however, admits that her savings were short of covering actual medical expenses when they happened.



Fact: It is wise to put aside some of your savings to an emergency fund, which can cover some of the cost of a medical emergency. However, health insurance coverage can provide financial buffer against any unexpected events, especially when expenses are beyond what you can afford or set aside as savings.

“I can’t use insurance while I'm still living.” Rene, 44, is a corporate employee and a father of two. He chose not to get insurance because he is anxious about whether the insurance company will pay as promised when he passes.

Fact: Insurance is meant to protect your family when you pass away, if you get into an accident, or if you get sick. This is important especially for the heads of the household who should be looking out for their loved one's future. There is a type of insurance that provides cash value you can use while you're still living on top of the death benefits given to your loved ones.



The Benefits of Insurance Coverage

WHAT COVERAGE CAN WORK FOR YOU.

Insurance is a financial product, but it is unlike investment products since you can't expect profit or benefits from it unless you experience an unfortunate event, which most don't like to think about.

You don't get anything out of car insurance unless you get into an accident or the vehicle is damaged.

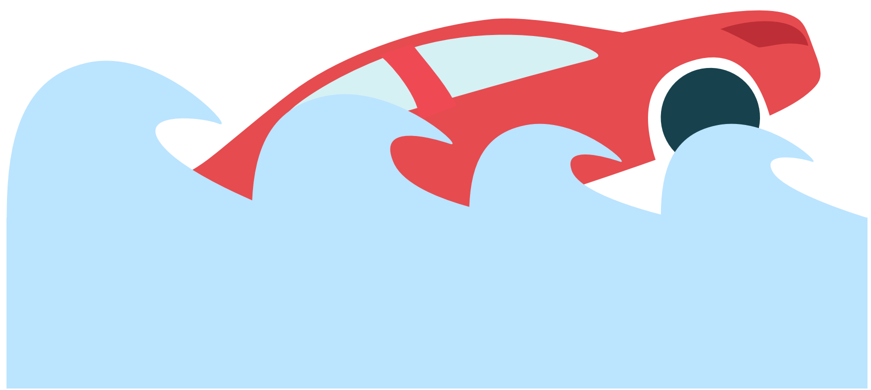
You can't claim your health insurance unless you get hurt or sick enough to be hospitalized.

But if and when an unfortunate event happens, you will either be thankful to have insurance or regretful for not getting one.

Apart from general financial protection offered to you, insurance offers these other benefits:

Protecting your family from unexpected events that affect you. Insurance spares your savings from being drained in case of your untimely death, a personal accident, or a medical emergency. Insurance becomes more important if you're the breadwinner, generating the majority of your family's income.

Protecting your assets and things of value. If you just bought a home or a car, insurance protects it from theft, loss, and damage due to accidents, man-made events, and natural calamities. This protection also applies to equipment or gadgets you use in your job, such as an expensive camera – if you're a professional photographer.



It gives you some peace of mind. Knowing that it offers a financial buffer to unexpected and unforeseen expenses, you will feel less stressed and anxious when they happen.

Currently, most people get their life or health insurance policies from friends who are financial advisors. Then again, most banks also partner with insurance companies and offer these products directly to clients.

So the insurance you get depends on what kind of protection you need and who or what you want to protect.

Insurance Terms You Should Know

If you're wondering what these terms mean, don't worry. We made it simple for you.

Insurance Term	Definition
Policy	A written contract that provides details of your insurance.
Policy holder	This is often you—the insured—who is identified in an insurance policy.

Insurance Term	Definition
Insurer	The company that offers the insurance coverage and services as detailed in an insurance policy.
Beneficiary	A person or a group of people who will receive the proceeds or benefits of an insurance policy when the insured passes away or the policy reaches its maturity.
Coverage	Unexpected events like death, personal accident, sickness, or damaged property that are included in a policy.
Premium	The amount of money you pay for your policy. This may be in the form of a single payment, or several payments made monthly, quarterly, or annually, depending on your payment terms.
Payouts	The policy's benefits that an insurer approves and gives to the beneficiaries after they file for a claim.
Claim	A formal request for payment by a policyholder or beneficiary to an insurance company.
Term	A specific period or duration when the policy is in effect.
Deductible	The money you pay out-of-pocket before the insurance company pays the claim.

What Can You Insure?

PROTECT WHAT YOU CARE FOR AND LOVE.

An insurance policy is an agreement between an insurance company and a policyholder, which is you. So, anything and anyone can be insured if an insurance company agrees to cover it and you're willing to pay the set premium, which is the amount of money you pay for coverage.

Insurance can be generally divided into two main categories: life and non-life.

Life insurance simply offers payouts to named beneficiaries when you pass away. This happens as long as premium payments are up to date and the policy is valid at that time.

Meanwhile, non-life insurance offers financial coverage or compensation when your car, house, business, or other assets gets damaged or stolen. This is also known as general insurance and can cover property and other circumstances, such as travel.

While you are often aware of life, health, home, and car insurance, you can also get coverage for anything you value, such as your business, jewelry, artwork, gadgets and even pets, as long as it's not specifically prohibited by the law.

Here are common types of insurance:

Types of Life Insurance

1. Term Life Insurance

What is it? It is a simple type of life insurance that covers a limited number of years. The term is usually set for 5, 10, 15 or 20 years.

What does it cover? It provides financial benefits if you—the insured, passes away during the set term of the policy. As a simple life insurance, there are no other benefits, such as savings or an investment component.

Who should get it? This is ideal for people who just started working and want to get life insurance at a lower cost. Also good for parents with young children or income-earning adults with dependents.

Pros and cons: It is the simplest and most affordable life insurance product. The guaranteed death benefit means your family knows what to expect when you pass away.
However, if you outlive your policy's terms of, say 20 years, your family doesn't get anything out of the premiums paid. Renewing it when you're older also means a higher premium.

2. Whole Life Insurance

What is it? This insurance offers coverage for the rest of your life and includes a cash value that you can withdraw when you're still alive.

What does it cover? Whole life insurance can remain in force during your lifetime—as long as you continue to pay the premium.

Who should get it? Because the premium for whole life insurance tends to be higher, this is ideal for more established individuals or breadwinners who want to make sure their family is financially comfortable even when they pass.

Pros and cons: On top of the guaranteed death benefit, you also get a portion of your premium as a cash value while you're still alive. The uniform premium payments also make it easier to put these payments into a budget. Such extra benefits, however, make it more expensive than term life insurance, so it may not be accessible to individuals with tighter budgets.

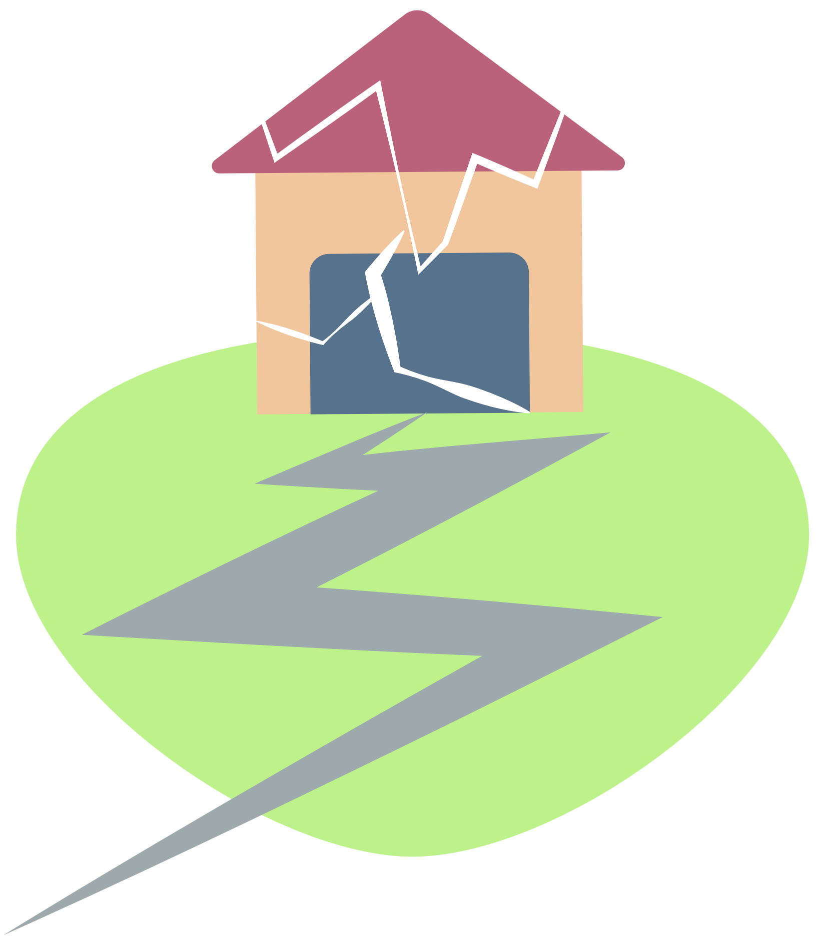
Types of Non-Life Insurance

1. Home Insurance

What is it? This covers your residence or property. It protects you from unexpected financial loss brought about by damages to your residence, along with furnishings and other assets within the home.

What does it cover? This covers interior and exterior damage, loss or damage of personal assets or belongings, and injuries that occur within the premises of your residence. Theft, vandalism, and so-called "acts of God" and other natural calamities like earthquakes, may also be covered.

Who should get it? People who have achieved their dream of home ownership. However, home insurance is often offered as part of a deal when you take on a home loan from a bank.



Pros and cons: Since real estate values tend to go up, your home insurance policy can cover up to the current market value of your property. This may be more than what you initially paid for. This insurance is clearly useful in the event of fire, flooding, or earthquake. Meanwhile, comprehensive home insurance can be costly. But the cost of not insuring your home can ruin you financially in case of a devastating event.

2. Car Insurance

What does it cover? The most basic car insurance is the Third Party Liability (TPL) insurance. TPL protects you from liabilities brought about by an accident that injures or results in the death of another person. There is also comprehensive car insurance that offers additional benefits, including protection against vandalism, theft, terrorism, and acts of God.

Who should get it? All vehicle owners are required to have at least a TPL before they can renew their car's registration. Comprehensive insurance is ideal for Filipinos who can afford a higher premium, but is especially essential for those living in or driving along flood-prone areas.

Pros and cons: Comprehensive car insurance covers the full market value of a car in case it is stolen or suffers extensive damage due to an accident, a natural calamity, or even man-made events such as terrorism. This is ideal when your car is new or is less than five years old. Car insurance can be expensive, depending on the model of your car. Claiming your car insurance can also mean a higher premium when you renew it the following year.

3. Commercial Insurance

What is it? If you're running a business, this insurance protects it from financial losses that may be brought about by unexpected events.

What does it cover? Depending on the coverage you want, the cost of the premium you can afford, and the identified business risks, your business can be protected against natural disasters, fire, data security breaches, customer injury, lawsuits, theft, and even employee injuries and illnesses.

Who should get it? If you have a business that you, your family, and your employees depend on, it is worth securing it against the identified business risks.

Pros and cons: Insurance coverage can help your business ride out moments of crisis. Depending on the assessed risks and capital costs of your business, insuring it can cost tens or hundreds of thousands per year, but these premiums are deductible from the business tax.

4. Travel Insurance

What is it? If you love to travel, this insurance can protect you from unnecessary expenses brought about by risks in traveling.

What does it cover? If your trip gets canceled or disrupted, when you lose or damage your baggage and personal effects, or when you contract a virus while traveling, this insurance covers it. It can also provide insurance in cases of accidental death or flight accidents. Many travel insurance policies now cover COVID-19 risks.

Who should get it? If you travel a lot, you should get this insurance. Getting into an accident or needing medical care in foreign countries can be financially devastating. This insurance offers a financial buffer. For domestic travel, this insurance is also recommended, as flights can be canceled or delayed due to typhoons or other calamities. For frequent travelers, annual travel insurance plans offer global coverage, meaning if you get into an accident overseas, you're covered.

Pros and cons: This insurance gives you peace of mind because it protects you from the stress and financial cost of canceled trips, which are typically non-refundable and non-rebookable. Lost or damaged luggage and passports are also covered. Like most insurance policies, you don't benefit from it unless something bad happens. So if your trip goes smoothly, then it's purely an additional expense.

5. Pre-Need Plans

What is it? This insurance pays for services that you will need in the future. Usually, the benefits are made available when you need it or when your insurance policy matures. So this insurance lets you set aside a small amount of money today, so you get a bigger sum in the future.

What does it cover? There are various kinds of pre-need plans. One type makes sure your funeral services are paid for ahead of time. The plan covers your burial, cremation, and other services that you need when you pass away. Meanwhile, there are pre-need plans that are meant to cover future educational expenses.

Who should get it? This is ideal for individuals who want to plan ahead for future needs. This insurance is also best for those who want to set budgets for protection, since you can choose the mode of payment available in monthly, quarterly, semi-annual, and annual installments.

Pros and cons: This insurance offers protection against price shocks due to inflation and rising market costs. For example, a pre-need plan allows you to save for your child's education because this protects you from tuition inflation. But there are instances of pre-need companies closing down and leaving their customers empty-handed. This is why it's important to do your homework and due diligence, and to deal only with reputable and reliable companies.

6. Microinsurance

What is it? This type of insurance is often short-term and available at lower rates. It is offered to individuals and families who can't afford more expensive insurance policies.

What does it cover? For individuals, this insurance provides life, health, and disability benefits. Among small entrepreneurs, it offers protection from fire, theft, and natural disasters for sources of income, such as crops, livestock, and equipment.

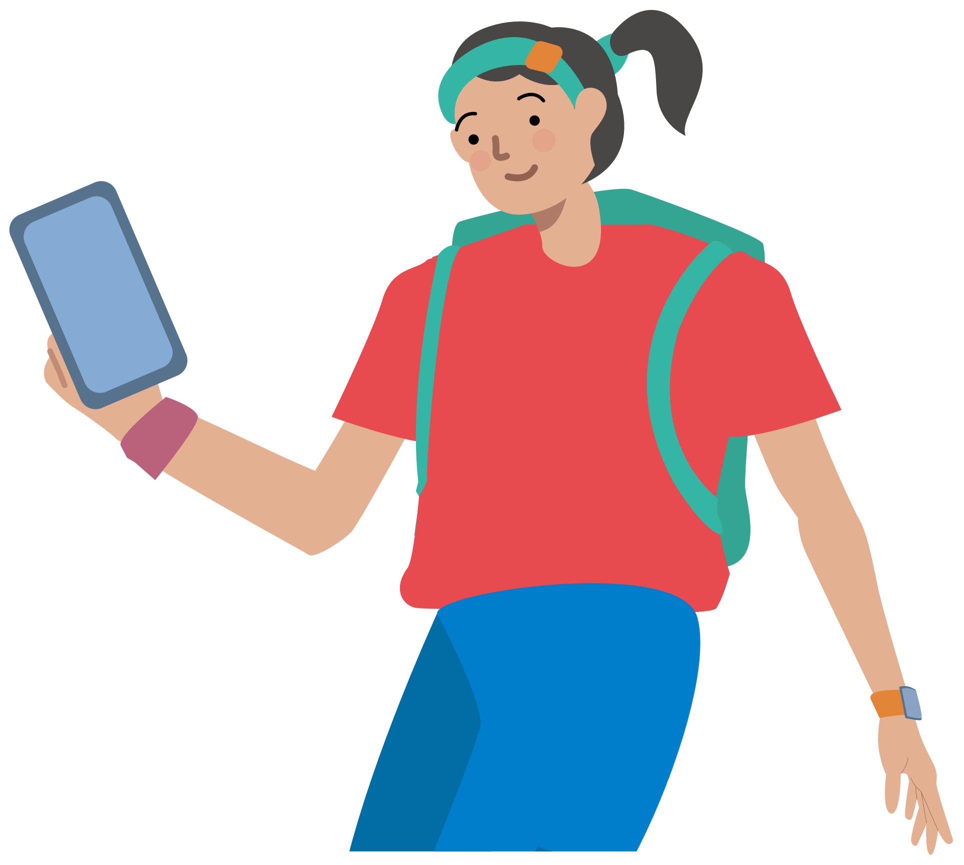
Who should get it? Individuals with limited budgets can benefit from microinsurance.

Pros and cons: Because the coverage value is lower than standard insurance plans, policyholders pay smaller premiums. However, smaller premiums mean that benefits also tend to be smaller.

Other Types of Insurance

There are other types of insurance for "tools of the trade" or the equipment you use when you work.

You can now get protection for your smartphone, expensive camera gear, or even your laptop from possible theft, loss, and damage. The cost will depend on the value of your gadget or equipment and the coverage you choose.



What is VUL?

You may have heard about variable universal life insurance, also known as variable unit-linked insurance (VUL).

What is VUL and how does it work?

This type of insurance combines standard life insurance with an investment product. As life insurance, VUL offers the usual death benefit, while a portion of the premium payments—some up to 95% of your premiums—goes to investments like stocks, bonds, and mutual funds. Because it is an investment, VUL's overall cash value can go up or down, depending on the performance of the market. So while VUL offers the benefits of a life insurance, it comes with risks.

VUL is available to anyone who can afford higher premiums, but also understands the risks involved in any investment.

The cost of the VUL premium is significantly higher, and there are fees associated with VUL that may be higher than your standard life insurance.

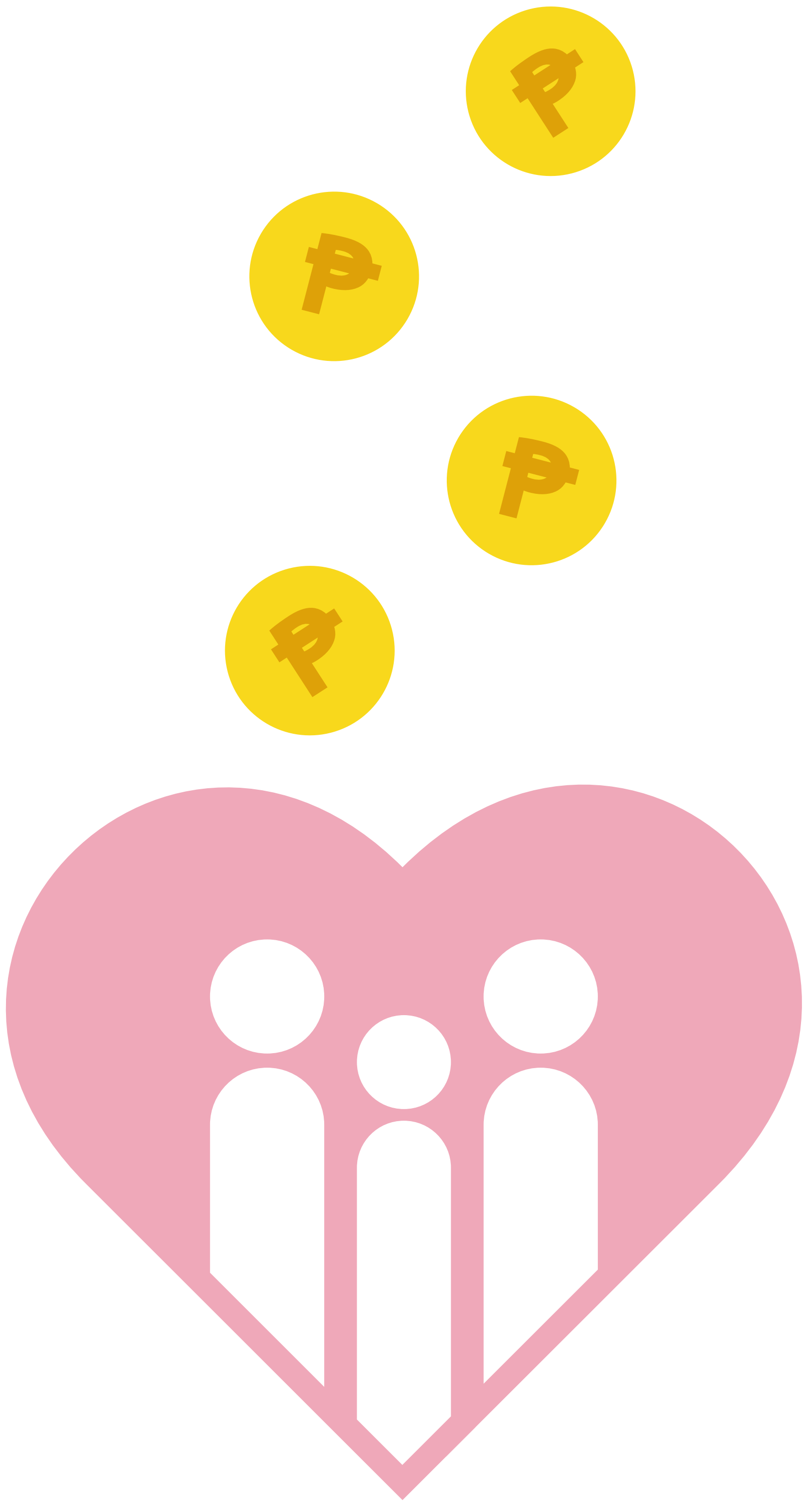
When Do You Need Insurance?

KNOW THE BEST TIME TO GET INSURED.

So when do you need an insurance coverage? Are there any specific moments in life when insurance becomes essential?

Here are some life milestones and events where insurance becomes necessary. Clearly, insurance serves different purposes, depending on specific motivations, and points in your lifetime.

Starting a family. Julian, 38, and Paulette, 32, are both successful freelance creatives who got married two years ago. They are expecting their first child. Before the baby, neither of them considered getting insurance. Because of their growing family, Julian got health and life insurance. For them, insurance means peace of mind. Besides, it doesn't take that much to budget for the future protection of loved ones.

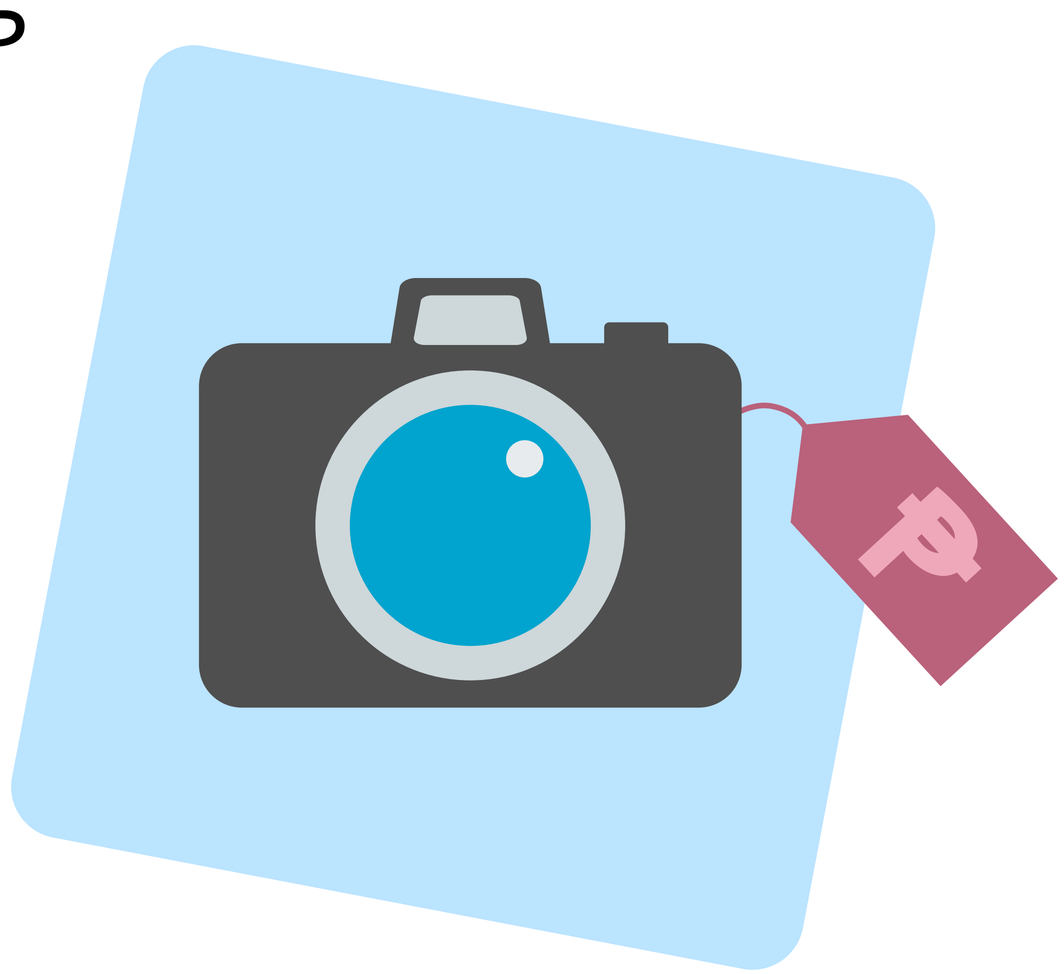


Getting a new job. Elaine, 32, is a resident doctor at a hospital in Alabang, but lives in Quezon City. She decided to take a car loan to make her daily commute less stressful. She also decided to get expensive comprehensive insurance on top of the TPL. Barely a week after getting the car, both insurance coverages proved useful when she became a victim of a hit-and-run.

Her comprehensive coverage allowed her to quickly make a claim to get the car fixed. She only needed to pay a small amount for the deductible, also known as the "participation fee."

Putting up a small business. Carlos, 75, is a retired banking executive who has significant investments and a profitable family business. While he no longer considers health or life insurance essential at his age, he still got insurance coverage for assets and the business because he appreciates continuing coverage for things of value.

Protecting things you need to make a living. Fred, 54, has been a freelance photographer for the last 30 years and his photography equipment costs more than his car. Lucky enough to have a steady stream of clients, he knows that losing or damaging his cameras could affect his ability to fulfill his commitments, especially if he is unable to replace them in time. So he availed of a gadget insurance for his most expensive camera sets.

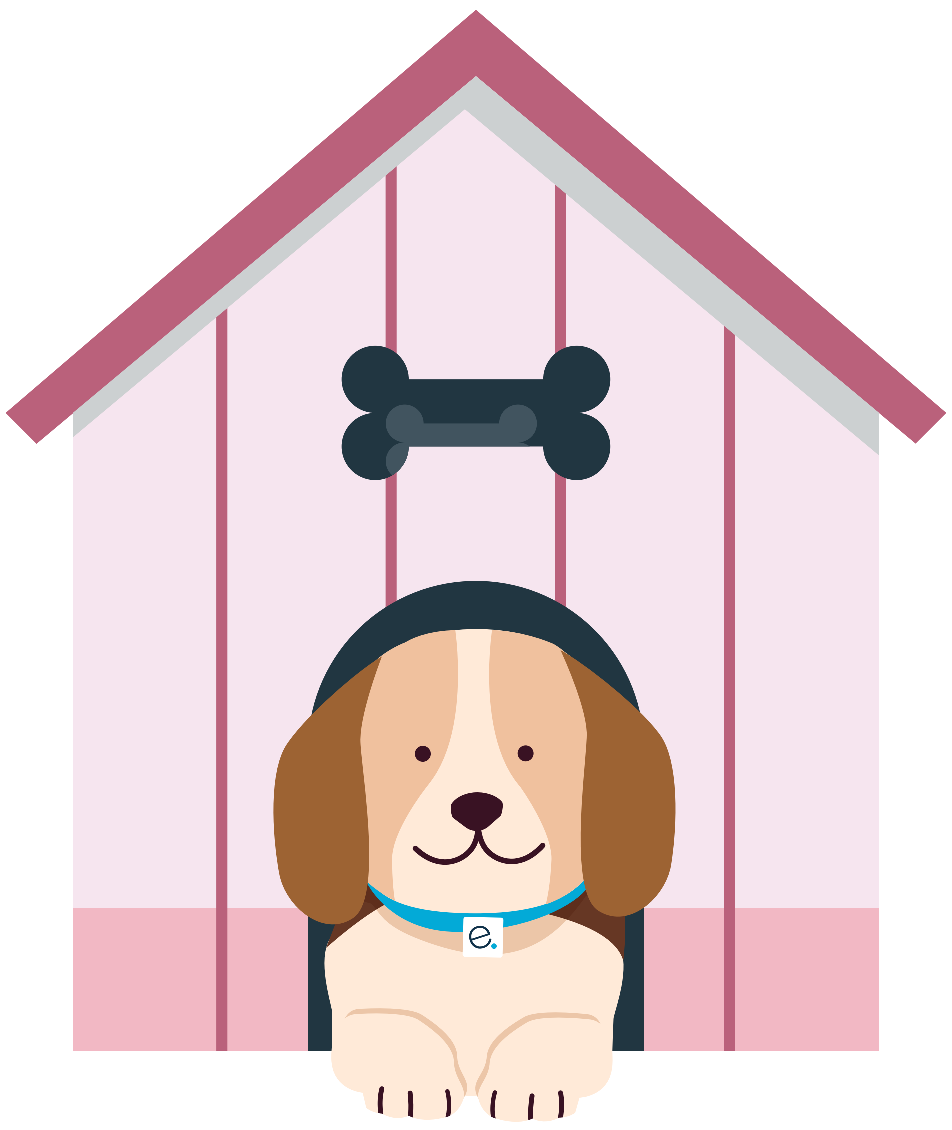


Traveling safely. Mary, 40, travels a lot with her husband, so she invested in an annual travel insurance policy that lets her enjoy herself without worrying about unexpected costs in case of trip cancellations, lost or damaged baggage, or even sickness. This gives her peace of mind.

Retiring soon. Patrick is set to retire soon after 33 years of working. He anticipates a good retirement package but feels very insecure about losing his good company benefits, specifically the healthcare coverage for himself and his wife. He knows that the cost of health insurance goes higher as you approach 60 years of age. Still, he decided to get healthcare insurance for himself and his wife, knowing that they will need it more as they get older.

Covering medical emergencies. Anne, 33, is a healthy woman who was a former varsity player. One afternoon, her partner found her collapsed on the bathroom floor and rushed her to the hospital. She needed an emergency appendectomy. Thankfully, she bought a separate health insurance, which covered the costs of her surgery and six-day confinement at a private hospital. Her company's health insurance was not enough to cover the cost.

Insuring furry friends. Jack, 36, is a single man who adopted a puppy named Cookie. He loves her like his own child and decided to get pet insurance to cover her veterinary expenses in case she becomes sick or gets in an accident. While the idea of insuring a pet may sound silly to others, he wants the best care for his pet in case something bad happens.



How to Get Insurance?

HERE ARE CONSIDERATIONS FOR GETTING COVERAGE.

As with budgeting, there is no one-size-fits-all insurance policy. The ideal insurance policy is the one that protects your family and assets, but still fits your lifestyle and your financial capacity.

You usually get insurance through financial advisors acting as agents of reputable insurance companies. You can also go directly to partner financial institutions, like banks or insuretech companies, which offer accessible and custom-fit coverage based on your budget and lifestyle.

Since insurance is all about planning and preparation, do your homework first before reaching out to an insurer. Also, take some time to do the following:

Understand your needs. If you are the primary breadwinner, health and life insurance coverage should be your top priority, so your family can live comfortably when you're gone.

Gauge your income including your emergency fund and find a policy that you can comfortably afford. Recall our chapter on budgeting. Revisit and revise your budget so that your insurance premium payments are part of your essential expenses. Insurance should augment your savings in case of an emergency.

Know what coverages are available to you. If the standard policy coverage doesn't meet your needs, talk to your insurer about customizing your policy. Also, understand the potential deductibles or the amount you need to pay before making any claims.

If you are employed, study your existing benefits carefully and find the gaps where getting extra insurance would be most useful. Not all employment benefits are the same.

If you own a business, identify the greatest risks to your business and insure against them. Be sure to have this protection especially if this is the main source of your income, and livelihood.

Know where can you buy affordable insurance. Financial advisors or your bank often offer standard insurance based on what you need and what you can afford. Lately, so-called insuretech offers custom-fit policies for you. This insurance service is now available online or through mobile applications, and offers lower rates, including specific coverages, such as gadget protection.

Once you get your insurance policy, consider doing the following:

Understand what your policy covers and until when. Stay on top of things and ensure that your premiums are paid on time, and your policy is renewed so that you don't find yourself unprotected in a time of need.

Late on premium payments? Don't panic. If you find yourself in a tight spot and unable to pay a premium on time, stay calm. Most policies have a grace period for premium payments. Talk to your insurer about it.

Need more coverage? Review your policy. If your circumstances have changed and an existing policy no longer works for you, work with your insurer to have it amended or replaced with something that does.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Having good financial health means also having insurance, which protects what you have, your loved ones, and yourself from unexpected events.
- Being uninsured can derail you from reaching your financial goals, and can even lead to financial ruin.
- Insure things that you value, love, and need in the future.
- Insurance services are not just for the rich. There are insurance policies that are available to those with tighter budgets but still want to be protected from future financial shocks due to inflation.
- There are insurance coverages for every person at every stage of their life. The best policy for you is the one that protects what matters most to you.
- Insurance policies can be customized to fit your specific needs.

READERS' SECTION

List Down Your Insurance Needs

How will you know when you need insurance?

1. Start listing down five things that would financially cripple you and your family if something bad happens.

2. Check whether you have insurance for aspects of your life that can be affected by these unexpected events or situations.

3. See how much it would cost you without insurance versus how much an insurance policy would cost.

4. Add up the cost of protection, and see if you can afford it, or if it is within budget.

5. Prioritize which insurance you should get first.

	Protected	Not Protected	Cost without insurance	Cost of Insurance	Payout or Benefits
Example					
Family/ My life as breadwinner	X		PHP 1.5 million in lost annual income	PHP 32,000 per year in premiums	PHP 5 million death benefit
Healthcare Needs	X		PHP 250,000 for 1-week hospitalization	PHP 12,000 per year	PHP 300,000 per illness
Home		X	PHP 11,000,000 current market value	PHP 17,000 per year	Up to PHP 11 million if total loss

JOURNAL

Do You Really Need Insurance?

Now that we've gone through the importance of having insurance coverage, ask yourself the following questions:

Is your family financially covered in case you are no longer around to provide for them?

If a family member gets seriously sick, will your employee health benefits be enough to cover the healthcare costs?

Do your current budget priorities reflect what truly matters to you? If not, how can you fix this?

At this point, you are now more familiar with insurance, what it is, and why you need it. You also have a clear idea of what type of insurance you need, or when you need it. One thing is clear: you need insurance to bridge the gap in your budget, especially when these additional expenses are brought about by unexpected events. And speaking of payments, the next chapter will dive into the world of payments and its benefits.

If you think nobody cares
if you're alive,
try missing a couple of
car payments.

- Earl Wilson

CHAPTER 8

Paying Attention to How You Pay

What you will learn from this chapter:

- Why payment methods are important to understand
- What are the available payment methods for you?
- When should you use credit cards for payment?
- What are the benefits of the different payment methods?

Ever since money was invented, payments have become a part of your daily economic activities.

You pay bills, you pay for shopping, and you pay for goods and services. In budgeting, payments play an important role, especially in how you manage your essential and non-essential expenses. So, it's important to understand how payments work, and how well you can make it easy and convenient.

You have many options for paying. Apart from the traditional cash, you can pay through checks, cards—credit or debit, and recently, using digital platforms.

Globally, digital payments became popular in 2020 when the pandemic struck. As you were stuck in your home trying to avoid getting sick, your use of digital payments increased.

A report showed that Filipinos who usually paid for things in cash or credit cards claimed they shifted payments to digital wallets. Digital wallets became the choice of payment method because these were convenient and widely accepted.
In recent years, more Filipinos used digital payments to also settle bills and buy groceries online.

Looking Closely at Payments

PAYMENT METHODS AVAILABLE TO YOU.

Even before we used precious metals and stones, early Filipino ancestors used salt, a common household item today, as the main medium of exchange. This is the reason why money received from hard labor is called salary. The word originated from the word salt.

Early Filipinos then bartered or traded things of value in exchange for things they needed. They started using gold, silver, and other precious commodities to transact with each other and later, with foreign traders.

With the arrival of the Spanish colonizers in the 16th century, the concept of money was introduced through the Spanish peso. By the mid-18th century, the country's first paper money, the Philippine peso, was issued by the country's first bank, El Banco Español Filipino de Isabel II. Since then, developments in banking and technology have given Filipinos more methods for payment.

To date, here are the different payment methods available to you:

1. Cash

What is it? In the Philippines, cash is still king! Since cash is a widely popular payment method among Filipinos, several words are used to refer to it: *pera*, *datung*, or *kwarta*. Cash is the physical money that you use to pay for goods and services. It comes in the form of paper—recently replaced with polymer—and coins. In the Philippines, the Banko Sentral ng Pilipinas (BSP) prints the money.

How does it work? Cash is a medium that stores value. Back then, cash used to have a corresponding value in gold, which is stored in a safe place like a bank or a mint. Central banks then print money based on the corresponding value in gold. Today, cash is known as fiat money or currency issued by governments. The Philippine peso is a type of fiat money.

FIAT MONEY

Fiat money is issued by the government and is not backed by a physical commodity like silver or gold.

Pros and Cons: Cash is still the simplest form and most widely accepted payment method. Using cash can make you more aware of your spending habits. Cash requires you to physically hand over money, which can make you more conscious of the amount you are spending.

It's easy to overspend when you don't physically see the money leaving your hands. Meanwhile, carrying cash exposes it to the risk of getting lost or stolen. Also, it is inconvenient to carry substantial amounts of cash when you need to make large payments.

2. Checks

What is it? Checks date back to ancient Rome where written instructions were used to transfer funds. So, people could deposit money with a banker and receive a written order, which could then be presented to another banker later for withdrawal. From the 16th century to the 17th century, the modern concept of the check took shape. It featured a familiar format, which almost looks like ours today: the name of the payee, the amount of money, and the signature of the payor.

How does it work? Checks are linked to a current or checking account with a bank. It starts with you writing a check. You then give this check to someone or a business establishment as payment. The recipient has a choice to deposit this check into their bank account or cash it. When a bank receives the check, they verify the transaction first. They look at the check to see if it is properly filled out and if the payor's signature matches the records. Also, they check if there is enough money in the bank account to cover the payment. Once the check is verified, the bank starts the clearing and settlement process with the payor's bank. If everything clears up and the money is confirmed, the transfer of funds happens.

Pros and cons: Checks let you pay for high-value items, such as a down payment for a car or even a home without needing to carry substantial amounts of cash with you. Checks are also used as a guarantee for payments to be made at a future time and within a schedule. These are often called "post-dated checks." Checks are linked to accounts with a higher maintaining balance compared to a regular savings account. There is also a minimal cost for getting new checkbooks. If you decide to cancel your check while it is being cleared, you can be charged with fees for the processing time with your bank. You are also penalized with additional fees if your bank account does not have sufficient funds when your check is being withdrawn. When this happens, your check has bounced. You could be at risk of violating the law.

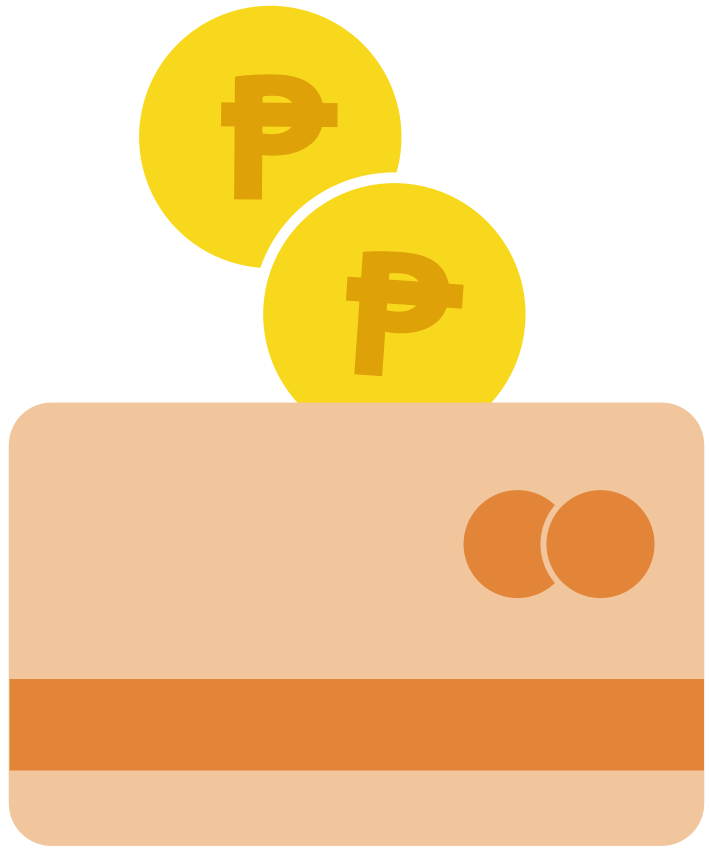
3. Debit Cards

What is it? It is a payment card that gives you access to money in your bank account. It is a cashless method. Since it is connected to a bank account, money is at once debited or deducted whenever you use it for payment.

How does it work? In the Philippines, debit cards are issued by your bank. Since they are linked to a bank account, you use the money deposited in that account whenever you pay. And because a debit card is as good as cash, you need to secure its use. You must assign and activate a Personal Identification Number (PIN) once you get the card.

Pros and Cons: Debit cards are easy to use. If you're paying in a physical store, you either tap or swipe your card and key in your PIN on a point-of-sale (POS) terminal. You can also use your debit cards to make cash withdrawals in automated teller machines (ATMs) of your bank or in other bank ATMs. Fees are charged whenever you make withdrawals from other banks. In the Philippines, debit cards use payment networks, such as BancNet, Mastercard, or VISA, to make payments online or abroad. Since debit cards use PINs to secure your payments, they may be a target for attacks by hackers or skimmers who will go after your PIN and other information in your debit card.

4. Prepaid Cards



What is it? A prepaid card is a payment card where you can load money. Often issued by banks or financial institutions, prepaid cards are not connected to a bank account.

How does it work? As the name implies, you can load money into your prepaid card, which you can use to make payments. Like a debit card, you can use this card with POS terminals in physical stores. However, there is a limit to what you can spend on your prepaid card, which is the amount you loaded. Once you have spent it all, you need to reload money through a bank or a financial institution.

Pros and Cons: Prepaid cards are ideal if you want to stick to a budget but do not want to carry around cash when you go shopping, for example. Since it is not connected to a bank account, you only use money that is on the card. It takes a valid ID and a small fee to apply for a prepaid card. There is no limit to the amount of money you can load in your prepaid card. Fees are charged, however, when you use it to withdraw cash from ATMs.

5. Credit Cards

What is it? A credit card is a payment method that doesn't necessarily require you to open a bank account. Whenever you use a credit card to pay, you are borrowing money from the bank that issued the card, much like a short-term loan. In other words, you are not spending your own cash, but are using a line of credit from the bank.

How does it work? Credit cards, also known as "plastic money," were introduced in the US back in the 1920s. So, it has been around longer than debit cards. In the Philippines, credit cards are usually issued by banks. When you apply for one and get approved, you are given a credit card that comes with a credit limit. The credit limit is the total amount of credit available to you for purchases, and you are expected to pay back the amount you have used within the billing period. The bank sets your credit limit based on your credit score, income, and your employment status.

Pros and Cons: Credit cards can be used to buy things now, then pay later. At each month's end, you must settle the amount you borrowed on time. If you decide to pay it in full, you avoid interest and more charges.
If you choose to pay only the minimum amount indicated in your bill, the bank charges interest. Paying late results in late fees and interest. So, it is best to pay in full amount and early or on time to avoid

penalty fees and interest. Otherwise, the unpaid amount, plus the penalty fees, get carried over to your next billing and may balloon to unmanageable debt. Meanwhile, whenever you use your credit card to make payments, you build your credit score. As discussed in Chapter 5, your credit score is your financial standing with the bank and your ability to pay back the money you owe. Apart from building your credit score, you also earn rewards and points when you use your credit card for payments.

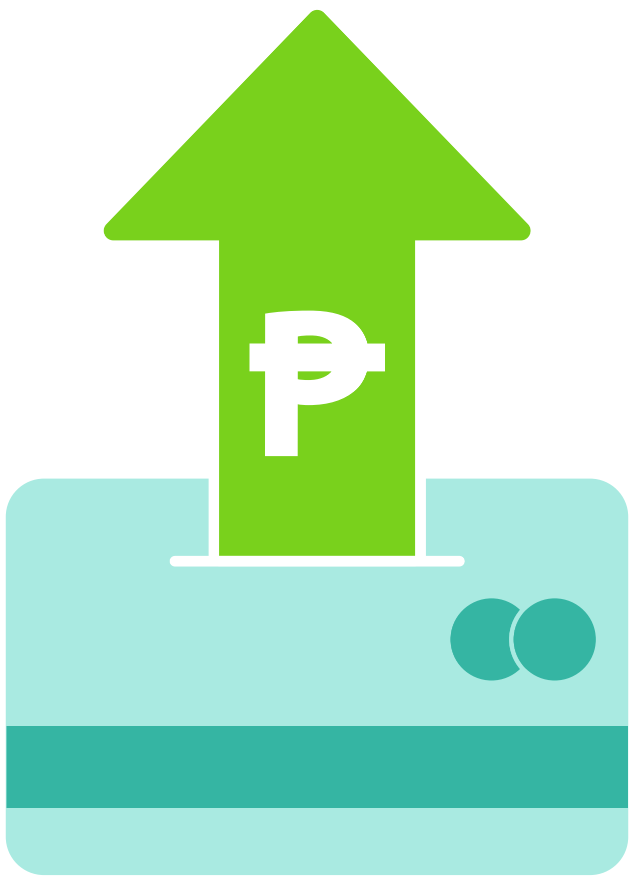
Using Credit Cards for Payments

HOW CREDIT CARDS CAN WORK FOR YOU.

You may have noticed that among the listed payment methods, credit cards are particularly unique, because you are paying with money that is not yours—it's all credit, thus the name credit card. For a responsible credit cardholder, this payment method can be particularly beneficial as a financial management and cashflow tool.

Credit cards also allow you to make purchases of items in installments, which is debt that is paid at regular intervals over a fixed period. So, instead of repaying the full price of a bag you bought with your credit card at PHP 3,000 at the end of the month, paying in installments can allow you to only settle PHP 500 every month for six months under different payment schemes, including a 0% installment plan where there is no interest.

Like debit and prepaid cards, credit cards are commonly accepted by most merchants and establishments in the Philippines. If you are in good standing with your bank or your credit card company—this means you have a good credit history—you will most likely be given a generous credit limit that allows you to make bigger purchases, and this can even go higher over time.



Most banks also have rewards programs for credit cardholders, where you earn points for every use of the card. These points can be converted to airline miles, item redemptions, or even shopping credits.

Some credit cards offer cashback, where they give back a percentage of the purchases you made using your card by deducting it from your bill. Other perks include access to airport lounges, premium or VIP events, and even exclusive deals with partner merchants.

Despite the benefits that credit cards offer, credit card ownership in the country is still relatively low. While 11.8 million credit cards were issued in the Philippines by end of March 2023, 36% of these are to cardholders who own more than one credit card. Meanwhile, there were 7.5 million Filipinos who owned only one card.

This is due in part to the higher requirements for a credit card than, say, a debit or prepaid card because you are essentially borrowing money from a bank to pay for things. These institutions want to ensure you can regularly pay your bills and won't be in debt.

Most banks also charge you annual fees so you can continue using and enjoying your credit card's benefits. Depending on the card and how often and responsibly you use it, you can ask your bank to waive this fee, but this is up to their assessment and approval.

There may also be more fees if you avail yourself of the so-called cash advances, where you can withdraw a partial amount of your credit limit in cash from an ATM. Remember, these cash advances are still borrowed money.

> Responsible credit card usage can help you build good credit history and increase your chances of getting approved for bank loans.

Choosing a credit card can be a good exercise in making thoughtful and smart decisions about money and your personal finances. Understanding your lifestyle, aspirations, and spending habits can help you decide what credit card will work for you, for example:

For frequent travelers. You can apply for a credit card that comes with low foreign exchange fees, free travel insurance, and a good points-to-miles conversion ratio. The more you use the card in your travels, the more points you earn.

For people on the road often. If you are driving almost every day and spend a considerable amount on fuel, you may want a credit card that has a rebate program with the card's partner gasoline company. Every time you gas up, you either earn points or get discounts for products and services offered by the gas company.

For people who shop a lot. If shopping sparks joy for you and you have a favorite brand or a merchant, check if they have discount offers or special installment programs with certain credit cards. Some offer discounts, points, or even cashback for the purchase of select items.

For people who love to eat out. If you love to dine out with friends or have family-bonding activities, look for credit cards that offer discounts or cashback with various restaurants, hotels, or similar establishments.

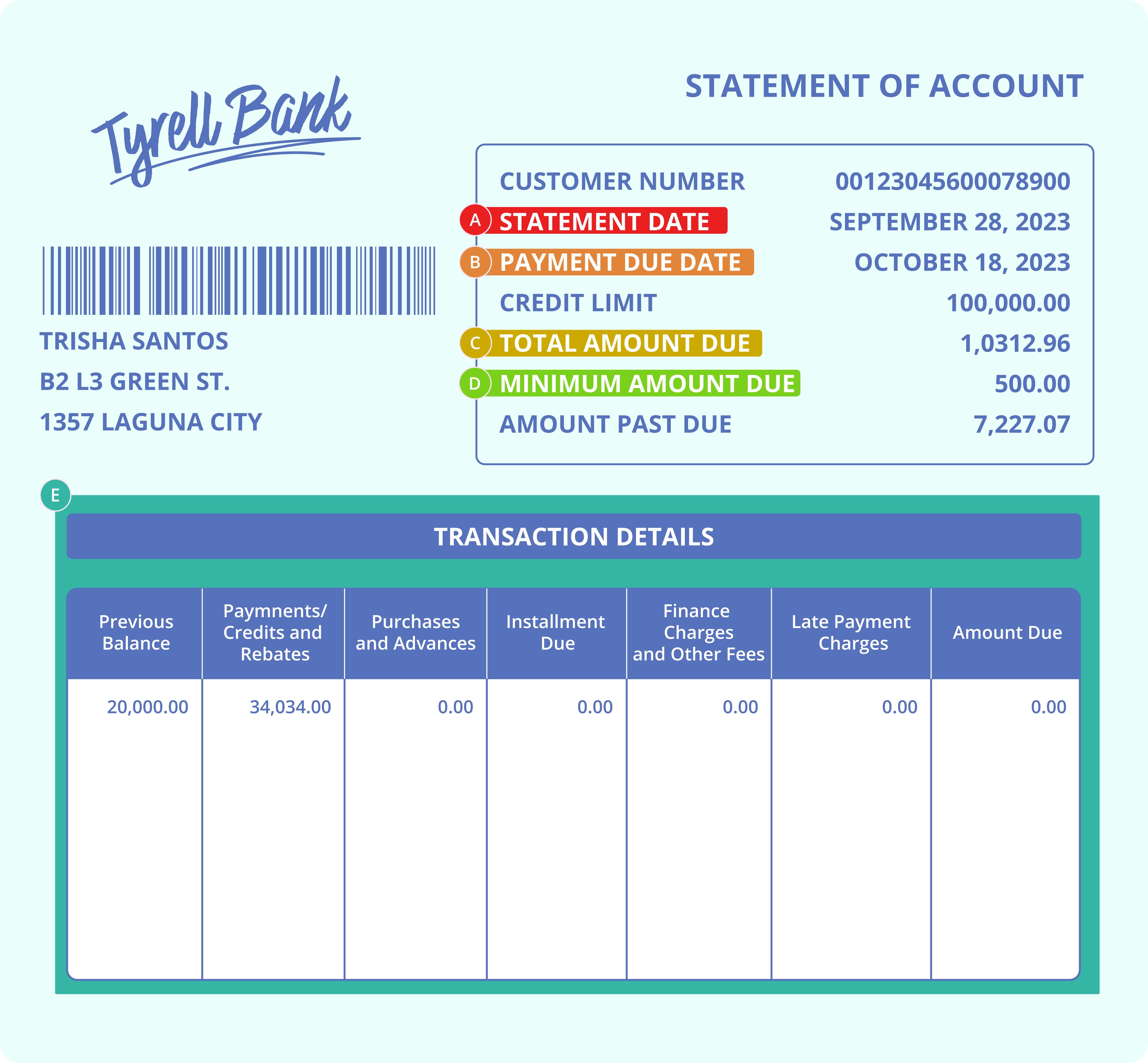
When it comes to understanding how your credit card works, especially the monthly billing statement that you get in your inbox or snail mail, it is important to know what it is, and what it represents.

You need to understand your credit card bill because it is the record of all your purchases and payments for the month. This is relevant if you're tracking your expenses.

Your monthly credit card statement is also one way to flag transactions that were charged to your card but don't recall such transactions made. So, this means they may be unauthorized transactions, which you can contest with your bank.

A credit card statement also shows you the interest you need to pay on top of your monthly expenses if you decide to only pay the minimum total balance from the previous billing, or you've had late payments.

So, here are the important parts of the credit card statement that you need to understand:



Tyrell Bank

STATEMENT OF ACCOUNT

CUSTOMER NUMBER	00123045600078900
A STATEMENT DATE	SEPTEMBER 28, 2023
B PAYMENT DUE DATE	OCTOBER 18, 2023
CREDIT LIMIT	100,000.00
C TOTAL AMOUNT DUE	1,0312.96
D MINIMUM AMOUNT DUE	500.00
AMOUNT PAST DUE	7,227.07

TRISHA SANTOS
B2 L3 GREEN ST.
1357 LAGUNA CITY

E TRANSACTION DETAILS

Previous Balance	Paynments/ Credits and Rebates	Purchases and Advances	Installment Due	Finance Charges and Other Fees	Late Payment Charges	Amount Due
20,000.00	34,034.00	0.00	0.00	0.00	0.00	0.00

*This is a sample credit card billing statement

A Statement Date: This is when the statement of account was released.

B Due Date: This is the deadline when you must pay your credit card bill. Missing the due date will result in additional charges.

C Total Amount Due: The amount you must pay in full on its due date, as indicated in the billing.

D Minimum Amount Due: The smallest amount you can pay on your due date. But interests are charged on your next billing. Make sure to pay the full amount rather than the minimum amount due.

E Transaction Details: Shows your credit card transactions during the statement period, listed according to date. It Includes the merchant and amount.

Pay Attention to Your Credit Card Habits

Good credit card habits

- Paying in full, on time, all the time
- Maximizing perks like discounts, reward, and cashbacks
- Tracking your spending
- Availing of payment offers like installments to help manage cashflow
- Study which credit card best suits your lifestyle
- Keeping your credit card details safe and secure

Bad habits leading to bad debt

- Paying only the minimum amount
- Using it to buys things you cannot afford to pay in cash
- Spending more than your monthly income
- Treating your credit limit as "extra money"
- Sharing your credit card details

The Rise of Digital Payment Platforms

DIGITAL PAYMENTS DRIVE CONVENIENCE.

While Filipinos still prefer cash as a method of payment, a recent study shows that the adoption of cashless payment methods in the Philippines increased. Cashless payment methods include debit, prepaid, and credit cards, mobile payments, digital wallets, and QR payments.

QR PAYMENT

Quick Response (QR) payment is a digital payment method that requires the payor to scan a QR code or a square-shaped barcode instead of typing in the payee's account name and number.

In a 2021 study by a payment platform provider, 89% of Filipinos surveyed said they have used cashless payment methods. The COVID-19 pandemic has pushed the use of cashless payments, including digital payment methods, in the country.

The pandemic, which peaked in 2020, very quickly changed many financial habits, including how we pay for things.

Online shopping experienced a boom, as did apps offering food delivery and courier services. In the Philippines, the same survey showed that 52% of Filipinos said they shopped online through website or mobile apps, and 45% said they shopped through social media.

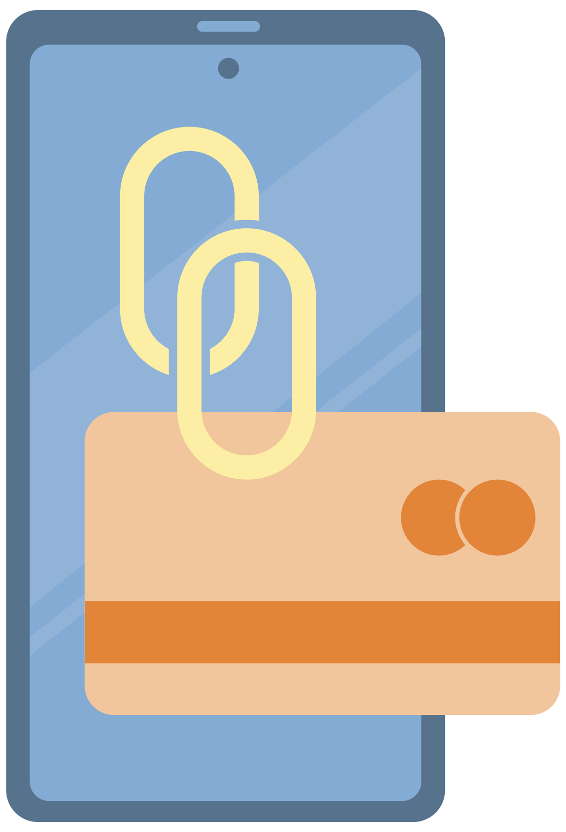
Among Filipinos who were hesitant to link their bank accounts or even cards online due to concerns about fraud and hacking, they still saw the value of using digital payment platforms for convenience and safety.

While COVID-19 is no longer a global health emergency, digital payments are now part of the new normal as Filipinos continue to enjoy their benefits:

1. **Speed and Convenience:** Digital payment platforms, such as mobile wallets, online banking, and payment apps allow you to transact quickly and efficiently. Transactions happen in real time or with a minimal waiting time. You don't need to visit a branch or a store to do transactions.

2. **Accessibility and Availability:** Digital payment options are available 24 hours, 7 days a week. You can make payments anytime and anywhere, if you have an internet connection.

3. **Seamless Integration:** Digital payments work on various devices and platforms, making it easy for you to link bank accounts, credit cards, or other payment methods.



4. **Security and Fraud Protection:** Digital payment methods come with security measures, such as encryption and multi-factor authentication to protect your personal and financial information from scammers and hackers. While technology is available to secure your transactions, human nature and weaknesses (sometimes ignorance) are factors that can lead to scams. For example, scammers can impersonate bank representatives who offer too-good-to-be-true deals to trick you into giving away your personal, financial, and security details.

MULTI-FACTOR AUTHENTICATION (MFA)

This is a digital security method where you are given access to a website or application only after supplying at least two pieces of evidence or factors of your identity to prevent fraud.

5. **Record-keeping and Transaction History:** Digital payments offer you the advantage of keeping track of all your transactions, which is helpful for tracking your expenses.

6. **Person-to-Person or Direct Transfers:** Digital payment allows you to transfer money to other

people quickly and with ease. So, you can send money to family, friends, and colleagues at the tap of a button.

7. **International Payments.** Digital payments are borderless. You can use it to pay for goods and services abroad, using a digital wallet or an account linked to a debit or credit card.

8. **Loyalty Programs and Rewards.** Since digital banking is relatively new in the Philippines, they offer cashback to attract you to switch and use their payment options for everyday transactions.

DIGITAL BANK

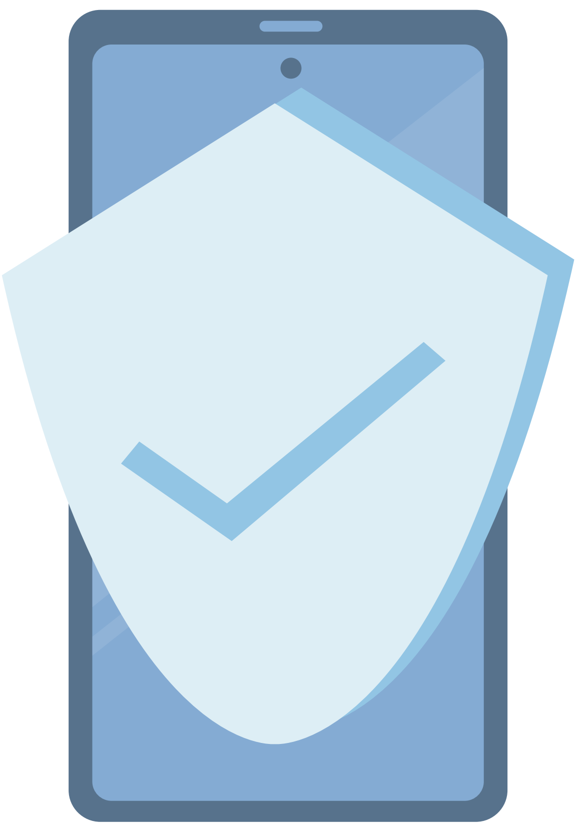
A digital bank offers financial services just like a traditional bank, but exclusively online or via mobile apps.

How You Pay Can Save Your Day

USE SECURE PAYMENT METHODS.

Trust is the most important factor for a bank. Banks and other financial institutions need to keep transactions and accounts secure because their business is dependent on their clients' continued trust in them.

This is why they invest in security features like the use of embedded microprocessor chips and multi-factor authentication to keep their digital platforms and payment methods safe.



On top of these technological solutions, they also have mechanisms and processes to help you in case your credit card or e-wallet gets compromised. Here are some real-life examples of people who were able to receive help from such protection:

Stopping payments. Inez, 38, was running errands when she received an SMS about a purchase being made using her credit card. She later realized her wallet was stolen. She called her bank's hotline to report the theft and unauthorized transaction. The bank immediately helped stop the payment and canceled both her credit and debit cards to prevent further unauthorized transactions.

Disputing and reversing unauthorized transactions. When Chel, 33, was reviewing her credit card statement, she noticed small transactions made over several weeks amounting to PHP 3,000. She recalled not receiving any notification via SMS nor One-time Password (OTPs) on any of those transaction dates. She filed a transaction dispute and asked the bank to investigate. The full amount was eventually reversed and credited to her account by the next billing period.

ONE-TIME PASSWORD

One-Time Password, also known as OTP, is a password that is used only once to authorize an online transaction or log-in activity. They are sent to your registered mobile number or email address to verify your identity.

Card blocking and replacement in case of loss. Mary, 40, was in the US when she lost her credit card. She called her bank's international hotline to report the loss. She also checked for any unauthorized transactions and asked the card to be blocked. The card network's international concierge helped her get a replacement card within 2 days even while she was abroad.

Being able to alert your bank or your credit card company at once about losing your card and reporting unauthorized transactions can help assure them that your claim is legitimate.

Remember, sharing your OTP or other sensitive information through phishing attacks – modus where fraudsters use e-mail, SMS, or even fake websites to trick you into giving banking and personal information – may count as authorizing the transaction in the eyes of the bank.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- There are multiple payment methods and the best one depends on your spending habits.
- Use your credit cards to manage cash flow through deferred or installment payments. Enjoy your credit card's cash backs and rewards.
- Cash is still king, but using digital payments and credit card is gaining popularity.
- The COVID-19 pandemic, e-commerce, and technology improvements increased awareness and use of digital payment methods.
- All payment methods, especially credit cards, need individual discipline and control.
- Digital payments and credit cards have added security. But you still need to stay alert against theft and scams.

READERS' SECTION

Match the Benefits and Challenges of Payments

Let's test how much you have learned. Match the payment method column with the pros/cons column. Use a pen or a pencil. Hint: There is more than one answer to some items.

Payment Method	Pros/Cons
1. Cash	a. It's as good as cash. Works well with merchants' POS.
2. Check	b. It's accessed using a mobile app.
3. Debit Card	c. It's also called fiat money.
4. Credit Card	d. It's a safe way to pay for your big purchases.
5. Digital Payments	e. You pay using borrowed money.
	f. Interest charged if balance not paid on time or in full.
	g. Payments are debited to your bank account.
	h. Payments need to follow a clearing process with the payor's bank account.

Answers: 1 = c; 2 = d, h; 3 = a, g; 4 = e, f; 5 = b

JOURNAL

Thinking of Your Payment Habits

Now that you have learned about payments, reflect on the questions below.

Have you missed payments on your credit card and got charged with fees? Why?

Do you have a credit card and have some unpaid debt? Why?

Are you using digital wallets to pay for utilities and other bills? Why or why not?

If you have reached this point of the chapter, you now have a better idea of the different payment methods, how one is different from the other, and how they work.

You are now ready to move to the next chapter, where you will be introduced to investing, or simply the concept of how to grow your money.

If you do not find a way
to make money while you sleep,
you will work until you die.

- Warren Buffet

CHAPTER 9

Your Journey Toward Investing

What you will learn from this chapter:

- Why everyone should invest
- What you need to know before investing
- How compound interest works in investing
- What are the types of investment products

What comes to mind when you hear the word investing? You might think of setting up a small business, buying a piece of land, or renting out an apartment to receive additional income. But did you know that there are other forms of investments, including those you can get from a bank or through a certified stockbroker?

Investing is one of the most important lessons you need to learn for your financial wellness, because it helps you reach your money goals faster. Recall what you learned in the earlier chapters, particularly about budgeting, where you learned that in the 50-30-20 budget method, 20% goes to your savings. The reason behind this is that you can't expect your money to grow if you just place it under your pillow or mattress.

But the PHP 10,000 under your pillow today will still be just PHP 10,000 under your pillow tomorrow and three years from now. With investments, however, there is a chance that your PHP 10,000 may grow to PHP 12,000 or more in a year or so.

But we need to clarify that investing is not a magic trick that will at once generate income. Always remember that you can lose money by investing and there will always be hundreds of risks that might affect your investments.

That’s why it’s so important that you learn as much as you can so you can enjoy the benefits of investments while minimizing the risks involved.

Everyone Should Invest

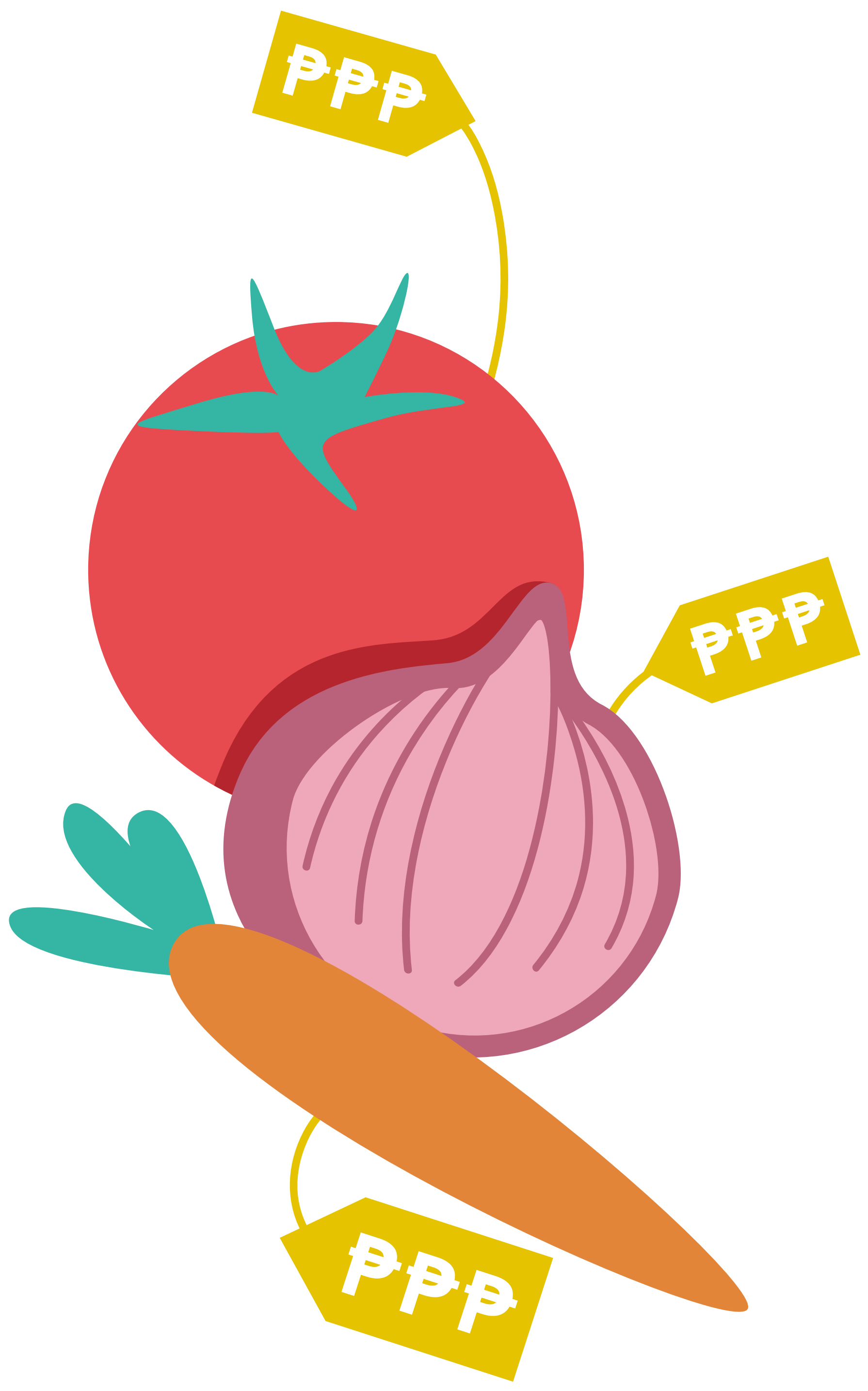
HOW INVESTING MAY BEAT INFLATION.

What are investments? Most Filipinos view investments in two ways. One involves setting up a small business or renting a property. This is what most Filipinos think about when asked about investments. The other type is one that you do with financial institutions like a bank. Both types can help you reach your financial goals. But the latter will require an understanding of investment products offered by banks.

Think of investing as building your financial readiness for an expected financial storm. Without investments, your savings account and emergency funds can only do so much. But investments can protect you, and even help you prepare for more financial storms in the future.

It is important that you set aside money for an emergency while you manage your expenses and savings before you start investing. They are all part of a step-by-step process that helps you reach a point where your money can grow and beat inflation.

First, let's understand inflation and why it matters when it comes to investing.



How much is your PHP 1,000 worth today compared to last year? Can you remember how many kilos of vegetables you were able to buy before with that amount compared to now?

The price change is due to inflation.

You can fight inflation when you're invested because your money's buying power remains equal, if not more, to the prices of goods and services.

BUYING POWER

Also known as purchasing power, it is the amount of money or value of money that can buy goods or services. This can change over time due to inflation.

Investing can also help you in other ways. It can:

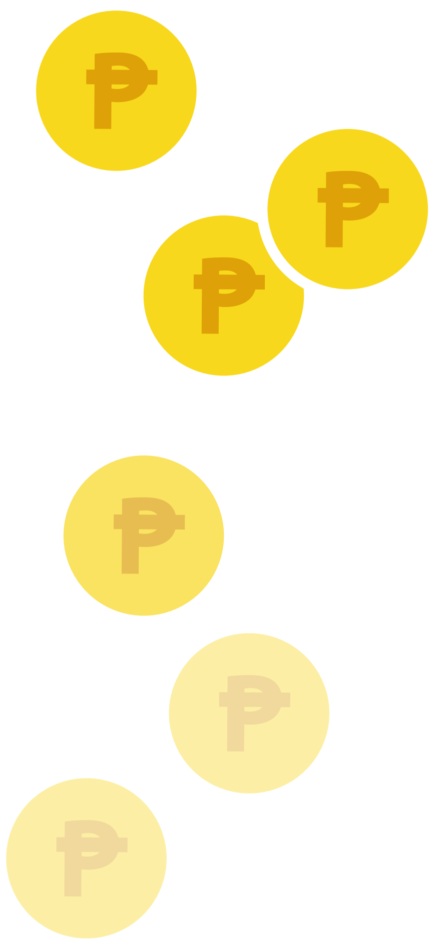
Provide a secure financial cushion. Having investments gives you a better chance to recover quickly from difficult financial situations. Having more than one investment creates more sources of income. You don't want to put all your eggs in one basket.

Offer other growth opportunities. Investment creates financial growth and brings you closer to financial wellness. The more investments you have, the more you become comfortable exploring other opportunities.

On the flip side, there are challenges to investing. Here are some examples:

Some opportunities are complicated. Not all investments are the same. It's a good idea to speak with a personal finance expert about your options, especially if you're a beginner. *Reading this book should give you confidence that you are on the right track!*

There is fear of losing money from investments. All investments carry a degree of risk, which can be managed based on your choice and the risks you are willing to take.



There is a cost to investing. If you decide to use the services of a financial planner, you will have to pay fees. Also, there are types of investment opportunities that may require substantial amounts of money and a longer time to mature. With these challenges, it's clear that the road to

investing requires learning and discipline.
It starts with budgeting, where you distinguish essential expenses, such as food and rent, from non-essential expenses, such as shopping. Recall that in Chapter 3 about budgeting, you learned how to allocate 20% of your income into savings, and of that 20%, you decide to put between 5 to 10% into investments, but have you wondered why?

Time: The Key to Growing Your Money

WHY INVESTMENTS NEED IT TO GROW.

There is a huge difference between what happens to your money when you save it versus when you invest it. When you save your money in a bank, your money will earn some interest. But when you invest it, this is when the magic of compound interest happens.

INTEREST
It is the money you earn when it is kept in a bank account.

COMPOUND INTEREST
It is about earning interest on the money you have earned through interest. It makes your money grow faster the longer you keep it invested.

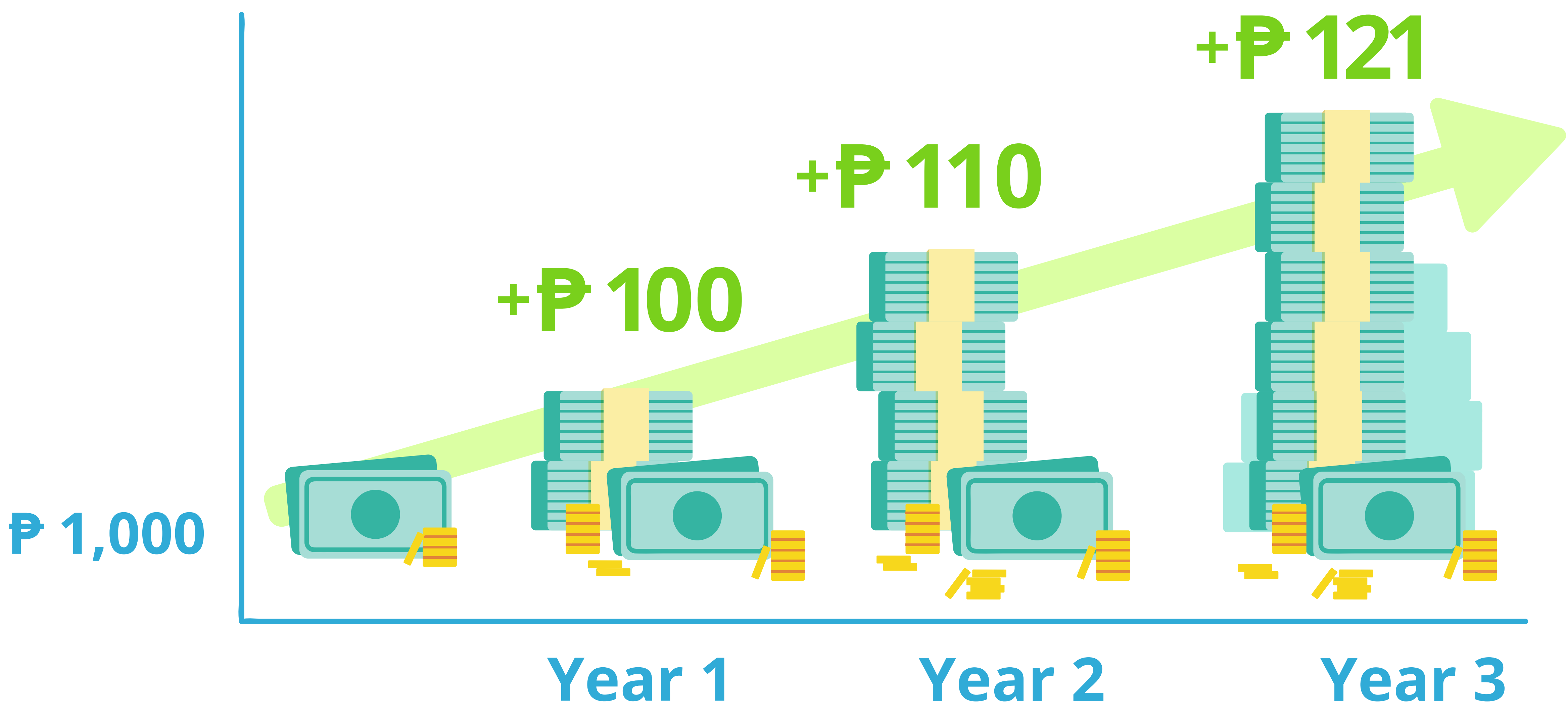
Compound interest is a fundamental ingredient of investing. How does it work?

For example, if you have PHP 10,000 that earns 10% interest each year, you would have earned PHP 1,000 by the end of year one.

With compound interest, your PHP 10,000 earns 10% per year and becomes PHP 11,000 after one year. That PHP 11,000 earns another 10% for that year and becomes PHP 12,100 after the second year.

This means that over time, you are earning more because you keep combining your starting money with the interest you earned from the previous years.

10% compound interest annually

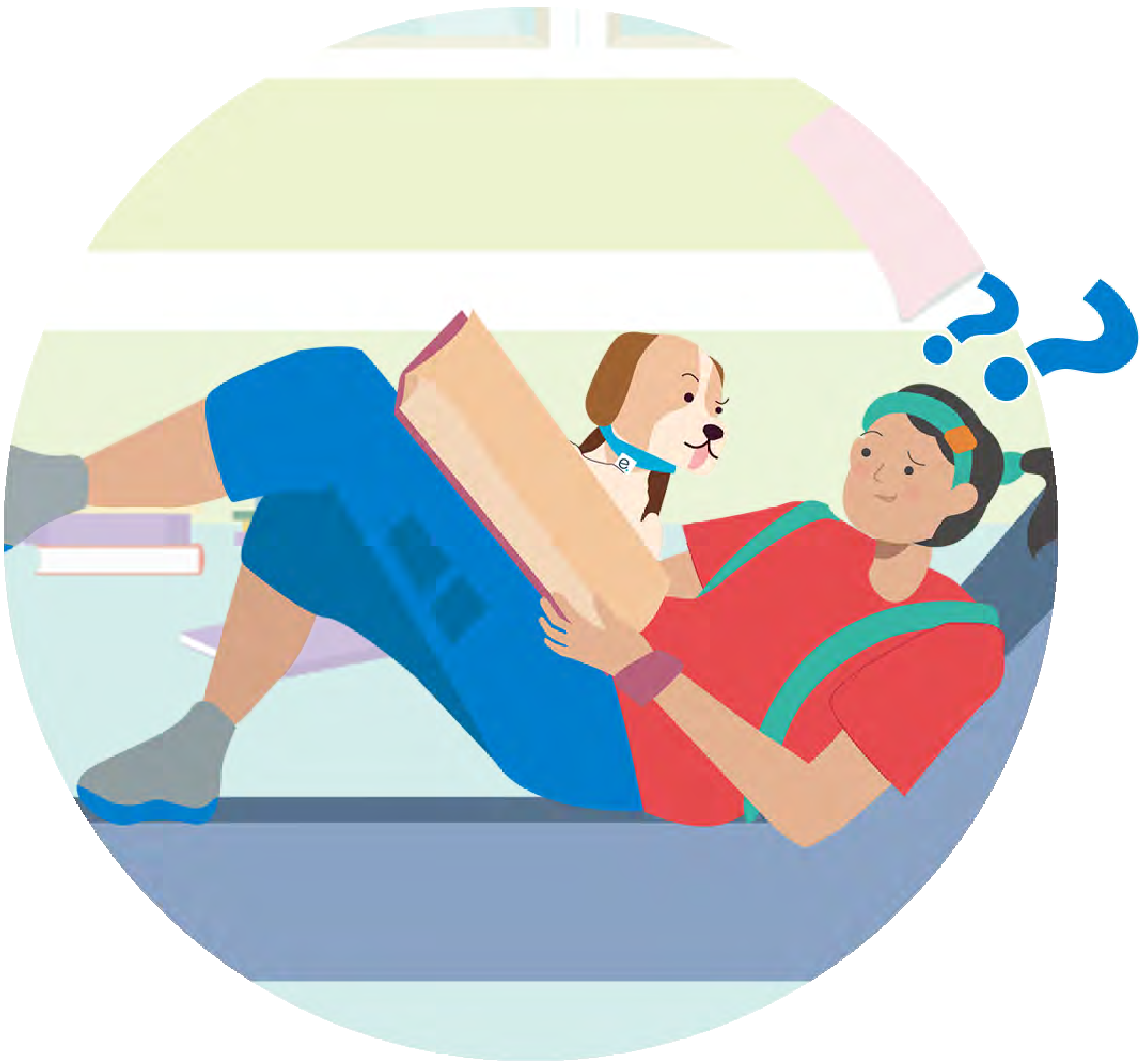


From the illustration, compound interest happens when the capital invested accumulates interest after several periods. This simply means your money is growing at a faster rate versus money that is kept in, say, a savings account.

CAPITAL

Capital refers to financial resources or assets that can be used to generate income. In this example, capital means the money you invested.

But remember, when you're starting, it may seem like you are earning only a small amount each year. Give it time! With each passing year, your compound interest exceeds the starting amount. This is the secret that the rich know and practice each day. And this is the power of compound interest.



What You Need to Know About Investing

DEBUNKING MYTHS ABOUT INVESTING.

Raise your hands if you think investing is only for the rich. If you did, you're not alone.

According to the 2021 Financial Inclusion Survey by the Bangko Sentral ng Pilipinas (BSP), only 36% of Filipino adults were investing in 2021. There are many reasons why Filipinos are not investing now. Some are related to investment myths and misperceptions, which to this day, are still evident. These are some of the more common investment myths that you may have heard:

Myth: Investing is only for the rich.
Fact: Anyone can and should invest. But it is important that the money you invest is excess cash, or money outside of your essential expenses and an emergency fund.

Myth: You are too young to invest.
Fact: There is no such thing as being "too young" to invest. The most critical factor in investing is time. Take advantage of the power of compound interest. Also, if you're a parent, start teaching your kids about investing at an early age.

Myth: You are too old to invest.
Fact: You are never too old to invest. Your investment strategy may be different from younger people, but you can still reap some benefits even after retirement.

Myth: You can find a 100% risk-free investment.
Fact: All investments have risks. Be wary of anyone who tells you otherwise. In fact, be careful if you're being sold a risk-free investment. It may most likely be a scam.

Myth: You must be a financial expert to invest.
Fact: It is necessary to have some basic knowledge of investing. Start with the basics and work your way to more advanced concepts.

Myth: There is a perfect time to invest.
Fact: No, there isn't and will never be a perfect time to invest. Just as with anything in life, there are ideal times to invest, but there will always be risks in whatever you do.

There are a few more things you need to know about investing: your purpose, the risk you're willing to take when you invest, how much time you're willing to allocate for investing, when you expect to see your money grow, and how much money are you planning to invest.

To help you decide, you should ask yourself these questions:

What are your financial goals? You should know your financial goals. It will help you decide which investment options you can choose from.

What is your current financial situation? Before you invest, cover your essential expenses first, such as rent and utilities, your emergency fund, and your savings. Then you can now decide how much of what's left goes to investing.

Can you afford to invest? It doesn't take much money to invest. Start with "easy" products like unit investment trust funds. Remember, all investments require time to grow for the compound interest to kick in.

How much risk are you willing to take? It's so important that you know how much risk you are comfortable with, so you know the best investment options for you.

How much do you know about investing? You don't need to be an expert to start investing. But you do need to be willing to learn more about it.

Tip: Aside from researching investing (and reading this e-book, of course!), you may want to consider speaking with a financial professional as well. Talking with someone face-to-face will give you more insight into your preferred investment.

Investing in Financial Products

CHOOSE THE ONES YOU NEED.

Investments are not limited to real estate or small businesses. There are other available options for you.

You can find opportunities at your local bank or your stockbroker. Both offer investments that are regulated by the government.

Depending on which you choose, there is always a risk of losing some of your money when you invest. So, it's good to understand what types of investments are proper for you.

There are two general types of investment: one is individual investments like stocks, and one that is called funds, which are composed of several investments.

Individual Investments (Usually Just One Type of Investment)

Stocks

What is it: Stocks are a share of the ownership of a company, including its earnings and assets.

Who is it for: Investing here requires high technical understanding of stock market movements and terms. This is not for beginners.

Where do you get it: You can buy stocks through accredited stockbrokers.

Pros	Cons
• Earns income from stocks prices going up.	• Highly influenced by market movements (where stock prices can fall fast in a short amount of time).
• Compared to bonds, you don't need a lot of money to start investing.	• You can lose money if you sell when the price is lower than when you bought it.
• Relatively easy to sell unless the stock is "junk" or from a poorly performing company.	• You need research and knowledge of the stock market.

Bonds

What is it: This is money you lend to government, corporations, or financial institutions like banks. They use the money to fund projects or business expansions.

Who is it for: For conservative investors who can afford to invest for long periods.

Where do you get it: You can buy bonds either through your local bank or through other financial institutions.

Pros	Cons
• Lower risk than stocks.	• Investment is locked in with an institution for a certain period.
• High interest rates compared to a savings account and time deposit.	• Penalty charged when you pull out investment before agreed period.
• Pay out a fixed interest rate over several years.	• Interest rates may vary between banks, financial institutions.
• Can sell back at profit or loss.	
• Predictable stream of income even when the market performs poorly.	

Time Deposits

What is it: Time deposits are a type of investment that earn higher interest than a regular savings account if you keep it with the bank for a fixed period.

Who is it for: Time deposits are ideal for those who want to keep their money safe and still growing. They have a slightly higher interest rate than savings accounts.

Where do you get it: You can open a time deposit account through local banks.

Pros	Cons
• Lower risk versus stocks and bonds.	• Interest rates can change.
• Easy to manage.	• Penalties charged when time deposit is withdrawn before maturity date.
• No fees.	• Returns are less than other investment options like stocks or bonds.
• Covered by deposit insurance.	

Long-Term Negotiable Certificate of Deposit (LTNCD)

What is it: LTNCDs are simply a different type of time deposit. Unlike time deposits, you cannot withdraw your money early after a period with LTNCD.

Who is it for: If you want to have a longer type of time deposit but with minimum investment, then this is for you. If you hold your LTNCD for more than 5 years, you don't have to pay tax.

Where do you get it: You can place or get LTNCDs through your local bank.

Pros	Cons
• Earns more than a savings account.	• It takes a long time to grow.
• Easy requirements.	• You pay a withholding tax when you are allowed to withdraw.
• Affordable.	
• Fixed interest.	

Funds (Investments Composed of a Number Investments)

Mutual Funds

What is it: These are a pool of people's money that are invested in stocks and other types of investments. They are also managed by investment firms.

Who is it for: Mutual funds are good for people who don't have time to monitor individual investments and would rather have institutions or fund managers manage them.

Where do you get it: You can buy mutual funds through accredited investment brokers.

Pros	Cons
• Professionally managed fund.	• Pay fees upon investment or when collected in a year.
• It is easier to monitor, and risk is controlled because of diversified investments.	• Generally, no separate cash dividends or interest payments.

Unit Investment Trust Funds (UITFs)

What is it: A UITF is like mutual funds. The only difference is that mutual funds are regulated by the Securities and Exchange Commission, while UITFs are regulated by the Bangko Sentral ng Pilipinas.

Who is it for: UITFs are a good choice if you want to invest in pooled funds but don't know where to begin.

Where do you get it: You can purchase UITFs either through your local bank or through an accredited broker.

Pros	Cons
• Professionally managed fund.	• Pay fees upon investment or when collected in a year.
• It is easier to monitor, and risk is controlled because of diversified investments.	• Generally, no separate cash dividends or interest payments.

Real Estate Investment Trusts (REITs)

What is it: REITs work like mutual funds wherein funds are pooled from investors and are invested in various income-producing real estate.

Who is it for: REITs are good for long-term investments. So, it is good to keep them longer for you to reap their returns.

Where do you get it: You can buy REITs through an accredited stockbroker.

Pros	Cons
• You only need a smaller amount of money to invest.	• Dividend rates can vary.
• Law requires REITs to pay 90% of earnings as dividends.	• Like stocks, bonds, or time deposits, dividends are taxed.
• Offers a steady income.	• You pay fees and taxes on trading.

Before you go any further, here is a quick list of investing terms that you also need to know.

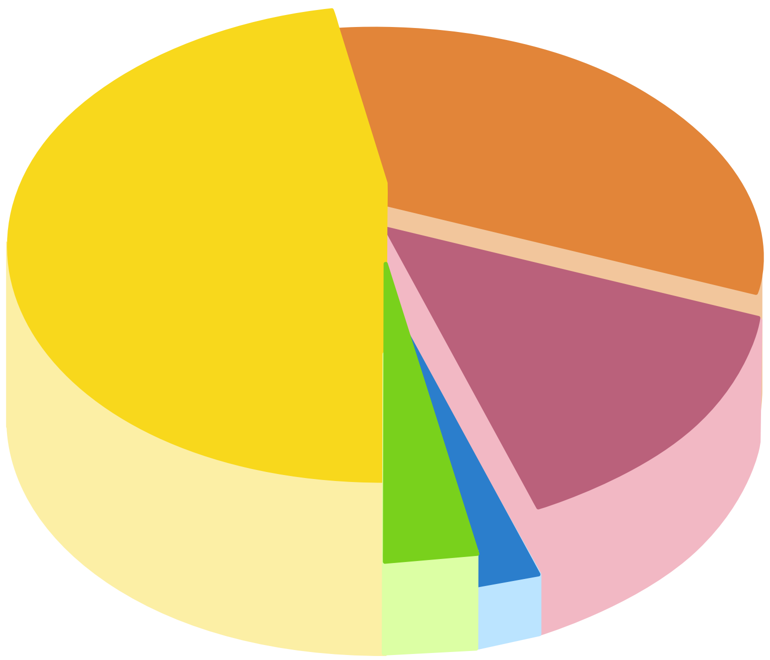
Risk Appetite. This is how much risk you can handle with your investment. In other words, how much of your money are you willing to lose should the investment underperform or not earn as expected.

Time Horizon. This is how much time you are looking for your investments to grow.

Market Volatility. This describes the unpredictable nature of the financial markets, where the prices of your investments go up or down fast.

Returns. Investment returns are the money you make on your investment over time.

Portfolio. A portfolio investment is a collection of growth options and assets you currently have. It can be a variety of stocks, bonds, or any other asset.



Diversification. Diversification means having a wide variety of investment options within your portfolio. This is a financial strategy to reduce your risk.

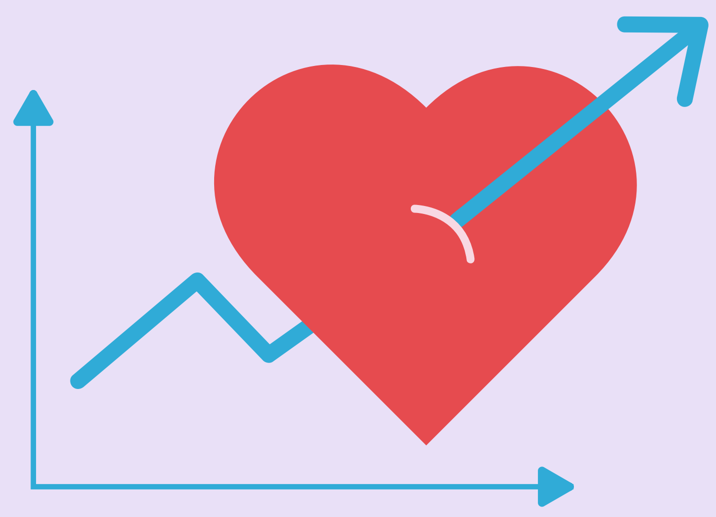
Withholding tax. Withholding tax is money that is deducted from your investment and paid to the government.

How to Find the Right Investment for You

By Andoy Beltran

When it comes to your relationship with money, it's important that you are in control. You plan things because you are working within a budget. You set aside money for protection. You set aside money for emergency purposes. And you set aside money to invest.

Just like in real-world relationships, you don't force yourself into one just because everybody else is. A relationship is a "way in which two or more concepts, objects, or people are connected." In short, there has to be a connection, a purpose, a common goal.



But before you start investing time, effort, emotions, and resources into a relationship, it is best that you know exactly what you're getting yourself into. It starts with knowing what to do before you make that leap.

With money and investment, building an emergency fund should be a priority. It is non-negotiable. Then, gradually get a feel of investing one pay day at a time. Hopefully, this will make you fall in love with the knowledge of being able to grow your money.

So, once you get the hang of it, you now need to nurture this relationship. This involves time and patience. With money and investment, you need to get to know your money and its quirks. There are no shortcuts.

You are expected to give time for learning and later for earning. You need patience to deal with the ups and downs, which is like dealing with the market. It's not always rainbows and butterflies. You should understand the limits, and the behavior (or habits) that should be encouraged.

It also helps that you know how to approach the relationship. If you encounter problems, you can turn to a group of friends for support. In investing, you can't go wrong if you ask for help. You have investment professionals who you can turn to.

There's no single best way to handle and nurture a relationship. Each relationship is unique and it's no different from investing. There is no single best way to invest. As there are no perfect relationships, there are no perfect investments.

There's also no such thing as a perfect time to invest. But on the other hand, time is your friend when it comes to investing. The sooner you get yourself into investing – the better. Your chances of learning from this experience and eventually seeing your money grow can happen soon.

Like choosing your significant other, you choose investments based on what makes you happy.

I get asked a lot: "Andoy, what is the best investment out there?"

My answer, "there is no such thing as 'the single best' investment."

In investing, it's better if your investments are spread out. You also have to understand your goals, experiences, hesitations, investing capacity, limitation, and finally, purpose for investing.

About the Author: *Andoy Beltran has 18 years of experience as an entrepreneur, real estate investor, stockbroker, financial literacy advocate, and public speaker. Through his work and advocacy, he has received numerous awards. He is currently vice president and head of business development and market education of the OFW Desk of First Metro Securities Brokerage Corp.*

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Make your money grow by investing instead of just placing it under your pillow or mattress.
- While investing is the fastest way to grow your money, there are risks involved.
- Investing is one way to beat inflation. When you invest, your money's buying power is maintained or gets better.
- Savings and emergency funds can help you survive a financial storm. But investments can help protect you in the future.
- Your money can grow more through compound interest.
- Do not be swayed by myths that deter you from investing.
- There are two types of investments. One is individual investments, like stocks. The other are funds, composed of several investments.

READERS' SECTION

What Are Your Beliefs About Investing?

Do you believe any of these investment myths? Circle the number that best describes how you feel about each myth, with 1 being "I completely disagree" to 10 being "I completely agree".

1. Only the rich can invest.

1 2 3 4 5 6 7 8 9 10

2. I am too old (or to young) to invest.

1 2 3 4 5 6 7 8 9 10

3. I am not earning enough to invest.

1 2 3 4 5 6 7 8 9 10

4. I am waiting for the perfect time to invest.

1 2 3 4 5 6 7 8 9 10

5. Investing is too risky for me.

1 2 3 4 5 6 7 8 9 10

What did you get? What made you answer the way you did? Do you have any hesitations on investing? Let us know by sending an email at earnest@metrobank.com.ph.

JOURNAL

Thoughts About Investing

Use this space to evaluate your opinions about investing. Go back to your budget sheet and see whether you're ready to invest. There are no right or wrong answers here!

Have you prepared an emergency fund?
Can you start investing? Why or why not?

Do you know what your investment goals are now?

Can you make budgeting to invest a regular habit?

Feel free to browse through some sections again before we move on to the next one. Remember: it is okay not to understand everything the first time. As with all things in life, the lessons you learned here become easier when you keep practicing and honing your skills.

Next up: We will help you decide your investment choices. You will also learn how to protect yourself against risks and spot an investment scam early.

A comfort zone is a beautiful place,
but nothing ever grows there.

- John Assaraf

CHAPTER 10

Making Your Investment Choices

What you will learn from this chapter:

- Knowing your investment goals
- The different types of investor risk profiles
- The power of diversification
- Where to start investing

In a survey by the Bangko Sentral ng Pilipinas, 46% of Filipino adults say that they follow a budget. But close to half of them feel that they still don't have enough money for rainy days. While they do have financial goals, they believe that money controls their lives, adding that they cannot fully meet the daily cost of living and even financial obligations.

This also means that for most Filipino adults, living from paycheck to paycheck is a reality and every day, they make critical decisions on how much they can afford for food or their future.

In the previous two chapters, you learned the basics of investing and the power of compound interest. Now, you'll take a step to getting started on investing. Keep in mind that investments carry risks, and there is *always* a risk that you will lose money. That is why you need to do your homework before you invest.

And since investing is part of your journey to good financial health, you should have already secured your savings account, made good with your budget, bought insurance for you and your loved ones, and built your emergency fund. It is recommended to have emergency funds before investing. But it is also acceptable to build your emergency fund while investing.

Before you jump into investing, and to help you in your choices, you must know how to determine your investment goals, and understand your risk profile.

Setting Your Investment Goals

IT'S GREAT TO KNOW WHERE TO GO.

Have you ever heard of the saying, "Failing to plan is planning to fail?" The same can be said for investing. Even if you're the most conservative investor, you will never find a completely risk-free investment. Nevertheless, knowing your goals can help reduce that risk because you will know how to build your portfolio and the steps to take for the long term.

RISK
A risk is any uncertainty you have with your investment that will negatively affect your original investment, which also means losing money.

You must also align your risk profile and your capability to invest to know what your goals should be both for the short- and long-term. You don't need a lot of money to start investing. It is a myth that you need millions of pesos to invest or that you should wait for the perfect time to invest. The best time to invest is now, but of course this means you have an emergency fund tucked away, and the amount to invest is whatever you're comfortable with investing in. Again, you can build an emergency fund while setting aside a small amount for investing.

Also, gone are the days when the rich are the only ones who can afford to invest. Today, you can start investing for as little as PHP 1,000.

Now, learn how to make good investment goals. When it comes to goal setting, you can use the SMART framework, which stands for:

Specific. Set specific financial goals so that you know how much to budget each month and the purpose of your investment.

Measurable. Financial goals are easier to measure because there is a specific peso amount attached to them. For this, ask yourself, how much am I looking to earn each month or year?

Achievable. While it's perfectly okay to have big goals, setting achievable goals, especially for financial investments, can help you manage your monthly salary better.

Relevant. A good investment goal should always align with your broader goal and your values.

Time-Bound. Don't panic about this one. Putting an end date to your goal should not make you feel pressured but should give you enough push to calculate how much you need to save monthly to achieve your goal.

Questions to Ask When Setting Your Investment Goals

Key to success is focusing on being SMART

Once you've made your SMART goals, you can start developing your investment strategy.

Think about your short-, mid-, and long-term goals. Generally, short-term goals are less than 3 years long, while mid-term goals are those that need up to 10 years to complete. Long-term goals are those that may produce returns more than 10 years after.

Another way of looking at goals is this: You can be a conservative investor with long-term goals, which means you can have long-term investments but are still conservative. Note that long-term investments are usually associated with riskier and more aggressive profiles. However, there are also conservative time horizons that only range from 3 months or less.

So, it is a good idea to break your goals down even further, based on time, and what type of investment products you'll choose for each time goal.

For example, you may have two investment goals. The first one would be to establish an emergency fund in the next 6 months, and the other would be to plan for your early retirement. The first goal is time bound to half a year while the other is more flexible with a time horizon of 4 to 5 years, or more.

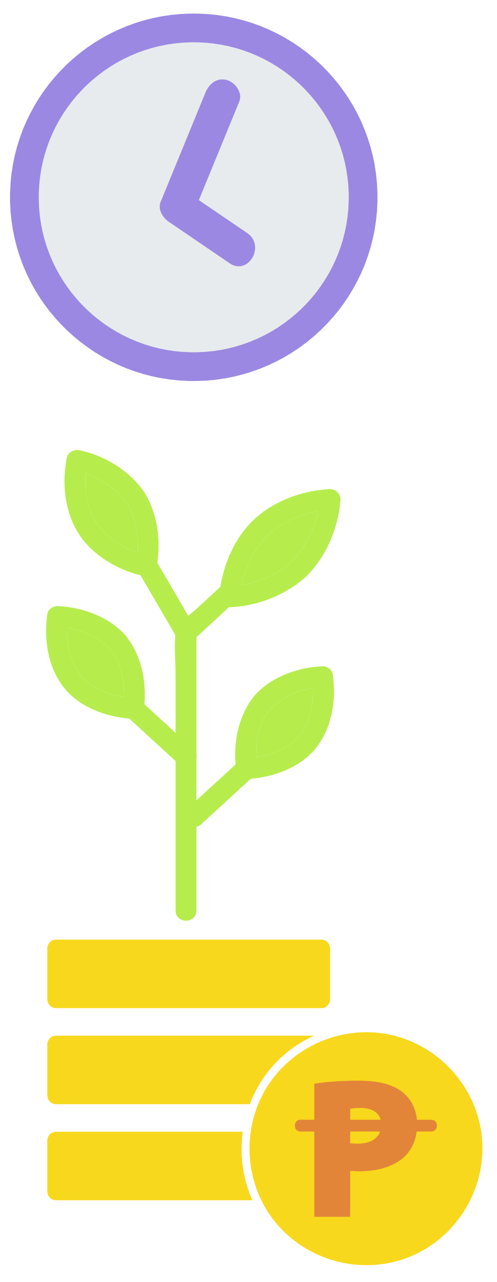
Using the SMART goal framework, you can decide which investment choices would be suitable for you based on the time you need to earn money. Remember that even if you're technically a conservative investor, you can still choose more aggressive investments based on your SMART goals. But you may have to sign a waiver if you choose investments that go beyond your risk profile.

So, let's break down your goals using the SMART goal process. Which investments could do the following?:

- Help you start your emergency fund in the next 6 months? Would you consider conservative or aggressive investments?

- Help you have enough money to pay for your early retirement after 4 to 5 years?

Given what you learned, you may want to consider a collective investment, or those that have a low entry but high gain, for your first goal. For your second goal, you can consider a solo investment, or investments that earn a higher interest rate over longer periods.

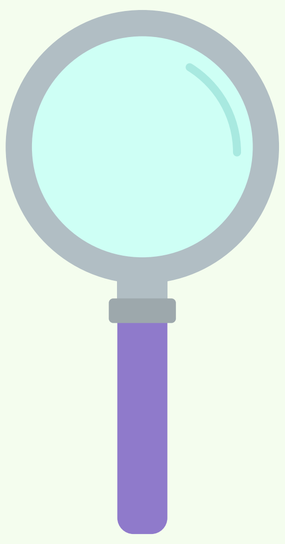


Consider taking advantage of the concept of compound interest and keep re-investing the profit of your initial investment so that you earn more interest each year. This is one way to multiply your investments at a faster rate.

How Much Risk Can You Take?

KNOW YOUR RISK PROFILE BEFORE INVESTING.

From what you learned in the previous chapter, you need to ask yourself, "How much risk can I handle with my investment?" Would you feel comfortable with the ups and downs of the financial market? Would you be okay if the value of your investments went down after one month but has the possibility of going up the next?



RISK PROFILE

A risk profile indicates how much risk you are willing to take with your investment.

Aside from your risk profile, you should think about how much time you are holding your investments. Are you looking for a long-term (five years or more) investment or are you only planning to invest for three months or less? Your answers to those questions should be considered when gauging which investments are right for you.

Which type of investor are you?

There are generally three types of investors.

Aggressive Investor

The very definition of "high risk, high reward." You like investments that offer long-term returns after 10 years or more and could even be looking at market downturns as opportunities to invest more.

Moderate Investor

You are comfortable with a growing number of investments that you can keep and consistently invest in for the next 3 to 10 years.

Conservative Investor

You favor stability over capital appreciation. You are more comfortable with investments which are not affected by market movements, and investments that you can convert to cash in less than a year.

Now, there are no hard and fast rules when it comes to investing. These definitions give you a general idea of different investing strategies. Also, considering the risk you're comfortable with, you can invest conservatively, aggressively, or moderately depending on your chosen time horizon and needs.

Diversification is Key

CHOOSE THE ONES YOU NEED.

There are no "risk-free" investments that double or triple your initial capital in just a few months. Remember the saying, "If it is too good to be true, it probably is."

Investing is a key component of your financial wellness and should not be feared.

here are no "risk-free" investments that double or triple your initial capital in just a few months. Remember the saying, "If it is too good to be true, it probably is."

Investing is a key component of your financial wellness and should not be feared.

The key to managing your risks is diversifying your portfolio. Before we take a closer look at diversification, let's recall what it is.

When you have different types of investments in one portfolio, this is called diversification, which we discussed in the previous chapter.

Diversification helps manage your investments because if one asset doesn't perform well, another could potentially make up for it. Diversification is a financial strategy to reduce risk."

Diversification is also important to investing because it helps design your portfolio based on your risk profile.

Now that you understand diversification, here are some important principles on why it is a factor in multiplying your investment.

1. **Managing Risk.** When you invest in different asset types, you reduce the risk of your portfolio losing its entire value. One asset may lose value, but the rest of your assets could be gaining.

2. **Aligning with your Financial Goals.** A diverse portfolio means different assets are linked to a financial goal that has a specific time horizon.

3. **Having a Higher Chance of Growth.** The more investment choices you have, the higher your chances are for returns.

By now, you're thinking, "Okay, cool, I know my risk profile, I've made my SMART investment goals, and I know the importance of diversification. But what's next?" Here are more tips that can help you:

1. **Determine Your Risk Profile.** Knowing your appetite for risk will help you understand how

you grow your money and spread your wealth. For example, if you are a conservative investor, you can allocate 80% of your portfolio to low-risk opportunities, such as money market and bonds.

2. **Build Your Portfolio.** Your portfolio can change depending on your comfort level. You can be conservative, moderate, or aggressive at any time, and adjust the components in your portfolio as needed.

3. **Learn and Never Stop Asking Questions.** Learning a little each day can help you be more confident when choosing the right investment for you. *(This is another reason to keep reading this book).*

If you're still confused about how to diversify, then consider speaking to a professional advisor or a bank representative.

You can also start with a portfolio that is completely balanced, with 50% conservative options and 50% more aggressive ones. Take some time to see how your portfolio performs and whether you want things to change. You

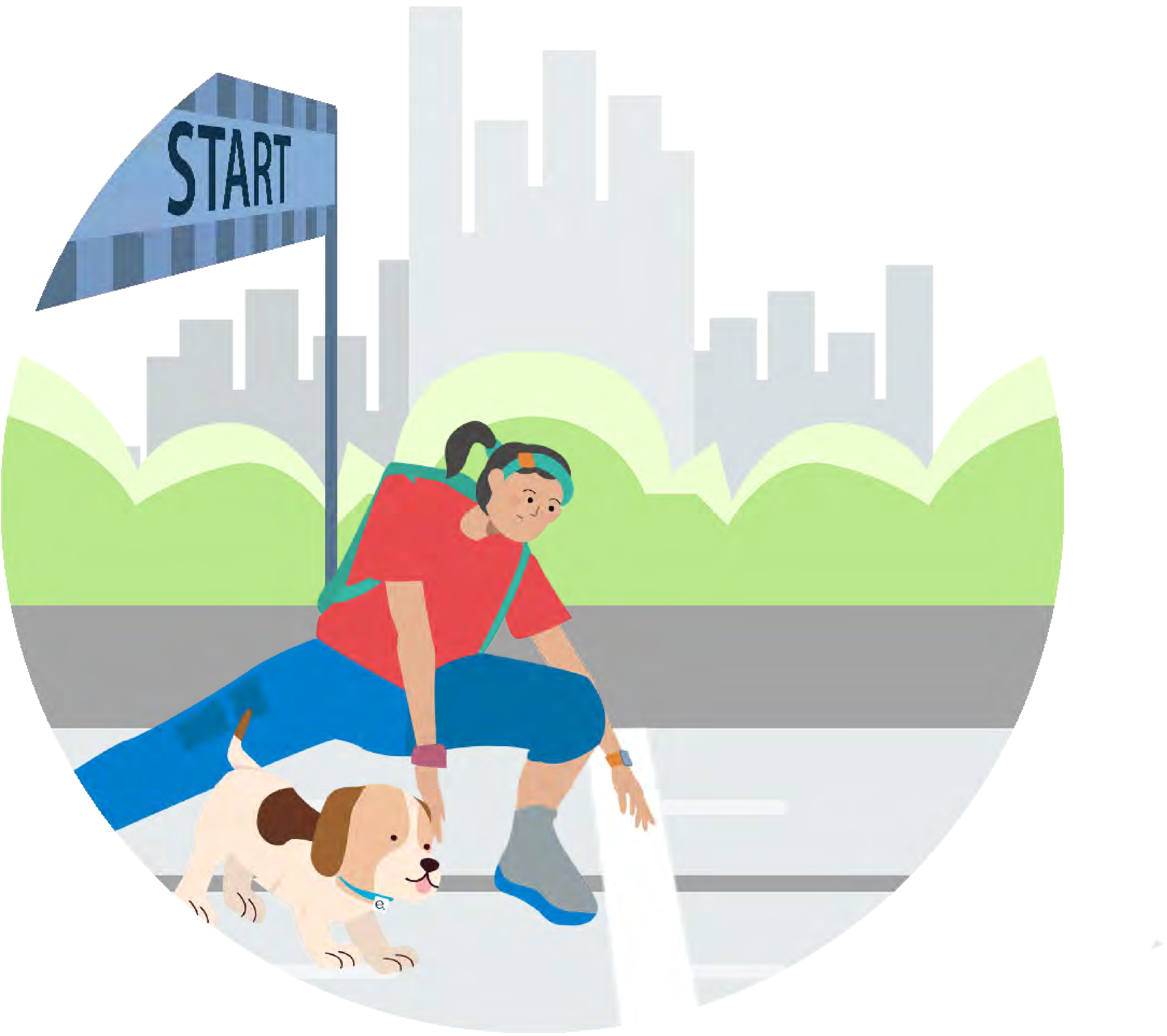
What to Consider When Designing Your Diversified Portfolio

We know: It sounds like a lot. But diversifying your portfolio doesn't have to be difficult at all if you are:

Patient. Regularly check on the performance of your portfolio. Be patient and allow your portfolio to grow through compound interest.

Disciplined. You must be disciplined about your monthly budget (review what you learned from the previous chapters). Add as much as your budget allows to your investments each month.

Adaptable. You must regularly audit your portfolio, with the help of your bank, broker, or financial adviser. Seeing what you can change can help you maximize your investment's growth potential.



Where to Get Started with Investing

TAKE A CLOSER STEP TO FINANCIAL WELLNESS.

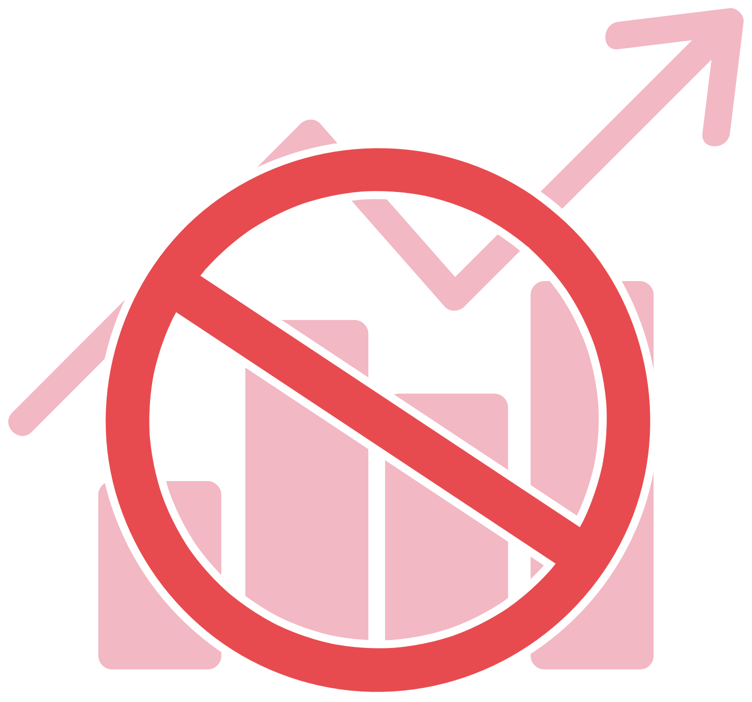
Hopefully, by now, you're excited about investing and want to know where to start. In the Philippines, there are three ways to start:

Investing through banks. The safest way to begin your investment journey is through your local bank. All banks in the Philippines offer a variety of investment options. These include bonds, time deposits, trust funds, and long-term negotiable certificate of deposit (LTNCD).

Investing through government-accredited investment institutions. These have investment managers who can help you choose the right investments. Government-accredited institutions offer stocks, mutual funds, and real-estate investment trusts (REITs). For your safety, get the latest list of accredited investment institutions from the Securities Exchange Commission.

Investing through financial technology companies. Some banks and financial institutions allow you to invest online and via mobile apps. These are the most convenient investment methods, but they also carry a higher degree of risk. Always check red flags for fake investment websites or apps.

Nowadays, it's easy to be told where to invest. But never let your guard down. Many people fall prey to investment scams, especially if the perpetrator is a close friend or relative.



Take for example Anette, an overseas worker in Singapore, who was approached by a friend on Facebook to invest in real estate property. For only PHP 10,000, Anette was promised that she would earn 50% returns on her initial investment each month.

In the first few months, Anette was receiving some of the earnings. She was convinced to keep investing more for bigger gains. And so, she did. But it all fell apart after 6 months when the returns stopped. Her friend on Facebook blocked her messages.

Later, Anette found out that she was among the many overseas workers targeted by an investment scam. She lost more than PHP 500,000 on a flimsy promise of high profits in a short time.

So, what is the lesson here? Whenever someone approaches you about an opportunity to get rich quick, be very cautious. No legitimate investment would earn you more than what you've invested within a specific time. Most likely, the person offering you is a scammer.

There are other types of investment scams out there, all of whom are targeting vulnerable people who hope to earn money fast. They are also getting more sophisticated. Still, there are easy ways to avoid being tricked by simply looking at a few red flags. Here are a few ways to spot them:

1. **Promise of a Huge Amount of Money in a Short Period.** Again, if it's too good to be true, it probably is. Don't be lured into a promise of double or triple your money after only a few days.

2. **Sense of Urgency.** The biggest tactic done by scammers is to create a sense of urgency. Avoid messages that require you to immediately act to avoid losing an opportunity to earn big.

3. **Wrong Spelling or Grammar.** Tell-tale signs of a scam are misspellings or grammar errors. They are difficult to spot, but often these errors are present.

Unofficial Emails Legitimate investment firms will always have the name of their company in their email addresses. If you receive an unwanted or unexpected investment-related email, immediately confirm that you are the intended recipient by contacting the official investment firm's phone or email address.

From Peso to Prosperity: How to Build Wealth in the Philippines

By Andoy Beltran

When it comes to building wealth, Filipinos talk about *pagne-negosyo*, which is starting a business or even buying a franchise of an existing business.

When you decide to start a business, you just don't do it yourself. You must do everything yourself 24 hours a day, seven days of the week. Successful entrepreneurs go into business to control their destiny and to blaze their own trail. By doing trial and error along the way, they devote time, effort, and attention to getting a business up and running, and from not failing.

Some entrepreneurs choose to buy a business franchise to build wealth. While this can require more capital, a franchise will need additional investment since you are buying into an established brand, a system, an inventory management, supplier network, a product and service, and even a business registration.

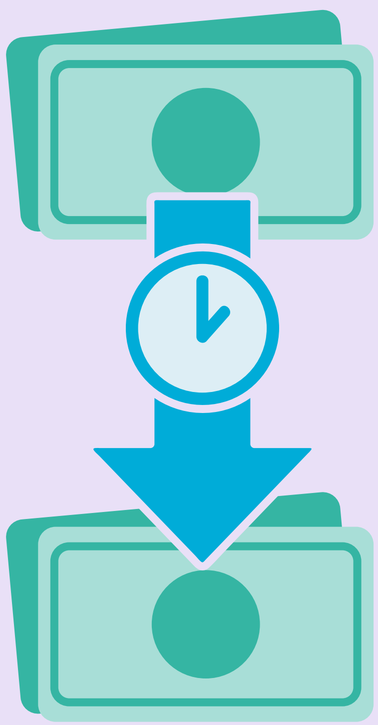
Now, if you like to get the best of both worlds of starting a business or owning a franchise, you might want to consider buying shares of stocks of a publicly listed corporation.

Enter, stock market investing.

Investing in stocks gives you the opportunity to become co-owners of corporations. This means you become business partners of top entrepreneurs, tycoons, and business leaders in the country.

You can start exploring stocks through online stock brokerages, where you can create an account that gives you access to publicly listed stocks of top 30 companies in the Philippines, the Philippine Stock Exchange Index, and blue-chip companies.
All of these at an initial investment of PHP 5,000.
With stock marketing investing, you can co-own business empires like Jollibee Foods Corporation (JFC) for an amount cheaper than a value meal in Greenwich, Chowking, Mang Inasal, Red Ribbon, and Burger King, combined. These companies are all owned by JFC.

So, the next time you buy something from these companies, you would feel less guilty because you know a certain percentage of your spending would go back to you as you own stocks of JFC.



Now, let's take a closer look at JFC.
In 2005, its shares went from PHP 26 to as high as PHP 328 per share in 2018.

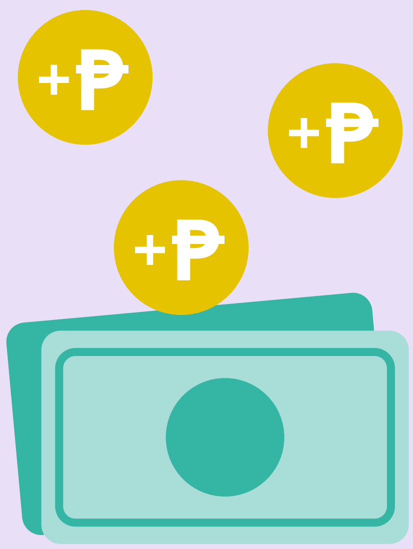
It dipped to PHP 90 during the height of the pandemic. But on May 5, 2023, JFC shares gradually recovered to PHP 225, as business and economic conditions started favoring the company.

In terms of dividends, JFC stockholders received PHP 1.30 per share at the height of the pandemic.
So, for investors who owned 100,000 shares, they earned PHP 130,000 from dividends in 2020 alone.
Not bad as this happened during the time of uncertainties, unemployment, and business closures.
Next, let's look at government or corporate bonds.

Also known as bond market investing, this set of investment opportunities offers you a predictable income stream. For this reason, this investment is often called "fixed income securities."

Fixed income securities can help preserve your capital (initial investment) and let you earn from both price appreciation and periodic coupon (interest) payments, which in turn, can offset market movements. Government bonds are used to fund new or existing government projects, while corporate bonds are used for business expansion, hiring, and development of new products and services.

Finally, if you plan to invest in different stocks, or several bonds, or even a combination of both, but you have limited resources, you can try Mutual Funds (MFs) or Unit Investment Trust Funds (UITFs).



MFs and UITFs are collectively called "pooled funds" because they are baskets of stocks, bonds, and other securities that are pooled with other investors' money. This creates a larger investment pool, which is reinvested to earn on interests. These funds are managed by banks or fund managers working for accredited financial institutions. You are essentially "outsourcing the decision-making and tactical strategizing" to them, which is good for those who have limited time to manage investments.

Mutual Funds or UITFs offer diversification because investing in one type of fund gives you 10, 20, or more underlying assets. These funds also allow you to minimize your risk and yet you get while offering better returns than doing this investing into each fund individually.

Mutual Funds makes the most out of your hard-earned money because your earnings are exempt from capital gains tax, which is tax collected from such an investment.

So, not all investments are created equal because not all investors are created equal.

Each investor has varying appetite for risk, as well as time horizons, or the length of time they are willing to invest their money. They also have different situations and different goals.

As a rule of thumb, the lower the risk you are willing to take, the lower the potential return on your investment. The higher the risk you are willing to take, the higher the potential of your money to grow.

There is no such thing as an investment with low risk, but high returns. If you are being presented with such, chances are, you are getting offered an investment scam.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- The first step in investing is knowing your goals.
- Make your goals SMART so that you know what steps to take to move forward.
- In investing, knowing how much risk you're comfortable with will determine what kind of investment suits you.
- One of the best ways to reduce your risks is to diversify your portfolio.
- There are several ways to start investing. Start with your local bank.
- Spot the red flags in investment scams. If an opportunity is too good to be true, for example, it could be a scam.

READERS' SECTION

Know Which Investments Are for You?

To help you decide which set of investments are for you, take this short quiz:

1. I am
   - a 65 years of age and above
   - b Between 51 to 64 years of age
   - c Between 36 to 50 years of age
   - d Below 35 years of age

2. What level of risk in relation to returns (on your investment) are you most comfortable with?
   - a Okay with low returns if my principal investment is protected
   - b I can accept minimal risk for stable returns
   - c I can accept moderate risk and short-term losses for potentially higher returns over time
   - d I am willing to take high risks to achieve the highest potential returns over the long term

3. How long are you willing to keep your money invested?
   - a Less than 1 year
   - b 1 to 3 years
   - c More than 3 years but less than 5 years
   - d More than 5 years

4. How much do you know about investments?
   - a Minimal. I have savings and time deposits
   - b Low. I know the basics of money markets and bonds
   - c Medium. I have existing mutual funds and UITFs
   - d High. I trade stocks and have other assets in my portfolio

READERS' SECTION

5. How long have you been investing?

a Less than 1 year
b 1 to 3 years
c More than 3 years but less than 5 years
d More than 5 years

6. Minus essential and non-essential expenses, how much of your total income can you invest?

a 10% of my income, or even less
b 11% to 20% of your income
c 21% to 30% of your income
d More than 30% of your income

7. How would you feel if the value of your investment went south in the short term?

a Any loss on my principal is not acceptable
b I would be very concerned and would monitor my investments until it recovers
c It wouldn't be too much of a concern if I get positive returns eventually
d I am a long-term investor. I wouldn't be concerned because I understand that high returns are associated with high risk

After choosing your answers, use the guide below to tally your total score. Then find out what type of investor you are.

A = 1 point
B = 2 points
C = 3 points
D = 4 points

Conservative Investor. If your total score is below 7 points, then you are conservative when it comes to investing.

Moderate Investor. If your total score is between 8 to 15 points, you are a balanced or a moderate investor.

Aggressive Investor. If your total score is more than 16 points, then you are an aggressive investor.

JOURNAL

Better Understanding of Your Investment Goals

Let's pause for a while and reflect on what we've just learned. Use the space below to write your answers. There are no right or wrong answers.

What is my risk profile? How will this affect my investment goals?

How much could I budget for investing each month?

What is my main reason for investing?

This chapter serves as a guide for you to begin your investment journey. However, there is so much more you can learn, and we encourage you to do your own research after reading this book.

Also, pick a topic that interests you the most and keep learning about it or ask a financial professional to explain it further to you.

When it comes to investing, if you're not earning, it's best to be learning.

Now that you have an idea of how to invest, the next chapter will zoom in on a different strategy where you can learn how to augment your income, while you find opportunities to upskill.

The secret to getting ahead is getting started.

\- Mark Twain

CHAPTER 11

Boosting Income Towards Your Money Goals

What you will learn from this chapter:

- Why you need to build multiple income streams
- The art of side hustling
- Why you need to upskill
- How to balance a job, upskilling, and side gigs

Now you know that having investments are important in securing your financial future. But if you're still struggling with unwanted debt or your income is *sakto* lang for your daily needs, how do you get to a point where your savings start growing and you'd have excess income for investments?

There's a saying that goes: "Your 9 to 5 pays the bills. What you do afterwards takes care of your dreams." At the rate prices of goods and services are going up, it's difficult to imagine surviving on just a single source of income. That's why it's wise to set something aside and invest, so your money can help make even more money.

In a 2021 study commissioned by Metrobank, Filipinos admitted to having a complicated relationship with money. Recall that money can be both used as currency (something that can be spent or saved), or as an asset (something that can help grow your money and build wealth).

Among the lower-income individuals, saving money is important but they are torn between saving or spending it. Often, living paycheck-to-paycheck, they also see money as essential for their survival.

An Esquire survey also showed that most younger Filipinos (millennials and Gen Zs) said they can't afford to lose jobs because they don't have enough savings to survive for at least 6 months.

Meanwhile, according to the same Metrobank commissioned study, middle- to high-income individuals believe that money begets money, which means they are motivated to find more sources of income and means to grow their wealth.

Let's recall this concept in budgeting: if current income is money coming in (input), money going out are expenses, and savings is what's left in the balance of your budget, then the question to ask is this: "How can you amplify your input if your expenses remain the same or gets larger in time?" Or simply put, what can be potential sources of added income streams?

There can be several ways to build up multiple income streams. Two options are available: starting a side hustle to augment your primary income source and upskilling to improve career prospects which can later be used to negotiate for higher pay.

The combination of low income, rising costs of living, and Filipino resilience has created a culture of side hustles and *raket*. This is seen in the boom of backyard businesses, homemade food sellers, online fitness coaches, part-time teachers and tutors during the pandemic, when the country also saw the highest unemployment and underemployment rates in history. It is important to note, however, that a side hustle is not a replacement for your current job.

However, there are side hustles that turn out to be successful and they could replace your primary source of income. If a side hustle exceeds expectations, it could even become an added source of income, which could be invested in your early retirement.

Meanwhile, there is another way to build up money goals and diversify your additional income streams. It involves upskilling. When you upskill, you boost your credentials and put yourself in a better position for a raise, a promotion, or a new and better job.

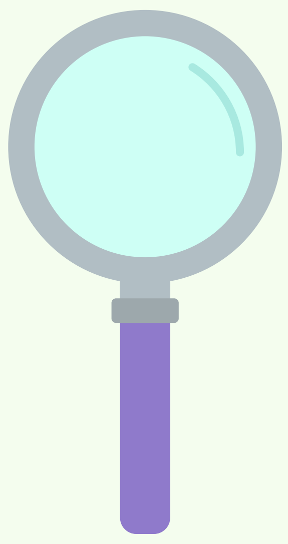
By investing in yourself, your knowledge, skills, and talents, you can improve your earning power, which can help your career advancement. On the other hand, if you have a hobby or talent, find a way to make it profitable and earn more money on the side.

Understand, however, that side hustles and similar activities do require time and effort. To earn added income, you must give time, energy, and brain power to get things done. Some may choose to

do this work from home. But majority of Filipinos don't have such luxury.

It is important to note that side hustles are considered "active income" sources. This means you must do more work or give a service to get compensated. This is different from "passive income" sources, which you can earn from investing or by renting out a property, which earns you passive income.

As you have learned from earlier chapters, investing allows money to work for you, and that it is the best source of passive income streams because it doesn't take a lot of effort compared to hustling.



ACTIVE INCOME

It is income you get after doing work or performing a service. This includes salary, tips, commissions, and wages.

PASSIVE INCOME

It is income that you earn with minimal effort. This is what you earn when money works for you.

UPSKILLING

This involves enhancing your existing job skills or learning new ones, either independently or from your employer, through training or further education.

The Art of Hustling and Creating New Income Streams

MAKE THE MOST OF YOUR TIME AND TALENTS.

Recall your public school teacher selling sandwiches on the side? Or a classmate who was selling cool T-shirts from the trunk of his car? Necessity is indeed the mother of invention, which may be the reason Filipinos are learning to hustle to find more added income.

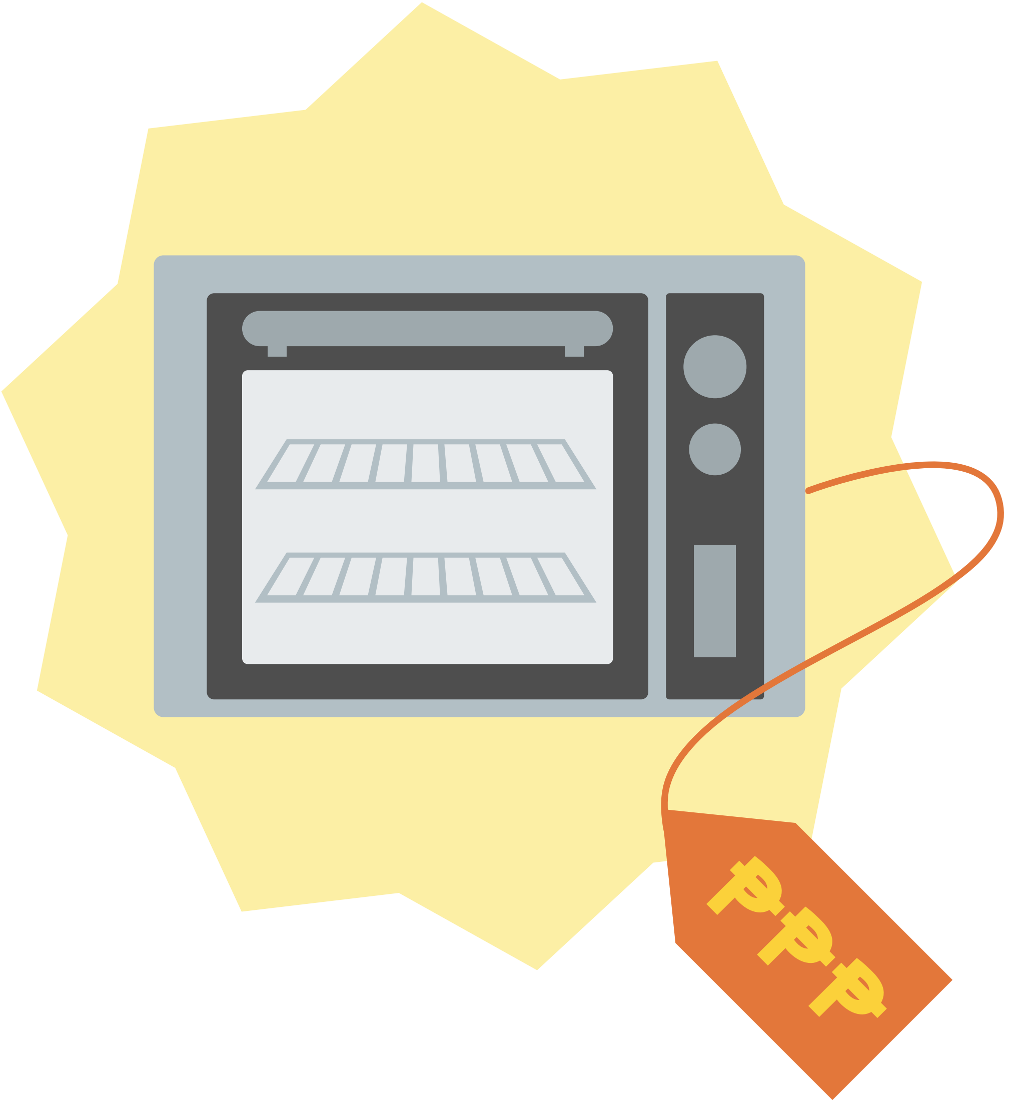
Let's look at some of the more common ways to boost your income streams.

Starting a small business out of your hobbies and talents

The lowdown: If you're a talented baker, good at arts and crafts, or something similar, you can start small to test your market and find your niche. Once you start earning good money, you may use your revenues to scale up later and widen your reach to get more returns.

Benefits: You make use of your free time, ideally doing something you enjoy while making money from it.

Challenges: High quality, professional equipment can be costly. You have to establish stable earnings from side hustles first or have enough savings to buy this equipment. You should also have a solid business plan to help you lower your risks of failing. Note that side hustles with good business plans are not always guaranteed to succeed and thrive.



On the other hand, you should be agile enough to move and decide quickly, while seeking advice (or even validation) from mentors or other successful entrepreneurs. If you fail, you can use that as part of your learnings and apply that to improve your business plan as you move forward.

Finding part-time jobs or freelance work

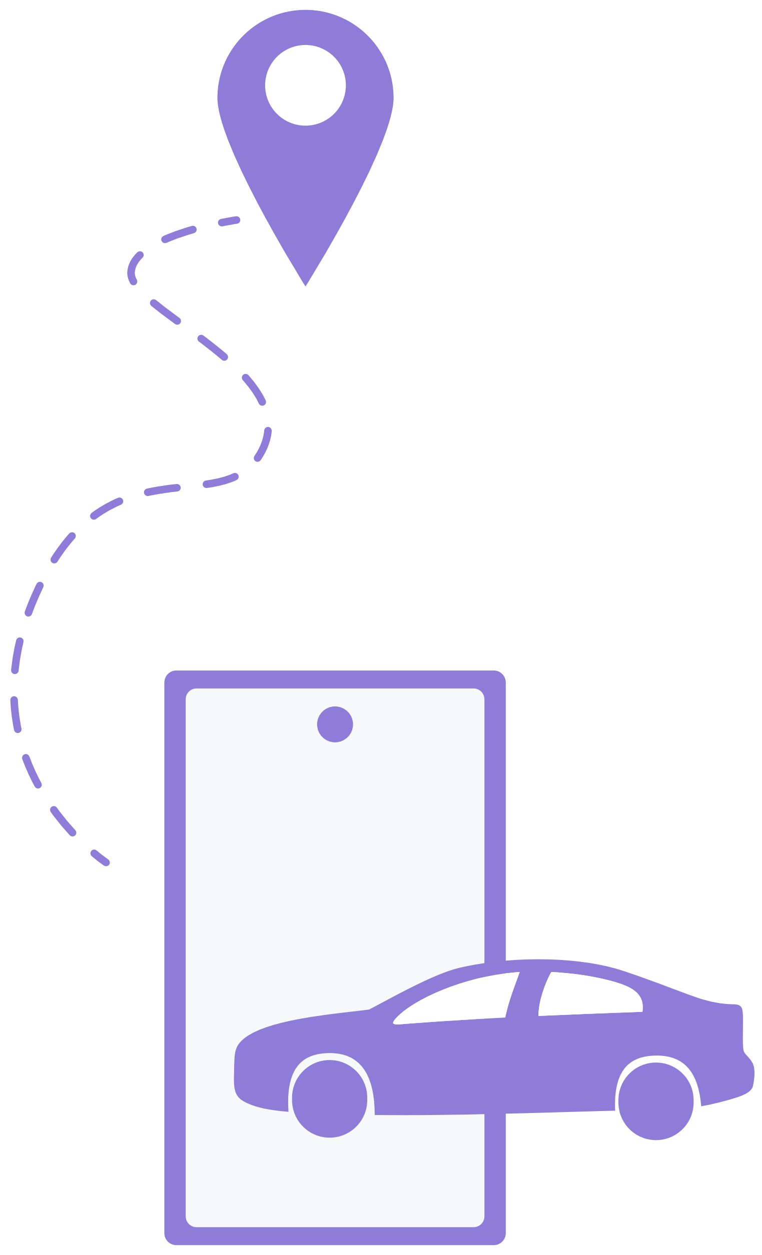
The lowdown: First, make sure that your 9 to 5 job is not disrupted by your side gig, nor does it compromise your focus in your primary job. Also, check if your employee contract does not prohibit you from pursuing a side hustle. With that in mind, you can take the skill you know you're good at and earn extra income as a freelancer on weekends or after office hours. You can also take a part-time job and moonlight (or take a second job) after your regular shift, if it does not disrupt your main job or violate any employment policy.

Benefits: Freelancing using your primary skills can help further hone it and set you up for better abilities. It can also help build your network and open more opportunities.

Challenges: You may find yourself burnt out from working two jobs. Also, not all employers allow their staff to have another job while fully employed, so clear things first with your boss and HR.

Leveraging on e-commerce

The lowdown: If you own a car or a motorcycle, you can sign up with one of many ridesharing services, e-commerce, or delivery apps as an independent supplier and earn extra income while you're working.



Benefits: You can make money using an asset you own.

Challenges: Your car or motorcycle could get worn down faster, increasing your repair and maintenance costs. Being on the road more often also increases the risk of you getting into an accident. Also, if you plan to pursue this side hustle, make sure you hold the right professional driver's license, and that you have secured the proper insurance coverage.

Renting out property or assets you own

The lowdown: Earn rental income from your weekend house or even a spare room in your existing home.

Benefits: If you find a good, reliable tenant for a property or a transient for a spare room, you can enjoy a regular and added stream of income.

Challenges: Unless you are renting out bedspace or property that you own, buying real estate is expensive. Unless you are very liquid and can pay in cash, you will have to get a loan to buy a house, a condominium, or an apartment to rent out. If you have trouble finding (or dealing with) a tenant, you may find yourself stuck paying loans, taxes, repairs and maintenance costs without getting any income in return.

Participating in online marketplaces

The lowdown: Put your goods for sale online, either through e-commerce platforms or social media marketplaces.

Benefits: You can expand your market base beyond your neighborhood or office, while taking advantage of the existing secure payment systems and logistic services of e-commerce platforms.

Challenges: E-commerce platforms will take a commission for every sale you make through them. Social media-based marketplaces, on the other hand, have little buyer and seller protection mechanisms, exposing you to the risk of frauds.

How Much Money Should You Earn to be Happy?

Can money buy you happiness?

One of the financial challenges faced by majority of Filipinos is that the average salary of PHP 24,000 is just enough to cover the costs of living in the country, and is below the happy income of PHP 110,000 per month, according to a 2021 study.

While money cannot buy happiness, the study said having enough can help spare you from financial stress that could erode relationships, your sense of security, and your well-being.

The latest World Happiness Report ranks the Philippines 76th out of 109 countries. The report considers income, health, having someone to count on, having a sense of freedom to make key life decisions, generosity, and the absence of corruption as factors in national happiness.

In a March 2023 survey, over 80% of Filipinos rate themselves as either poor or on the borderline of poverty, while less than 20% consider themselves not poor. Interestingly, this is far above the official government statistics, which showed that only 18.1% of Filipinos as falling below the poverty line.

Why Do You Need to Upskill?

INVEST IN YOURSELF TO GET AHEAD.

Upskilling is one aspect that a modern workplace requires. Technological advancements and a rapidly changing job market mean that you should be able to avoid being obsolete, to remain relevant, and to continue being competitive.

The World Economic Forum estimates that around 14 million jobs could disappear by 2027 due to technological developments including the rise of work automation, artificial intelligence, and streamlining.

The fastest declining jobs are those with clerical or secretarial roles, such as cashiers and ticket clerks, and data entry clerks. Even professions that were once considered highly secure and desirable, such as those in accounting or even law, are at risk.

While artificial intelligence (AI) and automation are set to take over these roles, cognitive skills such as analytical and creative thinking remain in high demand.

> By investing in yourself, your knowledge, skills, and talents, you can improve your earning power, which can help your career advancement.

While it is in the interest of businesses to continue reskilling and upskilling their workforce to avoid job shedding as they adopt technology and embrace automation, workers must also take the initiative to seek out opportunities for personal growth to protect themselves from unemployment or underemployment.

What does it mean to be underemployed?

You are underemployed if you need a full-time job, but only a part-time position is available to you. You are also underemployed if you take on work that is beneath your capabilities and cannot meet your financial needs.

It is still a persistent issue in the Philippines, according to 2022 government statistics.

Out of 49 million working Filipinos, 12.6% are underemployed. This means that 6.2 million workers said they would like added hours of work in their present jobs, have added jobs, or have a new job with longer work hours.

Being a college degree holder doesn't protect you from underemployment, as 40% of underemployed Filipinos are college educated.

To upskill and expand your current professional capabilities and competencies, here are some potential avenues for you to level up your skills toward career advancement, a promotion, or even a raise.

Pursue higher degrees, licensure, and certifications. Getting a postgraduate degree, such as a Master's in Business Administration can further your career. However, depending on which institution you earn your degree from, costs can be prohibitive, as private universities charge anywhere from PHP 100,000 to PHP 1.7 million. Getting an MBA from a state university, like the University of the Philippines Diliman, costs a more reasonable PHP 7,500 per semester for Filipino students. Meanwhile, you can earn specialized certifications for high-value skills, such as computer programming, leadership, crisis management, and project management. Costs can vary, and you may want to check if your company can subsidize your training and development.

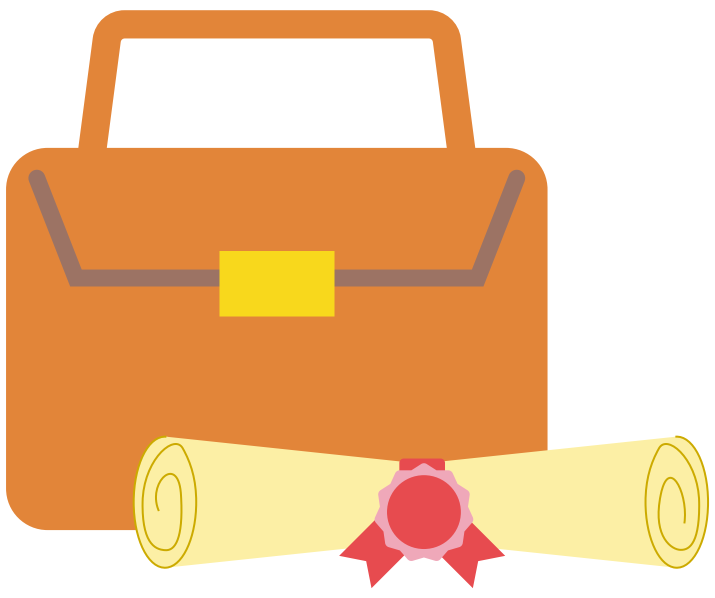
Enroll in online courses. Use your online time wisely to enrich your skills and knowledge. One of the key benefits of self-paced online courses is that you can access many of the courses in your own time. You can even get online degrees or certifications from prestigious universities without having to travel or take a sabbatical from work. The University of the Philippines Open University, for example, offers free

certifications, while the online platform Coursera offers financial aids too.

Join industry-specific workshops and webinars. Many professional associations host workshops and training sessions for members. Some professionals, such as lawyers and doctors, require continuing education before renewing their licenses. Private organizations and media organizations also host webinars for members, subscribers, or the public.

Be part of a professional association. Professional associations can be a great venue for getting to know trends and opportunities in your field. Groups like a Rotary Club or Toastmasters can help link you with professionals from other industries, which organize workshops and seminars for members. Also consider joining professional organizations from within your industry, so you get to network with people from other organizations, meet and learn from industry personalities, and thought leaders.

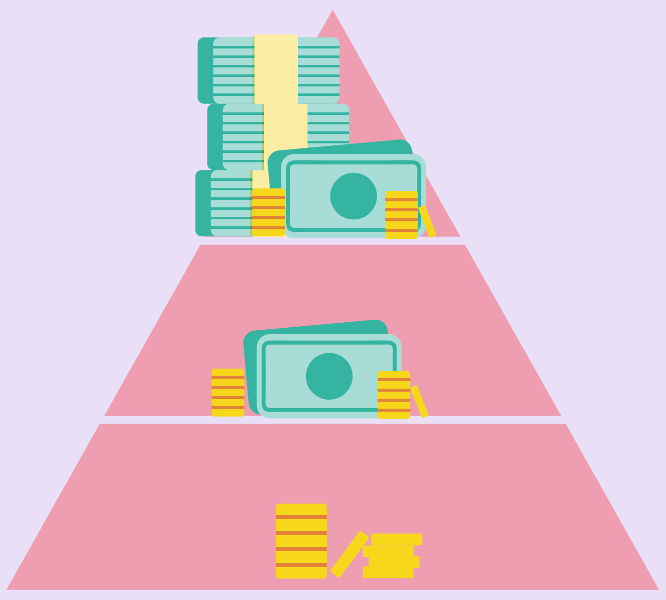
Take vocational training programs. The truth is a college degree is not the only answer to have a fulfilling career. The Philippines' overproduction



of college degree holders has resulted in a mismatch with the actual competencies required by industries. The Technical Education and Skills Development Authority (TESDA), a government agency, offers online programs on a wide range of skills and fields, free of charge for Filipinos. Courses offered include digital animation, mechanics, business management, culinary arts, cosmetology, software development, and other disciplines that can be useful for a side hustle, career progression, or even starting a new job.

Surround yourself with mentors. Having a good mentor who can help in your personal and professional growth can be one of the best things that can happen to you. Apart from having someone to turn to for guidance and advice, mentors can help you develop leadership skills, gain more confidence, develop better problem-solving skills, which could lead to better mental health. So don't be afraid to approach and befriend the boss you look up to. Good leaders are happy to guide and coach you, especially if they see your potential and eagerness to learn.

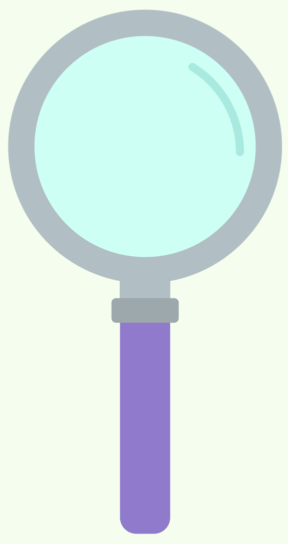
A Note on Network Marketing



Also known as multi-level marketing (MLM), network marketing involves selling products and services directly to consumers with the promise of high profits and quick returns. To appeal to new recruits, organizations using this method promise benefits like being your own boss (and getting out of the rat race) or a retirement plan where you can live a good life.

Network marketing involves building a network of people who you recruit to buy and later sell products and services for you. It starts with someone on top of the pyramid who needs to recruit several people to build a network of people. The catch: people who are added to the network are promised commissions if they recruit more people under them. The higher they are in the "network pyramid," the higher their earning potential in terms of commission and bonus from recruits below them.

Network marketing is a method used to generate an army of independent and direct salespeople. However, there are many cases where this method was misused and abused to lure people into parting with hard-earned money to buy often expensive products and services. But as it turned out, it was an elaborate Ponzi scheme, also known as a "Pyramid Scheme."



PYRAMID SCHEME

This is a type of fraud where investors are asked to recruit more investors and get paid based on the number of recruits they get into the scheme, and thus creating a pyramid of downlines.

Make Work-Life Happiness a Reality

KNOW YOUR PRIORITIES FOR A FINANCIALLY HEALTHY PERSPECTIVE.

If you're lucky enough to find a side hustle that lets you create multiple income streams, it can be a challenge to juggle a full-time job, a side hustle, and your personal life.

Managing your time effectively between working, finding ways to boost your income, upskilling, and having quality time with your family is a delicate balancing act. Taking on an entrepreneurial mindset can help you find the focus and motivation to keep going.

Consider these important items if you plan to earn from your passion.

Weigh your risks, especially if you're still employed. Unless your side hustle can sustain your needs (read: essential expenses), don't neglect your primary work obligations in favor of your sideline. Also make sure that your work allows you to pursue your sideline. If you're a breadwinner, bear in mind that your primary job provides added benefits, such as healthcare for your dependents, which you may not be able to cover with your side hustle.

Prioritize tasks and set realistic goals. Ambition is good, but don't burn yourself out trying to achieve something that is unattainable and unnecessary.

Manage your time well. Like every resource, time can and should be properly managed, otherwise you might find yourself with too little time left over for the things that are just as important as your financial goals, such as creating memories with your family.

Find the right partners or even mentors to help you. If you have peers who share similar goals and have the skills that can complement yours, buddy up and see how many hands can make work light.

Create a support network with family and friends. Talk to those closest to you about your goals. People who love you will support you, make sure you're all right, and give you the honest feedback that you need.

Stay healthy, mentally, and physically. Overworking is a reality. It is so prevalent in Japan that they had a term for it: *Karoshi*. Financial health is important, but if working towards it comes at the price of your mental and physical health, then it's too expensive. Majority of Filipinos seem to be prioritizing their well-being over money. A survey found that 73% of respondents are willing to turn down a promotion or pay raise in favor of better work-life balance, overall well-being, and happiness.

Can a Side Hustle Be Turned Full-Time?

HOW TO UPSKILL YOUR WAY TO BEING YOUR OWN BOSS.

While it is entirely possible to find financial security and become wealthy as an employee, the Philippines suffers from one of the highest income inequality rates in East Asia. The bottom half of Filipino income earners make less than the top 1%, a report said.

So, unless you are among the 1% or comfortably close to them, you may want to consider upskilling or side hustle to improve your prospects, and even find yourself on the path to becoming your own boss.

This was the path Annie, an architect, took after a decade as an employee. Annie worked for a large design firm in Makati. As a junior architect, she earned a monthly salary of only PHP 12,000. Luckily, the firm allowed her to accept small design projects that she could do on weekends, if it did not interfere with her work.

So, she stayed on for a few more years to receive help from the mentorship of senior architects and to build her network with the higher-end client base. She was later promoted while learning more about the business of running a design firm. Eight years later, she decided to start her own architectural firm with three of her peers. Now in its 12th year, her firm has a steady stream of clients and earns more than she could ever have as an employee.

"You need to have a healthy, honest, and humble assessment of your own capabilities. My husband and I knew that our salaries alone would not be enough to start a family and live in the way we wanted. Being able to work closely with our mentors helped us realize how much we still had to learn and when we were ready to go," she said.

Another example of a person who successfully turned her side-hustle into her main source of income is Ciel, a pastry chef for a local airline. As a hobby, she also baked and sold one or two cakes a week to friends and family, which gave her extra income. When the pandemic struck in 2019, the airline's operations were reduced, and her hours and pay were reduced to less than half.

Luckily, in 2020, she struck gold when she found a market for beautifully designed cakes. She created a social media account to post photos and testimonials of her cakes, and within a few weeks, she was selling at least one cake a day. Her cakes cost between PHP 1,500 to PHP 2,200 with an average net profit of PHP 700 per cake. Soon, she was having to turn down orders because she only had one stand mixer and was using her existing oven and family refrigerator.

She decided to apply for a small business loan of PHP 250,000, so she could buy a refrigerator just for her cakes, another stand mixer, and an industrial oven. This scaled up her small cake business, which allowed her to sell up to 5 cakes per day. In a few months, she averaged 80 cakes per month and sold 127 by December. She later decided to leave her job and now bakes full time.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Increasing savings to allow you to build extra income to invest can be challenging.
- It is important to find ways to grow your income streams to help you meet financial goals and put you in a better position for the long term.
- As technology and market changes are making some jobs obsolete, upskilling can jumpstart your career or even keep your skill sets relevant to the times.
- Finding a healthy balance between work, family, and your own personal and financial well-being is essential.
- There may come a time when your side hustle becomes your main gig, and you can truly become your own boss. But first, learn how to balance your day job with a side-hustle.

READERS' SECTION

Mapping Your Side Hustle Potential

You may have some talent, skill, hobby, or resource that may be useful not just for yourself but for others as well. Why not make a bit of extra money from it?

1. List down the things you love to do or are good at that you think people would be willing to pay for.
2. See how much you think you should charge for it and how often you can do it in one month.
3. Add it up and see how much more you can make from these set of skills or hobbies.
4. Create a weekly calendar to see where you can slot in your side hustle with your day job and your personal life.

Talent/Skill/ Resource	Output	Fee	Frequency
Example			
1. Photography Have a DSLR and basic lighting equipment.	Portrait shoots	₱10,000/day	Saturdays only
2. Writing and editing Owns a computer with office software and stable home internet connectivity.	Blog writing	₱3,000/draft	Mondays to Fridays
3. Loves dogs. Lives in a home with helpers and a garden.	Home-based pet sitting/ walking	₱300/hour	Mondays to Fridays

	Monday to Friday	Saturday	Sunday
Morning	Day Job	Project: Video editing	Rest
Afternoon	Day Job	Project: Wedding and reception photography (12 PM - 6 PM)	Church
Evening	Pet sitting (Thursdays and Fridays, 6 PM - 8 PM)	Rest	Rest

***Disclaimer:** The fees in the table are just examples, so they don't accurately reflect current market conditions.

JOURNAL

Do you think you're ready for a side hustle?

Let’s pause for a while and reflect on what we’ve just learned. Use the space below to write your answers. There are no right or wrong answers.

What are things that you love or are passionate about that you can earn extra income from?

Will my day job and lifestyle allow me to have a side hustle or to upskill?

Am I spending my free time wisely?

Your task is not to foresee the future, but to enable it.

- Antoine de Saint-Exupery

CHAPTER 12

Planning for Life Milestones and Retirement

What you will learn from this chapter:

- How to define life milestones
- Why you need to be ready to retire
- How to plan for your retirement
- A word on estate planning

You've learned how to boost your passive income through side hustles, and upskilling to help you move up in your career. By now, you already know your risk profile and your legitimate and regulated investment options. Next, we're diving into an important aspect of your financial journey: planning for your life milestones, specifically your retirement.

Life milestones are important events that you'd want to be ready for before they even happen. So, when you are aiming to achieve good financial health, you need to prepare for these life milestones.

What are life milestones? Here are the more common ones that Filipinos deal with in their lifetimes:

Getting an education. Be it a college and or a master's degree, getting education for yourself or your kids entails a budget that covers tuition, miscellaneous, allowances, and other related expenses. How do you plan to fund this milestone?

Landing your first job. Before you start working, you may need to move to a new place closer to your office, rent an apartment, or if you can afford one, buy a new car to take you to work and home. This milestone requires preparation.

Getting married. When you decide to tie the knot, you need to budget for a wedding and life as newlyweds after the wedding. So you need to prepare a budget for raising a family too. One tip is to decide whether you need to have a joint

account once you decide to live together. What's your plan?

Buying or renting your first home. Even before you decide to get married, you may want to start planning to either buy or rent a house. So, knowing your budget, including how much can you save for a down payment or set aside for a monthly rent, should all be part of a plan.

Having kids. Growing the family requires adjusting your household budget. For one, you need to save or invest for their education. In the short-term, you will need to spend more to make room for the baby.

Planning for your retirement. Everyone wants to retire comfortably. Preparing for that last mile of your life means saving up and finding sources of income that funds your lifestyle when you stop receiving salary after you stop working.

For some, other people's life milestones become your own milestone. For example, you need to save and plan for the education of your younger siblings, particularly finding additional income to fund their tuition and other expenses. You may also need to plan ways to boost funds for your aging parents, as part of your life milestones.

Therefore, these life milestones require a deliberate plan. They are like financial goals that you need to accomplish at a certain stage of your life or when you think you are ready. It’s not necessarily dependent on your age.

Also, every life milestone comes with a price tag, which you need to prepare for, so it becomes achievable. You need to know how to get there.

Preparing for a Life Milestone

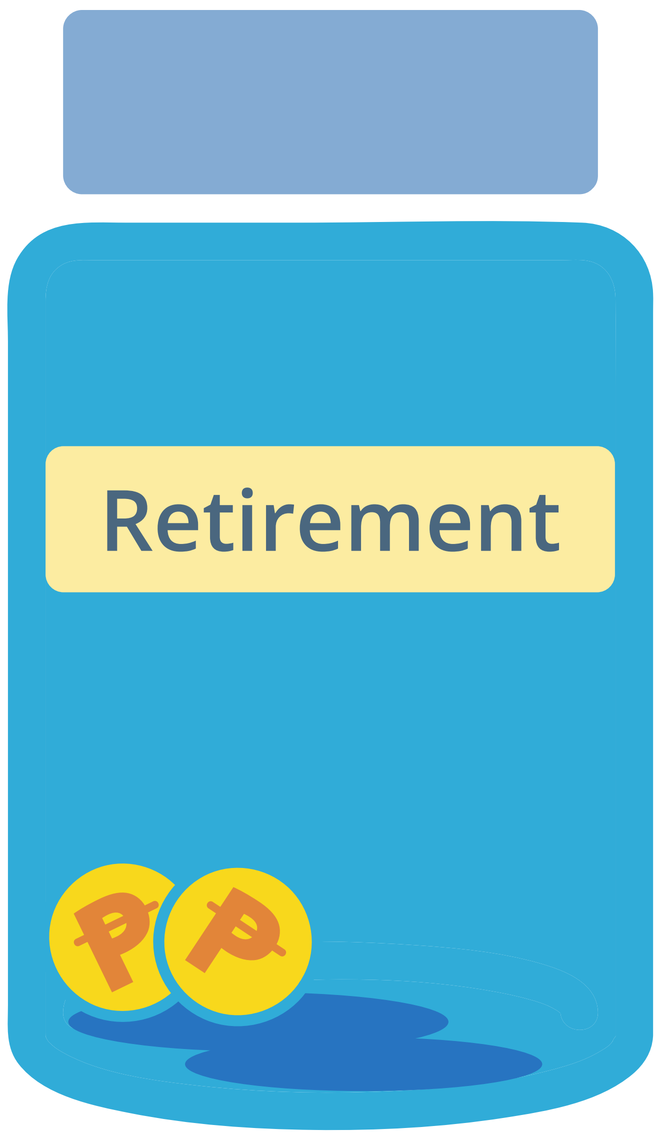
ARE YOU READY FOR YOUR RETIREMENT?

Remember that from previous chapters, preparing for life milestones starts with a budget. In your monthly budget, a portion of your monthly budget goes to "savings," which in turn a portion goes to investments. Now, when do you start saving money for your retirement? The rule of thumb is that the sooner, the better.

Life milestones are triggers for you to start budgeting. So, when you and your partner decide to get serious and be married, say, two years from now, this prompts you to create a line item on your budget that says, “wedding fund.” In this instance, you estimate a doable budget and start working your way backwards and determine how much you should save in the next two years.

Note that working hard and saving up for retirement is not wrong. However, if your retirement planning revolves around saving money only, your plan is incomplete. Money you saved can lose its “buying power” over time due to inflation. So, if you want to build a retirement fund, for example, you need a concrete, doable, and future-proof plan.

Many Filipinos, however, think that building a retirement fund is something that “only the rich can afford.” That is wrong. This may be the perception since a huge number of Filipinos nearing retiring age–between 50 to 60 years of age–feel they are not financially prepared.



One recent survey even showed that many are not too optimistic about retirement because they believe they will be working beyond the age of 60 or 70 years.

For most of Filipinos, retirement funds come from government. Each Filipino who earns a salary are mandated by law to contribute a monthly amount to the Social Security System (SSS), the Government Service Insurance System (for government employees), and the Pag-IBIG Fund.

Government pensions, however, are not enough for Filipinos to retire on. SSS pensioners receive between PHP 4,000 and PHP 20,000 a month, depending on how much they have contributed while they were working, according to this report.

Government pensions are also given to retirees in fixed amounts depending on their contributions. With inflation, your buying power would likely be lower in the future, which will not be enough for a nest egg come retirement.

It is also not surprising how Filipinos feel about retirement. The Philippines was among those ranked at the bottom in terms of retirement systems, according to a global pension index. In 2019, the country was ranked 34th of the 37 countries in terms of retirement income systems. In 2022, the Philippines was ranked 36th.

So, you need to start planning now, and not tomorrow. The longer you postpone planning for your retirement, the harder it gets to save and build enough funds to sustain you after retirement.

Planning for Your Retirement

HOW TO PREPARE AS A FILIPINO.

How do you prepare for your retirement? There are many ways to plan your retirement, just as there are different strategies to, say, invest.

Also, your understanding of the concept or even the very definition of retirement may be different with other people. Some say that they won't retire, as they continue to practice their profession as a consultant or as a part-time. Some just adopt the term “semi-retired” once they reach their golden years.

Semi-retirement is a pre-retirement option when you decide to slow down but you still are able to do some work to provide yourself some income because you cannot fully support a full retirement, which to some is equal to a total absence of work.

For others, semi-retirement means cutting back on the hours devoted to working in a corporate career and shifting that time to managing or running a small personal business at their own terms. At some point, the plan is to stop working when the retirement income can support their lifestyle.

Despite differences in how you define retirement, there are common principles that you should consider before you retire.

It starts with determining your lifestyle after retirement. Paint a picture of life after retirement. What would it be like? Just because you're retired, it doesn't mean that you no longer need to look out for your financial health. You also need to identify other sources of income to enjoy life without an active income like a salary.

Next, calculate how much income you need to retire. Do the math. Note that there is no magic number to how much money you need to retire. There are several factors you need to consider: your current income, the kind of lifestyle you want, or even unforeseen events like an illness or medical expenses that can disrupt your plans. Of course, inflation is a huge factor in the way you plan your retirement.

One approach, called the "25x rule," works by estimating the annual retirement income you expect to get from your own savings and multiplying that by 25. The total will indicate the amount you need to live comfortably in the next 10 years after retirement. Here's an illustration:

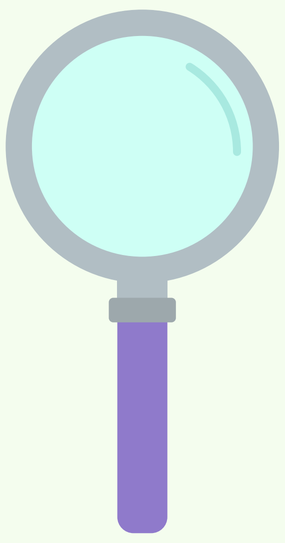
Annual gross retirement income	Annual gross income multiplied by 25	Annual gross income after retirement (with inflation)
Example ₱600,000 (₱50,000/monthly)	₱15,000,000	₱1,500,000

In our example, let's assume you decided on an annual gross retirement income of PHP 600,000 or that is about PHP 50,000 monthly gross income. In this example, PHP 180,000 or 30% of your income should be covered by your savings, pension, and possibly a part-time job, and the remaining PHP 420,000 by investments. According to this approach, you need to save at least PHP 1.5 million to be able to withdraw around PHP 420,000 of your annual earnings in your first year of retirement. As to the question of when to retire, if you're using this 25x rule, this assumes the year when you decide to stop working.

Another approach is called the **"4% rule,"** which estimates how much nest egg you need by the time you retire. Based on this rule, you note down your monthly income then multiply that by 12 to show your income for the year. Then, divide the annual income by 4% to determine the nest egg you would need by retirement.

Monthly gross income	Annual gross income	Nest egg by retirement (with factor of 4%)
Example		
₱ 50,000	₱ 600,000	₱ 15,000,000

Based on these calculations, you would roughly need PHP 15 million by retirement to keep your lifestyle in the next 30 years. This rule also suggests that by year one of your retirement, you can use 4% of your nest egg, and adjust the percentage subsequently by the rate of inflation. This rule, however, is not written in stone, as future inflation rates can possibly eat up your retirement fund in less than 30 years.



NEST EGG

It is a sum of money saved for the future, in this example, for your retirement.

Another approach looks at 80% of your current income should cover for your retirement income and your living expenses. Again, take inflation into account when computing for the total retirement fund.

Monthly gross income	80% of current gross income	Nest Egg (Annual Retirement Gross Income)
Example		
₱50,000	₱ 40,000	₱480,000

All these approaches are suggestions by different financial planners. Also, these calculations are not meant to cause you anxiety. Note that your current income fuels your lifestyle and your dependents (which includes your immediate family, siblings and parents). When you decide to retire, you will need less money to support your children, as they will be independent and working, earning their own income. When you retire, consider adopting a simple lifestyle so that you spend less on mortgages and other "wants."

So, the best way forward is to still talk to a personal finance expert on how to do the math.

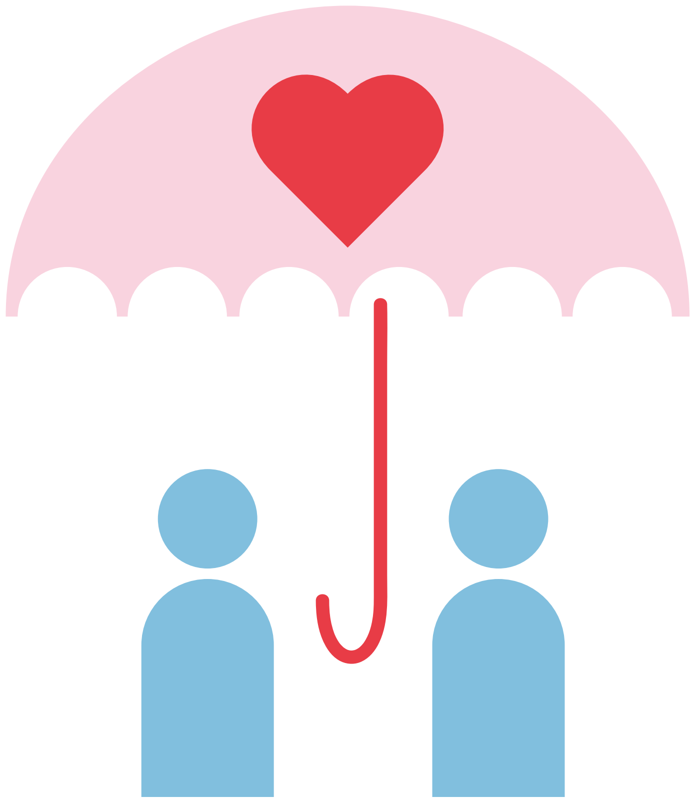
After doing the math, you now need to determine your retirement age. Among government employees, retirement age is from 60 to 65 years. For those working in private companies, the retirement age starts at 55 to 60 years. Knowing this allows you to plan ahead and start building your retirement fund. Some apply the "20/20 rule." This means if you want to retire by 55 and hope to live for another 20 years, you need to start building your retirement fund at age of 35. The financial goal here is to save as much, and to start early with saving and investing.

Now that you have an idea how much retirement fund you need to raise and when can you start doing it, it is time to figure out sources of income to support your retirement lifestyle. You can start with these government-managed retirement funds or pensions.

- The Social Security System (SSS) and the Government Security Insurance System (GSIS) offer ways to build pension funds. SSS works for people working in private organizations, while GSIS is for those in government. Both are part of a monthly salary deduction done automatically by your company or government. So, you have this as one source of funds for retirement. This source may not be enough, though. So, consider this as just one of several sources.

- Pag-IBIG, another government agency, offers the Modified Pag-IBIG 2 Savings (MP2), which is a type of time deposit that can help you save and earn from your money after 5 years. It's one of the more accessible and stable way to make the most of your money, especially as a pensioner. Fact: returns on MP2 are from Pag-IBIG's own earnings from housing loans, and that these returns are tax-free.

You can also consider the Personal Equity and Retirement Account (PERA) account, which you can create through local banks. PERA is a voluntary retirement account that you can set up before you retire. Some private organizations offer PERA accounts for employees, but you can also set one up for yourself.



Another consideration to have is health insurance. With health insurance, you don't only protect yourself and your loves ones from unexpected events, but you will have money to protect you from unexpected events after you retire. If you decide to continue paying a premium after retirement, health insurance covers medical emergencies and even unexpected illnesses. Some health insurance types even offer payouts after you retire. So, it's recommended to have some form of health insurance before you reach the age of 60 years because premium gets more expensive. Some health insurance coverages are not available to those whose ages are beyond 70 years.

Boost your retirement fund through investments. Investing is one of the more effective ways to build your retirement fund because of the magic of compound interest. Recall that compound interest happens when you start earning interest on your principal amount plus interest. Investments also help you address inflation. So, what kind of investments can you consider:

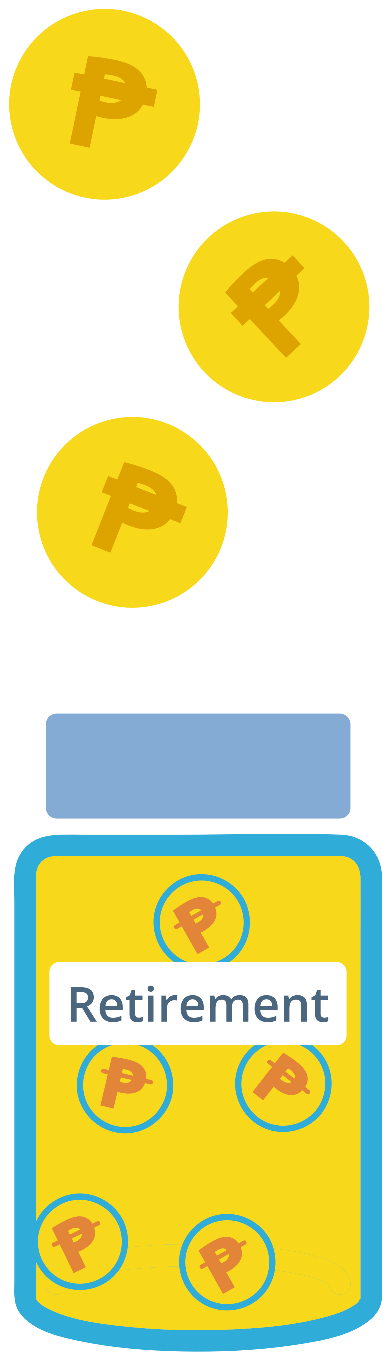
- **Unit investment trust fund (UITF)** is one investment for building a retirement fund. This investment option comes with higher long-term growth potential than, say, a typical savings account. It also offers lower risk compared to an investment in the stock market.

- **The stock market is an investment option** that offers better potential for high returns. But if you're retired, go for more conservative or reputable stocks. Speak to a financial advisor about investing in well-established companies in the Philippines.

- Depending on the location, type of property, and other factors, you could earn high returns from investing in **real estate**. However, this is a riskier option, so only consider this if you have some capital that you are willing to lose.

- **Real estate investment trust (REIT)** is also an option since this combines the earning potential of stocks and the regularity of income from bonds, while making money from income-generating real estate properties without having to break the bank.

Now that you have an idea how much retirement fund you need, you can start saving a portion of your income to build your retirement fund. The sooner you can save, the more you can save. Meanwhile, it is also important that you set aside money



for emergencies (remember, your emergency fund), so you do not drain your savings when unexpected events happen. You want to avoid unforeseen events from draining your savings, which would force you to spend your retirement fund.

Building a retirement fund is critical if you expect to live a blissful and worry-free life after retirement. However, many look to their children for financial support when they retire–a practice that is common for a country that has strong family-oriented culture.

So, relying on your children for financial support when you retire should not be part of your retirement strategy.

Finally, retirement also means living a healthy life. Your physical, mental, and financial health will determine the quality of your remaining years of life. If you are always sick or are spending your money on medical bills when you are retired, this would put a drain on your savings, emergency fund, and eventually your retirement fund. So, exercise, eat well, and invest in making sure you enjoy life in your golden years.

Know These Retirement Myths

The cost of living for retirees is lower.

Since their children are already independent and they are more likely spending less on mortgages and other "wants," retirees may still spend on medical maintenance cost and other household expenses.

Retirees do not need to find work.

Many retirees are still physically and mentally capable of handling complex tasks. Many companies can still hire retirees based on their skills.

Retirees cannot get loans.

There are multiple financial institutions that can still offer loans to senior citizens, though others could be higher.

Retirees cannot invest anymore.

There are no age limits and reasons to invest. Even senior citizens can invest so long as it is within their financial capacity and fits their lifestyles.

It is the children's turn to take care of retirees.

Parents should not always rely on their children to fund their retirement, who may have difficulty building their own retirement fund, let alone their daily expenses.

Learning the Basics of Estate Planning

WHAT IT IS ABOUT ESTATE PLANNING THAT YOU NEED TO UNDERSTAND.

No discussion about retirement is complete without mentioning estate planning. Before you think this doesn't apply to you, know that everyone can plan their estate, and you don't need millions of pesos to have one.

Your estate consists of everything that are under your name: your home, checking and savings account, life insurance, furniture, car, vehicles, small business, and everything else. No matter how large or modest your possessions are, they make up your estate. When you retire, you must take the steps to plan your estate so that you know who gets what and what goes where.

You must do this as early as possible so that you pass along your estate as seamlessly as possible and pay the least amount of taxes, legal fees, and court costs.

So, how do you get started? Well, every estate plan begins with a will or a living trust. These financial tools detail how your estate will be distributed to your relatives or chosen beneficiaries.

WILL

A will is a legal document that contains instructions on how your property and assets are distributed upon your death.

LIVING TRUSTS

A living trust is a legal arrangement that assigns a trustee–a bank, for example, to take care of your assets while you are still alive and after you've passed.

It is not required to have both a will and a living trust, but it's recommended that you do have both. Having a will is enough to make sure that all your assets are distributed properly after your death.

In the Philippines, your estate automatically passes on to your legal partner or children without a will. This is under the Civil Code of the Philippines. However, if you have a will, you can decide on how your estate will be divided. This is especially important if you have a common-law husband or wife or natural children. Without a will or living trust, your money and everything you own may not be given to your natural children or common-law spouses, unless they go to court, which may be expensive.

You also should consider having a will or living trust if you have jointly owned properties or businesses, for example, a small business or even a joint bank account.

All jointly owned accounts will automatically go to your business partner if something were to happen to you. However, if you want to assign someone else to handle your assets, you must have a written and notarized legal document that states how you want your assets to be distributed.

You can start drafting your will right now, even without a lawyer. To make it legally valid in any court, you should write it in your preferred language and have least two people to serve as witnesses. You should also sign each page with your name and signature.

Local banks now offer estate planning services. So, you can ask your bank on how to go about doing estate planning.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- It's important to know what your life milestones are so you can be ready when it happens.
- Retirement is the most common life milestone. Regardless of who you are or what you do, you will retire at some point.
- Not all Filipinos are ready to retire because they see themselves working beyond their golden years.
- You need to build a retirement fund sooner than later and not rely on your children to support you in your golden years.
- A retirement fund is a combination of savings, pension, acquired assets, such as land other properties, and investments. The earlier you start building it, the less worry you have after you decide to retire.
- Retirement will mean different things for different people but you need to visualize the lifestyle you want when you retire.
- Take things one day at a time and speak with your financial planner about the best ways to build your retirement fund.

READERS' SECTION

Picture How Much It Costs to Retire

Let's play a fun game on how much money you should have for retirement. Remember that there is no specific amount that you need. This amount can be more or less, depending on your own personal needs and intended budget. Nevertheless, this may help give a ballpark figure on how much you should have. Let's try the "4% rule" to see how much of a nest egg you would need.

Example

What is your estimated monthly retirement income?

₱30,000

Example

What is your estimated annual retirement income?

₱30,000 x 12 = ₱360,000

READERS' SECTION

Example

To determine your nest egg after retirement, divide your est. annual income by 4%

₱360,000 ÷ 0.04 = ₱9,000,000

Example

The amount you need to save up and invest on to keep your lifestyle after retirement

₱9,000,000

Now, try it yourself:

What is your estimated monthly retirement income?

READERS' SECTION

To determine your nest egg after retirement, divide your est. annual income by 4%

The amount you need to save up and invest on to keep your lifestyle after retirement

JOURNAL

Are you ready for life ahead?

Now that you've reached the end of this book, you have learned how to make better financial decisions, so that you can live life with more confidence and ease.

For your final reflection, answer these three questions:

What life milestones am I planning or expecting to achieve?

How am I planning for these life eventualities?

What can I do today to strengthen my financial resiliency?

JOURNAL

Don't feel bad if you don't know how to answer reflection points 2 and 3, either. The path to financial health and eventually to financial resiliency is a journey that we all should take. You'll stumble and make mistakes from time to time. What is important is that you learn from these mistakes and keep moving forward.

Your financial journey will look different from the rest, but it is just as beautiful and as awesome as all the rest.

Editor's Note: Now that you're at the end of this book, we thank you for taking the time to read each chapter that we released. We hope you learned a few things from each topic that we tackled and accomplished the exercised provided. If you think there are other topics that we haven't touched on, please do let us know and drop us a message at earnest@metrobank.com.ph *or scan the QR code at the end of this book to answer our survey. Once again, thank you for allowing us to be the good hands to help guide you in your financial journey.*

We would like to hear your thoughts.
Help us improve Earnest
by answering this survey.

Thank you!

Glossary

YOUR EASY GUIDE TO FINANCIAL TERMS

Throughout the book, you are alerted to personal finance terms. We kept the definitions simple, easy to remember, and hopefully, fun. So, to keep you informed of these terms, we've put them together in this glossary. Let's start reading! We are organizing them alphabetically, so you find terms easily.

B

Budget

A budget is a spending plan that defines how much of your income is allocated towards expenses, savings, and investments over time.

Buying Power

Also known as purchasing power, it is the amount of money or value of money that can buy goods or services. This can change over time due to inflation.

C

Capital

Capital refers to the financial resources or assets that can be used to generate income.

Collateral
Collateral is an asset or item that you own that a lender accepts as security for letting you borrow money. If you are not able to repay, the lender takes the collateral as payment.

Compound Interest
It is about earning interest on the money you have earned through interest. It makes your money grow faster the longer you keep it invested.

Credit Score
A credit score is a system used by banks and lenders to help them decide whether you qualify for a loan or a credit card. Several factors are considered including your loan payment history, your current debts, your available cash savings, among others.

D

Debt
Debt is money that you borrow and repay later. It is often associated with loans or credit that are used to purchase things you could not afford under current financial circumstances.

Debt Burden Ratio
The debt burden ratio or DBR is your total monthly loan payments divided by your monthly income. It is expressed in percentage. The higher the DBR, the less your financial capacity to pay for additional loans.

Default
A default happens when a borrower stops paying debts due to lack of funds.

Digital Bank
A digital bank offers financial services just like a traditional bank, but exclusively online or via mobile apps.

Dividends
Dividends in savings accounts are like interest payments. They are portions of the profits shared by a company or an institution with stockholders every quarter or every year.

E

Emergency Fund
An emergency fund is money you save that is accessible and secure for those unexpected events and financial emergencies. This fund should match the total amount of your living

expenses for 6 to 12 months if you are single–and 12 months to 2 years, if you are married.

F

Fiat Money

Fiat money is issued by the government and is not backed by a physical commodity like silver or gold.

Financial Health

Your overall financial health hinges on how you manage your money. This includes how you budget (save and spend), how you invest, how you insure your assets, how you plan your retirement, and other financial components in your life.

Financial Wellness

Financial wellness is your overall emotional state about your financial situation–that is, your money relationship.

Foreclosure

Foreclosure is a form of repossession but is used to refer to a defaulted or unpaid home loan.

G

Guarantor

A guarantor is another individual that promises to pay back a loan if the original borrower fails to pay it back.

I

Inflation

Inflation is the general increase of prices of goods and services over time, which affects the purchasing value of money.

Insurance

Insurance provides financial support to people covered by it when unexpected events, such as illness, natural calamities, accidents, or death– happen. Financial support may come as reimbursements from the insurance company, which pays the costs of these unexpected events.

Interest

An interest is the amount of money a bank or a financial service pays a depositor for keeping money in its facility. A bank borrows the money from the depositor for loans to other customers.

L

Loan

A loan is money you borrow that comes with interest.

M

Maturity Date

A maturity date refers to the time when you can withdraw your time deposit without penalties.

Mortgage
Mortgage, also known as amortization, is a type of loan where a borrower agrees to repay a lender in regular schedules.

Multi-Factor Authentication
This is a digital security method where you are given access to a website or application only after supplying at least two pieces of evidence or factors of your identity to prevent fraud.

O

One-Time Password
One-Time Password, also known as OTP, is a password that is used only once to authorize an online transaction or log-in activity. They are sent to your registered mobile number or email address to verify your identity.

P

Paluwagan
Paluwagan is a Filipino financial term that describes an informal form of saving and lending. It requires a group of people contributing a fixed amount of money into a pool of funds based on an agreed schedule. The pooled money is then

given to a member of the group who acts as the collector or the manager of the funds. Any member can then borrow money from this pool of funds.

Pension Fund

A pension fund is a pool of savings collected by an employer or a government agency during the working life of individuals. It is often regarded as retirement fund for the employed because it gives regular payouts soon after retirement.

Q

QR Payment

Quick Response (QR) payment is a digital payment method that requires the payor to scan a QR code or a square-shaped barcode instead of typing in the payee's account name and number.

R

Repossession

Repossession is the act of retaking possession of a home or car bought through a loan after missed payments.

Risk

A risk is any uncertainty you have with your investment that will negatively affect your original investment, which also means losing money.

Risk Profile
A risk profile indicates how much risk you are willing to take with your investment.

S

Surety
A surety is common in loan contracts. It involves an individual who promises to take responsibility for someone else's debt. So when you take on a loan, the lender may ask for a surety to also sign the loan agreement. If you can't pay back the loan, the surety will have to pay instead.

U

Usury
Usury is the practice of charging interest rates on a loan that is higher than the limits set by law or government regulators.

Metrobank
You're in good hands