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PFA

YAMAN Coach

EMPOWERING YOU

Your Household is Your First Business

by Coach Rose D. Gases, RFP®

Have you ever dreamed of having your own business? My guess is that you took some time to learn the ropes of establishing your own enterprise.

Did it occur to you that how you manage your household cashflow is similar to how you manage the flow of money in your business?

Wait, what?

Would you need to record that extra "cup of joe" you ordered yesterday for a friend-client of yours? How about accounting for your weekly rest and recreation sessions?

Yes, I know it is burdensome for you to jot down every cash outlay. Yet, it will be easier for you to determine how your money is flowing from the analytics that can be generated from the data you will compile. For one, it will be easy to segregate your expenses as to which are discretionary, and which are not.

They say that effectual cashflows are the linchpin to the health of a business. The same applies to household cashflow. I, myself, keep a small notepad where I list all my daily expenses. I even include that Php10 I pay for the lounge I stay in to kill some time just before my appointments. At the end of the month, I collate my expenses on a spreadsheet to give me a visual on which items I may have overspent on relative to my budget. This exercise makes me mindful of my next outlays.

On a spreadsheet, big amounts like five thousand Pesos stand out and serve to highlight the wisdom of your cashflow decisions vis-a-vis your current and future needs. It is not bad to buy new clothes if you really need them. Or, if you needed to prioritize, perhaps the money could have gone to investing in a pooled fund to build your war chest for your children's future higher level education.

If you are still thinking about the hassle of doing your own household accounting, think of it this way. Imagine yourself sitting at your desk and thinking of the cost of hiring a bookkeeper for your small business. If your business is not that large and complex, you will probably think twice as the pay of that bookkeeper will be magnified by the employment benefits (e.g. SSS, PhilHealth, Pag-Ibig, 13th month pay, vacation and sick leaves, etc.).

Being a business owner, you know that bookkeeping is essential with the myriad of details that need to be tracked. But you will also probably want to cut costs to ensure that your business stays afloat. In the process, you will likely decide to initially be the bookkeeper. So, if you will be your own bookkeeper for your small business, so should you be for your own household. Your cost cutting will not be for naught as the diligence with which you record your cashflow will greatly help you in decisions as crucial as renting or buying a home and as simple as buying a new mobile phone. The same cashflow records will be your guideposts to whether you are still on track in achieving your household's financial goals.

Having metrics for your cashflow helps you create that balance between saving / investing for a better future and enjoying some of the fruits of your labor now without burying yourself in unnecessary debts. Please do not get me wrong. I believe that debt is a good leverage for people who know how to use it to their advantage. But that discussion is for another article.

For now, know that there is no replacement for that peace of mind, of knowing that your household is thriving and flourishing. And on many levels, your "first" business is really your own household.

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Accelerating the Build-up of Emergency Funds

by Coach John Hero A. Salvador, RFP®

There are some hard and fast rules when it comes to emergency funds, the most common of which is that the size should cove at least 3 to 6 months' worth of expenses. But let us take a step back to see if this rule really applies especially to Filipinos.

When a person manages to save 50% of his gross pay, that means his expenses are also 50% of his gross pay. Thus, it will take that person 3 months of saving for that person to cover 3 months' worth of expenses (i.e. 3 x 50% ÷ 3) and 6 months of saving to cover 6 months' expenses (i.e. 6 x 50% ÷ 6). This scenario is, of course, simplistic at best.

When it comes to a realistic savings rates, the acquisition of enough cash for emergency fund purposes poses time constraint. According to the 2018 data published by Philippine Statistics Authority (PSA), an average income earning household was able to save 23% of its income. If the remaining 77% is fully allocated to expenses, it will take 10 months to save 3 months' worth of emergency funds (i.e. 3 x 77% ÷ 23%) and 20 months to save 6 months' worth (i.e. 6 x 77% ÷ 23%). With this perspective, how can the average income earning household shorten the time needed to have ample emergency funds?

The solution is to keep track of and categorize expenses into non-discretionary and discretionary items. Non-discretionary expenses are those that are necessary for the upkeep of the household. These include but are not limited to income taxes, home mortgage payments, utilities, food, children's education, essential transportation, and insurance. On the other hand, discretionary expenses allow for the enjoyment of certain luxuries in life. These include but are not limited to dining out, going to movies, travel and other recreational activities. In a nutshell, households can get by without discretionary expenses but cannot without nondiscretionary expenses.

Another way to shorten the time for raising emergency funds is to limit the definition to "3 to 6 months' worth of non-discretionary expenses". Going back to the PSA data, the total average expenditure of an average income earning household can be broken down to 73% non-discretionary and 27% discretionary expenses (roughly 3:1 ratio). This data makes the actual average non-discretionary expenses of an average income earning household 60% of total income, allowing for 40% of the total household income to be saved (at least while the level of emergency funds is being brought up to standard). Therefore, 3 months' worth of emergency fund can be covered in 4½ months (i.e. 3 x 60% ÷ 40%) and in 9 months to cover 6 months' worth (i.e. 6 x 60% ÷ 40%). For non-recurring, big time expenses like hospitalization, house and car repairs? For hospitalization, HMO coverage and insurance can cover the most common causes of hospitalization (i.e. hospital income benefit is a good rider to consider). The cost of HMO and life insurance coverages form part of non-discretionary expenses. The minimum is to have adequate coverage for the breadwinner/s. For the other major but non-recurring expenses, an estimate can be made and included as part of miscellaneous non-discretionary expenses.

The 13th month pay, bonuses, profit sharing and all other windfall money can and should be used to accelerate the building-up of emergency funds. If windfall money is first kept in a bank account with penalties for early withdrawal, a person will tend not to spend it just to avoid the penalty. And after a few months, the windfall money will figuratively grow roots in the brain of the person, allowing him to consider such funds are part of his store of wealth. In this state, the person will also feel pain in letting go of the money.

Once the appropriate amount of emergency funds has been set up, effort should be put in maintaining and fine tuning such amount (especially if expenses change) and using excess savings for building a better financial future through debt, risk and wealth management.

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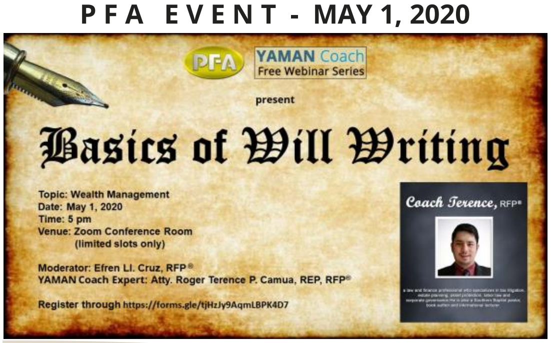

Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

In the last issue, we pointed out that your house is an asset. In this issue, the first article points to the fact that your assets, in turn are part of your household, which can be considered a business.

If businesses are owned by their shareholders, your household is owned by your family members. Shareholders and household members alike know that their equity in their business and household, respectively are earning good returns if their return on equity is high. And the best way to ensure that return on equity will remain high is if both households and businesses save a lot, use those savings to invest in earning assets and borrow mostly to buy more earning assets. In Pilipino, these entities need to be "pala" save, "pala" invest and "pala utang nang tama."

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