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YAMAN Coach

EMPOWERING YOU

Is it Really Wise to Pay Just the Minimum?

by Coach Rose D. Gases, RFP®

People have this misconception that if they merely pay the minimum amount required by their monthly credit card billing, they are being clever against their creditors. Little do they know, similar to gambling, the house always wins.

Let us crunch some numbers. Alfred, not his real name, borrowed Php30,000 from his credit card to buy his latest phone. Let us assume that his credit limit is Php100,000.00 and he made a straight charge on his card. He felt ecstatic after he laid hands on his new phone. His co-workers and relatives were so envious that despite the pandemic, he was able to get hold of the latest phone in the market.

Alfred made another straight charge against his credit card to upgrade his old laptop too. But this time around, to fit his budget, he decided on paying just the minimum amount per month on his Php30,000 charge. He thought that since is paying down his debt, there would not be any “new” accrual of interest. But that thinking could not be farther from the truth.

The reality is that the interest will accrue even on interest for as long as there is an outstanding balance. With the minimum amount, credit card holders are paying down part of the

principal and the interest. Any unpaid interest simply becomes part of principal our outstanding balance in the next billing cycle.

Consider these two scenarios. With the decision to pay only the monthly minimum amount, it will take Alfred almost 35 years to fully pay off his initial Php30,000.00 loan. And the total interest he has to spend will be Php59,000.00 excluding other fees and charges.

But if Alfred pays off a fixed amount of Php900.00 all throughout until the loan is fully paid off, it will take him less than 5 years and cost him just under Php20,000 in interest.

So if Alfred decides to also pay the minimum amount to be dictated by credit cards for his laptop upgrade, he will be digging himself into a deeper debt hole. It will take longer and be more costly for him to fully settle his loans.

There is behavioral economics involved in the usage of these plastic cards. First, these plastic cards do not feel like real money, hence there is no pain felt paying every time they are used. Second, paying just the minimum about somehow mitigates the pain from having a larger amount to shell out. And we

have not even begun talking about the various gimmickry or marketers like launching sale promos and bundling purchases with rewards points. In reality, rewards points are limited in your choice of redemption items and are way lower in value than the interest charges that go will having long periods of sizeable outstanding balances.

The best solution is to pay in cash or to pay more than the minimum amount if possible. If not apply what we call STOMP at **YAMAN Coach**. You start out with and “Stick To One Minimum Payment” amount. This is exactly the example given earlier with Alfred paying a fixed Php900 monthly. Then eliminate using plastic cards on your wants, learn to budget and opt to pay in cash next time. Using cash on your purchases makes you realize how much money is leaving your wallet. You feel the pain every time you burn your money on things that you do not really need.

That is why the next time your banker asks you to increase your credit limit or issues you another credit card, learn to say no and walk away.



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People attribute the saying that it takes 21 days to form a new habit to Dr. Maxwell Maltz. However, he does not really say that. What Dr. Maltz says is that people have to have a good self-image to live a full life. He said that: 1) “all your actions, feelings, behavior – even your abilities- are always consistent with this self-image; and 2) the self-image can be changed.”

They say you are what you eat. In a way, Dr. Maltz says you are what you view your self-image to be. And there are times when we adopt a self-image that may not be our true selves. Yet we adopt it as if it were correct.

This self-image commands our brain and intricate web of nervous system. If we believe ourselves as winners, our brain and nervous system will act in ways to help us be on the winning column. Of course, the opposite can be true. Regardless, our brain and nervous system comprise our servo-mechanism that guides us towards achieving whatever goals we have, and, if the path to achieving such goals are still unknown, to discover and master that path. Discovery and mastery will be through a series of trial and error just like a first time bike rider will wiggle the handles until he learns how to balance and pedal his bike forward.

These concepts are the bedrock of PFA’s Reality Cash Flow. Many times, people fail in personal finance because they are not aware of how cash flows into and out of their finances. Budgeting sets out the ideal cash flow. The trick is finding out why many times there is a variance between the

Reality Cash Flow

by PFA

budget and reality.

Even without a budget, it would be best to observe how cash flows, using simple pen and paper. Just say to yourself that you are the master of your own finances. So, upon waking up on day 1, jot down how much money you have on hand (i.e. money in your pocket, wallet, bag). That is your beginning cash. As you go through your day, list down the sources of cash that increase it and uses of cash that decrease it. And by the end of the day, get your beginning cash, add to it your sources of cash for the day and then subtract the uses of cash. What you will get is your ending cash for day 1. Your ending cash for day 1 should balance with what you have on hand.

Your ending cash for day 1 is your beginning cash for day 2. Now, do the same process as in day 1.

You will see that even after just one week, you will have a realization of how money flows in and out of your household finances. But that is just one week. There may be flukes in your cash flow. Moreover, that is just a realization. To take out the flukes and make it your habit, do the reality cash flow for one whole month. After that, monitoring your cash flow will be second nature to you. You might not even need a simple pen and paper to monitor anymore but you will feel it in your gut.

After you develop the habit of monitoring your cash flow, your budgets will now be realistic.

Editor’s Note

Efren LI. Cruz, RFP®
Editor-in-Chief

Web-novela

Specially during the time of the pandemic, there have been many webinars launched on personal finance.

PFA has decided to join the mix with a twist. Very soon, PFA will launch a series of webinars revolving around a family and how it and people around them managed finances during the different stages in life. These stages will range from starting out a career to getting married and sending children to school, to retiring and passing on wealth to the next generation.

Each episode will involve practical personal finance lessons seamlessly intertwined with the life of the family. Computations will be so integrated that each episode will not appear like a seminar. Each episode will end with a cliffhanger, a segue if you will to the next episode to get participants invested.

PFA promises this series, which it calls a Web-novela, to be a unique, interesting, and riveting take on personal finance that you will want to see from start to finish. And the best part of it is that the Web-novela will be for free. Watch for it!

“Strive not to be a success,
but rather to be of value.”
- Albert Einstein

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