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YAMAN Coach™

EMPOWERING YOU

Clarity of Mission for your Vision

In many organizations, strategic planning is done to define direction and make decisions on allocating limited resources to pursue such direction. But that is just one-half of the job. The other half is to implement and remain committed to the organization's direction.

The same is true for New Year's resolutions and other promises people make to themselves for the purpose of improving their lot, whether they may be financial, physical, emotional or spiritual. But plans remain "cheap" if they are not executed or, if when executed, are done in a non-sustainable way. That is why the plan itself needs to be sustainable.

Luke 14:28-30 says it best - "Which of you wishing to construct a tower does not first sit down and calculate the cost to see if there is enough for its completion? Otherwise, after laying the foundation and finding himself unable to finish the work the onlookers should laugh at him and say, 'This one began to build but did not have the resources to finish.'"

It is easy to devise a plan. But if that plan is detached from reality, it will not be sustainable.

So, for the mission to your vision, set your sights on what you can work with right here and now. But first, have a grateful heart, for it is only with the mindset of giving thanks will you be able to build on whatever is thrown your way, good or bad.

Next, you will need to formulate both long-term strategies and short-term tactics to work on your goals. Focus on the goals and not the tool with which to realize those goals; in other words, do not make earning money your goal.

So, let us say your goal is to buy a house after ten years. You need to quantify the value of that house today and then forecast its value ten years into the future. You then need to assess what you can realistically save now towards buying that house. There is a good chance that you will not be able to raise all of the money to buy that house in cash. So, you may also want to consider getting a loan in the future assuming a certain loan interest rate and term that will keep your monthly amortization affordable (i.e. within 20% of your gross monthly household income).

Now if you compare the future cost of buying a house to your starting savings and to what you can periodically save, taking into consideration the servicing of a housing loan in the future, you can derive an investment return you need to earn. Remember that the higher the return, the higher the risk. So, you may want to temper the required return by increasing your starting savings, increasing your periodic savings, reducing the cost of your target house and/or delaying the time that you will buy the house. The resulting required investment return will now tell you in which kind of investment you should put your savings.

We know we may have lost you at having a grateful heart. Do not fret because there are financial advisers who can help you do the math. Just make sure the adviser provides advice first, independent of any investment product into which you will need to enter, and that he or she may pitch later on.

Just one other thing, to help you keep your periodic savings sustainable, do not present it as a loss to yourself, otherwise your brain is just going to reject the act. The brain hates to lose. So, instead of say saving 20% of your income, tell your brain that you will live off 80% of your income (i.e. the former is perceived by the brain as an outright loss while the latter is seen as a foregone gain). Then have that 20% automatically swept into your chosen investment account.

Here's to your clarity of financial mission for your mission and beyond.

A good friend who happens to be an excellent lawyer told me that planning for the estate of the super-rich can really provide a lot of good script material for movies with all of the intricacies and drama involved.

Now, the not-so-rich may not have the same intricacies with their estate. But they can still have the drama. In addition, people may have been lulled into complacency with the much lower estate tax of 6% and higher deductions afforded by the TRAIN Law.

The tax benefits brought by the TRAIN Law cannot be underestimated. It seems that among the three common modes of transferring wealth (i.e. sale, donation and inheritance), inheritance is coming out to be the cheapest. This is because while the tax rates for the said three modes are all now at 6%, only inheritance tax is subject to huge deductions against the estate for tax computation purposes (i.e. Php5 million in standard deduction and up to Php10 million for the family home). And there is no documentary stamp tax.

In addition, frozen funds in bank accounts that are part of the estate can now be withdrawn by the heirs provided the 6% estate tax is paid on the amounts withdrawn and such withdrawal is done within one year from the time of death of the estate owner.

But estate planning goes beyond tax computations to the equitable distribution and control of the estate among the heirs. This is where the professional estate planners come in.

The TRAIN Law did not amend the types of heirs. Children and descendants are the primary compulsory heirs. The surviving spouse and illegitimate children are the concurrent compulsory heirs. Parents and ascendants of the decedent are the secondary (to the primary) compulsory heirs. Collateral heirs are relatives of the decedent within the 5th degree of consanguinity. The State is the final heir in the absence of all other heirs.

Is Estate Planning Necessary

The sharing in the estate among the foregoing heirs is complex and is dependent on whether the transfer of the estate is done via a will (and whether the share in the estate is a legitime or part of the "free portion" or without a will (i.e. intestate succession). Legitime refers to the portion of the estate reserved for compulsory heirs.

In transferring the estate via will, for example a person can "will" most of his estate to be in the hands of his most responsible compulsory heir by giving more of the free portion to that heir provided the legitime for the other compulsory heirs is met. The trick is to find out what the legitime is for each heir. And while money is easily divisible, real properties are not.

At PFA, we computerized the legitime tables (under succession via will) but not after we were almost hospitalized. That is how complex sharing in the estate tables are. In the case of wills, there are two kinds, holographic and notarial. A holographic will is completely handwritten by the testator who is of sound mind at the time the will is written with no need for witnesses and notarization. A notarial will has many strict rules as to form. Experts on estate planning are terrific guides on will preparation.

The thing with estate planning is that it does not even end with the equitable distribution and control of the estate. Once everything is written and done, you will now need to focus on creating, growing and preserving your estate, in other words the real CD-RW (cash, debt, risk and wealth) management of personal finance.

For now, know that estate planning is an essential part of anyone's personal finances, whether or not you are super rich.

Editor's Note

Efren Ll. Cruz, RFP®
Editor-in-Chief

Expert of the Experts

How will you know if you have arrived at being a true financial planner? One way is if experts in another field are asking you about their money concerns.

It is said that you cannot be a Jack of all trades because you will be a master of none. There is also a saying: "Beware the man with only one gun; he knows how to use it."

One becomes an expert when he focuses on one particular trade at the expense of others. Professionals, entrepreneurs and employees will be good at earning their keep from their expertise. And if that expertise is not on financial planning, these professionals, entrepreneurs and employees will be wise to consult another person whose expertise is in financial planning.

Al Rise and Jack Trout also said in their marketing classic of a book, "Positioning, the Battle for Your Mind" that in the face of information overload, people will normally be willing to give up their beliefs for the beliefs of the nearest expert.

If you are that financial expert nearest to the experts in other fields, you will arrive at being the expert of the experts sooner than you think.