Personal Financial Planning

Presentation to:
Church Area District
PCEA, Kikuyu Township

By
Bernard D. Njuguna

Sunday, April 26, 2015

- **Vision:**

A world-class university committed to scholarly excellence

Personal Financial Planning

Contents

- Planning for retirement
- Bridging the gap
- Debt Management
- Life in retirement

Career Life

Three phases in your working life where your financial needs and objectives are different:-

- **Exploration phase** - 20 years to 30 years

  *Just finished college, job hunting and hopping

  *Spending spree, Bashes, wedding, etc then, surprise!
- **Accumulation Phase** – 31 years to 40 years

  *Buying any available land, car, shares, children

  * Consolidation Phase – 41 years to 60 years

  *Loans, school fees, no more land buying, spending
- **De-accumulation Phase** – 61 years to !!!!!!!!!

Why plan your finances?

- To ensure you have a nest egg when out of a job/emergency
- To continue with the same standard of living before and during transformation to another lifestyle
- Peace of mind
- Financial freedom - get out of the rat race

Retirement Planning Steps..

Before retirement:

- Recognise retirement is more than choosing a date to do so
- How long do you have?
- What do you plan to do?
- How much do you need to save?
- How much are you currently saving?
- How can you bridge the gap?
- How often do you assess your requirements?

At retirement:

- Tax man shall call in
- Take lump sum or not with disadvantages outweighing advantages
- Activities – it’s not just about saving, what do you do with all the time on your hands?

Questions to ponder…

- What do you want to do when you retire?
- How long do you think you will live for?
- Life expectancy individuals retiring at 55 is 78 for males and 85 for females…(Kenyan Actuaries)
- How much money will you need to do this? 8 to 10 times your earnings
- To maintain current lifestyle, you need 75% of current income as pension.
- Will it be adequate? If you have plans for a better lifestyle – No
- How will you bridge the gap?
- Savings (increases the longer you delay), investments, etc
- Review financial plan periodically
- Reality check, asset review and allocation based on changing risk profile, etc

How to create Wealth?

1 - SAVING

- Start saving early - power of compounding interest
- Treat your savings as a necessary expense e.g. rent- as a MUST
- Have a savings plan: 10-15% of salary or profit from business
- Save as much as you can in your pension scheme - you save on taxes and can't access your benefits easily- Operation NO ATM/CREDIT CARD
- Build an emergency fund from your savings in a separate bank account worth 3-6 months worth of living expenses to cater for an emergency/out of job situation
- Pay your major periodic expenses on a monthly basis e.g. school fees- this shall avoid suprises and last minute rush
- Have a good medical cover in case of large, unforeseen medical expenses- TAKE NHIF for yourself and relatives

Wealth ….

- "The more one earns the wealthier one is " … True or false??

Wealth is a function of ***SAVINGS*** not ***EARNINGS***

Consider Inflation

KShs 5,000 bought you...

1970

1980

1990

2010

2020 ?

Start early - require Kshs 5,000,000

Years to Retirement	Savings Required Monthly	Savings Required Annually
50	286.20	3,434.04
40	794.10	9,529.20
30	2,193.60	26,323.20
20	6,530.00	78,360.00
10	24,207.00	290,484.00

- Assumes return of 10% p.a.
- Imagine return of 20% p.a by entities like Stima Co operative Investment Ltd

2 - INVESTING

What would you do with a One Million shillings Charity Sweepstakes win?

Buy a car, house, tithe, etc. Warren Buffett story

What is Investing?

- Deferring consumption
- Using money to make profits

How do you invest?

- Direct
- Collective investment vehicles

Investing in Stocks

Return:

- Dividends
- Capital appreciation

Risks:

- Volatility
- Unpredictable cash-flows
- Politics
- Industry
- Company Specifics

Investing in Fixed Income instruments

Return:

- Interest Income – predictable cash-flows
- Capital appreciation

Risks:

- Interest rate movements
- Industry
- Company Specifics
- Default
- Returns lower than inflation

Investing in Offshore

Return:

- Dividends
- Capital appreciation
- Interest Income
- Foreign Exchange Gains

Risks:

- Volatility
- Global Politics
- Industry
- Company Specifics
- Foreign Exchange Movements
- Capital immobility
- Nationalisation

Investing in Property

Return:

- Capital appreciation
- Rental Income

Risks:

- Politics
- Interest rate movements
- Default on rents
- Not easily or readily disposable

Investing in Own business

Return:

- Cashflow generation from business

Risks:

- Competition
- Lack of planning
- Lack of skills/expertise- *Mitumba*, Butcher, Hotel, etc
- Cashflow

Sources of funds

- Employment
- Self employment
- Business
- Investment
- Others

Employment

Making money for someone else

Self employment

Making money for yourself

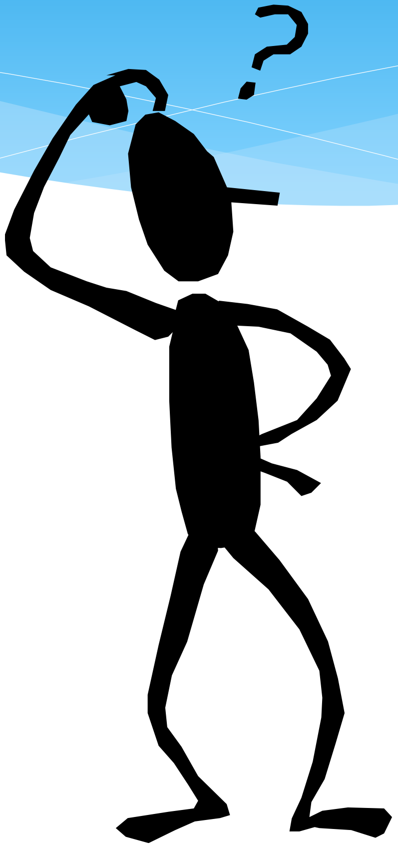
Business

Someone else making money for you

Investment

Money making money for you

How do I invest?



Formal Plans

- Staff retirement benefits scheme- Defined Benefit/Contribution
- Personal pension plans with various providers
- Unit Trusts
- Saccos- buying of shares

Remember you shall retire one day!

Informal Savings Plans

- Investment Clubs
- Social networks (Merry go rounds, Chama)
- Personal savings
- Personal investments
- Business

3 - BUDGETING

- Live within your means - don’t spend more than you earn.
- Make a list of all your income streams and daily expenses- Ladies good in this BUT requires self discipline!
- Expenses - group as necessary and discretionary- Wants and Needs. Find ways to cut down your discretionary expenses- learn to say NO- can’t be good to everyone!
- Do Monthly budget - that suits you and involve your spouse in budgeting (2 incomes, common expenses)

Also…

- Arm yourself with financial knowledge - seminars, books, media, experienced financial planner- Financial News?
- Diversify: put some money into other investments apart from savings and pension plan
- Do you have dependents? - Get life insurance
- Write a Will – keep your hard earned money within the family- Karumes, Kirimas, name them!
- Periodically assess your portfolio - adjust for changes in income, expenses, responsibilities, risk profile, etc

4 - DEBT MANAGEMENT

Why do we go into debt?

- We spend more than we earn- leading to *Michoro, deals?*
- Must have what the neighbour /colleague/friend has
- The lure of easily attainable loans- Shylocks, Ponzi schemes
- We borrow to pay other loans- digging a hole to fill a hole!

Good Debt

- Debt for investment e.g. business, buying shares (can be risky though)
- Mortgage (though aim to pay quicker)

Bad Debt

- Debt for consumables/expenses- cars, fridges, clothes, trips

GET OUT OF BAD DEBT!!!!

HOW?

Managing Debt

- Plan before you borrow
- Maximum 1/3 of net pay in loan repayments
- Thou shalt not covet - don’t borrow for things you desire but don’t need
- Avoid borrowing on consumption items - car, holiday, furniture, etc
- Avoid a ‘saviour’ mentality - you can’t save everyone. Save yourself and your family first!!!

Managing Debt

- Write a list of all your debts and prioritise payments - pay interest bearing debt first
- Pay your loans as fast as possible - the longer term the loan, the more you pay
- Avoid credit card debt - it is the most expensive
- Family and friends - cheapest and most understanding of creditors but DO NOT EXPLOIT THEM!
- Record your expenses on a daily basis and plan on where to cut down

Managing Debt

- Create a budget that suits you and stick to it
- Are you an impulsive shopper? - Keep your credit card and ATM card at home
- School fees - pay in monthly installments
- Use the tips on achieving financial security (discussed previously)- please read anything on Financial management
- Consider Building vs. mortgage

Ten Rules Of Poverty

1. Never wake up early
2. Never plan how to spend your money
3. Don't think of saving until you have real big money
4. Don't engage in activities usually reserved for the "uneducated", maize roasting, packed lunches, Mama Mandazi, selling clothes, Shylocking etc
5. Don't think of starting a business until an angel comes from heaven and gives you capital

Contd… Ten Rules of Poverty

6. Complain about everything except your own attitude
7. Spend more than you earn
8. Compete in Dressing
9. Buy a second hand car that costs more than three times your gross monthly pay
10. Give your children everything they ask for since you are a loving parent

Source: The East African

Planning for Retirement

Why plan your finances?

- To ensure you have a nest egg when out of a job/emergency.
- To continue with the same standard of living before and during retirement.
- Peace of mind.
- Financial freedom - get out of the rat race.

What is your net worth?

ASSETS	Kshs
Cash	
Current/Savings account	
Life Insurance	
Employment pension plan	
Investment portfolio (shares, bonds, property, etc)	
Personal property (car, house, shamba, etc)	
Business	
Total Household assets	
LIABILITIES	
Credit card balance	
Bank loan	
Sacco loan	
Mortgage balance	
Other debts	
Total Household liabilities	
NET WORTH (Total assets - Total liabilities)	

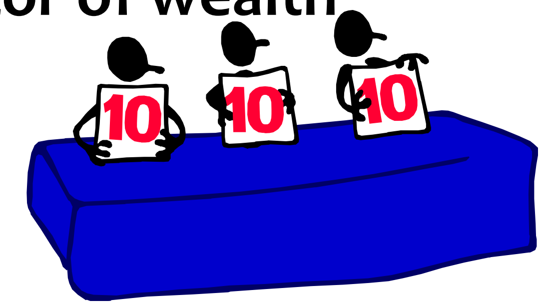
Exercise

Are your finances in order?

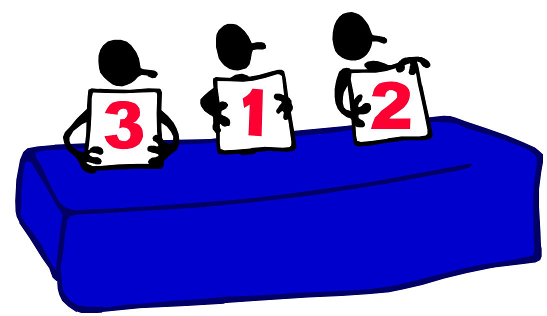
Take your age	**40**
Divide it by 10	**4**
Multiply by your annual gross salary	**1 m**
The result should equal your net worth	**4 m**

Are your finances in order?

- **If greater you are a “positive accumulator of wealth”**



- **If lower you are an “under accumulator of wealth”**



Net worth:
Assets - Liabilities

- The aim is to have a positive net worth, and keep it growing.
- Your net worth is part of what you will draw on to fulfill your financial objectives and help you through a financial crisis.
- Review your net worth annually to monitor your financial health.

Planning for Retirement

START EARLY

Planning in your 20s

- Bad news is, you're probably always broke and have negative net worth.
- Good news is, so are most of your friends.
- Better news is, time is on your side. So get your act together now.
- Start your saving discipline early – commit 10-15% of your salary/ business returns
- Let the power of compounding work for you.

	Number of years					
	5	10	15	20	25	30
Principal	60,000.00	120,000.00	180,000.00	240,000.00	300,000.00	360,000.00
10% Return	77,440.00	204,840.00	414,470.00	759,370.00	1,326,830.00	2,260,490.00
Interest	17,440.00	84,840.00	234,470.00	519,370.00	1,026,830.00	1,900,490.00

Planning in your 30s

* The bad news is, this age bracket has the highest proportion of people in debt- bad debts for that matter.
* The good news is, not all debt is bad, so learn now to use it wisely for future gain e.g. buying a plot, shares, mortgage, advancing your education (best investment- Ben Williams) etc, I am a testimony- Njuguna BD.
* Don’t let living costs run your life. Make hard choices about your lifestyle and spending habits.
* Build a six months living expenses emergency fund and limit your debt level up to 30% of net salary and saving through your pension plan – Additional Voluntary Contributions (AVCs)

Planning in your 40s

- Bad news is, it’s make or break – little time left for mistakes.
- Continue to build your wealth, control your debt and look toward retirement (Life style transformation)- time to enjoy fruits of your labour- not a mourning period!- PRCs???
- Let’s gauge your progress: Your income and wealth is up, so is your debt, but your net worth should be positive. And you’re getting more serious about your retirement.

Planning in your 40s

Your accumulated pension benefits or savings are probably still not sufficient. Therefore:

* Make your life style transformation/retirement savings your top goal – put every available shilling away for your retirement/ *Uzeeni*.
* Start paying off your debts.
* Be very wary of taking more debts than you can easily repay at this age. Avoid Pyramid schemes and Loan hawkers like plague!

Planning in your 50s

Checklist:

* You’re probably in your peak earning years
* You’re paying down debt, and your wealth is higher than in your 40s.

But dangers abound:

* Losses on investment balances from market volatility
* High debt levels, illness, disability, lay-offs/ retrenchment, business losses/ competition that can cripple your finances.
* Poor planning, no insurance, boomerang kids (adult children who come back home) are added risks.

Planning in your 50s

Consider the following:

* Work – even after retirement/ job separation, work has social, emotional as well as economic benefits. (Not tired).
* Despite your obligations, saving for retirement should still be your top priority.
* Get a good medical &Life insurance cover. A MUST!
* Schedule complete medical check-ups annually.
* Accelerate your debt repayments.
* Children – unless they're still in school or disabled, they should not be relying on you. Bachelors degree period!

Planning in your 60s

- Know your retirement date, don't let HR surprise you.
- Plan where you are going to live and the cost implications vis- a vis your savings.
- Include medical costs – medical insurance in your 60s is expensive, but a must. Old age sicknesses are many.
- Budget for retirement. Rule of thumb – you will need 70-80% of your pre-retirement income to live comfortably.
- Review your pension options – annuity, lump-sum, income draw down, etc.
- You must have a Will by now.
- Enjoy!

Life on Retirement

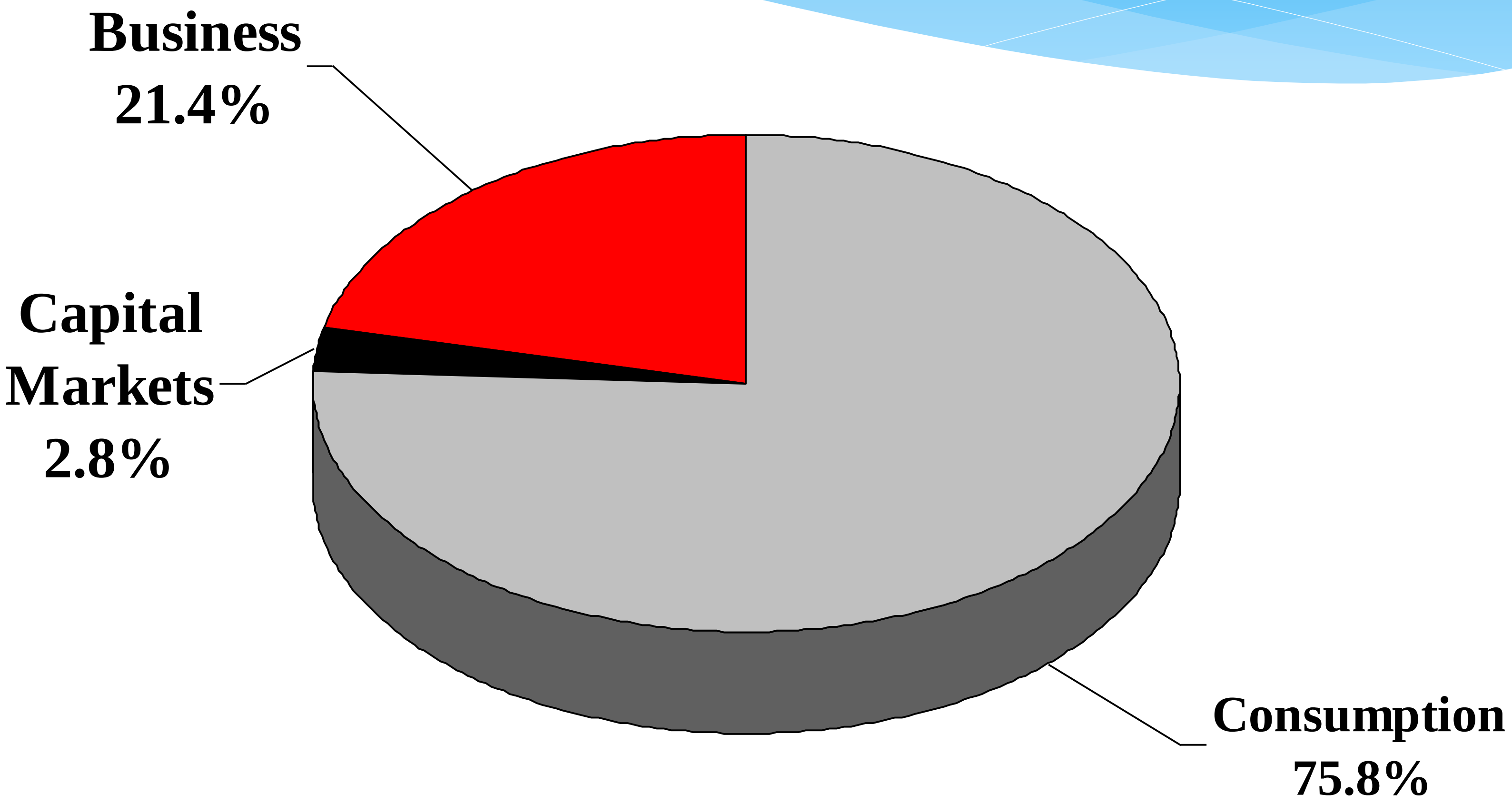
- Rest and relax, after all you saved enough
- Find another job – politics?? be careful, relocate abroad??
- Start a new business- truth is 69% of these fail in year one!
- Travelling- consider if budgeted for in the first place
- Work in an existing own business- have a succession plan
- Farm- very exciting as a hobby- avoid Quails!
- Back to school- if beneficial to new lifestyle
- Social - alcoholic, religion, charity work, TV
  - You shall become VERY marketable!!!

Whatever you do, ensure it is a PLANNED CHOICE, not forced upon you by circumstances.

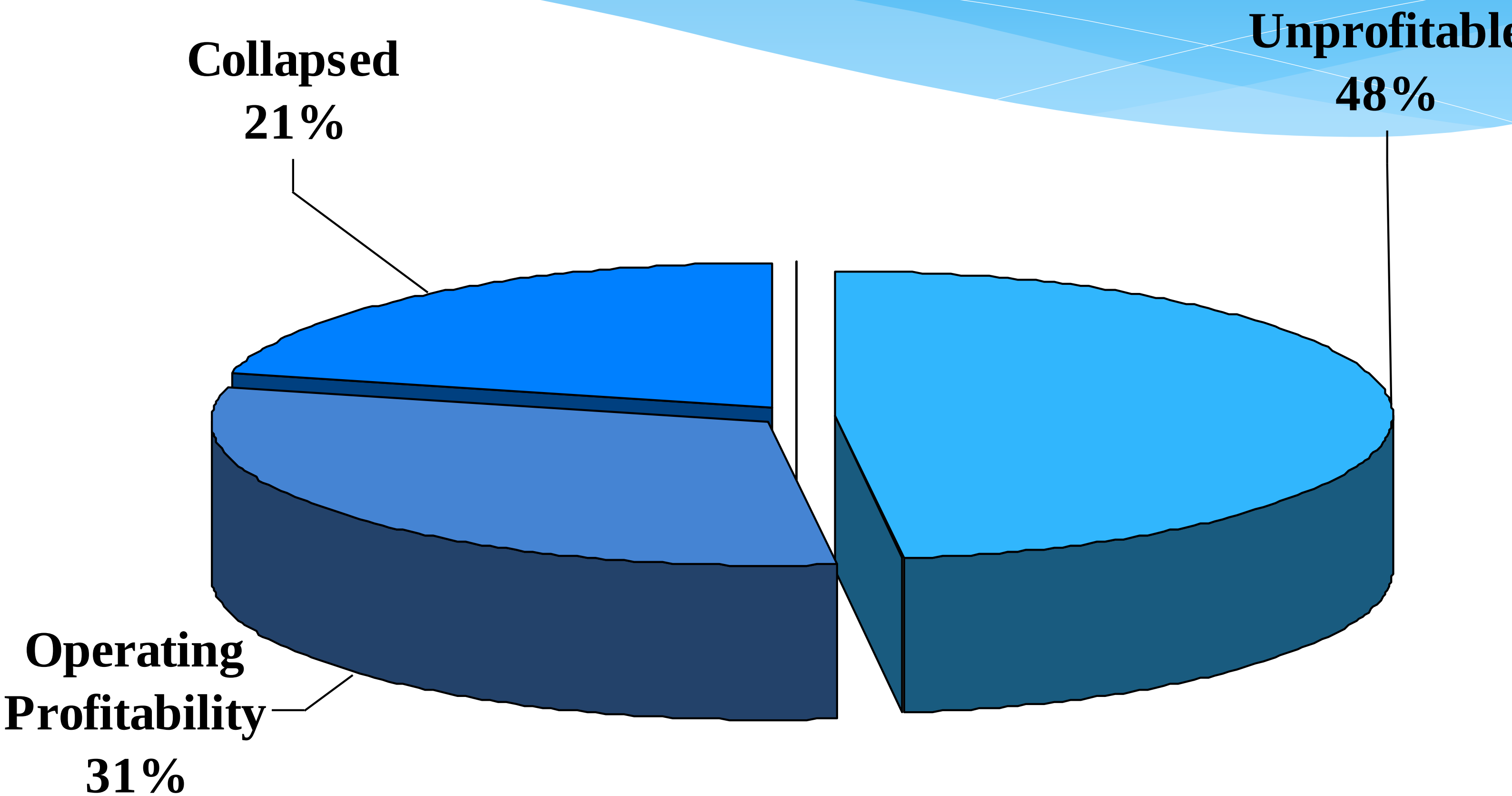
Now you have retired. Question to ask?

Do we eat the Lump sum/ total savings or Not?

Pension benefits utilisation

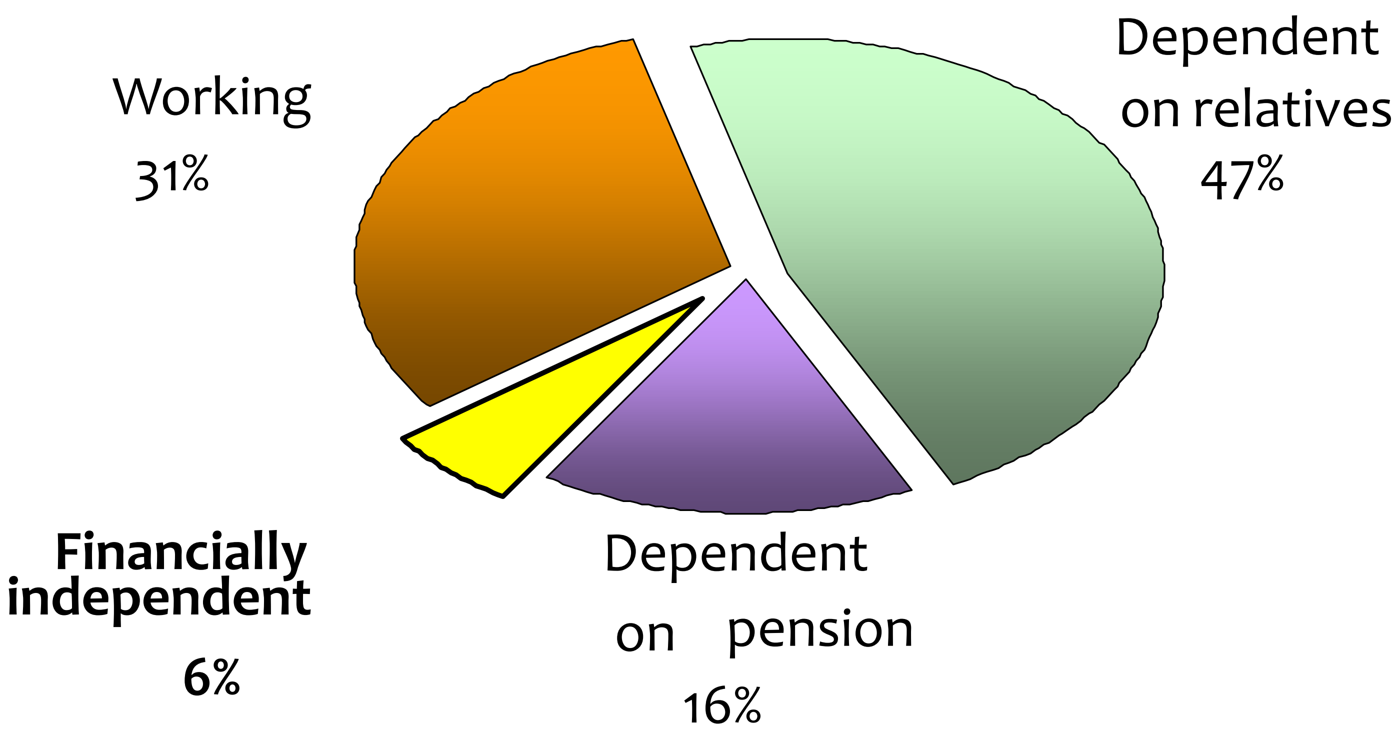


Pension benefits utilisation in businesses



Life in retirement

Very few retirees live comfortably



PLANNING AND SAVING

START NOW!!!

It starts with the person in the mirror

"You can confront the future now and save for your retirement or face the music when you retire"

The Choice is Yours

Remember:

IF YOU FAIL TO PLAN,

YOU PLAN TO FAIL!

Thank you