

# FINANCIAL PLANNING THE PINOY WAY

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**Question:** How should we do personal financial planning based on our culture? Unlike the west, we heavily support family members.  
*Mike via Facebook*

**Answer:** I have been a student and a teacher of financial planning for many years, and it is true that we do things very differently here in the Philippines.

It is a common observation that financial literacy is not very high in our beloved nation, which makes it very difficult to do financial planning. To make things worse, the citizens of this nation, and the nation itself have very low savings rates.

Filipinos are not much of an investor, which is why our investment market, although performing extremely well, is not as big as it should be. The rate of Filipinos with insurance is likewise low at less than 20 percent of the household heads.

Here's another disturbing statistic, it is believed that less than 10 percent of Filipinos actually prepare for retirement. Because of all these, a big majority of the population ends up financially dependent on their children during their old age. Many studies show that majority of our elderly are dependent on family members.

There are many issues abound with context to your question. We can't argue the fact that income opportunities in this nation are really a big problem, but I believe that our financial woes go beyond just income. I have personally been a witness to many individuals who had relatively good income and yet failed miserably with regard to being financially secure. For instance, the increase in the average of income employed by the BPOs and our OFWs was not a guarantee to see many of them with a financially secure future.

While the results or the symptoms may seem economic in nature, I believe that our problems are largely behavioral and cultural. Dave Ramsey said that personal finance is 80 percent behavior and only 20 percent skill, a notion that I agree with. In our case, we have big issues with both the 80 percent as well as the 20 percent.

A big behavior issue is that we spend much more than we should and we save far less than what we are supposed to. Don't you even wonder why our nation now has the record number of malls and it seems that many malls are being built monthly, maybe even weekly? The stark increase in the number of shopping malls through the last 10 years only shows that the income of Filipinos is improving; and yet the increase in savings among us is grossly disproportional.

To make things worse, a big cultural issue that you pointed out is that Filipino parents expect their children to support them financially. While supporting parents financially is very noble, the impact of such actions to many Filipinos results in not being able to save enough for their old years and making themselves dependent on their children in the future; a vicious cycle indeed. A skill issue among many of us is we do not really know how to properly invest and we borrow too much.

Here are my tips for you:



## INCREASE YOUR CASH FLOW

You can do this by earning more money and spending less money. Your biggest asset is yourself. If you constantly invest in your competence and abilities, your income will surely grow. Be disciplined in spending, reduce unnecessary expenses, avoid too much “wants” and evade buying too many “stuff.” Having budgets and sticking to it is your best strategy in better handling your finances. As your cash flow improves, you will begin to generate more savings.



## REDUCE OR ELIMINATE DEBT

Borrowings, especially unnecessary borrowing such as consumer debt (credit card debt, personal loan, hulugan, etc.) is very costly because of the interest you pay. Also, it is difficult to have a good level of savings when you owe too much as you end up paying debt against saving money.



## TAKE BABY STEPS IN SAVINGS AND INVESTING

Often, we think we always think too big when it comes to saving and investing. In reality, big savings is really just small savings done very regularly. The same goes for investing. You may want to enroll in an auto-debit program of your bank so you will have forced savings. Some banks like BDO and BPI offer auto debit arrangements that go into an investment account like a mutual fund or a unit investment trust fund.



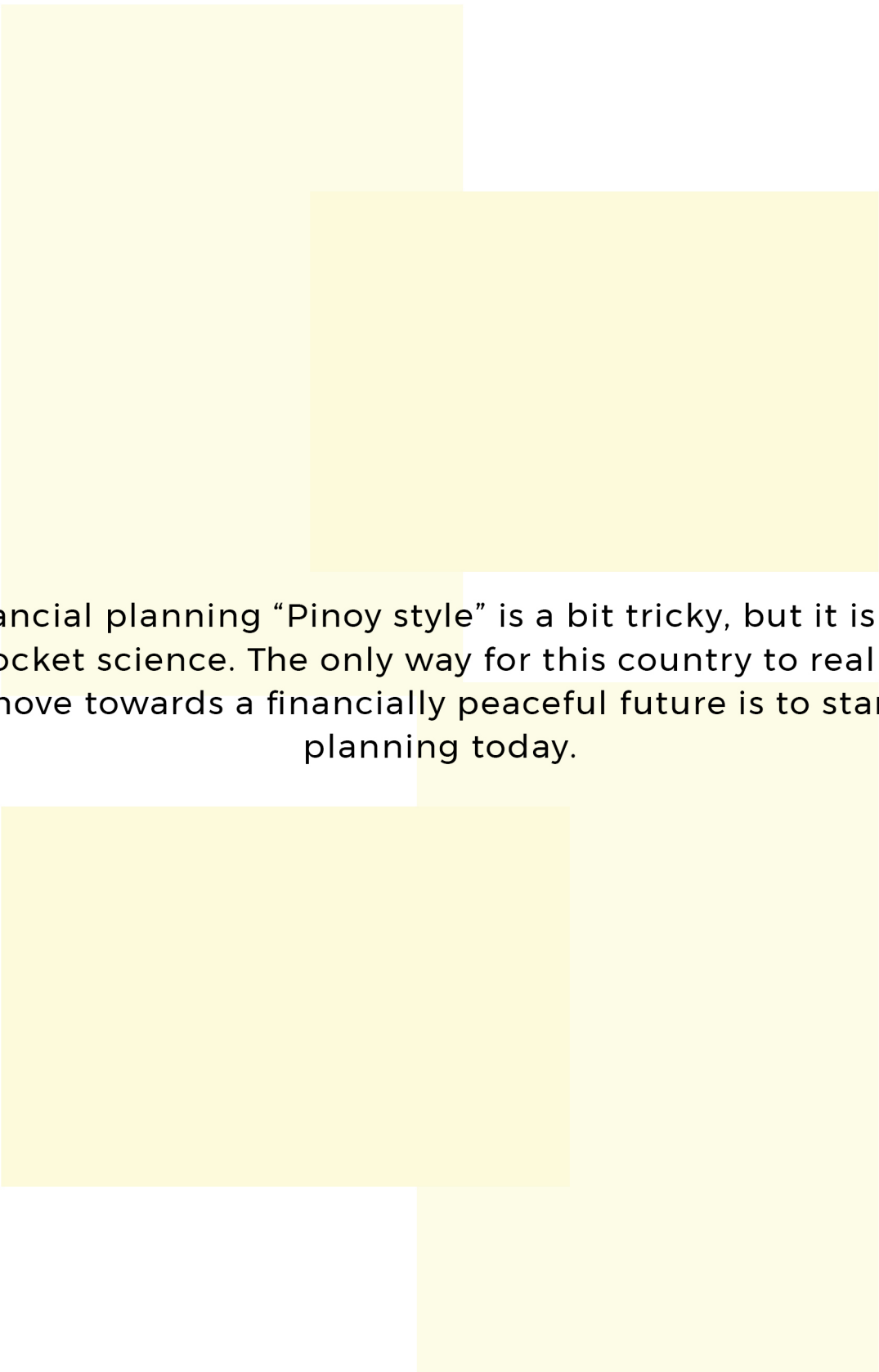
## REVIEW YOUR FINANCES PERIODICALLY

It is prudent that you inspect what you expect. Regularly check your progress vis-à-vis your goals. Always check your spending, ideally on a daily or weekly basis. Review your savings level also, maybe twice a month or once a month. Look at your investment progress and performance at least on a quarterly basis so you can make changes if need be. Regular reviews not only keep you informed, it also motivates you when you actually see progress.



## COMMUNICATE WITH FAMILY

This is perhaps the most difficult task of all. Respectfully discuss financial matters with affected members of the family. Let them know that while you really want to help members of the family, you are also limited by your resources and your personal obligation to prepare for your own future. Limits or budgets are a good way to objectively set expectations. Other members should also be given the obligation to provide assistance. It is unfortunate that many families rely on just one member (the one who earns the most), but that shouldn't be the case. Reliance on just one or two members of the family results in a scrounging dependence by other family members. Communication done with utmost respect and a lot of love will solve many issues of family members. Remember, you need to do this so that you will not be a burden to your children in the future.

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Financial planning “Pinoy style” is a bit tricky, but it is not rocket science. The only way for this country to really move towards a financially peaceful future is to start planning today.