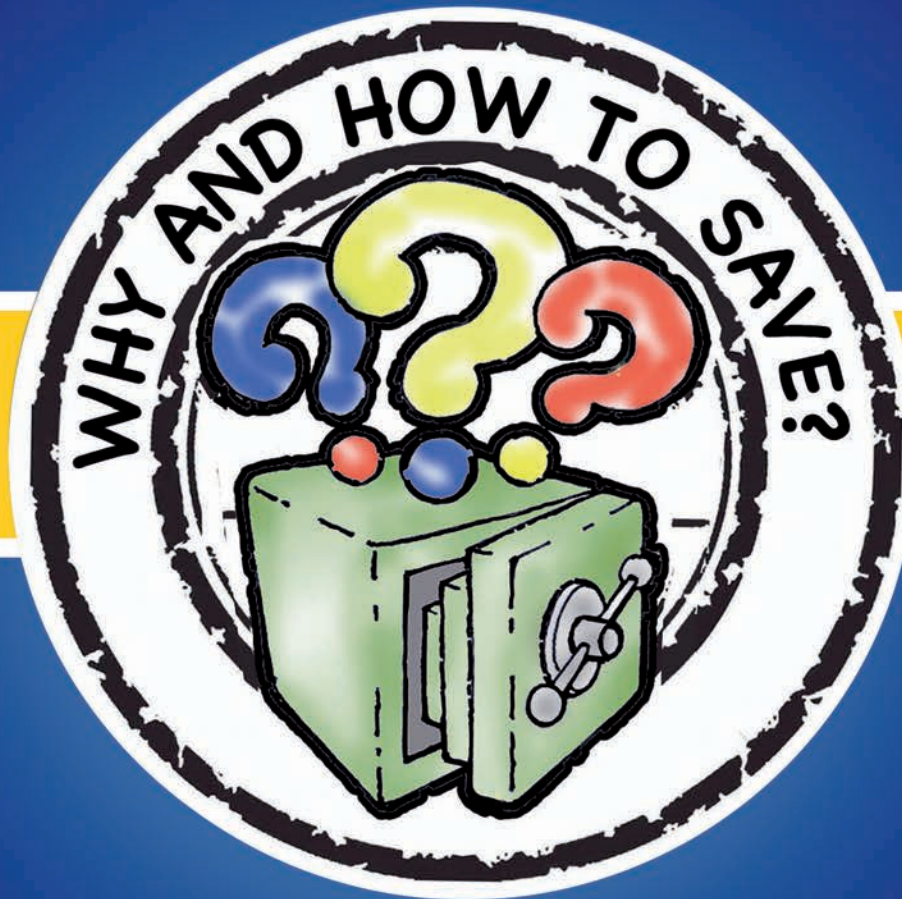


CHAPTER 2



The Different Life-Event Stages

Six weeks to go before *Mang Domeng* leaves his family for his job in the Middle East. *Sonny* is rushing home after getting off his school bus. He races to the room of his parents hoping to see his father there. *Mang Domeng* had just arrived from his pre-departure orientation seminar.

Almost out of breath, *Sonny* reaches for his father's hand and touches it to his forehead, the traditional sign of respect for parents and the elderly.

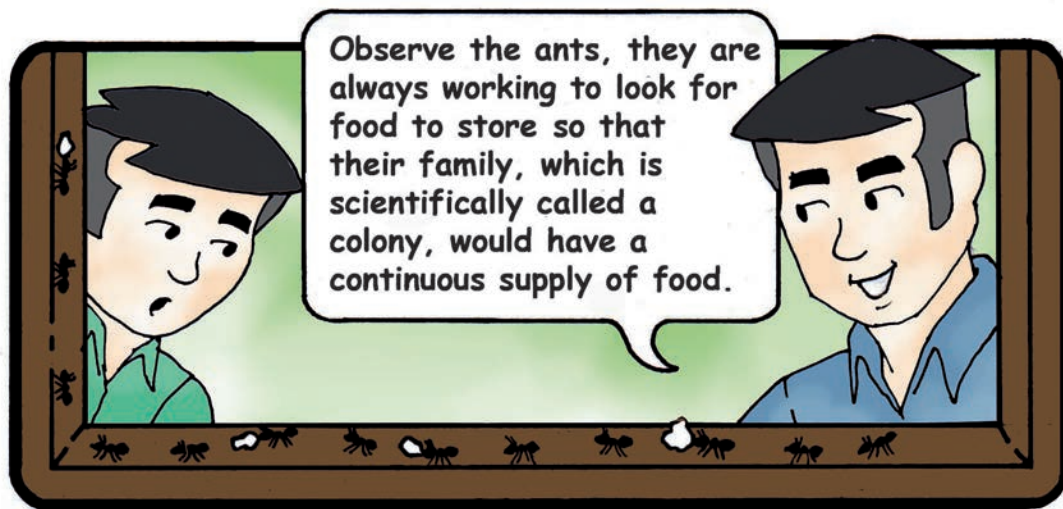


Mang Domeng reaches for their budget and hands it over to his son. As if finding a lost treasure, *Sonny* shouts, "Yes!"

A bit puzzled, *Mang Domeng* asks *Sonny* why he is so happy. *Sonny* replies, “*Tatay*, our teacher said that each family should be saving for the future and I was trying to see if we had savings.” But just as quickly as his face lit up after discovering they had savings, *Sonny*’s face suddenly took on a puzzled look.

Sonny asks, “*Tatay*, may I ask *po* what we are saving for in the future? I didn’t really get that part of the lesson in school.”

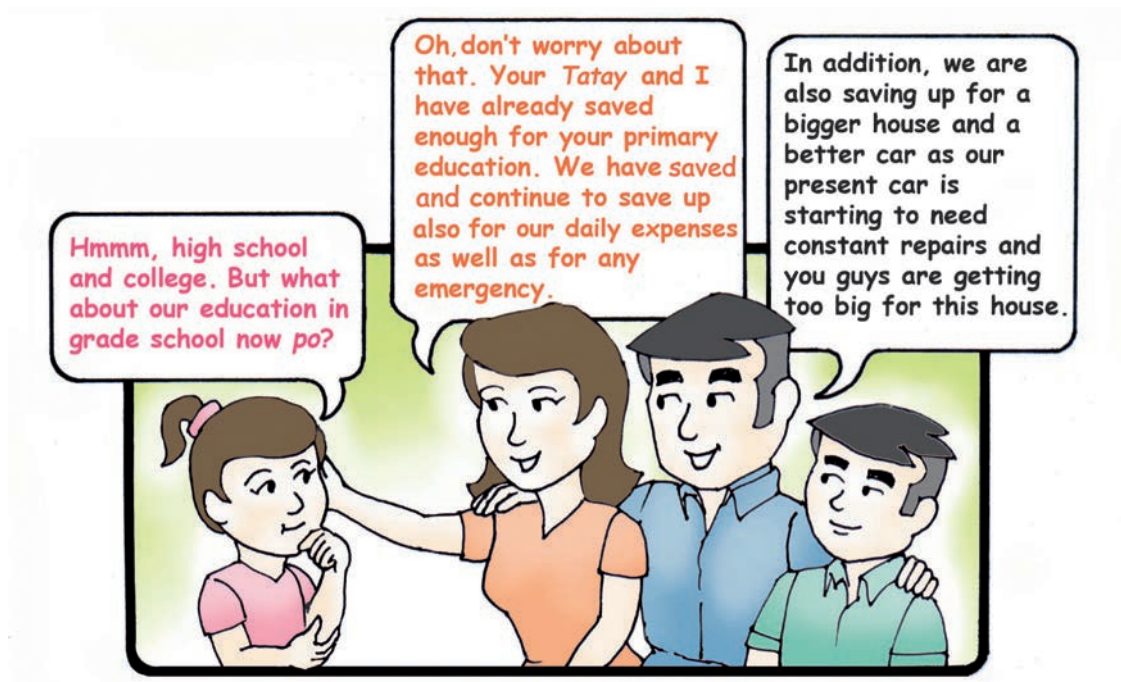
Mang Domeng asks *Sonny* to sit beside him by the bedroom window, anticipating that their talk would not be a brief one. He points out to *Sonny* a line of ants marching across the window sill.



“*Anak*,” says *Mang Domeng*, “people also save to be able to purchase a continuous supply of things that they need and want.”

“In our case, we are saving up for Tessie’s and your high school and college education. Your *Tatay* is able-bodied right now and capable of working hard in a foreign land. But that will not be forever. We just want to make sure that even if things do not work out as we planned, we will still have more than enough money for you and Tessie to complete your education,” *Mang Domeng* adds.

Just then *Aling Lorna* and Tessie walk in on the two and ask what they are talking about. *Mang Domeng* repeats what he had just told Sonny.



The two children look at each other and then burst into laughter.

Financial Expert's Corner

The reasons for saving will vary depending on the life-event stage of the individual or family. Please refer to Figure 1 for an overview of life-event stages and the corresponding reasons for saving.

*As the individual hits the workforce, his reasons for saving will be focused on himself. The reasons for saving will be mostly for short-term needs and wants like night-outs with friends, the purchase of gadgets, clothes and sometimes, even a car. Some would be more open-minded and will save up for a post-graduate degree. Still others may discover the entrepreneurial spirit within them and save up to eventually start and run a small business. Typically, people would be in their early to mid-twenties in this life-event stage that we can call, “**Building a Career.**”*

*The call to “**Building a Family**” can come as early as 26 up to 35 years old. Those following this normal track will initially be focused on the wedding. With the way weddings are being conducted nowadays, couples-to-be would need to save up to several hundreds of thousand pesos just for the wedding ceremonies and honeymoon. This is probably why those getting married prefer to receive cash instead of non-cash wedding gifts.*

NEWSFLASH: CHILDREN’S EDUCATION JUST GOT LONGER WITH THE IMPLEMENTATION OF THE KINDERGARTEN (K) + 12 PROGRAM OF THE DEPARTMENT OF EDUCATION. THE TOTAL COST OF A K + 12 AND FOUR-YEAR COLLEGE EDUCATION NOWADAYS COULD RUN UP TO OVER PHP 2 MILLION FOR JUST ONE CHILD².

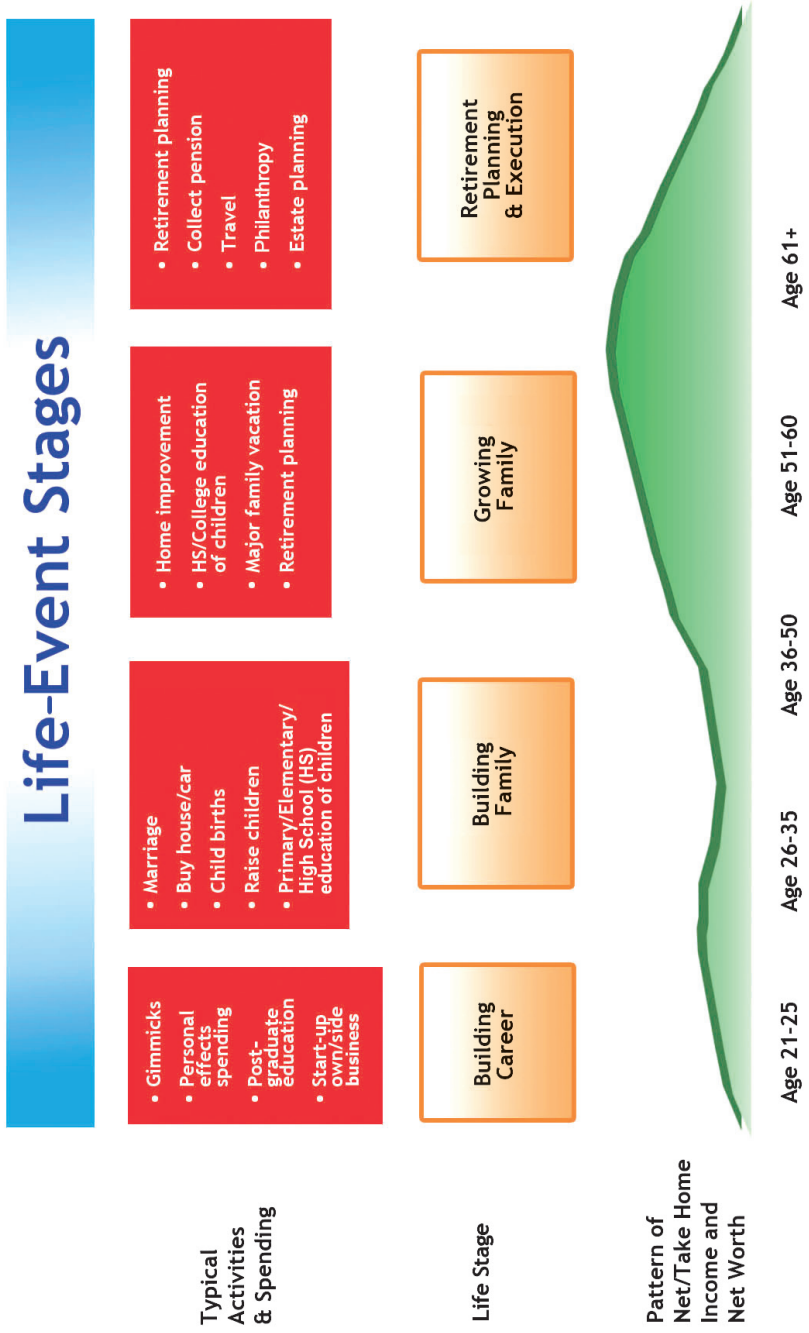
² Assumes Php80,000 for kindergarten inflated by 5% every year up to 12th grade. College tuition fee now is assumed at Php125,000 and inflated also by 5% every year.

The next life-event stage is where people look forward to improving their lifestyle, otherwise called, **“Growing the Family.”** This is where income approaches its peak and it is also where the excess income is spent on wants like a second car or home, a family vacation abroad and exclusive club memberships. This is also the life-event stage where children’s education hits the homestretch (i.e., college and post graduate). There may also be a desire for the parents to take special courses to pursue their childhood dreams like painting, guitar-playing and the like. Finally, this is the stage where retirement planning is taken much more seriously.

The last life-event stage called **“Retirement Planning and Execution”** is where parents try to enjoy the rest of their life in vacation mode. This is where travel may become more frequent and where “giving back” becomes more of the norm. That is why it is also in this period that estate planning becomes more important.

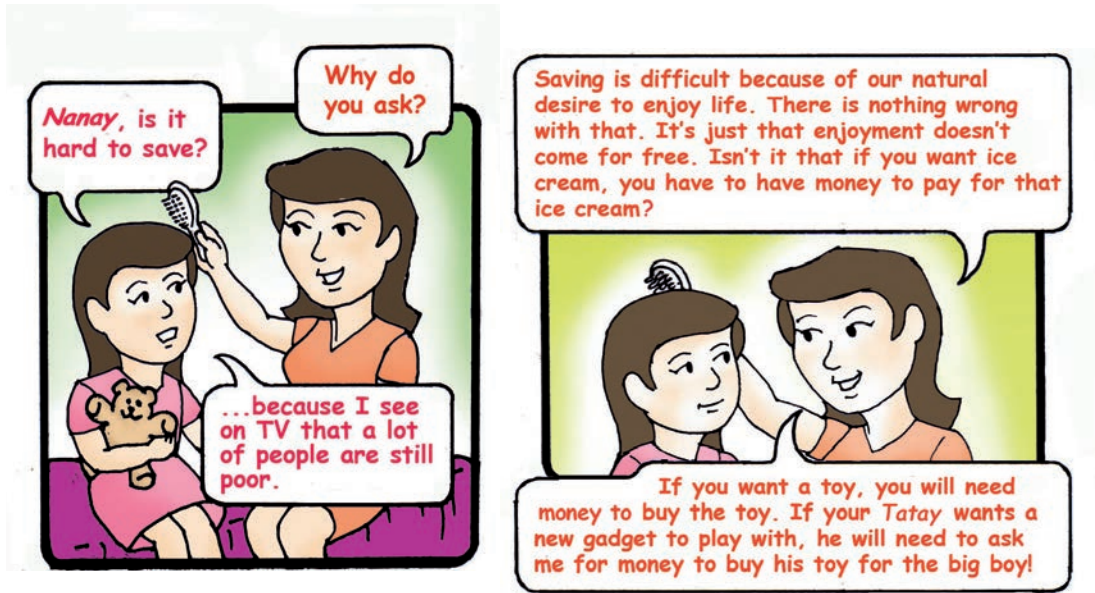
People will try to save up and even invest their money to achieve the spending pattern that they wish in each particular life-event stage. Saving remains the primary activity in the earlier life-event stages. Saving is supplemented by investing as early as the Building a Career life-event stage. Only when people reach the last life-event stage will the act of saving give way to spending down wealth.

Figure 1

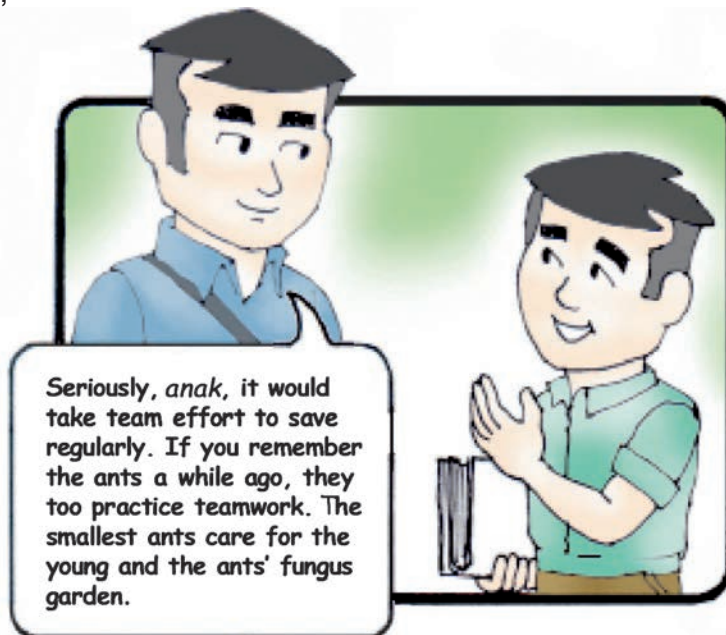


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How to Save

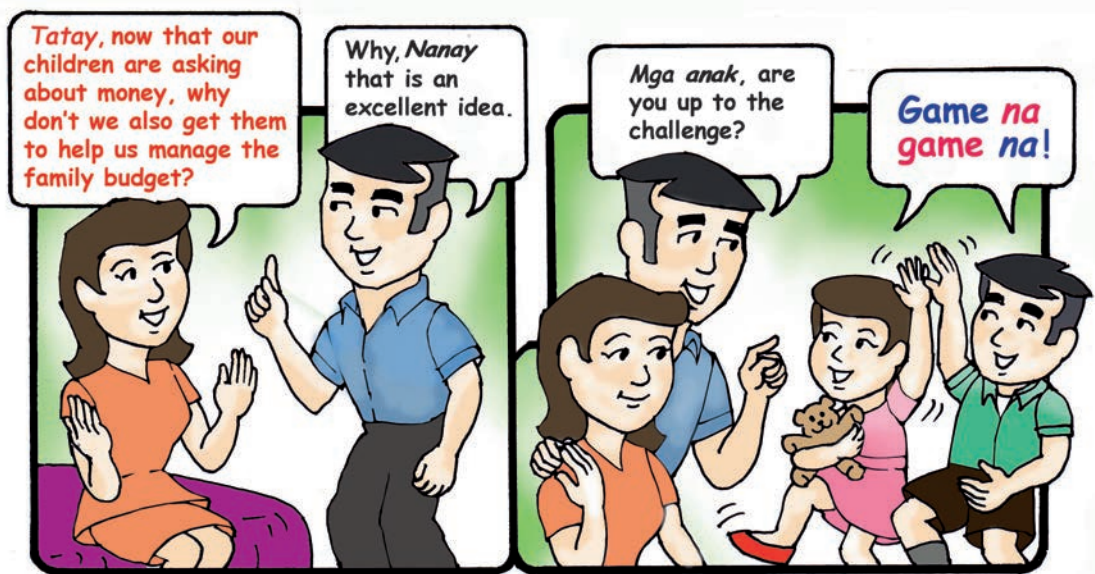


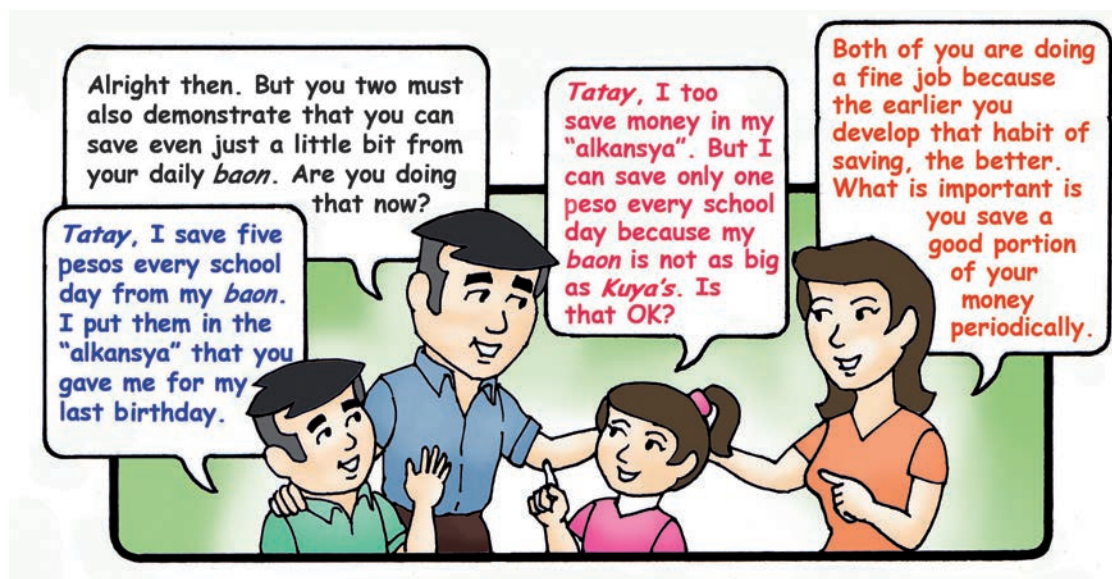
Mang Domeng, as if to reinforce his being the man of the house, immediately says,



“The second to the largest defend the leafcutter ants. The leafcutter ants cut and carry leaves back to the nest. The leafcutters have powerful jaws that vibrate 1,000 times a second and can carry 20 times their body weight – that’s like a grown person carrying a small car. The largest ants protect the nest, clear the way for the leafcutters and carry bulk items back to the nest,” *Mang Domeng* says.

He adds, “I am like the leafcutter ant while your *Nanay* is like the smallest ant. But more than that, your *Nanay* and I help each other out when we are tempted to spend instead of save. We also get the help of my employer to automatically take out a portion of my salary and put it in a savings account that we later allocate for investing. As they say, out of sight, out of mind. Your *Nanay* and I are trying to manage our expenses within the budget.”





Financial Expert's Corner

Saving is easier said than done. People tend not to save because it is perceived as a reduction in the funds they can use to enjoy life better. That is why behavioral economists say that instead of telling people to save say, 10% of their income, it would be better to ask them to live life to the fullest using 90% of their income. It is all about framing the problem.

People don't want to lose money and saving money now is very similar to losing money. If people "trick" themselves into believing that they actually earn 10% less and only have 90% of their true income that they can spend, they will find it easier to stick to spending that 90%. This is why automatic salary deductions for savings or automatic debit arrangements, where money from a bank account is transferred to an investment account, are the best way to save and invest.

As financial planners put it, the formula for budgeting should be:

$$\text{Income} - \text{Savings} = \text{Expenses}$$

The savings in the formula will be fixed and periodic. As one's income increases, savings should also increase. Expenses will be made to fit the lifestyle that Income minus Savings can afford. In Filipino, the saying is that, "Kapag maikli ang kumot, matutong mamaluktot (curl up if the blanket does not fit)."

One other way of looking at savings is to consider it like a special gross income tax. This tax is automatically levied on the gross income amount. The only difference is that the accumulated tax is invested and refunded when the need arises.

How to Know if Expenses are Justifiable

That evening, as *Mang Domeng* and *Aling Lorna* are preparing to go to bed, *Aling Lorna* asks *Mang Domeng* if there is an objective way to determine if expenses are really needed.

Mang Domeng says, "Expenses come in different shapes and sizes, so to speak. The easiest way to make expenses fit is to break them up into two major categories, namely "must spend" and "may spend". Basic necessities are must spends."

"In what way?", asks *Aling Lorna*.

"For example, we may have an air conditioner each for our room and that of the kids," says *Mang Domeng*. He adds, "Using the aircon especially during summer nights is a great comfort and a need. However, it would be wiser if we were to sleep in one room and use just one air conditioner a night. Using two aircon units on summer nights is definitely a want for us."

Financial Expert's Corner

A practical way of computing if your expenses are justifiable is by doing your income tax return in reverse. Please refer to Annex A on page 136 for the details.

Why and How to Save

1. There are many reasons why people save. These reasons vary depending on the life-event stage of the individual.
2. Typically, people would be in their early to mid-twenties in this life-event stage that we can call, “**Building a Career.**” This stage starts from age 21 to about 25.
3. The call to “**Building a Family**” can come as early as 26 up to 35 years old.
4. The next life-event stage is where people look forward to improving their lifestyle, otherwise called, “**Growing the Family.**” This happens from age 36 to about 50.
5. The last life-event stage called, “**Retirement Planning and Execution**”, is where parents try to enjoy the rest of their life in vacation mode. This starts from the age of 50 all the way up to the end of life.
6. The formula for budgeting should be: ***Income – Savings = Expenses*** where savings is fixed and periodic and should increase with increase in income.
7. One way of knowing whether expenses are justifiable is to compute the gross income needed to fund them. If your actual income falls below your needed income then you are already living beyond your means.

