Metrobank

Moneybility

A GUIDE TO BUILDING YOUR ABILITY TO MANAGE MONEY

The Moneybility e-book is a financial learning initiative of Metropolitan Bank & Trust Company (Metrobank). The content provided or made available in the e-book is for informational purposes only. For more information, read the Moneybility disclaimer here.

First edition, June 2023

Getting better with money starts here

Welcome to Moneybility!

Because you downloaded this e-book you are on your way to putting your financial journey on the right track.

We have seen how much Filipinos now are more aware of the need to get their finances in order. And while we've been providing education and business insights to our customers as part of our mission *(we come from a trusted bank, after all)*, we've observed that a lot of content about money has made its way to various social media channels and the Internet, potentially confusing the public.

This is why we decided to create Moneybility. This e-book aims to compile a comprehensive and credible body of information about managing your money, so you become financially secure and resilient. *And you sleep better at night.*

A book that grows with you

Moneybility is an e-book that adds a new chapter every month with each chapter building on the previous one. So, you get a guide that handholds you as you get better and more comfortable with financial concepts.

Think of the Moneybility e-book as your favorite streaming TV show — much like new episodes becoming available to you after a week or so, new chapters are published and made available to you every month. Of course, we will inform you by e-mail when new chapters arrive. But do check **moneybility.ph** too, as we provide you with updates, new information, and resources to make learning fun.

We want to hear from you

As you dive into Moneybility, we would be happy to hear from you. Let us know what you think about this e-book, or if you have suggestions — your comments are welcome! Drop us an email at **moneybility@metrobank.com.ph.**

Let's get started.
The Moneybility Team | @Metrobank

What's Inside

What's Inside

*Knowing yourself is
the beginning of all wisdom.*

- Aristotle

CHAPTER 1

Managing Money: A Journey We All Take*

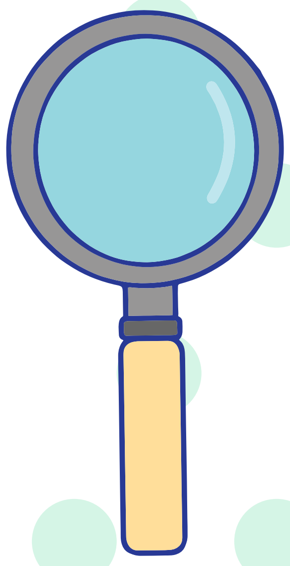
*whether we admit it or not

What you will learn from this chapter:

- You're not alone in your money struggles. It starts with knowing.
- Bad money habits and the consequences of making poor money decisions
- The influences behind your attitude towards money
- The key areas of financial health

Raise your hand if you can relate: Do you feel frustrated by the ever-growing list of your day-to-day living expenses? Are you stressed every time you have to open your billing statements? When was the last time you looked at your savings without that feeling of dread?

If any of these questions made you feel uneasy, take a step back, and allow us to help you achieve financial wellness. This means having control over your money, making responsible money decisions, and meeting your financial obligations.



FINANCIAL WELLNESS

Financial wellness is your overall emotional state about your financial situation–that is, your money relationship.

Of course, achieving it is not a walk in the park. And you're certainly not alone in your money struggles. As it turns out, it's more common than you think!

A **study** says 7 in 10 Filipinos continue to struggle with debt, while 55 percent of consumers still have a hard time paying for food and other necessities.

On financial security, the numbers are also worrisome. Another **study** done during the height of the pandemic revealed that only half of Filipino households can cover necessary expenses for two weeks if they lose their income.

5 in 10 Filipino households can only survive for two weeks if they lose their income

Source: Impacts of Covid-19 on Households in ASEAN Countries and Their Implications for Human Capital Development

Based on these numbers, it seems the average Filipino has yet to crack the code when it comes to managing his or her money.

Don’t lose hope! We’ll let you in on a little secret: Financial wellness knows no age, gender, or earning capacity. It’s not only for those who are doing well financially, and it doesn’t have to be a once-in-a-lifetime chance. Just as anyone can start, anyone can also start over.

And don’t worry if you’re not sure where to begin—this is what this e-book is for! Figuring out the steps is part of the journey, and we’re here to guide you all the way.

The Consequence of Being Lost

These are the downsides to making poor money decisions.

We can all agree that achieving financial wellness doesn't happen overnight. It's normal for people to suffer the consequences of their poor money decisions before deciding to act on them. Tell us: Which of these scenarios are you currently experiencing?

You borrowed money and can't pay it back

Are you guilty of treating loans, credit, and other people as a safety net? It's best to change that mindset before it does you more harm than good! If you keep using your credit card or borrowing money to bail yourself out, you're bound to get stuck in a vicious loop of growing debt every month.

You feel helpless during emergencies

You shouldn't be pressured into setting aside the money you may not have. But it's not an excuse to not have emergency funds either; you don't want to be exposed to situations that are hard to bounce back from, such as emergency household expenses, car troubles, or an unexpected trip to the hospital.

If you keep using your credit card or borrowing money to bail yourself out, you're bound to get stuck in a vicious loop of growing debt every month.

You dip into your emergency fund just to keep up with the expenses

Setting aside funds to keep you going on a rainy day is important. Have a separate fund that covers your utility bills, food, and everyday expenses. Money for expenses and emergency funds are not the same. You need a regular source of income that gives you peace of mind and stability, while the emergency fund gives you confidence and protection from a crisis.

You haven't saved enough to take a break, leave a job, or retire

Thinking of leaving your job and going on an extended break in La Union or Baler? Make sure you have enough savings to sustain your lifestyle. Your R&R time should recharge your battery, and not drain your wallet. The last thing you want is to worry about the financial burdens of taking time off!

You feel pressured about money all the time

You should strive to get out of living from paycheck to paycheck. Recent events like the pandemic have taught us that money matters are beyond our control. So let's do our best to know what we can control and build discipline when it comes to spending.

If you find yourself in any of these situations, now is the best time to start asking questions about financial wellness.

Money for expenses and emergency funds are not the same; you need a regular source of income that is meant to give peace of mind and stability, while the emergency fund gives you confidence and protection from a crisis.

10 BAD PINOY MONEY HABITS

Don't let these poor money decisions weigh you down.

1

Spending beyond your means just to keep up with others

2

Treating kids as a "retirement plan" or "return on investment"

3

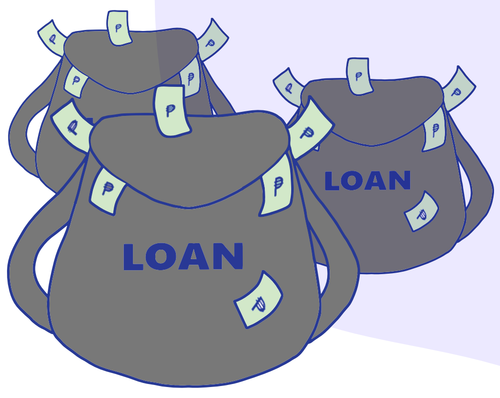
Relying on a family member to be your safety net

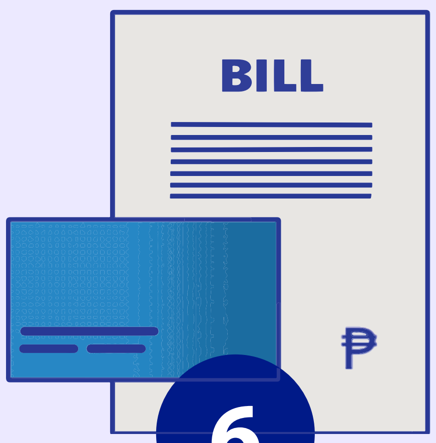
4

Waiting on bonuses to pay off a debt

5

Taking on multiple loans all at once





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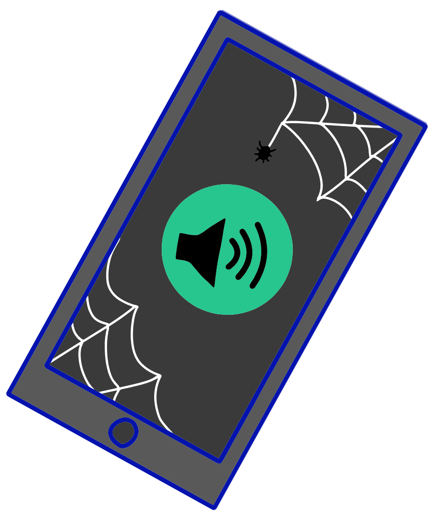
Paying the minimum on your credit card bill

7

Paying for subscriptions you don't use



8

Keeping all of your money at home

9

Overspending during sales and promos

10

Having a *"bahala na"* mindset when it comes to money

It Starts at Home

Everything you know about money is in your environment.

Now that you know the consequences of poor money decisions, the next step is to understand the factors that influence your behavior. Check these items below and see whether any of them ring a bell.

The things you learned from your family

Are you one of those people who belong to a family of big spenders? Are your parents more cautious with their money than others? Wherever you are in the spectrum, some of the money lessons instilled in your mind today were likely taught at an early age. No matter how many times you attend a financial literacy program, if the concepts are not honed, practiced, and encouraged at home, they remain ideas that no one acts on.

The movies, shows, songs, and magazines you love

Whatever you read, watch, or hear has always celebrated the idea of experiencing the finer things in life—from the most beautiful homes to the fanciest gadgets—all of which fuel your desire to spend and flaunt regardless of your financial situation.

Your social media feed knows what you like

Don't be a victim of the algorithm. Your Facebook, Instagram, and TikTok feeds are designed to show things that are likely to interest you, often resulting in FOMO (fear of missing out), a feeling that you "need" a certain kind of lifestyle—even more so when your favorite celebrities and influencers tell you which brands to buy and restaurants to try!

It's the company you keep

Take a good look at the people you spend time with at home, in school, or at work: Do you feel pressured to keep up with what they want to do? Depending on your social circle, when it comes to money, you're either expected to go big or go home.

It's hard to ignore your emotions

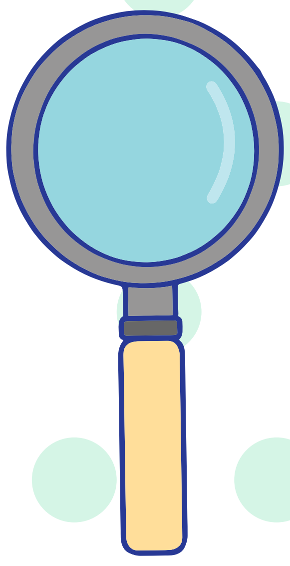
Whether you admit it or not, your spending behavior may also be driven by emotions, such as bringing a childhood dream to life (planning the perfect wedding), celebrating big wins (treating yourself for a job well done), and dealing with bad days (ever heard of retail therapy?).

No matter how many times you attend a financial literacy program, if the concepts are not honed, practiced, and encouraged at home, they remain ideas without anyone to act on them.

Back to Basics

Spending is not the only thing your money is good for.

Financial health depends on whether you understand how money works in different aspects of your life. You may be wondering: Why am I learning about it just now?



FINANCIAL HEALTH

Your overall financial health hinges on how you manage your money. This includes how you budget (save and spend), how you invest, how you insure your assets, how you plan your retirement, and other financial components in your life.

How come no one is talking about these things? This is why this e-book is very important; you want to equip yourself with as much knowledge as possible to make informed money decisions and minimize your losses as you learn what works for you. It starts with knowing the key areas of managing your money, which we'll delve into below.

- **Income: The money you're making**
  Your income covers all the money you take in from different sources, from your monthly salary and bonuses to earnings from your side hustles and investments.

- **Expenses: The money you're spending**
  Your expenses pertain to the money that you spend to sustain yourself. Control over how much you spend means you have more money for savings, investments, and insurance.

- **Savings: The money you're setting aside**
  Your savings refers to money from your income or investments that are meant to be set aside for your future. These funds serve their purpose when you encounter both planned and unplanned expenses.

- **Investments: The money you're growing**

  Your investments are acquisitions that entail money, to earn or save for the future. When done right, investing in businesses, stocks, bonds, or other similar money instruments provides a great rate of return, which in turn, can be your retirement fund.

- **Loans and Credits: The money you're borrowing**

  A loan gives you access to a fixed amount of money at the beginning of a specific transaction, such as buying a new home or car. On the other hand, credit allows you access to any amount of loaned money you need at any given time, such as converting your credit card limit to cash. Both are meant to be paid back—plus interest—within a specific period. Interest is the "cost of convenience" for having access to money now than later.

When done right, investing in businesses, stocks, bonds, or other similar money instruments provides a great rate of return which, in turn, can be your retirement fund.

- **Insurance: The money that protects you and your loved ones**

This is a contract, represented by a policy, meant to protect you and your family from unplanned events in life. These life events can be anything from medical emergencies to catastrophes, and even diseases that can impact your earning ability. Insurance is also used to protect your assets, such as your home, car, and for some, wealth.

- **Retirement: The money you set aside for your golden years**

This is money or funds to help sustain the lifestyle you want when you choose to retire from work or when you are in your senior years. With the rising cost of goods in the Philippines, it is best to supplement your retirement money with other savings and investments. Ultimately, your money can either be used as currency (something that can be spent or saved), or as an asset (something that can help grow your money and build wealth).

THERE'S NO ONE FORMULA FOR FINANCIAL WELLNESS

Below are money lessons from people who learned them the hard way.

DON'T SETTLE FOR ONLY ONE SOURCE OF INCOME.

"I have a day job that pays the bills, but I was only able to grow my money once I started accepting freelance work on the side. It allowed me to invest in a coffee shop. There's no pressure to break even right away since I have other sources of income."
- *Creative Director, 36*

IT'S OKAY TO TALK TO OTHER PEOPLE ABOUT MONEY.

"It helps to disclose these things to people you trust so that you don't miss out on valuable advice that could help you manage your money better. It helps you make informed decisions."
- *Product Marketing Assistant, 26*

A BIG SALARY DOES NOT TRANSLATE TO SUCCESS.

I thought my money problems would go away if only I was earning more. But your lifestyle and responsibilities change over time, and so do your expenses. It's not about how much you're making, but how smart you are with money."
- *Social Media Manager, 34*

MAKE SURE TO SET ASIDE FUNDS FOR EMERGENCIES.

"If you encounter an emergency that requires money and you're not prepared for it, you're likely to end up deep in debt, which is very hard to recover from. You'll thank yourself later for having an emergency fund."
- *Senior Account Executive, 43*

START AS EARLY AS YOU CAN.

This is a lesson that holds especially true now that I'm older. While you're young, build your savings, invest in something you believe in, and don't splurge on things that have no value in your life in the long run."
- *Office Manager, 54*

Shortcut

Here's everything we've covered so far.

- The average Filipino has yet to crack the code when it comes to managing their money, with 70% of consumers admitting they continue to struggle with debt.
- Bad money habits, such as having a *"bahala na"* mindset when it comes to money, are hurting your chances of achieving financial wellness.
- Those who make poor money decisions are more likely to struggle with debt, have little to no savings, and constantly feel under pressure, among others.
- Whether good or bad, it's likely that your spending behavior is influenced by any or all of these factors: family, media, celebrities and influencers, culture, and emotions.
- The journey to recovery starts with the seven key areas of financial health: income, expenses, savings, investments, loans and credit, insurance, and pension.
- There's no specific formula to financial wellness, as evidenced by the money lessons shared by the people we interviewed for this e-book.

READERS' SECTION

How Disciplined Are You with Your Money?

Let's start with an easy one: Encircle all the good money habits that you practice now. Doing so will give you a better perspective of your financial health and help you determine where you're thriving and lacking.

I set aside money for savings regularly	I have little to no credit card debt	Bills and loans are paid on time
I have multiple sources of income	I don't rely on others to pay for expenses	I don't purchase anything on impulse
Income and savings are on track	I do research before a big purchase	I have insurance that covers diffrent aspects of life
I have enough savings to retire or take a break	I rarely deal with unexpected expenses	I don't feel pressured to keep up with others
I don't dip into savings just to get by	I am not easily swayed by sales and promos	I know when to hit "pause" on spending

JOURNAL

What's Your Financial Situation?

Use this space to evaluate yourself and reflect on where you are in your financial journey. There are no right or wrong answers here, so just be as honest as possible!

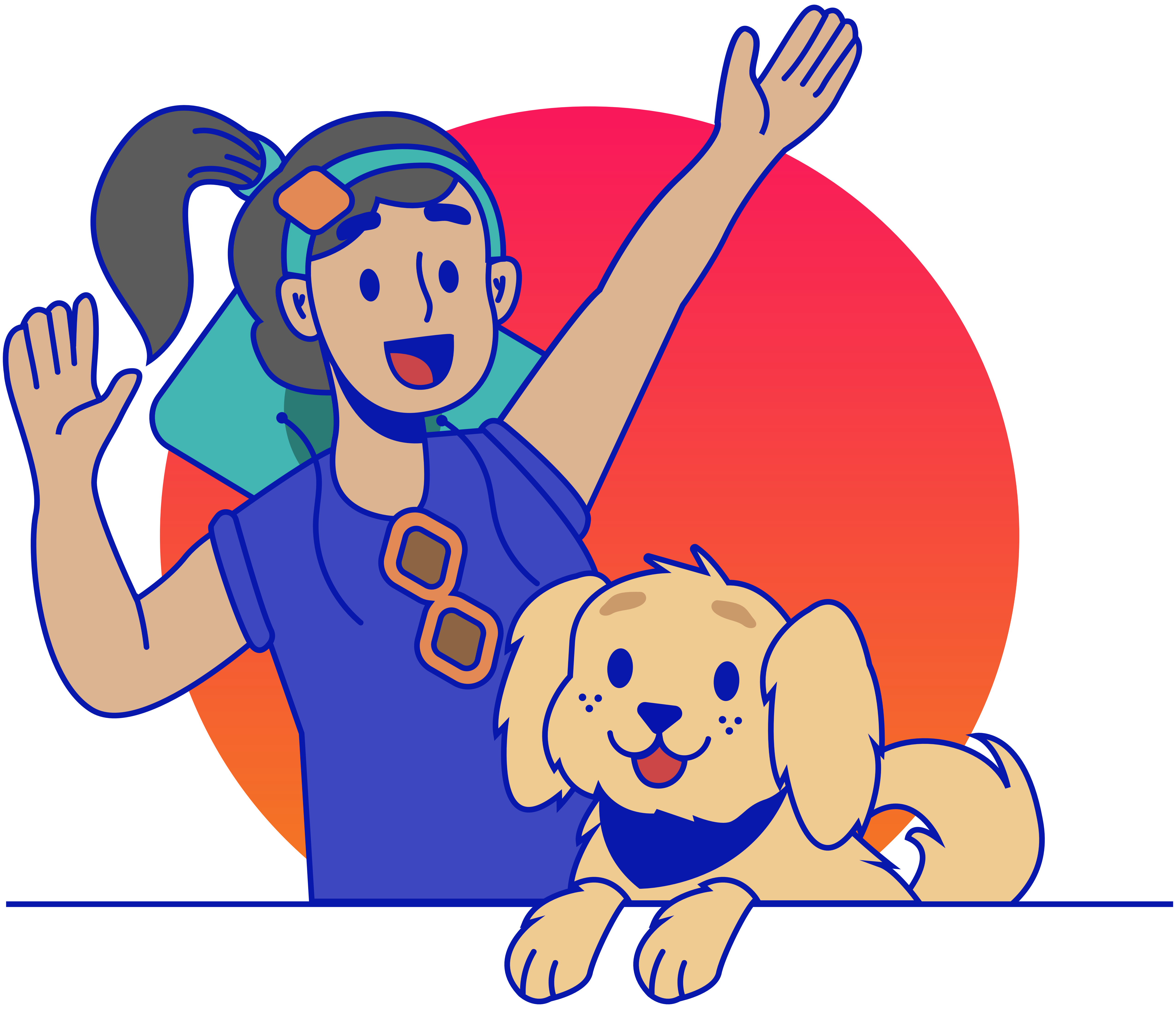
How is your financial situation right now?

What are the issues that get in the way?

Based on what you've learned, how can you improve your situation?

The lessons from this chapter will prove vital as we move along, so before we proceed, feel free to browse through everything again.

Next up: it's time to get you acquainted with your own financial health and help you determine the current state of your money situation, such as your income, savings, debts, and investments. Congrats on taking the first step!



Alice:
"Would you tell me, please,
which way I ought to go from here?"

The Cheshire Cat:
"That depends a good deal
on where you want to get to."

Alice:
"I don't much care where."

The Cheshire Cat:
"Then it doesn't much matter
which way you go."

– Alice's Adventures in Wonderland
(Lewis Carroll, 1865)

CHAPTER 2

Where are You in Your Financial Journey?

In this chapter, you will learn:

- How the COVID-19 pandemic changed the way Filipinos view financial health
- How to assess your financial health using a simple questionnaire
- Some tips on your next steps towards being financially healthy
- The signs that you're financially healthy

The thing about personal finance is that it's very similar to your physical health. They share these characteristics:

1. You know that you can always do better.
2. You're often unaware of a grave situation until it's too late.
3. There's always a nagging feeling that something is not as it should be.

With all the changes in our country and around the world, Filipinos are more stressed and anxious than ever about their financial situation.

During the COVID-19 pandemic, a study, by the research firm Forrester Consulting, revealed that

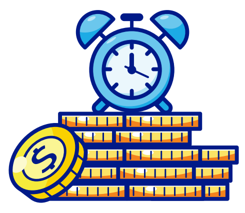
70 percent of Filipino consumers struggled with managing their debt.

That same study said 58 percent of Filipinos don't know how to start saving, and 60 percent don't know where to get reliable insights on managing their money. The lack of information and support only contributed to their anxiety.

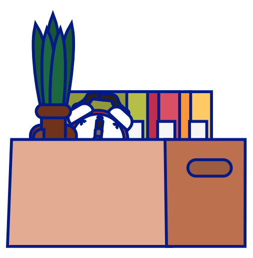
A Metrobank study also confirmed that Filipinos' financial worries are worse than ever. On the bright side, the effects of the pandemic are motivating Filipinos to act decisively.

WHAT DO FILIPINOS WORRY ABOUT TODAY?

1. Not having enough savings to help them deal with uncertainty



2. Losing their livelihood or income



3. Looking for other sources of income to cover for loss or reduction of household income

4. Paying off their loans

5. Avoiding illness and having coverage in case they get sick

Source: Market Research, Metrobank. Brand and Consumer Studies, 2022

The good news is that taking care of your financial health makes everything easier. After all, good financial health affords you the things you need for your physical, mental, and emotional well-being.

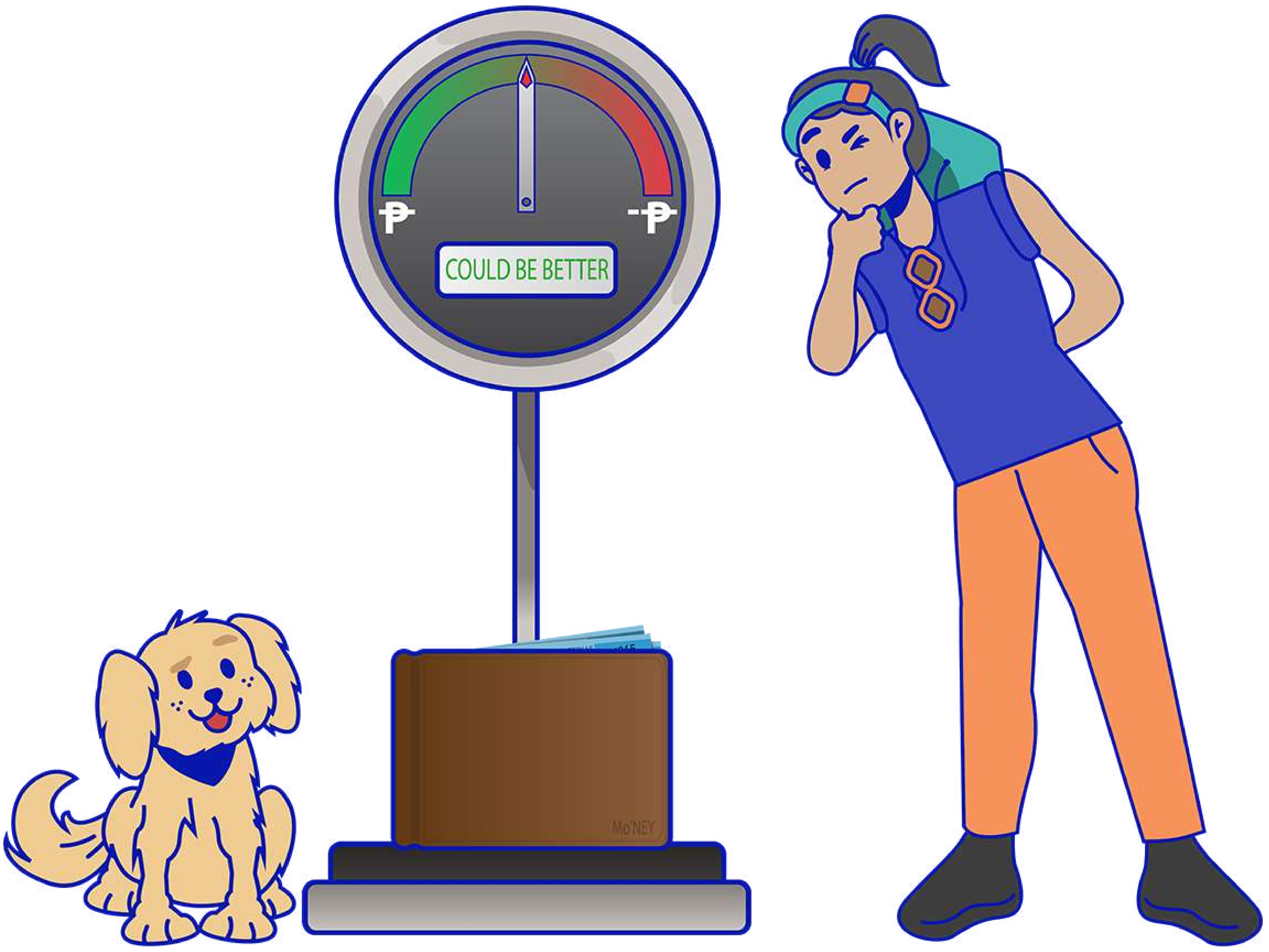
Recall that financial health hinges on how you manage your money, such as budgeting, investing, securing assets, and other financial components in your life. In turn, financial wellness reflects your overall emotional state.

Some wealthy people experience heavy financial stress, while some low-income folks feel secure and satisfied with where they stand financially. Thus, financial wellness has less to do with how much money you have than with your attitude and capabilities. Can you stick to your budget? Can you handle an unexpected expense? Do you feel overwhelmed, or do you feel inspired when you think about money?

Financial health is about money; financial wellness is about a person's emotional relationship with that money.

If you're unsure about weathering those unexpected financial challenges, without turning to debt, then your financial health might be at risk. The best thing you can do today is to prioritize improving your financial health.

We struggle with poor financial health, but we're always treating the symptoms instead of the root cause. Instead of focusing all your energy on paying off your "*utang*", for example, why not avoid borrowing money in the first place?



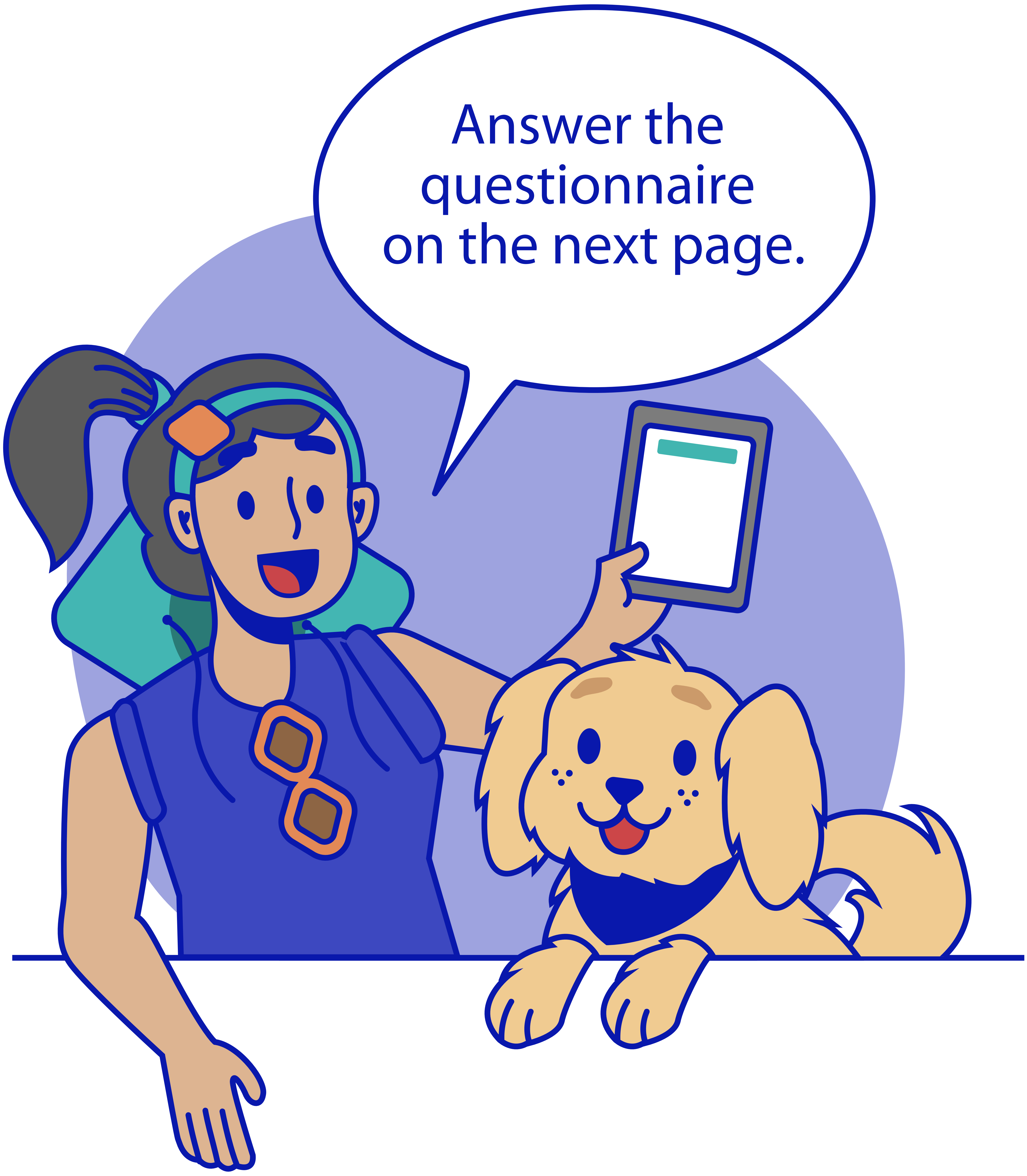
Checking Your Financial Health

How are you doing financially?

Now that we have defined financial health, let's see how you fare. If you're unsure about proceeding with the questions, put your mind at ease. While the assessment will help evaluate the state of your financial health, it is not the be-all and end-all.

Remember, this is just a starting point from which you can identify the strengths and areas of improvement in your financial health.

With that out of the way, start by reviewing and answering the questionnaire truthfully.



HOW FINANCIALLY HEALTHY ARE YOU?

For each statement below, rate yourself as honestly as possible with the following (1= Not Really, 2= Unsure, 3= A Bit, 4= Absolutely).

How do I feel about…	Rating
My current salary is enough for all my bills and still lets me save money.	
I can afford to keep up with rising prices of goods and services.	
I prioritize spending on what I need instead of what I want.	
I track my spending, so I know exactly where my money goes.	
I have a good relationship with my bank, so I can take out a loan with them.	
If I lose my job, I have 3 to 6 months' worth of savings to live on until I find new work.	
I can manage my debts without worry.	
I won't have to borrow money in case of a medical emergency.	
I have clear financial goals that I want to achieve.	
I have a detailed plan to reach my financial goals.	
I'm earning enough to support the family and still have savings.	
I have a plan to save enough for a comfortable retirement.	
I am aware of my investment options.	
I have a portfolio of investments.	
I have a backup plan in case my investments don't work out.	
Total Rating	

Date taken

To know your financial health situation, get your total rating and check how you're doing on the next page.

How did you fare?

Rating	How is Your Financial Health?
53-60	**You're doing well** You've got a clear picture of where your financial health needs to be, and you're taking steps to get there.
45-52	**You're on the right track** If there are no drastic changes in your life, you can live comfortably. If something terrible does happen, chances are you'll get by cutting back on a few expenses.
37-44	**You're ready for growth** You experience the usual financial ups and downs, like most Filipinos.
15-36	**Check-in needed** There are more than a few challenges in your long-term financial situation, which can have you working past retirement age.

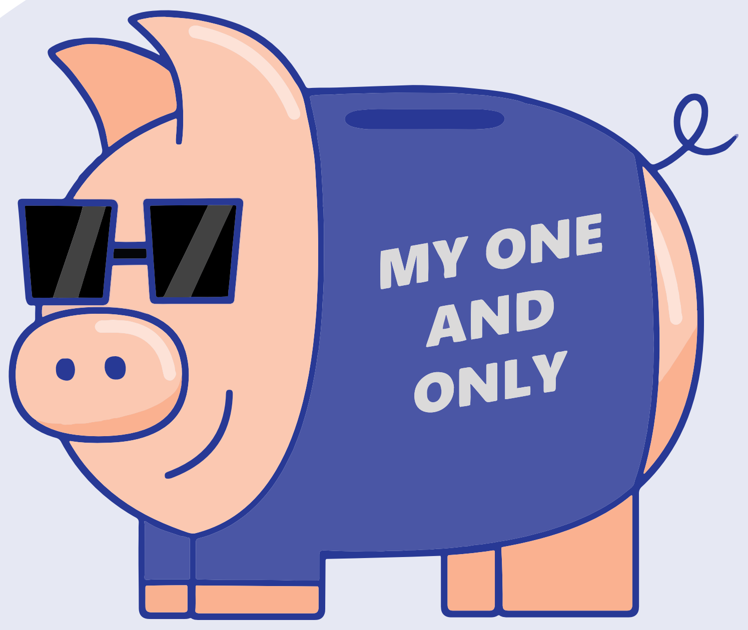
Did the results surprise you? Or are you a bit disappointed? Don't worry! This book is here to help you get better results next time.

This assessment is a simple one, inspired by existing financial health tests like **this, this,** and **this one**. As we mentioned earlier, this is just a guidepost to see where you stand now, financially. Knowing that will move you along your financial wellness journey and in making better money decisions!

A year from now, please come back to this assessment to check your progress and your appreciation and understanding of budgeting, saving, and investing, compared to when you were at the start of this chapter.

6 COMMON MONEY MYTHS

Avoid falling for these misconceptions.



1

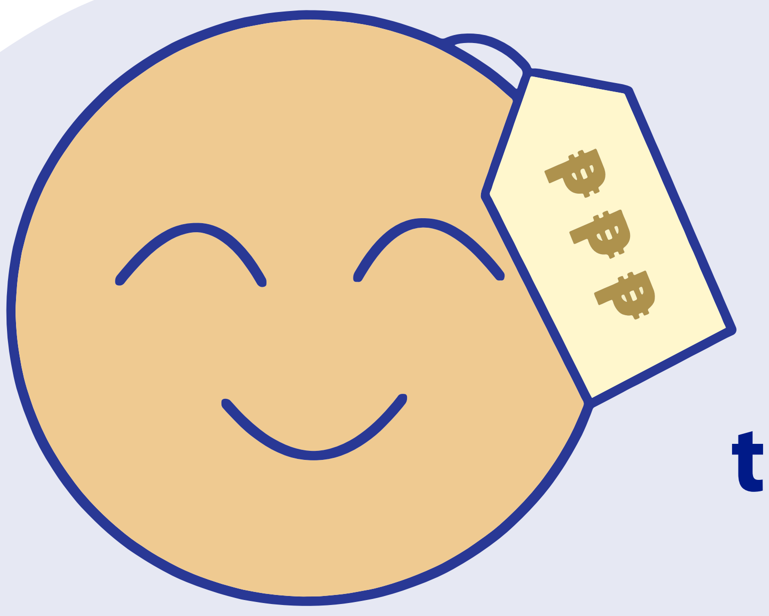
Put all your money in a deposit account

Your money will lose value due to the rising cost of living, so explore investments that help it grow at a rate that outpaces inflation. If you need to hold onto a considerable amount of money, consider spreading it across several bank accounts.

2

Plan for retirement only when you're close to retiring

It's harder to build a nest egg if you put off retirement planning to your later years. The sooner you start, the more ready you'll be for retirement.



3

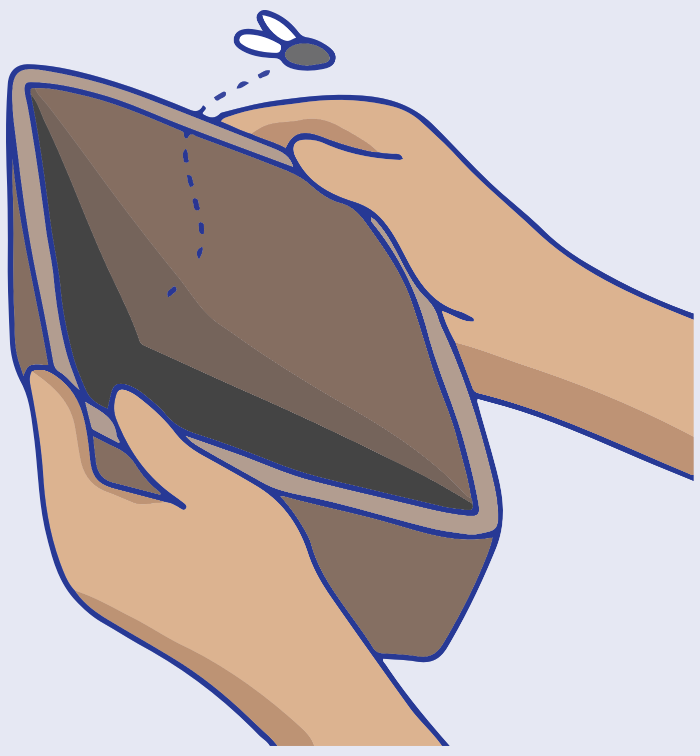
Making money is the end-all, be-all

We all need money to pay for the essentials of a fulfilling life. Achieving a financially healthy life means money should not control you; you should control money. The pursuit of money should not be the one financial goal that overshadows everything else.

4

Borrowing money is always bad

There is "good debt," and there is "bad debt"–which we will tackle in future chapters of the book. Good debt is money you can borrow to pay for things that increase in value, like a home that can appreciate. An example is your education loan that can improve your skills and as a result, increase your income. So good debt can be considered an investment, and borrowing money is not always bad.



5

Keeping quiet about your poor financial health

Struggling silently is a recipe for conflict, especially if your family depends on you. Don't be ashamed to share your concerns with your loved ones, especially if you need help. With their support and the lessons in this book, you will find your way. Remember, if you don't ask for help, you won't get it.

6

You need to earn more to start saving

If you're not living within your means, you probably can't save. The truth is, if you know how to budget, you can put away some money (regardless of how much you earn). On the other hand, if you explore ways to augment your income, you can earn and save more.

Now that you are more financially self-aware, it's time to move forward in your financial journey.

Figure Out Your Next Step

What to do now that you're financially aware?

Your next step depends on the result of your assessment earlier in this chapter.

- If you got **"You're doing well"**, then continue what you're doing, and you'll be fine. Your future retired self will thank you for the steps that you take to achieve financial health.

- You have the right ideas if you got **"You're on the right track"**. All you need to do is turn those ideas into action, by saving, investing, and laying the foundation of your retirement plan.

- You'll get to where you need to go if **"You're ready for growth"** with the right motivation and guidance. Dedicate time and effort to balance your income and expenses so you can move to the next step in your journey.

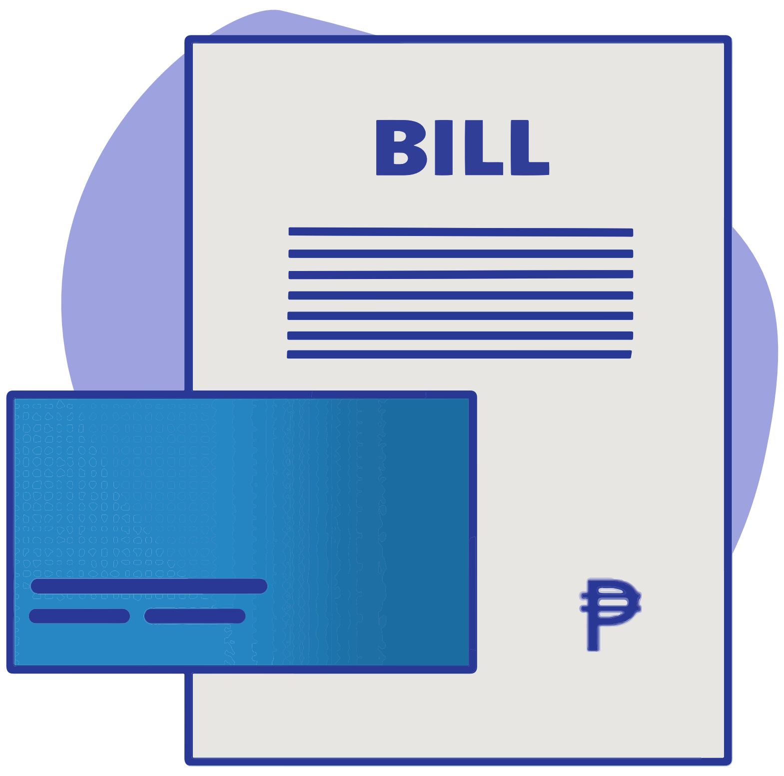
- Don't fret if you got **"Check-in needed"**. Self-awareness is an amazing trait. This should help you understand areas you can improve and act on. The tips provided in this e-book are a good start.

7 KEY SIGNS THAT YOU ARE FINANCIALLY HEALTHY

Let's see if you're ready for the journey to improve your financial health.

You pay your bills on time

A great sign of good financial health is the capability to pay all your bills, on time and in full, to avoid late fees and paying unnecessary interests. No need to pay before your due date unless you can earn points or rebates by paying ahead of schedule.



You have an emergency fund

This fund should cover 3 to 6 months of your average monthly expenses, if you don't have any dependents, and up to 2 years' worth of expenses if you have a family. Don't limit yourself to 6 months if you need more time for preparation. But don't put off raising your emergency fund, since you never know when you'll need it.

Your loans are manageable

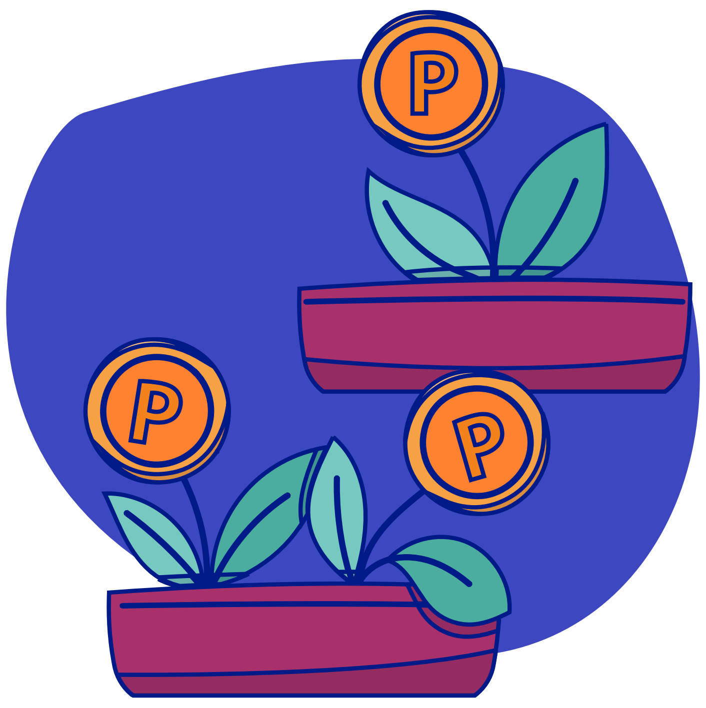
Sure, you've taken loans, but they are for a business, a house, a car, investments, or other needs. Besides, you have a timeline for when you finish paying off each loan.

You save and budget money for important investments

Set aside money for important purchases and investments like a house, a car, or the education of your (future) child.

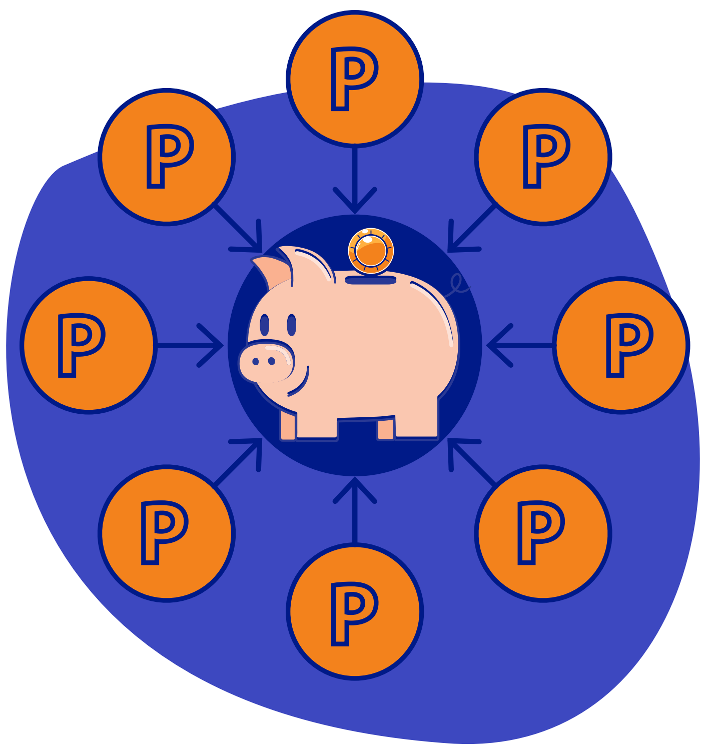
You have a healthy spread of investments

Diversify and avoid investing in just one stock or fund. Not putting all your eggs in one basket minimizes your risk. Seizing opportunities that produce more eggs is better!



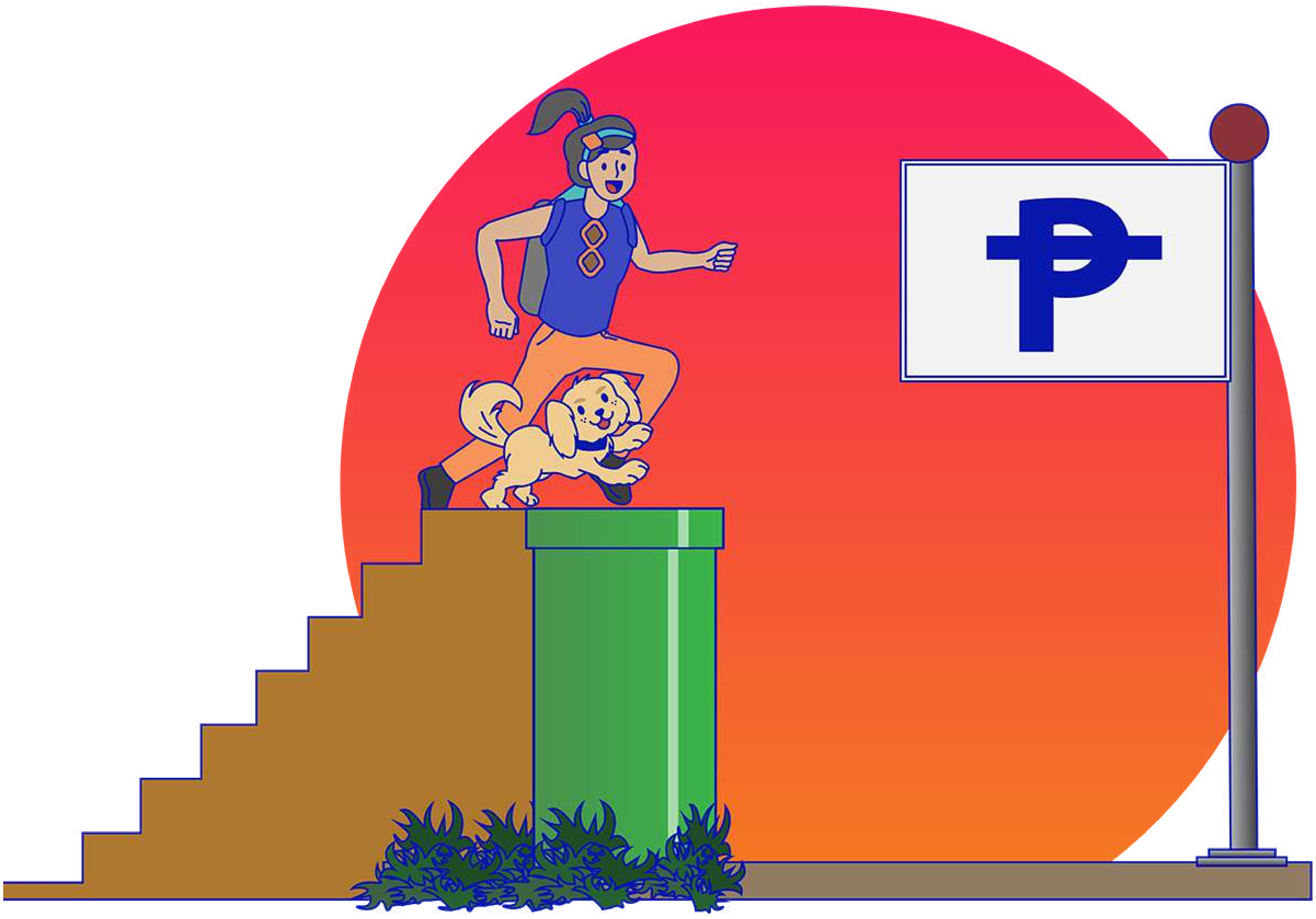
You have more than one source of income (ideally)

Having another source of income gives you a leg up in reaching your financial goals! This can be a side hustle, a small business, earnings from investments, or a rental property.



You bought insurance for you and your loved ones

Insurance prevents you from dipping into your savings during a critical illness that results in massive medical bills. It also makes sense to buy insurance for your home, car, and your business, especially when losing any of these will result in financial burden and stress.

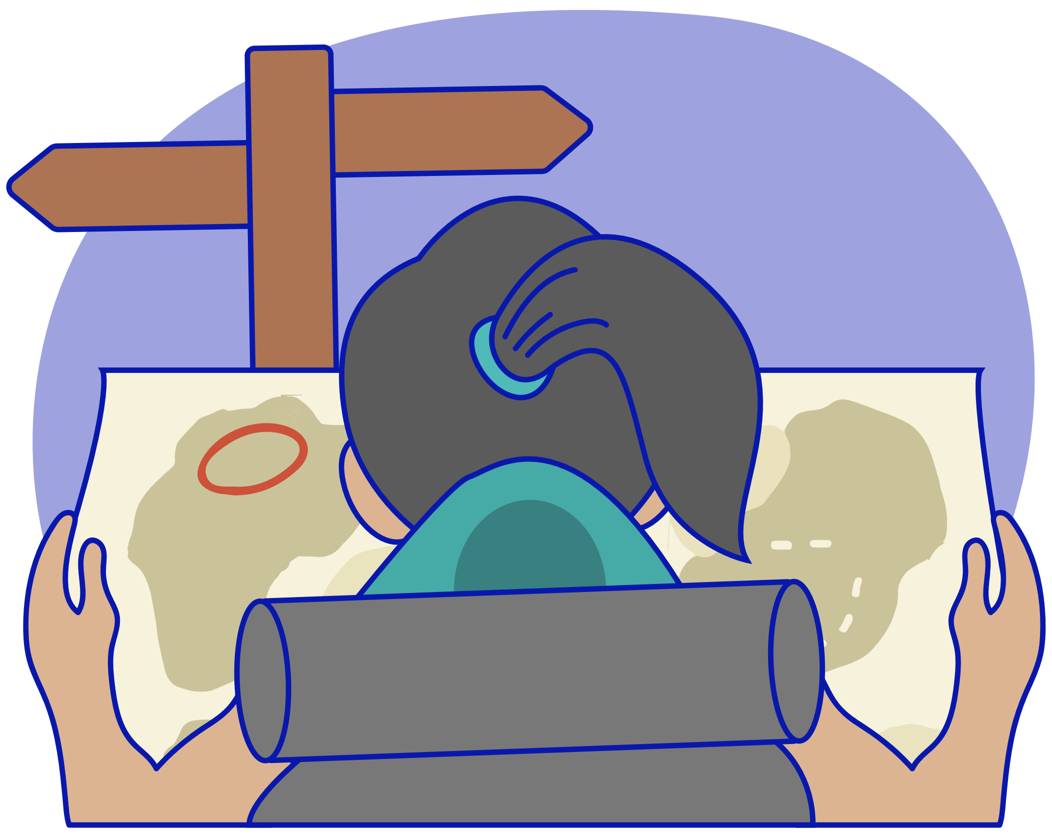


Onwards to Your Financial Health Goal

Keep your eyes on the prize and your feet on the ground.

The first step is always the hardest and often the most important. Those things don't make the next stage any less crucial, especially if your goal is to improve your financial health. The road may not always be easy, but with the right tools and mindset, you'll get there eventually.

These steps will be discussed in detail in the next chapters. However, it would be helpful to identify them now so your financial journey will be easier.



As always, remember that there's no one-size-fits-all solution for financial health.

1. Set your own financial goals before starting. These serve as guideposts to lead the way towards financial health.
2. Track your expenses so that you know where your money goes. This also helps identify which expenses you can cut to increase your savings or investments.
3. Learn how to maximize your loans. Pay them on time and in full.
4. Build an emergency fund that is readily accessible, preferably some of it in cash and most of it in a savings account.
5. Get insurance that fits your needs so you can be prepared for the worst.
6. Start investing!

Shortcut

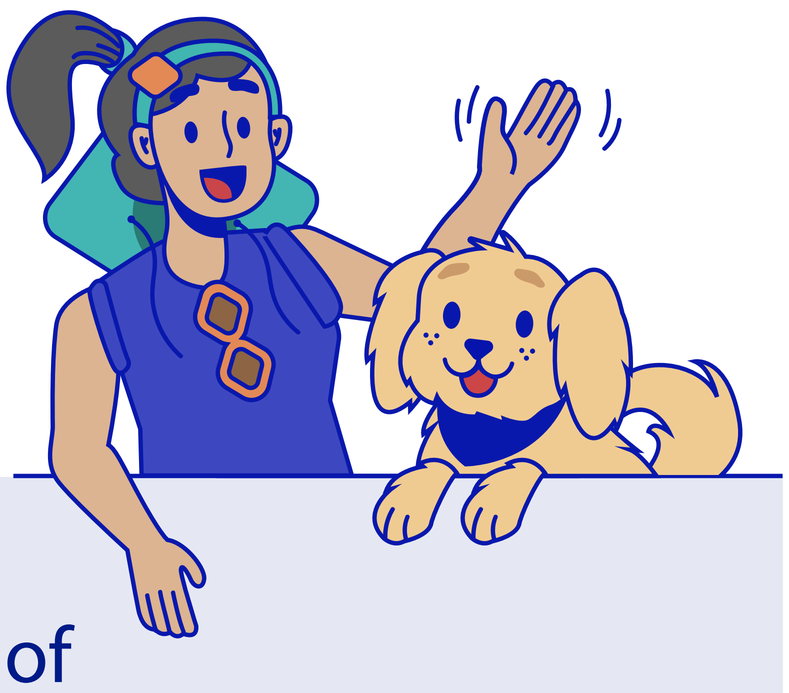
Here's everything we've covered so far.

- Knowing your financial health is a good starting point in setting your financial goals.
- Now that you are aware of some misconceptions about money, you can avoid falling into bad money traps.
- Having answered the **financial health questionnaire**, you know how to set your financial goals.
- Signs of good financial health include the capacity to pay bills on time, pay loans in full, set aside money for an emergency fund, plan for retirement, augment your income, insure yourself and your loved ones, and of course, invest.

READERS' SECTION

Here's your Financial Health Checklist

Let's make your journey towards financial health easier to track with this simple checklist of things you can start working on now! This can also help you visualize your direction.



- [ ] Feel financially secure, even in the face of unexpected expenses
- [ ] Have a set of clear financial goals
- [ ] Pay all loans on time
- [ ] Have an emergency fund that covers 3 to 6 months' worth of expenses if you're single, and up to 2 years if you're the family's breadwinner
- [ ] Have insurance for you, your loved one's health protection, and your assets like your home, car, and business
- [ ] Have more than one stream of income
- [ ] Set aside money for a down payment for a house, a car, or further education
- [ ] Have a broad set of investments (stocks, bonds, and mutual funds)
- [ ] Start exploring your retirement options
- [ ] Start or invest in a business on the side

JOURNAL

Making Sense of Your Current Financial Health

Let's reflect on what you have learned so far in your financial journey. Don't worry, there are no right or wrong answers here, so answer truthfully.

What most surprised you when you evaluated your financial health?

Can you identify the areas of improvement when it comes to your finances? List them here.

What portion of the financial wellness journey are you most excited to start?

Now that you have an idea of your current financial health and the things you can improve to achieve financial wellness, you can learn to set financial goals and budget in the next chapter.

Take heart in knowing your areas of improvement financially is already half the battle. The other half is acting on your insights in the next chapters.

Good luck! You're well on your way to being financially healthy! Watch out for the next chapters of Moneybility coming to your inbox.

The person who journeys aimlessly will have labored in vain.

– Mark the Monk

CHAPTER 3

Your Journey Starts with a Budget

What you will learn from this chapter:

- What is a budget and why do you need one?
- What are the considerations and principles of budgeting?
- What budgeting strategy fits you
- Get started with a budget

W*ala sa budget* is something you may have heard as a child when you asked your mom or dad for that new toy or the latest sneakers that most kids had. You may have been disappointed and have come to dislike those words, because you saw them getting in the way of what you wanted.

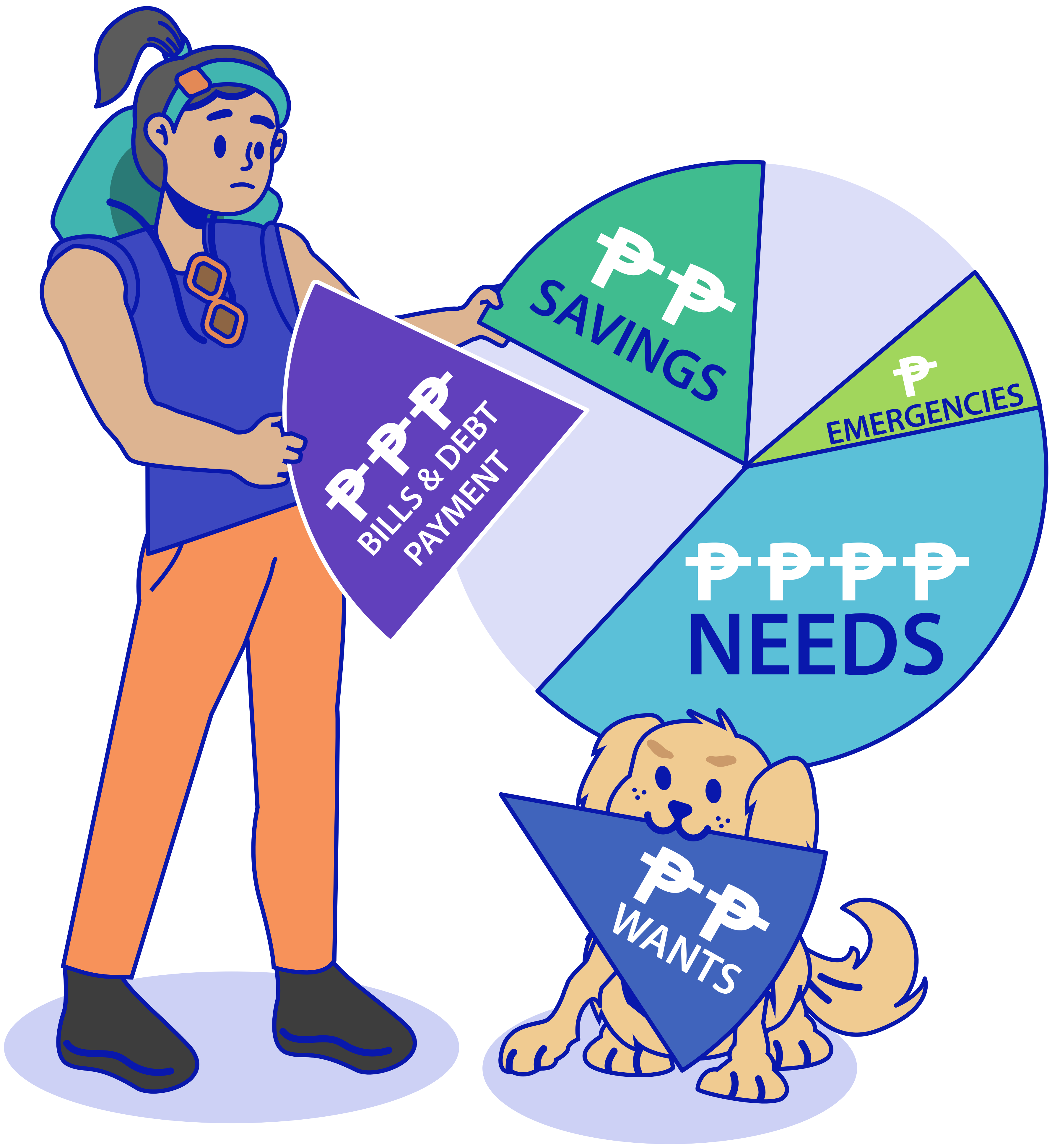
That budget and your parents' determination to stick to it allowed them to meet their financial goals for you and your family. Sticking to the budget meant that they were able to continue to put a roof over your head, provide food on the table, pay the bills, and set you up for a better life.

What is a budget? Simply put, a budget is like a map showing your total income and total expenses incurred over a period, say a month or a year. It lets you see where your money is coming from, where it is going based on how much is lacking, how much is in excess, and how you plan to spend. Having a budget also helps you set your short, mid, and long-term goals and how you can work towards them. It also serves as a building block to good financial health.

BUDGET

A budget is a spending plan that defines how much of your income is allocated towards expenses, savings, and investments over time.

By budgeting and sticking to it, you will find it easier to pay bills on time, build an emergency fund, and save for major expenses, such as a car or a home. Budgeting is an important life skill that can help you get better at managing money.



Key Principles in Budgeting

What factors to consider.

Before you jump into learning how to budget, there are several principles that you must consider.

First, there is the cost of living. Filipinos, particularly those living in the National Capital Region, deal with one of the highest costs of living in Southeast Asia, while also having one of the lowest average incomes.

Government data in 2021 shows that the average annual income of a Filipino family in Metro Manila stands at just over PHP 417,000.00 or less than PHP 35,000 per month. While this may be enough to cover the daily expenses of a small family, there is often little left for savings and investments.

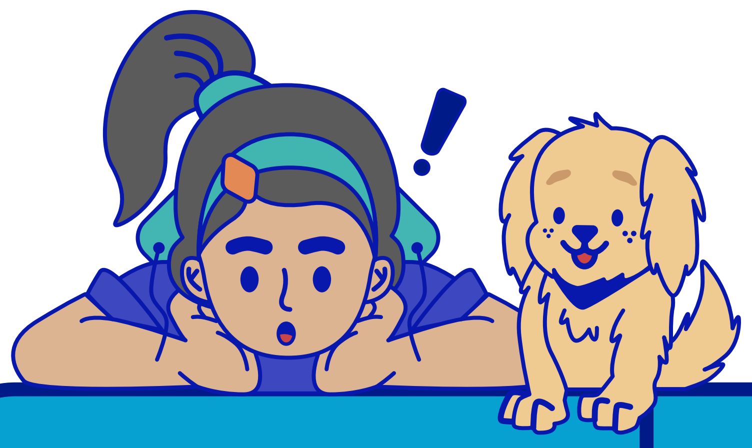
It is far below PHP 110,000, the average monthly income that another study found Filipino families need to be "happy." While money alone cannot buy you happiness, it is easier to be happy when you do not have to stress about having enough money for food or for paying bills.

The cost of living can vary, depending on where you live. Living in large cities often means greater economic opportunities and salaries, with higher corresponding costs. On the other hand, people who live in the province have lower costs of living, though earnings also tend to be smaller.

Living in large cities often means greater economic opportunities and salaries, with corresponding costs.

THE COST OF LIVING IN THE PHILIPPINES

Here is a snapshot of how much it costs monthly to live in major Philippine cities.



	Single	Family of four
Makati	PHP 34,471.55	PHP 120,679.78
Manila	PHP 29,802.24	PHP 104,263.82
Quezon City	PHP 32,744.09	PHP 107,785.39
Cebu	PHP 28,016.46	PHP 98,730.84
Davao	PHP 30,569.08	PHP 107,553.08

Source: Numbeo: Cost of Living

While budgeting can be extra challenging for those with lower or *sakto lang* income, it is still doable. If you budget smartly, it can help guide your everyday decisions towards good financial health.

Second, consider your personal goals and situation. If you are single, now may be the best time to build your savings and investments. Are you married and with dependents? Look at the company benefits that are available to you and take the time to see how you can maximize them.

Are you also sending money back to your parents to help them make ends meet? Do you have something big planned on the horizon? Are you saving up for a wedding? A home? A car? Do you need to take that trip abroad this year, or can it wait?

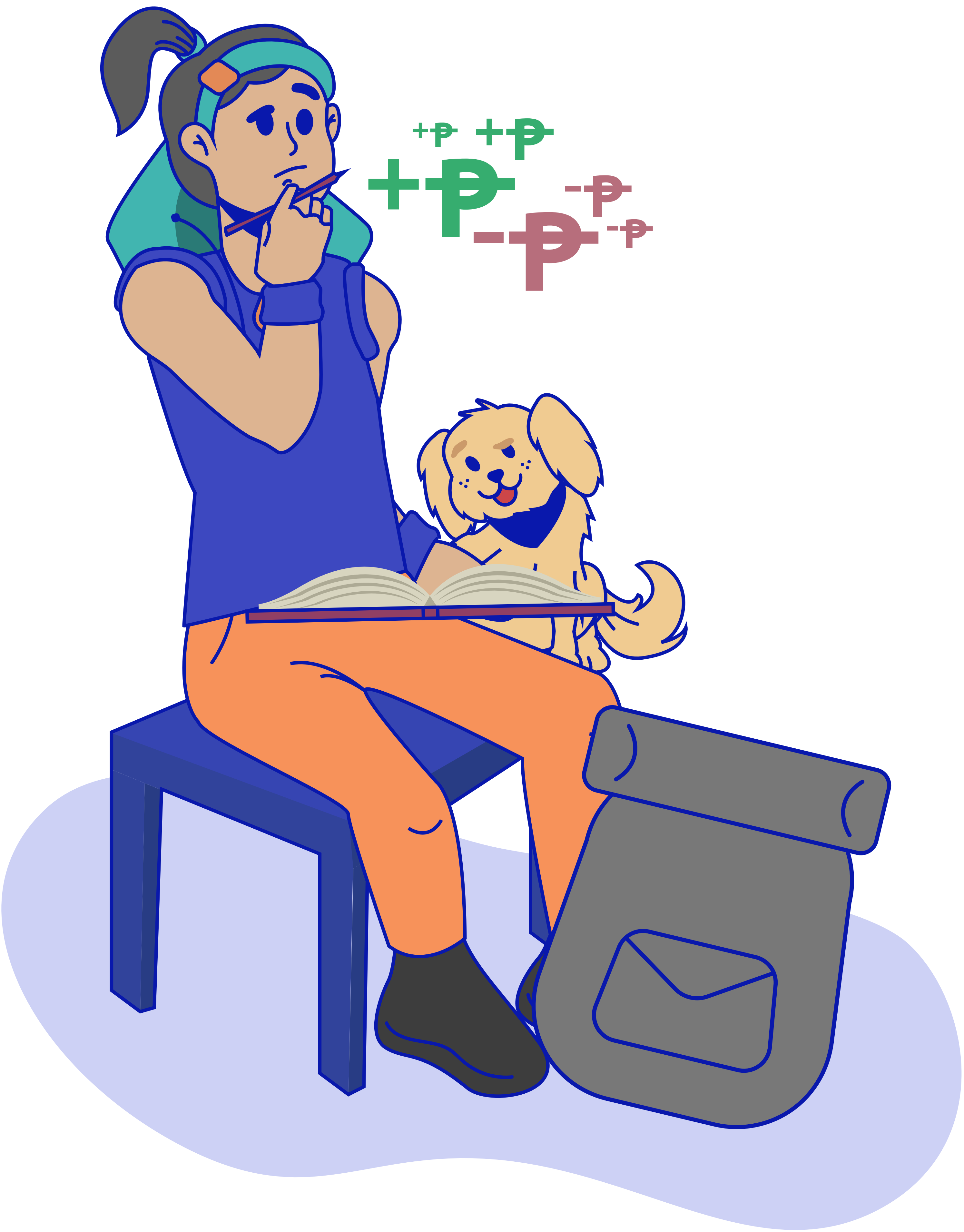
Third, think of how much time you need to save for the important things, while still being able to pay for your essentials, regular expenses, and bills. A sense of urgency is necessary to craft a proper budget so you can keep things realistic.

Lastly, have the mindset and determination to stick to your budget and get your house in order. While we cannot control things like the increasing cost of goods and services, and the wage market, we can control what we do with the money we have.

Living within your means is a matter of discipline and having the will to cut back on unnecessary spending by saying no to invitations or looking away from temptation.

Does your colleague have the latest gadget? Feel happy for them but remember what you are saving up for and be content with what you already have. If you feel left out whenever your friends go to a fancy café for coffee breaks, you can still join them while bringing your tumbler of delicious home-brewed coffee.

Remember, good friends will support your desire for better financial health and will respect you for saying *"wala sa budget."*



Get Started with Your Budget

Define your goals first.

A study shows that around 40 percent of Filipinos do not consciously plan their budgets because of low awareness of basic personal finance concepts, which makes budgeting more difficult to go into.

First, you should get rid of the fear that budgeting is too difficult to do, or that you need to understand math or have a finance background to do it. For all you know, you may have been budgeting since your first allowance or *baon* as a child.

You may not have a spreadsheet or a well-defined plan then, but when you made decisions about how much of your *baon* would go to your lunch, your snack, or after-school treat, and if you wanted to save a little each day for the weekend–you were budgeting.

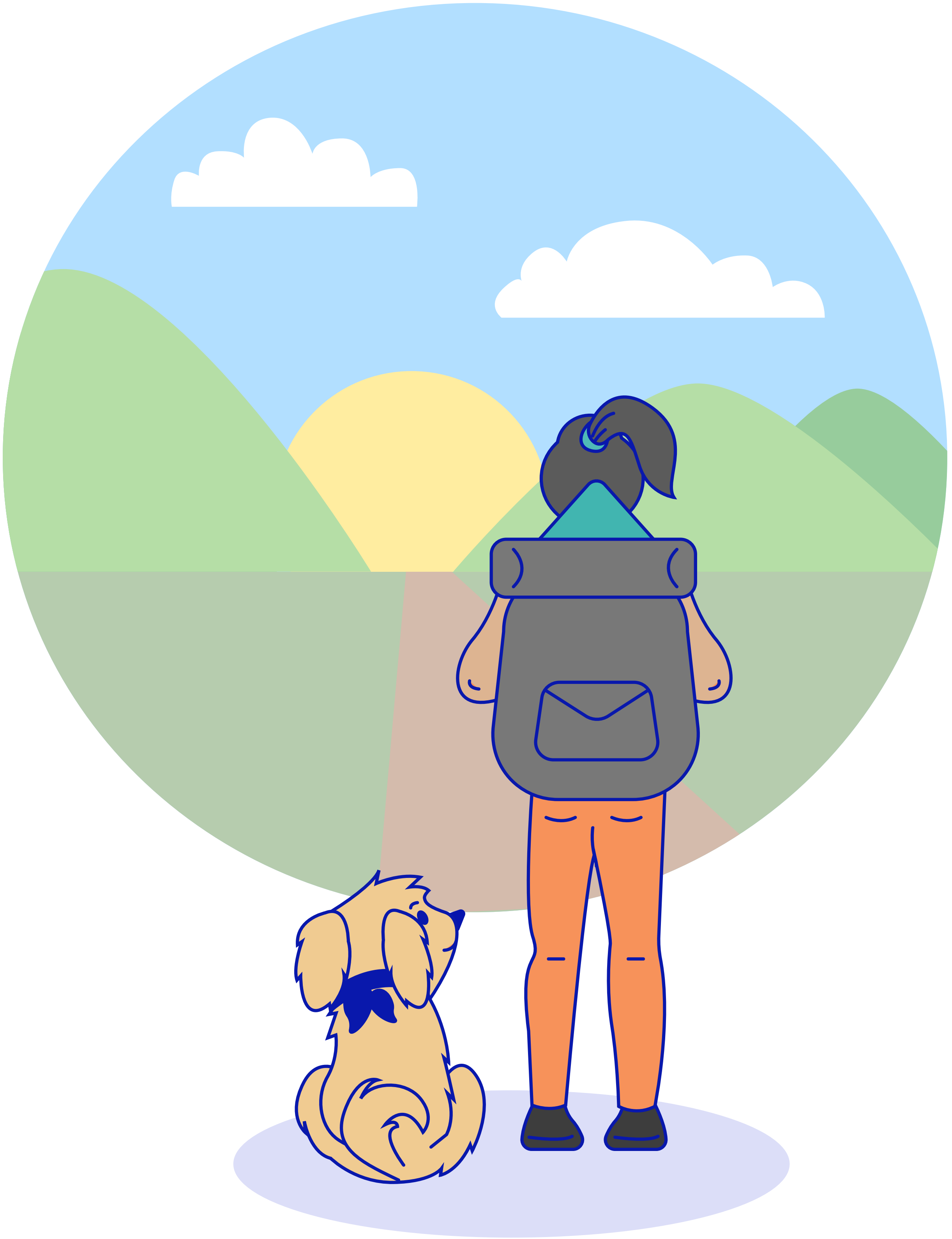
Now that you are an adult with bigger decisions to make than buying a snack after class, it is time to sit down and look at how much you have, and make it work, so you can live the life you aspire to have.

Start with the end in mind: **Know your goals.**

Ask yourself: Where do you want to be? Do you want to get out of debt? Do you want to have an "X amount" of savings by the end of the year? Do you want to start your own business?

Remember, your goals are valid, whatever they may be. What you want out of life may not be the same as others, so do not worry if your journey looks different from everyone else's.

To keep yourself from being overwhelmed, keep your goals simple, easy to do, and realistic. Take the baby steps you need now so you can set yourself up for giant leaps in the future.



BUDGET BABY STEPS: LITTLE THINGS YOU CAN DO NOW

Ready your pen and paper and list down these steps to begin walking.

1

Define needs and wants and keep them separate

Your needs are things you cannot live without, or they are also called your essentials. Wants are the things that are nice to have but will be fine to live without or labelled as non-essentials.

2

Track spending versus income

Note your income–which includes your monthly paycheck, your earnings from a side hustle, an investment, or from regular remittances sent by a relative abroad–for the month, then subtract every expense you make. This will show the money you have left, so you do not end up overspending.

3

Define your “livable”monthly expenses

This is the amount that lets you stay on top of your spending, enjoy life, and sleep at night, while still being able to save.

4

Decide your priorities

Understand what you want for yourself now and in the future. But focus on your needs first. This helps you decide how much money goes towards savings and investments.

5

Allocate money for essential expenses

Set aside funds to pay off periodic expenses regularly and on time. Treat the amount of money distributed for essential expenses as untouchable or as if you have never had it in the first place, so you can have a view of what is left to spend, save, or invest.

6

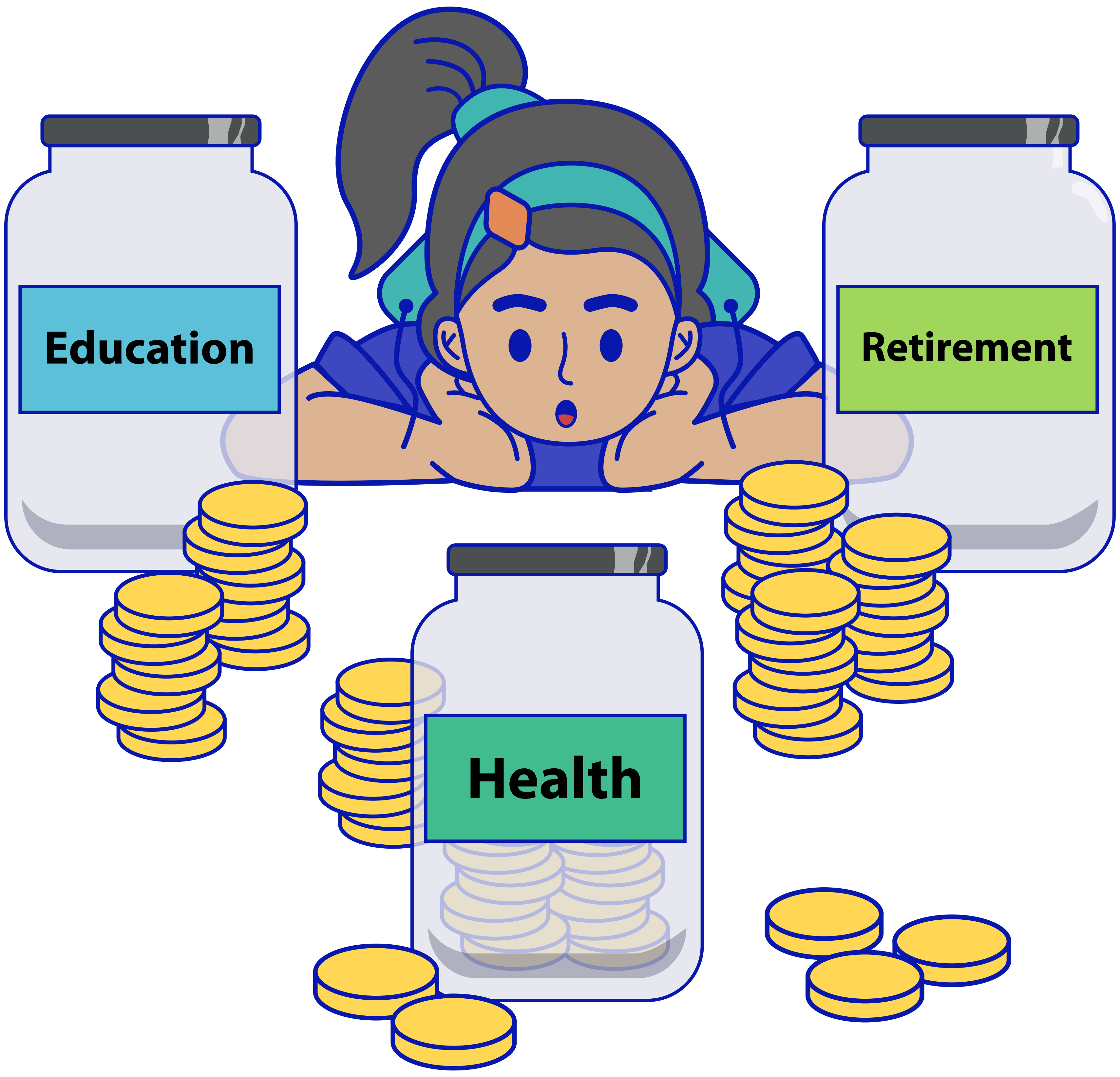
Allocate money for having fun

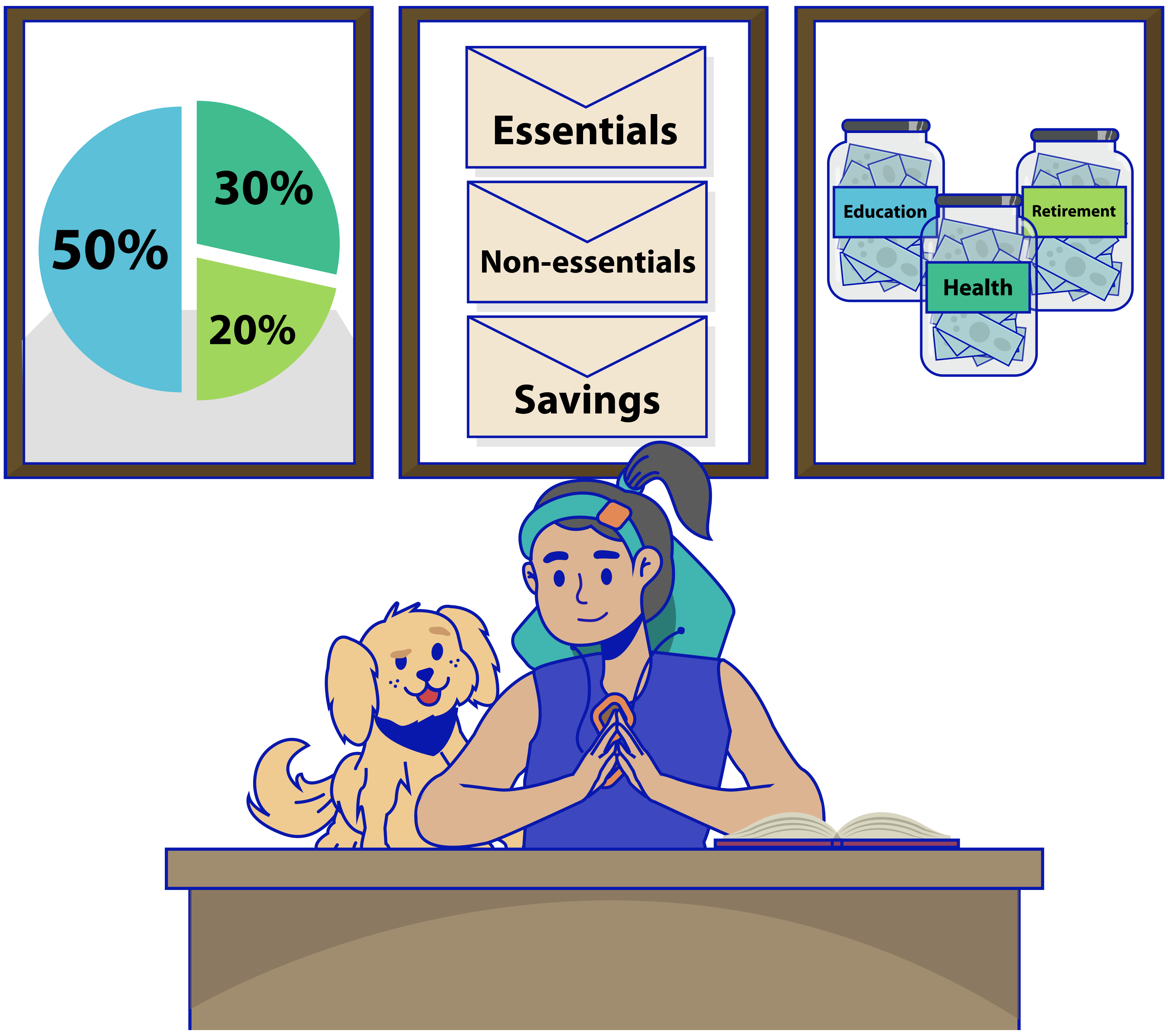
This money goes to your "me time" activities like a trip to a beauty salon, a road trip to the nearest beach, or a regular Friday night out with friends. Some people call this "fun money" which affords you simple joys that make you a happier and better person.

If you find that there is little or no money left for savings after summing up your expenses, look at your list of "wants" and rank them in order of importance. Take out those you can do without for the meantime and convert those expenses into savings.

And yes, have a budget for having fun (some call this "fun money"). Budgeting is very much like dieting–it is hard, and sacrifices must be made. But if you deprive yourself too much, there might be a bigger chance that you will find yourself cracking and so, binge spending.

Remember, there is always a way to "save without missing out" or SWOMO. So treat yourself, and live within your means.
The future you will thank you.





The Different Types of Budgeting

Know which budget works for you.

Everybody's financial and family situations are different. There is no one-size-fits-all budget. To help you find one that works for you, here are some popular methods and approaches to budgeting.

1. 50-30-20 Budget

What is it? This method follows a 50-30-20 rule, where 50 percent of your monthly income goes to essential expenses (i.e., rent, transportation, food, and bills), 30 percent to wants or non-essential expenses (i.e., entertainment fund, unplanned trips, designer clothes), and 20 percent to savings and investments.

Who is it for? If you have disposable income and want to start a healthy savings or investment fund, this budget scheme is for you.

Pros and cons: This method may work if you have a high income but may be very tight for Filipino households with incomes on the lower end of the economic scale. The allocations for this budget can be flexible and can be stretched to 60-20-20. If it does not fit your lifestyle, you can try 70-20-10, where 70 percent goes to essential expenses, 20 percent to savings and investments, and 10 percent to non-essentials or "fun money."

2. The Cash Envelope Budget

What is it? This method uses the cash envelope system, which means you withdraw cash for your expenses when you get your paycheck. You then put cash into envelopes labeled for necessities like groceries and gas, fun money, or even charity.

Who is it for? If you are just starting to budget.

Pros and cons: This method prevents you from overspending and forces you into serious *tipid* mode. Once your envelopes are empty, you are forced to stop spending. This method will require withdrawing cash from your bank, and it can be more tempting to spend cash when it is in hand.

3. Reverse Budgeting

What is it? This method forces you to set aside money for savings before you even distribute some for paying bills and other expenses.

Who is it for? If you have enough disposable income, but still have trouble saving.

Pros and cons: This method allows you to prioritize saving and work your way towards investing and achieving good financial health. This, however, requires extra discipline in spending.

4. The Values-Based Budget

What is it? This method is all about spending money on things that matter to you and doing away with things that are not your priority.

Who is it for? If you want a budget that lets you live the life you want, this budget is for you. This method fits people with clear financial goals like allocating funds for your kid's education.

Pros and cons: This method allows you to pay for your basic living expenses and financial obligations but requires discipline in setting aside an amount for your children's education, a down payment for a new car, or a big family trip. Meanwhile, you cut down on your daily coffee latte or premium subscriptions, which does not bring long-term value to you.

5. The No-Spending Budget

What is it? This method prioritizes settling your bills first, then saving what is left. You are not spending it on anything else.

Who is it for? If you are short on funds or saving for a big purchase.

Pros and cons: This method is a good idea if you are saving for a big purchase or need to get out of debt. However, it is not something you can do for a prolonged period because there will be times where you need to spend extra for emergencies or any other unplanned expenses.

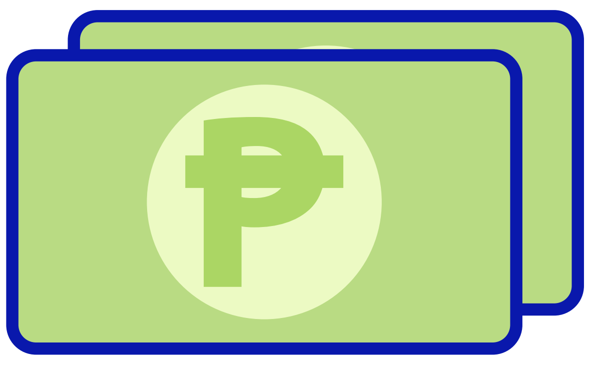
6. The Survival Budget

What is it? This method is the extreme version of the no-spending budget. You subtract essential monthly expenses from your income and reduce costs wherever you can. Whatever is left can be distributed for next month's expenses, paying off debts or saving.

Who is it for? If you are in financial difficulty or are barely making ends meet.

Pros and cons: This method forces you to learn to live on even less than your usual costs. This means taking out unnecessary costs, buying cheaper options, and even cutting back on some necessities. There will be no spending on fun for this budget.

7. The "No-Budget" Budget



What is it? This method is where you pay bills, save money, and spend the rest of the cash however you want.

Who is it for? If you are not in the habit of setting a budget.

Pros and cons: This method is simple to do, but it has no clearly defined allocation for savings or investment goals.

Now that you have an idea about the several types of budgeting, you need to ask yourself these questions in choosing how to budget:

1. Is the method simple and doable enough for you to stick to?

2. Is the method compatible with your lifestyle and income level?
3. Can this method help fulfill your financial goals?

If you find that the budget method you first chose is not really working out for you, it is OK.

Try a few of them before you find the one that is right for you. You can even produce a hybrid or customized one to suit your financial situation and needs. But before you jump into one of the various budget methods, let us look at the parts of a budget.

There are several budget templates you can find online, but all share common elements like a view of your total income, your expenses broken down into various categories, and the money left if you subtract your expenses from your income.

The Anatomy of a Personal Budget

This illustration shows you the various parts of a personal budget.

A

Income	D Budget	Actual	Difference
Take-home pay			
Partner's income			
Other incomes			
Total income:			

B

Expenses: Essentials	Budget	Actual	Difference
Home rent (or mortgage)			
Utilities			
Grocery and *palengke*			
Expenses: Non-essentials	**Budget**	**Actual**	**Difference**
Shopping (beyond basics)			
Regular vacation or travel			
Gadget upgrades			
Total expenses:			

C

Savings & Investments	Budget	Actual	Difference
Emergency Fund			
Financial Products			
Personal goals			
Savings Account			
Total savings & investments			

A Money that comes in. Essentially, all your income streams.

B Money that is spent. These are items that use up money.

C Money that is stored or put away to grow. In this section, money is not spent but rather treated as an asset that can give back returns.

D Money that was planned to be spent, how much was actually spent, and the difference between the two.

The illustration above shows you what a budget is made of. Now, you need to fill in the details of each part. We suggest putting in only your net take-home pay and taking out taxes and other mandatory deductions in your computation.

Meanwhile, put in all your expenses, separating the essentials (needs) from the non-essentials (wants). Expenses should be less than your income for you to have funds left over for savings, investments, and emergencies. In other words, looking at the example, "A" (income) minus "B" (expenses) should be equal to "C".

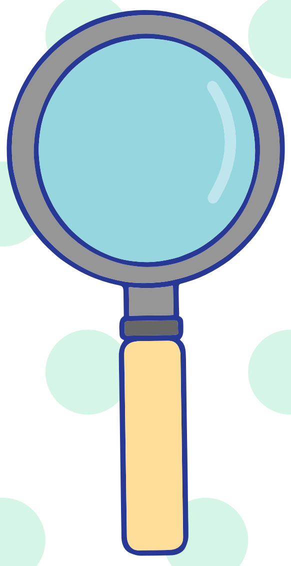
If your expenses are equal to or more than your income, you need to cut back on some of your non-essentials before even considering touching your essentials. The other solution is to increase your income by creating new income streams.

Here are more details of each part organized and explained.

- A **Income:** This is the part of the budget plan where you enter all your sources of income, including your monthly take-home pay, your partner's income (if available), and other income sources from your business, investments, remittances from abroad, and side hustles. Total monthly income is equal to the sum of all income sources after taxes.

B **Expenses:** There are two types of expenses —essentials and non-essentials.

Essential expenses consist of spending on your necessities or basic "needs". These include your home rental costs (if you are renting), mortgage payments (if you are paying for your home loan), utilities, groceries, household maintenance costs, cable, Internet, and mobile phone expenses, and other necessary costs to cover your basic needs. Transportation cost also falls under this category, which includes car loan and insurance payments, repair and maintenance, and toll fees. If you commute, you must include that, too. Education costs, like tuition and supplies, are considered essential expenses, along with health insurance premiums, medicines, and out-of-pocket doctor's visit fees. Personal grooming and work-related clothing fall under this category. Credit card debt and personal loans, if you have these become essential expenses, as well.



MORTGAGE

Mortgage, also known as amortization, is a type of loan where a borrower agrees to repay a lender in regular schedules.

Meanwhile, non-essentials are expenses that are considered as "wants." This is where dining out or food take out expenses, shopping for luxury items and entertainment are added. Upgrades from your usual essential expenses, such as a visit to a premium beauty salon, a spa, or a family vacation abroad also fall under this expense category.

C **Savings and Investments:** This is the section where money is treated as an asset, rather than currency that is spent. When saving, ensure that you have your emergency fund fully funded. You also want to save for personal goals or store cash in interest-bearing accounts as an added protection against inflation. Items under investing include investment products like UITFs, mutual funds, time deposits, and other financial products offered by a bank, financial institution, or even the government, that provides returns or *kita sa puhunan mo*. We will cover details about investment products in a later chapter.

D **Budget, Actual, and Difference:** This is the part of the budget where you enter how much you plan to spend or allocate per line item (Budget), how much you spent (Actual), and the difference between the two. The "Difference" is simply the result of subtracting the "Actual" from the "Budget" values of each line item.

Why is the *difference* important? Because it tells you if you are overspending on a line item (if the difference is negative) or underspending (if the difference is positive). The difference will tell you if your budget needs to be adjusted or if your spending behavior is the one that needs to be corrected.

To help you get started, here are two real-life examples on how to budget.

- An individual income earner who has a PHP 35,000 net monthly take-home pay
- A dual-income family with two kids and with a net household income of PHP 110,000

Individual Income Earner: Noelle, 29, female

Noelle is an office employee who makes PHP 35,000 after taxes and other deductions. She shares the rent and utilities on an apartment that is just a short train ride to her office with two friends. Her company pays for her phone bill and provides good healthcare insurance. She also sends a small allowance to help support her parents in the province.

As a young woman with a steady monthly income, good company benefits, no debts, and reasonable recurring expenses, she is an ideal fit for the 50-30-20 rule that can help set her up for a financially healthy future.

Income	Budget	Actual	Difference
Noelle's Monthly take-home pay	₱35,000	₱35,000	₱0
Total income	₱35,000	₱35,000	₱0

50%

Essential Expenses	Budget	Actual	Difference
Rent (1/3 share of PHP 20,000)	₱6,667	₱6,667	₱0
Utilities (power, water, internet)	2,000	1,895	105
• Groceries and household supplies • Cafeteria meals • Other food expenses	5,833	6,800	-967
Transportation (MRT, Grab, taxi)	3,000	3,200	-200
Total essential expenses	₱17,500	₱18,562	-₱1,062

30%

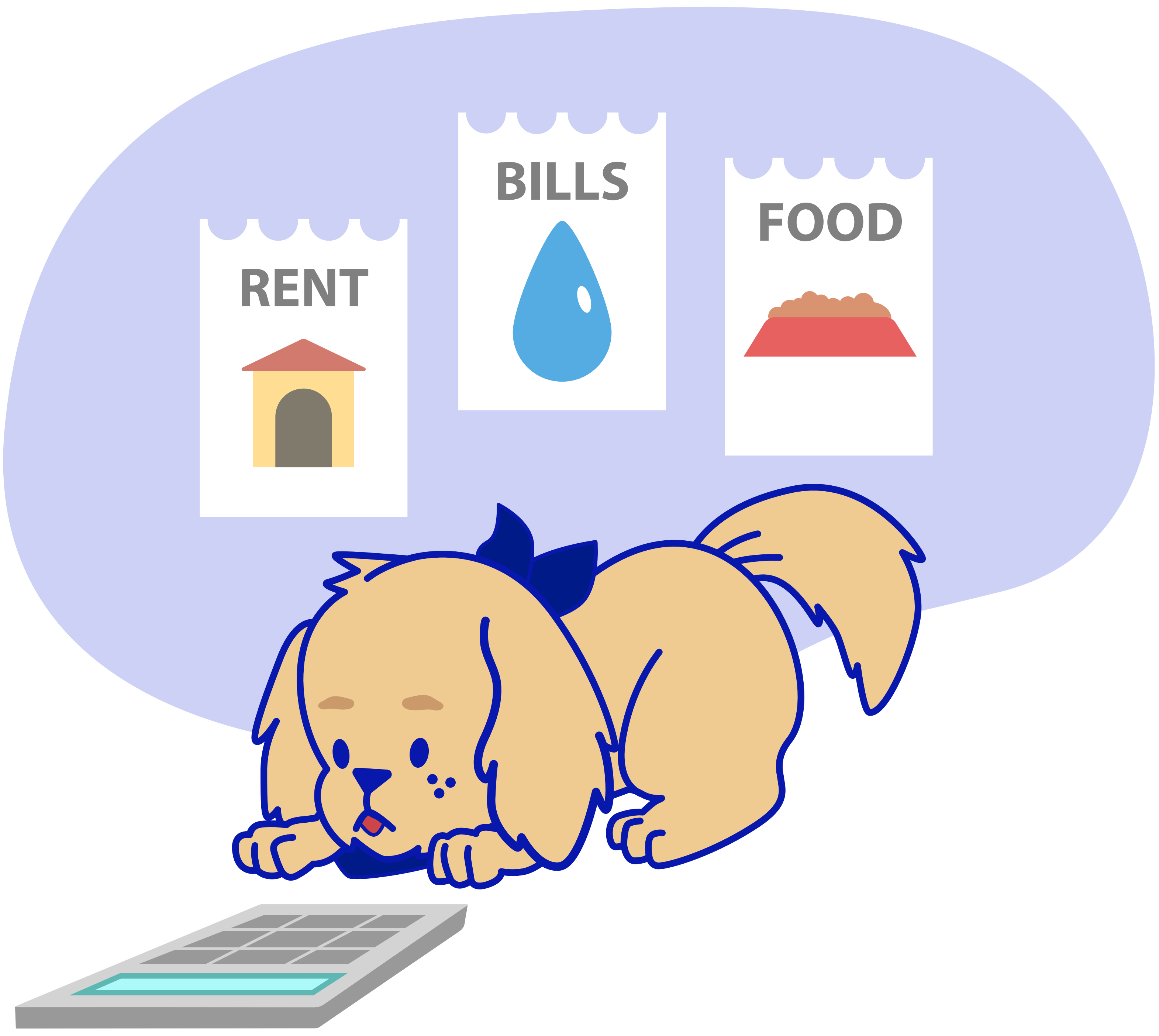
Non-essential Expenses	Budget	Actual	Difference
• Shopping (luxury items) • Entertainment (subscription, recreation) • Personal costs (beauty salon, gifts) • Dining out and food delivery	₱8,000	₱7,500	₱500
Aid for parents	2,500	2,500	0
Total non-essential expenses	₱10,500	₱10,000	₱500
Total expenses	₱28,000	₱28,562	-₱562

20%

Savings and Investments	Budget	Actual	Difference
Savings for big purchases/vacations	₱2,000	₱2,000	₱0
Savings for investments (Time deposit, high interest-bearing account, mutual funds)	2,000	2,000	0
Emergency fund	3,000	2,438	-₱562
Total savings & investments	₱7,000	₱6,438	-₱562

NOTE: The percentages show the proportions of your budget allocation.

While Noelle stays reasonably within budget, she finds that she often spends more than she plans to on groceries and transportation. She tries to balance it out by spending less on what she wants. On months like this, she has a little less to put into her emergency fund.



Dual-income couple with kids: Gino, 32, male and Carla, 31, female

Gino and Carla are both managerial employees who jointly take home around PHP 110,000 after taxes and deductions. They are parents to four-year-old Angie and two-year-old Mia.

Their employers provide good healthcare coverage for each of them and their dependents. They can avail themselves of favorable rates for their home and car loan payments through their company benefits.

While their household income meets the "happy" amount for Filipinos, having two dependents means that their expenses are also much higher. In addition to their individual needs and goals, they must prioritize the present and future well-being of their young children.

With a household of five–including the house help –the budget share of their essential expenses is much higher. Rather than following the ideal 50-30-20 budget, it must be adjusted to 80-15-5, with 5 percent of their income left for savings and emergencies.

Income	Budget	Actual	Difference
Gino's monthly take-home pay	₱60,000	₱60,000	₱0
Carla's monthly take-home pay	₱50,000	₱50,000	₱0
Total income	₱110,000	₱110,000	

80%

Essential Expenses	Budget	Actual	Difference
Home mortgage	₱28,000	₱28,000	₱0
Utilities (power, water, internet, mobile phone)	8,000	7,800	200
Groceries and household supplies	10,000	11,200	-1,200
Transportation and gas	8,000	8,200	-200
Auto loan payments	12,000	12,000	0
Education (pre-school tuition fee)	7,500	7,500	0
Children's clothes and basic shopping	2,000	1,750	250
• Healthcare (Medicine prescriptions, health and life insurance premiums, regular medical expenses -dental, doctor visits, eyewear) • Personal hygiene and grooming	5,000	4,500	500
Childcare (house help's salary)	7,500	7,500	0
Total essential expenses	₱88,000	₱88,450	-₱450

15%

Non-essential Expenses	Budget	Actual	Difference
• Shopping (luxury items) • Entertainment (subscription, recreation dining out, vacation) • Personal costs (beauty salon, gifts)	₱16,500	₱16,250	₱250
Total non-essential expenses	₱16,500	₱16,250	₱250
Total expenses	₱104,500	₱104,700	-₱200

5%

Savings and Investments	Budget	Actual	Difference
Long-term savings (Time Deposit, high interest-bearing account)	₱2,500	₱2,500	₱0
Emergency fund	3,000	2,800	-200
Total savings & investments	₱5,500	₱5,300	-₱200

NOTE: The percentages show the proportions of your budget allocation.

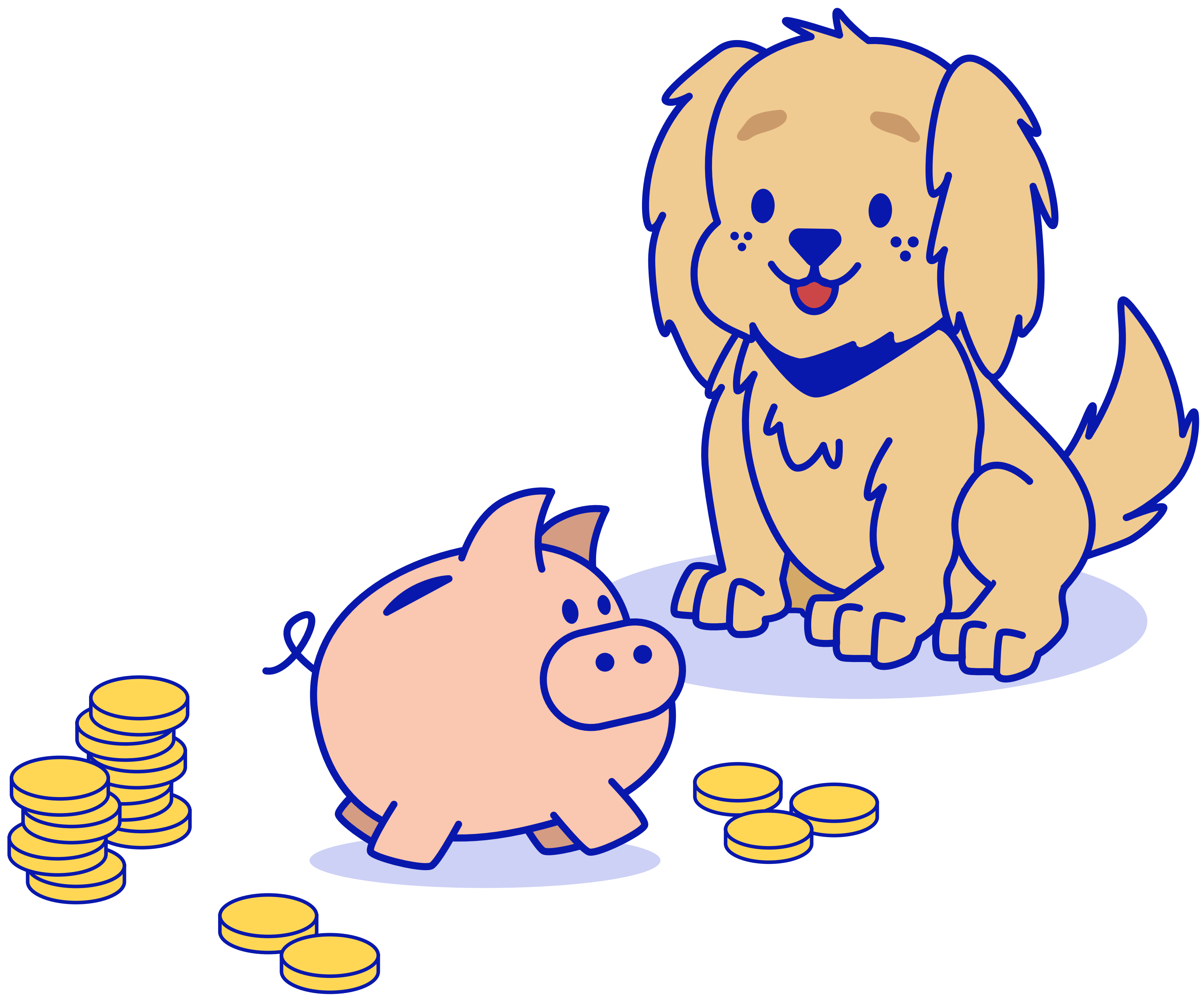
Gino and Carla find budgeting a challenge even with their above-average incomes. This is due to raising two children and ensuring they have a comfortable life. They tend to go over-budget on groceries and fuel because of fluctuating prices. They balance this out by cutting back on other items.

Their biggest expenses are for their house and car payments, which will become theirs once their loans are fully paid. They can expect to have more to spend or save once the expenses for their house and car are fully paid.

Before having children, they both used to take public transportation to work, but decided to avail themselves of Gino's company car plan so they could have a safer and more comfortable way to bring the girls around.

Instead of renting an apartment near their office, they bought a home in a secure subdivision, so the girls can have more space to play and grow. They have also had to give up trips abroad so they could send their daughters to private schools and to pay for house help, so they can both continue working while having someone to watch the children.

Does any of these budget strategies work for you? Do you have other budgeting suggestions or a template that is different but effective? Email us your experience with these budget plans or any other suggestions on budgeting at ***moneybility@metrobank.com.ph*****.**



Shortcut

Here's everything we've covered so far.

- You need to budget. Budgeting is your spending plan that defines how much of your income is allocated towards expenses–including savings and investments–across a period.

- Whether your income is big or small, a budget can help you pay bills on time, build an emergency fund, and set you up for better financial health.

- Being on a budget takes discipline and sacrifice. Surround yourself with people who respect and support your budgeting journey.

- We cannot control the rising costs of living, but we can control how we live. Know the difference between needs and wants and live within your means.

- You can stretch your budget by maximizing company benefits and bonuses.

- People have different goals and situations, so there is no one-size-fits-all budget. Find or make one that works for you and do not compare your journey to others.

READERS' SECTION

The Moneybility Ipon Challenge

Try this **PHP 5,000** challenge. Start with a target amount you expect to save in a month. Use the bingo card to divide your daily savings target to 24 amounts. The amount saved should add up to your target amount.

PHP 140	PHP 300	PHP 250	PHP 100	PHP 200
PHP 200	PHP 150	PHP 400	PHP 100	PHP 170
PHP 120	PHP 150	FREE	PHP 200	PHP 300
PHP 170	PHP 200	PHP 300	PHP 320	PHP 180
PHP 350	PHP 150	PHP 160	PHP 240	PHP 150

JOURNAL

Where Am I on My Budget Journey?

Now that you have learned about budgeting, read these questions, reflect, and write your answers below.

Am I happy with my current budget method? Can I do better?

If I made more money, would I end up saving more or spending more?

How can I stick to my budget and save up without feeling sorry for myself?

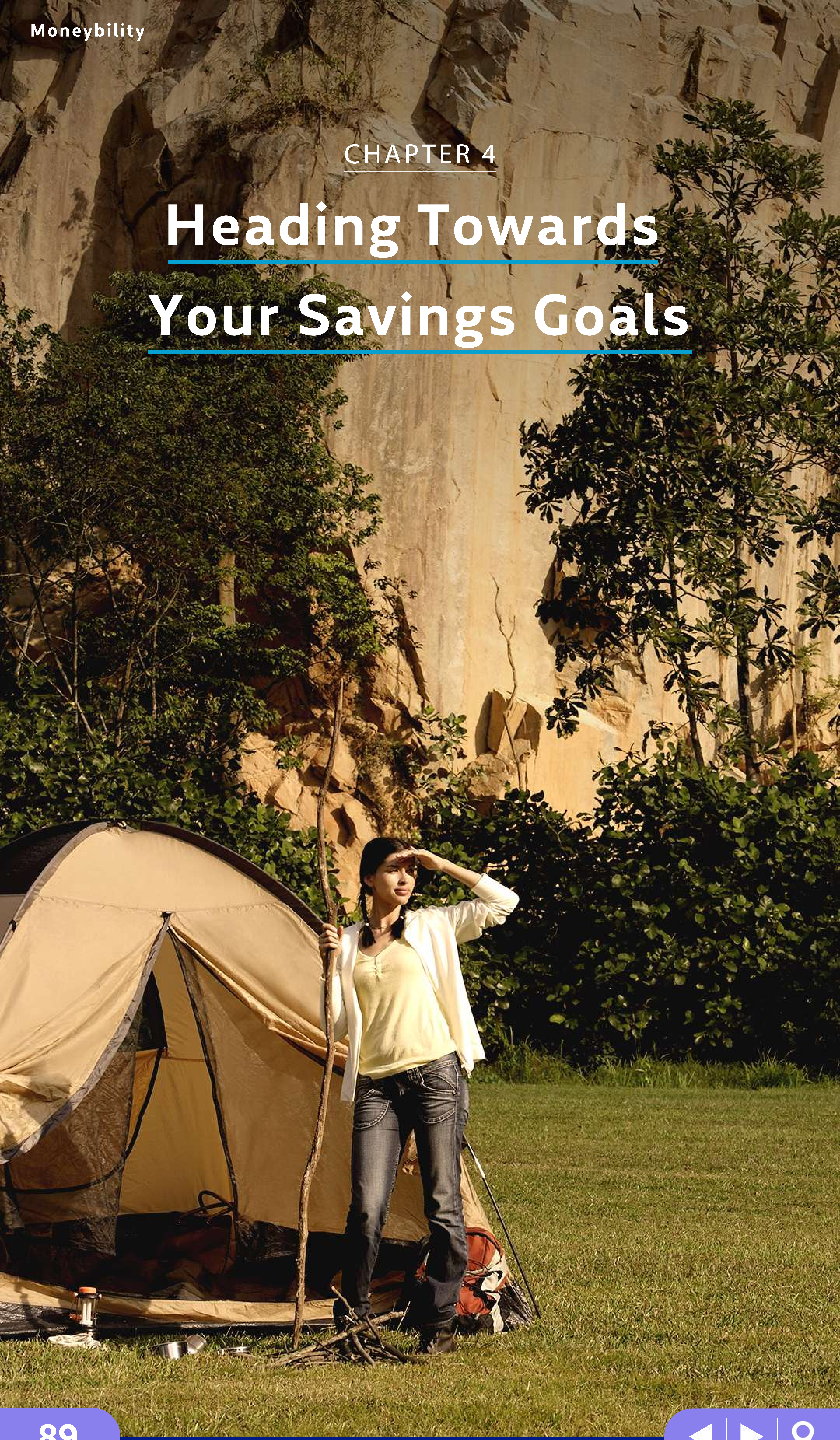
If you have reached this part of the e-book, you are well on your way to getting better with money. The next chapter will introduce you to setting your financial goals and how it can bring you closer to your life goals.

*A goal is not about
what you accomplish.
It's what you become.*

- Michael Hyatt

CHAPTER 4

Heading Towards Your Savings Goals



What you will learn from this chapter:

- Why it is difficult to save
- What you need to save for
- Where to keep your savings
- Tips to boost your savings

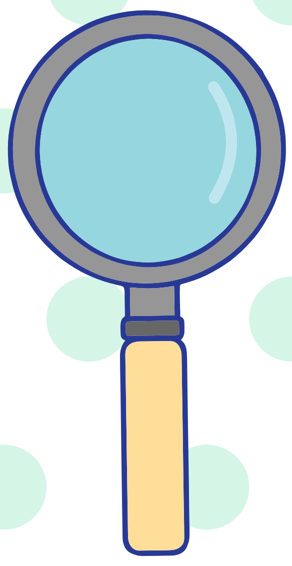
Let us go deeper into one of the more important aspects of budgeting: saving.

Saving makes budgeting meaningful because it defines what you need to budget for, in terms of money and time. It sounds simple but why do you find it hard to save?

Many reasons hold Filipinos back from saving. Attitudes like *bahala na* and YOLO (You Only Live Once) keep them from **preparing for the future**. Some say they are not earning enough money to save. Or simply, there isn't enough money left to save. Some are only even starting to think about saving as they approach retirement.

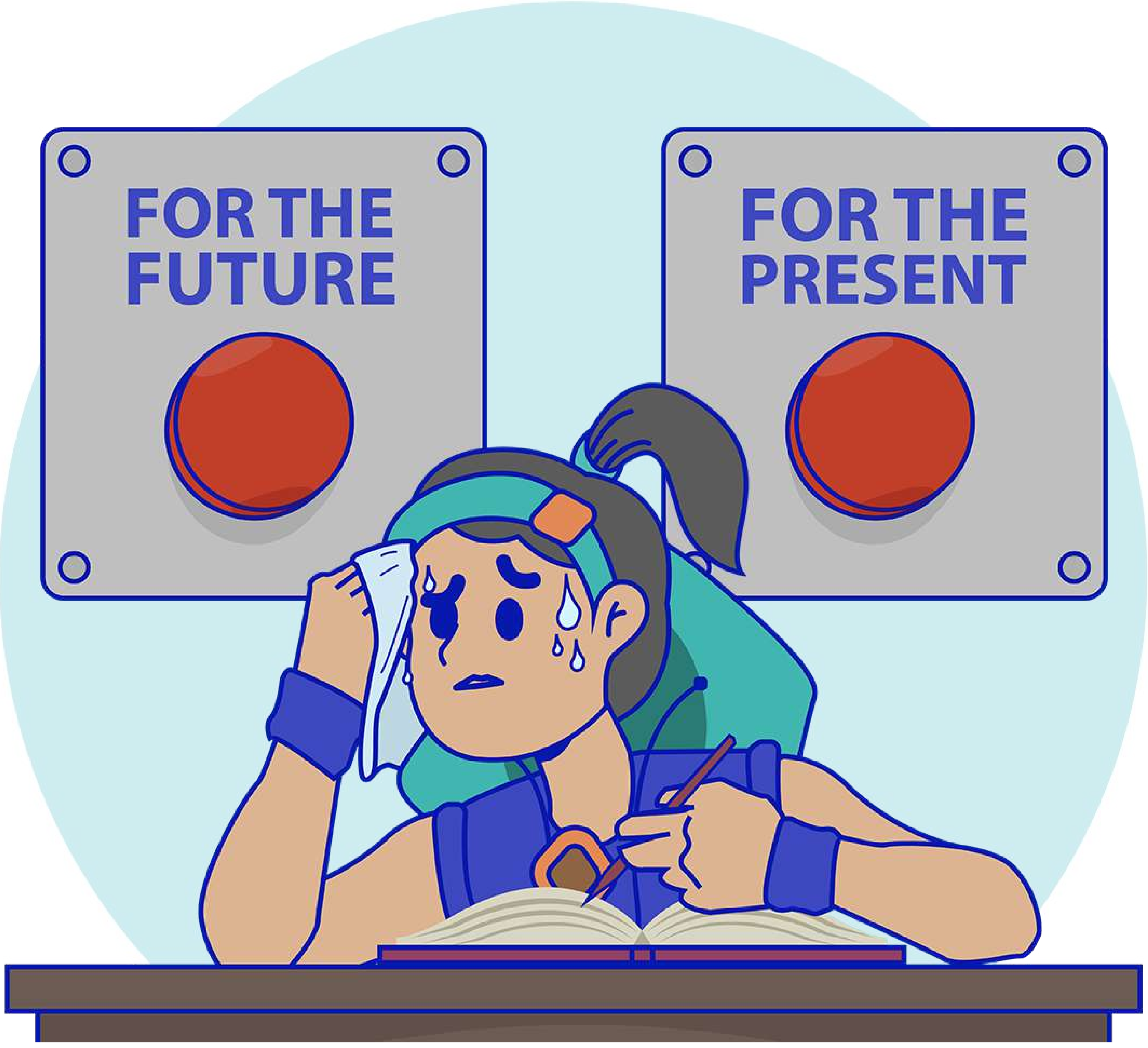
A government survey in 2022 showed that 31.1 percent of Filipino households saved, which is a slight improvement from the previous year. This was due to their need to save for financial emergencies and medical expenses. Filipinos' attitudes shifted as fear and insecurity brought about by the COVID-19 pandemic gave them more reason to save.

Still, many find it difficult to save due to the lack of knowledge on how to boost their savings considering the increasing prices of goods and services, also known as inflation.



INFLATION

Inflation is the general increase of prices of goods and services over time, which affects the purchasing value of money.



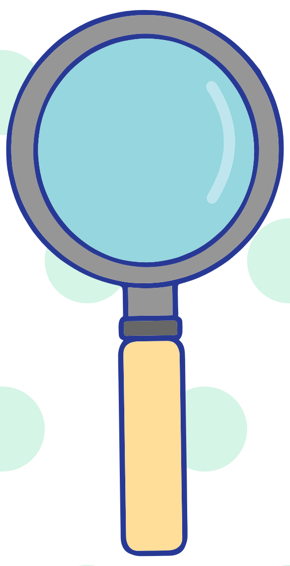
What Do You Need to Save For?

Save for life's uncertainties.

Saving is not just for those planning retirement. It is for everyone—a high school student on a weekly allowance, a college graduate just entering the workforce, or an established professional.

As a rule, your savings should also increase as you grow older.

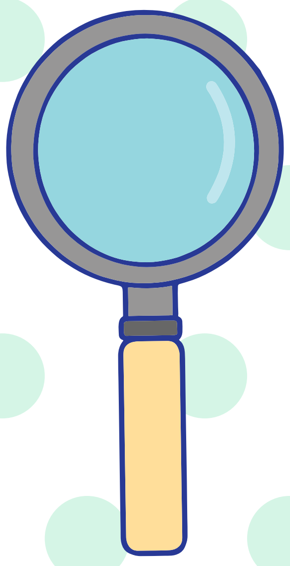
A survey showed that 77 percent of Filipino respondents planned to save more due to the uncertainties brought about by COVID-19, and more than half of them said they increased their savings by 50 percent. The study also indicated that these savings went into "low-interest savings accounts."



INTEREST
An interest is the amount of money a bank or a financial service pays a depositor for keeping money in its facility. A bank borrows the money from the depositor for loans to other customers.

It should not take a pandemic to prompt you to start saving. There are financial emergencies–such as a personal accident, job loss or unemployment, car breakdown, or a death in the family–when you need money for these unplanned expenses. Your savings will give you some financial buffer, but will it be enough?

From the previous chapters, good financial health means that you set aside enough money to deal with uncertainties. That's why an emergency fund should be one of your savings goals.



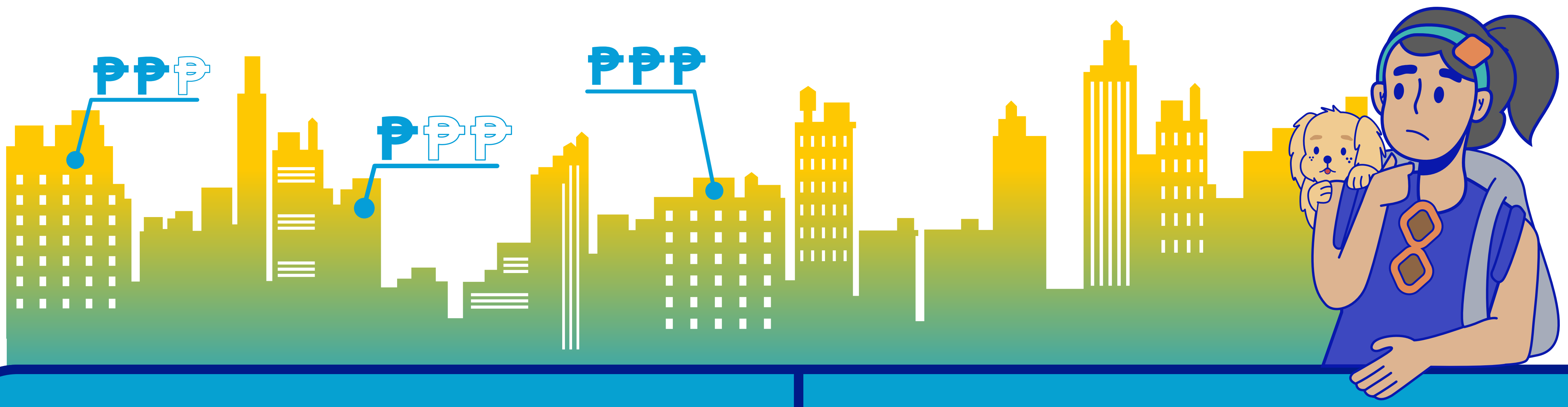
EMERGENCY FUND

An emergency fund is money you save that is accessible and secure for those unexpected events and financial emergencies. This fund should match the total amount of your living expenses for 6 to 12 months if you are single–and 12 months to 2 years, if you are married.

These are other savings goals that should motivate you:

Your Children's College Fund. Today, you need around PHP 70,000 to PHP 250,000 a year to enroll your child in one of the **top universities in the Philippines**. With inflation, imagine how much that tuition fee will increase in a few years. These tuition fees also multiply and vary depending on the number of children and the courses they take.

Own or Rent a Home. The cost of owning or renting a home depends a lot on where you want to reside and your capacity to fund the down payment and other fees. In Manila, for example, the **cost of renting a one-bedroom apartment** in the central business district can range from PHP 20,000 to PHP 55,000 a month. Rent can go higher for apartments with more bedrooms. The cost of buying an apartment is a different story. It can cost you PHP 170,000 to PHP 302,000 per square meter for a property in the city center. If you take out a home loan from a bank, you also shoulder about 20 percent of the selling cost for the down payment. Finally, you should consider other fees and taxes that add to the total amount you need to raise.



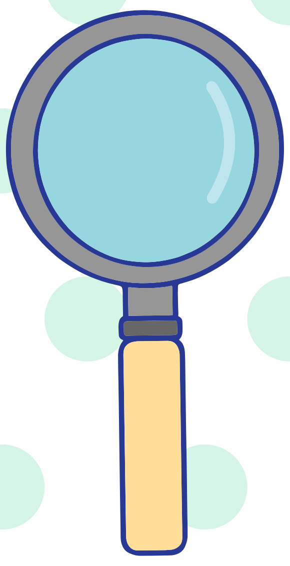
Type of Property and Location	Estimated Cost
One-bedroom apartment in city center (Manila)	PHP 20,000 to PHP 55,000
Three-bedroom apartment in city center (Manila)	PHP 60,000 to PHP 180,000
One-bedroom apartment in city center (Cebu)	PHP 20,000 to PHP 40,000
Three-bedroom apartment in city center (Cebu)	PHP 30,000 to PHP 75,000
One-bedroom apartment in city center (Davao)	PHP 10,000 to PHP 15,000
Three-bedroom apartment in city center (Davao)	PHP 25,000 to PHP 95,000

Source: Numbeo: Property Prices in the Philippines

Healthcare Service. This is another savings goal that is difficult to achieve because we save little, even less for health needs. The latest government data shows that less than 3 out of 10 Filipino households have savings, so unexpected medical bills can be a financial burden on families and individuals. Health or life insurance can cover medical expenses, but this depends on the amount of money you can set aside for paying insurance.

Starting a Small Business. Owning a small business is one of the goals many Filipinos aspire for, especially if they are considering other sources of income aside from their day jobs. Whether it is a side hustle or a full-time endeavor, owning a small business requires some money to start it.

A Comfortable Retirement. Early retirement – usually done between the age of 55 to 60 – is a dream of many Filipinos. But how much do you need to retire comfortably in the Philippines? This depends on the lifestyle that you want. One source of retirement funds for Filipinos are pensions. For those working in government, the Government Service Insurance System (GSIS) offers a pension fund that can be collected upon retirement. For those employed in private companies, they get it from the Social Security System (SSS). However, government data shows that a **huge population of Filipinos are not even covered** by any of the pensions available to them, thus they work beyond their retirement. Also, pensions are not enough to **sustain Filipinos in their retirement years**.



PENSION FUND

A pension fund is a pool of savings collected by an employer or a government agency during the working life of individuals. It is often regarded as retirement fund for the employed because it gives regular payouts soon after retirement.

An Emergency Fund. Very few Filipinos save for an emergency fund. When medical emergencies happen, many suffer financial distress, as they desperately find immediate sources of funds to cover the cost of hospitalization, doctor's fees, medications, and related expenses. In some cases, they drain what little savings they have left, or worse, they borrow money to fund this unplanned expense.

By now, you know that having money tucked away in a savings account offers you **peace of mind and increased happiness**. Having money to fall back on when financial problems happen also lets you sleep better at night.

Saving doesn't have to be difficult. You can save by simply living within your means. This means your lifestyle should match your income. Avoiding "lifestyle creep" is a skill that will pay off for you in the long term.

Are You Experiencing Lifestyle Creep?

As your income increases, so should your spending. Sounds logical, but it's not.

Lifestyle creep, also called lifestyle inflation, happens when your non-essential expenses increase at the same rate as your standard of living improves with "extra" income.

Ideally, money that's left after you spend on necessities should be saved or invested. Lifestyle creep happens when you use your extra income to purchase a designer bag, sneakers, or former luxuries that have become "necessities" like a mobile plan upgrade.

What Steps to Take to Achieve Savings Goals

Start with an emergency fund.

We learned that saving can be less of a challenge if we know what we are saving for.

An emergency fund is known as a “cash cushion” because it helps you fund unplanned expenses without touching the money you've set aside for spending on essentials.

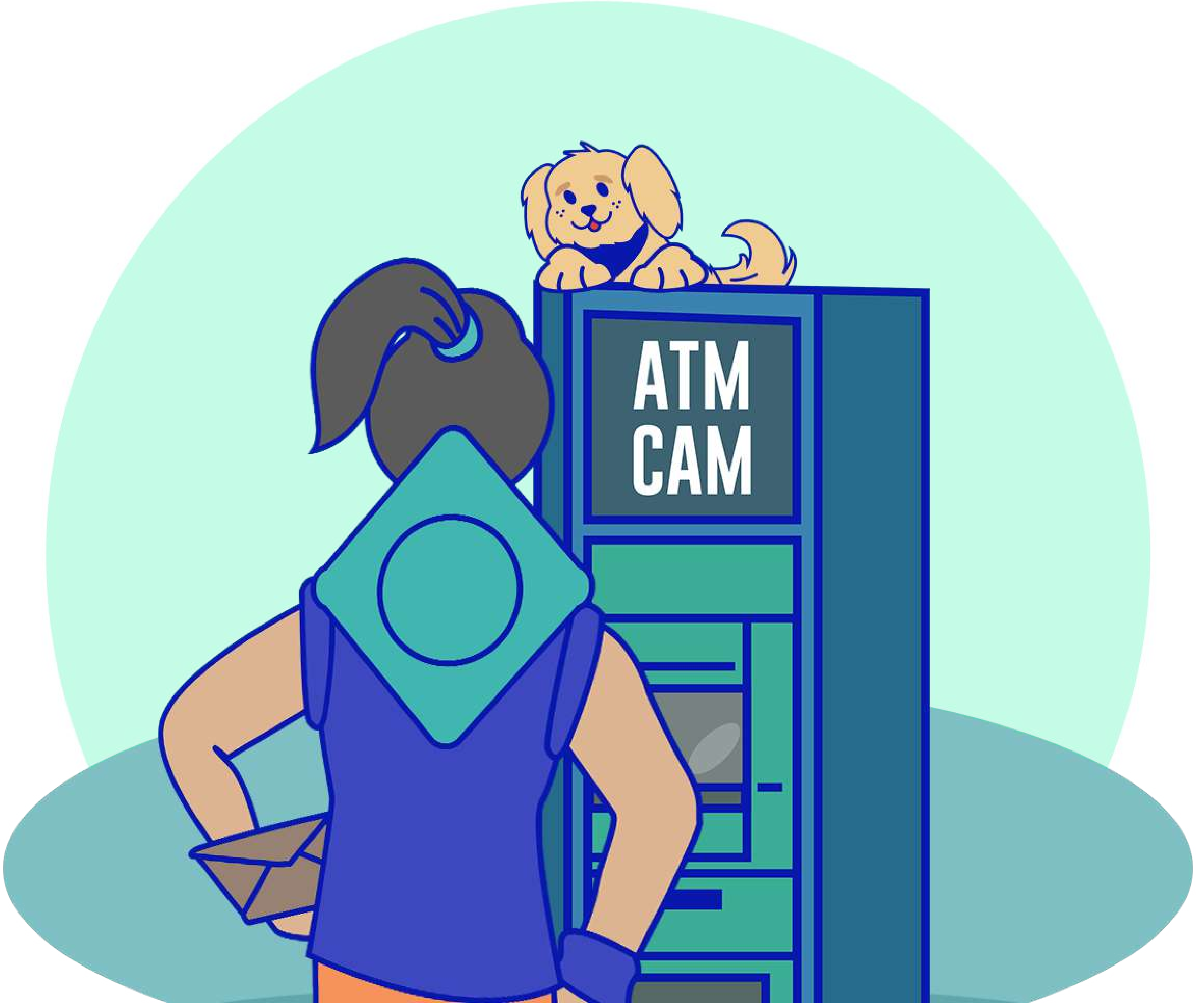
Access to an emergency fund needs to be easy. This means you can withdraw cash anytime without having to wait. Keeping it in a time deposit, stock market investments, or even life insurance is not recommended. The rule is don't put your emergency fund in any banking or financial service that requires clearing or processing time before it's released to you.

Informal saving and lending schemes like *paluwagan* are also not recommended because they are very risky. Being unregistered and unregulated by the government, these schemes are prone to problems – say, someone runs away with the group's money. They may also unnecessarily limit access to your money.

PALUWAGAN

Paluwagan is a Filipino financial term that describes an informal form of saving and lending. It requires a group of people contributing a fixed amount of money into a pool of funds based on an agreed schedule. The pooled money is then given to a member of the group who acts as the collector or the manager of the funds. Any member can then borrow money from this pool of funds.

Keeping your emergency fund in a safe or home vault is also not a clever idea. You can lose it when an actual emergency causes damage to your home, like flood or fire, or when your money gets stolen or misplaced.



Where Can You Put Your Savings?

Smart savings strategies you can consider.

Instead of having your funds tucked away at home, placing them in an account that earns interest is a better way to achieve your savings goals. Keeping your money secure is the first smart step in saving.

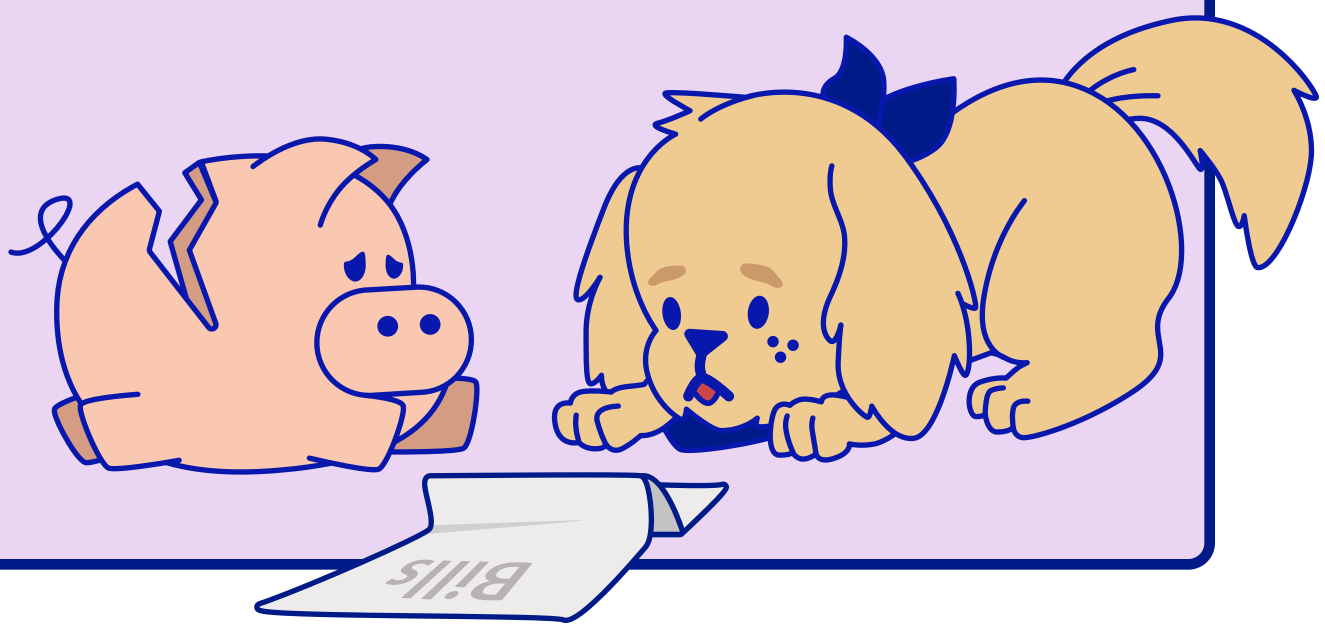
Choose high interest-bearing savings accounts over traditional savings with lower interests. High interest-bearing accounts are recommended for funds used for emergencies since they are easily accessible and secure. But remember to keep your emergency funds separate from your regular savings, which may be used for other purposes.

There's one more advantage to high interest-bearing accounts. Given the impact of inflation on your savings, this type of savings can lessen the impact of inflation on your money.

How can inflation affect your money?

By Bea Lejano

If you have a PHP 50 bill, you will know that years ago, this could have bought you a decent meal with chicken and rice at a certain fast-food restaurant. Now, this same amount could just afford you sides like a set of large fries.



This is the effect of inflation. Inflation is the general increase in the prices of goods and services over time. In simple terms, inflation makes you spend more on the same thing. For example, the same cup of your favorite coffee would cost you a lot more today than back in 2017.

Inflation is troubling if your salary or income stays the same. This would force you to live frugally, lessen your expenses, and be more wary of what you're buying.

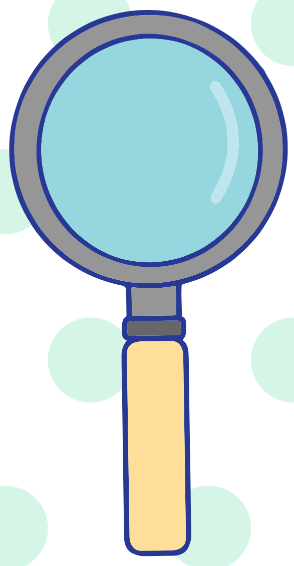
As for your savings, if these are not invested, then you're in a way "losing money" over time. These savings can buy less and less of the same amount of goods because of inflation.

If you have investments and the inflation rate is higher than the interest rate you earn from these investments, then you are in effect, losing money as well.

To sum it up, inflation reduces the value of your money over time, so it is important to be mindful of how you manage and grow your money amid a high-inflation environment.

About the Author: Bea Lejano is a banker by day and a student by night. She is also a foodie and cannot function without coffee. She loves indoor cycling and is now learning tennis.

Aside from a savings account, you may also consider putting your money in a time deposit. Like a savings account, a time deposit earns you a fixed interest on your funds. However, it will only allow you to withdraw on a set date, or what's referred to as the maturity date. You may withdraw before its maturity date, but there will be fees deducted from the money placed in a time deposit. So the funds you keep in your time deposit are those that you don't need for the time being.



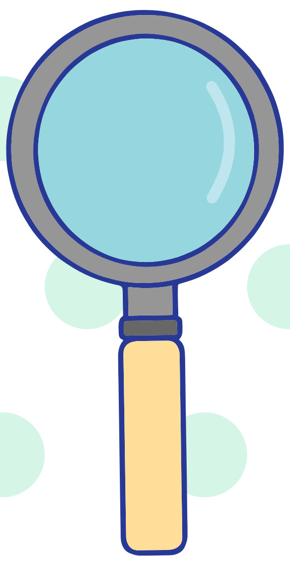
MATURITY DATE

A maturity date refers to the time when you can withdraw your time deposit without penalties.

Time deposits give better interest rates than your traditional savings accounts. In addition, the longer the maturity of time deposits, the higher the interest earned.

There are also other options like the MP2, a voluntary government savings facility that allows any Filipino, including members of the home development mutual fund, Pag-IBIG, to save and earn higher interests through dividends.

This savings facility requires you to keep your money with them for five years, which is the maturity period.



DIVIDENDS

Dividends in savings accounts are like interest payments. They are portions of the profits shared by a company or an institution with stockholders every quarter or every year.

Where to Put Your Savings

Here's a snapshot of options where you can keep your money

Traditional Savings Accounts

Pros	Cons
• Safe	• Earns lower interest
• Easy access to cash	• Must visit a branch or an ATM
• Earns interest	• Initial deposit required
• Easy to track spending	• Minimal balance required
• Can automate bill payments	• Charges transaction fees
• Covered by deposit insurance	

Recommended for paying off debts and automating bill payments. You may also put your emergency fund in traditional savings.

Non-traditional Savings Accounts (e.g., digital banks, digital wallets)

Pros	Cons
• Earns higher interest than traditional savings accounts	• Too easy to spend online
• Convenient online payments and fund transfers	• Cash withdrawal may take several steps
• Some transactions have lower fees	• No physical branches or ATMs
• Safe	• ATM fees
• Easy to track spending	• Limited amount for higher deposits
• Flexible initial deposit	
• Lower to zero minimum balance required	
• Offers cashback promos	
• Covered by deposit insurance	

Can be used to start an emergency fund or fund your other savings goals.

Time Deposit

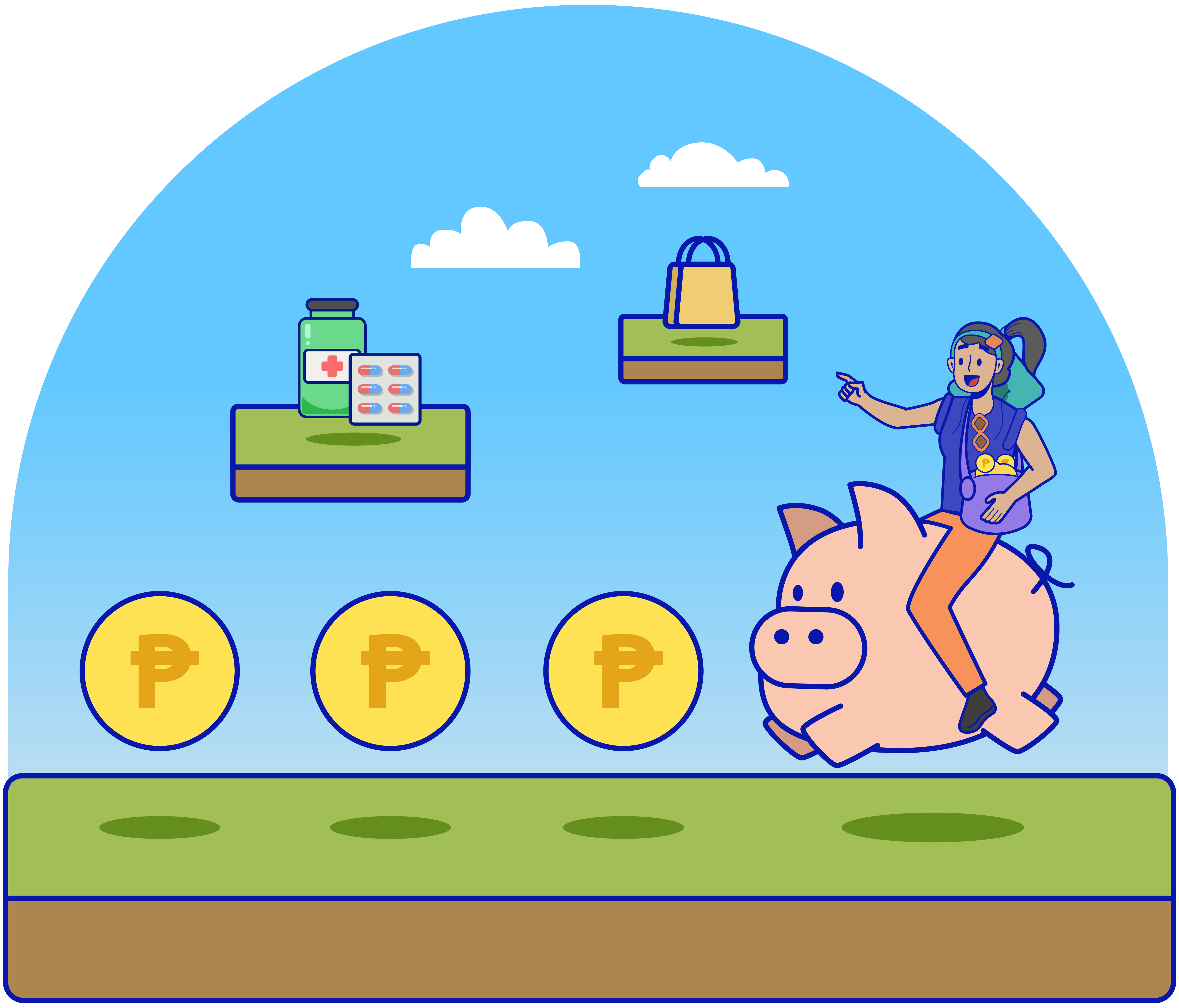
Pros	Cons
• Safe	• After maturity, withdrawing cash requires processing time
• Covered by deposit insurance	• Can withdraw cash early but with penalty fees
• Earns higher interest than traditional savings	• Fixed interest earned
• Fixed period discourages impulse spending	• Higher minimum deposit required

Recommended for savings goals like a down payment for a home, a family vacation, or a College fund

Government "Savings" facilities (e.g., Pag-IBIG MP2)

Pros	Cons
• Earns tax-free dividends • Minimal initial deposit • Government protects and grows the fund	• Can withdraw cash early but with lower dividends

Recommended to add to your long-term savings goals like your retirement.



How to Boost Your Savings

Tips to consider when saving.

Assuming there are no significant changes in your income and expenses, here are ways to boost your savings.

Place money in interest-bearing accounts.
Keeping your money in a bank is a safer and worry-free way of boosting your savings.

You just need to prepare the minimum balance required for a deposit. You also have other options besides a regular savings account like a basic banking account that requires no initial deposit but has a low minimum balance.

Make saving automatic. There are ways to make saving automatic. Some financial services allow you to automate the transfer of a portion of your payroll to a savings account regularly. You can also prompt yourself to save every payday, by simply setting a reminder on your phone's calendar.

Create different accounts for different savings goals. Open an account with a passbook for savings goals that discourages you from accessing your money. You can use this account to save for a long family vacation, or a downpayment for a home or a car. For your emergency fund, a savings account that comes with an ATM card makes for easy cash withdrawal. For long-term savings, find an account that will not let you touch your money for a long time.

Pay off your debt. Set aside money to clear your debt. If you're unable to pay personal loans and credit card dues every month, finance charges and penalties can eat up on your savings. Prioritize paying your debts first, so you don't drain your savings.

Reduce your expenses. As discussed in previous chapters, it is important to be clear about your needs (by this, we mean your essential expenses) and wants (non-essential expenses). If you track your expenses according to your priorities, you will spend less. The "no-spending budget" and "survival budget" are useful approaches to reducing expenses. And with less expenses, you can put that money into your savings.

Use rewards or cashbacks from banks and credit cards. Take advantage of these benefits to save while you spend. Collect those rewards or cash backs from purchases made online or whenever you shop. While these amounts are small, every amount unspent is money saved.

Stay healthy. As the saying goes, health is wealth. Medical emergencies can put a strain on your finances, especially if you don't have an emergency fund. Staying healthy reduces chances for any unplanned spending on hospitalization and medication.

Get insurance coverage. Health insurance is your best protection and financial buffer when you face health issues that require more than a visit to a doctor. Depending on your capacity to pay, health insurance covers certain illnesses, medical procedures, and medications that can otherwise drain your savings. You can also consider insurance to protect your assets, like your home – in case of a fire – and other properties, including your business. More on this topic in the next chapters.

Shortcut

Here's everything we've covered so far.

- It is important to know what you are saving for, so you can set clear and specific savings goals.
- Once you've figured out what you're saving for, it's important to know where you can put your savings. There are several options available to you.
- An emergency fund is the most important savings goal that you should set and aim for. This requires setting aside around 6 to 12 months of your living expenses for individuals, and more if you're married with children.
- There are practical ways to boost your savings using banking products and financial services that are available to you now. Know which one works for you.

READERS' SECTION

Writing Your Savings Goals

Your savings goal should be clear and specific. It should describe what the goal is, the target amount, and your timeline. You can start with this simple activity.

Instructions:

1. Write down your savings goals, each with a description, the amount you want to save, and how long you want to achieve them.

2. Break the goals into smaller chunks so you can do them easier. Make the goals specific and measurable.

3. Calculate how much you can set aside monthly for each goal. Remember to allocate 20 percent of your income to your savings.

4. Finally, be flexible. You can change the items on your list as needed.

Savings Goals	Amount to Save	Amount of Time to Achieve Goal
Example		
1. 4-day trip to Boracay with family of 4	PHP 60,000	Nov 10, 2023
2. New laptop for side hustle	PHP 40,000	Dec 5, 2023

JOURNAL

Save with More Confidence

Now that you know the what, the why, and the how of saving, it's time to read through these questions and reflect on your answers.

Are you saving for emergencies like hospitalization or job loss? If not, why?

Do you know where to save your money and make it grow? Can you describe it?

If you have savings goals for this year, how do you plan to achieve them?

Debt is one person's liability but another person's asset.

- Paul Krugman

CHAPTER 5

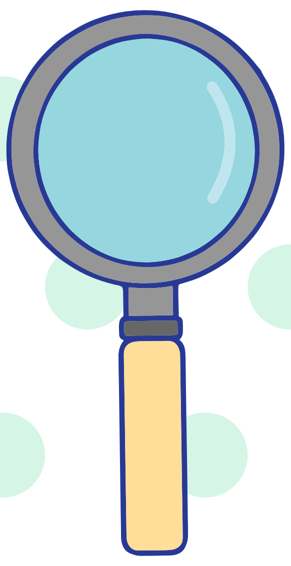
Finding Your Way Through Debt

What you will learn from this chapter:

- What is debt?
- What is good debt? What is bad debt?
- Use your budget to manage debts
- Advice on how to pay off bad debts

In the earlier chapter on budgeting, you learned the importance of allocating money for debt payments.

As you head towards achieving good financial health, you might find your path blocked by debt or *utang*.



DEBT

Debt is money that you borrow and repay later. It is often associated with loans or credit that are used to purchase things you could not afford under current financial circumstances.

You are not alone if you are struggling to pay your debt. People are stuck in the vicious cycle of *utang*, as they struggle to stretch budgets, while others live beyond their means.

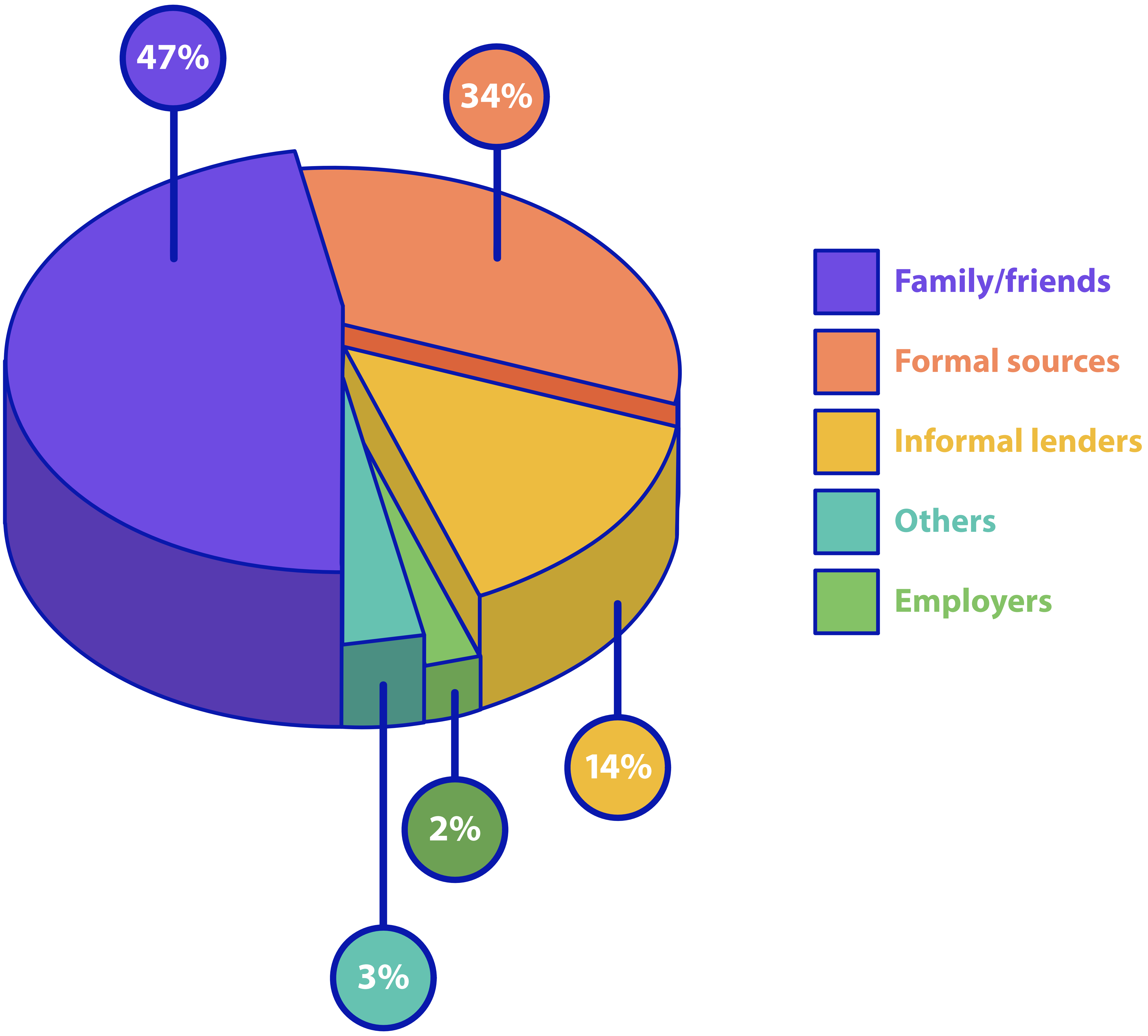
Meanwhile, Filipinos' *utang* culture, penchant for luxuries, *bahala na* attitude, and the need to belong, have also led to family conflicts and broken friendships.

In 2021, a government study showed that over 34.3 million Filipinos, or about 45% of the adult population, had **outstanding or unpaid debts**. Of those in debt, lower-income Filipinos tend to borrow more often than those who belonged to upper and middle-income segments. They borrowed money to cover daily expenses, fund financial emergencies, and pay for other debts.

Among the upper to middle-income Filipinos, they borrowed money to fund their small businesses or to buy a home or a car.

A closer look at government data revealed that a substantial chunk of these debts was not with banks or financial institutions. Instead, Filipinos borrowed mostly from family, friends, or informal lenders.

WHERE DO FILIPINOS BORROW MONEY?



Source: **2021 Financial Inclusion Survey - BSP (Bangko Sentral ng Pilipinas)**

Informal lenders are mostly loan sharks. These are private individuals and companies who are not licensed to engage in lending activities.

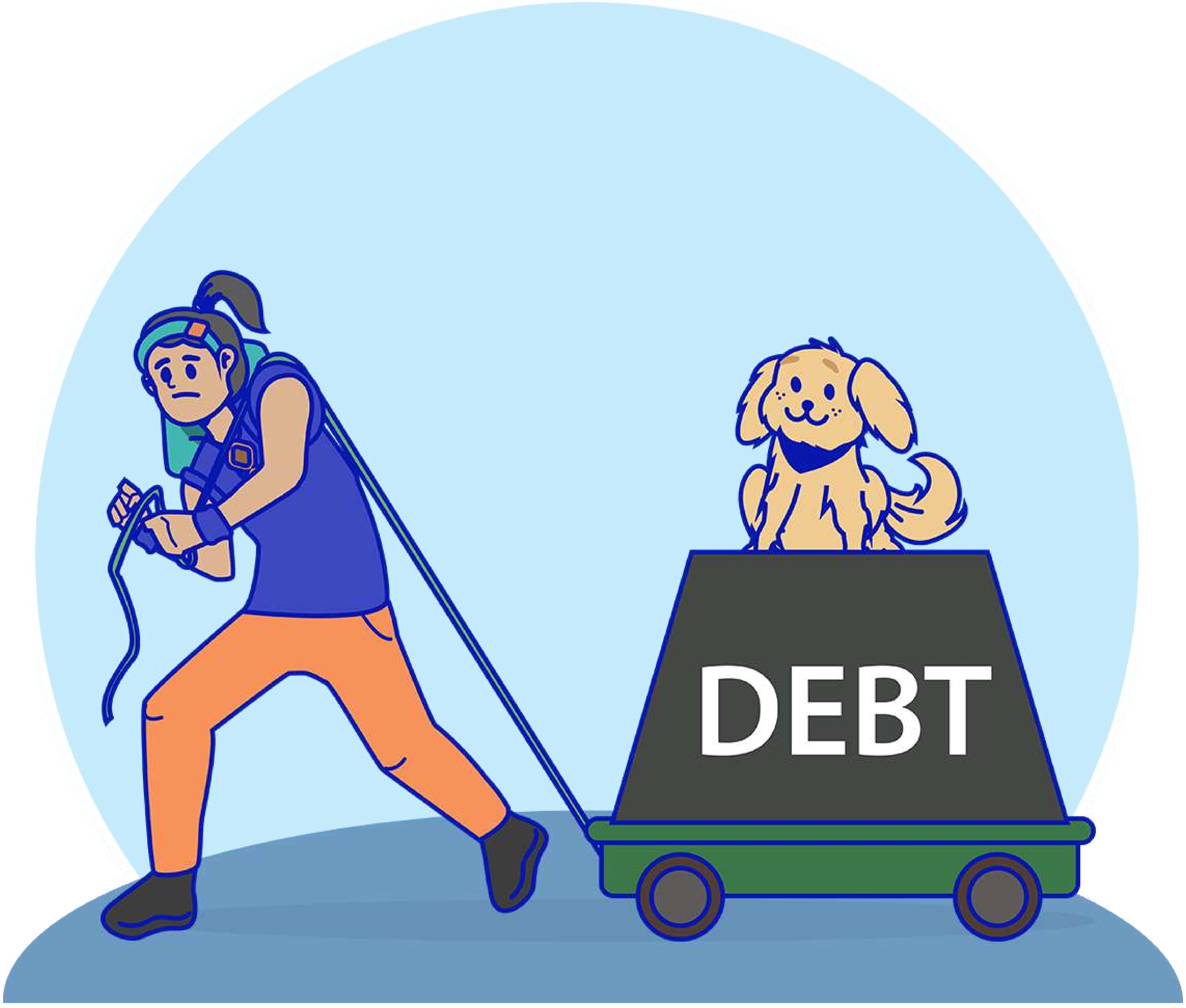
They appeal to low-income Filipinos because they can borrow money without collateral or documentary requirements. This comes with a price. They charge borrowers interest rates of up to 20% or more. This practice, also known as usury, is a crime in the Philippines.

COLLATERAL

Collateral is an asset or item that you own that a lender accepts as security for letting you borrow money. If you are not able to repay, the lender takes the collateral as payment.

USURY

Usury is the practice of charging interest rates on a loan that is higher than the limits set by law or government regulators.



What is Debt?

There are good and bad debts.

What is debt? How different is debt from a loan or a credit? When is debt good? When does it become bad, or worse, ugly?

Debt, *utang*, loan, or credit are interchangeable terms. Loans are associated with banks and formal institutions, where a borrower agrees to repay a certain amount of money over time along with an agreed interest. *Utang* is a Filipino term that means borrowed money.

Ideally, debt or money you borrow should be used to buy things that generate income – for example, real estate, which can be rented out to a tenant or used to set up a business. It can also be something to increase your value in life, such as an education loan to further your studies and open greater employment opportunities.

Here are the most common types of debt:

- A **personal loan** is money borrowed from a bank, a credit union, or any lending firm that is repaid in fixed monthly installments. Unlike a home or a car loan, a personal loan is unsecured, meaning it doesn't require collateral. For unsecured loans, a co-borrower is required. This co-borrower can agree to pay a certain amount of the loan – not the total amount of the loan – if the main borrower fails to do so.

- A **credit card debt** is an unsecured debt. A credit card, typically issued by a bank, lets you buy goods and services with payments settled a month after purchase. The total amount you can spend – also called a credit – is set by the bank. Credit card debt happens when you do not pay the full amount due every month. You are charged with interest, penalties, and other fees on top of the unpaid amount.

- **Home and car loans**, on the other hand, are secured debts that require collateral. With home or car loans, the real estate or vehicle serve as collateral. Until you have paid the full amount of the loan along with interest, both items are considered the property of the bank or lender. If you default on these loans – or can no longer repay the amount borrowed – the lender can repossess these collateral. Under a home loan, the bank can foreclose your property and sell it to a new buyer.

REPOSSESSION

Repossession is the act of retaking possession of a home or car bought through a loan after missed payments.

FORECLOSURE

Foreclosure is a form of repossession but is used to refer to a defaulted or unpaid home loan.

- **Mortgage** is a type of loan where you agree to borrow money to buy real estate and pay following a regular schedule, called an amortization schedule. With amortization, the main balance or the original amount owed goes down over time as you pay a portion of the main balance along with interest. A mortgage is also debt associated with buying a house, a lot, or a condominium.

- **Cash advance** is a short-term loan often offered through a credit card, a bank, or other financial institutions. It allows you to withdraw cash from your existing bank account or via a credit card but only up to a certain amount. For credit cards, the amount is typically a percentage of your credit limit. Fees are often paid when cash advances are made.

- **Employer loan** is a type of loan offered to employees as part of a benefit. This loan is used for different purposes, such as paying unexpected expenses, making large purchases, or even paying off debt. For some companies, it is offered as a perk to attract or retain employees in an organization. For smaller organizations, employees ask for a cash advance on their salary, called a *bale* in Filipino. Payments are then deducted from future paychecks over time.

- **Government loans** are programs that are available to Filipino citizens and is meant to boost the country's economic and social development. These loans are available through various agencies, such as the Social Security System (SSS), the Government Service Insurance System (GSIS), the Pag-IBIG Fund, the Small Business Corporation, the Land Bank of the Philippines, and the Development Bank of the Philippines. They offer different types of loans to members, including personal, salary, calamity, and even housing loans. The other agencies offer business loans that support farmers and fisherfolks. Government loans attract citizens since they offer lower interest and flexible payment terms to members.

Meanwhile, these are the different sources of loans:

- **Microfinancing** is a financial service that offers **small loans to lower-income Filipinos**. These loans do not require a collateral, offer lower-interest rates, and often come with fewer requirements. Banks, usually rural or thrift banks, offer this type of loan to fund small businesses. Recently, financial tech services – also known as fintechs – offer microfinancing through digital lending platforms. With the goal of making it easy and convenient for Filipinos to access small loans, these digital platforms follow a credit scoring system to decide who can avail of these small loans.

- **Cooperatives**, or also known as “co-ops,” are organizations that offer loans to members. Like a community, members pool their money to build a fund for loans. Each member can then borrow money at lower interest rates. Co-ops are not designed for profit. Their goal is to give members affordable access to credit. There are different types of co-ops that serve varying purposes, such as for health, agriculture, housing, and others. They attract unbanked people who are from communities not often served by traditional financial institutions.

- ***Paluwagan*** is an informal savings and credit system practiced by Filipinos. It involves a group of people saving and borrowing money together. Under this system, each member agrees to contribute a fixed amount of money to a pool on a weekly or monthly basis. Each member – often friends and family – take turns in receiving the pooled funds. *Paluwagan* is often attractive for those who don't have access to traditional banking. It is, however, open to fraud, that is when a member runs away with the pooled funds, and default or when members can no longer pay a loan.

- **Pawnshops** are alternative sources of loans because they do not require any credit history.

Instead, you will have to bring a personal item you own as collateral in exchange for quick cash. Pawnshops, however, determine the value of your item and the amount they offer as loan. Compared to other short-term loans, pawnshops charge lower interest, but the assessment of the value of your item is often lower than if you were to sell it to the used-item marketplace. They also attract people who have no access to traditional banking services.

So, when does debt become bad?

- Debt turns bad when you start missing monthly payments and subsequently unable to pay the full amount.
- It becomes bad when it piles up and affects your financial health.
- There are debts, however, that are fundamentally bad like those offered by informal lenders who take advantage of your financial situation. These debts come with

higher interests and terms that are disadvantageous to you.

- You also fall into bad debt if you get trapped in a cycle of borrowing money just to meet your day-to-day needs.

- Debts also turn bad because you've simply borrowed more than you can possibly pay.

Loans can, however, turn bad due to bad practices by predatory lenders. You can find these types of lenders taking advantage of desperate people who are looking for short-term loans.

Lenders of this kind offer loans at extremely high interest rates – up to 20% or more, charge hidden fees, and push deceptive terms that put borrowers at a disadvantage.

These lenders would then harass borrowers for missing payments, causing financial distress to borrowers, their family, or even friends who are often listed as co-borrowers. If the main borrower can no longer pay, these lenders intimidate co-borrowers to settle the unpaid debt.
They go as far as shaming and threatening

borrowers with legal actions like taking away a collateral of their choice.

There are also so-called payday loans, where borrowers take out short-term loans again with high interest and fees. This lending scheme requires borrowers to provide post-dated checks, access to their ATMs, or even their e-wallets to repay loans on their next pay day.

Considered a bad practice, payday loans done out of ATMs or authorized electronic fund transfers allow lenders to withdraw funds along with interest and fees directly from the borrower's accounts.

One bad lending practice targets overseas Filipino workers (OFWs). Lenders, mostly loan sharks, use the OFWs' passports as "collateral" in exchange for a small loan. This practice puts Filipinos at risk of becoming a victim of identity theft or fraud.

Scams are also making their way into cash advance types of loans. Lenders offer loans in exchange for a fee or advance payment. They ask borrowers to send money through an ATM, wire transfer, or electronic fund transfer, and then disappear without providing any money. Sadly, people who are desperate for cash fall victim to this type of a lending scam.

Finally, there is the practice of loan flipping, where borrowers are encouraged to take multiple short-term loans, one after the other, often done via an ATM. This practice eventually traps the borrower in a cycle of debt, with each new loan adding to the overall debt load.

These are just some examples of bad debts that you should be cautious of. It is often good practice to do your own research and a background check on lenders and their loan practices before you transact with them.

What Can You Do to Manage Debt?

Start with a budget.

Your journey to good financial health starts with a budget. The same thing goes for your journey to freedom from bad debt.

In Chapter 3, debt payment is considered an expense in your budget. Simply put, your budget should have debt payments tagged under the essential expenses category.

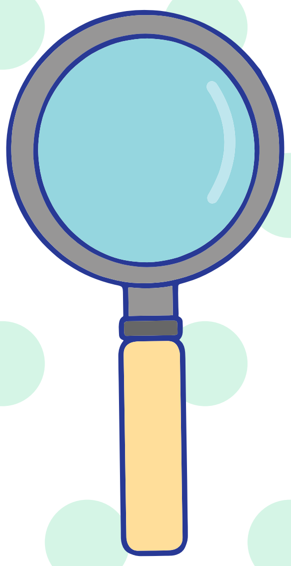
So paying your debt regularly should be a priority when it comes to managing your money.

While savings and emergency funds are important too, you may temporarily reduce or put them off to prioritize debt payments, or at least balance it out to favor settling dues on time.

Debts come with interest. They tend to be higher than interest you earn in a savings account. So, prolonging your debts decreases your ability to save and invest. The sooner you can pay debts, the faster you can get back on track.

Your ability to pay off debt is a good barometer of your financial health. Being able to budget for it and paying it as scheduled means you can build your savings, emergency funds, and investments sooner.

Paying off debt is also a consideration in building and improving your credit score.



CREDIT SCORE

A credit score is a system used by banks and lenders to help them decide whether you qualify for a loan or a credit card. Several factors are considered including your loan payment history, your current debts, your available cash savings, among others.

Discussion on credit score and how it affects your credit standing will be tackled in the next chapter.

People Dealing with Bad Debt

Here are stories from real people with real debts.

Now that you know the difference between good and bad debt, let's look at these stories of Filipinos dealing with debt.

Jet, a 40-year old husband with three children, found himself saddled with his father's business debts. This was in 2020 when his father suffered a stroke. Sadly, his father's company racked up over PHP 5 million in debt to suppliers.

Jet became responsible for his father's debts and for keeping the business afloat. He was forced to use the family's savings and sold their condominium studio unit to pay off his father's hospital bills. He and his wife are both working in corporate jobs.

He currently has about PHP 3 million of his father's debts to pay, which he aims to settle in three years.

Meanwhile, we have Rhea, a 34-year-old overseas Filipino worker and a single mom. She is one of many Filipinos who turned to informal lenders and their employers for loans.

Rhea makes around PHP 36,000 a month as a domestic helper. She admitted to borrowing money from her boss as part of a salary advance (also known as *bale* in Filipino), and sometimes from loan sharks, to remit more money to her elderly mother and daughter living in her home province.

Stories of Jet and Rhea show that breaking the bad debt cycle and achieving good financial health in the Filipino setting is a family affair.

Breadwinners should have an open and honest discussion about finances with all members of the family, so that everyone can make informed and responsible decisions about earning, spending, lending, and borrowing money.

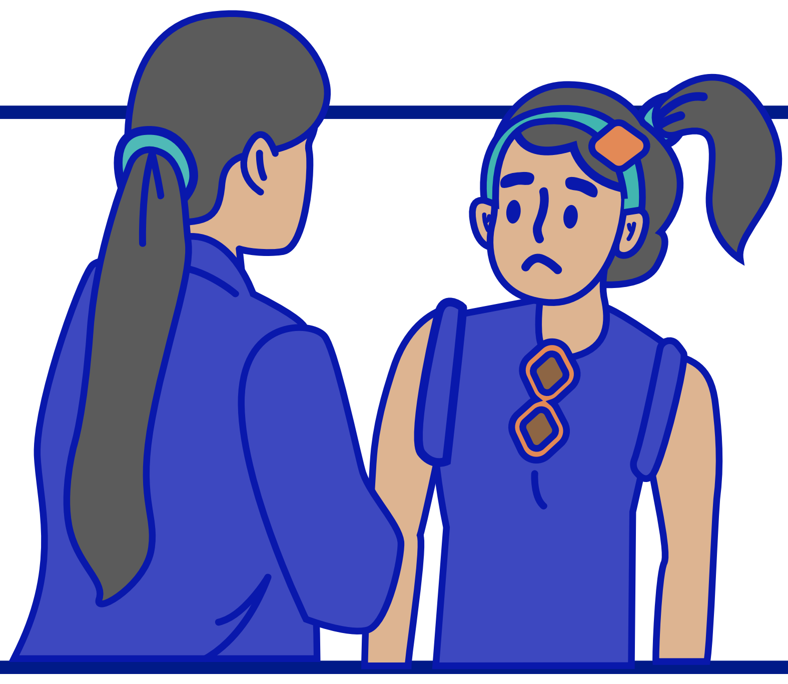
Since Jet and Rhea are saddled with debts, they should consider taking the next set of advice on how to manage debts with special attention to paying off bad debts.

If you have a similar story about dealing with debt, please drop us an email at ***moneybility@metrobank.com.ph.***

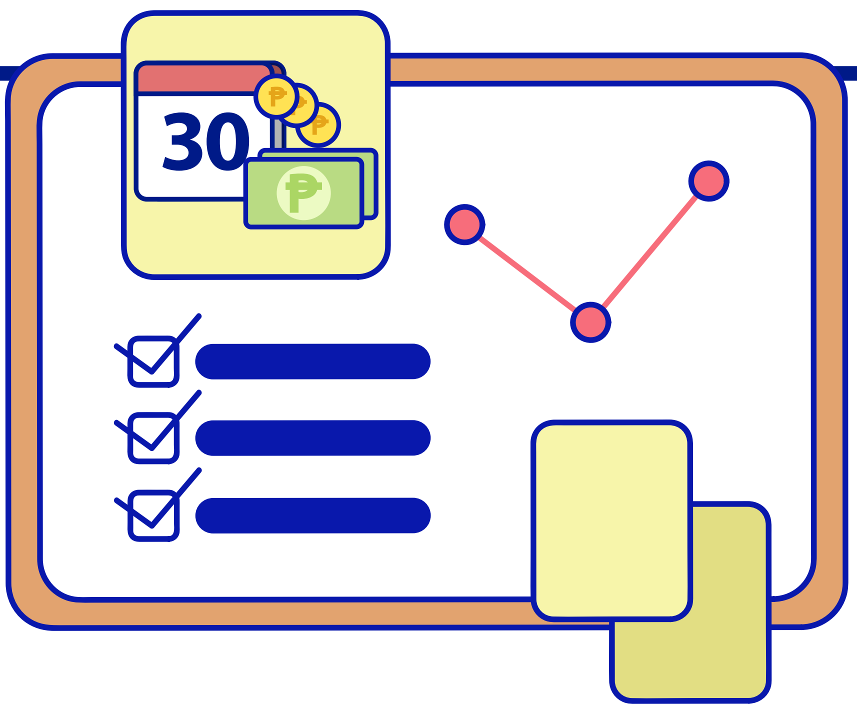
TALKING TO YOUR FAMILY ABOUT DEBT

Talking about money among family members can be difficult, more so if it's related to debt. But debts can affect your family's way of life, so it is only practical and necessary to tell them about it. Here are quick tips on how to talk to your family about debt:

1. **Be honest**
If you are in debt, your family must know. This will help them understand your situation.



2. **Commit to a plan**
Tell your family that you are paying off your debts. Be diligent in pushing through with your plan.



3. **Set boundaries**
Implement necessary changes, like setting budgets on your grocery and utility expenses.

4. **Ask for their help**
Other employed members of your household can pitch in to pay for expenses. Meanwhile, others can do their part by lessening their spending.

Practical Ways of Paying Off Bad Debt

Advice on dealing with debt.

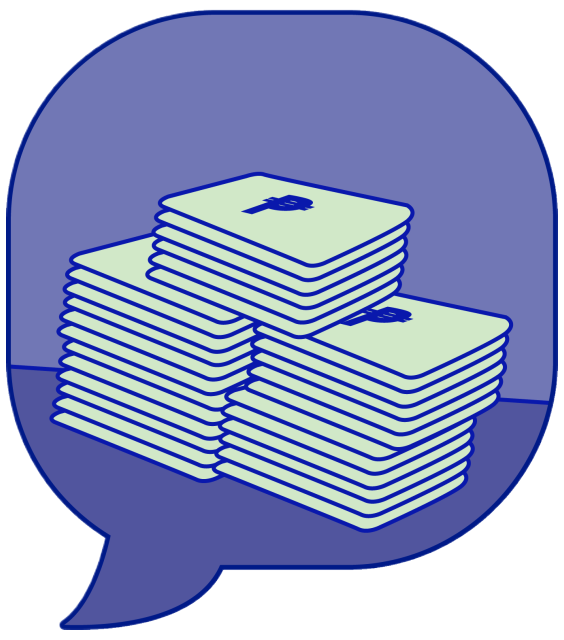
Dealing with debt is a tough and stressful experience. But it is an experience that you may deal with at some point in your life.

Whether you're dealing with credit card debts, car loan, mortgages, or even bad debts, there are several steps you can take to better manage it.

Assess your debts. First, assess the extent of the debt problem. Account for all your debts, including the balances owed, interest rates, and monthly payments. Doing this gives you a clear picture of the total amount of money you owe, and how much you need to pay and raise each month.

Create a budget. Dipping into your savings is a bad way to start. Recalling Chapter 3, creating a budget is critical to managing debt. In your monthly budget, list down your monthly income and expenses, and decide how much you can give towards paying off debts. When you prioritize your debts, pay off those with the highest interest rates first. Another choice is to temporarily reallocate some of your money meant for savings to reduce debt.

Negotiate with lenders.
If you are struggling to settle your monthly payments, call up your bank or lender and negotiate new payment terms. Find a way to reduce your interest rates or extend your payment period.



Negotiate to also shorten the length of your loan. Longer loan terms may seem better because of the lower amount you pay every month. But the extended time means you end up paying more in interest. Shorter loan terms may mean higher monthly payments, but you pay less interest. So, it pays to be honest about your financial situation but explain your desire and your plan to pay off your debt.

Consider debt consolidation. If you are dealing with multiple loans, opt for debt consolidation. Do your research. Talk to banks or lenders who are willing to accept your debts and even offer advice on ways you can combine loans into one with manageable interest rate. Consolidation lets you take out one loan that is designed to pay off all loans. In this way, you can focus on repaying one lender every month.

Debt consolidation is an option among those who have multiple debts since you can negotiate for a lower interest rate than all debts combined. This is another option you can negotiate with your lender or your bank, where you can opt for a lower interest rate once debts are combined.

Look for expert and professional help. If you are deep in debt, find professional help from a credit counselor or a financial advisor from your bank. They can supply and create a plan for managing your debt, and even strategies and practical advice for reducing your debt and improving your overall financial health.

Dealing with debt is a challenging experience, but by taking these steps, you can take back control of your finances and hopefully be able to sleep well at night.

Here are other practical actions you can take to avoid getting into bad debt:

- Always check your financial health and prioritize your goals.
- Track your expenses and income, and live within your means.
- Pay in cash when making purchases. If you are a credit card user, settle the total amount on time, and in full, if you can.
- When consolidating debts, negotiate for lower interest rates, if possible.

- Avoid borrowing money to buy things that lose value over time, such as the latest smartphone, unless it's something you need to significantly improve your way of life, such as a car that can get you to work more safely and comfortably.

- Work on building up your credit score.

- Build an emergency fund.

- Get insurance for emergencies, such as accidents, illness, fire, or death.

- Save up for big purchases, especially for non-essentials. Create a separate savings account for expected large expenses such as weddings, milestone events, or vacations.

- Don't be pressured by peers, family, and relatives.

- Avoid going into new debt to pay another debt. If you can, avoid taking on more debt.

- Identify debts that are just fundamentally bad. Hint: interest rates are sky-high.

Shortcut

Here's everything we've covered so far.

- Filipinos suffer from *utang* culture. Low-income Filipinos borrow money to cover daily expenses, emergencies, and to pay off other debts. Mid- to high-income Filipinos borrow money to improve or increase quality of their lives.

- There is good debt and bad debt. Good debts help you improve your financial health and bring you towards wealth building, while bad debt can harm your financial health. There are debts that are fundamentally bad, such as loans from informal lenders.

- Managing debt involves starting and sticking to a budget. Paying off bad debt should be a priority so you can get back on track to good financial health.

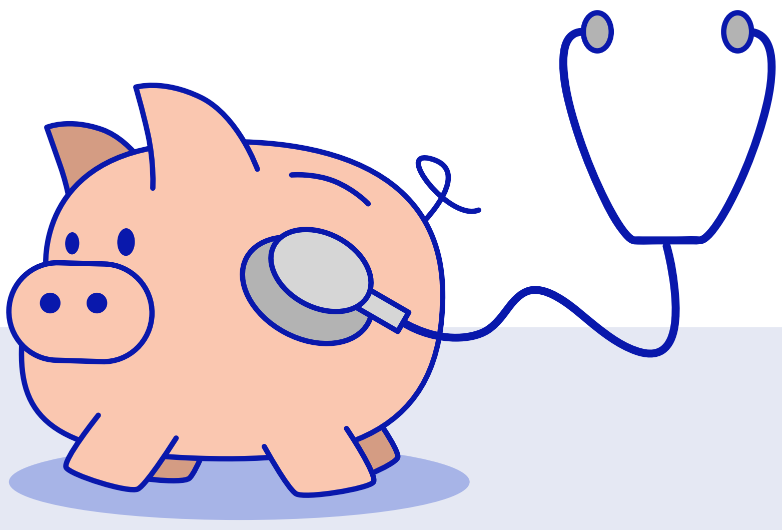
- Many Filipinos, regardless of how much they are earning, deal with debt. But as some real stories of people reveal, dealing with debt is not easy and needs to be a family affair.

- Finally, there are practical ways of dealing with debt. Start by assessing the extent of your debt and committing to a plan on how to pay it off. Always seek professional help.

READERS' SECTION

Create a Debt Payment Plan

You need to be patient and disciplined to get out of debt. Follow these steps and move closer to achieving better financial health.



Instructions:

1. Gather all records of debt to see how much you owe, and to whom.

2. List them down. Include the lender, balance, interest rate, and minimum payment.

3. Prioritize debts with highest interest rates first, while making minimum payments on other debts.

4. Choose what items you can cut back to free up cash. Pay attention to non-essential expenses and see what you can save.

5. Set specific goals and a timeline for paying each debt. Then track your progress.

Debt/Loan Description	Minimum Monthly Payment Required	Starting Balance	Actual Amount Paid	Date Paid	Ending Balance
Example					
1. Hospitalization of Mom	₱12,000	₱120,000	₱12,000	Jan 2, 2023	₱108,000
			12,000	Feb 2, 2023	96,000
			12,000	Mar 2, 2023	84,000
2. Home damage repair	₱5,000	₱ 40,000	₱5,000	Feb 15, 2023	₱36,000
			5,000	Mar 15, 2023	31,000

JOURNAL

Think About Debt

Now that you know the difference between good and bad debt and how to manage bad debt, reflect on these questions and write your answers below.

Do I have the tendency to spend money I don't have? If yes, why?

Why can't my emergency fund cover unexpected expenses and medical emergencies?

Do I know the difference between good or bad debt? If not, why?

Some people want it to happen,
some wish it would happen,
others make it happen.

\- Michael Jordan

CHAPTER 5

Paving the Path to Understanding Loans

What you will learn from this chapter:

- What are loans?
- Why do you need to take out a loan?
- When and where can you take out a loan?
- Some tips on how to take out a loan

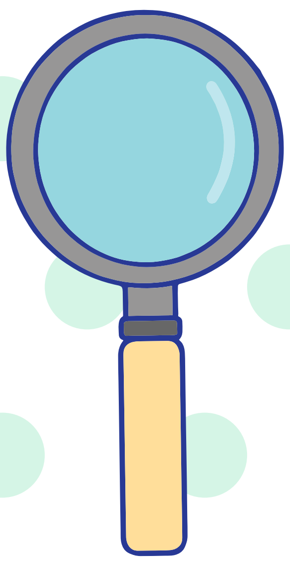
If you recall from Chapter 5, having bad debts can hinder you from achieving good financial health. Bad debts interfere with the savings portion of your budget, and thus affect your savings goals. It becomes even more difficult if you have a family, and if you are the sole breadwinner.

To avoid bad debts, you need to build financial discipline, which includes knowing how to budget, how to save for future needs and financial emergencies, and how to pay what you owe in full and on time.

There will be a time in your life when loans become essential to you. Loans are used to help fulfill milestones like buying a home, affording a car, or even growing a small business.

There will be a time in your life when loans become essential to you. Loans are used to help fulfill milestones like buying a home, affording a car, or even growing a small business.

Loans bring long-term value when it enables you to level up your skills or even fund the operations of a small business to accommodate more customers.



LOAN

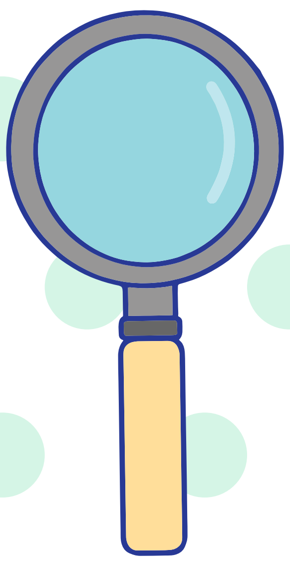
A loan is money you borrow that comes with interest.

As a borrower, you are expected to pay back the equivalent of what you borrowed with interest. Moreover, a loan is made up of:

- The **principal** or the original amount of money that you borrowed
- **Interest** or the amount of money collected on top of your principal during a loan term
- **Loan term** or the agreed time that you must pay back a loan

Two types of loans are available to you: one is a secured loan, which requires collateral, an asset of item that you own that a lender accepts as security for letting you borrow money. Common collaterals accepted for secured loans are usually real estate and deposits.

The other is unsecured, which is offered as a one-time amount, or an amount that can be paid back gradually. It may also require a guarantor.



GUARANTOR

A guarantor is another individual that promises to pay back a loan if the original borrower fails to pay it back.

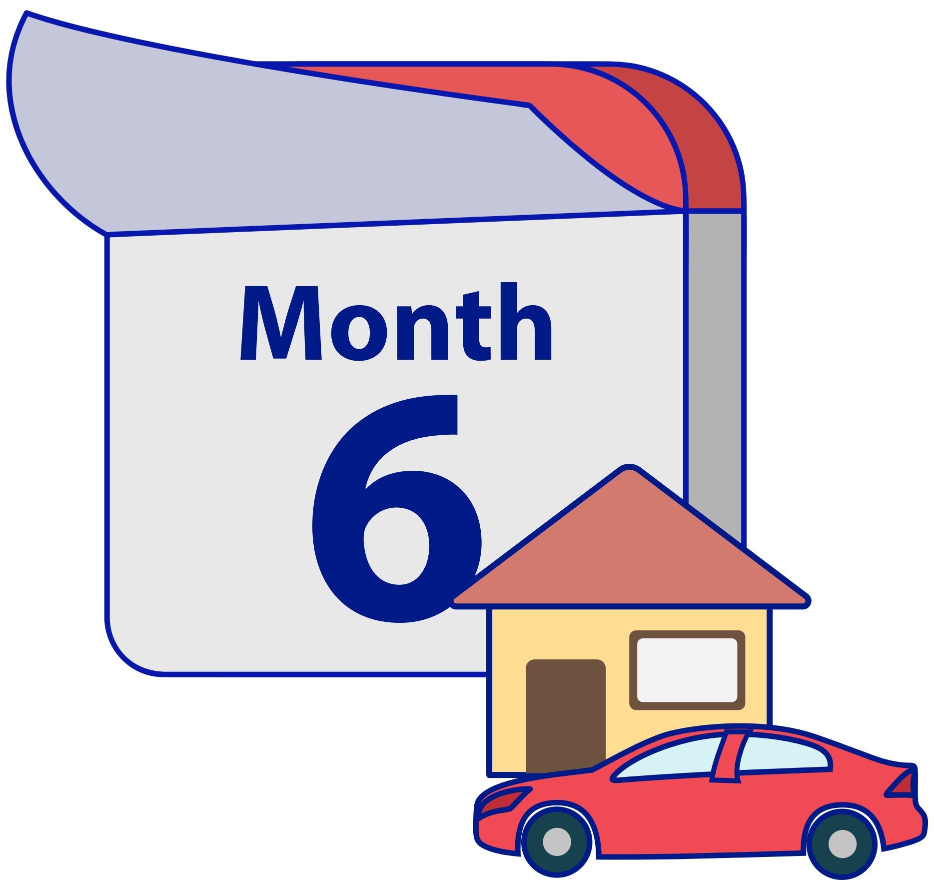
Why Do You Need A Loan

Loans help you achieve short and long-term goals.

There are various reasons for you to take out a loan. The more common reasons include securing the additional amount you need for a downpayment for a new family car, or additional funding for education or a small business.

Depending on your current financial situation, a loan can help you achieve your personal financial goals. A loan can also help augment your income when your savings are not enough to cover the cost of a big-ticket purchase.

Loans provide access to additional money that your income could not fulfill at a certain time in your life. And since it is borrowed money, you can pay it back based on a chosen schedule.



The longer you choose to pay back a loan, the higher the interest or the total amount of money charged on top of the original amount you borrowed. In this instance, this is where you multiply the Principal x Interest Rate x Time. So, no matter how small the principal is, and no matter how small the interest rate is, if you are paying off a loan for a longer period, you will end up paying back the lender a higher amount.

These are other reasons why you need a loan:

Buying a car for convenience or a house for security. When you decide to have a family, buying a new car or a home are life goals that you want to achieve. Remember, while a car's value goes down due to wear and tear, it offers a means to go to work (and skip stressful commutes) or have road trips for the family. There are also psychological benefits like having some peace of mind and comfort that come with having a house that you can call your home.

Securing your children's future. If you have children, savings may not be enough to cover additional educational expenses. While saving up for your children's education is essential, you may not have enough for higher education, which costs around PHP 250,000 a year in a Philippine university. A loan can help supplement your current income, and thereby help manage your budget.

Loans covering an emergency. Setting aside money for an emergency fund must come first. But if it's not enough, you can take out a loan to cover unexpected events in life due to medical and non-medical emergencies, natural disasters, or even personal accidents.

Starting a small business or upskilling. If you are planning to run a small business, a business loan is something you can consider. The loan can pay for buying the necessary equipment, supplies, or even rent, that comes with setting up a new stream of income. This loan can also later fund expansion or the upgrade of your equipment and facilities. Make sure you have a sound business plan that sees your business grow with the help of the loan, while the income that the business earns will hopefully pay for the loan.

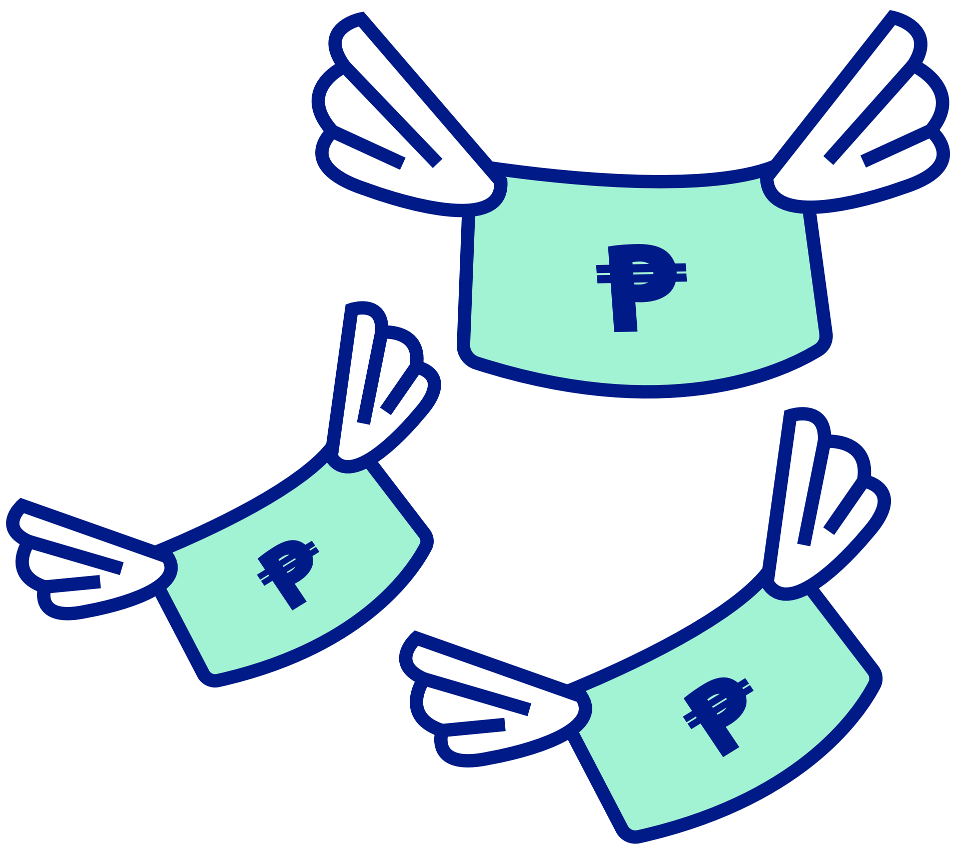
Would you rather pay in cash?

Some prefer paying in cash rather than taking a loan. So, what is the upside of paying in cash versus taking a loan?

- When paying in cash, you are not charged any interest. You only pay for the actual price of an item.
- Discounts are given when you pay in cash for a big purchase like a home or a car.
- Paying in cash forces you to spend within your budget.

Meanwhile, what are the downsides of paying in cash?

- It may drain your savings if you do not set aside money for specific purposes.
- You may not have enough cash to pay for an item.
- It is inconvenient and unsafe to carry around a lot of cash. You might lose it to theft or neglect.



When and Where Can You Get A Loan?

Things to consider when a loan is the only option.

You need to weigh your decision before taking out a loan, especially if you have heard about other people's bad experiences. But if you have financial goals that require a large amount of cash, then you should consider taking out a loan.

Before you start heading to a bank or a lender, here are some things to consider when taking out a loan, whether as a first-timer or as a repeat borrower:

Review your current financial health. From the lessons in Chapter 2, you need to look at your financial health first. Do you have existing debts, which you need to prioritize and pay off soon? Can your emergency fund cover unexpected expenses? Can you use your savings or extra cash to pay for a big purchase?

Define the purpose of your loan. Are you borrowing money to buy a car, a home, or to fund an education or business? Make sure your loan's purpose is clear. But consider that loans should help improve the quality of your life or will generate economic value for you, such as learning new skills which can help you get promoted in your job. Do not be tempted to loan to buy non-essential items during mall-wide sales or online shopping promotions designed to make you spend more than you can afford.

Determine your capacity to pay a loan back.
Is your current income enough to pay for the money you will borrow? Do you have other assets that you can put as collateral? After you have checked your sources of income and your monthly budget, see if you have enough to take in a loan. If you are diligently budgeting, adjust it to fulfill your loan payments.

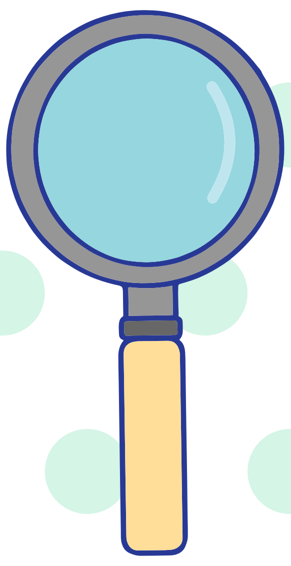
After the considerations above, know where you can borrow money from.

Banks offer a wide range of loans, from personal to home and car loans. Banks are regulated by the Bangko Sentral ng Pilipinas (BSP), so they follow strict requirements for evaluating borrowers, so that these borrowers can repay what they loaned. Banks also request collateral or a guarantor.

Lending companies are legitimate lenders that offer small loans to individuals and small-to-medium businesses. Their loan terms are short – from a month to up to 12 months, depending on the loan type. The interest rates, however, are usually higher than that of commercial banks.

Government institutions like the **Social Security System**, the **Government Service Insurance System**, and **Pag-IBIG** also offer multi-purpose loans to member individuals. The purpose of the loan varies from personal, home, or even expenses related to a calamity. The Department of Trade and Industry, the Department of Science and Technology, and the **Small Business Corporation** extend loans to small businesses in the agricultural and food sectors.

Lending institutions, specifically banks, use the debt burden ratio (DBR) to compute the loan amount you can repay, including the amount you can borrow. This is shown as a ratio of the needed loan payments to your monthly income. Lenders often use this to gauge if you are a capable borrower who can qualify for a loan, or someone who may not be able to commit to payments and is prone to default on a loan.



DEBT BURDEN RATIO

The debt burden ratio or DBR is your total monthly loan payments divided by your monthly income. It is expressed in percentage. The higher the DBR, the less your financial capacity to pay for additional loans.

DEFAULT

A default happens when a borrower stops paying debts due to lack of funds.

To understand your DBR, let's look at your monthly income and your total monthly loan payments. Let's say you are earning PHP 50,000 a month, and you are paying PHP 35,000 for loans every month, your DBR is at 70%, which is high. Given this DBR, a lending institution may give you a lower loan amount to make sure you have the money to repay the loan. The lender may also decide not to give you a loan at all.

Personal finance experts vary in their recommendations on the acceptable total monthly loan payments. As a guideline, your total loan payments should be in the 30%-35% range of your monthly income. If you can keep your total monthly repayments at that range, this will give you enough elbow room to pay for your essential expenses while saving or even investing.

So whatever reasons you have for taking out a loan, remember that you must first have the financial discipline and capacity to pay it back on time, and in full.

So whatever reasons you have for taking out a loan, remember that you must first have the financial discipline and capacity to pay it back on time, and in full.

Would you consider a brand new or used car?

Car loans are among the most popular types of loans in the Philippines because a car can provide you the mobility to bring you to work and conveniently take your children to school. However, you will need to bear responsibility for its care, which can be costly. Now, would you consider a secondhand car instead?

A brand-new car is often the first choice because of several advantages. There are few or no mechanical issues because parts are new. There is also a warranty from the manufacturer if there are issues. Overall, you have peace of mind that the car will run smoothly.

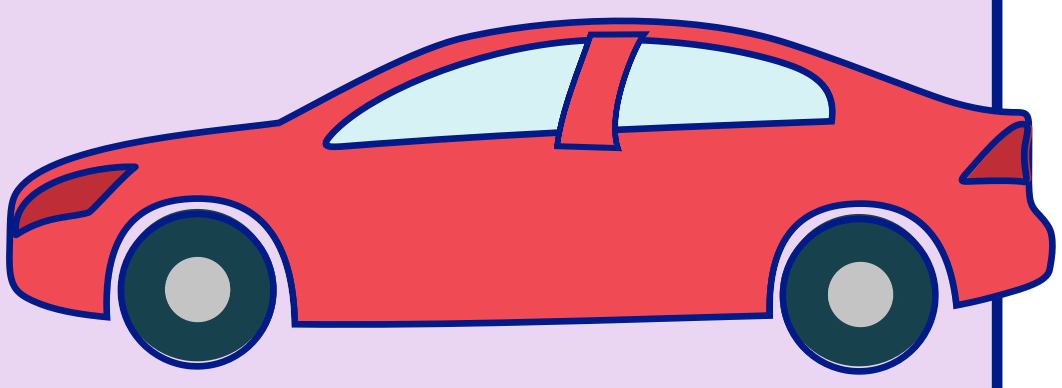
However, a new car comes with some disadvantages. It is more expensive, and if it was bought using a loan, the lender technically owns the car—not you—until you pay it in full and on time.

Meanwhile, a secondhand vehicle costs much less to buy, insurance costs less, and a well-maintained vehicle can work like it is brand new. Some of its disadvantages are mechanical failures due to wear and tear for older cars, requires more regular maintenance, and the transfer of ownership can be time-consuming.

If you are planning to buy a secondhand car, make sure you get it from a reputable dealer. If you are eyeing a used car from a private seller, you should do your homework on the car's mechanics or state so you would not be purchasing one that was flooded, stolen, damaged from a major accident, or have other issues that were hidden by a fresh coat of paint.

A secondhand car is relatively new if it is less than five years old, have only traveled an average of 10,000 kilometers per year, and is well and regularly maintained by the owner.

So, whatever your decision will be, there are loans available for purchasing a brand-new vehicle or a used one. Car loan experts vary in their recommendations as to how much of your income should go to car loans. Some recommend that it should be about 30%. But to avoid putting you in a difficult situation, 15-20% of your income should go to paying for a car loan.



What Lenders are Looking For

Improve your chances of getting a loan.

You are just a few steps away from getting a loan. Now that you know what and why you need to take out a loan, you need to prepare to face the person or people who will decide if you qualify for a loan or not.

There is a set of factors that can help lenders decide if your loan application is worth the risk or not. Knowing these can help you improve your chances of getting a loan.

Do you have collateral? Some lending institutions, especially banks, require collateral, which a lender can possess if you fail on your payment obligations. When you apply, take note of the assets you own that have measurable value, like real estate or a car.

Do you have capital? This is often asked by lenders for business loan applications. Capital refers to financial resources or assets that can be used to generate income. In the case of a business loan, lenders want to know if you have available cash and assets that could be used to fund your business.

Do you accept the conditions of the loan? If you are getting a personal loan, the lender will ask for more details about the purpose of your loan. If it is a small business loan, you will be asked about your business' revenues, growth opportunities, and potential risks. This evaluates if the loan would grow your business while ensuring returns.

Do you have the capacity to pay the loan back? Simply put, you have the capacity if your current income is enough to pay for your debts. A lender often asks for proof of your capacity to pay on an agreed payment term. Show the computation of your income and existing loans using the DBR method.

Do you have the right character profile to qualify for a loan? Character refers to your overall reputation, credit history, and personal background. If you are a first-time borrower, you need to build your credit history, for example. So, it is often good to start by showing previous loans, if any, or if you have a credit card and pay your monthly dues on time. As you grow your credit history, lenders would be more confident in granting you loans.

Stories of people who took out loans

The following stories are examples of people who took loans from a bank or a lending institution. Their motivations vary from one another, but each one weighed their decision and had good reasons to finally borrow money.

Story #1

Lee, a 35-year-old bank officer, was recently promoted. Her promotion boosted her monthly income to PHP 95,000 a month. She saved diligently and managed to put together PHP 1.5 million to pay for a condominium unit, which was worth PHP 3 million. Her savings were more than enough to cover the downpayment but she needed another PHP 1.5 million to pay for the rest of the cost to purchase the property.

So after carefully evaluating her financial situation, she decided to get a bank loan to cover about half of the condominium's cost. She used her savings to cover the downpayment and took a long-term loan for the remaining cost from a bank. She eventually managed to get a 10-year loan term at a 3-year fixed interest. This loan amounted to PHP 18,000 in monthly payments for the first 3 years. After which, she plans to negotiate with the bank for lower interest. All in all, her monthly loan took 19% of her monthly income, a manageable amount if we are to look at her DBR.

Story #2

Anne, 39, started an online business selling eco-friendly home products. She earns PHP 40,000 in monthly net sales. To help expand her business, she needed PHP 200,000 to rent additional warehouse space, buy additional stock of her products, and hire a part-time assistant for three months. She updated

her business plan, which incorporated the additional cash infusion from the loan. The business plan highlighted that the loan could add about 70% of the existing monthly revenues to her business for the first three months. This amounted to PHP 68,000 in added monthly income.

She managed to get a business loan from the Department of Trade and Industry (DTI). The loan was for 12 months with an interest rate of 2.5% per month. Anne paid PHP 21,666 monthly. While her income was still relatively low compared to the monthly loan amount she was paying, she expects to grow her income due to long-term benefits from the loan.

Whether you are trying to get a loan for the first time or need to adjust your existing loans due to unforeseen changes in your financial situation, there is no substitute for coming in prepared. Here are practical ways to negotiate for a loan:

- **Be ready.** Do your homework. Ready relevant documents like proof of income, bank statements, income tax return, and a valid ID. If you are renegotiating your loan, bring updated information about your financial situation. Remember to calculate your DBR and show that your loan payments are within 35%.
- **If it is required, ask for help from a guarantor.** Bring your guarantor's signed letter and their identification documents to help convince the lender of your sincerity and seriousness in using the loan.
- **Create a payment plan.** A payment plan details how you intend to pay back the loan, including how much of your income should go to the loan every month. When you negotiate with your lender, always ask for extended payment terms or lower interest rates by stating key reasons, such as your capacity to pay, the value of your collateral, or even potential returns from the loans you are asking.

- **Relax.** Borrowing is like applying for a job. Your confidence can also have a huge effect on the person's perception of you. Your lender wants to have an assurance that the person he or she is giving the money to is more than capable of using the amount and paying it back.

- **Have a list of lenders in mind.** If you do not get approved the first time, try others. Always have a list of lenders who you can approach. It does take a while to look for one who is willing to lend you what you need. Once you do, always remember to commit to the terms you agreed with the lender. You will never know if you need to ask for a loan from the same lender again.

Shortcut

Here's everything we've covered so far.

- You need loans to secure funding for life's important milestones like buying a car, or home, or scaling up a business.
- Make sure you are borrowing from lending institutions, such as banks and government agencies, that are regulated by the Bangko Sentral ng Pilipinas or Securities and Exchange Commission.
- Loans are financial products that can help improve the quality of your life, especially if you are using them for education or to fund a small business that would generate income for you.
- Before taking out a loan, review your current financial goals, define, or describe the purpose of the loan, and check your financial capacity to know if you can pay the loan back on time and in full.
- Be prepared to negotiate with a lender. Ready relevant documents and updated information about yourself before you start negotiations.
- If you plan to buy a home or a car, how much can you afford to loan? Would buying a secondhand car be a better option for you, if you decide to forego a loan instead?

READERS' SECTION

A simple way to track your loans

It is easy to forget how much of your loans you need to pay every month. Here is an easy way to track them.

Instructions:

1. List down all your loans.

2. Split the three details: principal amount, loan term, and interest rate.

3. Use a free loan calculator to compute your loan payments.

4. Then, write down your monthly income and compare it with your loans.

5. Check your debt burden ratio = monthly loan payments/ monthly income. The percentage should not exceed 35%.

Loan Type	Principal	Annual Interest Rate (%)	Loan Term (Months)	Monthly Amortization
Example				
1. Car loan	₱500,000	30.26%	60	₱7,598
2. Home loan (first 5 years)	₱2,500,000	6.75%	120	₱28,706
			Total monthly loan payments (B)	

Debt Burden Ratio Calculation	Example	
Monthly income (A)	₱110,000	
Monthly loan payments (B)	₱36,304	
Debt Burden Ratio (A/B)	33%	

*35% is the maximum acceptable debt burden ratio

JOURNAL

Borrow with Confidence

It is better to understand what your short-term and long-term needs are, and if they can provide you with happiness and satisfaction. Remember, borrowing money requires financial discipline so you can pay it back in full and on time. Start with your goals.

What are your financial goals, and can you afford them?

Are you earning enough to achieve these financial goals?

To achieve your financial goals, should you take out a loan, and can you pay for it?

Congratulations! You're halfway into your journey, as you embark on the more rewarding part of becoming financially healthy.

As you can see, we're changing, too. For the remaining chapters of Moneybility, we're getting a new look to go along with one of our goals to enhance your experience with understanding money.

We hope you're just as excited as we are. After seeing the new look, please take some time to answer the survey at the end of the book.

There's no harm in hoping for the best as long as you're prepared for the worst.

\- Stephen King

CHAPTER 7

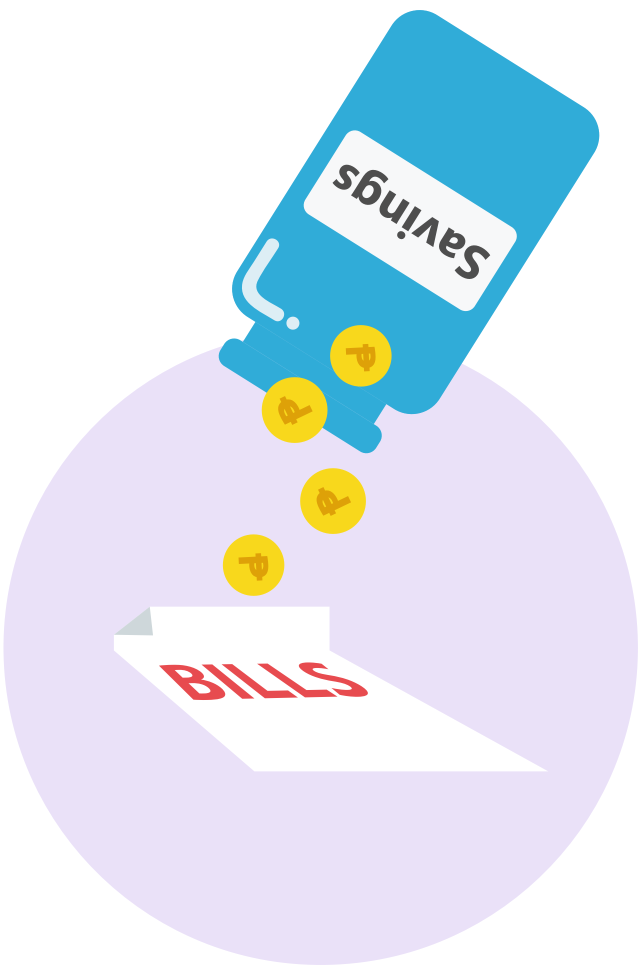
Insurance: Protecting You From Unexpected Events

What you will learn from this chapter:

- Why you need insurance
- What are the benefits of insurance?
- What you need to protect
- When should you get coverage?

Now that you've learned good budgeting and saving habits, dealing with debt, and how to make loans work for you, let's see how you can protect yourself, your family, and the gains you've made on your financial journey.

Mika, 26, single, and a corporate employee, didn't think she needed health insurance because her job comes with health benefits. However, when the pandemic struck, she fell ill and her health benefits were not enough to cover mounting medical expenses. Exhausting much of her personal savings, she decided to borrow money from her family and her employer to settle the additional hospital cost, which reached



PHP 1 million after being confined for weeks. A health insurance could have protected her from this unexpected expense that drained her savings.

Government data shows that 41.5% of the total health spending of Filipinos in 2021 were "out-of-pocket" payments, or spending that comes from their own savings and money borrowed from friends and family. Meanwhile, more than 50% of total health payments were for the government—through PhilHealth—and other so-called compulsory healthcare financing programs. Only 8.2% of Filipinos were voluntarily paying health insurance from private organizations.

Employed Filipinos are required to contribute regularly to PhilHealth, a government agency that provides health insurance to members. This government insurance, however, provides minimal protection and benefits, such as hospitalization and reimbursement of doctor's fees or medical costs.

Filipinos' negative perception of insurance is born out of the perception that the cost of getting one is expensive. Due to low financial literacy and misperceptions especially among those who have lower average incomes, some view insurance as exclusively for people with higher incomes. Whatever their reasons are for not getting insurance, government data in 2021 showed that the average Filipino spends PHP 10,000 on health services in a year. Having health insurance coverage can help spare you from paying for everything out of your own pocket.

INSURANCE

Insurance provides financial support to people covered by it when unexpected events, such as illness, natural calamities, accidents, or death, happen.

But beyond covering an individual, an insurance can also protect things you value, including your home or car, a small business, or even things you use to generate income.

This is the hard lesson that Rita, 63, had to learn. She runs a poultry business, which she inherited from her parents. As part of a business requirement, she bought fire insurance, which covered any potential loss or damage to her business facility. Unfortunately, 10 years after paying the insurance, she decided not to renew when it expired. So when a massive fire destroyed one of the poultry buildings, she was faced with PHP 18 million in damages and lost income.

Without fire insurance, she now needed to raise PHP 16 million to rebuild and was expecting to lose PHP 2 million per month in potential income from the business. She also had to let go of her employees who depended on her for their livelihood. She now needed to find ways to raise enough money by borrowing from family and friends, using some of her savings, and even taking on a loan from a bank.

Despite the obvious benefits of having insurance, both Rita and Mika had different reasons for not having coverage.

Here are some misconceptions that stop Filipinos from getting insurance:

> **"Insurance is expensive and it's only for those with higher incomes."** Francis, 36, is a graphic designer and a single father. *"Ang mahal ng premium, especially when they found out I'm a smoker."* Francis barely makes enough for himself and his child. "I don't have extra

[money] for insurance." Similarly, Lisa, 33, who works as a manicurist and is a mother of two, insists that insurance is only for those who earn a higher income. *"Pang mayaman lang yan. Basta mag-ingat lang tayo at magdasal. Si Lord na ang bahala sa atin."*

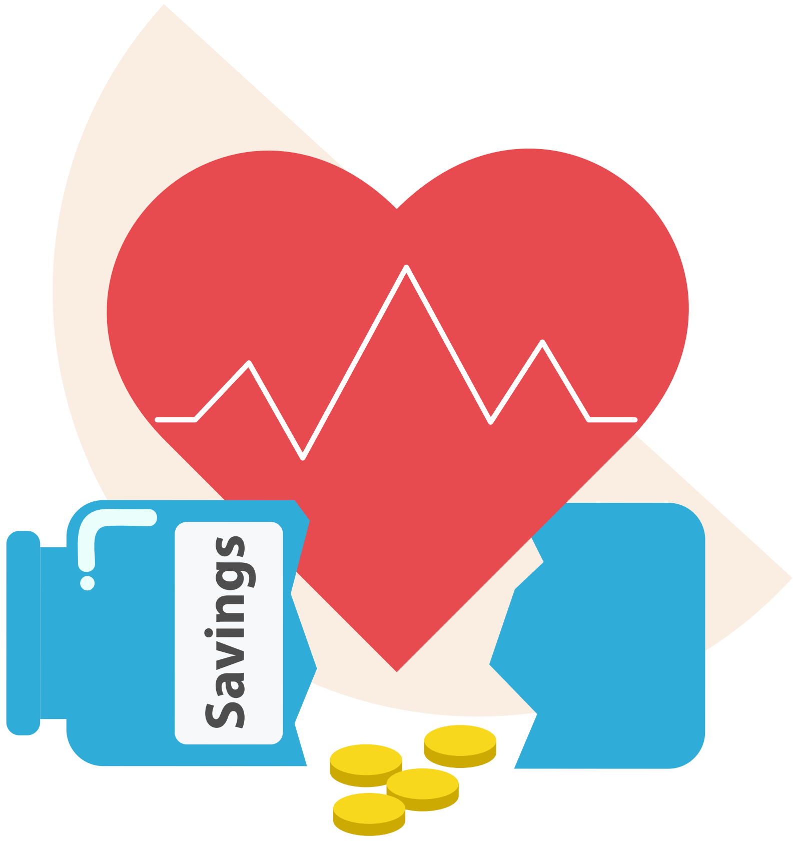
Fact: Insurance has recently become more accessible to Filipinos. So the perception that insurance is expensive is not accurate. For example, some insurance offered by reputable companies through financial tech firms can cost between PHP 50 to PHP 500 per year.

"My employer's health benefits are enough."

Single and healthy, Mika, 28, believes that her employer's health benefits are enough to cover her medical expenses.

Fact: Not all health benefits are the same. Depending on the employer's budget, some offer limited coverages or only reimburse partial amounts to pay for a medical emergency. In the case of Mika, her hospitalization benefits were limited, and could not cover her mounting medical expenses due to COVID-19.

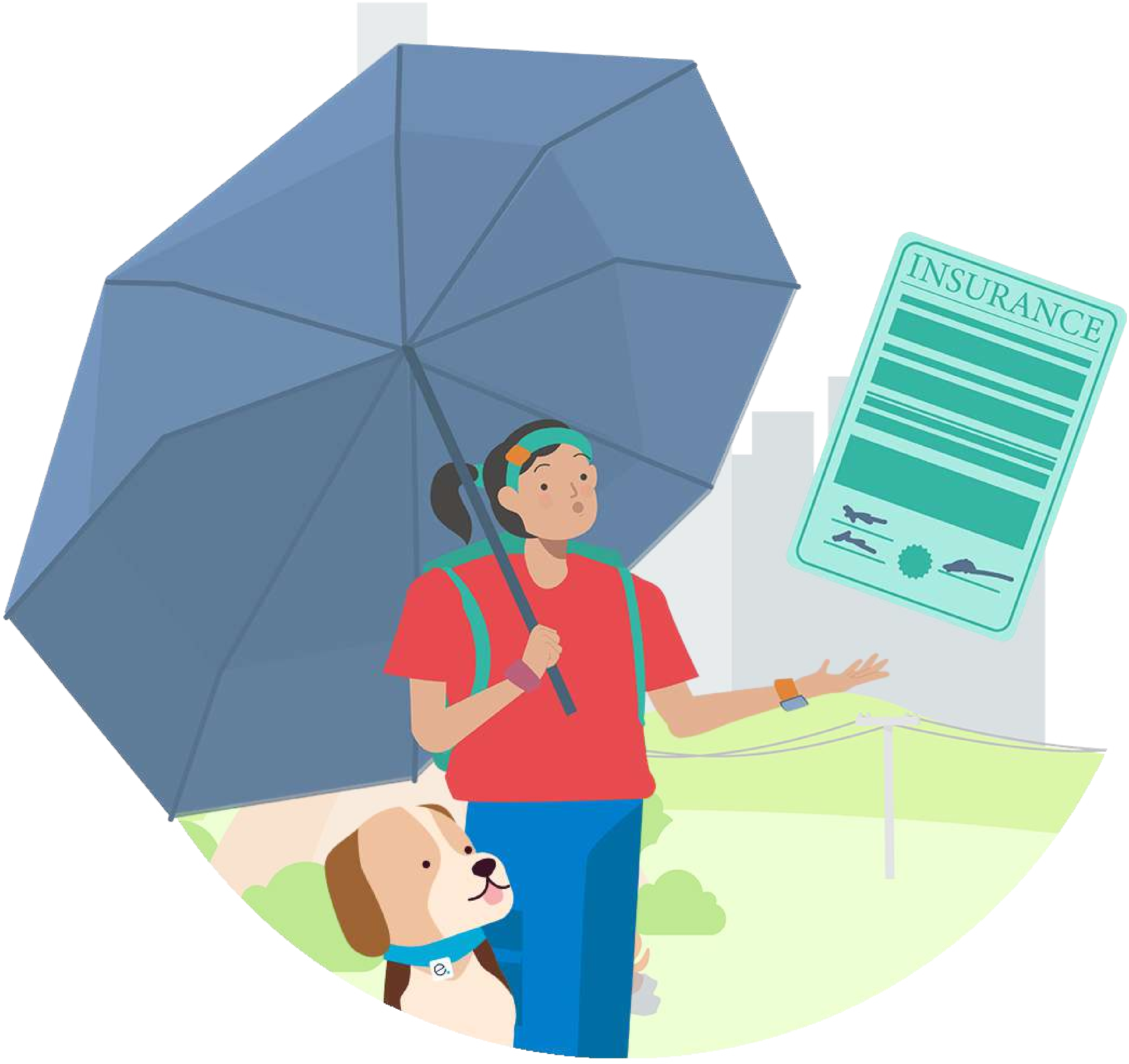
"My savings are enough to cover medical emergencies." Jane, 40, married, is a software engineer who thinks she has enough money to cover unexpected medical expenses. She, however, admits that her savings were short of covering actual medical expenses when they happened.



Fact: It is wise to put aside some of your savings to an emergency fund, which can cover some of the cost of a medical emergency. However, health insurance coverage can provide financial buffer against any unexpected events, especially when expenses are beyond what you can afford or set aside as savings.

"I can't use insurance while I'm still living." Rene, 44, is a corporate employee and a father of two. He chose not to get insurance because he is anxious about whether the insurance company will pay as promised when he passes.

Fact: Insurance is meant to protect your family when you pass away, if you get into an accident, or if you get sick. This is important especially for the heads of the household who should be looking out for their loved one's future. There is a type of insurance that provides cash value you can use while you're still living on top of the death benefits given to your loved ones.



The Benefits of Insurance Coverage

WHAT COVERAGE CAN WORK FOR YOU.

Insurance is a financial product, but it is unlike investment products since you can't expect profit or benefits from it unless you experience an unfortunate event, which most don't like to think about.

You don't get anything out of car insurance unless you get into an accident or the vehicle is damaged.

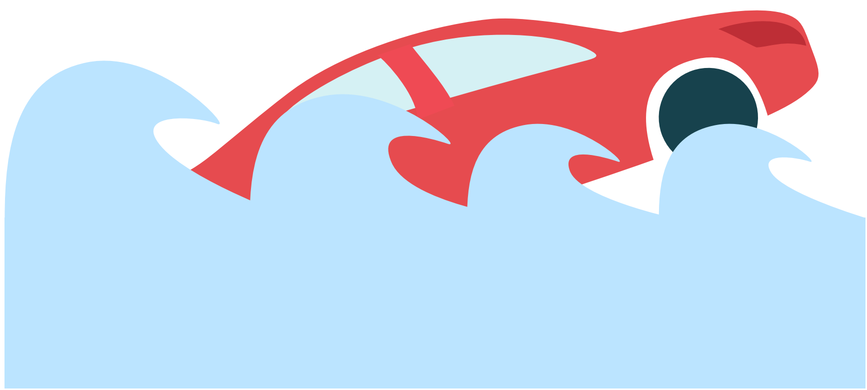
You can't claim your health insurance unless you get hurt or sick enough to be hospitalized.

But if and when an unfortunate event happens, you will either be thankful to have insurance or regretful for not getting one.

Apart from general financial protection offered to you, insurance offers these other benefits:

Protecting your family from unexpected events that affect you. Insurance spares your savings from being drained in case of your untimely death, a personal accident, or a medical emergency. Insurance becomes more important if you're the breadwinner, generating the majority of your family's income.

Protecting your assets and things of value. If you just bought a home or a car, insurance protects it from theft, loss, and damage due to accidents, man-made events, and natural calamities. This protection also applies to equipment or gadgets you use in your job, such as an expensive camera – if you're a professional photographer.



It gives you some peace of mind. Knowing that it offers a financial buffer to unexpected and unforeseen expenses, you will feel less stressed and anxious when they happen.

Currently, most people get their life or health insurance policies from friends who are financial advisors. Then again, most banks also partner with insurance companies and offer these products directly to clients.

So the insurance you get depends on what kind of protection you need and who or what you want to protect.

Insurance Terms You Should Know

If you're wondering what these terms mean, don't worry. We made it simple for you.

Insurance Term	Definition
Policy	A written contract that provides details of your insurance.
Policy holder	This is often you—the insured—who is identified in an insurance policy.

Insurance Term	Definition
Insurer	The company that offers the insurance coverage and services as detailed in an insurance policy.
Beneficiary	A person or a group of people who will receive the proceeds or benefits of an insurance policy when the insured passes away or the policy reaches its maturity.
Coverage	Unexpected events like death, personal accident, sickness, or damaged property that are included in a policy.
Premium	The amount of money you pay for your policy. This may be in the form of a single payment, or several payments made monthly, quarterly, or annually, depending on your payment terms.
Payouts	The policy's benefits that an insurer approves and gives to the beneficiaries after they file for a claim.
Claim	A formal request for payment by a policyholder or beneficiary to an insurance company.
Term	A specific period or duration when the policy is in effect.
Deductible	The money you pay out-of-pocket before the insurance company pays the claim.

What Can You Insure?

PROTECT WHAT YOU CARE FOR AND LOVE.

An insurance policy is an agreement between an insurance company and a policyholder, which is you. So, anything and anyone can be insured if an insurance company agrees to cover it and you're willing to pay the set premium, which is the amount of money you pay for coverage.

Insurance can be generally divided into two main categories: life and non-life.

Life insurance simply offers payouts to named beneficiaries when you pass away. This happens as long as premium payments are up to date and the policy is valid at that time.

Meanwhile, non-life insurance offers financial coverage or compensation when your car, house, business, or other assets gets damaged or stolen. This is also known as general insurance and can cover property and other circumstances, such as travel.

While you are often aware of life, health, home, and car insurance, you can also get coverage for anything you value, such as your business, jewelry, artwork, gadgets and even pets, as long as it's not specifically prohibited by the law.

Here are common types of insurance:

Types of Life Insurance

1. Term Life Insurance

What is it? It is a simple type of life insurance that covers a limited number of years. The term is usually set for 5, 10, 15 or 20 years.

What does it cover? It provides financial benefits if you—the insured, passes away during the set term of the policy. As a simple life insurance, there are no other benefits, such as savings or an investment component.

Who should get it? This is ideal for people who just started working and want to get life insurance at a lower cost. Also good for parents with young children or income-earning adults with dependents.

Pros and cons: It is the simplest and most affordable life insurance product. The guaranteed death benefit means your family knows what to expect when you pass away.
However, if you outlive your policy's terms of, say 20 years, your family doesn't get anything out of the premiums paid. Renewing it when you're older also means a higher premium.

2. Whole Life Insurance

What is it? This insurance offers coverage for the rest of your life and includes a cash value that you can withdraw when you're still alive.

What does it cover? Whole life insurance can remain in force during your lifetime—as long as you continue to pay the premium.

Who should get it? Because the premium for whole life insurance tends to be higher, this is ideal for more established individuals or breadwinners who want to make sure their family is financially comfortable even when they pass.

Pros and cons: On top of the guaranteed death benefit, you also get a portion of your premium as a cash value while you're still alive. The uniform premium payments also make it easier to put these payments into a budget. Such extra benefits, however, make it more expensive than term life insurance, so it may not be accessible to individuals with tighter budgets.

Types of Non-Life Insurance

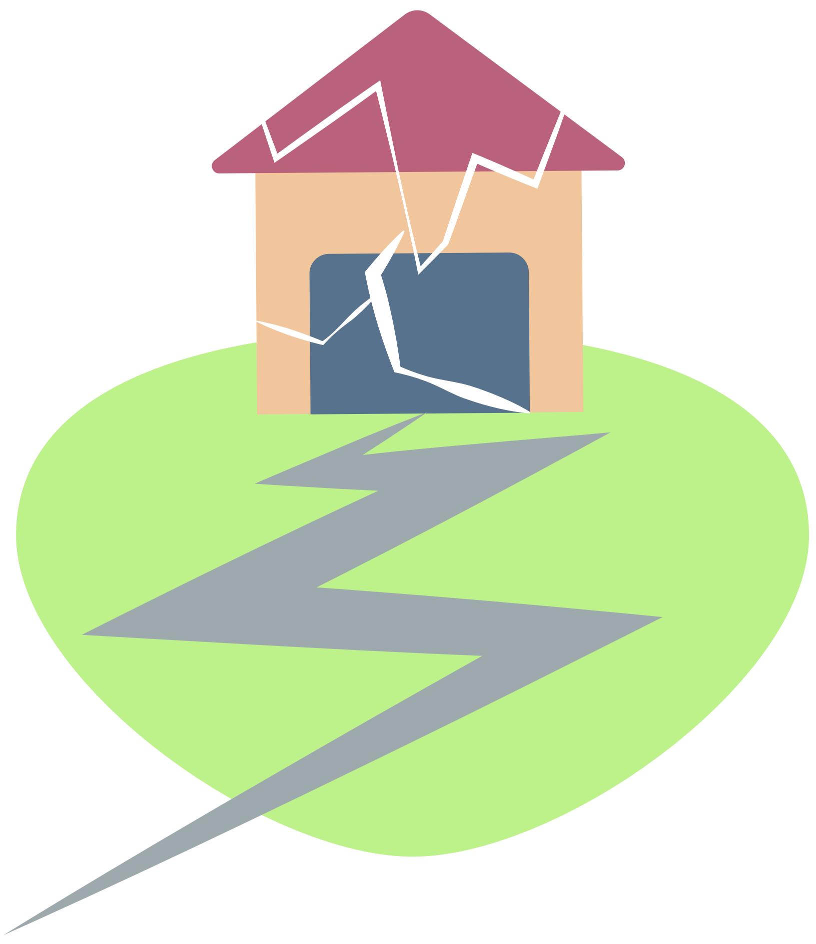
1. Home Insurance

What is it? This covers your residence or property. It protects you from unexpected financial loss brought about by damages to your residence, along with furnishings and other assets within the home.

What does it cover? This covers interior and exterior damage, loss or damage of personal assets or belongings, and injuries that occur within the premises of your residence. Theft, vandalism, and so-called “acts of God” and other natural calamities like earthquakes, may also be covered.

Who should get it? People who have achieved their dream of home ownership. However, home insurance is often offered as part of a deal when you take on a home loan from a bank.

Pros and cons: Since real estate values tend to go up, your home insurance policy can cover up to the current market value of your property. This may be more than what you initially paid for. This insurance is clearly useful in the event of fire, flooding, or earthquake. Meanwhile, comprehensive home insurance can be costly. But the cost of not insuring your home can ruin you financially in case of a devastating event.



2. Car Insurance

What does it cover? The most basic car insurance is the Third Party Liability (TPL) insurance. TPL protects you from liabilities brought about by an accident that injures or results in the death of another person. There is also comprehensive car insurance that offers additional benefits, including protection against vandalism, theft, terrorism, and acts of God.

Who should get it? All vehicle owners are required to have at least a TPL before they can renew their car's registration. Comprehensive insurance is ideal for Filipinos who can afford a higher premium, but is especially essential for those living in or driving along flood-prone areas.

Pros and cons: Comprehensive car insurance covers the full market value of a car in case it is stolen or suffers extensive damage due to an accident, a natural calamity, or even man-made events such as terrorism. This is ideal when your car is new or is less than five years old. Car insurance can be expensive, depending on the model of your car. Claiming your car insurance can also mean a higher premium when you renew it the following year.

3. Commercial Insurance

What is it? If you're running a business, this insurance protects it from financial losses that may be brought about by unexpected events.

What does it cover? Depending on the coverage you want, the cost of the premium you can afford, and the identified business risks, your business can be protected against natural disasters, fire, data security breaches, customer injury, lawsuits, theft, and even employee injuries and illnesses.

Who should get it? If you have a business that you, your family, and your employees depend on, it is worth securing it against the identified business risks.

Pros and cons: Insurance coverage can help your business ride out moments of crisis. Depending on the assessed risks and capital costs of your business, insuring it can cost tens or hundreds of thousands per year, but these premiums are deductible from the business tax.

4. Travel Insurance

What is it? If you love to travel, this insurance can protect you from unnecessary expenses brought about by risks in traveling.

What does it cover? If your trip gets canceled or disrupted, when you lose or damage your baggage and personal effects, or when you contract a virus while traveling, this insurance covers it. It can also provide insurance in cases of accidental death or flight accidents. Many travel insurance policies now cover COVID-19 risks.

Who should get it? If you travel a lot, you should get this insurance. Getting into an accident or needing medical care in foreign countries can be financially devastating. This insurance offers a financial buffer. For domestic travel, this insurance is also recommended, as flights can be canceled or delayed due to typhoons or other calamities. For frequent travelers, annual travel insurance plans offer global coverage, meaning if you get into an accident overseas, you're covered.

Pros and cons: This insurance gives you peace of mind because it protects you from the stress and financial cost of canceled trips, which are typically non-refundable and non-rebookable. Lost or damaged luggage and passports are also covered. Like most insurance policies, you don't benefit from it unless something bad happens. So if your trip goes smoothly, then it's purely an additional expense.

5. Pre-Need Plans

What is it? This insurance pays for services that you will need in the future. Usually, the benefits are made available when you need it or when your insurance policy matures. So this insurance lets you set aside a small amount of money today, so you get a bigger sum in the future.

What does it cover? There are various kinds of pre-need plans. One type makes sure your funeral services are paid for ahead of time. The plan covers your burial, cremation, and other services that you need when you pass away. Meanwhile, there are pre-need plans that are meant to cover future educational expenses.

Who should get it? This is ideal for individuals who want to plan ahead for future needs. This insurance is also best for those who want to set budgets for protection, since you can choose the mode of payment available in monthly, quarterly, semi-annual, and annual installments.

Pros and cons: This insurance offers protection against price shocks due to inflation and rising market costs. For example, a pre-need plan allows you to save for your child's education because this protects you from tuition inflation. But there are instances of pre-need companies closing down and leaving their customers empty-handed. This is why it's important to do your homework and due diligence, and to deal only with reputable and reliable companies.

6. Microinsurance

What is it? This type of insurance is often short-term and available at lower rates. It is offered to individuals and families who can't afford more expensive insurance policies.

What does it cover? For individuals, this insurance provides life, health, and disability benefits. Among small entrepreneurs, it offers protection from fire, theft, and natural disasters for sources of income, such as crops, livestock, and equipment.

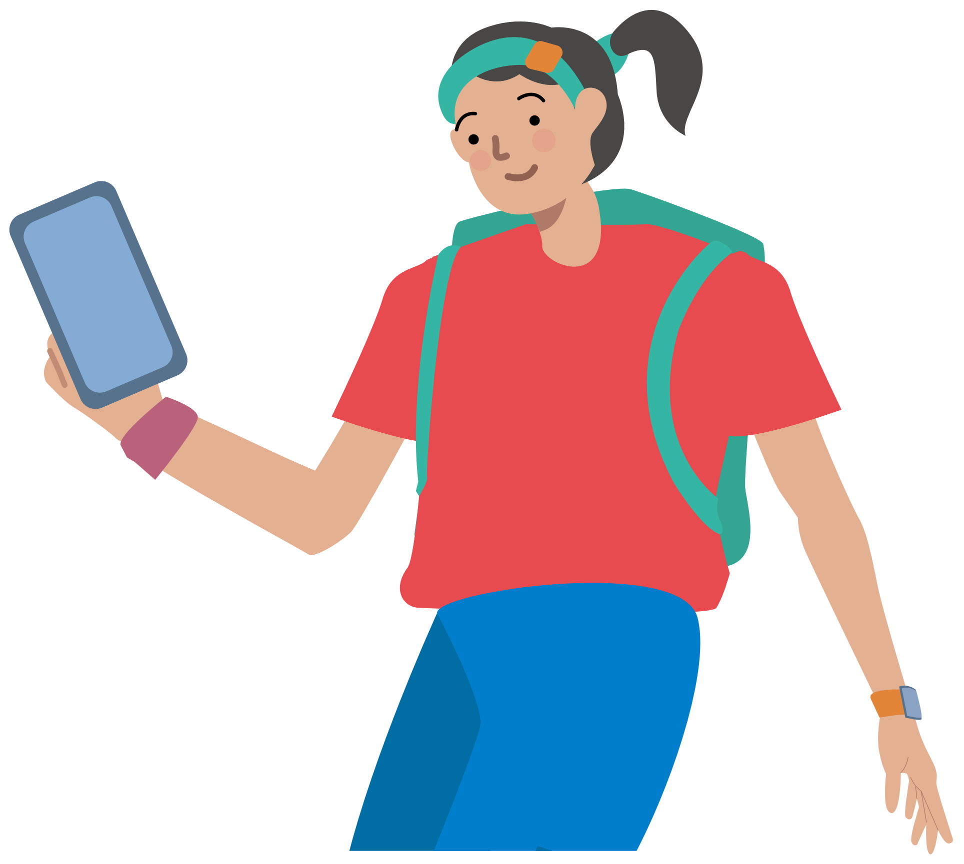
Who should get it? Individuals with limited budgets can benefit from microinsurance.

Pros and cons: Because the coverage value is lower than standard insurance plans, policyholders pay smaller premiums. However, smaller premiums mean that benefits also tend to be smaller.

Other Types of Insurance

There are other types of insurance for "tools of the trade" or the equipment you use when you work.

You can now get protection for your smartphone, expensive camera gear, or even your laptop from possible theft, loss, and damage. The cost will depend on the value of your gadget or equipment and the coverage you choose.



What is VUL?

You may have heard about variable universal life insurance, also known as variable unit-linked insurance (VUL).

What is VUL and how does it work?

This type of insurance combines standard life insurance with an investment product. As life insurance, VUL offers the usual death benefit, while a portion of the premium payments—some up to 95% of your premiums—goes to investments like stocks, bonds, and mutual funds. Because it is an investment, VUL's overall cash value can go up or down, depending on the performance of the market. So while VUL offers the benefits of a life insurance, it comes with risks.

VUL is available to anyone who can afford higher premiums, but also understands the risks involved in any investment.

The cost of the VUL premium is significantly higher, and there are fees associated with VUL that may be higher than your standard life insurance.

When Do You Need Insurance?

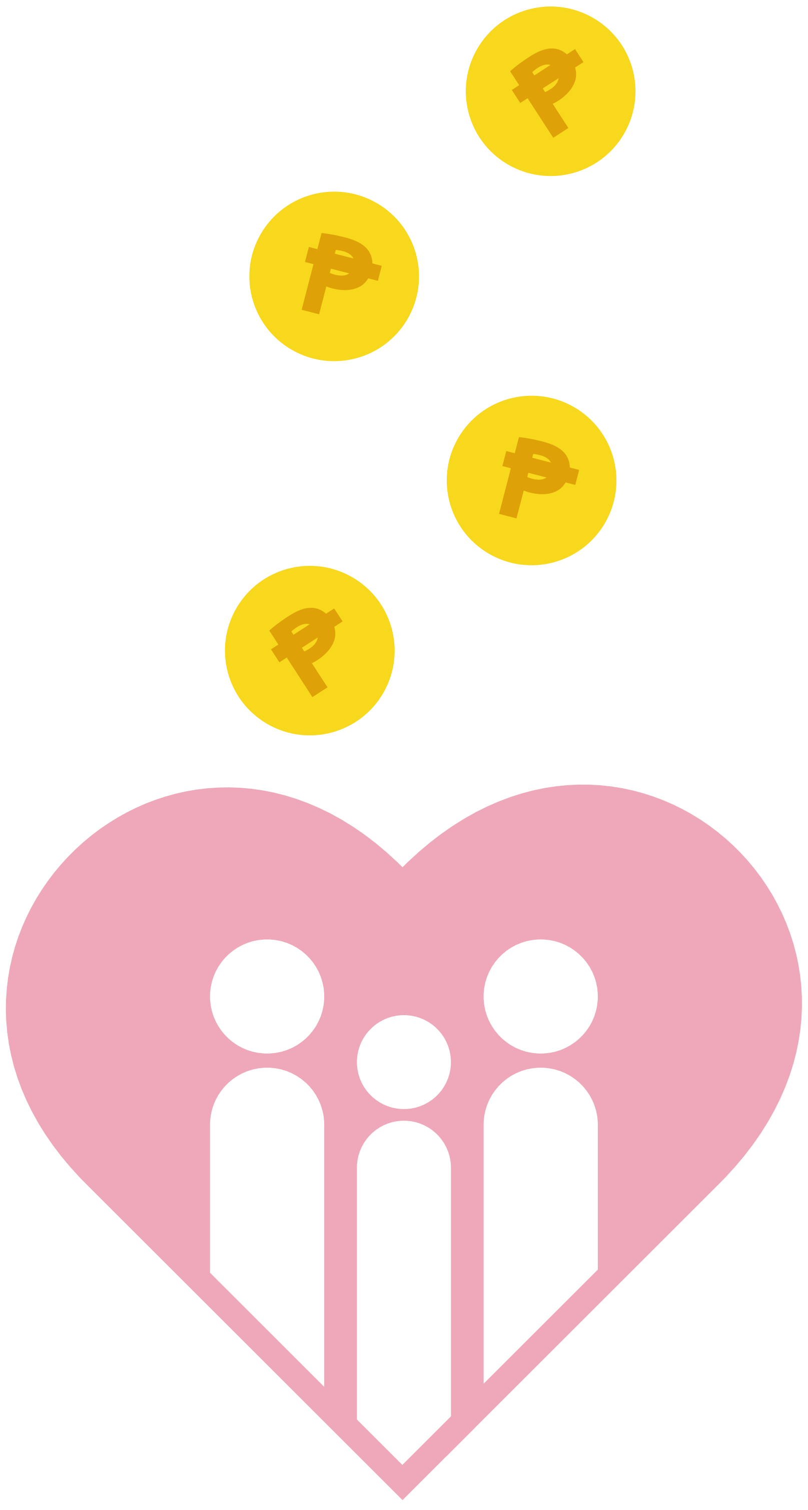
KNOW THE BEST TIME TO GET INSURED.

So when do you need an insurance coverage? Are there any specific moments in life when insurance becomes essential?

Here are some life milestones and events where insurance becomes necessary. Clearly, insurance serves different purposes, depending on specific motivations, and points in your lifetime.

Starting a family. Julian, 38, and Paulette, 32, are both successful freelance creatives who got married two years ago. They are expecting their first child. Before the baby, neither of them considered getting insurance.

Because of their growing family, Julian got health and life insurance. For them, insurance means peace of mind. Besides, it doesn't take that much to budget for the future protection of loved ones.

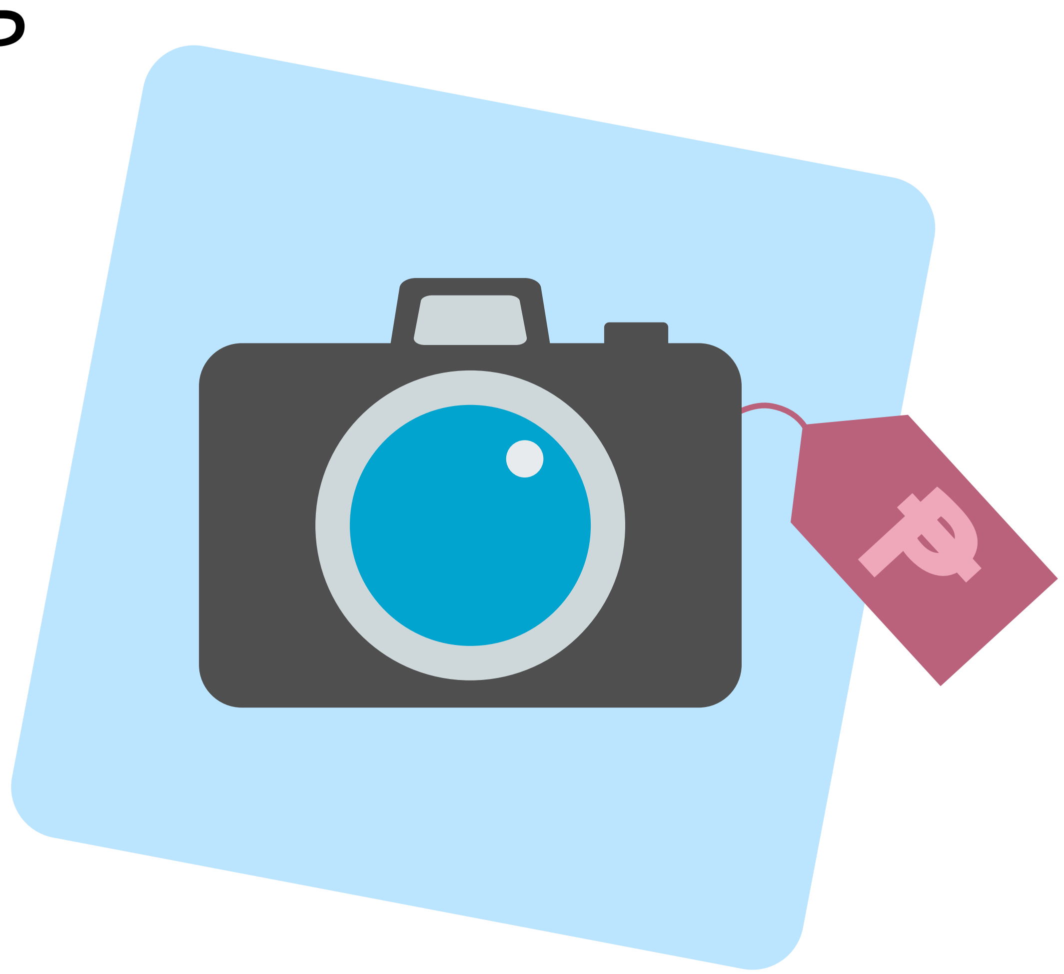


Getting a new job. Elaine, 32, is a resident doctor at a hospital in Alabang, but lives in Quezon City. She decided to take a car loan to make her daily commute less stressful. She also decided to get expensive comprehensive insurance on top of the TPL. Barely a week after getting the car, both insurance coverages proved useful when she became a victim of a hit-and-run.

Her comprehensive coverage allowed her to quickly make a claim to get the car fixed. She only needed to pay a small amount for the deductible, also known as the "participation fee."

Putting up a small business. Carlos, 75, is a retired banking executive who has significant investments and a profitable family business. While he no longer considers health or life insurance essential at his age, he still got insurance coverage for assets and the business because he appreciates continuing coverage for things of value.

Protecting things you need to make a living. Fred, 54, has been a freelance photographer for the last 30 years and his photography equipment costs more than his car. Lucky enough to have a steady stream of clients, he knows that losing or damaging his cameras could affect his ability to fulfill his commitments, especially if he is unable to replace them in time. So he availed of a gadget insurance for his most expensive camera sets.

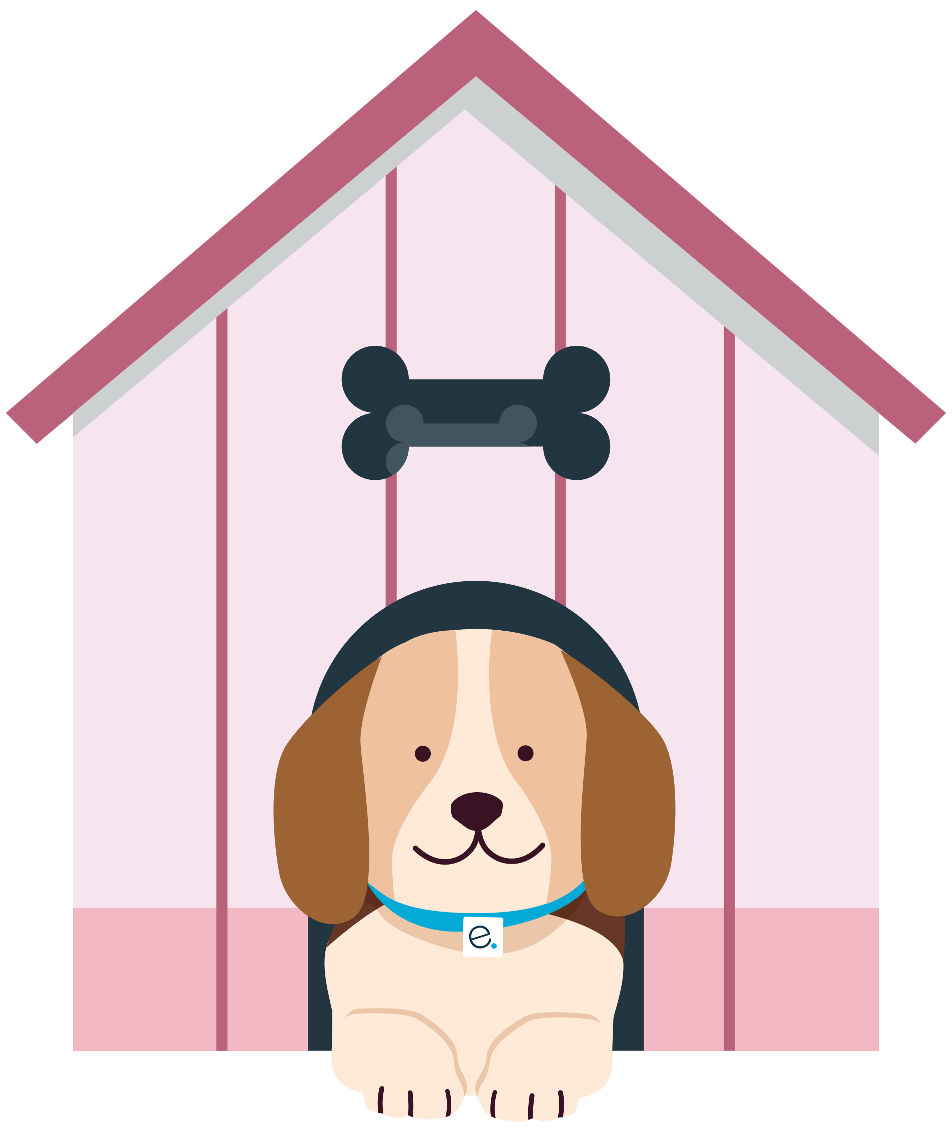


Traveling safely. Mary, 40, travels a lot with her husband, so she invested in an annual travel insurance policy that lets her enjoy herself without worrying about unexpected costs in case of trip cancellations, lost or damaged baggage, or even sickness. This gives her peace of mind.

Retiring soon. Patrick is set to retire soon after 33 years of working. He anticipates a good retirement package but feels very insecure about losing his good company benefits, specifically the healthcare coverage for himself and his wife. He knows that the cost of health insurance goes higher as you approach 60 years of age. Still, he decided to get healthcare insurance for himself and his wife, knowing that they will need it more as they get older.

Covering medical emergencies. Anne, 33, is a healthy woman who was a former varsity player. One afternoon, her partner found her collapsed on the bathroom floor and rushed her to the hospital. She needed an emergency appendectomy. Thankfully, she bought a separate health insurance, which covered the costs of her surgery and six-day confinement at a private hospital. Her company's health insurance was not enough to cover the cost.

Insuring furry friends. Jack, 36, is a single man who adopted a puppy named Cookie. He loves her like his own child and decided to get pet insurance to cover her veterinary expenses in case she becomes sick or gets in an accident. While the idea of insuring a pet may sound silly to others, he wants the best care for his pet in case something bad happens.



How to Get Insurance?

HERE ARE CONSIDERATIONS FOR GETTING COVERAGE.

As with budgeting, there is no one-size-fits-all insurance policy. The ideal insurance policy is the one that protects your family and assets, but still fits your lifestyle and your financial capacity.

You usually get insurance through financial advisors acting as agents of reputable insurance companies. You can also go directly to partner financial institutions, like banks or insuretech companies, which offer accessible and custom-fit coverage based on your budget and lifestyle.

Since insurance is all about planning and preparation, do your homework first before reaching out to an insurer. Also, take some time to do the following:

Understand your needs. If you are the primary breadwinner, health and life insurance coverage should be your top priority, so your family can live comfortably when you're gone.

Gauge your income including your emergency fund and find a policy that you can comfortably afford. Recall our chapter on budgeting. Revisit and revise your budget so that your insurance premium payments are part of your essential expenses. Insurance should augment your savings in case of an emergency.

Know what coverages are available to you. If the standard policy coverage doesn't meet your needs, talk to your insurer about customizing your policy. Also, understand the potential deductibles or the amount you need to pay before making any claims.

If you are employed, study your existing benefits carefully and find the gaps where getting extra insurance would be most useful. Not all employment benefits are the same.

If you own a business, identify the greatest risks to your business and insure against them. Be sure to have this protection especially if this is the main source of your income, and livelihood.

Know where can you buy affordable insurance. Financial advisors or your bank often offer standard insurance based on what you need and what you can afford. Lately, so-called insuretech offers custom-fit policies for you. This insurance service is now available online or through mobile applications, and offers lower rates, including specific coverages, such as gadget protection.

Once you get your insurance policy, consider doing the following:

Understand what your policy covers and until when. Stay on top of things and ensure that your premiums are paid on time, and your policy is renewed so that you don't find yourself unprotected in a time of need.

Late on premium payments? Don't panic. If you find yourself in a tight spot and unable to pay a premium on time, stay calm. Most policies have a grace period for premium payments. Talk to your insurer about it.

Need more coverage? Review your policy. If your circumstances have changed and an existing policy no longer works for you, work with your insurer to have it amended or replaced with something that does.

Shortcut

HERE'S EVERYTHING WE'VE COVERED SO FAR.

- Having good financial health means also having insurance, which protects what you have, your loved ones, and yourself from unexpected events.
- Being uninsured can derail you from reaching your financial goals, and can even lead to financial ruin.
- Insure things that you value, love, and need in the future.
- Insurance services are not just for the rich. There are insurance policies that are available to those with tighter budgets but still want to be protected from future financial shocks due to inflation.
- There are insurance coverages for every person at every stage of their life. The best policy for you is the one that protects what matters most to you.
- Insurance policies can be customized to fit your specific needs.

READERS' SECTION

List Down Your Insurance Needs

How will you know when you need insurance?

1. Start listing down five things that would financially cripple you and your family if something bad happens.
2. Check whether you have insurance for aspects of your life that can be affected by these unexpected events or situations.
3. See how much it would cost you without insurance versus how much an insurance policy would cost.
4. Add up the cost of protection, and see if you can afford it, or if it is within budget.
5. Prioritize which insurance you should get first.

	Protected	Not Protected	Cost without insurance	Cost of Insurance	Payout or Benefits
Example					
Family/ My life as breadwinner	X		PHP 1.5 million in lost annual income	PHP 32,000 per year in premiums	PHP 5 million death benefit
Healthcare Needs	X		PHP 250,000 for 1-week hospitalization	PHP 12,000 per year	PHP 300,000 per illness
Home		X	PHP 11,000,000 current market value	PHP 17,000 per year	Up to PHP 11 million if total loss

JOURNAL

Do You Really Need Insurance?

Now that we've gone through the importance of having insurance coverage, ask yourself the following questions:

Is your family financially covered in case you are no longer around to provide for them?

If a family member gets seriously sick, will your employee health benefits be enough to cover the healthcare costs?

Do your current budget priorities reflect what truly matters to you? If not, how can you fix this?

At this point, you are now more familiar with insurance, what it is, and why you need it. You also have a clear idea of what type of insurance you need, or when you need it. One thing is clear: you need insurance to bridge the gap in your budget, especially when these additional expenses are brought about by unexpected events. And speaking of payments, the next chapter will dive into the world of payments and its benefits.

As you have noticed, Moneybility now looks different! Starting with Chapter 7, we are using a new design to help enhance your experience on understanding money. Given this change, we're inviting you to send us feedback through this short **survey**:

Thank you!

Glossary

YOUR EASY GUIDE TO FINANCIAL TERMS

Throughout the book, you are alerted to personal finance terms on Moneybility. We kept the definitions simple, easy to remember, and hopefully, fun. So, to keep you informed of these terms, we've put them together in this glossary. Let's start reading! We are organizing them alphabetically, so you find terms easily.

B

Budget

A budget is a spending plan that defines how much of your income is allocated towards expenses, savings, and investments over time.

C

Collateral

Collateral is an asset or item that you own that a lender accepts as security for letting you borrow money. If you are not able to repay, the lender takes the collateral as payment.

Credit Score

A credit score is a system used by banks and lenders to help them decide whether you qualify for a loan or a credit card. Several factors are considered including your loan payment history, your current debts, your available cash savings, among others.

D

Debt

Debt is money that you borrow and repay later. It is often associated with loans or credit that are used to purchase things you could not afford under current financial circumstances.

Debt Burden Ratio

The debt burden ratio or DBR is your total monthly loan payments divided by your monthly income. It is expressed in percentage. The higher the DBR, the less your financial capacity to pay for additional loans.

Default

A default happens when a borrower stops paying debts due to lack of funds.

Dividends

Dividends in savings accounts are like interest payments. They are portions of the profits shared by a company or an institution with stockholders every quarter or every year.

E

Emergency Fund

An emergency fund is money you save that is accessible and secure for those unexpected events and financial emergencies. This fund should match the total amount of your living expenses for 6 to 12 months if you are single–and 12 months to 2 years, if you are married.

F

Financial Health

Your overall financial health hinges on how you manage your money. This includes how you budget (save and spend), how you invest, how you insure your assets, how you plan your retirement, and other financial components in your life.

Financial Wellness

Financial wellness is your overall emotional state about your financial situation–that is, your money relationship.

Foreclosure

Foreclosure is a form of repossession but is used to refer to a defaulted or unpaid home loan.

G

Guarantor

A guarantor is another individual that promises to pay back a loan if the original borrower fails to pay it back.

I

Inflation

Inflation is the general increase of prices of goods and services over time, which affects the purchasing value of money.

Insurance

Insurance provides financial support to people covered by it when unexpected events, such as illness, natural calamities, accidents, or death– happen. Financial support may come as reimbursements from the insurance company, which pays the costs of these unexpected events.

Interest

An interest is the amount of money a bank or a financial service pays a depositor for keeping money in its facility. A bank borrows the money from the depositor for loans to other customers.

L

Loan

A loan is money you borrow that comes with interest.

M

Maturity Date

A maturity date refers to the time when you can withdraw your time deposit without penalties.

Mortgage

Mortgage, also known as amortization, is a type of loan where a borrower agrees to repay a lender in regular schedules.

P

Paluwagan

Paluwagan is a Filipino financial term that describes an informal form of saving and lending. It requires a group of people contributing a fixed amount of money into a pool of funds based on an agreed schedule. The pooled money is then given to a member of the group who acts as the collector or the manager of the funds. Any member can then borrow money from this pool of funds.

Pension Fund

A pension fund is a pool of savings collected by an employer or a government agency during the working life of individuals. It is often regarded as retirement fund for the employed because it gives regular payouts soon after retirement.

R

Repossession

Repossession is the act of retaking possession of a home or car bought through a loan after missed payments.

S

Surety

A surety is common in loan contracts. It involves an individual who promises to take responsibility for someone else's debt. So when you take on a loan, the lender may ask for a surety to also sign the loan agreement. If you can't pay back the loan, the surety will have to pay instead.

U

Usury

Usury is the practice of charging interest rates on a loan that is higher than the limits set by law or government regulators.

Metrobank
You're in good hands