Personal Finance Management

Financial Academy & Technologies

For professional financial advice

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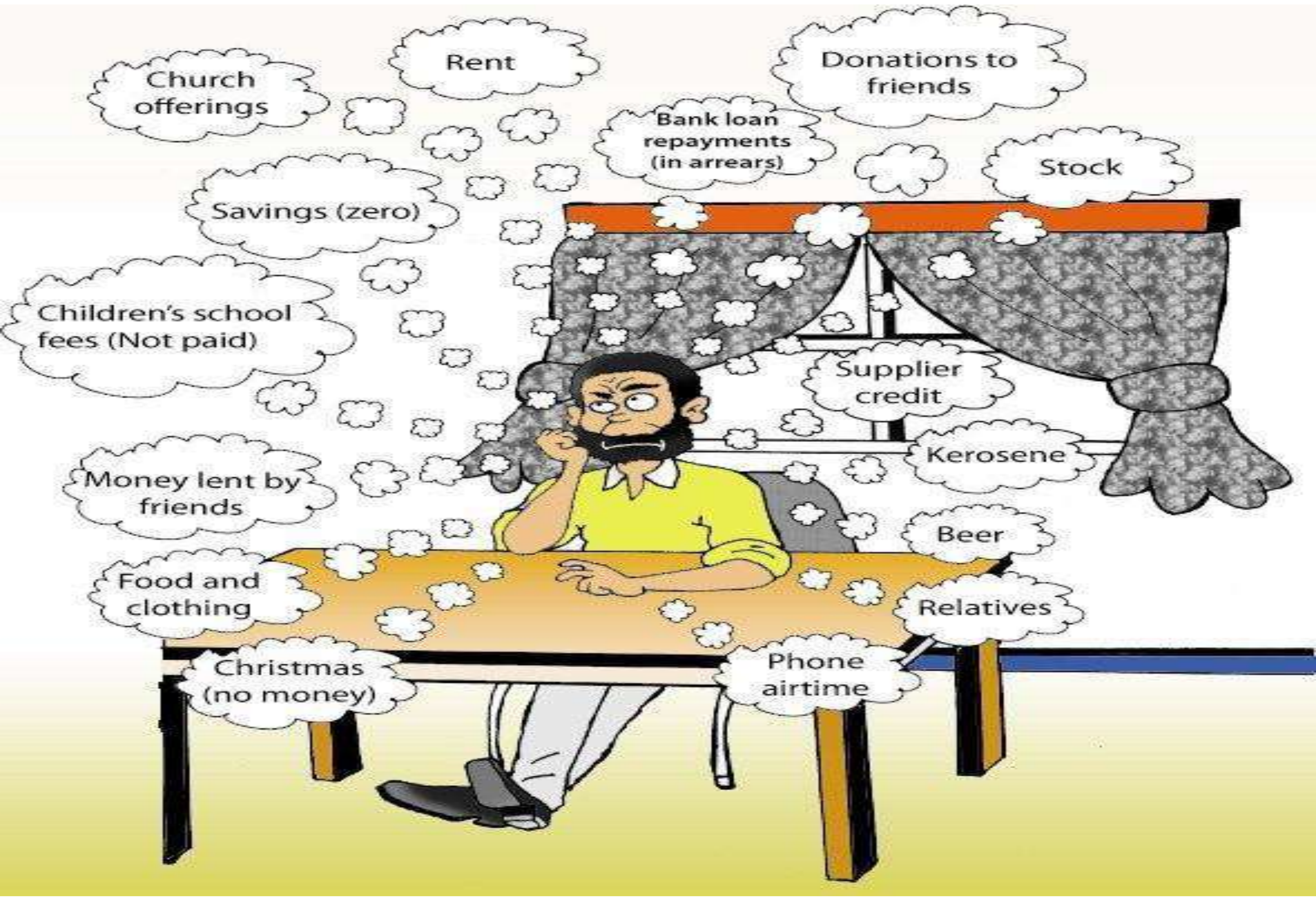
Facilitator

Patrick Wameyo, ACIB (UK), CSAP (Moody's)

- Over 29 years career experience
- Over 14 years senior management experience in banking
- Over 15 years in consulting :
    - Financial literacy, and Career Transition Support
    - Credit risk management - Strategy, policies, people & product
    - Business Advisory Consulting. - Baseline surveys, economic feasibility assessments, Value chain analysis and Small Business coaching
    - Business Investment readiness assessments and reforms
    - World Bank institutional supervisory reforms expert for FIs

Content

1. Introduction to Financial Wellness
2. Expense Management(Budgeting)
3. Savings Strategies
4. Debt Management
5. Investment Basics
6. Retirement Planning
7. Q&A Session


Church offerings
Rent
Donations to friends
Bank loan repayments (in arrears)
Stock
Savings (zero)
Children's school fees (Not paid)
Supplier credit
Kerosene
Money lent by friends
Beer
Food and clothing
Relatives
Christmas (no money)
Phone airtime


SAVINGS
FOOD
PHONE AIRTIME
RENT
EDUCATION
MEDICAL CARE
Haba na Haba
Ndiyo maana kuweka akiba ni lazima kwa watu kama sisi.

From the Psychology of Money

1. Financial Success and behaviours are <u>linked</u>
2. Financial success comes from <u>controlling emotions</u>
3. You must fight with your <u>emotional and mental</u> turmoil to make good choices.
4. Engaging in a “fools’ pursuit” is a sign of losing the emotional war.

Summary of The Financial Planning Walk:

1. Determine your financial vision

2. Review the current situation

3. Identify your opportunities and Challenges

4. Determine the milestones, and targets

5. Determine activities (daily, weekly, monthly)

6. Evaluate your Ability to take risk & financial risk

7. Implement your financial plan

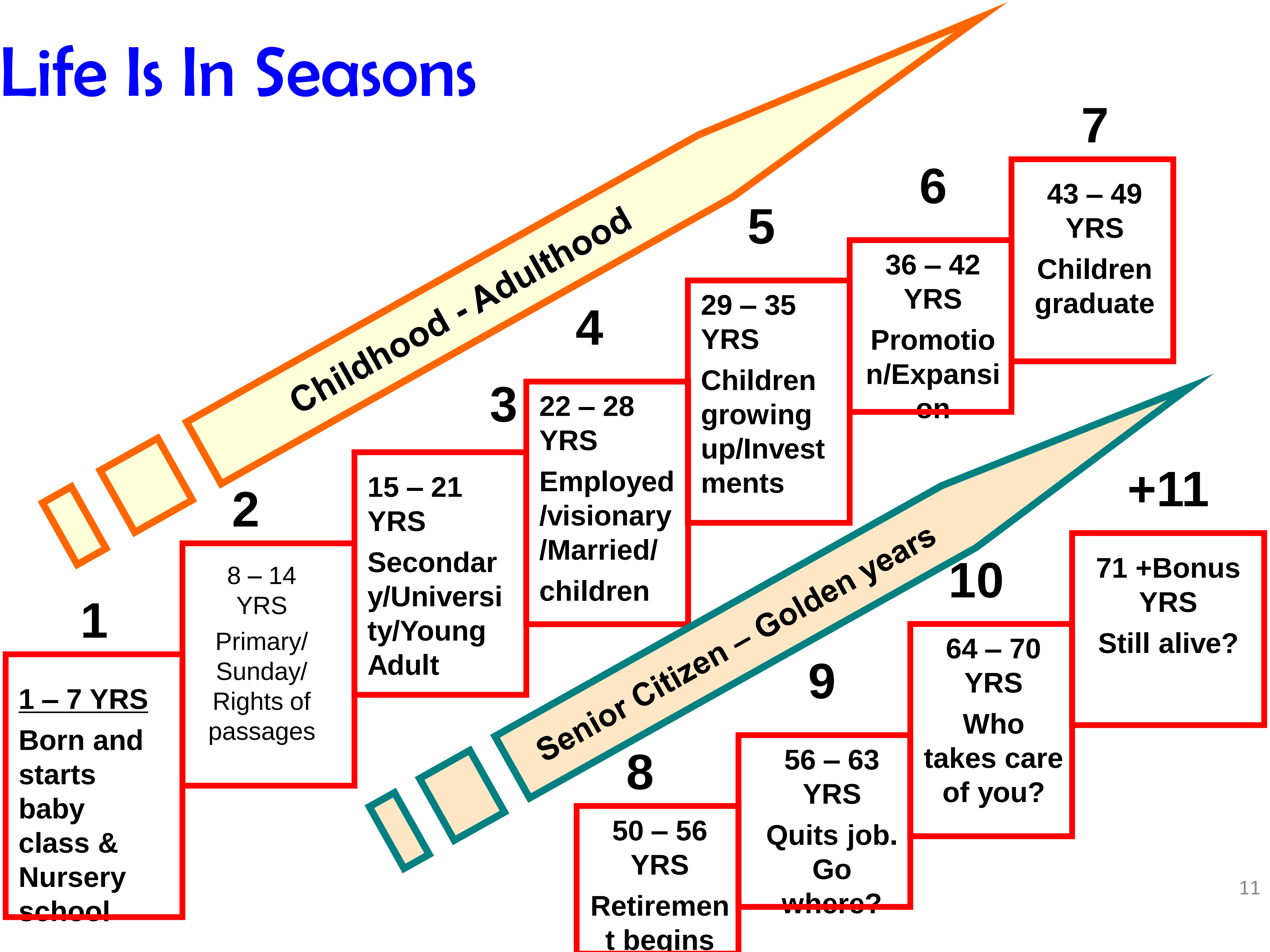
"There are Things You Could Do Differently" !

Structure of Financial Plan:

1. Step 1: Personal Details

- Name and age of principal
- Name and age of spouse
- Name and age of each child

Life Is In Seasons



Step 2: Objectives

Short term objectives

- To remove a deficit of 15,000
- Save Kes.100,000 in 24 months

Long term objectives

- Educate Peter and Mary to University level
- Own a home worth Kes. 5,000,0000 by 2029
- Make investments worth Kes. 20,000,000

Step 3 a : Social Structure Analysis

1. Children, their ages, regular needs

2. Parental dependents, their ages, regular needs

3. Other – dependents, ages and needs

Step 3 b: Personal Financial Statement review:

- Your income lines
- Your expense lines
- Your personal use assets
- Your investment assets
- Your liabilities
- Implications of movements in any of these accounts on other parts of the financial statement

Scenario 1

Personal Planning		AS YOU ARE TODAY		
	Per	Per	Per	Per
LIST OF NEEDS	Day	Week	Month	Year
Food	400	2,800	11,200	134,400
Shelter	300	2,100	8,400	100,800
Clothing	50	350	1,400	16,800
Medical Health	50	350	1,400	16,800
Education	80	560	2,240	26,880
Transport	220	1,540	6,160	73,920
Childrren	100	700	2,800	33,600
Relatives	100	700	2,800	33,600
Lighting	30	210	840	10,080
Water	20	140	560	6,720
Sanitaion	50	350	1,400	16,800
Others 1		-	-	-
Others 2		-	-	-
Others 3		-	-	-
Others 4		-	-	-
Others 5		-	-	-
Others 6		-	-	-
Others 7		-	-	-
Others 8		-	-	-
Others 9		-	-	-
Others 10		-	-	-
Total	1,400	9,800	39,200	470,400
CHANGE FACTOR				1
Current Income	2500	17,500	70,000	840,000
Surplus/(Deficit)	1,100	7,700	30,800	369,600

Scenario 2

Personal Planning		AS YOU WILL BE NEXT YEAR		
	Per	Per	Per	Per
LIST OF NEEDS	Day	Week	Month	Year
Food	400	2,800	11,200	134,400
Shelter	300	2,100	8,400	100,800
Clothing	50	350	1,400	16,800
Medical Health	50	350	1,400	16,800
Education	80	560	2,240	26,880
Transport	220	1,540	6,160	73,920
Childrren	100	700	2,800	33,600
Relatives	100	700	2,800	33,600
Lighting	30	210	840	10,080
Water	20	140	560	6,720
Sanitaion	50	350	1,400	16,800
Others 1		-	-	-
Others 2		-	-	-
Others 3		-	-	-
Others 4		-	-	-
Others 5		-	-	-
Pension Account	120	840	3,360	40,320
Car	500	3,500	14,000	168,000
Mortgage	1,500	10,500	42,000	504,000
Life insurance	20	140	560	6,720
Holiday/Travel	150	1,050	4,200	50,400
Total	3,690	25,830	103,320	1,239,840
				3
Current Income	2500	17,500	70,000	840,000
Surplus/(Deficit)	(1,190)	(8,330)	(33,320)	(399,840)

Expenses clarified

Non-Discretionary (read as cost of life-style)

- Food, shelter, clothing, medical (needs)
- Education, transport, Utilities
- Loan repayment, Insurance premiums etc.
- Children , Relatives, tithe, giving etc.

Discretionary

- Wants (entertainment, other), Savings for investment

Step 3 Summary: Current Financial Situation

- Net monthly income: Ksh170,000
- Monthly budget deficit Ksh15,049
- Pension contribution of Ksh20,000/month
- Various insurance policies (home, medical)
- Equity Investments Ksh0.560 million
- money market unit trust investments ksh112,000
- A small food business currently operating

From The Financial Situation Analysis

Are You Broke !!

PP - Waste Watch List.doc

LIST YOUR EXPENSE (Daily, Weekly, Monthly)	SAVE (KES)
Travel to work and back everyday, 5 days a week (what will you change to save how much daily)	50
A few for the road with friends as we watch football over weekend . (what will you change to save how much once a week)	100
Monthly shopping – (what will you change to save how much once a month)	1000

Step 4 : Recommendations

Recommendations for Short term objectives

- Identify opportunities for cutting down expenses
- Release and save at least Kse.10,000 per month

Recommendations for medium term objectives

- Complete insurance for Peter's secondary education

Recommendations for long term objectives

- Take a mortgage and paydown quickly with bonuses

Step 5 : Financing

Proposed financing for Short term objectives

- Savings to cover emergency fund

Proposed financing for medium term objectives

- Purchase money market funds

Recommendations for long term objectives

- Mortgage finance
- Equity investments

…….From the Psychology of Money

5. Many people "acquire articles" to gain respect (cars, home address-few examples) of others. They don't get the respect, because the people admire articles not the owner : they too wish they owned them !
6. You should Not risk what you already for things you don't have or even don't need. Take calculated risks.
7. There are many ways for making money, but only one way for keeping money – by being frugal.

Implementing A Financial Plan

Step 7: Implementing Financial Goals:

Determine the amount of money you spend on basic family needs (non-negotiable spending items)

- Determine the cost of your goals (Daily rate)
  - Decide how much to either save
  - Or to go towards paying off debt
  - Or to invest (in assets or int a business) directly per month
- Decide the timing of these things

Purchase of assets to meet the portfolio target return

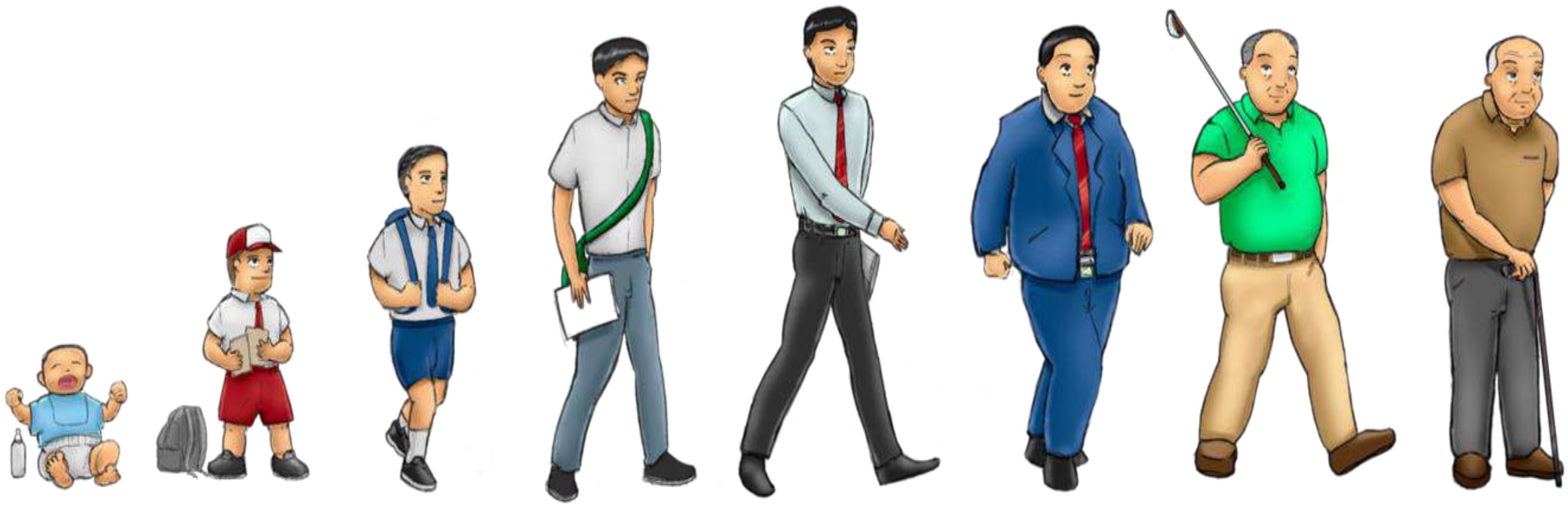
Debt Management

1. Acknowledge (from the financial activities)
2. Record all debts starting - smallest to Largest
3. Identify the smallest debt, shortest terms, with the highest interest rate
4. Pay it off (releases more cash flow)
5. Use the money released from waste watch to first settle debts then to investments

INVESTING BASICS

Investing Options and Constraints

Investor Life Cycle



From the Psychology of Money

8. Take risks because it pays overtime (in the long run). There is big difference between gambling and investing. It is <u>all</u> about how you understand the risk you take.

9. Risk and luck live side by side – you increase you luck by taking and learning from the risk (understanding risk). The world is too complex for your actions to dictate 100% of your outcomes.

Investment Portfolio

1. Quoted Financial Assets
   - Cash and bank Deposit
   - Unit trusts (and unit trust linked insurance)
   - Treasury Bills and bonds, Shares (equities)

3. Unquoted financial assets (D-REITs)

4. Real Estate (including I-REITs)

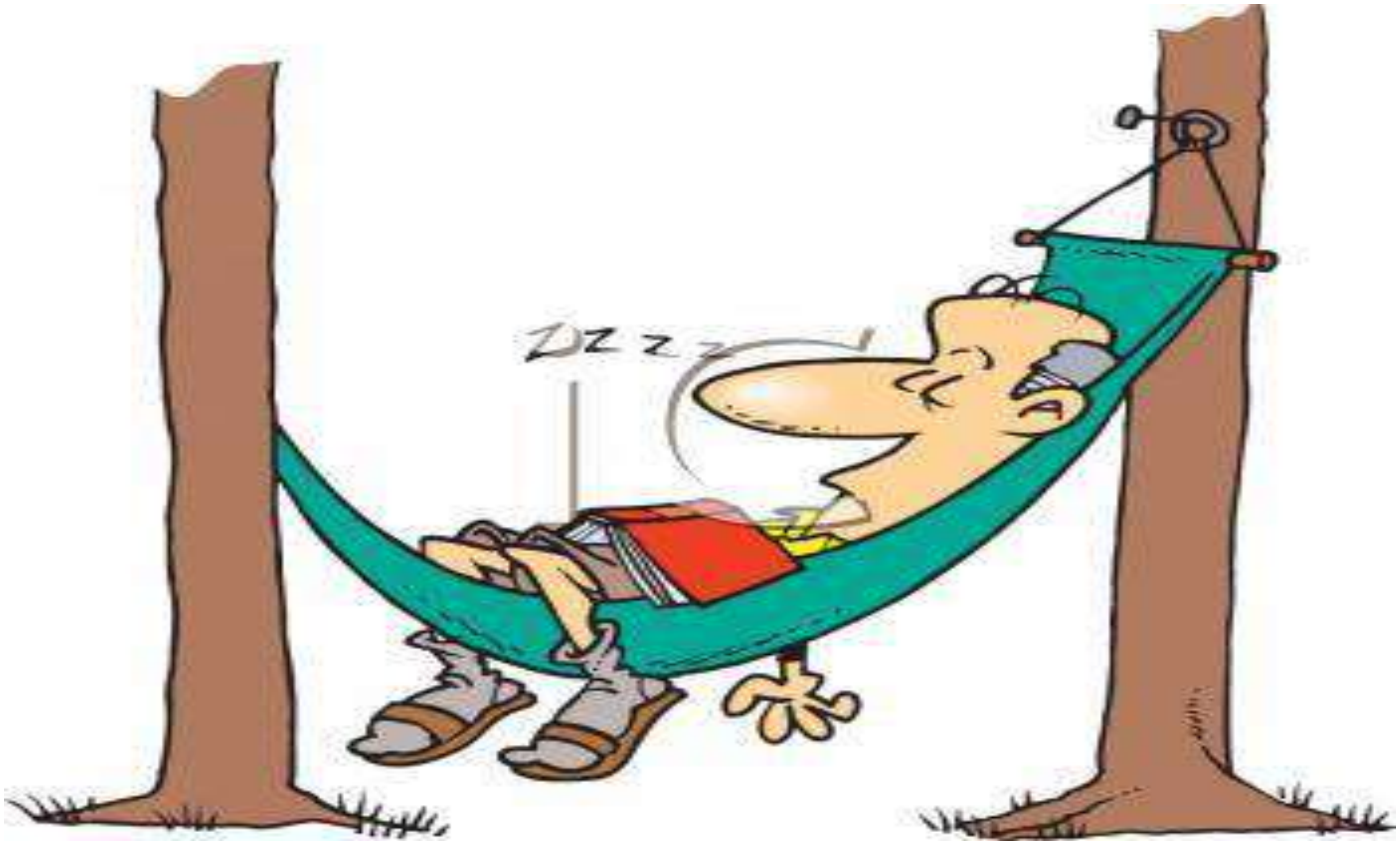
5. Alternative Investments

1. Cash and bank deposits
2. Unit Trust Funds
   - Money Market Fund
   - Fixed Income Fund
   - Balanced Fund
   - Equity Funds
3. Treasury Bills
4. Treasury bonds (including Infrastructure Bonds)

2. Shares (quoted equities)
3. Shares (unquoted equities)
4. Real Estate Investment Trusts
5. Real Estate
6. Alternative Investments

Retirement Planning

Have you thought about your retirement?



Time To Change

Time of Challenge

Time of Adjustment

Time To Do What We Have Always Wanted to DO


To get the maximum out of
retirement we need to plan

Your Other Investments

Your Retirement

- Lecturing
- Rentals,
- Business
- Agribusiness
- Consultancy

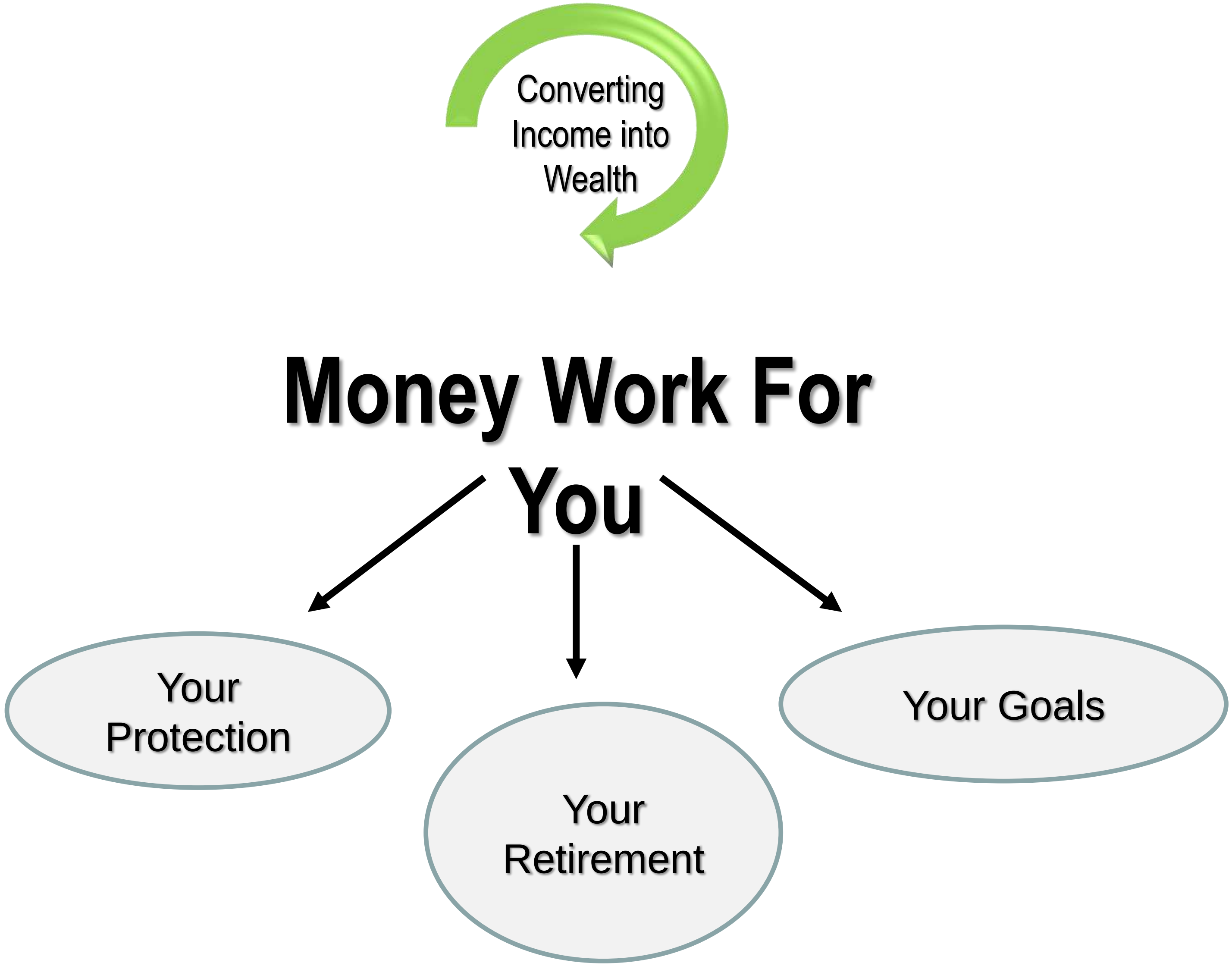
Income

Stability

- Pension
- Annuity
- Income Drawdown

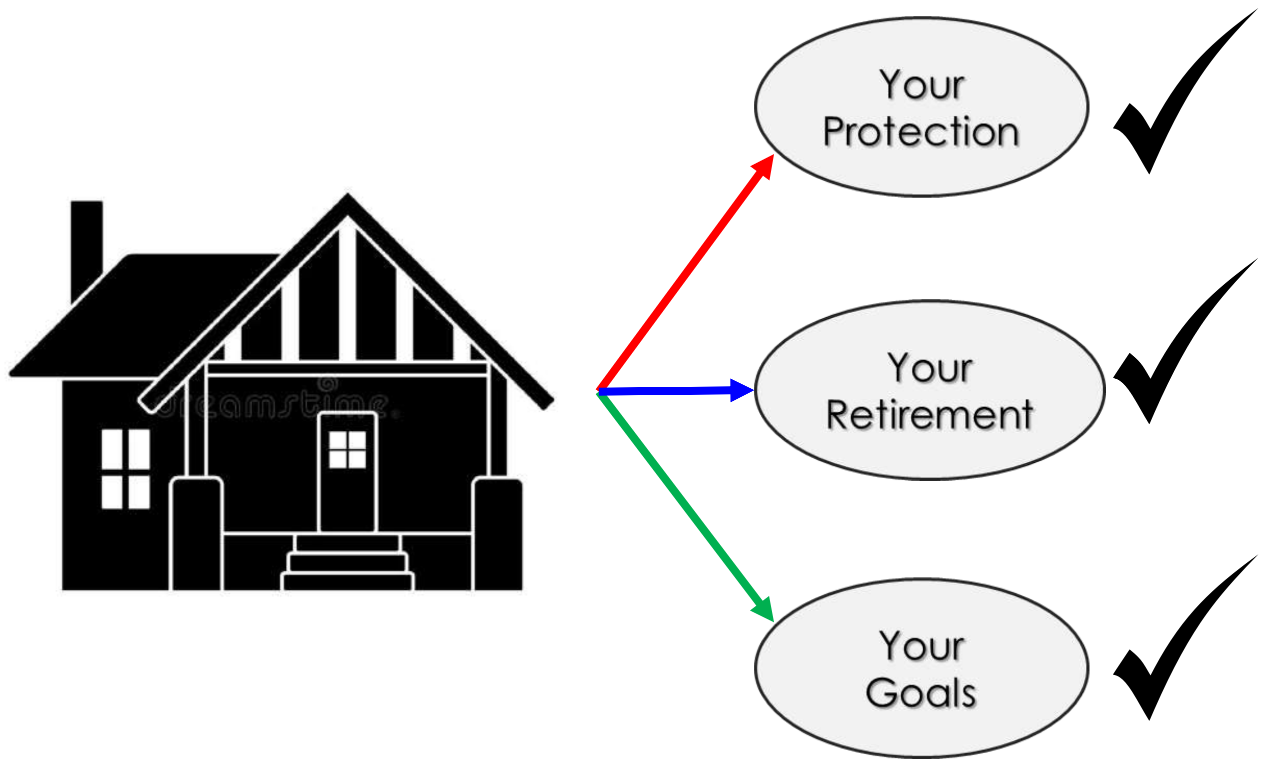
- Rentals
- Business
- Shares
- Property

Growth


Converting Income into Wealth
Money Work For You
Your Protection
Your Retirement
Your Goals

Your Home

A multi-faceted goal



A home should < 25 % of your wealth

ESTATE PLANNING

DEFINATIONS

A will is an expression of a person's intentions in regards to the division of his property after he dies.

DEFINATIONS

The Law of Succession Act (Chapter 160 Laws of Kenya) defines a will as the legal declaration of a person of his intentions or wishes regarding the disposition of his property after his death, duly made and executed in accordance with the Act.

DEFINATIONS

- A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution.

Defining Characteristics of A Will

1. Expresses intentions
2. It can be revoked
3. It can deal with property not yet acquired at the time of making the will

Key Terms in Succession

1. Will
2. Testator
3. Beneficiary (heir)
4. Estate of the deceased
5. Testate succession
6. Intestate succession

Why Make A Will

1. To minimize conflict.
2. To decide on distribution.
3. Appoint executors.
4. Avoid the law deciding what happens.
5. Full disclosure of property.

Why Make A Will

6. To give direction regarding disposal of your body.
7. To ensure the testator has control over his property at death.
8. It avoids the rules of intestacy.
9. Enables people outside the immediate family to benefit.

Why People Do Not Make Wills

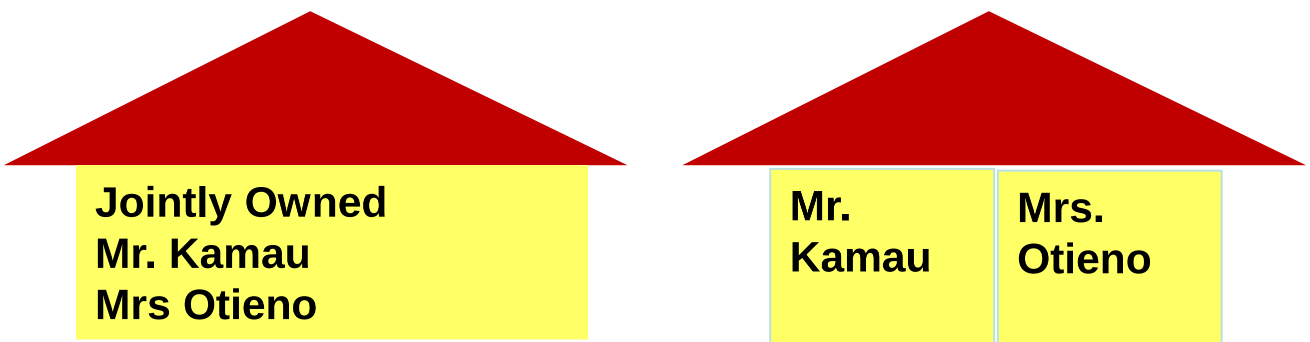
1. It is all too legal and as such will not understand it.
2. It is a chore and thus can be put off until.....
3. It amounts to tempting fate.
4. They do not like seeing advocates.
5. It costs too much.
6. They might change their mind.
7. They have nothing worth leaving.

7. Letters of administration
8. Letters of probate
9. Administrator / executor
10. Bequeath

JOINT AND COMMON TENANCY

JOINT TENACY

- The event of Mr Kamau's death; the property becomes wholly owned by Mrs. Otieno.
- When she dies the house sits in her estate for the purposes of succession.
- Neither can will away the house unless in a joint will.



Tenancy in Common

- You effectively own half of the property each
- In the event of Mr. Kamau’s death; half of the home is in the deceased’s estate
- Either can include their share of the house in a Will.

Factors That Invalidate a Will S.7

1. Incapacity.
2. Duress (Undue influence).
3. Mistake.
4. Fraud.

Trusts

- Assets can also be transferred by way of a trust.
- Can allocate income share from the assets to beneficiaries
- Protects the assets from being sold off

Financial Academy & Technologies

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