Presentation to:

University of Nairobi Pension Scheme 2007 Scheme Members

Personal Financial Planning

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Personal Financial Planning

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Why plan your finances?

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

What is your net worth?

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

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Exercise

Are your finances in order?

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

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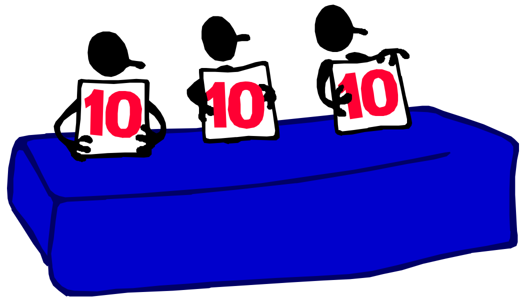
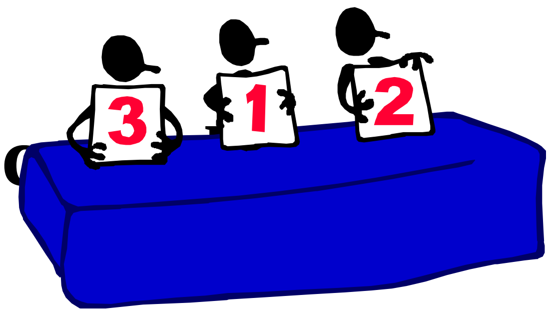
Are your finances in order?

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



- **If lower you are an “under acc**

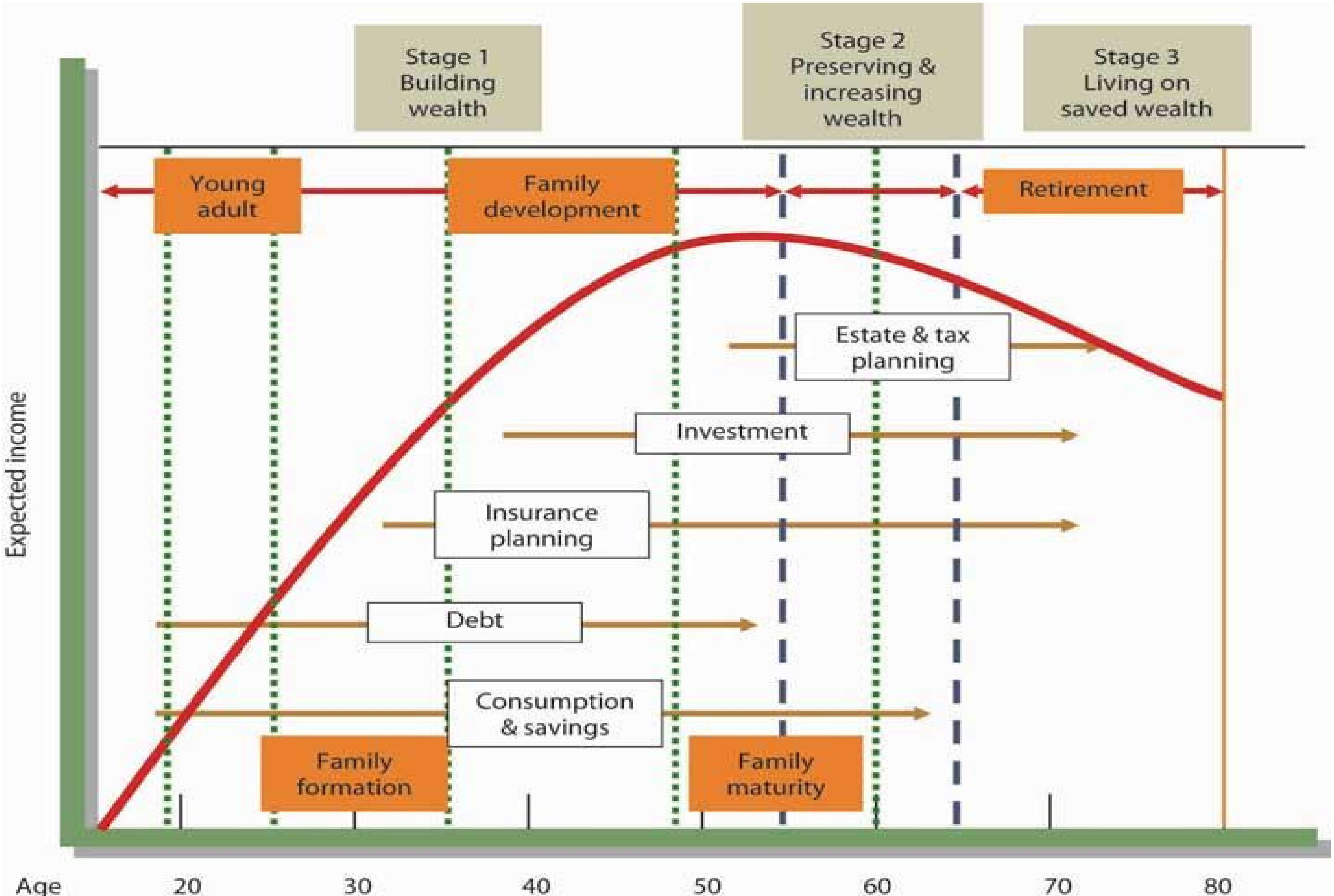


wealth”

Net worth: Assets - Liabilities

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

Career Life


Stage 1
Building
wealth
Stage 2
Preserving &
increasing
wealth
Stage 3
Living on
saved wealth
Young
adult
Family
development
Retirement
Estate & tax
planning
Investment
Insurance
planning
Debt
Consumption
& savings
Family
formation
Family
maturity
Expected income
Age
20
30
40
50
60
70
80

Planning in your 20s

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

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

Planning in your 30s

- The bad news is, this age decade has the highest proportion of people in debt.
- The good news is, not all debt is bad, so learn now to use it wisely for future gain e.g. buying a plot, mortgage, advancing your education, etc.
- Don't let living costs run your life. Make hard choices about your lifestyle and spending habits.
- Build an emergency fund – 3 to 6 mths of living expenses.
- Limit your level of debt – up to 30% of net salary.
- Continue to save through your pension plan – AVCs!

Planning in your 40s

- Bad news is, it’s make or break – little time left for mistakes.
- Continue to build your wealth, control your debt and look toward retirement.
- Let’s guage your progress: Your income and wealth is up, so is your debt, but your net worth should be positive. And you’re getting more serious about your retirement.

Planning in your 40s

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

- Make your retirement savings your top goal – put every available shilling away for your retirement.
- Start paying off your debts.
- Be very wary on taking on more debt than you can easily repay at this time in your life.

Planning in your 50s

Checklist:

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

But dangers abound:

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

Planning in your 50s

Consider the following:

- Work – even after retirement, work has social, emotional as well as economic benefits.
- Despite your obligations, saving for retirement should still be your top priority.
- Get a good medical cover.
- Schedule complete medical check-ups annually.
- Life insurance.
- Accelerate your debt repayments.
- Children – unless they're still in school or disabled, they should not be relying on you.

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Planning in your 60s

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

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How?

1 - SAVING

- Start saving as soon as you can
- Treat your savings as a necessary expense e.g. rent
- Have a savings plan: 10-15% of salary
- Save as much as you can in your pension scheme - you save on taxes and can't access your benefits easily
- Build an emergency fund from your savings in a separate bank account worth 3-6 months worth of living expenses to cater for an emergency/out of job situation
- Pay your major periodic expenses on a monthly basis e.g. school fees
- Have a good medical cover in case of large, unforeseen medical expenses

Wealth ….

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

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

Start early - require Kshs 5,000,000

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

- Assumes return of 10% p.a.

2 - INVESTING

What is Investing?

- Deferring consumption
- Using money to make profits

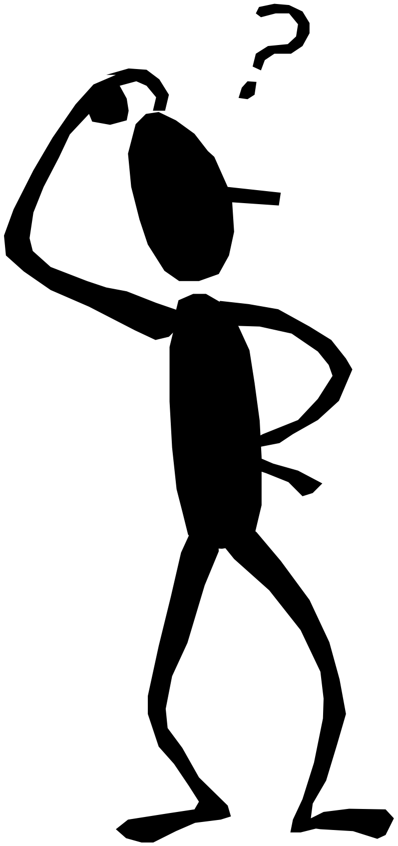
How do you invest?

- Direct
- Collective investment vehicles

What can you invest in?

- Shares
- Interest earning – bonds/deposits/Treasury Bills
- Property
- Offshore assets
- Business

How do I invest?



Formal Plans

- Staff retirement benefits scheme
- Personal pension plans
- Unit Trusts
- Saccos

Informal Savings Plans

- Investment Clubs
- Social networks (merry go rounds, chama)
- Personal savings
- Personal investments
- Business

3 - BUDGETING

- Live within your means - don’t spend more than you earn.
- Make a list of all your income streams and daily expenses
- Expenses - group as necessary and discretionary
- Find ways to cut down your discretionary expenses
- Monthly budget - prepare and work with one that suits you
- Consider your spouse when preparing a budget (2 incomes, common expenses)

ALSO

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

4 - DEBT MANAGEMENT

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WHY DO WE GO INTO DEBT?

- We spend more than we earn
- We want to have what the neighbor /colleague/friend has
- The lure of easily attainable loans
- We borrow to pay back other loans

Good Debt

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

Bad Debt

- Debt for consumables/expenses

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GET OUT OF BAD DEBT!!!!

HOW?

Managing Debt

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

Managing Debt

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

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Managing Debt

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

Planning for Retirement

Planning for Retirement

START EARLY

Retirement Planning Steps..

Before retirement:

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

At retirement:

- Tax
- Take lump sum or not?
- Activities – it's not just about saving, what do you do with all the time on your hands?

Question to ponder...

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

Post Retirement Activities

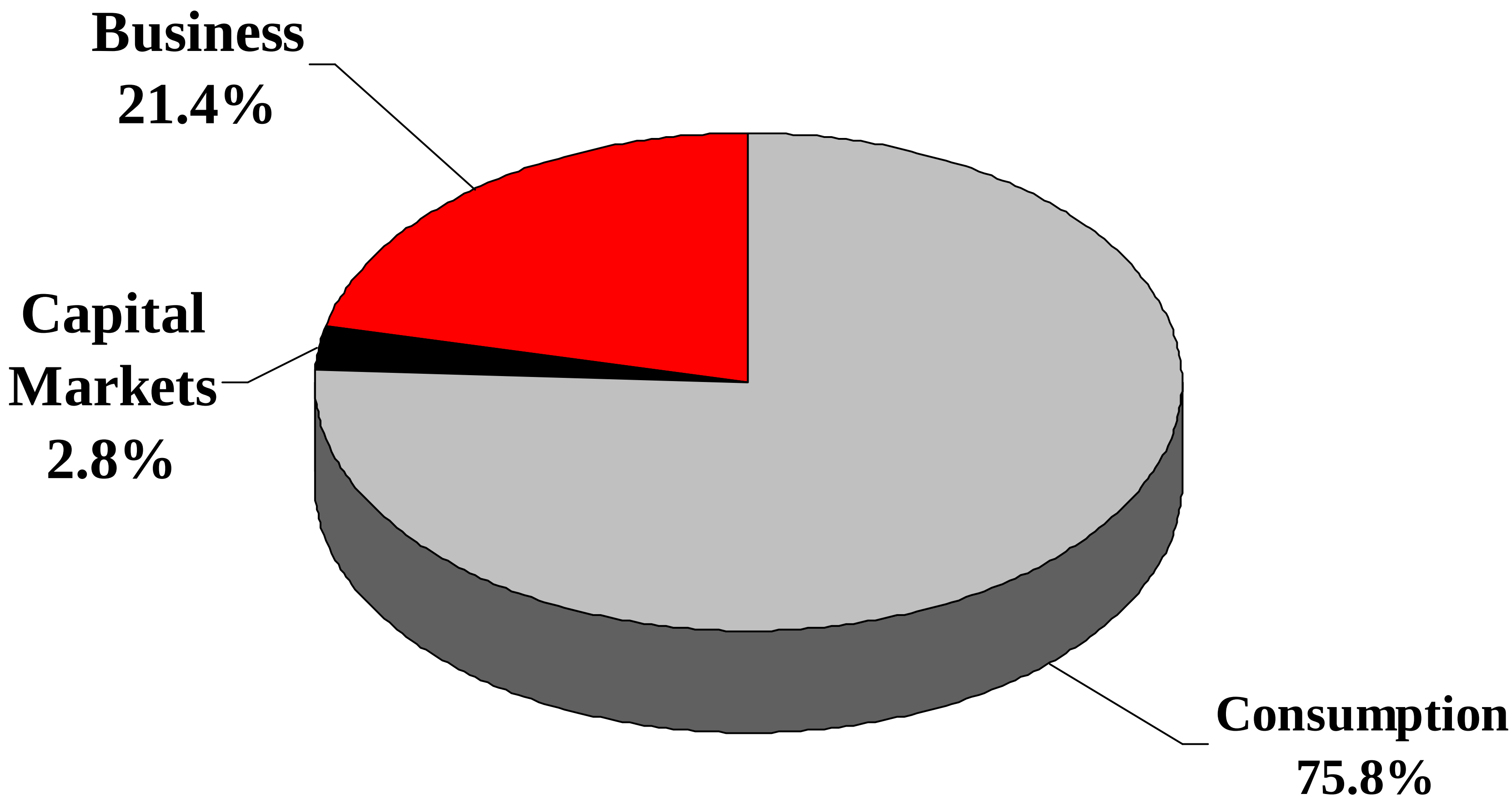
- Rest and relax
- Find another job - politics, abroad
- Start a new business
- Travelling
- Work in an existing own business
- Farm
- Back to school
- Social - alcoholic, religion, charity work, TV

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

Do we eat the Lumpsum or Not?

Now you have retired. Question to ask?

Lump sum benefits utilisation



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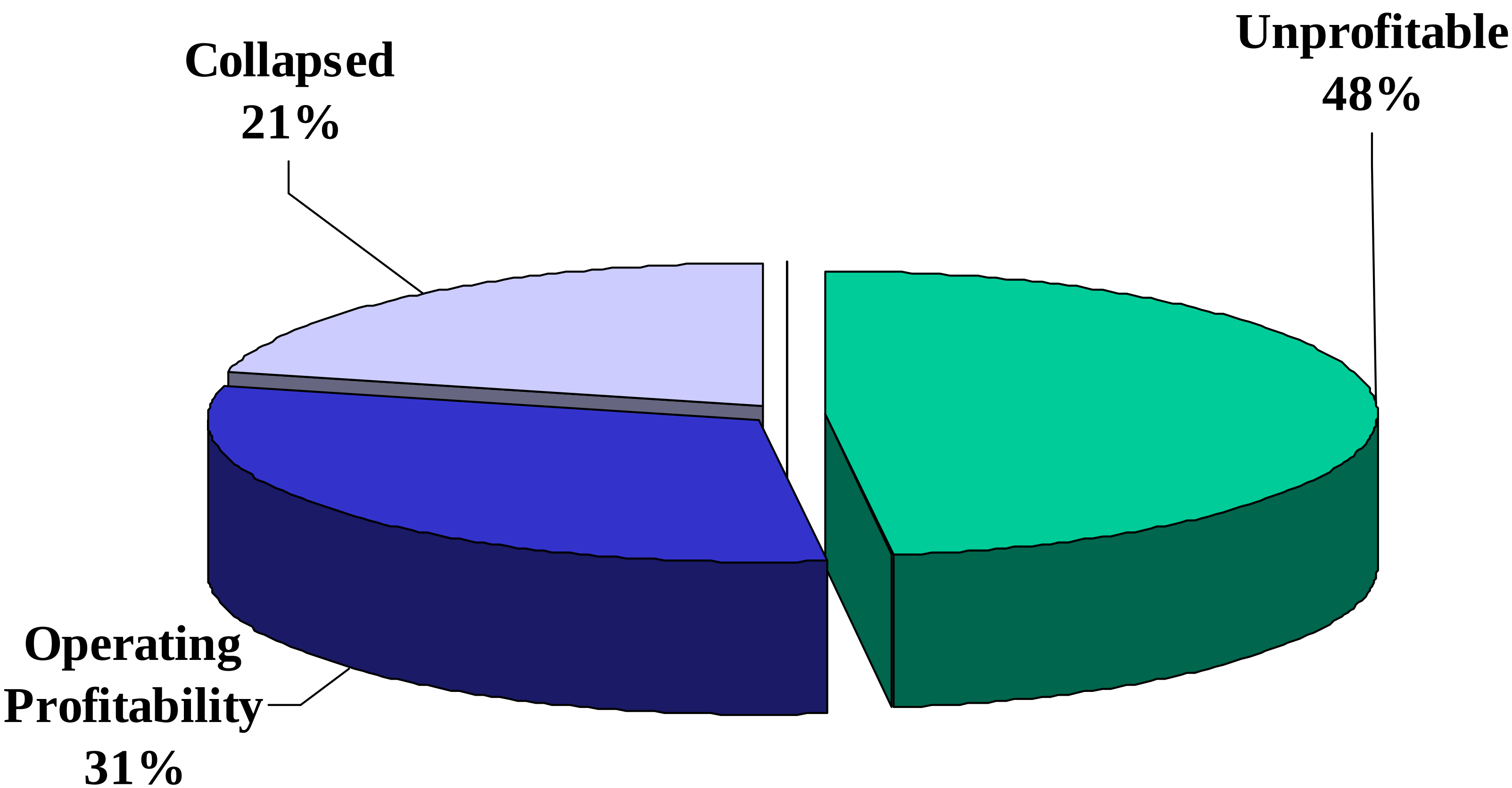
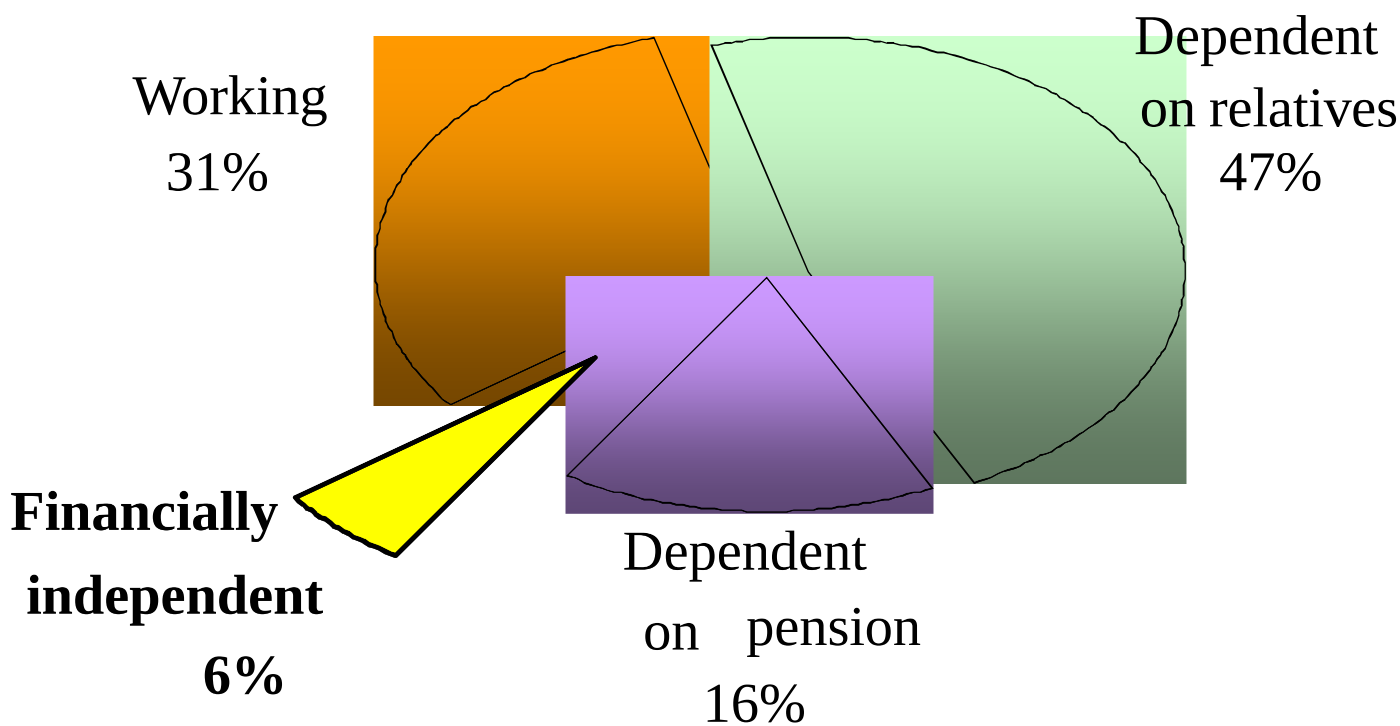
Lump sum benefits utilisation - business



Life in retirement

Very few retirees live comfortably



PLANNING AND SAVING

START NOW!!!

It starts with the person in the mirror

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

The Choice is Yours

Remember:

IF YOU FAIL TO PLAN,

YOU PLAN TO FAIL!

Ten Rules Of Poverty

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

Contd…Ten Rules of Poverty

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

Source: The East African

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Q & A