

STEP

4

Make Saving a Lifelong Habit



“Ugaliing mag-ipon habang ikaw ay nabubuhay.”

Building wealth will be very hard if you don't know how to save or you save only when you can; which doesn't happen often. To achieve financial security, you should learn how to save regularly. Don't stop until you have accomplished all your objectives. *Ibig sabihin dapat gawing “for life” ang pag-iipon. (Kahit ang retiro ay kailangan pa ring mag-ipon para hindi maubos kaagad ang naitabing pera.)* Develop saving into a habit so that it becomes as natural as breathing. Saving will be easier to do if it's automatic.

STRATEGY FOR EFFECTIVE SAVING

Pinoys are known to be big spenders even if they don't have much to spend. Spending is always in their mind. *Hindi pa man natin natatanggap ang sweldo o bonus, alam na natin kung saan at paa-no ito gagastusin. Malayo sa isip ng karamihan ang pagtatabi ng kahit konti para sa kanilang ipon. Kaya pagdating ng pera, sandali lang, ubos na agad.* The attitude of a typical Filipino when it comes to saving can be presented in the following formula:

$$\text{INCOME} - \text{EXPENSE} = \text{SAVINGS}$$

It says that as soon as the average Pinoy receives his regular income, the first thing he does is spend, spend and spend some more. *Kung may matira, yon ang magiging savings. Ang problema, kada-lasan walang natitira. Eto ay maling konsepto sa pag-iipon!* If you follow this formula, there's a big chance that you will not be able to save regularly. A lot of people have the tendency to spend all the money that gets into their hands. *Hangga't may nadudukot na pera sa balsa, maghahanap ng dahilan para magastos ito kahit hindi kailangan. Madalas, malayo pa ang susunod na sweldo ay diyeta na dahil paubos na ang pera.* Due to this attitude towards money, many Pinoys often end-up with zero savings every month.

The formula above tells us that if you spend all your income, your savings will be a big fat zero. But it tells us something more. If you spend more than what you earned (which can happen if you borrow or use your credit card to buy things after you've spent all your money) you will have "negative savings." *Ang ibig sabihin ng "negative savings" ay "utang."* *Wala ka na ngang ipon, nag-*

kautang ka pa; masakit sa ulo. Talagang sasakit ang ulo mo sa problema sa pera kapag puro paggastos ang nasa isip mo.

Whenever you have “negative savings” your expenses will increase in the following months because you have to pay this debt. This makes saving even more difficult and you sink deeper into debt every month. *Kapag ito ay nagtuloy-tuloy, malulubog ka sa utang ng matagal na panahon at mananatiling panaginip na lamang ang inaasam mong kaginhawaan sa buhay.*

The secret to saving effectively is quite simple and that is to:

“spend less than you earn”

It’s not really a secret; it’s plain common sense. But it never fails. Remember that when it comes to saving, what truly matters is not how much you are earn but how much you spend and keep. A person can choose to be a saver or a big spender. The big spender follows the wrong formula for saving. Even if he is earning big bucks he is likely to end up broke and no savings to show for his big income.

Minsan may bank manager na nagchika sa akin na siya’y takang-taka sa isang staff nya dahil malaki ang savings nito kahit na maliit lang ang sweldo at malayo sa kinikita niya. Ang dahilan, na mismo ang manager na rin ang nagsabi, ay siya at kapwa niya officers sa branch ay palaging excited kung paano gagastusin ang parating na pera kagaya ng bonus. Nakalatag na ang plano nila kung saan gigimik o saang bansa mamamasyal at kung anu-ano ang bibilhin ilang buwan pa bago matanggap yung pera. Yung

staff niya ay excited din naman; excited dahil madadagdagan na naman ang kanyang ipon at lalo pa itong lalaki.

In every income group there will always be savers and spenders. It's up to you to choose whether you want to spend first and save last (if there's anything left) or follow the right formula for saving effectively.

INCOME – SAVINGS = EXPENSE

This formula suggests that you **“pay yourself first”** which means that the first thing you should do once you get your salary is set aside a portion as your savings and use whatever is left to cover your expenses. *Sa ganitong paraan ay siguradong magkakaroon ka ng ipon at masasanay ka sa pagkontrol ng iyong gastos para mapagkasya ang natirang pera.*

This method, which is also called **“paying for your future first,”** will not be easy at first especially if you are used to spending to the max. So it's a good idea to start saving small amounts. Open a special bank account for your savings fund, preferably one that doesn't have an ATM card so you're not easily tempted to withdraw the money. *Pagkatanggap mo ng sweldo, ideposito kaagad ang 5% hanggang 20% dun sa savings account. Halimbawa, kung P12,000 ang sweldo mo, magtabi ng P600 hanggang P2,400 bilang savings. Gawin mo ito bago ka magbayad ng bills at gumastos.*



Kung may itinanim, may aanihin.

If 5% is still too big, start with a smaller amount. *Kahit P100 lang ang itatabi mo, pwede na yon kaysa wala. Ang mahalaga sinimulan mo ang tamang paraan ng pag-iipon.* Once you get used to this strategy, gradually increase the amount you set aside for your savings. *Kung nagsimula ka sa P100, subukan mong magtabi ng P200 sa susunod na buwan, tapos gawin mong P300; palaki nang palaki.*

Target to save and invest 20-25% of your monthly income. Saving, like shopping, can also be addictive. *Lalo na pag nakikita mo na lumalaki ang iyong ipon; at sa sobrang tuwa hindi malayong mangyari na aabot sa 30% o higit pa ng iyong kinikita ang iipunin mo. Kung talagang hindi ka makapag-iipon dahil kulang ang iyong kinikita huwag mo na munang pilitin.* In Step 7 you will learn different ways to increase your income and allow you to start saving.

In every rule there is an exception. There will be times when it is not wise to follow the strategy of “paying yourself first.” This is when you are paying off some debts like your credit card dues. It is not smart to keep your money in an account that earns 1%-5% interest in a year if you are paying 3% monthly or 36% yearly interest for your debt. *Talo ka dito! Kung may utang ka, gamitin mo ang perang naitabi para pambayad at itigil muna ang pag-iipon hangga’t di ito nababayaran ng buo. Pero siguraduhin mo na meron kang natitirang sapat na “emergency fund” na hindi mo dapat ginagalaw.* (We will talk about emergency funds in Step 8).

As a rule, you suspend setting aside money for savings if you are paying debts that charge interest higher than what your money is earning. *Kung mas malaki ang binabayaran mong interest sa utang kaysa kinikita ng iyong pera sa bangko o sa ibang investments, pansamantalang itigil ang pag-iipon at gamitin mo ang pe-*

ra na pambayad ng utang. You will be able to save more in the long run if you follow this strategy.

THE WORLD'S GREATEST INVENTION

The genius Albert Einstein, who was named by Time magazine as the “Man of the 20th Century,” was believed to have called it “the greatest invention of mankind” and “the most powerful force in the universe.” You would think he was talking about a spaceship that could take man to another galaxy or Superman come to life. He was actually referring to “**compound interest.**” Whether Einstein really made those remarks or not is no longer important because compound interest is indeed a powerful force when it comes to savings and building wealth.

Many people do not understand or underestimate the enormous power of compound interest. This lack of understanding of its value in wealth building is one of the reasons why people are impatient and not motivated to save. Compound interest can be defined simply as “interest earned on interest.” *Ang ibig sabihin nito ay ang tinubo ng pera mo ay tutubo rin. Para maging malinaw at hindi ka maduling sa kaiisip, sasagutin natin ang isang simple math problem.*

You have a P20,000 investment that earns 10% interest every year. Ang tanong, magkano lahat ang pera mo pagkaraan ng 10 taon?

Those who are not familiar with compounding will compute it this way:

Interest for 1 year	= P20,000 x 10%	= P 2,000
Interest for 10 years	= P 2,000 x 10 years	= P20,000
Total after 10 years	= P20,000 + P20,000 (interest)	= P40,000

P40,000 would be the correct answer if you use “simple interest” in the computation. But thanks to compound interest your money will actually be P51,874 after 10 years. The total interest earned is more than P31,874 instead of just P20,000. This is because the interest earned each year will also earn interest in the succeeding years. *Hindi lang ang original amount na P20,000 ang tumutubo sa mga susunod na taon kundi pati yung kinita na interest.*

YEAR	PRINCIPAL	INTEREST EARNED	TOTAL AMOUNT
Year 1	P 20,000	P 2,000	P 22,000
Year 2	P 22,000	P 2,200	P 24,200
Year 3	P 24,200	P 2,420	P 26,620
Year 4	P 26,620	P 2,662	P 29,282
Year 5	P 29,282	P 2,928	P 32,210
Year 6	P 32,210	P 3,221	P 35,431
Year 7	P 35,431	P 3,543	P 38,974
Year 8	P 38,974	P 3,897	P 42,871
Year 9	P 42,871	P 4,287	P 47,158
Year 10	P 47,158	P 4,716	P 51,874
TOTAL INTEREST :		P 31,874	

Growth of P20,000 over 10 years at 10% interest per year

The table on the previous page shows how the original P20,000 principal grows each year. Notice that the interest earned every year is increasing and not fixed at P2,000. *Dumadagdag kasi ang interest sa prinsipal taun-taon at ang lumalaking prinsipal ang ginagamit sa pagcompute ng 10% interest, hindi ang P20,000.*

YOUR TWO BEST FRIENDS: COMPOUND INTEREST & TIME

The difference between P40,000 and P51,874 may not seem much. That's only because we limited our computation to 10 years. Had we extended our calculations to 30 years, the difference would be about P269,000. For you to gain the enormous benefits of compound interest you need to give it lots of **"time"** to perform its job. The more time you give to make it work its magic, the bigger your money grows. As the old saying goes "time is money" and the story of Aida, Lorna and Fe, will show you that it's a lot of money.

Si Aida, si Lorna at si Fe ay magka-edad at magkababata. Halos sa lahat ng bagay sama-sama at sabay-sabay sila. Sabay nag-aral sa elementary, high school at college sa iisang eskwelahan. Sabay din nag-debut, nagka-boyfriend (magkaibang lalaki siyempre), nagtapos ng Accounting at sabay nakapasok ng trabaho.

Nung kumikita na pare-pareho, dito na naghiwalay ang landas nila. Si Lorna at si Fe gimikera at napakagastos, kaya madalas nauubusan ng pera kahit malayo pa ang sweldo. Si Aida matipid at nagsimula agad na mag-ipon ng P1,000 monthly nung 20 years old pa lang sila. Ginawa ni Aida ang buwanang pag-ipon sa sumunod na 5 taon.

Nung 25 years old na ang magkakaibigan, medyo natauhan na si Lorna at nagsimula na ring mag-ipon. Ganun din ang ginawa niya, nagtabi ng P1,000 monthly sa loob ng 5 taon. Nang tumungtong na

sila ng edad 30, nagdesisyon si Fe na dapat na siyang magtipid at mag-ipon. At gaya ng dalawa niyang best friends, nag-ipon din siya ng P1,000 monthly sa loob ng 5 taon.

Ang bawat isa ay nakapagtabi ng P60,000 (P1,000 x 12 months x 5 years). Ang kaibahan lang ay nauuna ng limang taon si Aida kay Lorna at sampung taon kay Fe. Nung magretire sila sa edad na 65 masayang-masaya si Aida sa naipon nya. Yung dalawa nagtataka kung bakit hindi kasing laki ang kanilang pera, e, pare-pareho lang naman ang halagang itinabi nilang tatlo.

The main reason why there's a big difference in their total savings is the amount of **time** that **compound interest** was able to work its magic. Although the three set aside the same amount of money (P60,000), they did it at different times. Look at the table below and see how the savings of the three ladies grew over the years.

	TOTAL AMOUNT SAVED	TOTAL VALUE OF SAVINGS			
		AGE 40	AGE 50	AGE 60	AGE 65
AIDA (started age 20)	P60,000	P336,000	P873,000	P2.26M	P3.65M
LORNA (started age 25)	P60,000	P209,000	P542,000	P1.41M	P2.26M
FE (started age 30)	P60,000	P130,000	P336,000	P873,000	P1.41M

Growth of Aida, Lorna & Fe's savings at 10% interest per year

Aida's initial savings of P60,000 grew to P3,650,000 in a span of 45 years. She got this enormous increase in her total savings because her money had more time to earn interest. Fe, who waited 10

years before she started saving, only managed to accumulate P1,410,000; less than half of Aida's money. *Dahil hindi nagsimula ng maaga si Fe, nawalan siya ng pagkakataon na kumita ng karamagdagang interest na P2,240,000.* So you see, time really is money – lots of money!

The lesson of our short story is quite obvious and that is to **“start saving as early as possible.”** Every time you delay building your savings, you lose the opportunity to earn more. If you desire to retire in comfort, the right time to start saving is NOW! Tomorrow may be too late.

Our story also illustrates that it takes time to build wealth. Unless you win the lotto, profit through illegal activities or find oil or Yamashita's treasure in your backyard, it normally takes many, many years to accumulate the amount of funds that will sustain you comfortably for the rest of your life even without a job or business. *Kaya habaan mo ang pasensya at panatilihing nakatutok sa iyong mga pangarap.* Good things will eventually come to those who are patient and persistent.

CREATING YOUR SAVINGS PLAN

Now that you understand how savings grow, it's time to create your savings plan. Look at your financial goals and take note of the amounts needed and the deadline you set to accomplish it. Use the tables in the next few pages to determine how much you need to save in order to reach your target.

Kahit ayaw mo sa math, mahalaga na malaman mo kung paano gamitin ang mga tables. So take time to understand it. You might

get confused at first, but with a little practice, you will discover it's not hard to use and you will be able to create a fairly good savings plan just by using these tables and the calculator of your cellphone.

Estimating your money's growth

Table 4A shows the growth of P1,000 over the years at different rates of interest. Use the following steps to determine how much your money will grow after a certain period.

1. Select the interest rate that you expect your money will earn. For example, 8% per year.
2. Choose the number of years you want your money to grow. For example, 25 years.
3. Look at Table 4A and find out where the interest rate in #1 and number of years in #2 cross. This is how much P1,000 will grow. In our example it would be P6,848.
4. Calculate the “multiplying factor” by dividing your existing money by P1,000. For example, if you have P20,000 today, the multiplying factor will be 20. ($P20,000 \div P1,000$)
5. To determine how much your existing money will grow, multiply the amount in #3 by the multiplying factor in #4. In our example, P20,000 will grow to **P136,960** ($P6,848 \times 20$) in 25 years if it earns 8% per year.

Para mas lalo mong maintindihan ang paggamit ng Table 4A, sagutin mo ang mga sumusunod:

YEARS	GROWTH OF P1,000					
	5%	6%	7%	8%	9%	10%
5	1,276	1,338	1,403	1,469	1,539	1,611
10	1,629	1,791	1,967	2,159	2,367	2,594
15	2,079	2,397	2,759	3,172	3,642	4,177
16	2,183	2,540	2,952	3,426	3,970	4,595
17	2,292	2,693	3,159	3,700	4,328	5,054
18	2,407	2,854	3,380	3,996	4,717	5,560
19	2,527	3,026	3,617	4,316	5,142	6,116
20	2,653	3,207	3,870	4,661	5,604	6,727
21	2,786	3,400	4,141	5,034	6,109	7,400
22	2,925	3,604	4,430	5,437	6,659	8,140
23	3,072	3,820	4,741	5,871	7,258	8,954
24	3,225	4,049	5,072	6,341	7,911	9,850
25	3,386	4,292	5,427	6,848	8,623	10,835
26	3,556	4,549	5,807	7,396	9,399	11,918
27	3,733	4,822	6,214	7,988	10,245	13,110
28	3,920	5,112	6,649	8,627	11,167	14,421
29	4,116	5,418	7,114	9,317	12,172	15,863
30	4,322	5,743	7,612	10,063	13,268	17,449
31	4,538	6,088	8,145	10,868	14,462	19,194
32	4,765	6,453	8,715	11,737	15,763	21,114
33	5,003	6,841	9,325	12,676	17,182	23,225
34	5,253	7,251	9,978	13,690	18,728	25,548
35	5,516	7,686	10,677	14,785	20,414	28,102
36	5,792	8,147	11,424	15,968	22,251	30,913
37	6,081	8,636	12,224	17,246	24,254	34,004
38	6,385	9,154	13,079	18,625	26,437	37,404
39	6,705	9,704	13,995	20,115	28,816	41,145
40	7,040	10,286	14,974	21,725	31,409	45,259

Table 4A – Growth of P1,000 at various interest rates

YEARS	TOTAL VALUE OF P1,000 MONTHLY SAVINGS					
	5%	6%	7%	8%	9%	10%
5	66,308	67,645	69,009	70,399	71,817	73,261
10	150,935	158,170	165,797	173,839	182,315	191,249
15	258,943	279,312	301,548	325,825	352,331	381,270
16	283,890	308,070	334,657	363,891	396,041	431,397
17	310,084	338,555	370,083	405,003	443,684	486,536
18	337,589	370,868	407,988	449,403	495,616	547,190
19	366,468	405,120	448,548	497,355	552,222	613,909
20	396,791	441,427	491,946	549,144	613,921	687,300
21	428,631	479,913	538,382	605,075	681,174	768,030
22	462,063	520,707	588,069	665,481	754,480	856,833
23	497,166	563,950	641,234	730,720	834,383	954,516
24	534,024	609,787	698,120	801,177	921,478	1,061,968
25	572,725	658,374	758,988	877,271	1,016,411	1,180,165
26	613,361	709,877	824,118	959,453	1,119,888	1,310,181
27	656,030	764,469	893,806	1,048,209	1,232,678	1,453,199
28	700,831	822,337	968,372	1,144,066	1,355,619	1,610,519
29	747,873	883,678	1,048,158	1,247,591	1,489,624	1,783,571
30	797,266	948,698	1,133,529	1,359,399	1,635,690	1,973,928
31	849,129	1,017,620	1,224,876	1,480,150	1,794,903	2,183,321
32	903,586	1,090,677	1,322,618	1,610,562	1,968,444	2,413,653
33	960,765	1,168,118	1,427,201	1,751,407	2,157,604	2,667,019
34	1,020,804	1,250,205	1,539,105	1,903,520	2,363,788	2,945,720
35	1,083,844	1,337,217	1,658,843	2,067,802	2,588,529	3,252,292
36	1,150,036	1,429,450	1,786,962	2,245,226	2,833,497	3,589,522
37	1,219,538	1,527,217	1,924,049	2,436,844	3,100,511	3,960,474
38	1,292,515	1,630,850	2,070,732	2,643,791	3,391,557	4,368,521
39	1,369,140	1,740,701	2,227,683	2,867,295	3,708,798	4,817,373
40	1,449,597	1,857,144	2,395,621	3,108,678	4,054,589	5,311,111

Table 4B – Total value of P1,000 monthly savings at various interest rates

- a. *Gaano na kalaki ang P15,000 pagkalipas ng 30 years kung ang kinikita nito ay 7% taun-taon? (Sagot – P114,180)*

- b. *Meron kang P50,000 na savings ngayon. Kalahati nito kumikita ng 6% per year. Ang isang kalahati ay 9% ang interest. Magkano lahat ang pera mo pagkaraan ng 40 years? (Sagot – P1,042,375; ayan milyonaryo ka na!)*

Estimating required savings to reach your goal

Table 4B shows the total amount of money you will accumulate if you save P1,000 every month. To determine how much money you will have by saving a certain amount monthly follow these steps:

1. Select the interest rate that you expect your money will earn. For example, 10% per year.

2. Choose the number of years you will be saving. For example, 20 years.

3. Look at Table 4B and find out where the interest rate in #1 and the number of years in #2 meet. This is the total amount of money you will have by saving P1,000 monthly. In our example it would be P687,300.

4. Calculate the “multiplying factor” by dividing your target monthly savings by P1,000. For example, if you intend to save P3,000 monthly, the multiplying factor will be 3.

5. To determine the amount of money you will have after the saving period, multiply the amount in #3 by the multiplying

factor in #4. In our example, your P3,000 monthly savings will accumulate to **P2,061,900** ($P687,300 \times 3$) in 20 years if it earns 10% per year.

- 6a. If you want to know how much you need to save monthly to reach a certain goal, determine the “saving factor” first. It is calculated by dividing your target amount by the figure in #3. For example, if your goal is to accumulate P3 million, the saving factor will be 4.36 ($P3,000,000 \div P687,300$).
- 6b. To determine the required monthly savings to reach your target, multiply P1,000 by the saving factor. In our example, you need to save **P4,360 monthly** ($P1,000 \times 4.36$) to accumulate P3 million in 20 years, assuming you earn 10% interest yearly.

Sagutin mo uli ang mga sumusunod para makapagpraktis.

- a. *Kung mag-iipon ka ng P2,500 monthly, magkano ang magiging pera mo sa loob ng 32 years kung ang interest ay 8% bawat taon? (Sagot – **P4,026,405**; wow, ang laki!)*
- b. *Sabi ni kumander kailangan nyo ng P5 million para maging maayos ang inyong kalagayan kapag kayo’y retired na. Magkano ba dapat ang inyong monthly savings sa natitirang 30 years na pagtatrabaho kung 9% ang kinikita ng inyong pera. (Sagot – **P3,057 monthly**; kayang-kaya!)*

Savings plan for your goals

For each of your financial goals, come up with a savings plan that specifies how much you need to save every month and for how long to reach your target. Summarize your plan like this:

GOAL	AMOUNT	TARGET DATE	MONTHLY SAVINGS	SAVING PERIOD
Retirement Fund	P 5,000,000	2038	P 4,500	2012 - 2037
House D/P	P 500,000	2018	P 2,600	2008 - 2017
Car D/P	P 300,000	2013	P 4,100	2008 - 2012

You are probably wondering, “*saan naman kaya ako makakakuha ng 8%-10% na yearly interest?*” Well, you have several options. In Step 10 you will learn about the different investment products which can earn 10% or more in a year.

Rule of 72 and Rule of 115

The Rule of 72 is used to estimate how long it will take for your money to double given a certain interest rate. This is done by dividing 72 by the interest rate. For example, if your money earns 8% per year, it will double in 9 years (72 ÷ 8). The Rule of 72 is accurate for interest rates below 20%.

If you reverse the computation, you will be able to determine the interest rate required for your money to double within a specified period. For example, if you want your money to double in 6 years, it should earn 12% (72 ÷ 6).

A close relative of the Rule of 72 is the Rule of 115 which tells you how long your money will triple given a certain interest rate.