FINANCIAL WELLNESS

PROGRAM OUTLINE

- Defining Financial Wellness
- Benefits of Financial Wellness
- Financial Distress Indicators
- Financial Discipline
- Retirement Planning
- Personal Budgeting

OBJECTIVES

- To help participants understand financial wellness
- To help participants identify red flags/indicators of financial illness.
- Help in coming up with a financial discipline model
- Enable participants to budget/control their incomes and expenses
- To improve the financial health of the employee, family and the organisation

WHAT IS FINANCIAL WELLNESS?

- Can be defined from the employer and employee perspectives.
- **Employer-** is a program or set of programs designed to improve employees' financial behaviour and outcomes while also driving business impact.
- **Employee-** this is holistic and defined by health and not wealth. It is important to remember that the goal of financial wellness is to improve the overall financial health of an employee.

ELEMENTS OF FINANCIAL WELLNESS

- **Spending-** to be financially well, an individual must understand their spending, including what they are spending on groceries, clothing, rentals etc and how much they are spending. Most importantly, an individual must spend less than they earn so they are able to set aside money to reach their financial goals.
- **Emergencies-** planning for emergencies is a key component of financial wellness. Without sufficient emergency savings it is very difficult to be financially well as any unforeseen event can undo all the positive financial behaviours of an individual's past.

ELEMENTS OF FINANCIAL WELLNESS

- **Guidance-** is the most important component. With so many products and services in the market place designed to separate an individual from their money, we all need an independent and trustworthy source of information to guide us towards the right decisions.
- **Benefits-** HR professionals provide employees with great benefits programs. However, many may struggle to understand and use all their benefits effectively. To be financially well, individuals must understand their benefits and be able to maximise the benefit they receive from the packages they are offered.

ELEMENTS OF FINANCIAL WELLNESS

- **Investments-** in order to build wealth, individuals must find long term investments and diversify their portfolios. Knowing what to invest in and what to avoid has become a huge industry, however, it can be difficult to know whom to trust. To be successful, an individual must understand how to invest their money.
- When an employee is able to understand and conquer all of the elements of financial wellness, they can be considered financially well.

BENEFITS OF FINANCIAL WELLNESS

- **Employer-** increased productivity and profitability, better employee-employer relations, higher staff morale, increased retention levels, lower fringe benefit costs, lower transaction costs, improvement in the areas of absenteeism, leaving early, mistakes, lack of job concentration and accidents.
- **Employees-** As employees move into a position of effectively managing the income they earn, they enjoy the benefits of:
- Less financial stress, reduction of debt, salaries that go further, savings and investments increases, financial goal realisation and greater financial security and strength.

FINANCIAL DISTRESS INDICATORS

- **Little or no savings-** If you do not have enough money set aside to cover at least a few months worth of expenses you are inviting disaster.

- **Lack of a budget-** Navigating through finances without a budget is like driving across the country without a map.

FINANCIAL DISTRESS INDICATORS

- **Lack of a sufficient health insurance-** Health care isn't cheap. One unexpected health issue without proper coverage could ruin your life.

FINANCIAL DISTRESS INDICATORS

- **Unhealthy attitudes about money-** The way we think about money has a significant impact on the financial decisions we make.

- **Depending on parents, friends or others to help out-** Relying on outside help to pay the bills is not a long-term solution.

- **Inadequately funding a retirement account-** Retirement security is your responsibility. Make sure you are in control of your future.

FINANCIAL DISTRESS INDICATORS

- **Getting turned down for a loan-** If you have recently applied for a loan or line of credit either through a bank and have been turned down, you probably have a problem.
- **Using payday loans-** Desperate times call for desperate measures. Avoiding these expensive short-term loans can keep you from going into further financial trouble.
- **Fighting about money with your spouse-** Learning to deal with money together and openly may be one of the most difficult hurdles any couple must overcome.

FINANCIAL DISTRESS INDICATORS

- **Failing to participate in family financial decisions-** When one person in the family holds the burden of making most of the financial decisions it can lead to more than money problems.
- **Misrepresenting purchases to your spouse-** Lying about money is a very dangerous road that can lead to deception in other areas of the relationship.
- **Paying only the minimum on your credits-** At first glance that minimum payment may make any purchase seem affordable, but it can really cost you in the long run.
- **Investing your money inappropriately-** Balance out your investment portfolio.

FINANCIAL DISCIPLINE

- For many people today, debt is simply a fact of life. It is the way they pay for just about everything, from a house, a car, clothing, education to groceries.

FINANCIAL DISCIPLINE

- **Good debt-** There is no better example of the old adage "it takes money to make money" than good debt. Good debt helps you to generate income and increases your net worth. Four notable examples of good debt include:

FINANCIAL DISCIPLINE

- **College Education debt-** An investment in a technical or college degree is likely to pay for itself within just a few years of the newly educated worker entering the workforce.

FINANCIAL DISCIPLINE

- **Small business ownership-** Making money is the whole point of starting a business. Earning income is primarily a benefit of entrepreneurship. Borrowing to start a business is therefore good borrowing/good debt.

- **Real estate-** There are a variety of ways to make money in real estate. On the residential front, the simplest strategy often involves buying a house and living in it before selling at a profit. Residential real estate can also be used to generate income, by renting it out. Commercial real estate can also be an excellent source of cash flow and capital gains for investors.

FINANCIAL DISCIPLINE

- **Investing -** Short-term investing provides an opportunity to generate income, and long-term investing may be the best opportunity most people have to generate wealth. The wide variety of available investments from traditional stocks, the money market, precious metals (just to name a few) provides an array of choices for just about every need and every risk tolerance.

FINANCIAL DISCIPLINE

- **Bad debt-** Certain debts are downright bad. Items that fit into this category include all debts incurred to purchase depreciating assets. In other words, "if it won't go up in value or generate income, you shouldn't go into debt to buy it." Some particularly notable items related to bad debt include:
  - **Cars –** paying interest on a car is simply a waste of money. By the time you leave the car lot, the vehicle is already worth less than it was when you bought it.
  - **Credit cards-** they are one of the worst forms of bad debt. The interest rates charged are often significantly higher than the rates on consumer loans and the payment schedules are arranged to maximise costs for the consumer.

FINANCIAL DISCIPLINE

- **Clothes, consumables, others goods and services-** It is often said that clothes are worth less than half of what consumers pay to purchase them. If you look around a used clothing store, you'll see that "half" is being generous. In addition to clothing, vacations, fast food, groceries and gasoline, these are all items commonly bought with borrowed money. Every penny spent in interest on these items is money that could have been used more wisely elsewhere.

RETIREMENT PLANNING

- Is the process of setting up retirement income goals and the actions and decisions necessary to achieve those goals. It includes identifying sources of income, estimating expenses, implementing a savings program and managing assets. Future cash flows are estimated to determine if the retirement goal will be achieved.
- In the simplest sense, retirement planning is the planning one does to be prepared for life after paid work ends, not just financially but in all aspects of life. The non-financial aspects include such lifestyle choices as how to spend time in retirement, where to live, when to completely quit working, etc.

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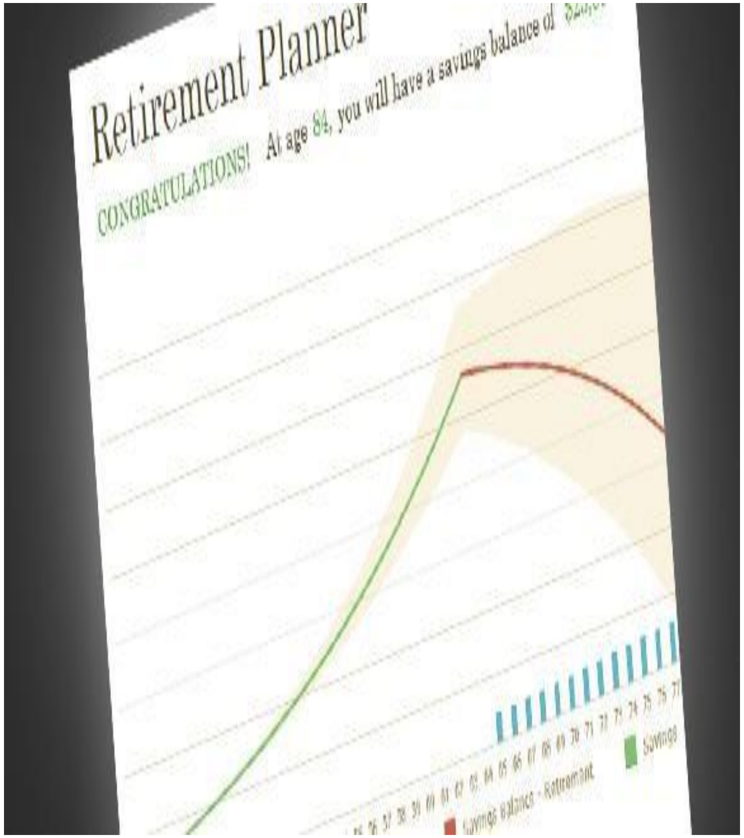
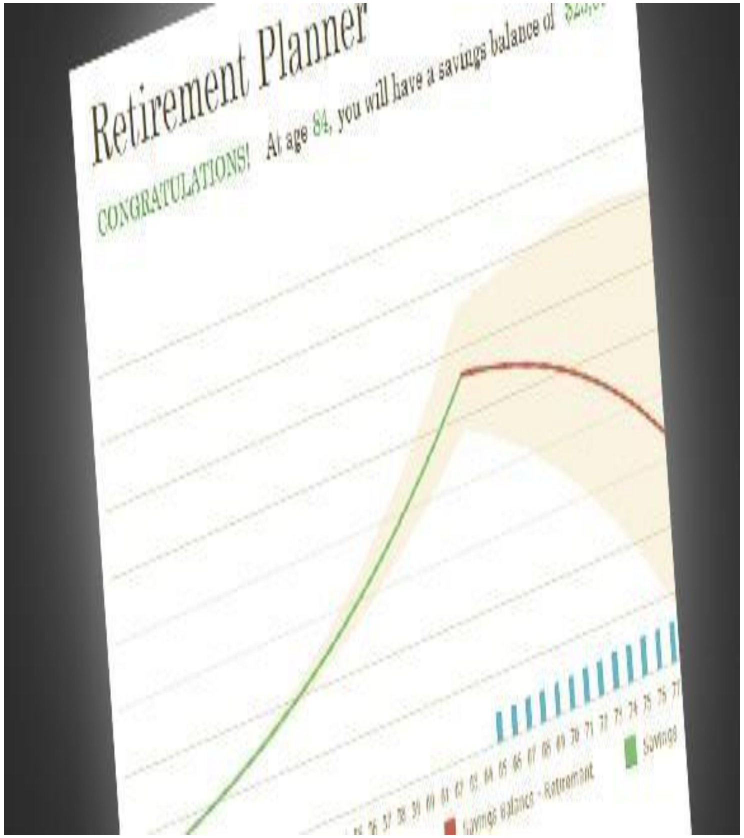
RETIREMENT PLANNING

- The emphasis one puts on retirement planning changes throughout different life stages. Early in a person's working life, retirement planning is about setting aside enough money for retirement.



RETIREMENT PLANNING

- During the middle of an individual's career, it might also include setting specific income or asset targets and taking steps to achieve them. In the few years leading up to retirement, financial assets are more or less determined, and so the emphasis changes to non-financial, lifestyle aspects.



RETIREMENT PLANNING

- **The Spending phase-** the period in a person's life following retirement in which earning income has come to a stop and the person is living off retirement plans, investments, and/or money saved for retirement (personal savings).

- During this phase, income may decrease substantially, but this likely coincides with a decrease in expenses. Children are usually no longer dependent on their parents and major assets such as mortgages may be paid off. Travelling, relaxing and enjoying retirement are the principal goals of someone living in the spending phase.

RETIREMENT PLAN OPTIONS

- **Pension-** this is the easiest retirement plan, where both the employer and employee make a monthly contribution, with the employer usually contributing more. The funds contributed are professionally managed by fund managers. All one has to do is stay on the job longer, contribute, retire and collect. Most pension plans nowadays are the defined contribution type which do not make cost of living adjustments. If one does not save additional funds, their purchasing power is diminished and they will have to accept a lesser lifestyle.

- Besides the compulsory pension scheme, one can also make additional contributions in order to increase the retirement fund.

RETIREMENT PLAN OPTIONS

- **Cash value life insurance plan-** this is where you pay for a policy that develops cash value. Once you have accumulated that cash value, you can take a loan against your death benefit to serve as income during retirement. The great thing is that you can tap into the funds any time you like, at any age, and the money has already been taxed, so you do not pay tax on any of the distributions you get.

RETIREMENT PLAN OPTIONS

- **Social Security-** this is compulsory and the benefit is actuarially determined. Every formally employed person in Zimbabwe contributes to NSSA and they benefit on reaching age 65.

- **Investing in stocks-** where you get income in the form of dividends or capital appreciation.

RETIREMENT PLAN OPTIONS

- **Real Estate-** can get income through rental income and capital gains taxes where you start buying, renovating and selling property. Can even buy land at development stage and sell once fully developed.

SAVING VS SPENDING

- **Make saving a priority-** sit down and figure out what you would like to save money for- a car, a house, retirement, college, dream vacation-and how much it will cost. Then make your plan

SAVING VS SPENDING

- Set a timeline for when you would like to reach your goal

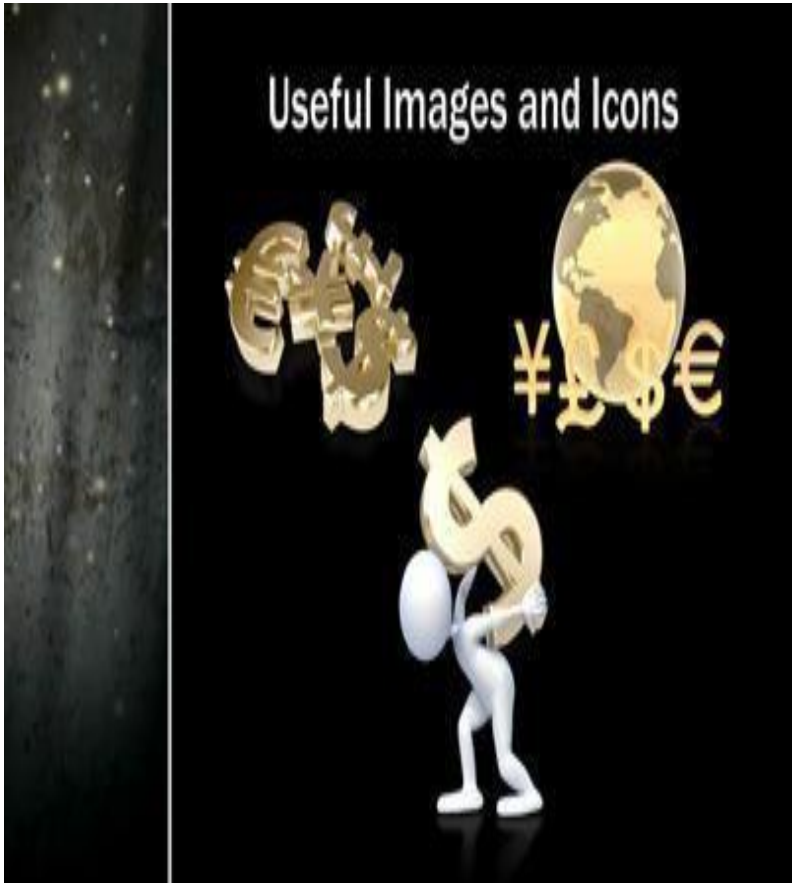
- Set a schedule by dividing the goal amount by the number of pay periods between now and your goal date.

SAVING VS SPENDING

- Be vigilant by treating your savings contributions just like any other must-pay expense, such as rent or groceries. (include it in your budget).

SAVING VS SPENDING

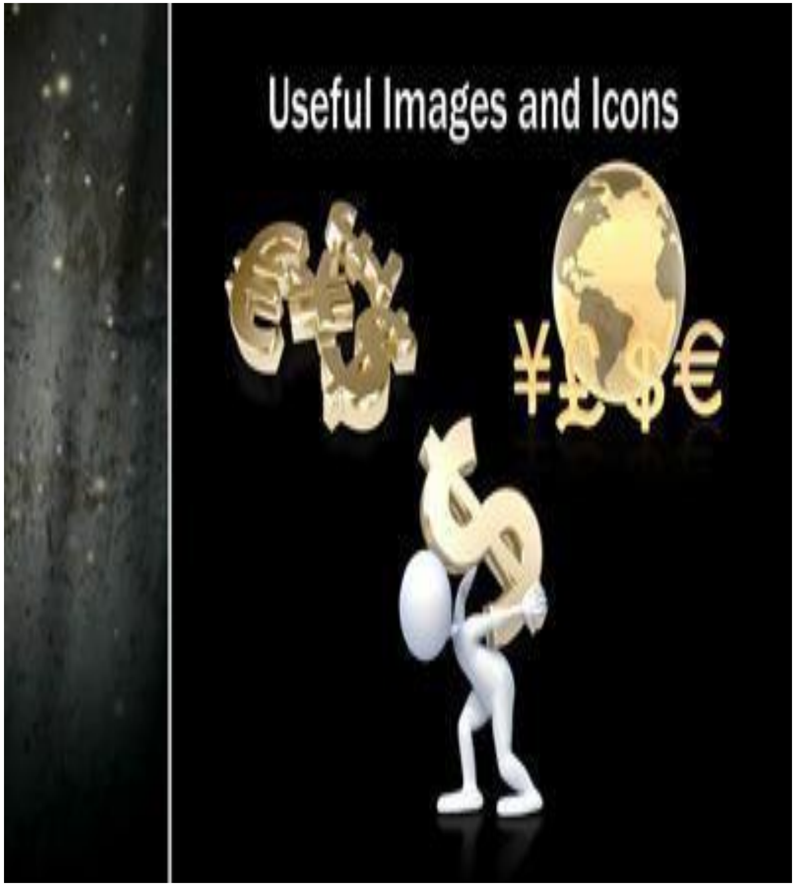
- **Find Money to save-** while it may seem difficult sometimes just to make ends meet, chances are you have extra money you do not even know about. Here are some ways to find it:



SAVING VS SPENDING

- Keep track of everything you spend on for a week. You might be surprised by what you are buying, and what you can do without.

- Make purchases with cash (difficult in our current environment). This can help you stick to a budget and avoid impulse purchases. Simply decide ahead of time how much you want to spend and then set aside that amount in cash before you go shopping.



SAVING VS SPENDING

- Lower your bills. Many creditors will give borrowers lower interest rates if they are asked. Conserving electricity, water and gas can make a huge difference.

- Rank your nonessential expenses. Keep the ones you like the best and cut the items on the bottom of the list.

- Pack a lunch or cook more dinners at home.

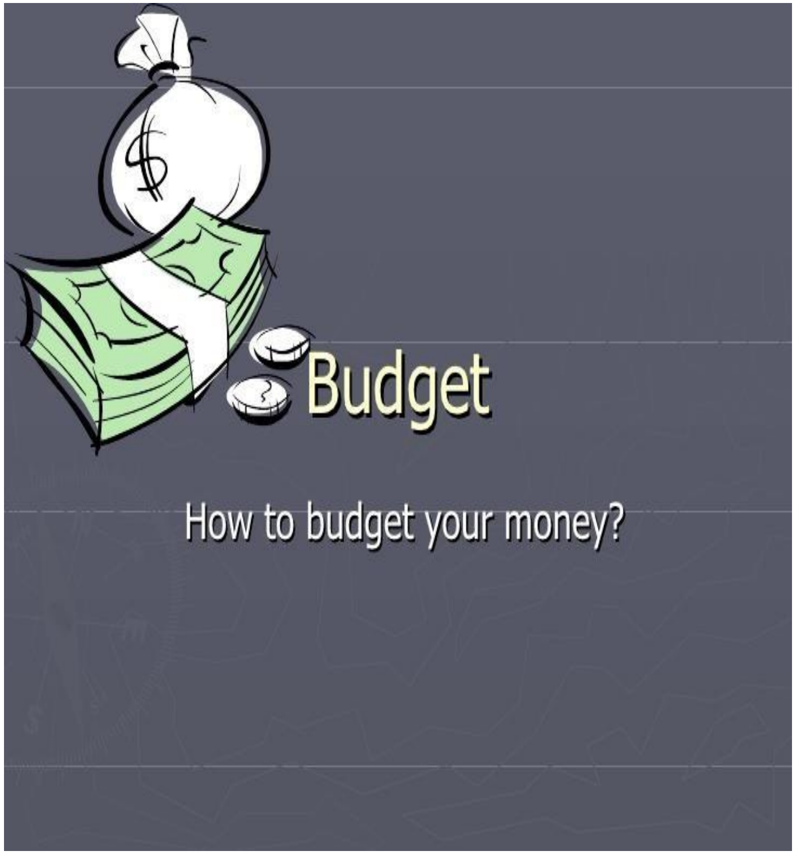
SAVING VS SPENDING

- **Pay yourself first-** you are probably inclined to pay everybody else first- whether it is your landlord, the grocer, the barber/hairdresser or the electricity company. But it is vital to start paying yourself by saving money. Once you have made a contribution to your financial longevity and well being, then you can divide up your money to cover everything else.

- Most banks can make this easier by automatically transferring funds from your checking account to your savings account, money market, mutual fund and other funds. Your employer can also deduct the funds directly from the salary and pay into a specified investment/savings account you will have nominated.

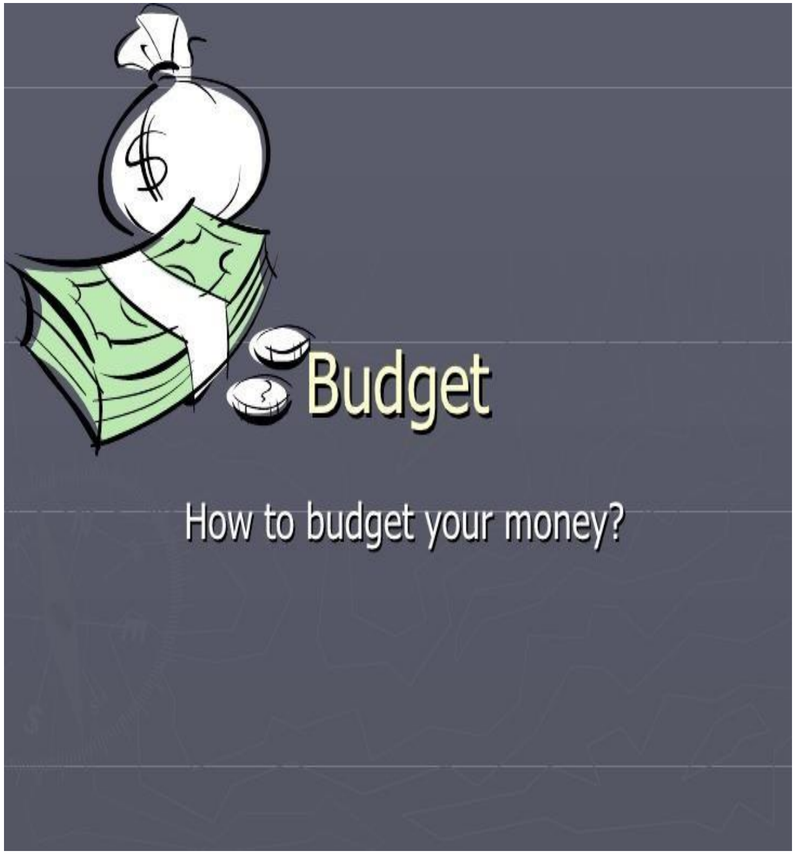
PERSONAL BUDGETING

- A personal or home budget is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending, future plans and personal debt are considered when creating a personal budget.



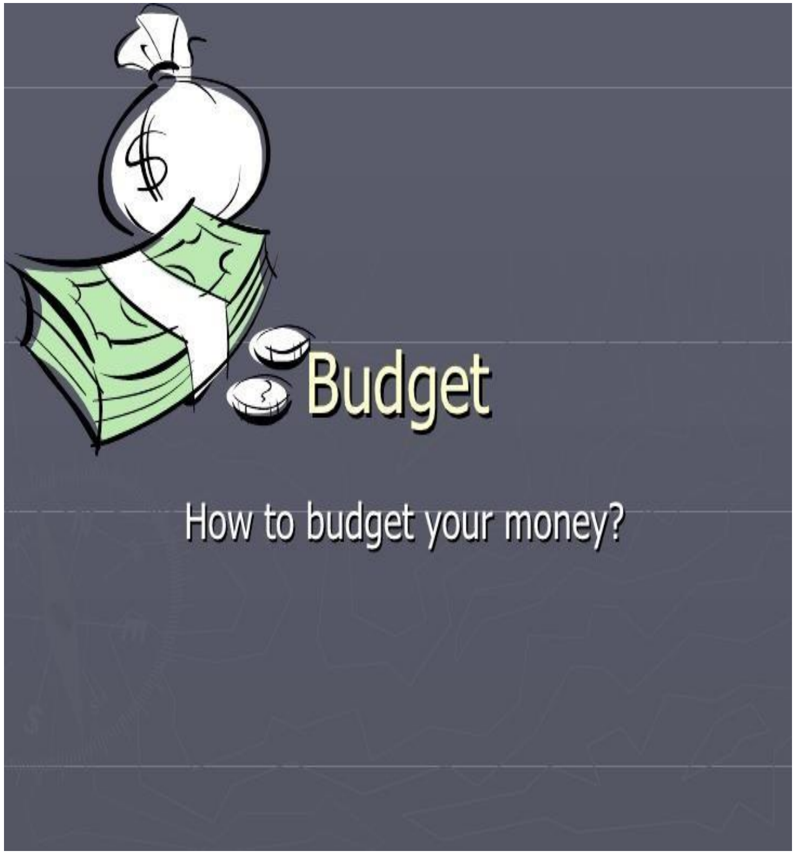
PERSONAL BUDGETING

- Personal budgeting, while not particularly difficult, tends to carry a negative connotations among many people. Sticking to a few basic concepts helps to avoid common pitfalls of budgeting.



PERSONAL BUDGETING

- **Purpose-** a budget should have a purpose or defined goal that is achieved within a certain period of time. Knowing the source and amount of income and the amounts allocated to expense events are as important as when those cash flow events occur.



PERSONAL BUDGETING

- **Simplicity-** the more complicated the budgeting process, the less likely a person is to keep up with it. The purpose of a personal budget is to identify where income and expenditure is present in the common household, it is not to identify each individual purchase ahead of time. How simplicity is defined with regards to the use of budgeting categories varies from family to family, but many small purchases can generally be lumped into one category eg car expenses, household items etc.

PERSONAL BUDGETING

- **Flexibility-** The budgeting process is designed to be flexible; the consumer should have an expectation that a budget will change from month to month, and will require monthly review. Cost overruns in one category of a budget should in the next month be accounted for or prevented. For example, if a family spends $40 more than they planned on food in spite of their best efforts, next month's budget should reflect an approximate $40 increase and corresponding decrease in other parts of the budget.
- "Busting the budget" is a common pitfall in personal budgeting; frequently busting the budget can allow consumers to fall into pre-budgeting spending habits. Anticipating budget-busting events (and underspending in other categories), and modifying the budget accordingly, allows consumers a level of flexibility with their incomes and expenses.

PERSONAL BUDGETING

- **Budgeting for irregular income-** Special precautions need to be taken for families operating on an irregular income. Households with an irregular income should keep two common major pitfalls in mind when planning their finances: spending more than their average income, and running out of money even when income is on average.
- Clearly, a household's need to estimate their average (yearly) income is paramount; spending, which will be relatively constant, needs to be maintained below that amount. A budget being an approximate estimation, room for error should always be allowed so keeping expenses 5% or 10% below the estimated income is a prudent approach. When done correctly, households should end any given year with about 5% of their income left over. Of course, the better the estimates, the better the results will be.

PERSONAL BUDGETING

- **Budgeting for irregular income (cont'd)-** to avoid running out of money because expenses occur before the money actually arrives a "safety cushion" of excess cash (to cover those months when actual income is below estimations) should be established. There is no easy way to develop a safety cushion, so families frequently have to spend less than they earn until they have accumulated a cushion. This can be a challenging task particularly when starting during a low spot in the earning cycle, although this is how most budgets begin.

ALLOCATION GUIDELINES

- **The 60% solution-** this originates from Richard Jenkins' (former MSN Money's editor in chief) suggestion that 60% of a household's gross income should be spent on fixed expenses like government taxes, social security, insurance, regular bills and living expenses like food, clothing, car and house payments.

- The other 40% breaks down as follows, with a 10% allocation for each category:

  - Retirement

ALLOCATION GUIDELINES

- Long term savings-money set aside for car purchases, major home fix ups or to pay up substantial debts.
- Irregular expenses-vacations, major repair bills, new appliances etc
- Fun money- entertainment
- **Housing as 25% of spendable income-** Another allocation principle is that housing expenses (mortgage or rent) should be limited to 25% of spendable income. The balance of the income is then distributed to the other expenses.

FOLLOWING A BUDGET

- Once a budget is constructed and the proper amounts are allocated to their proper categories, the focus for personal budgeting turns to following the budget. As with allocation, there are various methods available for following a budget.
- **The Envelope system-** is a method of budgeting where on a regular basis (i.e. monthly, biweekly, etc.) a certain amount of money is set aside for a specific purpose, or category, in an envelope marked for that purpose. Then anytime you make a purchase you look in the envelope for the type of purchase being considered to see if there are sufficient funds to make the purchase. If the money is there, all is well. Otherwise, you have three options: 1) you do not make the purchase; 2) you wait until you can allocate more money to that envelope; 3) you sacrifice another category by moving money from its associated envelope.

FOLLOWING A BUDGET

- **The Envelope system (cont'd)-** The flip side is true as well, if you do not spend everything in the envelope this month then the next allocation adds to what is already there resulting in more money for the next month.
- With envelope budgeting, the amount of money left to spend in a given category can be calculated at any time by counting the money in the envelope. Optionally, each envelope can be marked with the amount due each month (if a bill is known ahead of time) and the due date for the bill.

FOLLOWING A BUDGET

- **Spreadsheet budgeting with date shirting-** Budget spreadsheets with date-shifting typically offer a detailed view of a 12-month, income and expense, plan. A good way to follow and manage a budget when using a spreadsheet that offers date-shifting is to set the current month a few months before the current month along the 12-month cycle, month 4 for example. In this way previous expenses and results can be viewed when creating or adjusting the budgeting planning.

THE SPREADSHEET

Category	**Monthly Amt**	**Annual Amt**
Income		
Expenditures		
Housing		
Food		
Automobile		
Insurance		
Savings		
Investment		
Clothing		
Medical		
School/childcare		
Miscellaneous		
Debt repayment		
Ent. & Recreation		
Surplus/(Deficit)		

BENEFITS OF BUDGETING

- **Gives you control over your money-** A budget is a way of being intentional about the way you spend and save your money. It is said that with budgeting, you control your money and not your money controls you.
- **Keeps you focused on your money goals**- You avoid spending unnecessarily on items and services that do not contribute to attaining your financial goals. If you are working with limited resources, budgeting makes it easier to make ends meet.
- **Makes you aware what is going on with your money-** With budgeting, you are clear on what money is coming in, how fast it goes out, and where it is going to.

BENEFITS OF BUDGETING

- **Helps you organise your spending and savings-** By dividing your money into categories of expenditures and savings, a budget makes you aware which category of expenditure takes which portion of your money. That way, it is easy for you to make adjustments. Budget also serves as a reference for organizing your bills, receipts, and financial statements.
- **Makes you decide in advance how your money works for you.**
- **Enables you to save for expected and unexpected costs-** Budgeting allows you to plan to set aside money for emergency costs.

BENEFITS OF BUDGETING

- **Enables you to communicate with your significant others about money-** If you share your money with your spouse, family, or anyone, a budget can communicate how you use money as a group. This promotes teamwork on working for common financial goals and prevents conflict on how money is used.
- **Provides you with an early warning for potential problems-** When you budget and take a "big picture" view, you will see potential money problems in advance, and be able to make adjustments before the problem appears.
- **Helps you determine if you can take debt and how much**

BENEFITS OF BUDGETING

- **Enables you to produce extra money** – In budgeting, you get to identify and eliminate unnecessary spending like late fees, penalties and interests. These seemingly small saving can add up over time.
- **Keeps you financially healthy/financially well and enables you to concentrate on what produces income.**

END

Q & A