

A Comprehensive Guide to Proper Financial Planning

Presented By:



Topics to be covered

- Importance of Financial Planning
- Money Management
- Savings and Investment
- Retirement Planning



Importance of Financial Planning

Why is Financial Planning important?

Always remember the **PIE** in financial planning:

- **P**rotect
- **I**mprove
- **E**nsure



Importance of Financial Planning

What do we need to **Protect** our money from?

Here are a more prevalent risks in today's market:

- Inflation Risk
- Market Risk
- Interest Rate Risk
- Company Risk
- Credit Risk



Importance of Financial Planning

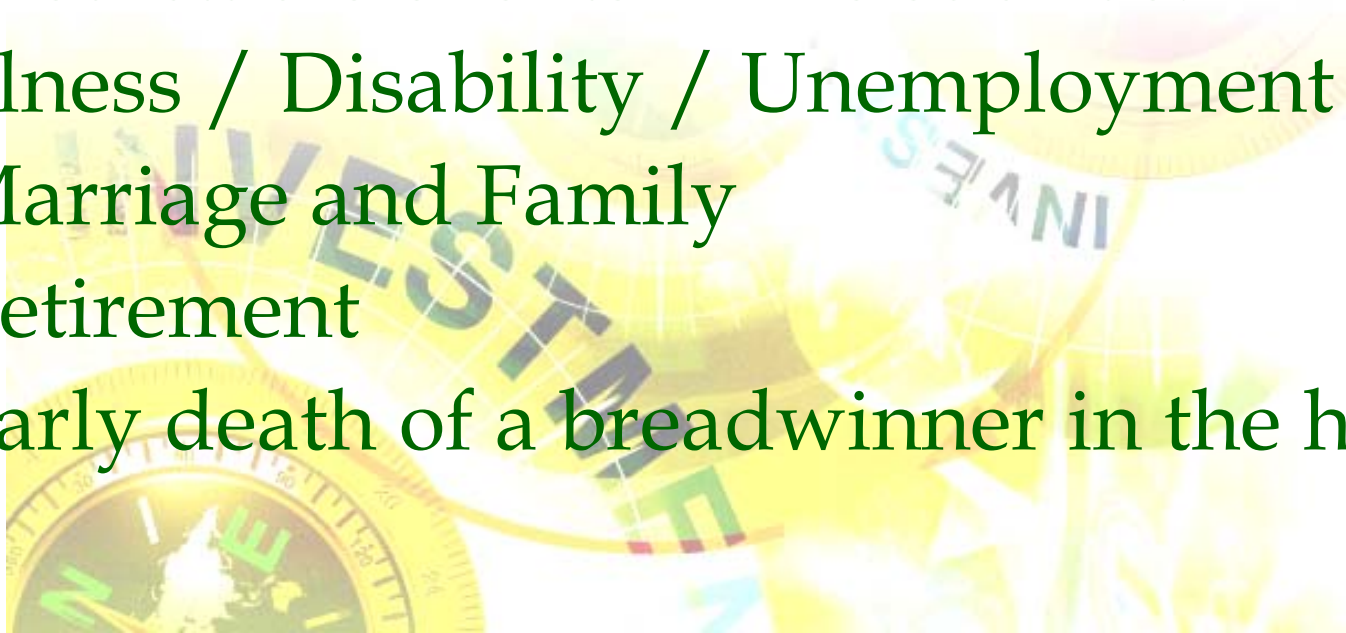
How can you **Improve** your financial portfolio?

- Increase assets and reduce liabilities
 - Maximize tax efficiency
 - Plan a budget for monthly and non-monthly expenses
 - Periodic reviews of portfolio and budget
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Importance of Financial Planning

We need to **Ensure** that the right provisions are made for both predictable and unpredictable events in life such as:

- Illness / Disability / Unemployment
- Marriage and Family
- Retirement
- Early death of a breadwinner in the home



Importance of Financial Planning

For the purpose of this seminar, we shall consider life stages to be grouped into the following:

- The Foundation Years
- The Accumulation Years
- The Preservation Years
- The Golden Years

The Foundation Years

These are perhaps the most difficult times, financially. Some of the phases during these years are:

- Studying
- Newly married
- New job / career
- Early Parenthood



The Foundation Years

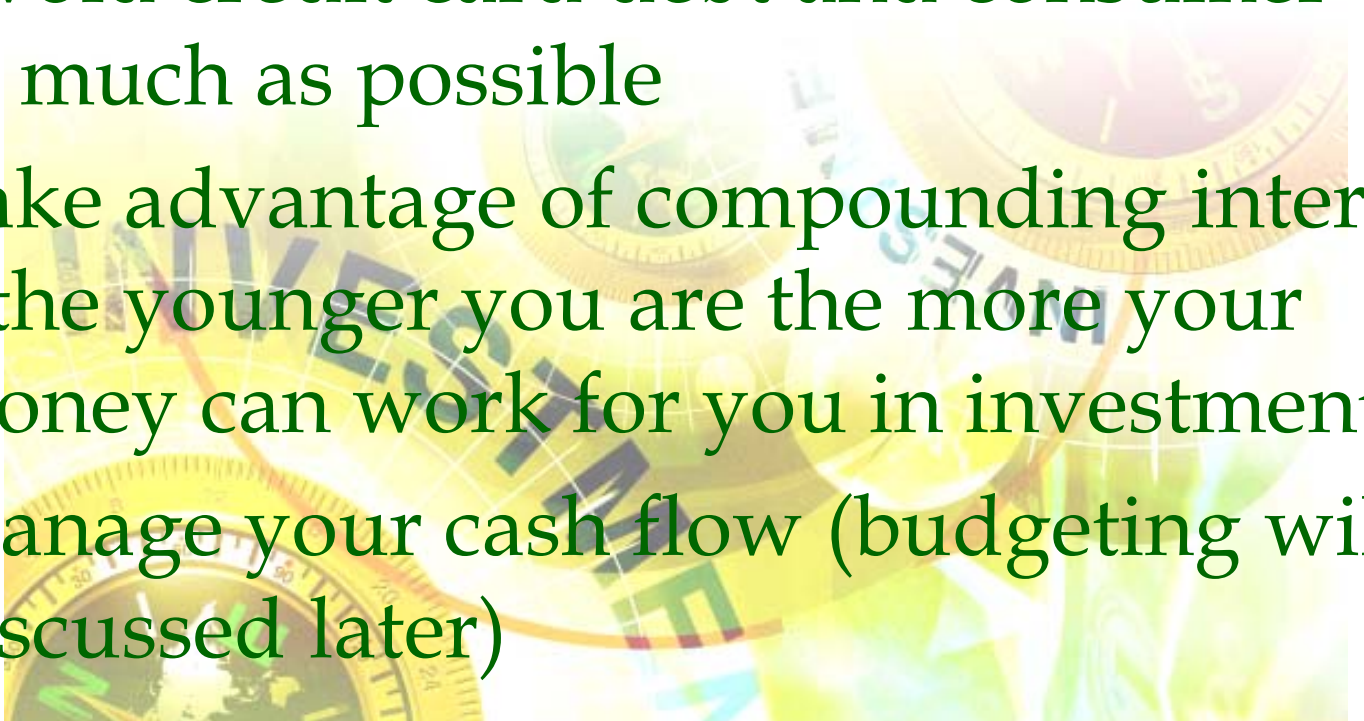
Some of the major expenses during these years are:

- Education (student loans)
- Car Loans
- Mortgage
- Utilities and household costs



The Foundation Years

Financial tips during this stage:

- Avoid credit card debt and consumer debt as much as possible
 - Take advantage of compounding interest – the younger you are the more your money can work for you in investments
 - Manage your cash flow (budgeting will be discussed later)
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The Foundation Years

Financial tips during this stage (cont'd):

- Establish an emergency fund of 3-6 months living expenses
- Term and permanent life insurance – put the necessary steps in place to protect loved ones
- Disability and health insurance – lower premiums from a younger age, dependent on health

The Accumulation Years

After covering the basics, you'll want to put aside a percentage of your income in tax-preferred investment instruments or wealth accumulation instruments. The following needs to be completed before beginning the wealth accumulation process:

- Major purchases
- Repayment of short term debts
- Build up of emergency savings

The Accumulation Years

Financial plans to put into place during these years:

- Expand Investment Horizon to include stocks, bonds and mutual funds that facilitate these investments
- Establish savings plans for education of children
- Make extra payments to your mortgage

The Accumulation Years

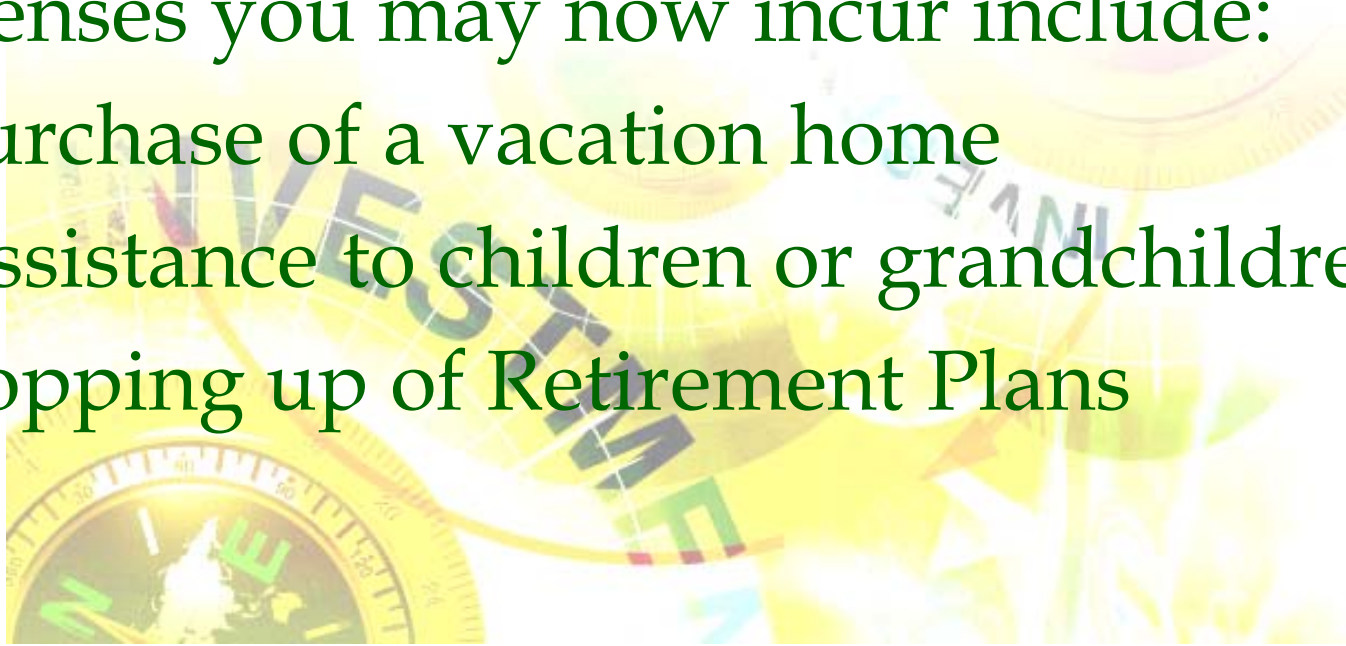
Financial plans to put into place during these years (cont'd):

- Review life insurance policies. Additional coverage may be required and riders may be purchased
- Take advantage of investments that allow for tax deductions or investments which allow for income to accumulate on a tax deferred basis.

The Preservation Years

By this stage you should have covered most of your financial goals. Some of the expenses you may now incur include:

- Purchase of a vacation home
- Assistance to children or grandchildren
- Topping up of Retirement Plans



The Preservation Years

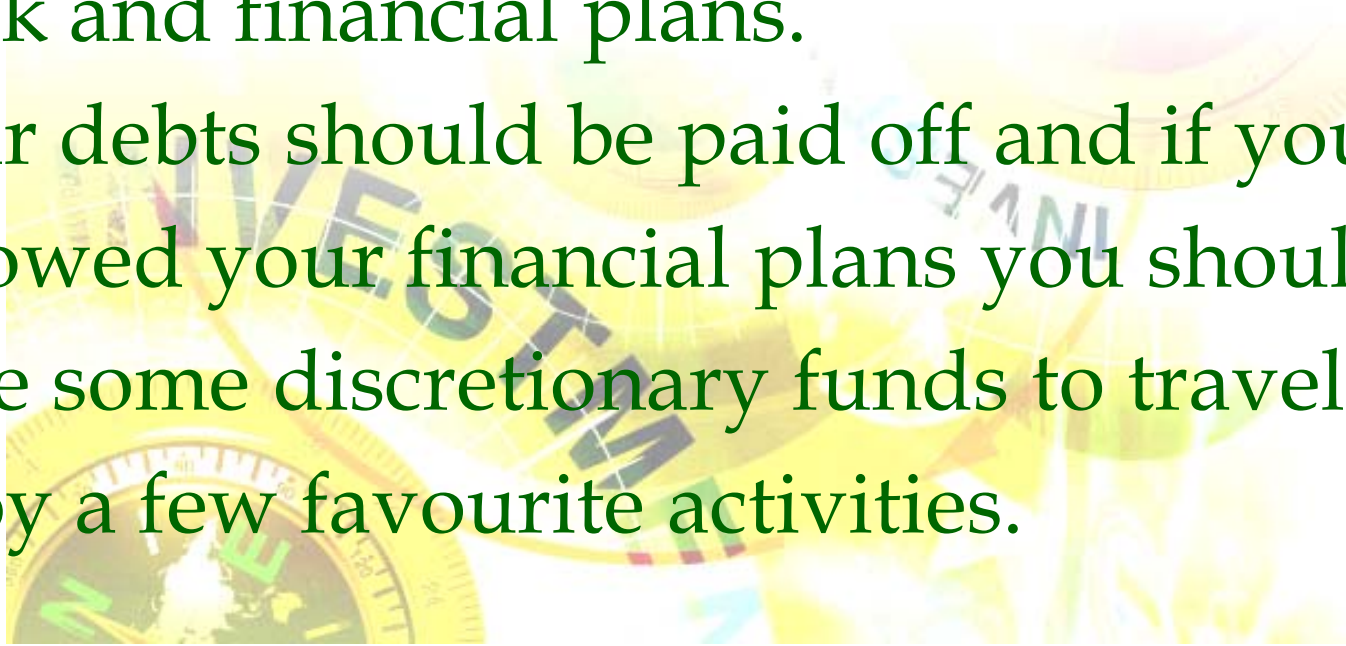
Financial Tips during these years are:

- Revisiting medical plans to ensure coverage for long term illness and care
- Review payment options at retirement, the plans available as well as payout of tax-free lump sums
- Moving investments to lower risk instruments
- Pay off debts

The Golden Years

You are now retired and during your golden years you can enjoy the fruits of your hard work and financial plans.

Your debts should be paid off and if you followed your financial plans you should have some discretionary funds to travel or enjoy a few favourite activities.



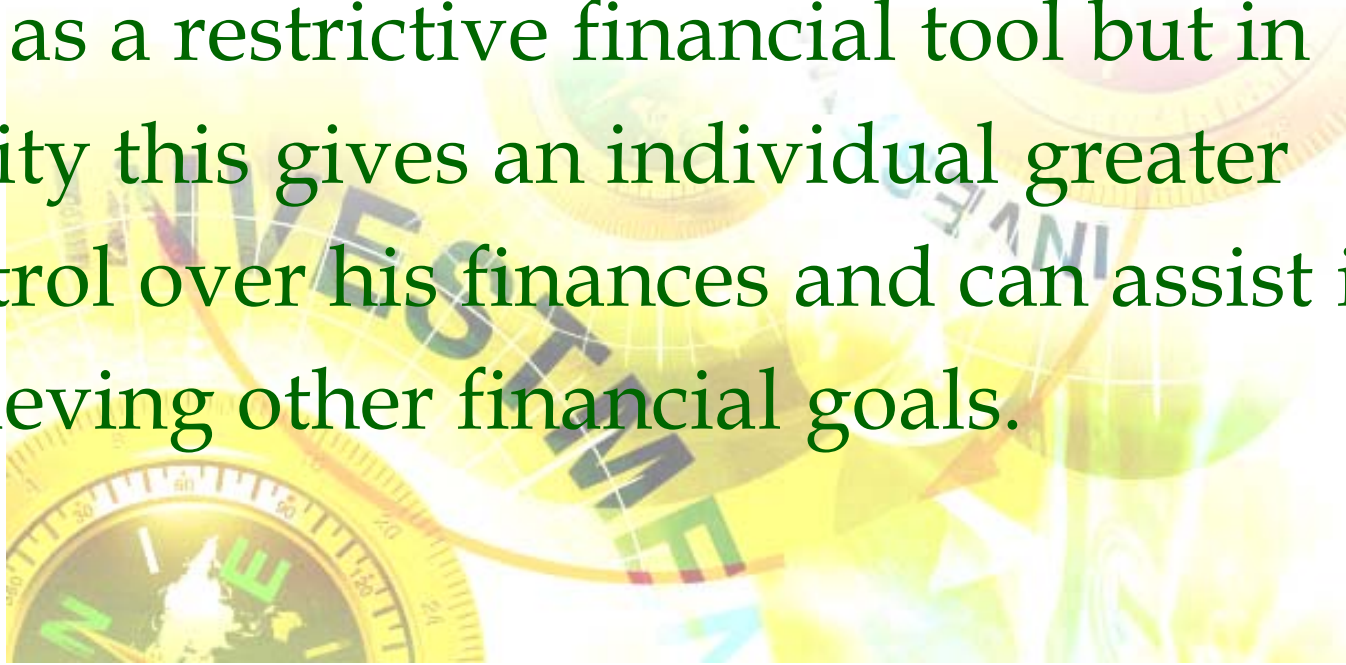
The Golden Years

Financial Goals at Retirement include:

- Purchasing the right pension plan – dependent on spouse and spouse's plans as well as expected life span
- Estate planning – passing on wealth to heirs or a favourite charity
- Travel / Change of home
- Medical care for self and parents

Money Management

The first part of proper money management is developing a personal budget. Many see this as a restrictive financial tool but in reality this gives an individual greater control over his finances and can assist in achieving other financial goals.



Money Management

The top reasons for developing a budget are as follows:

- Control
 - Prevents overspending
 - Provides a 'snapshot' of your financial position
 - Helps save money and set goals
 - Helps deal with financial emergencies
 - Manage debt
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- A decorative background image featuring a gold coin, a globe, and a bar chart. The gold coin is at the top right, the globe is at the bottom left, and the bar chart is in the center. The text 'INVESTMENT' is overlaid on the chart in a large, semi-transparent font.

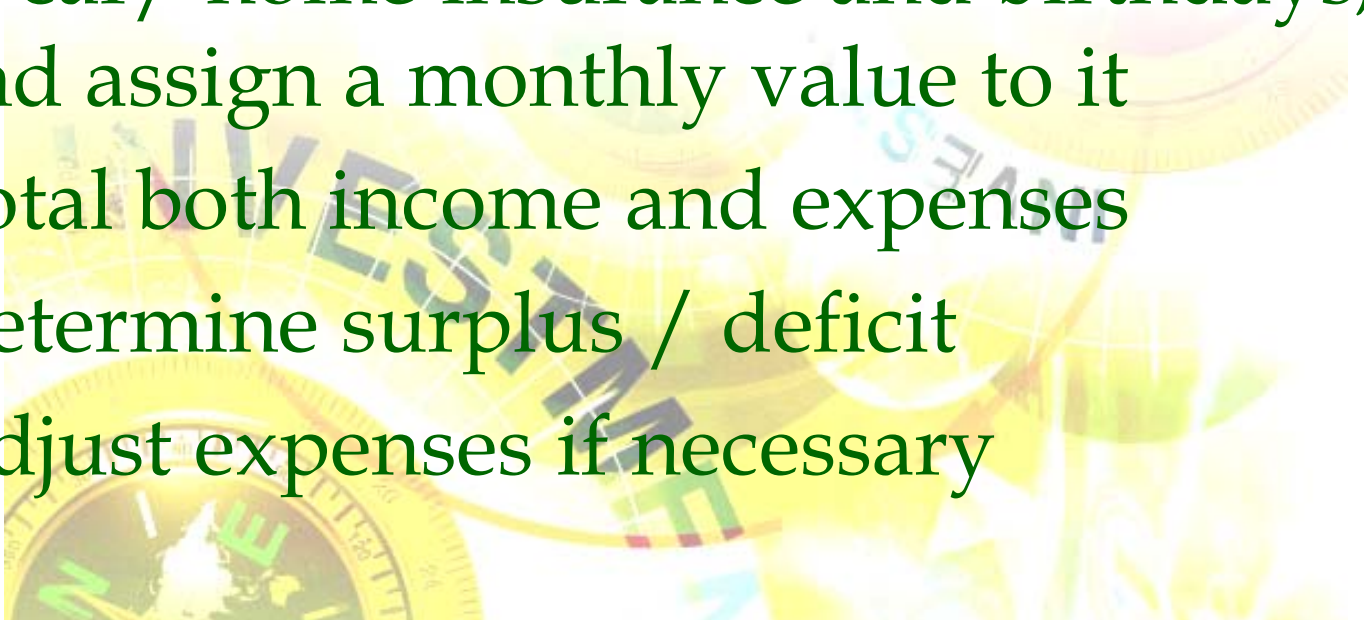
Money Management

Steps in creating a budget:

- Gather every financial statement you can – sources of income as well as expenses (utilities)
- Record all sources of income
- Create a list of all expenses – fixed (such as loans payments, utilities) and variable (such as entertainment, gifts)

Money Management

Steps in creating a budget (cont'd):

- Create a list of non monthly expenses such as car/ home insurance and birthdays, etc and assign a monthly value to it
 - Total both income and expenses
 - Determine surplus / deficit
 - Adjust expenses if necessary
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Money Management

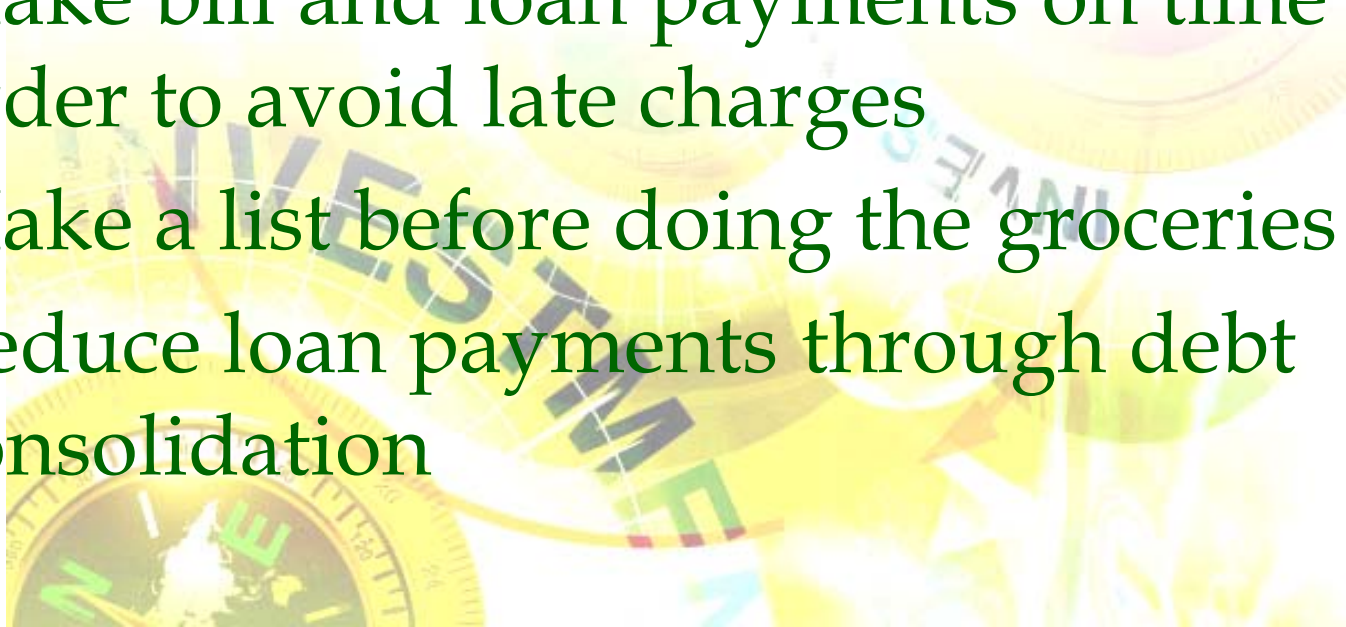
Some easy to implement budgeting tips:

- Always budget for small emergencies such as a doctor's visit at the start of the month
- Take food to work as opposed to purchasing lunch
- Put as many utilities as possible on one bill (e.g. cable, internet and telephone)

Money Management

Some easy to implement budgeting tips
(cont'd):

- Make bill and loan payments on time in order to avoid late charges
- Make a list before doing the groceries
- Reduce loan payments through debt consolidation



Money Management

Another important aspect of Money Management is Credit Management. It is important to maintain a good credit rating as this is used by lenders to determine if you are a suitable candidate for a credit facility.



Money Management

Quick tips to maintain a strong credit rating:

- Make loan payments on time
- Make utility payments on time
- Keep your total debt under control and keep DSR as low as possible
- Keep some facilities open. Length of good credit standing is a positive to a lender
- Do not frequently shop for new credit facilities. You do not want it to appear as if you're always seeking credit.

Money Management

Credit Cards – Friend or Foe?

There is no easy answer to the credit card decision. It depends on the person, the credit card company, and the individual situation. Often, a debit card will work just as well, but there are times when a credit card is important to have. Everyone must make the decision for themselves.

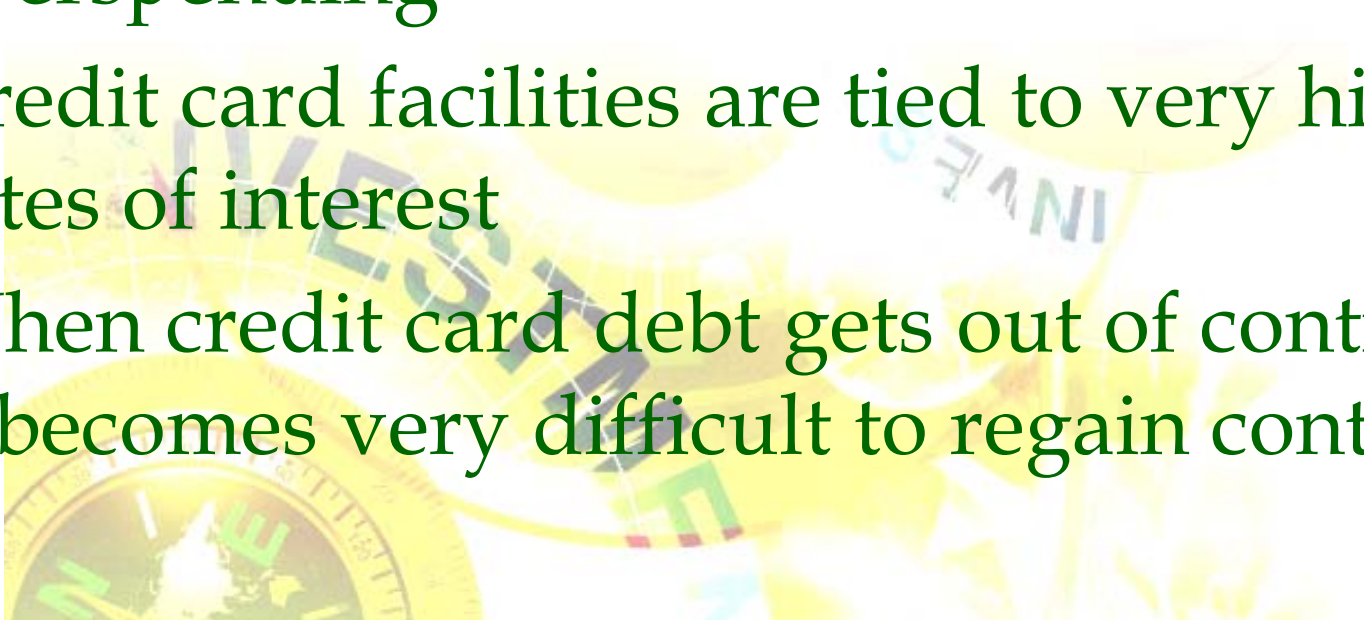
Money Management

Credit Cards – Pros

- Easy access to funds in case of an emergency.
Avoids breaking of investments or applying for a loan
- Assists in meeting expenses until next paycheck
- Facilitates online shopping
- Wise use of card can develop good credit rating
- Interest free period available
- Allows for commute with less cash

Money Management

Credit Cards – Cons

- Easy access to funds leads to overspending
 - Credit card facilities are tied to very high rates of interest
 - When credit card debt gets out of control, it becomes very difficult to regain control
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- A background graphic featuring a yellow clock face with a green hand pointing to the 12 o'clock position. The clock is surrounded by various financial terms and symbols in a light green and yellow color scheme, including the word 'INVESTMENT' written vertically, 'FINANCIAL' written horizontally, and a globe icon. The overall aesthetic is clean and professional, typical of a financial presentation.

Money Management

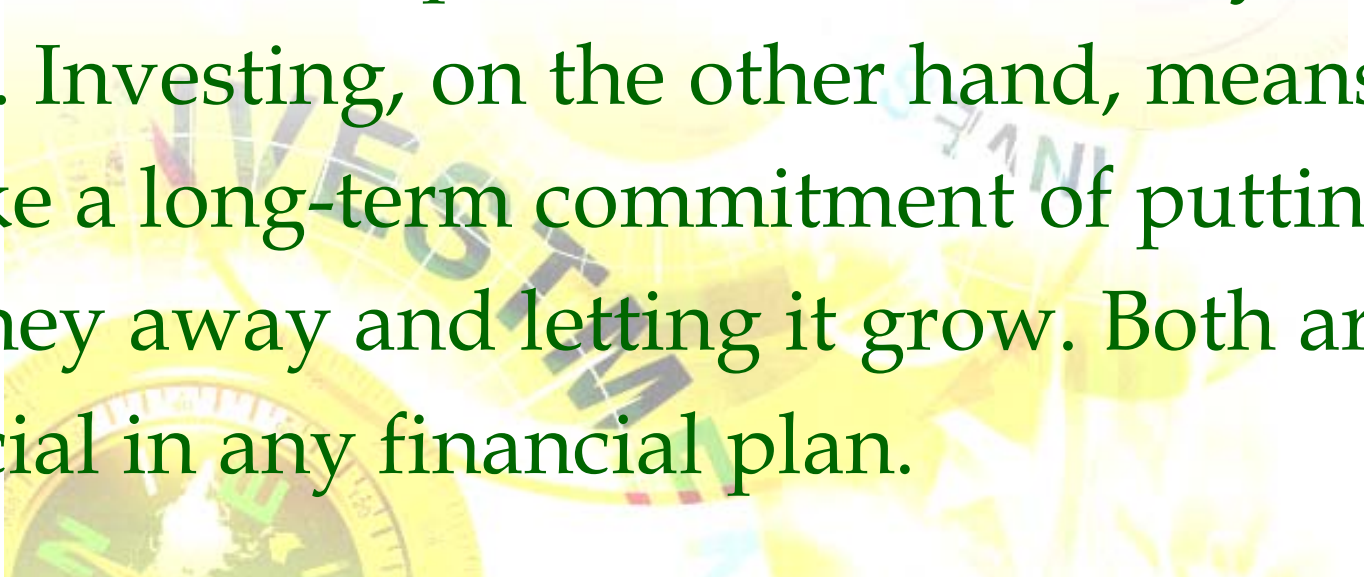
Credit Cards – Tips for use

- Low credit limit – try not to exceed a limit of one month's salary
- Take a card with the longest interest-free period
- Look for a credit card with the lowest annual fees and withdrawal fees
- Avoid withdrawing cash from a credit card
- Carry just one card. Over use of more than one credit card can lead to financial difficulty

Savings and Investments

Savings vs. Investments

Saving, by definition, involves the protection and preservation of money from loss. Investing, on the other hand, means to make a long-term commitment of putting money away and letting it grow. Both are crucial in any financial plan.



Savings and Investments

The Importance of Saving

Savings is an important step on the way to financial well being, both in the short and long term. In the short term it provides a cushion for when emergency arises. In the long term a consistent savings plan can assist with achieving financial goals.

A proper savings plan should be put into place prior to investing.

Savings and Investments

A proper budget would help to encourage Savings. Always try to follow the **SOS** method of Saving:

- **S**et a reasonable annual Savings Goal
- **O**pen a separate account for Savings
- **S**ystematically add to this new account



Savings and Investments

Deposit Insurance Corporation

An independent Fund from which depositors of failed financial institutions would be reimbursed.

Depositors in all licensed financial institutions are insured up to a maximum of seventy-five thousand dollars (\$75,000).

The introduction of the deposit insurance system has contributed to the building of confidence in financial institutions and the financial system as a whole.



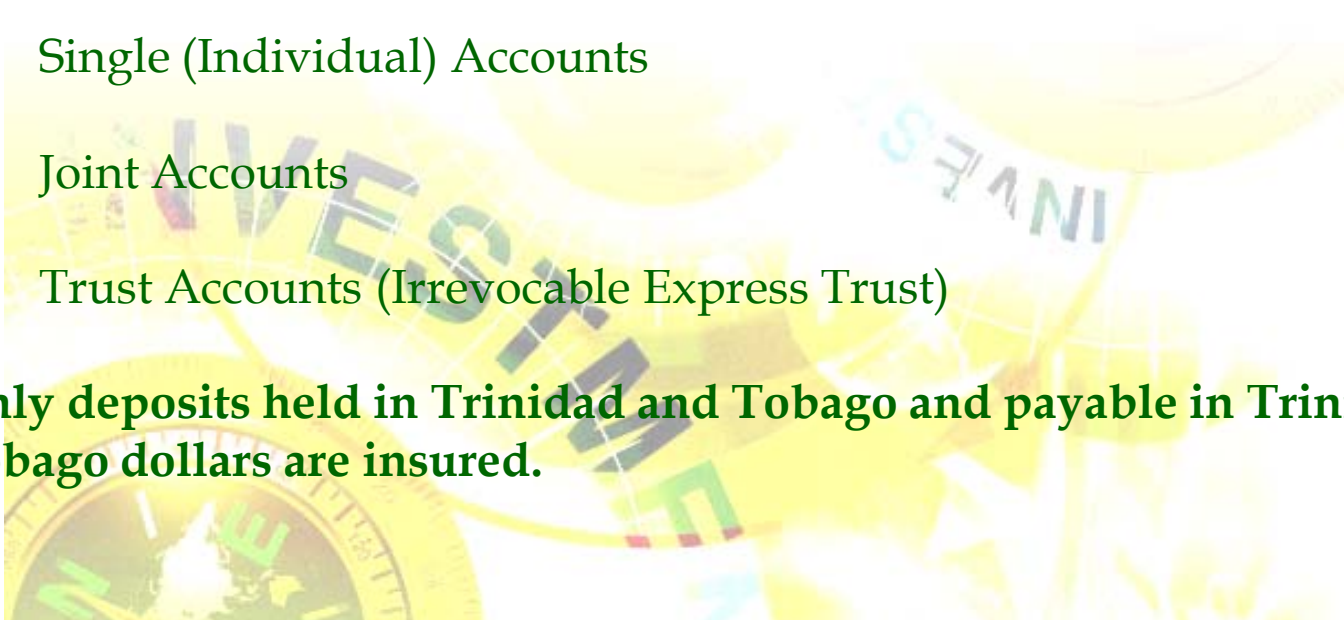
Savings and Investments

Deposit Insurance Corporation

The insured limit is a maximum of \$75,000 for each depositor in respect of deposits held in each insured institution in the following rights and capacities:-

- Single (Individual) Accounts
- Joint Accounts
- Trust Accounts (Irrevocable Express Trust)

Only deposits held in Trinidad and Tobago and payable in Trinidad and Tobago dollars are insured.



Savings and Investments

Here are some easy to implement savings tips:

- Consolidate your debts
- Assign multiple utilities to one provider where possible
- Pay off debts with higher interest rates first (namely credit card debt)
- Use your bank's ATM's

Savings and Investments

Saving Tips (cont'd):

- For every pay increase, pay an additional 15% to a deferred annuity plan
- Turn a loan repayment into a savings deposit
- Pay yourself first



Savings and Investments

The main types of accounts available at commercial banks in Trinidad and Tobago to assist with saving are:

- Chequing Accounts
- Various Savings Accounts
- Certificates of Deposits



Savings and Investments

Investment Planning

Factors to consider when making an investment:

- Investment Horizon
 - Personal Risk Appetite
 - Investment Need
 - Investible Surplus
 - Expected Returns
- 

Savings and Investments

Investment Planning

Common risks attached to investing:

- Inflation Risk
 - Interest Rate Risk
 - Credit Risk
 - Market Risk
 - Liquidity Risk
- 

Savings and Investments

Here are some common errors made by investors:

- Lack of Portfolio Diversification
- No Patience for Investment Growth
- Inexperienced or Inappropriate Advisers
- Not Sticking to Investment Goals / Plan
- Insufficient information collected and reviewed
- Insufficient Reinvestment



Savings and Investments

Here are some easy to implement investment tips:

- Establish an emergency fund before seeking medium to long term investments
- Diversify your investments – not only by institution but by product type
- Don't be taken by labels
- Take advantage of investments that allow for compounding interest

Savings and Investments

Here are some easy to implement investment tips (cont'd):

- Do not leave large sums of money in low interest bearing savings accounts
- Be cautious of investments paying much higher returns than similar products on the market
- Find out fees and charges attached to different investments
- Ensure investments are registered with the SEC for your own protection

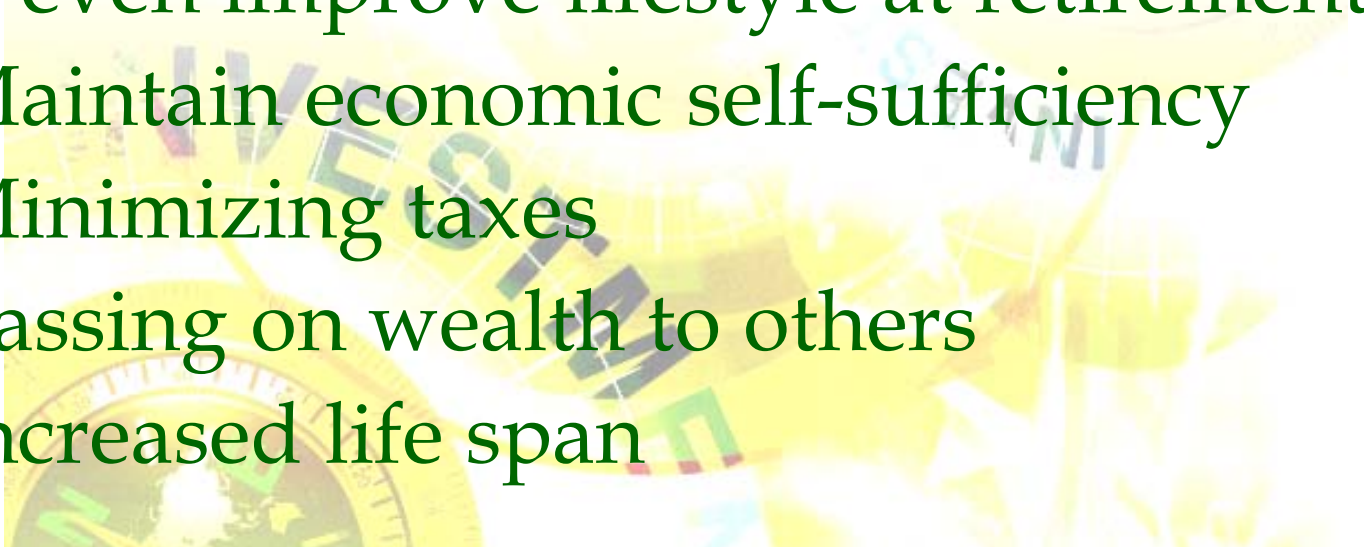
Savings and Investments

The most common investments available through the commercial banks in Trinidad and Tobago are:

- Money Market Mutual Funds
 - Fixed Income Mutual Funds
 - Income & Growth Funds
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Retirement Planning

Why plan for retirement:

- Maintain comfortable standard of living or even improve lifestyle at retirement
 - Maintain economic self-sufficiency
 - Minimizing taxes
 - Passing on wealth to others
 - Increased life span
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Retirement Planning

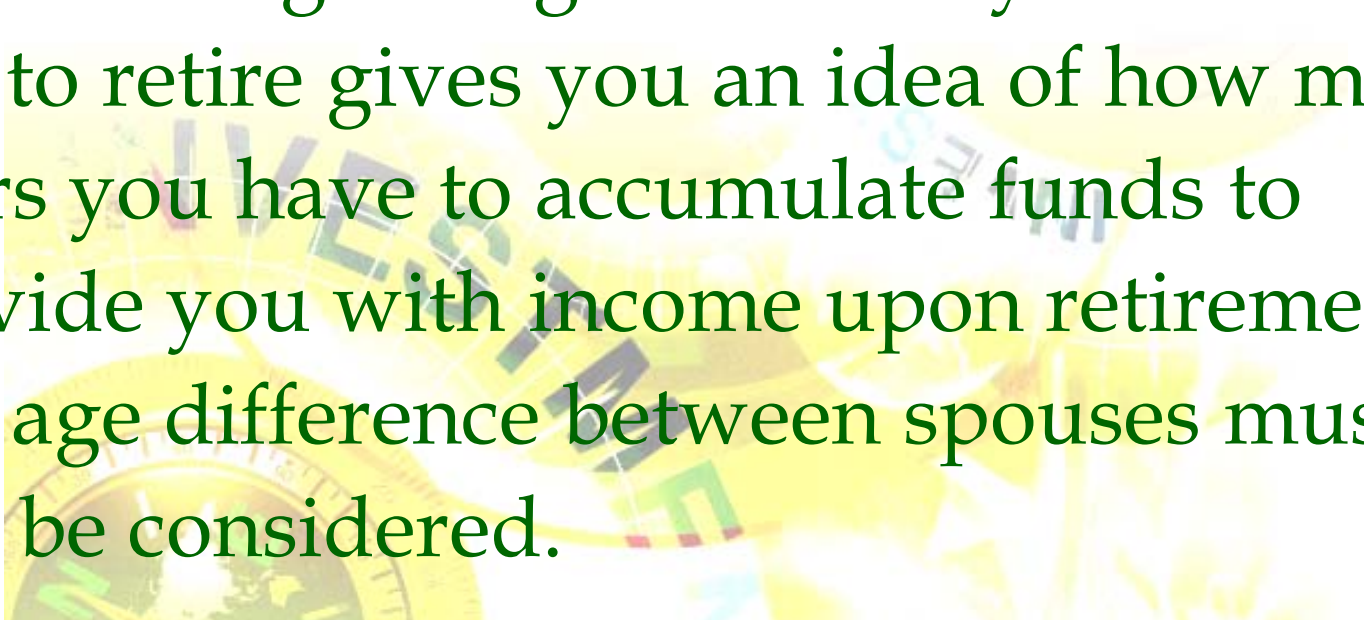
Factors to consider when developing a Retirement Plan:

- Age of retirement (you and spouse)
- Goals at Retirement
- Types of accounts / investments held
- Provisions for health related expnses
- Options at maturity
- Dependents at Retirement
- Income Required at Retirement (must take inflation into account)

Retirement Planning


Determine Retirement Age

Determining the age at which you would like to retire gives you an idea of how many years you have to accumulate funds to provide you with income upon retirement. The age difference between spouses must also be considered.

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Retirement Planning

Goals at Retirement

- Travel
 - Change of home
 - Becoming self employed
 - Hobbies
 - Children / Grandchildren
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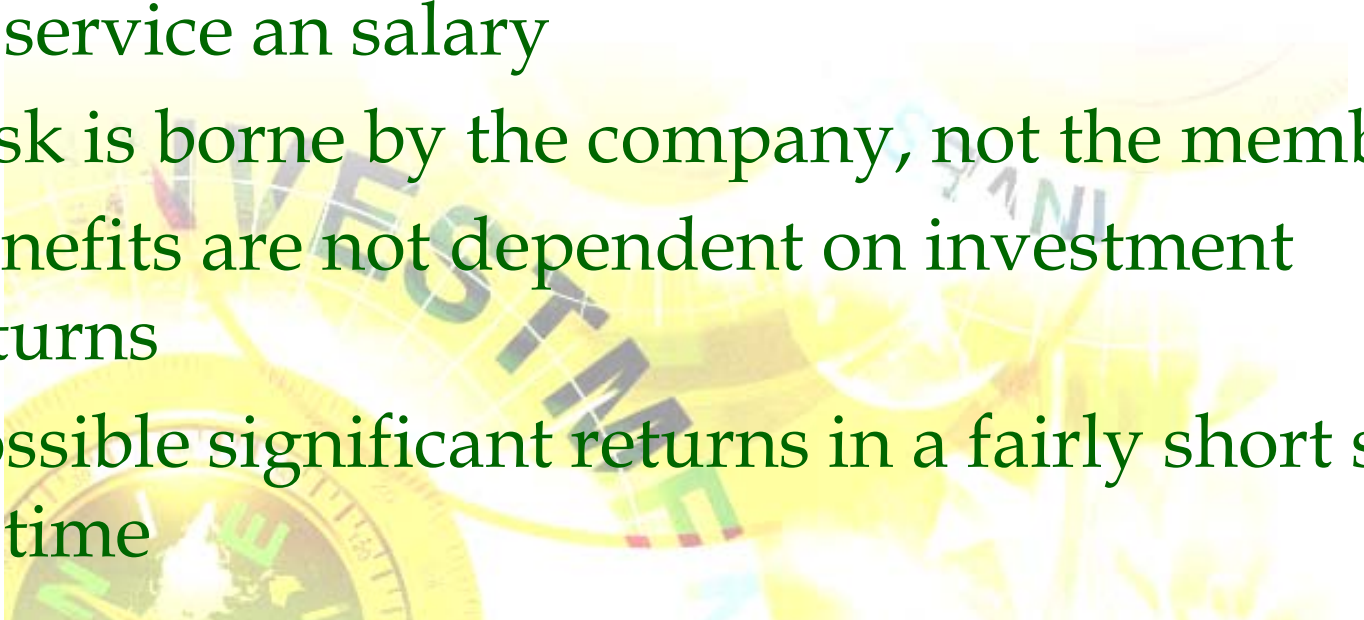
Retirement Planning

Retirement Plans

- Defined Benefit Plans (most company plans in TT are DBP)
 - Defined Contribution Plans (offered by financial institutions)
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Retirement Planning

Defined Benefit Plans

- Predictable Benefit - Benefits at Retirement are determined by a formula usually based on years of service and salary
 - Risk is borne by the company, not the members
 - Benefits are not dependent on investment returns
 - Possible significant returns in a fairly short space of time
- 

Retirement Planning

Defined Contribution Plans

- Benefit at retirement depends on returns of investments within the plan
- Interest is borne by plan member
- For those starting at a younger age, it allows for greater capital accumulation due to compounding returns on investments

Retirement Planning

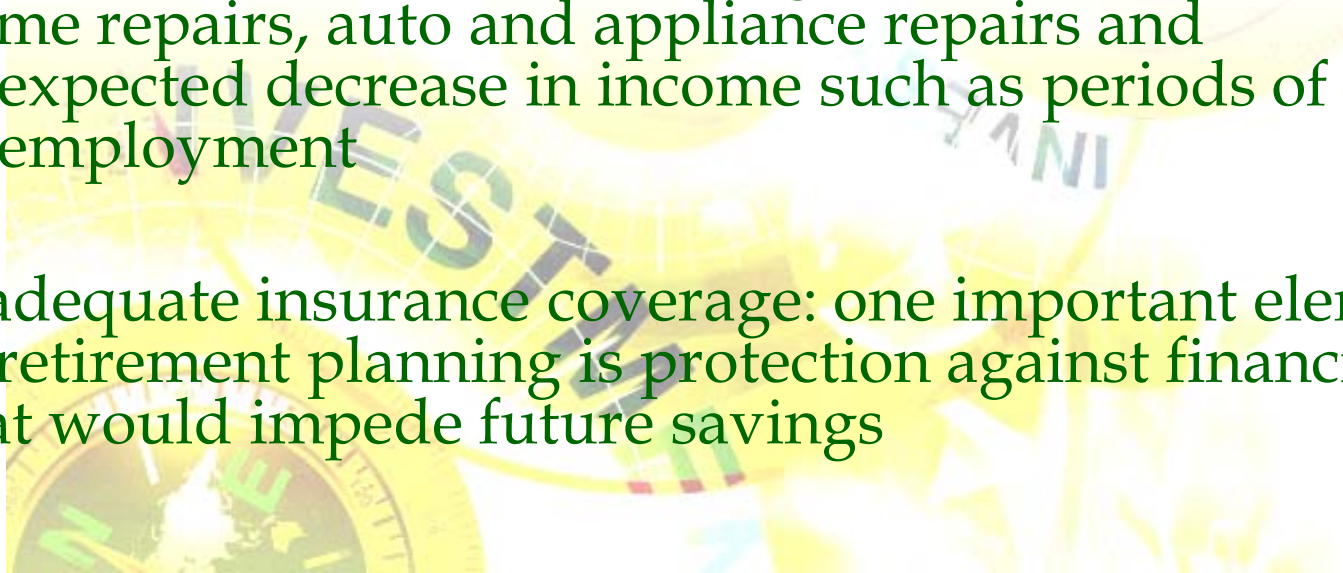
Factors to consider with options at maturity:

- Flexibility to choose from different pension plans and different providers
- Option for Joint and Survivor. Cash flows while both partners are alive vs. cash flow for survivor
- Income at maturity vs. expenses at maturity

Retirement Planning

Common Obstacles to Retirement Planning:

- Tendencies of working people to use full after tax income to support current standard of living
- Unexpected expenses including uninsured medical bills, home repairs, auto and appliance repairs and unexpected decrease in income such as periods of unemployment
- Inadequate insurance coverage: one important element of retirement planning is protection against financial loss that would impede future savings



Retirement Planning

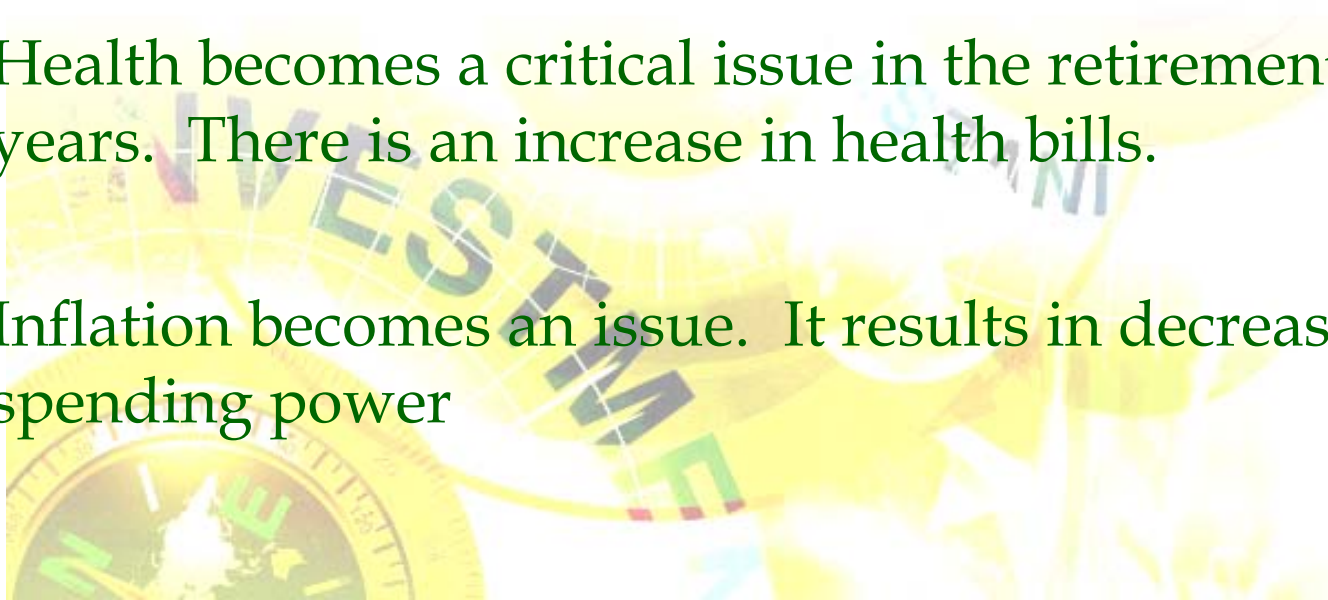
Failure to plan for Retirement results in:

- Reduction / Elimination of comfort years
- Reduced lifestyle
- Gratuity/retirement income replaces approximately 50% of salary



Retirement Planning

- Most pension plans with NIS will not provide adequate funding for maintaining standard of living during retirement
- Health becomes a critical issue in the retirement years. There is an increase in health bills.
- Inflation becomes an issue. It results in decreased spending power



Questions

Knowledge breeds confidence...

Confidence inspires success...

Invest with Confidence...

