THE TOP MONEY MISTAKES KENYAN PROFESSIONALS MAKE AND HOW TO AVOID THEM

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Hi, I am Manyara Kirago, personal financial planner, trainer and coach. Over the past eighteen years, I have helped thousands of individuals just like you improve their financial situation and live a better life. I have worked with senior executives, managers and even factory and farm workers of many of the top organizations in Kenya.

I have, over the years gained insight into the financial habits of the various segments of Kenyans. One group that I have enjoyed working with is the Kenyan professional. The reason for this is that they often earn an above survival level income and therefor have an opportunity to improve their financial circumstances without having to make the excruciating sacrifices that lower income individuals have to endure.

However, many professionals squander the opportunity by making financial mistakes they can easily avoid. Following are the most common money mistakes professionals make. Avoid them and begin to improve your life.

MONEY MISTAKE #1: **Not having a plan for your finances**

Too many professionals live from pay-cheque to pay-cheque without a well thought out plan for their finances. While you may get by, you are likely to find it difficult to achieve life's big goals. Buying your own home may remain a dream, paying for your children's higher education will prove difficult and when you eventually retire, you may find yourself living at a much lower standard of living than you had become accustomed to.

So learn how to do a personal financial plan that anticipates and prepares for your family's needs from today going forward.

MONEY MISTAKE #2: **Focusing on lifestyle instead of financial security**

While it's important to live a good life in the present, many professionals confuse a life of conspicuous consumption with a good quality life. There are people who own the latest in consumer electronics, furniture, wear designer clothes, eat in trendy restaurants yet have no investments.

Financial security comes from ownership of investments. Even as you are enjoying your current success, make sure you are investing with the future in mind.

MONEY MISTAKE #3: **Not having a budget**

Whether you want to call it a budget or a spending plan, a written record of how you plan to spend your money helps you gain control on what can be a very slippery asset. Without a budget, it is unlikely that you would know where exactly your money goes. And if you do not know where it goes, how can you stop it from going? A little here, a little there and before you know it, it’s all gone.

Your budget does not have to be complicated. You can allocate specific percentages to living expenses (housing, food, utilities etc.), financial priorities (retirement, home ownership, children’s higher education, insurance etc.) and lifestyle expenses (holidays, gifts, luxury items etc.) Once you have set the parameters, you must monitor your actual expenditure to ensure you are sticking to your rules.

MONEY MISTAKE #4: **Not having enough in emergency savings**

No matter how well you plan your life, unexpected things will happen. Having ready money will smooth out many of life’s bumps. Benjamin Franklin said that there are only three faithful friends: an old wife, an old dog and ready money. Since not everybody can conveniently have an old wife or an old dog, ready money will have to do.

If you keep some money where you can easily access it, you will be able to prevent stressful situations. With such an emergency fund you do not need to worry that a two-week delay in your pay may result in your kids being kicked out of school, your water and electricity disconnected and your mortgage falling into arrears. You will simply settle your obligations even as you await the delayed salary. In a worst case scenario, such as job loss, having an emergency fund will enable you continue meeting your obligations such as school fees, mortgage payments and basic living expenses giving you the peace of mind you need so as to concentrate on searching for another source of income.

If you don’t have money for emergencies, you may be forced to sell off investments or personal property to take care of the urgent need. This will obviously disrupt your investment plan and make your goals harder to reach. To make things worse, your desperation may make your sell your investments and personal property at throwaway prices. If you do not have investments or marketable property, your pressing need will force you to borrow, often at exorbitant interest rates. I am sure you have seen people driven by desperate need for money hand over televisions, stereos and even cars to shylocks. Often, they are unable to retrieve their property.

My recommendation is that one should have between three to six months' worth of expenses as an emergency fund. This money should only be used for true emergencies such as;

1. You've lost your job

Job and security are not often used in the same sentence anymore as employers continuously adjust their overheads to navigate the changing economic conditions. Staff cost is usually one of the first targets for slashing. If you do lose your job, you will need to continue paying bills until you establish another source of income–and your emergency fund should be it.

2. Someone in your household falls ill

With the high cost of medical care these days, it is very easy to exhaust your medical insurance cover. Anything above the coverage will have to be paid for and that's where your emergency fund comes in.

3. You need to move house

If you are a tenant and need to move house to a more convenient location, or a better house, or whatever reason, you will discover that moving can be an expensive exercise. Finding a new house, paying a security deposit, arranging for movers repairing breakages and many other expected and unexpected costs can add up to a significant amount of money. If you have an emergency fund, you will do it without skipping a beat!

4. Your Car (or fridge, freezer, etc.) breaks down

Some of the things we take for granted can seriously hamper our routines. A broken down car make it difficult to go to work conveniently and on time, a broken fridge or freezer would necessitate many more trips to the supermarket or market and so on. Repairing or replacing these labour saving, life enhancing gadgets costs more that pocket change and having an emergency fund means you won't have to go into debt to do so.

5. Someone Close to You Passes Away

I do not want to become morbid but people do pass away. If it happens to someone close to you such as a parent or sibling, the last thing you want to have to say is that you do not have money to help with the arrangements. Your emergency fund can help you avoid borrowing in such a situation.

6. Expect the unexpected

There is no limit to the number of unexpected expenses that can pop up in life. If you do not want every unexpected occurrence to become a stress inducing event, ensure that you accumulate an appropriate emergency fund.

MONEY MISTAKE #5: **Getting in trouble with loans**

Excessive debt can result in more than just loss of sleep, it can literary kill you. Sustained high stress levels can lead to ailments of all kinds. Stress caused by harassment by creditors who will hound you with threatening letters telephone calls and attachment of your property. You become susceptible to panic attacks when the phone or doorbell rings or when mail arrives. You are likely to have emotional outbursts and an explosive temper. Many highly indebted individuals have done horrible things while in such emotional state. At work, it is not easy to concentrate on work and a lot of time will be spent looking for solutions to your debt problems.

A highly indebted person finds it impossible to relax and have fun. In an attempt to achieve a relaxed state, many end up abusing alcohol and other drugs, further deteriorating their financial situation as money that could have been used to pay off debts is diverted. They lose self-esteem, self-confidence and ultimately self-respect. They live in chronic fear and, in extreme cases become suicidal.

One of the mistakes with loans that often leads to debt overload is pyramiding. Pyramiding of debt refers to a situation where a loan for a recurring expense has not been cleared by the time another loan is taken to pay for the expense again. It results in mounting indebtedness and large interest costs.

One common example is a person who takes a five year bank loan to buy a car. After servicing the loan for three years the person decides, or is encouraged by the bank to top-up the loan and buy another newer car. The loan balance for such a person will remain high since each time they pay it down the loan they take a bigger loan and extend the repayment period. Taken to an extreme, one can find themselves with a permanent loan with an ever increasing interest charge.

Some people pyramid with credit cards, buying groceries then paying only the minimum required payment. By the time they need to buy more groceries, they are still carrying a balance for last month's groceries. This goes on until they hit the credit card limit.

Many people will take a loan to pay for a holiday, a wedding, new furniture or even household appliances as long as there is some cash left over in their salary to make the installment. This kind of debt abuse can cause serious financial difficulties with all the attendant stress. If you find your pay slip reading like a roll call of financiers, it may be time to seriously reevaluate you financial behavior.

For a comfortable, stress free life, control your debts. Limit your debts so that you never pay more than 36% of your gross income towards debt and borrow only to buy appreciating assets, to increase your ability to earn and for viable business. No matter how tempting the offers are, never allow yourself to be seduced into borrowing for lifestyle assets that you can save for.

MONEY MISTAKE #6: **Guaranteeing other people's loan without understand the repercussions**

This one is short and simple: do not guarantee another person's loan unless you are prepared and able to pay it. Many people co-sign loans without understanding that they are taking on a legal obligation to pay in the event the person they are guaranteeing is unable or unwilling to pay. Too many people have had their property such as land, building and cars sold off to pay loans they had guaranteed and most of these people never even knew that ythe person they had guaranteed had defaulted! Do not be one of them.

MONEY MISTAKE #7: **Not saving for retirement while you have an income**

Retirement could be a time of true freedom. No more having to sit in the office from eight in the morning to five in the evening, no more being bossed around, no more having to put up with unpleasant customers. Imagine yourself waking up whatever time you wish, lounging on the couch with a newspaper the whole day, or visiting family and friends at will - total freedom.

Aha, but wait a minute! Where will money to live on come from? Will you have enough to live on? Can you afford the increasing medical bills? For the retirees who did not make adequate preparations, the answers are grim. Four out of five people descend into poverty after they stop working and undergo heart-wrenching difficulties for lack of money. No wonder people nowadays dread their retirement day.

Without adequate planning, retirement could mean many years of near-poverty as most pensions are not enough to live on. When you have no money, you live in fear. Fear of rising prices because you may not be able to buy enough food. Fear of getting sick, because you cannot afford treatment. It can even get to a point where you avoid the people you love because you are so self-conscious of your circumstances. Struggling financially in old age is emotionally devastating and crushing to the spirit and this at a time when you ought to be enjoying respect and dignity for your years of service to community. To avoid this kind suffering, one of everyone's major goals should be to ensure you have enough to live on in your old age. How? By regularly and consistently saving and investing money for retirement during the years you are earning a regular income.

Inflation is one of the biggest threats facing retirees. It reduces the purchasing power of money. Your plan for retirement has to ensure you maintain your purchasing power, and consequently, your standard of living.

Whether you are just beginning your career now or have been working for a while, the sooner you begin to save for retirement the better. This is because if you get the formidable power of compounding working for you, goals, which may appear unattainable, are within your reach. However, if you delay, you lose the irreplaceable ally, time and you will then need to save much more per year to achieve the same goal. If inflation is your number one enemy, compounding is a powerful friend on your side. It is the secret behind many large fortunes and one you can use to achieve the large investment goals you will find necessary for your financial security in old age.

Following are some of the excuses people have for not saving;

1. I can't afford it.

Many people say they earn too little to be able to save for retirement. The truth is that no matter what your income is, you have to force yourself to save and it soon becomes a habit. Remember, you can start small even with one thousand shillings.

2. I'm too young to begin planning for retirement.

This is one of the most seductive retirement lies. When you are twenty five or thirty years old, retirement looks like it is a thousand years away. The funny thing is that time flies so fast that you will find yourself knocking on retirement's door before you know it. I have always said that the best time to think about your retirement is before your employer does, preferably immediately you start working!

3. When I get married I won't have to worry about money.

Really? Well how do you know this?

4. I want to have fun with my money while I am still young – I work hard for it.

There is a big misconception that saving and having fun are mutually exclusive. The truth is that saving has more to do with making wise decisions about your spending than cutting out all the fun. Saving for retirement is not an either/or proposition. You can save for retirement and enjoy life now.

5. My parents are rich and I will inherit their wealth.

This is a risky way to fund your retirement. We have all heard of financial empires that have collapsed leaving nothing but debts in their wake. Furthermore, you could be disinherited or be outlived by your parents! A far better way is to plan your own retirement and if the inheritance does come, consider it a bonus.

6. I need to get my kids through University first and then I can focus on my retirement.

Funding higher education is a big expense and you need to have a plan for it. However, if you do not have the full amount, you can borrow the balance.

When it comes to your retirement, however, nobody will lend you such money. All you'll have to depend on are your investments. For that reason, saving for retirement should be your top financial priority–always.

7. I plan to keep working even after retiring.

You may love your work, and it may be the kind of work you can do even in old age. But what if you can't find work, or what if your health fails and you are unable to work?

While it's good to be optimistic, it's wise to prepare for a less than perfect situation. Save money now when you are able to so you're ready for whatever may come your way. You should only work in your retirement years because you want to and it adds meaning to your life, not because you need to put food on the table.

MONEY MISTAKE #8: **Not having health insurance**

A chance meeting with an old friend is what got me thinking about the importance of medical insurance. Although we both wanted to sit down and catch up on what each has been up to the last few years, he told me he was heading for a meeting. Since Saturday afternoon, and I know he doesn't work weekends, I naturally wondered what kind of meeting he was going to. It turned out to be a medical fundraising meeting.

A colleague of his had a heart problem that landed him in a major hospital's intensive care unit, then the high dependency unit for a couple of days. Luckily, his life was saved. However, his employer's medical scheme only covered a small part of the hospital bill and he was left owing over a million shillings which he had no way of paying hence the fundraiser.

Medical bills are often high enough to make you sick. Many families have been forced to sell their property at throw away prices and to finally make appeals to friends and relatives, and sometimes the general public to get themselves out of such debts. Many patients opt to leave hospital prematurely ad recuperate at home with less than adequate medical attention in the face of mounting bills.

Since nobody knows when they or their dependents may be struck by a serious illness or be involved in a traumatic accident, the most advisable course of action is to prepare for such an eventuality. The most cost effective way to defend one against the financial implications of medical problems is to have adequate medical insurance coverage. By paying an annual premium to one of the companies offering such medical coverage, you will be sure that if you need medical attention, it will be paid for, leaving all your energies for recovery.

Some of the medical insurance packages pay their medical services so you never get to see the bills, while others require you to pay the bills after which they reimburse. Yet others pay you to have cash to clear the bills upon discharge. To ensure the insurer will pay the bill, you must follow the rules and procedures to the letter.

These rules often require you to notify the company prior to being admitted or, in the case of an emergency, within 72 hours of admission. You should read the literature so as to be aware of what is covered and what is not.

Although medical insurance is an important defensive mechanism, the premiums are not cheap. It may cost a lot of money but it is worth it since knowing you are insured should you need major medical attention and it gives you peace of mind.

Many employees are covered by a group medical scheme organized by their employers. If you fall under such a scheme, do the wise thing and find out in detail what is covered and how much the maximum cover is. If you feel it is not adequate for you and your family, purchase additional cover on your own. Many people, like my friends colleague, walk around with false sense of security, thinking that they are covered, without actually confirming from documentation.

Purchasing medical insurance will probably mean tightening your belt even more and having to forego other things you would have like. But it is better to lose a little than to risk a lot.

MONEY MISTAKE #9: **Not having life insurance if you have minor children**

If you were to die unexpectedly today, how would your surviving family take care of funeral expenses, the mortgage, children’s education? In most cases, the death of one spouse leaves not only emotional wounds but also a big income gap. Having adequate life insurance in place would take care of this and ensure that the family is protected from financial catastrophe. In the event of your unexpected death, how would your family cover immediate expenses, such as funeral costs, as well as long-term ones, like mortgage payments? Buying an adequate life insurance policy can help ensure that your family is well protected.

Find out how life insurance helped this family in the wake of a disaster. Then read our Life Insurance 101, and follow our step-by-step checklist, to determine the kind of policy that you need.

MONEY MISTAKE #10: **Not having a will if you have minor children**

Way too often, death of the head of the family sparks off a scenario that most find distasteful – vicious disputes over the estate. Brothers, sisters and even previously unknown relatives fight out both inside and outside courts of law, sometimes with tragic results. Is it possible to prevent or minimize the chance of this happening to your family?

Although it isn't much fun thinking about your own eventual demise, every responsible person owes it to their family to minimize the trauma it will undoubtedly inflict on them. One way to do so is to arrange his or her affairs to facilitate smooth and orderly distribution of the estate. The most commonly known method is to write a will or what is more formally known as "the last will and testament". A will is simply a legal document that states your wishes to be effected after your death. These wishes could, and should, include how you want your property to be distributed, who you wish to be the guardian of any minor children you may have, who should be the executor (or executrix if female) of your estate. The executor is the individual who is responsible for seeing that your will is carried out. He does this by finalizing your financial affairs, collecting your assets and distributing them according to your will. The alternative is to leave all these decisions to be made by the courts. Do you really want this to happen?

I hope this brief outline has been enlightening and will become a reference point for your financial planning. If anything is confusing or you are wondering how to implement, don't worry!

I will be back soon with more great stuff to answer any questions and make it all crystal clear! So long for now!

Manyara Kirago