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First Capital Personal Finance Newsletter

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Saving Money on your Monthly Bill

Managing household expenses, especially water, electricity, phone and internet bills, is one of the most costly concerns people are having. In this month's news letter we focus on the following topics:

1. Walking through the Valley of Debts to the Mountain Top
2. Are you over insured? Cancel useless insurance policies
3. Cut down on Cell Phone Expenses

Walking through the Valley of Debts to reach the Mountain Top

As I pause to write this month's newsletter letter, I am reminded life is full of both good and bad; highs and lows; valleys and moun-taintops. There is no mountain top without a valley, but the valley should not be our destination. Some people can live on the mountain top debt free, happily married, enjoying financial freedom for extended periods of time but some cannot for some reason or another. We reach the mountain top, live there a while but then comes a wind of defeat that puts us in debts, financial crisis or a wind of discouragement and the wind blows us right down to the bottom of the mountain again into the valley full of financial problems. The wind that blows us down into the valley of debts could be caused by ourselves, or external forces over which we have no control. Irrespective of what drives us into the valley of debts, the depth of the valley, and what we do in the valley of debt determines who we become. Most suicides occur there and most marriages break up while one or both mates spend time in the valley. I know I am talking to several who are there and some people live in these valley most of the time and have even given up the hope of climbing the mountain top again. It may be because of physical reasons, emotional reasons, or spiritual reasons. Whatever the reason, too many of us have an address in the valley, and have found a permanent home in the valley of debts and have lost faith and hope. What we sometimes forget is that we must experience the depths of despair in order to fully experience the heights of joy on the mountain top. Life is a journey, and that journey is not on a flat, boring, straight, easily-travelled road. It is the bumps in the road, the detours, the mountains and valleys that make our lives interesting and unique. It is this lifelong journey of passing through the valley that molds us, strengthens us, and prepares us for the life of the world. Are you going to stay in the valley the rest of your life? You don't need to. Why don't you get out today? Why don't you decide to start climbing the mountain today? If you are going to be successful in climbing the mountain, then you must recognize what's in the valley, as the valley may be full of debts and you keep on falling into debt trap and extending your stay in the valley debts and death. There is a way out, and making some good personal finance decisions can set you up for a better quality of life and enable you climb the mountain and enjoy the financial freedom enjoyed by many people at the mountain top. Climbing the mountain will not be that simple, but the valley can be profitable part of our lives and below are some of the financial education tips that will enable you reach the mountain top.

Are you over insured? Cancel useless insurance policies

Insurance (life, study, etc.) is not a simple product and buying insurance doesn't make sense for everyone, especially for those who have reached the breakeven point of asset accumulation in their life and their investments or assets is enough to take care of their dependents needs after their death. However, most people have a tendency to buy unnecessary or useless insurance policies, and in the process waste their money subsidising others in the insurance schemes, and resorting to borrowing to supplement the budget. If you have no dependents and you have enough assets to cover your debts and the cost of dying then insurance is an unnecessary cost for you. Even if you do have dependents, but you have enough investments or assets to provide for them after your death, then you do not need insurance policies such as study or life insurance policies. A personal cash flow analysis is usually necessary in order to determine the true type and amount of insurance cover that must be purchased; otherwise you will keep on buying insurance policies sold to you by sales insurance agents. The cost of insurance could reach a point where the monthly premiums you pay to insurance companies could bankrupt you and push you deeper in the valley of debts. This article will briefly examine and explore some of the insurance policies you can do without.

Accidental Death Insurance Policies: If you have dependents or significant debts that outweigh your assets, then you likely will need insurance to ensure that your dependents are looked after if something happens to you, but you must avoid narrowly focussed such as accidental death insurance. Accidental death insurance policy covers you in some of the ways you could die accidentally, that is, dying due to something other than disease or old age. However, chances are your existing life insurance policy will cover you in most of those events anyway. Basic life and disability insurance covers a person no matter how they die or become disabled. Before you buy a policy you need to check the insurance contract carefully about this form of insurance policy, as it could be costly as happened to one unfortunate Namibian family. Mr Z who was a government employee died by natural death in 2000. He was the only bread winner in the family, with five children and a housewife. He bought a life insurance policy from a local insurance company and pledged this policy against his home loan. After his death the insurance company refused to owner its obligations, because the life insurance policy stipulated that, the insured must die by accident and not natural causes for the insurance to pay.

Accidental Death Insurance Policies (continues...)

The family tried all avenues, including the Ombudsman to force the insurance company to owner its obligation, but all their efforts failed and their house was put on auction and sold and the proceeds from the sale of the house was used to settle debts in the deceased estates, which only consisted of a mortgage loan and fees for the lawyers. The deceased life insurance cover was N$650 000, while the outstanding mortgage loan was N$190 000 and the value of the house at the time of his death was N$450 000, so had he taken the right life insurance policy, he would have left his family a net worth of close to N$1 million. After the house was repossessed and sold on auction, the widow and her five children had no income and home in Windhoek and had to relocate back to the village. Yes, the insurance broker or salesman might appear friendly to you and entice you to buy his insurance policy, but some of them will be really mean to your family after your death as this family can testify.

Study Insurance Policy: If you do a proper cash flow analysis and take the right life insurance policy, then a study insurance coverage may be optional or not needed at all. In addition there are many better ways of saving for your child to cover for the future cost of education. I have never taken a study policy before and for each child I have invested in property which is financed through the bank and monthly instalment on the houses are paid by tenants. If I die before there is enough equity value on my properties, my life insurance policy pay-out will take care of the children's education needs. Seven years ago I assisted a single mother who was in a debt trap and financial mess to restructure her finances and get her out of debts and this exercise ended up in her cancelling four study policies, two life insurance policies and one funeral policy. The single mother was earning a net monthly salary of N$12500 and was paying a monthly amount of N$3900 in insurance premiums or 31% of her monthly salary. After the restructuring exercise we brought down her total monthly insurance premium to N$2145 or 17% of her total monthly salary, a savings of N$1755. Instead of study policies, my advice to the single mother was to start buying properties for investment purpose and after seven years since our major restructuring of her finances, the single mother has accumulated four residential properties including the one she resides in and based on the latest valuations she can receive a net income of N$1.4 million if she sales the three houses currently on rent. Her first born is going to university this year and will need N$35000 for her education in 2011, but this single mother's child did very well in her grade 12, that she received a bursary and therefore does not need to sale any of her properties. Remember all these properties were 100% financed by the bank, and the monthly rentals covered the instalments. The savings she made after cancelling the policies she opened an investment account and started a saving plan to close an income shortfall she may face after her retirement.

Car Insurance: While it is important to insure your car, the money you spend on car insurance could be enough to guarantee you a decent retirement as the following example demonstrates. Mr Y retired end of 2010, and over the past 23 years he possessed four cars, an average of one car every six years. Over the past 23 years he spent more than N$282000.00 (N$1021 monthly premium) on car insurance alone, but never received a single cent from insurance companies because for all the 23 years he was never involved in a car accident. The one time he submitted a claim for a car break in, the insurance company refused to pay, he was accused of negligence. If he had invested the N$282000 in a combination of shares and bonds over the same period, he would have received by end of 2010, an amount of N$2.5 million at an average return of 15%. For all the past 23 years, this man has been subsidising reckless drivers and enriching the insurance company.

Cut down on Cell Phone Call Expenses

How much do you spend on cell phones calls every month? The demand for mobile phones in Namibia in the last few years has been more than most people expected and continues to expand in both urban and rural areas. While government expected that the spread of telecommunications should improve consumer well-being, the opposite could be happening as most people now spend a substantial portion of their income on unproductive cell phone calls. A sample of domestic workers earning less than N$1000 per months reveals that they spend on average between 15% to 25% of their monthly income on telephone expenses. To make matters worth most of these calls are not productive calls, but are calls linked to family members, friends etc and to make matters worse again most calls are made during working hours. You can save a lot by cutting down on the number of calls and the time spent calling friends and relatives. As they say your financial house is a complex structure that needs regular upkeep.

About the Author

Martin Mwinga works for **First Capital Namibia**, a specialised financial services company he founded in 2009. He is an author of a book **"Understanding Personal Finance in Namibia"** and has published more than 100 articles on personal finance, investments and economics. He believes that individuals can excel at managing their financial affairs and as such he strive to provide free educational content and tools to empower individual make informed financial decisions.

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