

Unit 6 — Financial Literacy: Managing Money, Risk, and the Future

Financial literacy is the ability to understand financial choices and use money in ways that support present needs and future security. It includes earning, budgeting, saving, borrowing, investing, protecting against risk, and recognizing financial products or practices that may cause harm. These decisions are not only personal matters. They are shaped by income, employment security, inflation, access to financial institutions, public services, family responsibilities, and the rules governing banks, lenders, insurers, and digital platforms.

This unit examines how households manage limited resources across different stages of life. People must balance daily expenses with emergencies, education, housing, retirement, and other long-term goals. Credit can help households meet urgent needs or finance productive investments, but debt can become harmful when interest and fees are unclear or when repayment takes away too much income from food, health, and other necessities. Saving and investing can build security over time, although every financial product involves different levels of risk, return, cost, and liquidity.

The unit also recognizes that good financial outcomes do not depend on individual discipline alone. A person cannot budget away an income that is too low, an unexpected hospital bill, or the loss of a job. Financial capability must therefore be supported by decent wages, stable employment, social protection, accessible public services, fair consumer rules, and trustworthy financial institutions. Government has an important role in protecting depositors and borrowers, regulating lenders and investment products, preventing fraud, expanding financial inclusion, and providing pensions, health insurance, and other systems that help households manage risks.

Across the unit, readers are encouraged to ask not only, “Can I afford the payment today?” but also, “What is the full cost, what risks am I accepting, and how will this decision affect my future choices?” Financial literacy is ultimately about using money as a tool for security, opportunity, and dignity.

Chapters in This Unit

Chapter 21: Income, Budgeting, and Saving. Examines how households allocate limited income among needs, wants, savings, and financial obligations. It discusses budget constraints, opportunity cost, emergency funds, inflation, and the importance of planning for both expected and unexpected expenses.

Chapter 22: Credit, Debt, and Financial Consumer Protection. Explains how borrowing moves spending from the future into the present. It discusses interest, fees, installment plans, credit cards, digital loans, over-indebtedness, credit records, and the protections consumers need when dealing with lenders and financial platforms.

Chapter 23: Investment, Insurance, and Long-Term Financial Security. Introduces the relationship among risk, return, liquidity, and time. It examines saving and investment products, diversification, insurance, retirement and pensions, financial scams, and the role of regulation in protecting people’s long-term savings.

Unit Key Idea

Financial literacy helps people make better choices, but financial security also depends on adequate income, fair institutions, social protection, and access to reliable financial services.

Chapter 21: Managing Income, Spending, and Financial Risk

Comic Strip idea:

Money decisions are part of everyday life. A student may decide how to divide an allowance between transport, food, school expenses, and savings. A worker may need to plan around rent, family support, loan payments, and irregular overtime. A household may be able to meet its normal expenses but become financially vulnerable after an illness, typhoon, job loss, or sudden price increase. Financial literacy helps people understand these choices, compare options, and prepare for risks.

Financial literacy, however, should not be presented as a guarantee against hardship. Families make decisions within the limits created by income, prices, employment security, public services, and access to fair financial products. A household cannot budget its way out of every problem. Financial capability therefore combines personal skills with consumer protection, social insurance, accessible institutions, and policies that support adequate and stable incomes (BSP, 2022, 2025).

A. Financial Literacy and Financial Well-Being

Financial literacy includes knowledge, behavior, and attitudes related to earning, spending, saving, borrowing, investing, and protecting resources. Financial well-being refers to a person's ability to meet current obligations, cope with shocks, make choices, and make progress toward future goals. A person may know the correct financial concepts but still struggle because income is too low or irregular. Conversely, a person with modest income may improve resilience through planning, savings, insurance, and careful use of credit, although these measures cannot remove structural constraints.

The Bangko Sentral ng Pilipinas treats financial education and consumer protection as complements to financial inclusion. Access to an account or loan is not enough if the product is unsuitable, costly, unsafe, or poorly understood. The Financial Products and Services Consumer Protection Act requires transparency, fair treatment, protection of consumer assets and data, and effective handling of complaints ("Republic Act No. 11765," 2022).

B. Understanding Household Income

Income may come from wages, salaries, self-employment, farming, fishing, freelance or platform work, remittances, pensions, government transfers, or investments. Some income is regular and predictable. Other income changes from day to day or season to season. A useful financial plan begins by identifying not only how much income is received, but also when it is received, how certain it is, and what deductions or costs are required to earn it.

Understanding Different Income Concepts

These terms help explain how much money a household receives and how much is actually available to use.

 Income concept	 Meaning	 Example
 Gross income	 Income before deductions and work-related expenses.	 A monthly salary before taxes and mandatory contributions.
 Net or take-home income	 Money available after deductions.	 Salary credited to the worker's account after deductions.
 Regular income	 Received on a relatively predictable schedule.	 Fixed monthly wage or pension.
 Irregular income	 Varies according to demand, season, hours, or output.	 Vending, farming, delivery, freelancing, or commission income.
 Disposable income	 Income available for spending and saving after required payments.	 Take-home pay after taxes and mandatory contributions.



Key idea: Not all income is equally available for daily use. Understanding deductions and income stability helps households plan spending, saving, and borrowing.

Workers with irregular income should avoid building a budget around their best month. A more cautious approach uses a conservative estimate based on several months of earnings. When income is high, part of the excess can be reserved for lean periods, taxes, maintenance, insurance contributions, and planned expenses.

Case Study: A Delivery Rider with Irregular Income

Mario comes through a delivery platform. His daily receipts appear high, but they are not the same as take-home income. He must pay for fuel, mobile data, meals, motorcycle maintenance, registration, and loan payments. Rain, illness, changes in platform incentives, and weak demand also affect his earnings. A useful budget begins with net income after work expenses and separates personal spending from the costs of maintaining the livelihood.

Mario reviews twelve weeks of earnings and uses the lower average as his planning income. He sets aside weekly amounts for maintenance, registration, social insurance contributions, and emergencies. This does not eliminate income risk, but it reduces the chance that a predictable expense will become a crisis.

Guide Questions

Why is gross platform income different from disposable income?

Why should Mario use a conservative income estimate?

Which costs should be treated as work expenses rather than household consumption?

What risks remain even after careful budgeting?

C. Building a Household Budget

A budget is a plan for using expected income. Its purpose is not to eliminate all discretionary spending. It helps a household decide which expenses must be paid first, which can be adjusted, and how much can be reserved for future needs. The BSP's financial-education materials identify budgeting and saving as central parts of personal financial management (BSP, 2020, 2024).

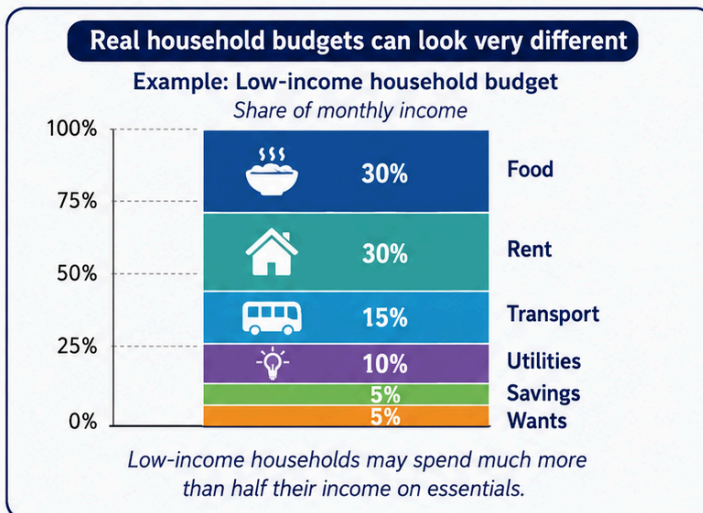
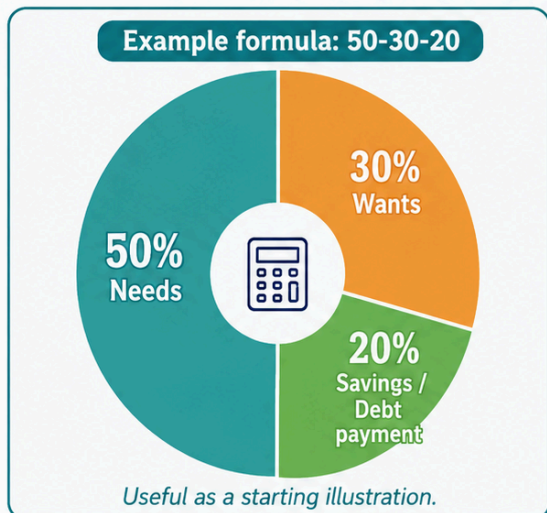
Expenses can be classified as fixed, variable, periodic, and unexpected. Fixed expenses are relatively stable, such as rent. Variable expenses change with use or prices, such as food, transport, and electricity. Periodic expenses occur less frequently but should still be anticipated, such as school enrollment, vehicle registration, annual insurance premiums, or repairs. Unexpected expenses are difficult to predict in timing or amount, such as emergency medical costs.

Step	Question	Action
1. Record income	How much money is likely to arrive and when?	Use net income and conservative estimates for irregular earnings.
2. List obligations	Which payments have legal, contractual, or essential priority?	Identify food, housing, utilities, transport, health, education, and debt.
3. Plan periodic costs	Which expenses are predictable but not monthly?	Divide expected annual or seasonal costs into smaller regular amounts.
4. Set savings goals	What emergencies and future expenses should be funded?	Treat saving as a planned allocation when income permits.
5. Review and adjust	What changed during the month?	Compare plan with actual spending and revise assumptions.

Budget formulas such as 50-30-20 may be useful as illustrations, but they should not be treated as universal rules. A low-income household may spend far more than half its income on food, rent, transport, and utilities. The appropriate allocation depends on income, family responsibilities, location, debt, and access to public services.

Budget Rules Are Only Guides

Formulas like 50-30-20 can help illustrate budgeting, but they are not universal rules.



What determines the right budget?



The best budget depends on a household's actual situation.
Budget formulas are guides, not fixed rules.

D. Needs, Wants, Obligations, and Goals

A need is essential for health, safety, work, or basic participation in society. A want adds comfort or enjoyment but can usually be postponed. The distinction is not always fixed. Internet access may be a want for one household but a requirement for school or work for another. Financial planning should therefore examine purpose, urgency, alternatives, and consequences rather than rely on labels alone.

Obligations are commitments that may carry penalties or serious consequences if ignored, such as rent, taxes, child support, loan payments, and utility bills. Goals are desired future outcomes, such as completing school, buying equipment, starting a business, or preparing for retirement. A budget must balance all four categories.

Case Study: Revising a Budget During Inflation

A household has not experienced a fall in money income, but food, transport, and electricity have become more expensive. Its nominal income is unchanged, while its purchasing power has declined. The family first protects food, housing, medicine, school attendance, and work-related transport. It then reviews subscriptions, discretionary purchases, and the timing of nonessential expenses. It also checks whether a fixed savings target remains realistic without missing essential payments.

The case shows that inflation changes real choices. Budgeting can help a family respond, but it cannot fully offset a large and prolonged increase in the cost of basic needs. Wage policy, public transport, food supply, energy policy, and social protection also affect household financial well-being.

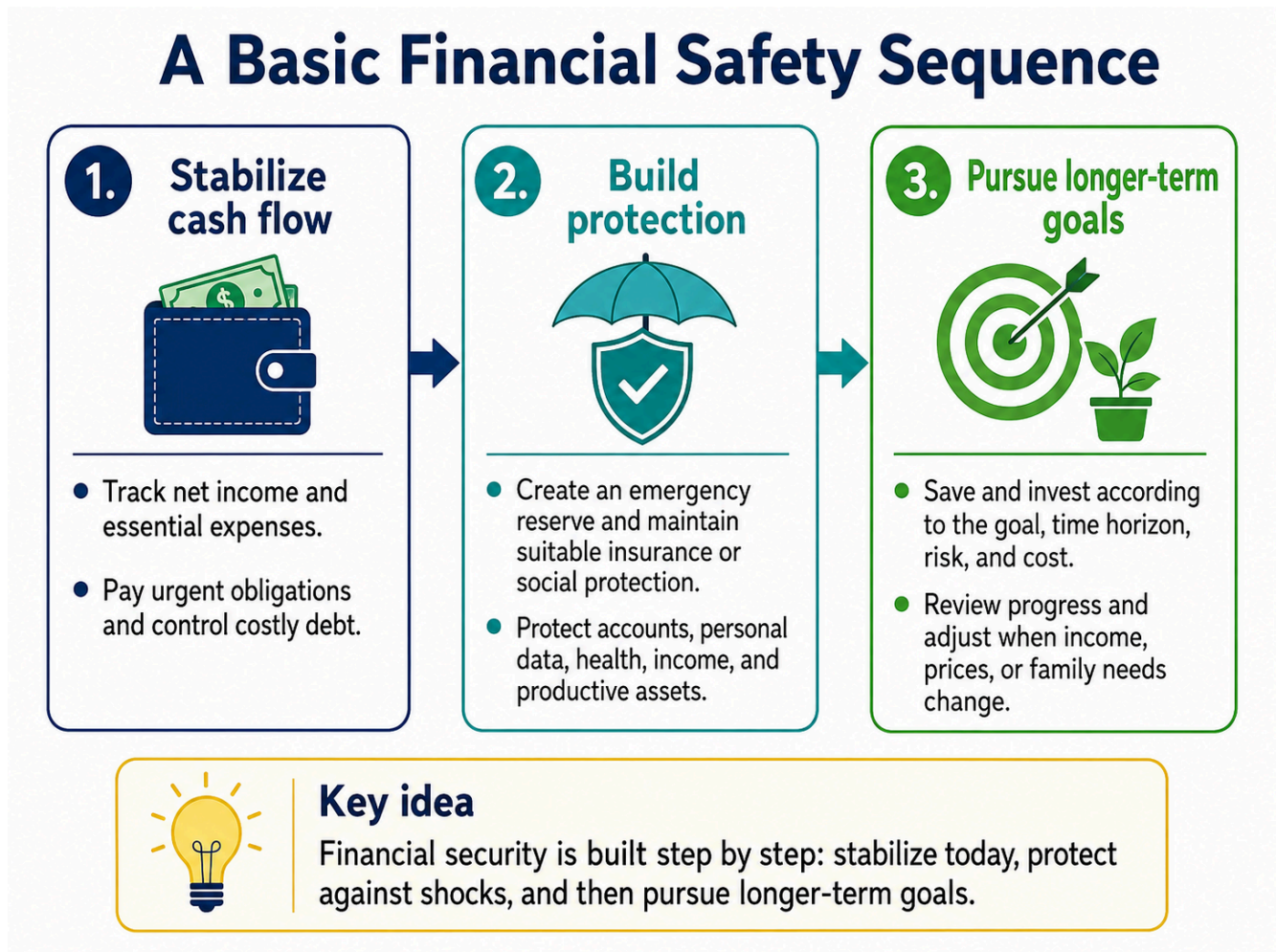
E. Saving and Emergency Funds

Saving means setting aside resources for future use. People save for emergencies, education, major purchases, business investment, retirement, and other goals. Saving also reduces dependence on expensive emergency debt. The amount that can be saved depends on income and essential expenses; advice that assumes every household can save the same percentage may be unrealistic.

An emergency fund should be liquid, safe, and accessible. Its purpose is not to earn the highest return but to provide cash when income falls or an urgent expense arises. The BSP's personal financial management materials commonly describe three to six months of expenses as a useful long-term target, but a smaller first target can still be valuable. A household may begin with one week or one month of essential expenses and build gradually (BSP, 2024).

Savings kept in regulated banks receive deposit-insurance protection subject to the rules of the Philippine Deposit Insurance Corporation. Effective 15 March 2025, the maximum deposit insurance coverage is ₱1 million per depositor, per bank (PDIC, 2025). Deposit insurance protects insured deposits if a bank closes; it does not protect investment losses, fraud caused by sharing account credentials, or money placed in unregulated schemes.

Figure: A Basic Financial Safety Sequence



F. Financial Risk and Insurance

Financial risk is the possibility that an event will reduce income, destroy assets, or create a large expense. Households face health, accident, disability, unemployment, disaster, crop, property, liability, and longevity risks. Risk management involves avoiding unnecessary risks, reducing exposure, sharing risks, transferring risks through insurance, and retaining manageable risks through savings.

Insurance pools the contributions of many people so that those who experience covered losses receive benefits. Important terms include the premium, coverage, exclusions, waiting period, deductible or participation, benefit limit, and claims process. A policy should be evaluated according to the risk it covers, not according to promotional language.

Social insurance and private insurance serve different but related roles. PhilHealth, SSS, GSIS, Pag-IBIG, and government-supported agricultural insurance provide forms of collective protection. Private insurance may supplement these programs. Insurance is not a substitute for prevention, safe workplaces, public health, disaster preparedness, or adequate emergency assistance.

Case Study: A Medical Emergency and Household Debt

Lina's family has a small emergency fund and health coverage, but a hospitalization still creates transport costs, medicine expenses, lost workdays, and charges not fully covered. The family compares four responses: using savings, borrowing from a cooperative, taking a high-cost online loan, or selling equipment used for work. The cheapest immediate source of cash is not necessarily the best choice if it destroys future income or creates unaffordable repayments.

A sound response may combine available benefits, negotiated payment arrangements, emergency

G. Digital Payments, Consumer Rights, and Scams

Digital accounts and payments can reduce transaction costs and make saving, transfers, and bills payment more convenient. They also create risks involving phishing, account takeover, identity theft, fake customer-service messages, unauthorized transactions, and social engineering. Consumers should protect passwords and one-time passwords, verify recipients, use official applications, and report suspicious transactions promptly.

Under Republic Act No. 11765, financial consumers have rights to fair treatment, disclosure and transparency, protection of assets and data, and effective recourse. Consumers also have responsibilities: provide accurate information, read disclosures, protect credentials, review statements, and raise complaints promptly. Responsibility should not be used to excuse weak security or unfair conduct by providers.

Case Study: A Message That Appears to Come from a Bank

A student receives a text message stating that an account will be suspended unless a link is opened immediately. The page copies the bank's logo and requests the account number, password, and one-time password. The message uses urgency to prevent careful checking. The appropriate response is to avoid the link, contact the institution through an official channel, change credentials if any information was entered, and report the incident.

H. A Practical Financial Plan

A practical plan is specific enough to guide action but flexible enough to adjust. It should state the household's current cash flow, urgent risks, short-term goals, debt obligations, insurance or social-protection coverage, and longer-term priorities. Progress should be reviewed when income, prices, health, or family responsibilities change.

- Calculate net rather than gross income.
- Separate household expenses from business or work expenses.
- Plan for periodic costs before they become urgent.
- Build an emergency reserve gradually.
- Use regulated institutions and understand deposit-insurance limits.
- Compare insurance coverage, exclusions, and claims procedures.
- Protect financial information and use complaint channels when necessary.

Let's Review

Financial well-being involves meeting current obligations, coping with shocks, retaining reasonable choices, and making progress toward future goals.

A budget should be based on net and realistically expected income. Fixed, variable, periodic, and emergency expenses require different forms of planning.

Saving provides liquidity for future needs, while insurance and social protection transfer or pool selected risks.

Financial literacy improves decision-making, but household security also depends on income, public services, regulation, and fair access to financial products.

Key Idea: Good financial management balances present needs, future goals, and protection from risk. It should strengthen household choices without blaming people for hardships caused by low income, unstable work, high prices, or inadequate public services.

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