# Module Two: Spending and saving Name:

## Key terms and definitions

|  |  |
| --- | --- |
| Term | Definition |
| Accessing | Getting something, getting entry. |
| ASIC | [Australian Securities and Investment Commission](http://www.asic.gov.au/) – an independent Australian government body that acts as Australia’s corporate regulator. These guys enforce and regulate financial services to protect Australian consumers (that’s you). |
| Bonds | Money borrowed from the public by the government in return for a certificate on which regular interest payments are made. |
| Budget | A plan for your spending and savings. |
| Capital growth | The increase in the market value (what you could sell it for) of an asset (something you own) over time. |
| Credit | Money you borrow from a bank/building society or from others. |
| Debentures | Money borrowed by a company from the public in return for a certificate on which interest is regularly paid. |
| Dividend | The return (money) a company pays to shareholders from its profits for each share. |
| Option | A choice. |
| Profitability | The ability to transfer something, like your superannuation contributions, between jobs. |
| Shares | An investment in part of a company, which makes you a part owner, or shareholder. |
| Superannuation | A lump sum total of the regular payments made by your employer (and you if you choose) over your working life. This is paid to you when you retire. |

## Task 1

1. Choose the most suitable method of payment for each item and give reasons for your decision.

|  |  |  |
| --- | --- | --- |
| Item(s) | Method of payment | Reasons for choosing this method |
| $100 worth of groceries |  |  |
| A drink at Franks |  |  |
| Flowers at a roadside stall |  |  |
| Formal dress |  |  |
| Driver’s licence |  |  |
| Puppy training classes |  |  |
| Phone bill |  |  |
| Special anti-ageing cream |  |  |
| Root canal treatment on tooth |  |  |
| New car |  |  |

1. Discuss amongst the group what things impact on people’s payment choices? Would your grandparents use the same method of payment for the items you suggested in the table? Has technology changed the way people pay for things?

## Task 2

1. See if you can come up with some less expensive alternatives to the lifestyle choices in the first column of the table.

| Lifestyle choices | Alternatives |
| --- | --- |
| Mobile phone calls and texts |  |
| Expensive mobile phone plan |  |
| V8 car |  |
| Buying lunch everyday |  |
| Buying snacks and drinks |  |
| Downloading games |  |
| Magazine subscriptions |  |
| Expensive holidays |  |
| Takeaway food for dinner |  |

## Reducing your expenses, controlling your debts, managing your bills and expenses.

|  |  |
| --- | --- |
| Cutting expenses and boosting savings | |
| Needs – unavoidable living expenses | |
| Food  Banking  Transport  Clothes  School uniforms  School excursions  Books and stationery | Make your lunch at home  Look at different types of accounts. Pay bills by internet.  Look at longer term options – weekly, monthly, quarterly, yearly  Budget an amount for clothes. Look for sales  Budget for the items you need for the year  Find out how many there will be for the year and how much they will cost  Borrow books from the library. Look at “hot dollar” type shops |
| Wants – may improve your quality and enjoyment of life | |
| Eating out  Magazines  Movies  Concerts  Holidays  Haircuts/styles  Gifts  Charity | Can cost you a lot of money. Do it as a planned event, not as part of the food budget  Do you really need these; can you borrow them or read online?  Libraries lend movies  This should be something you budget and save for  Plan and budget. Go with a group to cut costs. Look at low season, self-catering options.  Just cuts? Vouchers?  This also needs to be budgeted and saved.  Tax deductable and many think a worthwhile expense. |
| Control your debts | |
| Spare cash  Health insurance  Credit cards  Interest free purchases  Loans | Save it or put it towards paying off credit cards or loans.  This can be worthwhile for dental, optical and other extras you may need. Lots of plans.  Very high interest rates. Used only if you can pay them off before the interest hits.  These look tempting but can really cost you a lot if the interest free period expires.  Look at paying weekly rather than monthly; it will save you lots of interest. |
| Bills and expenses | |
| Electricity  Phone  Internet  Rent  Pay TV  Doctor  Dentist  Optometrist | Look at regular instalments through direct debit.  Make sure you are on the right plan and don’t go over your quota.  Budget for this and use wisely – watch what you are downloading.  Make sure you budget for this and know what is included.  Do you really need this?  Look for places that bulk bill.  Consider health insurance – free check-ups.  Eye exams are bulk billed. Another reason to consider health insurance. |
| Savings |  |
| Savings account | Have a separate account for savings and have a regular amount deducted. |

## Budgeting

1. Fill in the figures in the budget below that you think are appropriate to your family or your living situation. If there are items that are not relevant just put them as zero. You can use the Excel spreadsheet and try different amounts to see how it effects the changes on the total budget.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Budget | | | | | | |
| Your income |  |  | Rent |  | Total Income |  |
| Pension/benefit |  | Utilities | Electricity |  | Less total living expenses |  |
| Any other income |  | Gas |  | Less total loan expenses |  |
| TOTAL INCOME |  | Water |  | **BALANCE** |  |
|  |  | Mobile phone |  |  |  |
|  |  | Internet |  |  |  |
| Credit card |  | Pay TV |  |  |  |
| Store accounts |  | Transport | Petrol |  |  |  |
| Car loan |  | Repairs |  |  |  |
| TOTAL LOANS |  | Registration |  |  |  |
|  |  | Car/bike Insurance |  |  |  |
|  |  | Public transport |  |  |  |
|  |  | Food | Meat/fish |  |  |  |
|  |  | Fruit/vegetables |  |  |  |
|  |  | Other groceries |  |  |  |
|  |  | Take-away / restaurants |  |  |  |
|  |  | Pet food |  |  |  |
|  |  | Education | School uniforms |  |  |  |
|  |  | School excursions |  |  |  |
|  |  | Books/stationery |  |  |  |
|  |  | Medical | Health insurance |  |  |  |
|  |  | Doctor |  |  |  |
|  |  | Dentist |  |  |  |
|  |  | Optometrist |  |  |  |
|  |  | Other health care |  |  |  |
|  |  | Chemist |  |  |  |
|  |  | Veterinarian |  |  |  |
|  |  | Other | Clothes |  |  |  |
|  |  | Haircuts |  |  |  |
|  |  | Entertainment |  |  |  |
|  |  | Sport |  |  |  |
|  |  | Holidays |  |  |  |
|  |  | Gifts |  |  |  |
|  |  | Donations |  |  |  |
|  |  | Savings |  |  |  |
|  |  |  | **TOTAL LIVING EXPENSES** |  |  |  |

## Credit issues - If you haven’t got the cash now, then you can’t afford it.

Michael is a third year apprentice and just received a final notice for his $30,000 credit card debt. His belongings were being repossessed. He knew that neither he nor his parents could afford to pay this debt.

It is pretty easy for young people to get into financial difficulties, just like Michael has. We are inundated by advertising and influenced by material possessions and living the high life. For people of your age the signing of a credit card or flash mobile phone contract seems like a small sacrifice. We live in a generation where you can get a credit card, a phone contract, a personal loan… all with a phone call. It seems such a necessity, but it’s not. It can be really hard not to be tempted all the time.

Store cards – can sound great, but you need to be aware of things like annual fees, how their interest rate compares to other stores offering cards, if there is an interest free period, and late payment fees. Once you add all of these things up the ‘great deals’ and discounts they are offering if you become a member may not really be so great.

Interest free deals – Take home brand new furniture, electrical, whitegoods, and pay nothing. Unfortunately, there is often a catch. What if you can’t pay the loan off inside the time you agreed to? What interest rate are they then going to charge you? It is often around 25%. Some companies even back date this interest to the time you purchased the goods, not just from when the interest free period expires.

Credit cards – nearly all credit cards have very high interest rates and high annual charges. If you take cash out on your credit card (NOT recommended at all) then you will be charged an even higher rate of interest from the day you get the cash advance, there is no interest free period on cash. If you can’t pay the amount on your credit card inside the interest free period, it may take you years to pay off this debt, and sometimes you end up paying more in interest and charges that the cost of your actual purchases. If you end up like this – cut up the card and concentrate on paying back the money as quickly as you can.

Credit increases – another potential trap. If you are offered a credit limit increase, ask yourself honestly how long it would take you to pay it all back? Do you really need to get into more debt? The answer is likely to be ‘no’.

## Task 3

Discuss the following as a group and write some notes in the table below. If you would like to find out more information about credit issues have a look at some of these websites:

[ASIC Money Smart](https://www.moneysmart.gov.au/?referrer=fido.gov.au) – have a look around this site. It has all sorts of information and publications on renting, hiring, borrowing, credit cards, tax, what to do if you get stuck with debt and more.

[Money Stuff](http://www.moneystuff.net.au/home) – you can click on ‘Just the Facts’ on the left hand side and then look into credit or anything you find interesting.

| Questions | Notes |
| --- | --- |
| What is credit and how has it affected the way many people live? |  |
| What are some of the issues that people should be aware of in relation to credit?  How can some of these issues be resolved? |  |
| Is having a credit card similar to having a mobile phone contract?  Should people who consistently have trouble paying their phone bill be able to have a credit card? |  |

## Investment options

When we talk about investment here, it is something you do with your money to end up with a profit. It may be thing like long term savings account, property, shares, artworks, bonds, superannuation.

## Task 4

Discuss the following with the group and makes some notes.

|  |  |
| --- | --- |
| Questions | Answers |
| What is the difference between saving and investing? |  |
| Why is it important to save? |  |
| How much of your income should you save? |  |
| Why should you invest your savings? |  |

## Superannuation

If you are aged between 18 -70 years, are employed on any basis, work more than 30 hours per week, and earn over $450 gross per month, your employer makes compulsory contributions of 9.5% of your wage into your superannuation fund. This money is for your retirement, and aims to ensure that when you retire you have some money to live on. Most of your super is held until you are at least 55 years old. This is called the ‘preserved benefit’.

Superannuation funds charge you money to manage your account. The charges and benefits vary widely, so you should look at different superannuation funds and choose one that suits you. You are able to tell your employer which fund you want the money paid into.

The amount you get when you retire depends on how much you contribute to the fund and how much the management fees have taken from your investment. If you have $330, 000 of super when you retire, then you will get $20,000 per year to live on when you retire. In order to get $60,000 per year, you would need $1 million of superannuation in your account when you retire.

You can make voluntary contributions to your superannuation. For low to middle income earners the government introduced a ‘co-contribution’ scheme. If your annual income is below $48,516, for every dollar of voluntary contributions you make to your superannuation, the government will pay $1.50 into your account as well, to a maximum of $500 per year (this used to be $1,500). This money is tax free.

You can move some or all of your superannuation to another fund of your choice whenever you like. There may be fees and charges, but generally not.

## Task 5

|  |  |
| --- | --- |
| Questions | Answers |
| How much does your employer have to contribute into your superannuation fund? |  |
| Do you have to use your employer’s superannuation fund? |  |
| How much money would you like to have to spend per year after you retire? |  |
| How much will you need in your superannuation (or other investments) to get this? |  |