

Factors that influence the need for saving

Russell rips open his first pay slip – his first wage of \$64.50 has been paid into his bank account. He finds an ATM and draws out \$50 cash. First stop is the music shop where he buys a CD, then a T-shirt that he sees 'on special'. He plays two video games and buys some lunch. As he nears home, the reality hits him. Out of his \$50, he has only \$3.50 left.

Russell has just learned a valuable Commerce lesson: you can do two things with money – spend it or save it. Russell can, however, do both by spending some of his earnings responsibly and working out a regular **savings plan**.

Why save money?

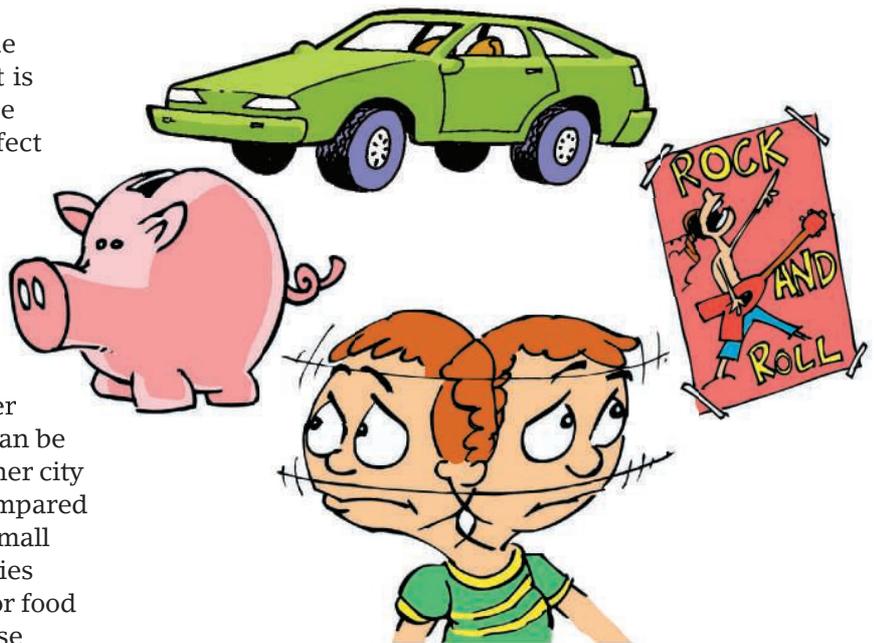
There are many reasons why people save and the reasons change at different stages of life. For example:

- Teenagers might save for a sound system, a car or a big holiday at the end of Year 12.
- Houses are so expensive that not many people can afford to pay cash for them. First home buyers must save for a deposit and arrange the rest through a loan.
- For wage or salary earners with children, the saying 'to save for a rainy day' means that it is important to have some money saved in case illnesses, accidents or other emergencies affect them or their dependants.
- Older people save for their retirement by putting funds aside in a superannuation plan. They want to have a good lifestyle even when their permanent income stops. They want to feel secure in their old age.
- On leaving school, young people may wish to experience the excitement of living in an inner city location. The cost of living in such areas can be high, especially accommodation costs, and inner city residents may find it more difficult to save compared with someone living in an outer suburb or a small town. People living in remote rural communities also experience high living costs, especially for food and household items, due to the added expense of transporting supplies to isolated areas. This influences the amount of money they can save.

- Whatever the age, saving money gives some people a sense of satisfaction and pleasure. When you look at your savings balance you might feel a sense of achievement, especially if you have a target you are trying to meet.

Budgeting and saving: a strategy

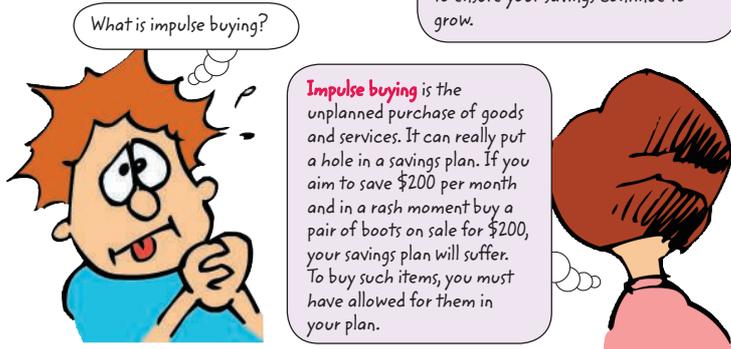
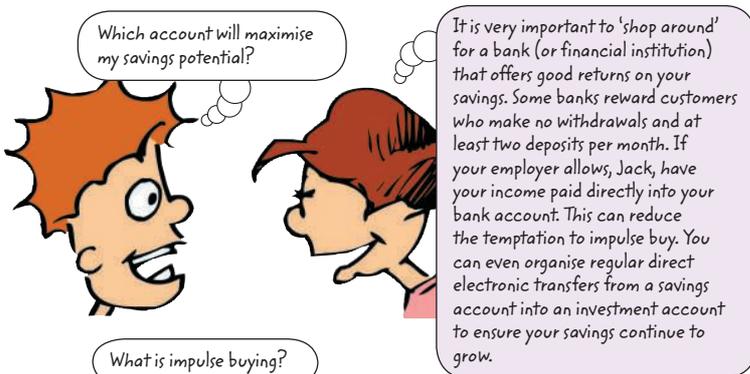
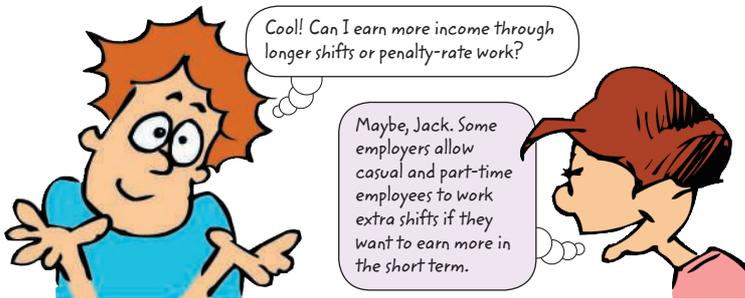
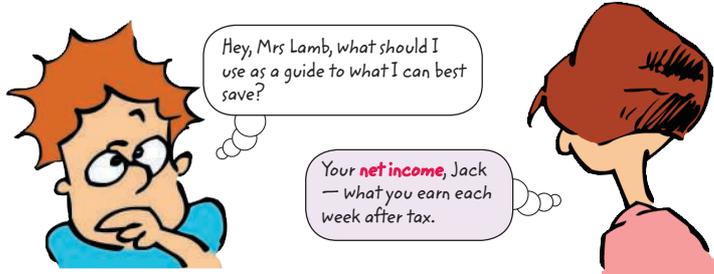
Saving is easy for some people; hard work for others. Those who do not save usually use the excuse that they do not earn enough. In general, the more people earn, the more they can save. However, most people can afford to save some money without too great a sacrifice. The problem with establishing a savings plan is that you have to show some discipline! If you have a strict budget to save for a car and you hear that your favourite band is touring at a cost of \$80 per ticket, you shouldn't give in to temptation. If you have a flexible savings plan, you might be able to save for your car *and* see the band!



To spend on a concert ticket . . . or to save for that car? A responsible savings plan might allow for both.

Responsible spending and saving

Saving involves being committed to a medium- to long-term plan and allowing for the occasional financial 'hiccup' or spending indulgence along the way. Here are some questions you need to ask when developing a savings plan.



Activities

Understand

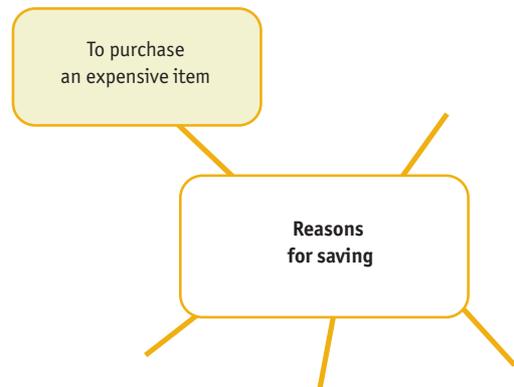
- 1 What two things can you do with your income?
- 2 What is a 'savings plan'? Why is it important?
- 3 Why is it important that a savings plan not be too restrictive?
- 4 Explain how impulse buying can quickly damage a person's savings plan.
- 5 Explain how preparing a savings plan could help Russell save some of his money.

Think

- 6 Why do you think Russell spent most of his first pay within half an hour?
- 7 Elsa Piccoli says that she does not save regularly because the amount she can afford to save is too small. Is this a good reason? Explain.
- 8 What is the relationship of wise money management to a savings program?
- 9 Savings hidden in a jar is money that is not working for you. What other reasons can you give why savings should not be kept in a jar?

Communicate

- 10 Add extra elements to the mind map started below to summarise the reasons for saving.



- 11 In small groups, advise people of the dangers of spending all their money by either:
 - (a) creating a collage poster
 - (b) preparing a PowerPoint presentation.
- 12 As a class, brainstorm other reasons for saving that have not been mentioned in the text.

Glossary

impulse buying buying something without giving much thought as to whether you really need it

net income the amount a person has left after income tax is deducted

savings plan a commitment to regularly put aside some money for future use

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Managing your money

Some people mistakenly think that responsible financial management means being miserly and doing without all luxuries.

Responsible financial management actually means making the best use of our limited amount of money. This involves making sensible choices. For example, saving a part of your income is a responsible thing to do. However, those people who try to save all their income are no more sensible than those who spend all theirs. Ultimately, responsible financial management means using money so as to obtain the greatest possible amount of satisfaction in return.

Responsible financial management should follow a number of steps.



Comfact

Some tips on responsible financial management:

- prepare a budget
- save some of your income
- monitor and record your income and expenses
- avoid overcommitment.

STEP 1 Calculate your total income

Calculate and record all the income you are likely to receive. Your budget can be recorded either in a book or as a computerised spreadsheet. (Refer to page 31 for a detailed description of how to set up a spreadsheet.)

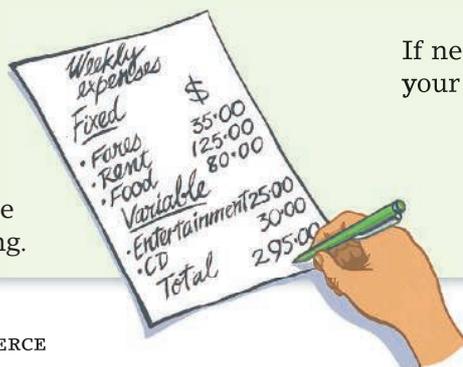


STEP 2 Record your expenses

Make a list of all your expenses. These should be divided into two types: fixed and variable.

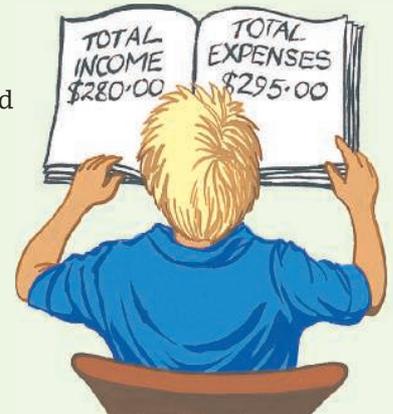
STEP 3 Total your expenses

Calculate and record the total of all your spending.



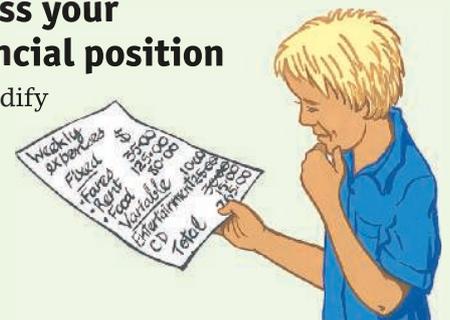
STEP 4 Compare your total income with your total expenditure

Calculate whether you have sufficient income to meet your list of intended expenditures.



STEP 5 Assess your financial position

If necessary, modify your budget.



Features of responsible financial management

No-one wants the worry of overspending and ending up in debt. By careful financial planning, you can make sure your spending is not greater than your income.

Consider whether you are satisfied with your financial position. If your spending is too high or your income is too low, you will need to cut back some of the things you would like to buy. Normally, you will find it easier to cut back non-essential, variable expenses.

If you are still not satisfied, you will have to modify some fixed expenses; for example, walk to work or school, and make your own lunch.

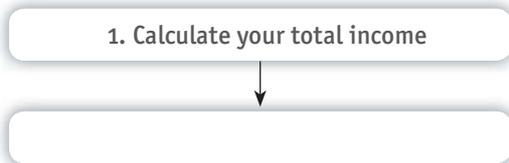
If you are not able to reduce your spending, you either have to earn more income, borrow money or go without. Remember though, borrow only if you are certain you can make the repayments.

If you are a compulsive shopper, you will need to monitor your spending very carefully, especially if you use some form of credit. Set up a budget, try to save on a regular basis no matter how small the amount, keep accurate and up-to-date records, monitor your spending and avoid overcommitments. Following these practices will help you manage your finances responsibly and provide greater financial security.

Activities

Understand

- Unscramble the following words and then explain their meaning.
 - gtbdgueni
 - cemion
 - wgnbiroro
 - eepdtrxunie
 - gvsnais
- Why is it necessary to prepare a budget?
- Construct a flow chart to show the steps in preparing a budget. Alternatively, prepare this as a PowerPoint presentation. The first step has been done for you.



- Copy the following budget into your notebook and fill in the missing spaces.

Budget for 9–15 September			
Income	\$	\$
Wages	50		
Babysitting		
		<i>Fixed</i>	
		Train fares	20
		Lunches	15
		<i>Variable</i>	
		Entertainment	10
		Presents
Total income	70	60
Savings (income – spending = \$.....)			

- Use the following information to draw up a budget either in your notebook or using a spreadsheet program.
Ethan earns \$100 a week working at Coles part time. He also receives \$30 weekly mowing the

neighbour's lawn. He has to pay his mother \$20 board and gives her another \$10 a week to help her pay bills. He spends \$5 a day on food and another \$4 a day on travel. He is saving up to buy a motorbike. Draw up his weekly budget.

- Do you consider Ethan good at budgeting? Can his budget be improved? Explain your answer.
- In two or three paragraphs, outline some of the consequences of poor budgeting. Discuss your answers as a class.

Investigate

- Using a computer spreadsheet, record all your income and spending over a two-week period.
 - What was your balance for each week?
 - Were you satisfied with how you managed your finances?
 - Predict changes you would make over the next three months.
 - What changes would you make if you wanted to increase your savings?
- Working in pairs, construct a form to complete Antonia's budget for the month. Your form must be capable of displaying the following details:
Antonia earns \$2800 a month (after tax). She also earns \$200 a month coaching tennis. She has some money invested in a term deposit where \$60 in interest is paid each month. Monthly expenses include: mortgage \$1200, food \$500, car expenses \$400, medical \$50, entertainment \$250, telephone \$150, electricity \$75, insurance \$110, presents \$25, and books or CDs \$60.
 - Antonia would like to buy some new clothes next month and anticipates spending \$300. Can she afford to do this? Explain your answer.

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Worksheet 2.3 Help your friend revise her budget to make the best use of her money.