BUDGETING: WAYS TO HANDLE MONEY

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There are heaps of helpful websites that show ways to handle money. But most of these are directed at an older market; people with loads of responsibilities to worry about.

If you know any adults that you think could benefit from a little help with managing money… nudge them in the direction of these sites:

www.fido.asic.gov.au

OR

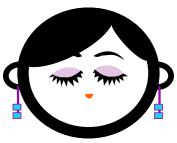
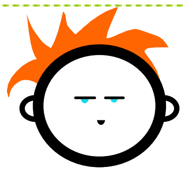
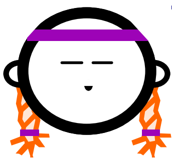
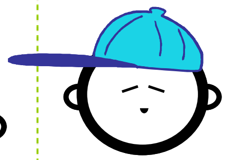
Go to a bank or super fund website. Most of them have lots of tools and calculators that are really useful.

Kim just got the call – all her friends are meeting for coffee – but she checked her wallet and she's out of cash.

Ever thought about where your money goes? Directly or indirectly, you've probably already spent some money today. If you come to school by car or bus, money is spent to pay for petrol or buy the ticket. If you buy a snack or a drink during the day, you spend money. And that's what this unit is about: understanding where your money goes and figuring out how to make the most of it.

Think back to Unit 1 and your personal cash flow. This helped you track money coming in and going out. What it didn't do was help you understand *how* you could save more for your goals. This unit will show you how a budget can help – it's a plan for managing your money.

Who are the savers?

				
Kim?	Nick?	Lena?	Daniel?	Mel?
Umm… don't think so.	He's worked hard to save up and buy a guitar, so we know he's good at saving.	She hasn't tried saving yet, but if she really wanted some basketball stuff, she'd start thinking about it…	He works hard, has goals and understands the value of money. Looks like he's on the right path.	She knows, as uni gets closer, she'll have to do something about saving. But that means she'll have to get a job… ick!

Building your own budget

Tracking money just for the sake of it can be pretty meaningless. It makes more sense to track money when you're working to a plan. That's the purpose of a budget: you work out your spending in advance, then try to stick to it. When you're in control of your spending, it's much easier to make clear decisions and get your money working for you.

Another good reason for making a budget is that, if you're like most people, your funds are limited. You can only earn so much or work so many hours a week, and that often limits your income. So it's important to be thoughtful about how you spend your money.

If you blow all your cash on clothes, what will you do if your friends want to go out? You have the opportunity to use your decision-making skills and choose how to spend your money. A budget helps this process; you're planning how to use your money for your needs and wants, and achieving your goals in the process.

What is the first step to creating a budget? The answer is simple and you've already done it – it starts with your cash flow. So let's recap the two parts of cash flow…

Money coming in	Money going out
Money coming in is called **income**. There are many ways you can receive income. Most people think of income as money earned from a job. But let's get a little more creative. Do you receive an allowance? That is income. Did you get any money for your birthday? That's income, too. When you earn money from working, the government always gets a bit of it… known as tax. We'll help you understand more about tax later in this unit. **Did you know?** In Australia the average 15 year old has an income of $58 a week, while income for the average 16 year old is double that.	The money you spend on your needs and wants - money going out - is called **expenses**. Your expenses typically fall into one of two categories. **Fixed expenses** have set dollar amounts and are the same amount every time. For your parents, a mortgage payment is usually a fixed amount (Eg: $1500 per month). For you, a payment towards your mobile phone plan might be a fixed expense (Eg: $25 per month). **Variable expenses** can change, which means you usually have more control over them. (Eg: you might go to the movies this week and rent a video next week.)

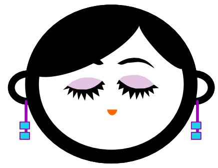
The trick to budgeting is to BALANCE income and expenses. When they're in balance, things are going well. When they're out of balance, and expenses outweigh income, it often results in debt. We'll discuss this problem more in Unit 4.

What do you spend your money on?

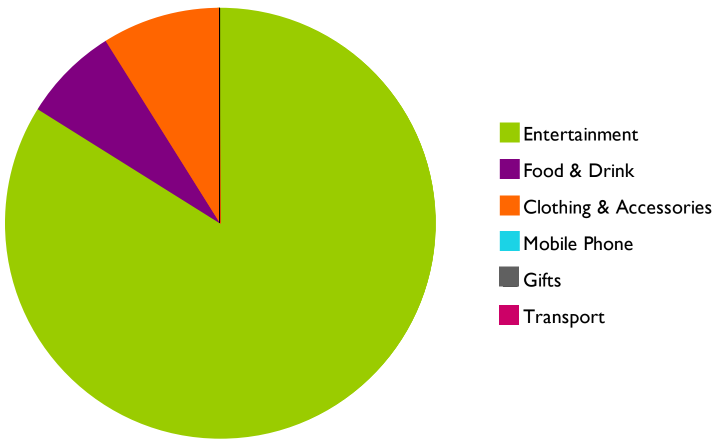
Ever wonder if you're like everybody else when it comes to spending?

Let's go back to Kim's cash flow – remember how she spends more than she earns? Let's have a look at where her money goes…

Kim's cash flow



	Income	Expenses
Monday		Kylie tickets - $75
Tuesday	Fashion shop pay - $96	
Wednesday		Nail polish - $12
Thursday		DVD - $25
Friday		
Saturday	Allowance - $20	Lunch - $7
Sunday		Coffee - $2 Movie - $8
TOTAL	**$116**	**$129**



See how much easier it is to see where Kim's money goes by breaking it down into categories – she spent a lot on entertainment that week, but nothing on her mobile phone, gifts or transport. She's not that different to the rest of Australian girls… the average teenager spends money on clothes, cosmetics, entertainment and fast food.

My spending habits

Now it's time to break down your spending into categories. Review your cash flow from Unit 1 (page 11) and create your own pie chart to see where you spend your money.

Any surprises?

This overview can help you decide if you are happy with where your money goes. If you aren't, setting a budget for yourself could help you control your spending – the template at the end of this unit can help you.

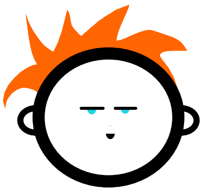
If you're anything like Kim, you probably feel like you never have enough money. Spending can seem (very) easy and saving… well, that can seem hard. The tips outlined below might help - even following just one of them may get you saving.

Pay yourself first

Pay yourself first (PYF) is a very simple but effective idea that can help you a) get what you want and, b) become a disciplined saver. It's a simple trick where you automatically put aside, in a bank account or safe place, the amount you want to save.

The idea is simple because you don't give yourself a choice. Think of it as a fixed expense you owe to yourself. The advantages of PYF are clear, because what you can't see and get your hands on, you don't think about (or spend)!

Since you'll be dealing with money for the rest of your life, look at PYF as a very important principle for managing money. The earlier you develop the habit of saving, which is basically what PYF is, the better off you'll be.

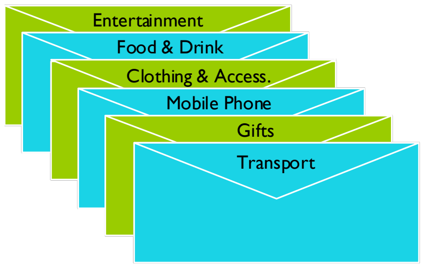


Nick's weekly budget, showing his PYF account

		In	Out
Money coming in	Pay	$ 120	
	Allowance (incl. gifts)	$ 30	
Money going out	PYF (savings)		$ 70
	Entertainment		$ 20
	Food and drink		$ 25
	Clothing and accessories		$ 0
	Mobile phone		$ 20
	Gifts		$ 0
	Transport		$ 15
Totals		$ 150	$ 150
Money left over?	(IN minus OUT)		$ 0

Nick's tip for budgeting and saving… Nick pays for clothing and gifts out of his PYF account, so he knows exactly how much he'll eat into his savings. Everything else Nick spends his money on is virtually the same each week, which means he always knows how much he can put into his PYF account.

The envelope system



Maybe you don't have a regular income, or you don't feel like you have enough money to bother with a bank account. How can you manage your cash? Try an envelope system. It's simple and works very nicely with your budget. Here's how….

1. Label an envelope for each spending category of your budget (such as transport, phone and entertainment), and record the planned spending amount on each of the envelopes.
2. As you receive money (weekly or monthly), place the planned amount in the appropriate envelopes.
3. When you need to spend money, say for transport, take cash out of the "transport" envelope.
4. When an envelope is out of cash, you're done spending for that category. Of course, if you've spent all your transport money but have extra cash in another envelope, you could move this "extra" money into the "transport" envelope.
5. Every time you add or remove money from an envelope, write down the date, the amount, and the spending reason on the envelope itself. This puts all your tracking information in one place, and you'll see where you've over-spent or where you're saving money. Best of all, you'll know *why* you're spending or saving.
6. Start with a new set of envelopes for each new planning period.

Cutting back

Nothing left over at the end of the week? Then you may want to consider ways to cut back. Look at your cash flow and try to identify areas where you can spend less. Most of us buy things we don't really need, and those extra purchases can add up quickly.

My savings

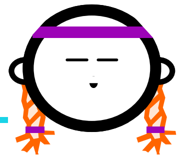
Find items where you can save and write them in the table below. Then multiply their price by the number of times per week you won't spend that money. Add them together to find your total weekly savings.

Example				***You***			
Item	*Price*	*No. each week*	*Total*	*Item*	*Price*	*No. each week*	*Total*
Movies	*$9.00*	*1*	*$9.00*				
Soft drink	*$2.50*	*3*	*$7.50*				
		Total savings	*$16.50*			*Total savings $*	

Cost/benefit analysis

The hardest thing to learn when trying to save money is where to save it from. A cost/benefit analysis can be useful in helping you with this. It's a simple tool to help you choose between alternatives - you weigh up the cost of a product or service against the benefit it will provide.

Let's consider Lena as an example…



Lena's cost/benefit analysis

Each week, Lena treats herself and hires a basketball video that costs about $6. She likes to analyse international games, watch world-class tactics and see the coaches in action.

The videos have really helped her understand what it means to be a coach… one of her dreams. One day she hopes to pass on her passion for basketball to other up-and-coming ball stars.

She's just found out that a coaching clinic will be held near her house in 10 weeks time, but it costs $60 to attend. The thing is, she has no savings and no money left over each week. Something will have to give for her to afford the clinic. What to do?

Lena works through a cost/benefit analysis to help her decide…

Basketball videos	**Coaching clinic**
Cost: $6 a week.	**Cost:** $60
Benefit: Gives her lots of information, not just on coaching. They also help her game improve.	**Benefit:** Will have the chance to work in a face-to-face situation and hear other players' thoughts, tips and goals.
Availability: As they are videos, she can always hire them another time.	**Availability:** It's a one-off chance.

Lena's decision: Save $6 a week for 10 weeks and go to the clinic. She can always hire the videos later – besides, she has seen a few of them twice!

What would you do if you were in Lena's shoes? OK, maybe you don't like basketball. But what if it was deciding about something you do care about… like whether to go to the movies once a week and have a hamburger afterwards, or instead go twice a month and skip the burger and put your money towards something else. It all depends on YOU – what your wants are, what your goals are, and how your budget is shaping up. Everyone is different.

If you're thinking about going on to tertiary education, there may be a similar decision to be made: do you go to university or TAFE? In this instance you'd work out various factors such as what the costs are, what type of education was available, what you wanted to do afterwards, and the typical jobs and salaries offered to graduates.

Weighing up those decisions is like doing a cost/benefit analysis. Taking the time to do one can help you make better decisions.

Shop around

While we're on the subject of spending, it's also a smart thing to make your dollars go further.

Say you want to buy two new release DVDs, which can cost up to $39 each (being new releases). It's worthwhile doing some research and seeing if you can get them cheaper… some stores offer deals on new DVDs – two for $40. (Excellent - two for the price of one!) All it takes is a little research. Shop around to find the best deal, or look online for any savings that the Internet offers.

When saving up for a more expensive item (like a car), once again you need to research. Often you'll pay more for certain brands, whereas the cheaper brand can still offer you the bells and whistles that you want. Do your homework and look for the deal that works best for you. Magazines, newspapers, the Internet and even television programs often cover different products and how they perform.

Also check out publications and organisations dedicated to product or service evaluation (Eg; Choice magazine or the Australian Competition and Consumer Commission). Then there are the people right in front of you - your friends and family. Look for someone who owns the item and can tell you honestly about his or her experience using it.

A bank account is an essential tool for handling cash, especially when you have a job. With a bank account you can deposit your pay, or any other money you receive. You then have several options when you need money.

You can use an ATM card. If you need cold, hard cash from your account, put your Automated Teller Machine (ATM) card to use. Enter the card and your personal identification number (PIN) into the ATM, then collect your cash. Keep on top of your budget by making a record of how much you withdrew and what you spent your cash on. You can also use your ATM card to pay for things via EFTPOS in shops.

You can use direct debit. When you pay regularly occurring bills, like your mobile phone or your PYF money, it can be worthwhile setting up a direct debit from your bank account. A direct debit automatically transfers your payment so you don't have to worry. This is especially effective for your PYF money… you don't see the money going out so you're less likely to spend it… and more likely to save it!

You can use Internet banking. In Australia, Internet Banking is one of the cheaper ways of transacting from your bank account. You can either pay bills online (BPay), pay people directly from one bank account to another, or set up your direct debit payments.

That magic age…

When you turn 18, you'll be able to do lots of additional things (besides being able to go to the pub!). For starters, you can get yourself a credit card or a cheque book.

We'll explore these in more detail in Unit 4.

Be aware of fees and charges

Having a bank account is safe and convenient, but you'll be required to pay some fees and charges. Some of the main ones to watch for are:

Transaction fees. You can be charged fees whether you use an ATM, Internet banking or go into a branch and see a bank teller. Some banks offer you special deals where you get a number of "free" transactions (ATM, Internet or branch) per month. Compare banks and check out these deals – people like to transact differently, so work out what works best for you.

ATM fees. Apart from any special deal you have with the bank, using an ATM "outside" of your bank's network often means being charged additional fees. These can be up to $2 and apply to withdrawals, deposits or cheques. The extra fees can really add up, so try to always use one of your own bank's ATMs.

Annual or monthly fees. Some accounts may charge you a fee (from $3 to $5 per month) just for the privilege of having the bank account.

Minimum balances. Some banks require you to keep a certain amount in your account at all times, such as $500. If you fall below that amount, the bank may charge a fee (for example $5 per month) or close your account within a certain time period (like 30 days).

Tricks of the trade

There are lots of ways to save money with bank fees. The table on the next page provides a guide on how much fees can cost, but there are also some general tips that you should remember:

- ✓ Shop around for a bank that offers you low fees and all the services you need.
- ✓ As a student, you can get bank accounts that don't charge fees – when you open an account, let your bank know if you're studying full-time.
- ✓ Most accounts offer a number of free transactions each month. Make sure you know how many and try not to use more than that!
- ✓ Electronic (like Internet, BPAY and ATM) and phone transactions are always cheaper than going into the bank and seeing a teller.

Types of fees	Examples of fees	Tips
Over the counter (OTC)	From no fee up to $5.00 when you withdraw money from a bank teller. Some banks also charge you for teller service when you deposit money!	Using a teller is usually a lot more expensive than using other ways to access your money.
ATM (your bank)	From no fee up to $1.50	If you know how much you'll need for a day or week, then save on fees by withdrawing it all at once, rather than going back and withdrawing a little at a time.
ATM (another bank)	From no fee up to $2.50	Wherever possible, use your bank's ATM machine. It's usually half the price.
EFTPOS	From no fee up to $1.50	Some shops allow you to withdraw money as well as pay for items through EFTPOS. If you know you need cash, and are using a shop's EFTPOS, then withdraw it at the same time – you only get charged one transaction fee by the bank (and some banks don't even charge fees for using EFTPOS)!
Internet	From no fee up to $0.50	If people owe you money, or your boss gives you an option of whether you want to get paid by cheque or directly into your account… Internet (direct) is often the cheapest way to go. Online is also the cheapest way to pay bills.
Phone	From no fee up to $0.60	If you can't access the Internet, phone banking is your next cheapest option.
Cheque	From no fee up to $1.50	Personal cheques aren't used as often as they used to be, and there's a reason for that. A tax called Bank Accounts Debit Tax (BAD) applies to cheque accounts.

Help the oldies… print this page and pass it on to a *needy* parent or other adult.

Managing your money is a whole lot easier when you can actually *see* what is going on. That's why you get account statements from your bank, as well as payslips and tax documents from your employer. So what do they all mean?

Account statements. Every month your bank will send you an account statement. This summarises where your money has been spent and how much has gone in. It's a great budgeting tool because you can see where you might save some money. Also, get in the habit of checking your statement for purchases, Internet transactions and withdrawals from ATMs or EFTPOS – banks can make mistakes.

Savings and investments. We'll talk more about the specifics of savings and investments in Unit 3. For now, know that you should check statements for any savings and investments you have, when you receive them.

Tax documents. When you start working, you also start paying tax to the government. The government collects taxes from people and businesses so they can provide services to Australians. These services include: health, defence, social security, education and transport. The Australian Taxation Office (ATO) is the government department that looks after tax.

Every working person and business is given a unique number that the ATO uses to recognise them for tax purposes. When you start working, the first thing you must do is apply for a Tax File Number (TFN) through the ATO. Your TFN helps the government identify how much money you earn each year.

For everything you ever wanted to know about tax, go the Australian Taxation Office's website
www.ato.gov.au

There are rules as to what type of earnings are taxed… generally speaking, money you earn from an employer is taxed. The ATO can give you information about the type of earnings that aren't taxed.

Australia's tax rates are on a sliding scale (known as marginal tax rates, or MTR), ranging from 0% through to 47% of your salary. At the moment, if you earn less than $6,000 a year, you don't pay any tax because you fall within the 'tax-free threshold'. For those earning above $6,000 it's simple… the more you earn, the more tax you pay. There are also special rules for people under 18. Ask the ATO about this as certain types of income have different tax rates based on your age.

So how do you pay tax? Your employer will work out (based on your salary) how much tax you should be paying. To help with cash flow, they take a little out each pay period and pay this directly to the government. This is known as the Pay As You Go (PAYG) system.

A financial year, or income year, goes from 1 July through to 30 June.

This system works well if your employer calculates everything properly and knows what other income you might earn… but what if you have two jobs?

To avoid paying too much (or too little!) tax, any business that has paid you income will send you a PAYG Payment Summary (sometimes referred to as a Group Certificate) at the end of every financial year. These documents show you how much (in total) you were paid in a financial year and the tax that was taken out. With this information you complete an Annual Tax Return and send it to the ATO. The ATO then calculates whether you will have to make an additional payment, or whether you have paid too much. By law, you have to keep copies of your tax returns for seven years.

Payslips. Every time you get paid, your employer should provide you with a payslip. This tells you what your income is, how much tax you've paid, any superannuation contributions made on your behalf and any leave you have owing.

Your payslip explained…

Pay period
The dates and time period that the payslip relates to. For example, it might read, *paid weekly, period ending 30 June* OR it could just show the beginning and end dates of *21 June to 30 June*. Both mean the same thing.

Hours worked
The number of hours you've worked during the pay period.

Hourly rate
How much you are paid (gross) each hour. If you have worked overtime or have taken holidays, different rates may apply for these hours.

Gross pay
Your pay for the pay period BEFORE TAX has been taken out.

Net pay
Your pay for the pay period AFTER TAX has been taken out.

PAYG
The amount of tax that your employer has deducted from your gross pay and paid to the ATO for the pay period.

What does YTD mean?

You may see YTD next to each of these figures.

YTD means the financial year to date. It shows how much gross pay, net pay, tax or superannuation that has been paid from the beginning of the financial year up to the current date.

Leave (sick, holiday, etc.)
The number of days or hours you have taken or accrued for leave. This does not apply if you are employed as a casual.

Superannuation contributions (SG)
The contributions your employer has made to your superannuation fund, as part of the Superannuation Guarantee. There are rules about who is entitled to SG, so it's likely that until you are over 18 or working full time, SG won't apply to you. Unit 3 explores superannuation in more detail.

Record keeping

To make things easier down the track, it's a good idea to get into the habit of staying financially organised. Keep a record of your statements, payslips and tax documents. You can do this offline using folders, or keep an online record and make a regular back-up.

Other records you might want to keep include…

Large purchases and warranties

Any time you make a substantial purchase - such as a car, a computer, or a new bike - hang on to those receipts. If you receive a warranty booklet or an owner's manual, keep those as well. The documentation will help you get things fixed more quickly if you have a problem with the item.

Insurance

When buying a car, you'll need some insurance. Keep a copy of the policy as it contains important information about what you are covered for. There's more about insurance in Unit 5.

Loan papers

If you ever take out a loan – perhaps a car loan or credit card - keep copies of the original loan documents, as well as your monthly statements. These statements will usually show a breakdown of your loan repayments: how much has been used to reduce your interest, and how much has been paid off on your balance and/or the principal. Again, if an error is made you can clear it up quickly if you have good records. Unit 4 covers credit and debt in more detail.

The next pages show you how to budget over time.

Print them off and keep them handy. You'll start to see how easy it can be to get a handle on your money.

My weekly budget

Fill in the details each week.

		$ In	$ Out
Money coming in	Pay		
	Allowance (incl. gifts)		
Money going out	Entertainment		
	Food and drink		
	Clothing and accessories		
	Mobile phone		
	Gifts		
	Transport		
	Other		
Totals		$	$
	PYF (savings)		
Totals including PYF		$	$

What do your totals look like? Do this calculation…

IN minus OUT = $______________________

If your answer is negative, then you have more money going OUT than coming IN – go back and look at ways you could save some money.

If your answer is positive, then you already have some money that you could save and put into your PYF account – you also might like to look at how much more you could put in.

Now, go back and fill in your totals including PYF. They should balance so that IN minus OUT = $0.

Do this each week, and at the end of the month look at how much you are spending in each category… it'll help you see where you can cut back.

Soon doing your budget will become habit and you'll want to look at longer periods than a week. After all, it can take months (or even longer) to save for some of your goals. The next page shows you how you can easily record your income and spending over the next year.

My monthly budget

Create an excel spreadsheet using the formulas shown in the screen dump below. Then each week, enter in amounts for each item. The monthly totals will automatically sum. Each new month, either copy the same spreadsheet, or just overwrite the previous month.

	A	B	C	D	E	F	G
1	**Month of:**						
2	Item	Week 1	Week 2	Week 3	Week 4	Week 5	Monthly Totals
3							
4	**Money Coming In**						
5	Pay						=SUM(B5:F5)
6	Allowance						=SUM(B6:F6)
7	Other						=SUM(B7:F7)
8	**TOTAL Money Coming In**	=SUM(B5:B7)	=SUM(C5:C7)	=SUM(D5:D7)	=SUM(E5:E7)	=SUM(F5:F7)	**=SUM(G5:G7)**
9							
10	**Money Going Out**						
11	Entertainment						=SUM(B11:F11)
12	Food & Drink						=SUM(B12:F12)
13	Clothing & Accessories						=SUM(B13:F13)
14	Mobile Phone						=SUM(B14:F14)
15	Gifts						=SUM(B15:F15)
16	Transport						=SUM(B16:F16)
17	Other						=SUM(B17:F17)
18	PYF (savings)						=SUM(B18:F18)
19	**TOTAL Money Going Out**	=SUM(B11:B18)	=SUM(C11:C18)	=SUM(D11:D18)	=SUM(E11:E18)	=SUM(F11:F18)	**=SUM(G11:G18)**
20							
21							
22	Did you balance?	If you balance, the figure should = 0. If not, then where did your money go?					=SUM(G8-G19)

Monthly Budget / Yearly Budget

My yearly budget

Create another spreadsheet using the formulas shown in the screen dump below. Then, at the end of each month, enter in the Monthly Total column from your Monthly Budget spreadsheet. The Yearly Totals will automatically sum, so you'll see how much you are spending on each item. It could be scary, but should help you work out where you can save!

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	**Year of:**														
2	Item	Month	1	2	3	4	5	6	7	8	9	10	11	12	Yearly Totals
3															
4	**Money Coming In**														
5	Pay														=SUM(C5:N5)
6	Allowance														=SUM(C6:N6)
7	Other														=SUM(C7:N7)
8	**TOTAL Money Coming In**														**=SUM(O5:O7)**
9															
10	**Money Going Out**														
11	Entertainment														=SUM(C11:N11)
12	Food & Drink														=SUM(C12:N12)
13	Clothing & Accessories														=SUM(C13:N13)
14	Mobile Phone														=SUM(C14:N14)
15	Gifts														=SUM(C15:N15)
16	Transport														=SUM(C16:N16)
17	Other														=SUM(C17:N17)
18	PYF (savings)														=SUM(C18:N18)
19	**TOTAL Money Going Out**														**=SUM(O11:O18)**
20															
21															
22	Do you balance?		If you balance, the figure at the end of this row should = 0. If not, then where did your money go?												=SUM(O8-O19)

Monthly Budget / Yearly Budget