A Personal Guide:

Money.
Your Master?
Your Slave?
Your Choice!

A guide to the life skill of Money Management

Written by
David B Weusten

Commissioned by
Financial Service Providers

Dedication

This guide is dedicated to the only guide you will ever need, The Bible. Read it, understand it and accept it and your life will never be the same. That's a promise, not from me, but from God.

ISBN 0-473-10914-X

Disclaimer

All information in this publication is, to the best of the author's knowledge, accurate. No liability is assumed by the author or publishers for any losses suffered by any person relying directly or indirectly upon this guide.

Layout by Delineate Limited, PO Box 3262, Christchurch
Printed by DPS Print, 68 Parkhouse Road, Christchurch

Foreword

It has often been said that money management is a life skill and that it should be taught in schools and not left to the school of hard knocks which, unfortunately, is where most of us learn. The latter school can leave people badly affected from their experiences. If only someone would provide a guide it would help a lot of people manage their money better and have one less stress in their lives.

With over 25 years' experience in the finance industry, (most of which was with the ANZ Bank in New Zealand), running a finance broker company for the past five years, and being a budget advisor for over nine years, I find myself uniquely qualified to provide this guide. Having said this, however, I don't profess to "know it all" either; I am still learning too!

This is my attempt to provide the basics of money management to anyone interested in managing their money and not being a slave to it.

About the Author

David draws on his 25 years' experience in the finance industry, with 21 of those with ANZ Bank, in New Zealand and overseas.

David left the bank in November 2000 and set up Financial Service Providers Ltd in Christchurch.

During the last five years he has had numerous articles published, been on local radio and TV and had published two business guides *What do Banks want? So you can get what you want* and *Owning your own business, an overview of what to consider.*

Financial Service Providers has a growing client base and in late 2005 passed the milestone of $100 million in finance approved for its clients.

David is a member of the Avonhead Baptist Church, New Zealand Mortgage Brokers' Association, Allied Mortgage Brokers Ltd, Franchise Association of New Zealand, Canterbury Employers' Chamber of Commerce, BNI "Advocates" Chapter in Christchurch and Rugby Southland Supporters' Club Inc.

His community involvement: (most recent)

Budget Adviser, Kingdom Resources. (1996 - to date)

Board of Trustees, Westburn School and Chairman of the Finance Committee (1998 -2001)

Young Enterprise Scheme Mentor
- Riccarton High School 1998
- Papanui High School 1999
- Christchurch Boys' High 2001

Business in the Community Scheme, Mentor (2000 – to date)

Church Secretary, Avonhead Baptist Church (2001 - 2003)

Chairman, Avonhead Community Trust (2003 - to date)

This guide is a continuation of my desire to serve the community.

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CHAPTER 1: MONEY

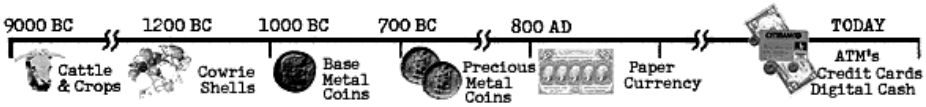
Dictionary definition

Money: Current medium of exchange in the form of portable pieces of stamped metal and/or promissory documents representing it (paper).

Encarta definition

Money: Any medium of exchange that is widely accepted in payment for goods and services and in settlement of debts. Money also serves as a standard of value for measuring the relative economic worth of different goods and services.
The number of units of money required to buy a commodity (a thing) is the price of the commodity. The monetary unit chosen as a measure of value need not, however, be used widely, or even at all, as a medium of exchange.

Money came into being as a medium of exchange to facilitate trade (replacing barter) a very long time ago.



Timeline from www.pbs.org

A short story of how money came about.

Imagine this, a fisherman was very good at catching fish. He caught much more than his family needed and there was no way of preserving the fish. Another man grew grain, he too produced more than he needed. Yet another one farmed animals and yet another mined gold; each of them produced more than they needed.

The fisherman wanted a new cow, so he took his surplus fish to the farmer. The farmer, however, hated fish but wanted some grain for his animals. The grain grower wanted some gold for his wife.

The miner loved fish and the fisherman sold all of his surplus fish to him and took the gold in payment. The fisherman then went to the grain grower and bought some grain. The fisherman offered the smallest nugget for the grain but this was refused; he then offered the next biggest. Again this was refused; the next biggest was accepted and the fisherman took the bag of grain.

The fisherman was pleased with his work and went to the farmer to buy his cow. The farmer was not satisfied with the amount of grain on offer and said it was not enough for the cow. The fisherman was shocked and offered some gold plus the grain to make the exchange. He told the farmer that the grain grower wanted more gold and would exchange his grain for the gold.

The exchange was made and as he led his new cow home, the fisherman thought about what had happened and felt the weight in his pocket of the gold he still possessed. He decided to talk to his neighbours about using the gold to make exchanges from now on.

Money replaced barter to facilitate trade.

This story is my imagination running wild, but I hope it explains the hassles early man had in exchanging his goods and services.

History tells us that "money" came into being some 2,700 years ago when the people of ancient Lydia (now Turkey) made the first coins. These coins were made of precious metal and their weight signified the value each coin carried. Precious metals were not always available and other forms became accepted payment - shell money, feather money etc. Money took many forms and still does in many countries around the world. As long as what acted as money was accepted throughout the community/country in which it was used, anything could be considered money.

Money takes many forms.

In the 11th century China saw the introduction of paper money or bills. Paper money had no value, so the issuer promised to exchange the paper for a stated amount of gold.

Paper money was introduced in China in the 11th Century.

Today coins are made of almost worthless metal, so the value is stamped on them and paper money no longer has a guaranteed exchange for gold. The governments of the world have instead passed legislation to guarantee their paper money's value.

Modern currency has no intrinsic value.

Paper money appeared in New Zealand in 1840 when the Union Bank of Australia, part of what is now known as ANZ, issued the first notes. The other trading banks soon followed their example. It was not until 1934 that the Reserve Bank of New Zealand took over sole responsibility of issuing notes and coins on behalf of the New Zealand Government. These early trading bank notes (and coins) can now have considerable value to collectors.

Private Banks introduced paper money in New Zealand in 1840.

Prior to 1933, New Zealand used mainly British coins to make smaller payments. In 1933 New Zealand introduced a threepence, sixpence, shilling, florin and half crown. It was not until 1940 that New Zealand introduced a halfpenny and a penny.

New Zealand introduced its own coins in 1933.

On the 10th July 1967, New Zealand left the British sterling system of coinage and went decimal by introducing a one, two, five, ten, twenty, and fifty-cent coin.

One and two dollar notes were replaced by coins in 1990.

Today money, or currency, has evolved with technology, first with the advent of cheques and now with credit cards, EFTPOS (Electronic Funds Transfer, Point Of Sale) and the use of the internet.

Money has come a long way from the first pieces of gold or silver, to now being represented by zeros and ones (binary - computer language) in a computer's memory bank.

Money is rapidly being replaced by electronic transfers.

QUESTIONS

1. Why do you think money was invented?

2. Where was money first used and what form did it take?

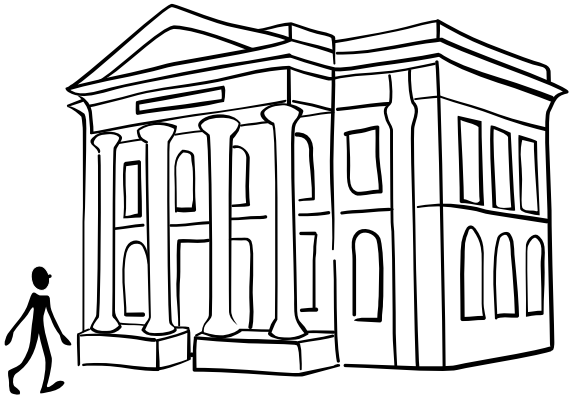
3. How was the money value determined?

4. When did New Zealand introduce its own coins?

5. Who issued the first paper money in New Zealand and when?

6. Who now controls the issue of money in New Zealand?

CHAPTER 2: BANKS



With the introduction of money, mainly in the form of gold and silver shapes (early coins), it was not long before people started accumulating more than they could carry around with them. The problem then became one of keeping stored money safe from thieves.

Banks began as a safe place to keep money.

Traditional banking functions such as safeguarding deposits, lending, guaranteeing loans, and exchanging money, can be traced to the early days of recorded history. In medieval times the Knights Templar, an international military and religious order, conducted banking by not only storing valuables and granting loans but also arranging for the transfer of funds from one country to another.

The great banking families of the Renaissance, such as the Medici in Florence, were involved in lending money and financing international trade. The first modern banks were established in the 17th century, notably the Riksbank in Sweden (1656) and the Bank of England (1694).

Banks lending money started in the 17th century.

History records that in the 17th century goldsmiths in England laid down the foundation of modern banking. They stored gold for safekeeping, and promised to return the gold to the owners on demand.

The goldsmiths soon discovered that the amount of gold actually removed by the owners was only a fraction of the total stored. They realised that they could lend out some of this gold to others on a short-term basis, obtaining promissory notes (loan agreements) for principal and interest (their profit) from those who borrowed the gold. They knew the expected demand on their gold deposits and made sure they only lent a specific proportion, or ratio, of the gold they held in safe keeping. (This is known as liquidity management)

Banks have liquidity ratios they have to abide by.

Today the banks still use ratios to determine what proportion of their assets they can lend and central banks around the world often dictate these ratios.

Banks cannot create money.

In time, paper certificates, redeemable in gold coin, were circulated instead of gold. Ultimately, the total value of these banknotes in circulation exceeded the value of the gold held to meet any demand. Consequently, governments soon removed the promise of exchange for gold, as they could not satisfy their obligations. This was the forerunner of inflation, so when governments continued to print paper money to satisfy demand they introduced hyperinflation to their economies. Germany had this problem just after World War One when the absurd situation occurred where their people had to wheelbarrow their paper money to the baker to buy a loaf of bread.

Inflation erodes the value of money.

It is just as important now for the governments, via their central banks, to preserve the value of their money and that is why one of the Governor of The Reserve Bank of New Zealand's major goals is keeping inflation between 1 & 3% pa (per annum, or per year).

So why would you use a bank today?

The most obvious answer to this question is based on the origins of banking itself - to keep your money safe. Keeping your money under the mattress or in a tin buried in the garden are not smart options these days. With the advent of computers and the internet, convenience is also a major factor now. The major negative about using a bank today is their fees. With the banks' lending margins under attack by competition, they can no longer make an acceptable return on the money they have on deposit and lend out, so they have introduced fees to compensate. Building Societies and Money Clubs should be explored as reasonable alternatives to banks.

Banks keep your money safe and make it easy to access.

Generally students and superannuitants are not charged fees. You should shop around for a bank that suits you.

How does the bank make its money?

A bank makes its money from a vast array of products and services today, but the two main ones still are net interest income and fees for processing.

All the money the bank has deposited with it has an average cost to the bank. This average comes from free money, referred to by the banks as CANBI, Current Accounts Not Bearing Interest (the banks love this money), to term deposits/investments - this money is their most expensive. The banks then lend money out in mortgages, business loans, credit cards etc, at a much higher rate and this too, has an average return. The difference between their average cost and their average return is their margin or their profit. The banks like to achieve a margin better than 2%.

As an example, let's see what happens when I borrow $1,000 from you for a year, at a rate of 4% interest and then lend it to your friend for a year at 10% interest.

At the end of the year I receive from your friend $1,100 and pay you $1,040, I make $60 on the deal. This is my profit.

How I can make money off your money! (How banks do it too!)

My borrowing		My lendings	
What I borrow:	1,000.00	What I lend:	1,000.00
Plus interest of 4%:	+ 40.00	Plus interest of 10%:	+ 100.00
What I pay you back in 1 year:	$1040.00	What is paid back to me in 1 year:	$1100.00

My profit

What is paid back to me:	1,100.00
What I pay you back	- 1040.00
My profit (from your money)	$60.00

Banks make most of their income from interest earned and fees charged.

The other major area generating income for banks is their fees. I believe we are all very familiar with seeing this on our bank statements. It is a commonly held view that the banks under-charge on the paper items they have to process, but over-charge on the electronic transactions. This more than covers their losses on the paper items.

Borrowing money if you are under 18.

If you are under 18, you will need a parent or guardian to act as a guarantor for a credit card. A word of warning: it is very easy to lose track of your spending if you use a credit card.

You have to be over 18 (or married), to borrow money in your own name, as lenders have no legal recourse to recover debt provided to a minor unless it was for basic living essentials.

If you are under 18 you will find it very hard to borrow money.

QUESTIONS

1. What was the early banks' primary purpose?

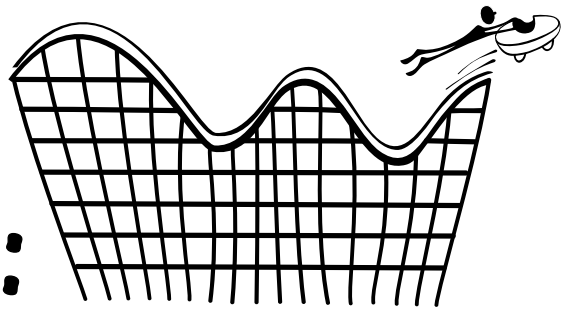
2. Who were the Knights Templar and what was their role in bank evolution?

3. In what two countries did the modern bank start?

4. What are the alternatives to using banks?

5. Name two areas the banks make the bulk of their profits from?

6. Can you borrow money if you are under 18? Why?
   Are there any exceptions to this rule?



CHAPTER 3: INTEREST RATES

Interest rates have a significant impact on all sectors of New Zealand because of their effect on our economy. A significant factor that causes interest rate changes here in New Zealand is our foreign currency exchange rate (cost of the New Zealand Dollar (NZD) expressed in other currencies). As the NZD is floating against a basket of world currencies (USD, GBP, JPY, Euro) known as the TWI (Trade Weighted Index) the pressure to increase or decrease our interest rates fluctuates daily.

The New Zealand dollar floats against a basket of currencies.

A few years ago the Reserve Bank used what was called the MCI (Monetary Control Index) to control the economy. It required balancing the exchange rate against interest rates, which meant if one went up the other had to go down. The MCI could be considered New Zealand's economic accelerator. If the TWI went down it meant New Zealand exports were cheaper so demand for our product increased and this stimulated the economy. So interest rates had to go up to put a break on the economy (because of the fear inflation would get out of control).

The lower the New Zealand dollar the cheaper our exports are to the world.

New Zealand experienced considerable fluctuations in interest rates in the early 80s and home loan interest rates got as high as 21% during this time. It is no wonder that a much greater percentage of Kiwis now embrace fixed rates than our Australian neighbours do.

Gross Domestic Product (GDP) is the index by which the speed of growth in the economy is measured while inflation could be likened to the wind friction the economy is pushing into. If we had GDP growth of 4% (comparatively very strong growth) and inflation of 3%, New Zealand's economy would have grown only a net 1%, yet the economy would be working very hard to more or less stay still. New Zealand has suffered high levels of inflation over the last 30 years which has pushed up prices but not added any real value to the economy. This has in fact held New Zealand back in comparison to countries we were once considered ahead of in the standard of living stakes.

GDP is a measure of New Zealand economic performance.

This history of high inflation in New Zealand and its negative impact on New Zealand's economy has led to the Reserve Bank being given the major task of keeping inflation between 1 – 3% pa As the MCI proved less than ideal, the Reserve Bank introduced the Official Cash Rate (OCR) to control the economy (a tool many overseas central banks have used for many years). This rate is the basis on which all other banks deal with the Reserve Bank. If a bank had surplus money it could deposit this with the Reserve Bank at a rate .25% less than the OCR and if a bank found itself short it could borrow from the Reserve Bank at a rate .25% higher than the OCR. The OCR is also used by the market as a yardstick to set the 90-day bill rate. The 90-day bill rate is the interest rate that is charged on money borrowed or lent for 90 days. The market sets the 90-day bill rate and the market moves this rate in the direction it anticipates the OCR going. If the OCR is set at 6% and the 90-day bill rate is 6.05%, then the market expects the OCR will be increased in the future. If it is 5.9%, then the market most probably expects the OCR to be reduced in the future.

The other significant impact on interest rates that the OCR has, via the 90-day bill market, is that the banks source their mortgage funds

in this market and look to get a margin of 2% over their cost of funds. This is the bench mark for floating housing mortgage interest rates.

The OCR affects the 90-day bill rate which in turn influences what the banks charge for mortgages.

In October 2005, the OCR was set at 6.75%. The 90-day bill rate is 7.29% yet the banks' floating rates are around 9%. The banks will therefore be looking to increase their floating rate at the earliest opportunity to maintain their desired 2% margin. Competition is holding them back, but once one bank increases its rate, the others will generally follow very quickly.

You can watch the 90-day bill rate changes in the paper or on the internet to help you anticipate what the banks' floating rates will likely do.

QUESTIONS

1. Name two factors that affect interest rates in New Zealand and explain how they affect interest rates?

2. What does TWI stand for and what does it represent?

3. What primary tool does the Reserve Bank use to control the economy in New Zealand today?

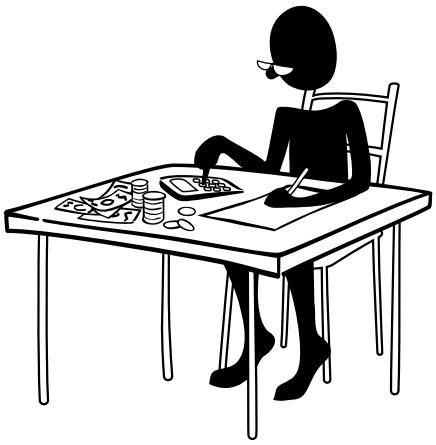
4. How does that tool work, in relation to the banks and the 90-day bill rate?

5. What effect does the 90-day bill rate have on the banks' floating housing mortgage interest rates?

6. Who sets the 90-day bill rate?

7. What can you learn from the relationship between the OCR and the 90-day bill rate?

CHAPTER 4: BANKING



How do you find a bank best suited to your needs?

First you need to understand your needs and what you want and then you can seek a bank that can satisfy them. It could be that you want a local bank, or one that has overseas branches, or one that has no fees, or one that has great internet access. It pays to shop around as banks are not all the same and it maybe that a building society suits you better.

What sort of account do you put your money in?

Generally I would recommend starting with a basic savings account which, in most cases, is free of charges until you reach 18 or leave school.

You can arrange internet access and possibly get an EFTPOS card (a debit card). An EFTPOS card takes money out of your account straight away, as opposed to a credit card, which collects all your transactions and bills you once a month. A word of warning; it is very easy to lose track of your spending if you use either an EFTPOS or credit card.

Savings Accounts

This is a simple day-to-day account in which you can build up your savings. The banks generally pay minimal interest on savings accounts and now treat them more as a day-to-day transactional account. More often than not the access is all electronic - via phone, internet and

EFTPOS cards. Fees are charged by most banks, but some offer free accounts for under 18s or those in tertiary education.

Cheque Accounts

This is also a day-to-day account that covers your main transactions. Income is generally paid into this account and then funds dispersed. The suffix is generally 00, but this is more of a traditional thing from the banks' point of view; you can even have a chequebook on a savings account now.

A cheque is a written instruction to your bank to effect a transfer of funds from your account to the payee. Legislation has recently been enacted that makes using cheques as payment significantly more difficult and theoretically safer.

When writing a cheque, you need to ensure that it is filled in correctly: that the words and figures agree; that you have signed it so that it matches with the signing authority given to the bank, and that you have dated it with the day on which it was written. Post-dating the cheque (this is when the date written on the cheque is some future date, usually done because there is not sufficient money in the account to cover the cheque when it is written) turns the cheque into a promissory note and may not stop the cheque being banked prior to that date, which could cause embarrassment. You can also cross your cheques across the middle with two parallel lines, (I do so across the middle, because I have seen cheques crossed with two parallel lines in the top left hand corner and this corner can be easily ripped off without affecting the cheque's legality).

The two parallel lines instructs the bank not to pay cash to the payee and that the cheque has to be banked (sometimes with the words 'not transferable' or 'not negotiable'). If these words are written on the cheque the payee must bank it into his/her account. If the words are not there they can still endorse (sign) it over to another payee). It also provides an audit trail back to the payee or if endorsed, the presenter's account, if needed.

Term Deposits

When you place funds with a bank for a specific term or time then it is called a term deposit or time deposit. The banks used to accept amounts from $500 up but many have now made the minimum $5,000.

You can have the funds invested anywhere from 7 days up to 5 years. Interest is paid on maturity (at the end) or paid periodically to an account; monthly, quarterly, 6 monthly or annually. For shorter terms, interest can be added to the principal and renewed for a further term.

Foreign Currency Deposits

With the freeing up of currency controls in New Zealand in the late 80s, New Zealanders can now maintain foreign currency with the funds held in New Zealand. These currencies are generally US Dollars, Australian Dollars, Great British Pounds, or Euros.

These funds can be on call or as Term Deposits, with the interest rates matching those current in the country of the currency.

EFTPOS (Electronic Funds Transfer at Point of Sale)

This is the term used to describe the way the majority of purchases are paid for now. The EFTPOS card allows you to take the money from your account and credit the merchant's account. (The merchant will have one amount shown on his/her statements and will get a summary for the records.) With more and more electronic transactions being processed, probably now hundreds of millions a year, the bank fee income on these transactions flows straight to the banks' bottom line (profit) as the cost of maintaining the computers etc, is minimal.

Credit Cards

These cards are a very useful money management tool for those disciplined to use them, but very dangerous for the many Kiwis who use them. The maximum free credit of about 55 days, and the absence of an activity fee, allows you to benefit from using a credit card. The merchant pays for this benefit to you by being charged a fee from 1% to 6% of the amount processed. The merchant accepts credit cards for the guaranteed and next day payment of your purchase, from the bank they have their arrangements with.

It is easy to buy things you have not budgeted for and then get a shock when the bill arrives. If you do not pay the full amount of your credit card debt on the due date, the credit card companies are more than happy to charge you approximately 20% interest.

Credit cards are dangerous.

What do the numbers represent on the bottom of cheques?

Let's say the MICR (Magnetic Ink Character Recognition) numbers on the bottom of your cheque read:

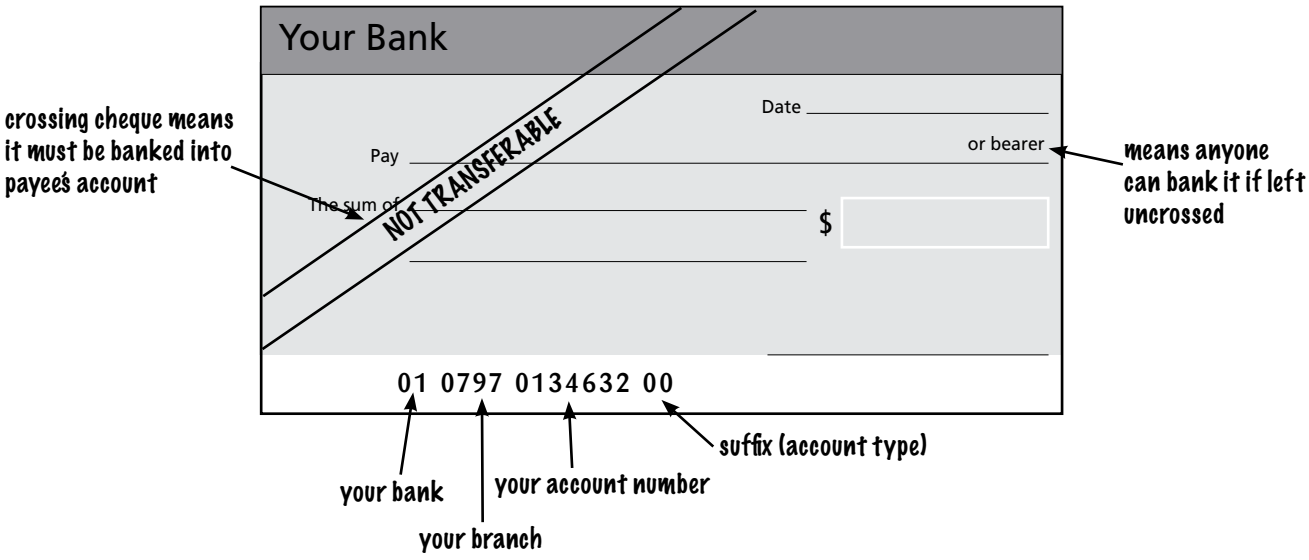
01 0797 0134632 00

The first part, 01, stands for ANZ (BNZ has 02; WBC has 03 and National Bank has 06). The other banks all have larger numbers.

The digits 0797 represent the branch you are with; in this case it is Christchurch.

The digits 0134632 is the account number; this is a unique number combination with the bank and branch digits. The last digits, 00, are known as the suffix. 00 usually represents a cheque account and can range from 00 through to 29. The range from 30 through to 60 is traditionally savings account numbers, 80 to 89 are term deposits and 90 to 99 are loan suffixes.

It would be fair to say the banks' charges for processing paper transactions, cheques, deposits etc. do not cover the cost to the banks when you factor in the handling, processing and the retention of the paper item for seven years, which is required by law. The electronic fee income, with little processing needed, more than covers this shortfall.



QUESTIONS

1. What would you look for from a bank?

2. What would determine whether you had a cheque account or a savings account?

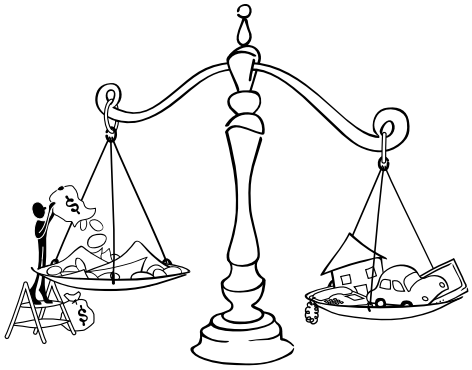
3. Why do people generally carry less cash with them now?

4. What does EFTPOS stand for?

5. What does the bank call the encoding on the bottom of cheques?

6. What can you do to a cheque to stop it being cashed?

CHAPTER 5: BUDGETING



What is budgeting? One definition I was given years ago was:

"A budget is what you live within, when you go without."

Some old English proverbs cover budgeting well

"Cut your coat according to your cloth."

and

"Look after the pennies and the pounds will look after themselves."

Budgeting is the action of recording your income, allocating this money to each area of expenditure that it needs to go to and then ensuring that you live on what you have allowed.

One elderly lady I knew a number of years ago had five different savings accounts and once a week would come in to the bank I worked at to deposit some of her weekly pension into each one. Today, with bank fees and fewer bank branches, it is unlikely that she'd be able to afford this, or to find a branch at which to do it.

The main reason for a person to set up a budget is to get what he or she wants. Very often people don't consider budgeting unless they are in trouble financially; then they need to manage the money coming in so it can cover everything that needs to go out.

As Charles Dickens said:

> **"Annual income twenty pounds,
> annual expenditure nineteen pounds
> ought and six, result happiness.**
>
> **Annual income twenty pounds,
> annual expenditure twenty pounds ought
> and six, result misery."**

There are two main reasons why budgets are set up:

- to save for something special - usually this is a high priced item like a stereo, car, or house deposit;
- to manage a debt burden and repayment programme that you are currently committed to.

A budget is started by recording your net income, after tax and any other deductions that are taken out by your employer. You will then be able to work out your weekly net income figure, regardless of whether it is received weekly, fortnightly or monthly. For example. if you are paid fortnightly, times your net income by 26 (fortnights in the year) then divide this number by 52. This will give you a weekly figure. If you are paid monthly, times your net income by 12, then divide this by 52.

The next step is to work out all your costs and things you need to provide money for, like your personal spending money, donations etc. *Note – These costs need to be considered over a long term, like a year, then divided by 52, establishing what your average weekly expenditure is and to find out how closely your costs can be met from your net weekly income.*

Kingdom Resources have designed a useful format which is available as an excel spreadsheet from them.

An interesting and helpful web site worth visiting and spending time in is **www.sorted.co.nz**

A practical budget worksheet follows, which has a useful format and covers most of our usual outgoings. The excel spreadsheet is available from our website **www.fspnz.com** under `useful forms´.

BUDGET SHEET

Name: _____ Date _____

"ants - frail as they are, get plenty of food in for the winter."
Proverbs 30:25

"Any Government, like any family, can for a year spend a little more than it earns. But you and I know that a continuance of this habit means the poorhouse."
Franklin D. Roosevelt. 1932

INCOME			
	Fre-quency	Enter Amount	Weekly Amount
Wages			
Partner's Income			
Family Assistance/Child Support			
Benefit (Type)			
Allowances/Other			
TOTAL WEEKLY INCOME (A)			

PAYMENTS			
ACCOMMODATION	Fre-quency	Enter Amount	Weekly Amount
Rent/Mortgage/Board			
Power			
Heating - Wood, Coal, Gas, etc			
House Maintenance/Lawns			
Insurance - Contents			
Insurance - House			
Rates			
Other			
Total Accommodation Payments		**TOTAL (1)**	
HOUSEHOLD			
Food			
Phone/Internet			
Cellphone			
Petrol			
Fares - Bus/Taxi			
Childcare/Creche/Kindy etc			
Children's Pocket Money			
Personal Cash			
Cigarettes/Alcohol			
Entertainment			
Giving - Church/Charity/Koha			
Liable Parent Contribution/ Maint.			
Lotto			
Rentals			
Takeaways			
Other			
Total Household Payments		**TOTAL (2)**	
VEHICLE			
Insurance - Vehicle			
Hire Purchase - Vehicle			
Maintenance			
Registration			
Warrant of Fitness			
Total Fixed Vehicle Costs		**TOTAL (3)**	

PAYMENTS CONT.			
DEBT	Fre-quency	Enter Amount	Weekly Amount
Credit & Store Cards			
Hire Purchase			
Loan Repayments			
Court Payments			
Work & Income Repayments			
Total Debt Costs		**TOTAL (4)**	
OTHER			
Bank Fees			
Clothing/Shoes			
Dental/Optician			
Dog Registration			
Haircuts/Styling			
Insurance - Life			
Insurance - Medical			
Doctor/Prescriptions			
Presents			
Savings			
School Fees plus books etc			
Subscriptions/Recreation			
Vet Fees			
Other			
Total Other Payments		**TOTAL (5)**	

SUMMARY			
OTHER			
SUBTOTALS	%	Amount	
Accommodation (Total 1)			
Household (Total 2)			
Vehicle (Total 3)			
Debt (Total 4)			
Other (Total 5)			
TOTAL PAYMENTS	**0%**		
TOTAL WEEKLY SURPLUS/DEFICIT			

Bring all figures to a Weekly Amount - Adjust Frequently

Yearly divide by 52; **Q**uarterly multiply by 4 then divide by 52; **M**onthly multiply by 12 then divide by 52; **F**ortnightly divide by 2. % Figure = Subtotal (e.g. Total 1) ÷ Total Income (A)

"A penny saved is a penny earned"

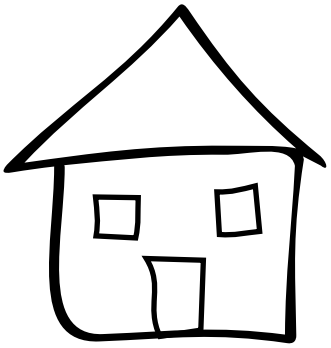
Benjamin Franklin

Now a practical example of how to budget.

Let's look at Joe and Jenny Kiwi. One is working and the other is a home parent.

- **One earns $508.43 per week in the hand, after all deductions**
- **One works at home looking after their three children aged 7, 5 and 3.**
- **They receive family support of $123.50 per week.**

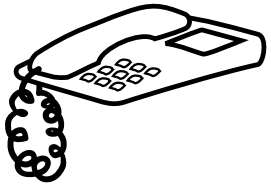
INCOME:			
	Pay frequency	**Amount**	**Weekly Amount**
Salary/Wages	W	508.43	508.43
Partner's Income	W		–
Family Assistance/Child Support	W		–
Benefit (type)	W		–
	W		–
Other/Allowances	W	123.50	123.50
	W		
	W		
Total Weekly Income:			**$631.93**



They have accommodation costs of

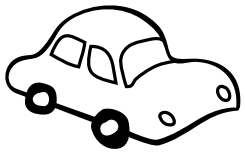
- **A mortgage of $105,000 and make repayments of $888 per month**
- **An average monthly power bill of $125**
- **Additional heating costs of $260 pa**
- **House and contents insurance is $450 pa**
- **Rates are $985 pa**
- **And they have Sky $50 pm**

PAYMENTS			
ACCOMMODATION	**Payment frequency**	**Amount**	**Weekly Amount**
Rent/Mortgage/Board	m	888.00	204.92
Power	m	125.00	28.85
Heating - Wood, Coal, Gas, etc	y	260.00	5.00
House/Garden Maintenance	y		-
Insurance - Contents	y		-
Insurance - House	y	450.00	8.65
Rates	y	985.00	18.94
Other - Sky	m	50.00	11.54
	y		-
Total Accommodation Payments		**Total (1):**	**$277.90**



Their household spending is

- **Food** **$150 pw**
- **Phone** **$80 pm**
- **Petrol** **$25 pw**
- **Children's education** **$5 pw**
- **Personal cash** **$25 pw**



PAYMENTS			
HOUSEHOLD	**Payment frequency**	**Amount**	**Weekly Amount**
Food	w	150.00	150.00
Phone/Internet	m	80.00	18.46
Cellphone	m		-
Petrol	w	25.00	25.00
Fares - Bus/Taxi	w		-
Childcare/Creche/Kindy etc	w	5.00	5.00
Children's Pocket Money	w		-
Personal Cash	w	25.00	25.00
Appliance Rentals	w		-
Cigarettes/Alcohol	w		-
Entertainment	w		-
Giving - Church/Charity/Koha	w		-
Liable Parent Contribution/Maint.	w		-
Lotto	w		-
Takeaways	w		-
Other	w		-
	w		-
	w		-
	f		-
	f		-
Total Household Payments		**Total (2):**	**$223.46**

Vehicle ownership costs

- **They have advised that they think this costs $750 pa**

PAYMENTS			
VECHICLE	**Payment frequency**	**Amount**	**Weekly Amount**
Insurance - Vehicle	y		-
Hire Purchase - Vehicle	m		-
Maintenance	y		-
Registration	y	750.00	14.42
Warrant of Fitness	y		-
	y		-
	y		-
Total Fixed Vehicle Costs		**Total (3):**	**$14.42**

They have loans to service

Credit card debt of $950 and repay $47.50 per month

A hire purchase of $1,500 repayable at $125 per month

PAYMENTS cont			
DEBT SERVICING	**Payment frequency**	**Amount**	**Weekly Amount**
Credit & Store Cards	m	47.50	10.96
	m		-
	m		-
	m		-
Hire Purchase	m	125.00	28.85
	m		-
	m		-
	m		-
Loan Repayments	m		-
	m		-
	m		-
	m		-
	m		-
Court Payments	w		-
Work & Income Repayments	w		-
	w		-
Total Debt Servicing Costs		**Total (4):**	**$39.81**

Other regular outgoings

- **Bank fees** **$30 pm**
- **Clothing etc** **$600 pa**
- **Presents** **$300 pa**
- **School fess** **$300 pa**
- **Sports subs** **$65 pa**

PAYMENTS cont			
OTHER	**Payment frequency**	**Amount**	**Weekly Amount**
Bank Fees	m	30.00	6.92
Clothing/Shoes	y	600.00	11.54
Dental/Optician	y		-
Dog Registration	y		-
Haircuts/Styling	y		-
Insurance - Life	y		-
Insurance - Medical	y		-
Doctor/Prescriptions	y		-
Presents	y	300.00	5.77
Savings	y		-
School Fees plus books etc	y	300.00	5.77
Subscriptions/Recreation	y	65.00	1.25
Vet Fees	y		-
Other	y		-
	y		-
	y		-
	y		-
Total Other Payments		**Total (5):**	**$31.25**

SUMMARY			
TOTAL WEEKLY INCOME			**631.93**
SUBTOTALS	**%**	**Amount**	
Accommodation (Total 1)	44%	277.90	
Household (Total 2)	35%	223.46	
Vehicle (Total 3)	2%	14.42	
Debt Servicing (Total 4)	6%	39.81	
Other (Total 5)	5%	31.25	
TOTAL PAYMENTS	93%	586.85	586.85
TOTAL WEEKLY SURPLUS:			**$45.08**

This budget form has been set up to show just what percentage of your outgoings is spent in each section heading.

Based on the above figures Joe & Jenny have an excess of income over expenditure or spare income of $45.08 per week. In real life, this money is almost never left over at the end of the week as other things keep coming up. Setting a budget is not easy the first time as most people have no idea where all their money goes; it is not until you have set it all out, written it down and used the various categories as prompts that you will start to get it right. Keeping a record of all expenditure will help Joe and Jenny set a more accurate budget.

If Joe and Jenny did stick to their budget they would have $45.08 surplus every week. I would suggest to them that they set up a savings account and automatically transfer this surplus to their savings account or directly to their credit card. By clearing their credit card debt more quickly they would save interest charges, and when repaid would also give them an additional $47.50 per month making their weekly surplus $56.05, to save or redirect to other debt repayment.

BUDGET SHEET

Name: *Joe & Jenny Kiwi* Date _____

"ants - frail as they are, get plenty of food in for the winter."
Proverbs 30:25

"Any Government, like any family, can for a year spend a little more than it earns. But you and I know that a continuance of this habit means the poorhouse."
Franklin D. Roosevelt. 1932

INCOME			
	Fre-quency	Enter Amount	Weekly Amount
Wages	w	508.43	508.43
Partner's Income	w		-
Family Assistance/Child Support	w		-
Benefit (Type)	w		-
Allowances/Other	w	123.50	123.50
	w		-
TOTAL WEEKLY INCOME (A)			**631.93**

PAYMENTS			
ACCOMMODATION	Fre-quency	Enter Amount	Weekly Amount
Rent/Mortgage/Board	m	888.00	204.92
Power	m	125.00	28.82
Heating - Wood, Coal, Gas, etc	y	260.00	5.00
House Maintenance/Lawns	y		-
Insurance - Contents	y		-
Insurance - House	y	450.00	8.65
Rates	y	985.00	18.94
Other	y	50.00	11.54
	y		-
Total Accommodation Payments		**TOTAL (1)**	**277.90**
HOUSEHOLD			
Food	w	150.00	150.00
Phone/Internet	m	80.00	18.45
Cellphone	m		-
Petrol	w	25.00	25.00
Fares - Bus/Taxi	w		-
Childcare/Creche/Kindy etc	w	5.00	5.00
Children's Pocket Money	w		-
Personal Cash	w	25.00	25.00
Cigarettes/Alcohol	w		-
Entertainment	w		-
Giving - Church/Charity/Koha	w		-
Liable Parent Contribution/ Maint.	w		-
Lotto	w		-
Rentals	w		-
Takeaways	w		-
Other	w		-
	w		-
	w		-
	w		-
Total Household Payments		**TOTAL (2)**	**223.46**
VEHICLE			
Insurance - Vehicle	y		-
Hire Purchase - Vehicle	m		-
Maintenance	y		-
Registration	y	750.00	14.42
Warrant of Fitness	y		-
	y		-
Total Fixed Vehicle Costs		**TOTAL (3)**	**14.42**

PAYMENTS CONT.			
DEBT	Fre-quency	Enter Amount	Weekly Amount
Credit & Store Cards	m	47.50	10.96
	m		-
	m		-
	m		-
Hire Purchase	m		-
	m		-
	m		-
Loan Repayments	m	125.00	28.85
	m		-
Court Payments	m		-
Work & Income Repayments	w		-
	w		-
Total Debt Costs		**TOTAL (4)**	**39.81**
OTHER			
Bank Fees	m	30.00	6.92
Clothing/Shoes	y	600.00	11.54
Dental/Optician	y		-
Dog Registration	y		-
Haircuts/Styling	y		-
Insurance - Life	y		-
Insurance - Medical	y		-
Doctor/Prescriptions	y		-
Presents	y	300.00	5.77
Savings	y		-
School Fees plus books etc	y	300.00	5.77
Subscriptions/Recreation	y	65.00	1.25
Vet Fees	y		-
Other	y		-
	w		-
	y		-
	y		-
Total Other Payments		**TOTAL (5)**	**31.25**

SUMMARY			
OTHER			631.93
SUBTOTALS	%	Amount	
Accommodation (Total 1)	44%	277.90	
Household (Total 2)	35%	223.46	
Vehicle (Total 3)	2%	14.42	
Debt (Total 4)	6%	39.81	
Other (Total 5)	5%	31.25	
TOTAL PAYMENTS	**93%**	**586.85**	**586.85**
TOTAL WEEKLY SURPLUS===>>>			**45.08**

Bring all figures to a Weekly Amount - Adjust Frequently

Yearly divide by 52; **Q**uarterly multiply by 4 then divide by 52; **M**onthly multiply by 12 then divide by 52; **F**ortnightly divide by 2. % Figure = Subtotal (e.g. Total 1) ÷ Total Income (A)

PRACTICAL ASSIGNMENT

Kerry has just started studying at the local Polytechnic and is on a student allowance of $130 pw (per week). She also works part time at The Warehouse earning $150 pw in the hand.

- **She still lives at home and pays $60 pw board.**
- **Has a car loan repayable at $400 pm (per month).**
- **Takes cash out at $50 pw.**

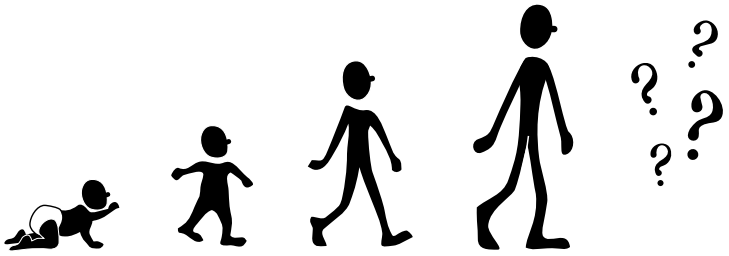
She has vehicle expenses, which include: petrol $10 pw, registration $203 pa (per annum), warrant of fitness costs $28 half yearly, insurance $25 pm and maintenance $200 pa. She spends $500 on presents and $1,000 on clothes per year.

She wants to save $75 per week for a trip to the Gold Coast at the end of next year.

1) Complete a budget work sheet for Kerry.

1 What is her current weekly surplus/deficit?
2 Can she save $75 per week for her Gold Coast holiday?
3 If she did save $75 per week starting the first week of March, what would she have saved by the end of November, excluding any interest earned?

2) Complete a budget work sheet for yourself using your current situation. What income do you have, part time work, pocket money etc? What expenditure do you have, monthly cell phone top up, bus tickets etc?



CHAPTER 6: LIFE INSURANCE

Introduction

Life insurance is a system of risk sharing. Many people combine to share risks that are too heavy for the individual to bear alone.

Commercial life insurance grew out of the need for people to have a system for sharing risk. The life insurance industry has built up a good deal of expertise in specialist areas.

For over 150 years life insurance has played an important part in the economic welfare of New Zealand and its citizens.

In the early days settlers brought with them life policies issued by British offices. The AMP Society was founded in Australia in 1849 and commenced operations in New Zealand in 1854. In 1869 the Government Life Insurance Office (now Tower Corporation) was established. Many more Australian and British offices followed and new life offices were founded in New Zealand.

The New Zealand life insurance scene has seen a succession of mergers and rationalisations over the years that has led to many of the old company names disappearing. New offices have opened and American and European companies have also established offices in New Zealand.

Diversification in the industry has led to niche marketing, with some smaller companies targeting particular sectors of the insurance market and specialist reinsurance offices have opened. Many registered banks have also established life insurance subsidiaries.

In 1990 over 60 offices were authorised to transact life insurance business in New Zealand.

Life insurance in New Zealand has been traditionally sold under the sole agency system, with an insurance agent writing business for one office only, but other agency systems have also been introduced.

These systems, which allow an insurance agent to introduce business to more than one life office, include open agencies, preferred agencies, and multilane agencies. In contrast, some banks and specialist insurers employ their own salespeople.

Life offices invest their funds in a broad range of investment sectors including:

1. mortgage lending;
2. fixed interest investment in Government and public body stock;
3. commercial property;
4. shares, both in New Zealand and international.

By investing part of their funds internationally, life offices diversify their New Zealand risk and can often provide better security and improved returns for their New Zealand policyholders.

There are four lifetime risks to an individual that can and should be insured against:

1. dying too soon;
2. living too long;
3. becoming disabled;
4. serious Illness.

Dying too soon

While you are young and don't have any debt or dependents, insuring against dying too soon does not have much relevance, as if you die young you won't need money and financially there are no ramifications to your loved ones.

But once you start building up assets, possibly funded by debt, and create dependants, your untimely death can be financially devastating

for those left behind who relied on you to pay the bills and mortgage etc. They could be out on the street if you don't cover or insure against this risk.

As a basic rule, I would suggest having life insurance cover (life insurance pays out a one-off cash payment if you die) of your total debt plus about five years of your income. This will mean all debts are cleared and the surviving spouse/partner can stay at home with the children until the youngest is at school.

The younger you are, generally, the cheaper the insurance premiums you will have to pay, as the risk of your dying is lower.

Having made a case for not having life insurance while you are young, some reasons why you would consider taking insurance out when you are young are:

- the cost is relatively low;
- you can still leave a legacy, maybe to a charity;
- you can get accepted with a life insurer with inflation adjusted cover;
- arranged guaranteed acceptance of increased insurance cover as your risk level increases.

The fact is that one in seven of us will die during our working lives – that means before we reach 65.

Living too long

How can living too long be a risk? While this is a risk, it is more a planning risk such as failure to save sufficient to cover your requirements in retirement. This can mean you run out of money before you die.

When financial planners calculate how much you need to have saved to provide the income you want in retirement, they will factor in how long you are expected to live and sometimes reduce the amount needed to be saved by allowing some of the capital (principal amount saved) to be consumed over time. If, however, you live longer than expected and have depleted your capital then your standard of living is going to suffer. You have lived too long in relation to your planning.

The average life expectancy of males and females is increasing.

See investing in the next section.

Becoming disabled

Statistics tell us that one in three people will suffer a major illness or injury that will stop that person working for three months or longer. Can you afford to survive for three months without an income?

With such a high probability that you could be the one of the three who lucks out, it makes sense to cover this risk. Again, while you are young no big deal, you can always bludge off the Olds.

Better still, you could always take control and cover that risk by taking out income protection.

Income protection

This insurance will protect your income level up to an agreed figure, usually 75% of your current income. So, basically, if you can't work because of an accident or illness, the insurance company will step in when your employer stops paying you, and your income stream is substantially maintained. After all, your expenses won't stop because of your accident or illness.

Trauma insurance

This is a lump sum insurance where, if you get one of 26 specified illnesses, the insurance company will pay out the sum insured. This would then give you an option of getting specialised medical help that may help your recovery. The alternative is for you to take a punt on the public health system and you will join a waiting list.

Serious illness

You never know when you or your dependants will have a medical problem; coupling this with the escalation in the cost of medical services today presents another insurable risk to you. Health insurance gives you the ability to pay for the medical expertise and surgery without being reliant on our public health service.

QUESTIONS

1 **Why do you think insurance was created?**

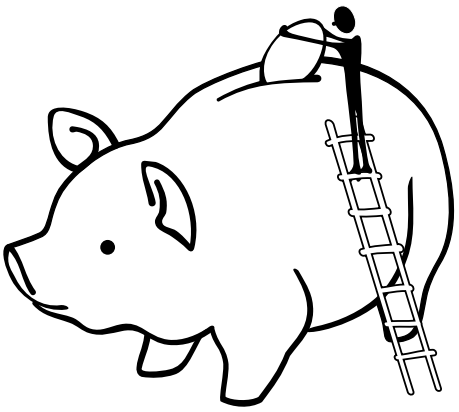
2 **How did the early insurance system work?**

3 **What are the four lifetime risks you face? What can you do about each one?**

4 **When should you review your insurance cover?**

5 **How do you calculate the correct amount of cover?**

CHAPTER 7: SAVINGS



This is probably the next most critical thing you have to get your head around after you have mastered the desire to spend more than you earn. Once you have a surplus, what do you do with it, how do you invest it and what do you need to know?

Saving is critical to wealth creation.

Generally I recommend to my clients that they set up two bank accounts: one a savings account with ready access and one a transactional account, with or without a cheque book. All their income goes into the savings account and once a week a transfer is made based on their budget. This is then what they survive on for the week. If you preferred you could take the weekly amount out in cash, to reduce the number of bank accounts needed to only one.

Over time the savings account is likely to grow, as some budgeted expenditure may not eventuate or some unexpected income is received; for example, if budgeted car repairs don't eventuate, or you under spend on groceries, or some overtime and bonuses remain in the savings account. This then provides the foundation and source of your investment scheme.

The earlier you start, the more you will have saved.

So what are your options?

Simple savings accounts and bank term investments

The Savings Account is probably the account your wages will go into and the interest rate is very small - your immediate access has a cost - between 0 and 5% pa at present. You would probably use this account until the balance rose to over $5,000. This is usually the minimum figure for placing your money on term deposit. A term deposit is one in which you enter a contract with the bank to lend it your money for a fixed term, generally between 1 month and 5 years. The longer the term agreed to, usually the higher the interest rate your deposit will earn. Remember the bank makes decisions on this agreement and will only agree to break the deposit (return all or part of the money to you during the term of the deposit) in exceptional circumstances. A penalty interest rate will also usually be charged for such a break. For example, if the interest rate was 5% pa the bank may reduce the interest rate paid down to 4% or less. The penalty depends on the length of time the deposit has been in place and what the interest rate was for the term actually completed at the time the investment was made.

It's probably best to start your investment with the bank you are with now and talk to their sales staff to find out what is on offer. If you are interest rate sensitive (require a higher return for your income needs or growth plan), search the internet for the best rates.

It is commonly accepted that the higher the interest rate, the greater the risk, so take care to satisfy yourself that the company you trust with your money is financially strong enough to be able to repay you on maturity.

Pros	Cons
Easy access	Boring
Guaranteed income	Poor return
Relatively safe	No up side ie Capital growth

Shares

A share is just that, a share of the company you have invested in. Also known as an equity stake, the share represents part-ownership of a company. When you buy a share in a company, you become a joint owner of the business and share in the future of that business. Shares are generally regarded as providing the potential for the highest return of all the investment options you can have, in the longer term. Shares are generally classed as `growth´ assets, but they come with no guarantee and can fluctuate both up and down, or even go belly up and so you risk losing the amount invested.

Besides providing potential capital growth as the value of the share price which, we hope, rises shares can provide regular income through the payment of dividends.

Share dividends can also come with a small bonus by Imputation Credits. Companies pay a flat tax rate of 33% of their net profit and if the company has paid full tax on the income, and your marginal tax rate is only 19.5% then you can claim the difference back in your tax return. Of course the reverse is also true, so that if your marginal tax rate is 39% then you will have to pay the difference. I'd advise that you seek good taxation advice if you have this problem.

Pros	Cons
Interesting	Volatile
Potential Capital Growth	Ignorance is dangerous
Potential income earner	Semi liquid

Further information can be found at www.nzsx.co.nz

Property

1) **For a place to live:** We all need to live somewhere and the decision on what property to buy is very much an emotional one and often the heart rules the decision-making.

2) **For investment**: This time you have to do the numbers and let your head rule the decision.

Things you need to consider when purchasing an investment property:

1) **Strong, consistent population growth** - when more people are steadily moving into an area, a certain percentage of these people will need to rent. This builds demand, and keeps occupancy high.

2) **Developments that will create permanent new jobs** - These act like a magnet, bringing new people into the area, again increasing demand.

3) **Timing** – When should you buy? The property market is cyclical and although the value of property consistently goes up in the long term, it tends to go up and down along the way.

4) **Return** - The expected income generated from the investment can be measured by dividing the income over the value of the investment. eg gross rent is $10,400 pa and the property cost you $115,000, then the yield or return would be 9.04% pa.

5) **Good location** – is also of critical importance "where can I buy a property that will give me a great return?" is a useful question to ask yourself.

Pros	Cons
It is real (you can see it)	Tenancy laws
inflation adjusted rent	Bad tenants
Capital growth	Not liquid
Tax benefits	Large investment

Further information can be found at www.propertynz.co.nz

Fixed interest

Fixed interest securities are typically referred to as `income-producing´ investments. There is also the potential for a capital gain.

Bonds, the most common form of fixed interest securities, are agreements to repay a fixed amount of money at a predetermined date in the future, the maturity date. Governments, banks or companies generally use bonds to provide finance for their own use.

When an investor purchases a bond, he or she is in fact lending the issuer of the bond agreed time. In return for this money, the issuer agrees to repay the amount in full at the end of the agreed time, and also make regular interest payments known as `coupons´, throughout this time period. Coupons is an old term and comes from the fact that historically a bond certificate came with coupons on the side of the certificate and each one had a date for payment and an amount to be paid. The coupon would be clipped off and sent to the bond issuer for payment. At one stage in my career with the ANZ Bank I had to do just that, clip the coupons and deliver them for payment, then bank the interest into an account. Of course everything is electronic now, but it is interesting to see the name has been retained.

Bonds can either be held to maturity, or they can be traded on a secondary market. Fund managers will trade bonds on this secondary market because it is possible for them to make a capital gain. This is because while the coupon payment rate and the time to maturity are fixed for a particular bond, its value or the price it can be bought or sold for in the market can change.

A profit occurs if the value of the bond increases (the interest rate decreases) between the time of purchase and the time of sale. Similarly a loss occurs if the value of the bond decreases (the interest rate increases) between the time of purchase and the time of sale.

Bond yields

You may hear the term 'yield' used in the financial press in relation to bonds. The yield represents the market interest rate for a bond, and reflects factors such as the risk of investing in the bond and the term to maturity.

While the coupon rate simply shows the rate of return that the issuer will pay each year based on the face value, the yield shows the actual rate of return expressed as a percentage of the market value of the bond under current trading conditions.

Pros	Cons
Regular income	Lower returns
Potential capital gain	Potential capital loss

Other

There are many other different options for you to consider. For example, precious metals, coins, stamps, art, vintage cars, etc.

A very good rule to follow when investing is:

"If it sounds too good to be true, it probably is!"

Unfortunately there are dishonest people out there, only too willing to play on the greed or vulnerability of individuals and take advantage by stealing their savings. I doubt whether a week would go by with out another scam being reported. Seek professional advice always!

Learn the Rule of 72

Step 1 of 2: How long does it take my money to double?

This step teaches you how to determine the number of years it will take for your investment, or debt, to double in value. By dividing the number 72 by the percentage rate you are earning on your investment, or paying on your loan, you will find out how many years it will take to double in value.

Here are two examples...

1. You borrowed $1,000 from your friend, who is charging you 6% interest. 72 divided by 6 is 12. That makes 12 the number of years it would take for your debt to your friend to double to $2,000 if you did not make any payments.
2. You have a savings account with $500 deposited in it. It earns 4% interest from the bank. 72 divided by 4 is 18. It will take 18 years for your $500 to double to $1,000 if you don't make any deposits.

Remember: 72 divided by the interest percentage is the number of years it takes to double.

That is the end of step one. Step two will blow your socks off!

Step 2 of 2: How many times will my money double?

This step teaches you how important it is for your money to double as many times as possible, and for your debts to double as few times as possible.

Determine how many years you will keep your investment before cashing it in. Divide that by the number of years it will take to double each time, this is the number you figured out in step one.

Now look at what happens to your money each time it doubles...

$1 ... $2 ... $4 ... $8 ... $16 ... $32 ... $64 ... $128 ...

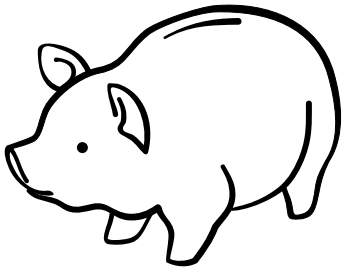
You can see that it makes a big difference how many times your money doubles. If you can make it double only a few more times by making just slightly better investments, you can end up with many times more money at retirement, or whenever you cash in your investment.

Think about how fast your debts can double with high interest rates, such as those charged on most credit card accounts.

You have learned the basics - you need to use the rule of 72.

Gain financial success faster when you command the power of compound interest, instead of allowing compound interest to enslave you.

Obtained from the website www.ruleof72.net



QUESTIONS

1. What do you need to do before starting to save?

2. Name some pros and cons for investing in each of following: the bank, shares and property.

3. What is a good rule to follow when investing?

4. What rule helps you calculate compound interest and how does it work, give an example?

CHAPTER 8: DEBT & BORROWING

"New Zealanders aged 18 and older have an estimated total net worth of $367 billion with a median value of $60,000, according to a new survey conducted by Statistics New Zealand on behalf of the Retirement Commission."

Source: 2001 Household Savings Survey

The bombardment of advertising that tells us all to `buy now, pay later´ works every time. We now have a collective $4 billion on credit cards much to the delight of the banks.

"Shopping is a drug and Kiwis are overdosing. Households spend on average 10 percent more than they earn each year."

Source: The Press 16 October 2004

Why do people take on debt?

The smart ones take on debt to create wealth, the others (some mean spirited people refer to them as the dumb ones) take on debt to satisfy desires, as they believe that they are not happy unless they have the latest DVD, Plasma TV, latest car etc, etc.

Borrowing for desires and wants is not smart.

When you look at how easy it is to borrow money, you should ask, "why is that?" The retailer, lender or bank won't be providing you a loan out of the kindness of their hearts. No, they will be doing it for the benefit **they** get. That benefit is a cost to you.

Let's look at a few examples, taken from advertisements dropped into my mail box while writing this guide.

A lounge suite was in a store for $2,999 or $38 per week; you don't have $3,000 but you think you can afford $38 pw. You will pay it off over 2 years

So what is the cost to you?

	Cash	On Credit
Amount Paid	$2,999	$38
Time Paid	1 day	104 weeks
Total Payment	**$2,999**	**$3,952**

So you pay an extra $953 over the 2 years, or 16% pa. If you had saved the amount it would only take you 79 weeks (not 2 years, or 104 weeks) you would be able to buy the latest model, and possibly get a cash discount as well.

How about a recliner chair:

	Cash	On Credit
Amount Paid	$399	$6.10
Time Paid	1	104
Total Payment	**$399**	**$634.40**

So you pay an extra $235.40 over the 2 years or 29.5% pa.

Buying on credit costs you more!

I am sure you would have no trouble finding other examples. The moral here is don't take on consumer goods on credit. Save the cash and ask for the cash price; you may be surprised at the discount.

Another interesting fact to consider is the total amount of interest charged on your mortgage over the time it has taken to repay it. (See next table)

Loan Amount	$200,000
Annual Interest Rate	7.50%
Loan Period in Years	25
Number of Payments Per Year	12 (monthly)
Amount Per Month	***$1,478***
Total Interest Paid	$243,395
Total Repayment Loan + Interest	**$443,395**

Repayments are $1,477.98 per month or $17,736 per annum.

As the table shows, the cost of money can mount up and the total cost of your home is considerably more than what you paid the seller.

But what if you could afford say another $22.02 per month, making repayments $1,500 per month, what effect would this have?

Loan Amount	$200,000
Annual Interest Rate	7.50%
Loan Period in Years	25
Number of Payments Per Year	12 (monthly)
Amount Per Month	***$1,500***
Total Interest Paid	$231,265
Total Repayment Loan + Interest	**$431,265**

By repaying an additional $6,341.76 ($22 per month) over, the loan would be cleared one year earlier and you would save $12,130 in interest over the term of the loan. A good return when you consider that this is only $264.24 per year.

Loan Amount	$200,000
Annual Interest Rate	7.50%
Loan Period in Years	25
Number of Payments Per Year	12 (monthly)
Amount Per Month	***$1,600***
Total Interest Paid	$190,290
Total Repayment Loan + Interest	**$390,290**

What would be the impact with repayments at $1,600 pm?

So, for an extra $122 pm, or $1,464 pa, interest savings over the term of the loan would be $53,105 and see the loan cleared in 20 years and 4 months.

The point:

The more you can repay on your loans the less interest you pay and if you save to buy something it will be much cheaper for you.

EXERCISE

Look in the paper, internet or junk mail and find three examples of a price being advertised and terms or credit offered. Calculate the difference between the cash price and the cost of the item if bought on credit.

SUMMARY

Whether money is your servant or your master, it is up to you!

How you manage the money you have coming in will dictate the quality of your life. It's not about how many thing you own or the size of your house or type of car. It is all about contentment with what you have. Retailers and the advertising world will tell you that you can't possibly be happy unless you have the latest thing(s). They have no interest in whether you can afford it or not.

I have clients who have an excellent quality of life, run a family, have their own home, etc on an annual income of $30,000 pa. I also have another client earning $120,000 pa and who is in debt, credit cards maxed out, cheque account is at its limit and this client is stressed out.

The foundation to financial success is the budget, understand what it costs to maintain the life style you want, work out a budget and the amount you pay yourself each week and then stick to it.

I am happy to be of service if you need a hand or some helpful advice.

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GLOSSARY

Bonds: A certificate of debt used to raise money, if you like a certificate or receipt for a term deposit with a bank could be called a bond. If you could on sell it then it most definitely would be a bond.

Building Societies: A place to do your banking etc, but the members, or customers, own the business. While most act like banks they have different rules than banks and have more restrictions.

Capital Growth: A term to describe when your capital grows, say early 2005 you owned a property worth $100,000 and you had a loan of $50,000. At the beginning of 2006 the property was worth $120,000, with the loan still at $50,000, your capital has grown from $50,000 to $70,000 another way to say this is your capital has grown 40% during the year.

Commodity: Something that can be bought or sold. NZ is primarily a commodity exporter e.g. Timber, Fish, Meat. While tourism is big income earner for NZ this is classed as a service.

Compound Interest: This is when you earn interest on interest e.g. $1,000 invested at 7 % pa paid monthly with compound interest would look like this.

1st Month	$1000	plus $5.83 (tax has been ignored)
2nd Month	$1005.83	plus $5.86
3rd Month	$1,011.69	plus $5.90
4th Month	$1,017.59	plus $5.94
5th Month	$1,023.53	plus $5.97
6th Month	$1,029.50	plus $6.00
7th Month	$1,035.50	plus $6.04
8th Month	$1,041.54	plus $6.07
8th Month	$1,047.61	plus $6.11
9th Month	$1,053.72	plus $6.15
10th Month	$1,059.87	plus $6.18
11th Month	$1,066.05	plus $6.22
12th Month	$1,072.27	

If interest were not compounded then the total you would receive would only be $70. Compound interest earns interest on your interest!

Currency: The term used to describe the money used in a country i.e. Euro's for Europe, Dollars for NZ, USA and Australia, Pounds for England.

Economy: The commercial activity of a country as it buys and sells goods and services. If the economy grows the value increase, if it goes down the value decreases.

EFTPOS: Electronic Funds Transfer at Point Of Sale.

Equity Stake: A term to describe you owning a percentage of collateral.

Exchange Rate: A term used to advise the cost of one country's currency in relation to another country's currency.

Expenditure: Money spent on food, rent, telephone etc.

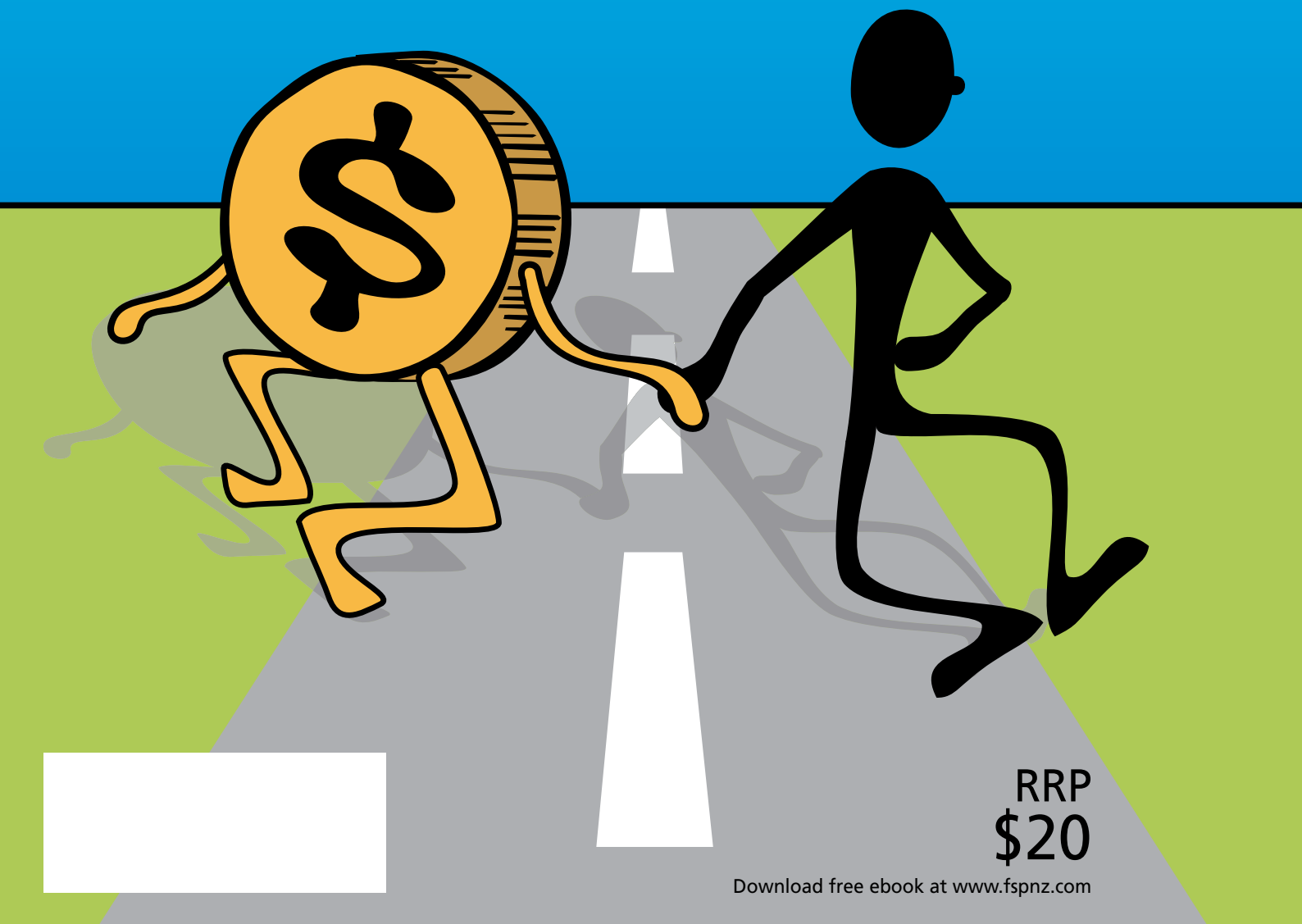
Floating Rate:	Used in connection with interest rates, means the rate can go up and down (floating) according to what the market and the Reserve bank dictate.
Fluctuate:	A word to describe the ups and downs of exchange rates, interest rates etc
Gross Domestic Product:	One measure or term used to describe how the economy is going or growing.
Guarantor:	The individual or company that undertakes to repay a loan if the borrower fails to.
Inflation:	This is the term used to measure the annual change in the cost of something. Say a TV cost $1,000 today, but the same thing cost $1,250 next year then inflation would be running at 25%, which would be scary!
Interest:	The cost of money. The higher the rate the more expensive the money, the lower the rate the cheaper the money.
Interest Rates:	A term used to advise the cost of money.
Investments:	This can mean anything (asset) that grows in value or produces income for you.
Official Cash Rate:	The tool the Reserve Bank of New Zealand uses to affect the cost of money in NZ.
Legacy:	Something left by a deceased person, usually an amount of money via their wills.
Legislation:	Term for the laws passed by Government.
Liquidity Ratio:	Usually a business term, which calculates how liquid a business, is. i.e. if a business had cash and debtors of $300 and owed creditors $100 the ratio would be 3:1 which is a very good ratio.
Margin:	The gap between what it costs and what it is sold for. The banks like a margin of 2% on top of the 90 day bill rate.
Monetary:	This refers to the cash in the economy. The policy deals with the amount of cash in circulation as well as the cost of the cash or money.
Money Clubs:	Very much like the Building Societies but with different rules again from Building Societies.
Mortgage:	This is often mistaken to mean the loan; the mortgage is in fact the name for the document the lender uses to secure your housing loan.
Net Income:	Income after tax and other compulsory deductions.
Payee:	The person who gets the money.
Premiums:	Can be a term used for the regular cost of Insurance cover or for an extra cost on top of a usual cost.
Principal:	In this context this refers to the amount a loan reduces by after interest has charged. i.e. Loan is for $100,000 and the monthly repayment is for $1,500 and interest charged for the month is $1,000. The new balance of the loan is $99,500. The principal repaid is $500.
Salary/Wages:	What employees call what they get paid. Wages are for those on hourly rates and Salary for those on a fixed annual income.
Shares:	A term used to describe pieces of a company's ownership. Say a company had 1000 shares and you had 100, you would own 10% of the company. If you owned over 50% you had a controlling shareholding.
Suffix:	The last numbers of your bank account number, it can signify what sort of account it is i.e. 00 for a cheque account.
Superannuation:	This refers to what the Government pays as a retirement allowance to those over 65 years old. It is very low and you should not expect to receive any, so start saving now for your retirement.
90-day Bill:	An amount of money that is invested for 90 days, the banks borrow on this market to fund their home lending. People with surplus money sell or invest using this market and others look to buy on this market, the Bill rate changes.

"Thank you for the copy of your book- Money your master? ... I am sure it will be a valuable resource. I believe it is an ideal resource for senior secondary school students. I am keen to use some of the information for my senior Employment Skills class."

Lindsey James, Careers Advisor, Aranui High School

"I have leant it on to my 14-year old, who also manages (under supervision), an allowance for clothing, entertainment, gifts, saving and some spending money, and has a reporting spreadsheet we've helped him set up to both set a budget and track his expenses against it. Not an easy task when everything seems to scream "buy me"! Your book seems to be pitched just right for kids facing these kinds of issues – well done!

Heather Douglas, Home Business New Zealand Ltd



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