

# New South Wales Commerce and Mathematics

## Module 2 Spending and saving



Financial Literacy  
Curriculum Resource  
2008 Revised Edition

# Contents

Contents .....	2
Introduction .....	3
Module 2: Spending and saving .....	4
Background scenario .....	4
Teacher notes .....	4
Key terms and definitions .....	4
Task 1: Payment option task .....	6
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	6
Task 2: The family budget .....	7
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	7
Task 3: Credit .....	9
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	9
Task 4: Investment options .....	11
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	11
Task 5: Superannuation .....	13
Teacher notes, Scenario, Student activities & Learn about, Learn to.....	13
Stimulus material.....	14
H.2.1 Driver family budget planner .....	14
H.2.2 Lifestyle choices .....	15
H.2.3 Cutting expenses and boosting savings .....	16
H.2.4 Credit issues: Ask Rachel .....	18
H.2.5 Investment options role play .....	20
H.2.6 Superannuation fact sheet.....	21

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# Introduction

The Commonwealth Bank has been supporting education for more than 70 years, since the introduction of school banking in 1931. In 2003, we strengthened our commitment to education through the establishment of the Commonwealth Bank Foundation.

The Foundation seeks to encourage developments in education, particularly the financial literacy skills of young Australians, and aims to create awareness, skill and understanding of the benefits of a more financially literate community.

By helping our young people understand money management, we will empower them to take effective decisions to achieve their financial goals.

With this in mind, we are pleased to announce the availability of a national financial literacy curriculum resource which has been developed to support the teaching of financial literacy in the classroom.

Developed by a National Steering Committee comprising representatives across a broad range of state and territory education departments, sectors and professional teachers' associations, the curriculum materials have been designed to support the teaching of financial literacy in Years 7 to 10.

This practical and relevant curriculum resource has been designed to be easily incorporated into a number of subject areas and has been mapped to the curriculum in each state and territory.

There are twelve modules covering:

- Earning an income
- Spending and saving
- Consumer decisions
- Consumer protection
- Buying a car
- Financial services
- Managing finances
- Consumer awareness
- Personal investment
- Planning and running a business
- Impact of technology
- Economics of everyday finance

The resource materials can be easily downloaded via the Commonwealth Bank Foundation's website [www.commbank.com.au/foundation](http://www.commbank.com.au/foundation)

We hope you find this resource a valuable tool to use in your classroom.

*The Commonwealth Bank Foundation Team*



## Module 2: Spending and saving

### Background scenario

The case studies are developed around two families: the Drivers and their relatives the Fullbricks; as well as their friends and workmates. The Drivers, Ilse and Laurie, have two teenagers: Elizabeth, aged 15, and Nathan, aged 17. Both work part-time. Ilse has ongoing medical problems and Laurie works for a small trucking company. Grandmother Josefina lives with the family. The second family is the Fullbrick family, to whom they are related through Uncle Frank, Ilse's wealthy brother. Frank Fullbrick runs a construction company, and his partner Sella is a marketing manager. Mark is their teenage son.

Royce lives next door to the Drivers and is good friends with Nathan and Elizabeth.

### Teacher notes

This topic will examine the following:

- payment options for purchases;
- budgeting and the consequences of poor budgeting;
- the use of credit; and
- investment options and superannuation.

Stimulus material provided:

- H.2.1 Driver family budget planner.
- H.2.2 Lifestyle choices.
- H.2.3 Cutting expenses and boosting savings.
- H.2.4 Credit issues: Ask Rachel.
- H.2.5 Investment options role play.
- H.2.6 Superannuation fact sheet.

There are also general teacher notes available at the beginning of each unit.

### Key terms and definitions

Accessing	Getting something, getting entry.
Bonds	Money borrowed from the public by the government in return for a certificate on which regular interest payments are made.
Budget	A plan for your expenditure and savings.
Capital growth	The increase in the market value of an asset over time.
Credit	Money you borrow or can borrow from others.
Debentures	Money borrowed by a company from the public in return for a certificate on which interest is regularly paid.
Dividend	The return a company pays for each share from its profits.
Option	A choice.

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Portability	The ability to transfer something, such as your superannuation contributions, between jobs.
Shares	Your investment in part of a company, which makes you a part-owner.
Superannuation	A lump sum of regular payments you receive when you retire, from income invested by you and your employer over your working life.

## Task 1: Payment option task

### Student activities

#### Task 1A. Payment option task

As a class, brainstorm different payment methods that are available to consumers, e.g. cash, debit card, credit card. In pairs, choose the most suitable method of payment for each item and give reasons for your decision. Write your choices in the table below.

Item (s)	Method of payment	Reason for method chosen
\$100 worth of groceries		
A drink at corner store		
Flowers at roadside stall		
Formal dress		
Driver's licence		
Puppy training class		
Phone bill		
Special anti-ageing cream		
Root canal treatment on tooth		
New car		

#### Task 1B. Class discussion: Changing payment options

As a class, discuss the sorts of things that impact on people's payment choices. Include in your discussion:

- would Josefina (a grandmother) use the same payment method as the ones you suggested in the table? Give reasons.
- how have recent developments in technology changed the way people pay for things?

### Learn about, *Learn to*

#### Mathematics

#### Consumer Arithmetic

#### NS5.1.2

- calculating and comparing the cost of purchasing goods using:
  - cash
  - credit card
  - lay-by
  - deferred payment
  - buying on terms
- *realise the total cost and/or hidden costs involved in some types of purchase agreements*

#### Commerce

#### 1.1 Consumer choice

#### Payment choices

- Methods of payment - cash, credit, cheque, direct debit, lay-by, electronic funds transfer, book-up.
- *Identify the criteria that should be considered when determining methods of payment for different suppliers*
- *Research the criteria to determine the most appropriate methods of payment in a range of contexts*

## Task 2: The family budget

### Teacher notes

Teachers will need to copy the budget Excel spreadsheet onto the school's network in order for students to complete Task 2B. A hard copy is also provided on *H.2.1 Driver family budget planner*. When trialling these materials, teachers found the family budget exercise to be most effective when they filled in starting figures (e.g. for income, utilities, transport, food) that were appropriate to their community.

Additional stimulus materials are provided.

- *H.2.2 Lifestyle choices* provides students with ideas for class discussion, on ways to cut expenses and boosting savings.
- *H.2.3 Cutting expenses and boosting savings* provides teachers with detailed suggestions for the discussion on cutting expenses and boosting savings.

### Scenario

The Drivers go through another bad fortnight: the car has broken down again; Ilse can't afford to buy her medicines; and the bill for everyone's mobile phones is huge. Elizabeth and Nathan want to help.

They think the family could make some changes to the way they use their money. They talk to their parents about some ways they can help. Together they examine the family's bills over the last year, looking for savings they can make. Elizabeth and Nathan are horrified to see the size of the family mobile phone expenses which are on one bill (and which their parents have paid to date) and the size of the winter electricity bill.

Student activities	Learn about, <i>Learn to</i>
<p><b>Task 2A. The family budget</b></p> <p>1. In pairs, use the Excel spreadsheet <i>H.2.1 Driver family budget planner</i> to analyse savings that Elizabeth and Nathan can make in areas of <i>Utilities, Transport, Food</i> and <i>Other</i>. Estimate appropriate amounts for the other categories.</p> <p>a. Refer to <i>H.2.2. Lifestyle choices</i>. Make a list of savings strategies Elizabeth and Nathan can employ. Consider the advantages of saving over time. Write a paragraph to sum up your ideas.</p> <p>b. Use the spreadsheet to test the effect of different amounts in each category and the effect of the changes on the total budget.</p> <p>c. Discuss ways in which the Driver family could strengthen their financial position by:</p> <ul style="list-style-type: none"> <li>• reducing expenses</li> <li>• controlling debts</li> <li>• managing unanticipated expenses.</li> </ul> <p><b>Task 2B. Effective financial management</b></p> <p>In pairs, design a web page, PowerPoint or other presentation</p>	<p><b>Commerce</b></p> <p><b>1.2 Personal finance</b></p> <p><b>Managing Finances</b></p> <ul style="list-style-type: none"> <li>• features of responsible financial management - budgeting, saving, monitoring and record keeping, avoiding over commitments</li> <li>• <i>use a spreadsheet to prepare a hypothetical household budget which includes the following categories: income and borrowing, fixed and variable expenditure, saving</i></li> <li>• <i>monitor and modify the hypothetical budget</i></li> </ul> <p><b>Mathematics</b></p> <p><b>Consumer Arithmetic</b></p> <p><b>NS5.1.2</b></p> <ul style="list-style-type: none"> <li>• calculating and comparing the cost of purchasing goods using: <ul style="list-style-type: none"> <li>- cash</li> </ul> </li> </ul>

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that:

- describes the consequences of poor financial management
- offers detailed tips on managing a family budget effectively.

To complete this task you will need to analyse the hypothetical Driver family budget and consult your notebook, *H.2.1 Driver family budget planner* and *H.2.2 Lifestyle choices*, textbook and relevant Internet sites.

- credit card
- lay-by
- deferred payment
- buying on terms
- loans
- calculating a “best buy”
- *prepare a budget for a given income, considering such expenses as rent, food, transport*
- *realise the total cost and/or hidden costs involved in some types of purchase agreements*
- *make informed decisions related to purchases eg determining the best mobile plan for a given situation*



## Task 3: Credit

### Teacher notes

This task should be completed using *H.2.4 Credit issues: Ask Rachel* as a stimulus for a class discussion of credit. This topic also requires careful consideration of the consequences of poor use of credit. The scenario contains a very large credit card debt that, at first, may seem ridiculous; however it is based on a genuine case study. The quote included was written by a young person in this situation. This has been done intentionally as a way of reinforcing that this does actually happen if consumers are not careful about the sorts of “deals” credit providers may offer.

Inspiration software has been successfully used to complete this task.

### Scenario

Royce, the Drivers’ neighbour, was home early from work and went to see Nathan and Elizabeth. Royce looked terrible and was very upset; he needed to talk. Michael, the third year apprentice at work had received a final notice for his \$30,000 credit card debt. His belongings were being repossessed. He knew that neither he nor his parents could afford to pay this debt.

Royce talked about how easy it is for young people to get into financial difficulties, just like Michael had. “We are inundated by advertising and influenced by material possessions and living the high life. For people our age the signing of a credit card or flash mobile phone contract seems like a small sacrifice to make in order to have a desirable lifestyle. We live in a generation where you can get a credit card, a phone contract, a personal loan... all with a phone call. It seems such a necessity. I know it’s not, but it’s really hard not to be tempted all the time”.

Student activities	Learn about, <i>Learn to</i>
<p><b>Task 3A. Credit issues</b></p> <ol style="list-style-type: none"> <li>1. Discuss as a class:               <ol style="list-style-type: none"> <li>a. what is credit?</li> <li>b. how has credit affected the way many people live? Draw a flow chart or mind map to illustrate the answers people give.</li> </ol> </li> <li>2. Refer to <i>H.2.4 Credit issues: Ask Rachel</i>.               <ol style="list-style-type: none"> <li>a. Make a list of issues that consumers should be aware of in relation to credit.</li> <li>b. Explain how these issues can be resolved or managed. This can be done in a similar “Ask Rachel” format or as a class.</li> </ol> </li> <li>3. Discuss as a class:               <ol style="list-style-type: none"> <li>a. how is a credit card similar to having a mobile phone contract?</li> <li>b. should consumers who have trouble managing their phone bill obtain a credit card?</li> </ol> </li> </ol> <p><b>Task 3B. Credit report</b></p> <p>In pairs, research credit issues and present a written report</p>	<p><b>Commerce</b>  <b>1.2 Personal Finance</b>  <b>Borrowing money</b></p> <ul style="list-style-type: none"> <li>• Reasons for borrowing</li> <li>• Getting a loan - types of loans, lending institutions, ability to repay, credit rating</li> <li>• <i>Discuss the reasons for and against borrowing money</i></li> <li>• <i>Identify specific situations in which individuals should or should not borrow money</i></li> </ul> <p><b>Mathematics</b>  <b>Consumer Arithmetic</b>  <b>NS5.1.2</b></p> <ul style="list-style-type: none"> <li>• calculating and comparing the cost of purchasing goods using:               <ul style="list-style-type: none"> <li>- cash</li> <li>- credit card</li> <li>- lay-by</li> <li>- deferred payment</li> <li>- buying on terms</li> </ul> </li> <li>• calculating simple interest</li> </ul>

including:

- features you should look for if you want to use credit
- credit features you should avoid
- interest free transfer periods
- calculations and/or comparisons of interest rates and locations of good calculators
- an explanation of the effect of credit debt over time
- recommendations for Royce on how to avoid a large credit card debt.

Use these websites to research your report:

- <http://www.fido.asic.gov.au> (click on "Loans & credit" found under "About financial products")
- <http://www.dollarsandsense.com.au> (click on "Borrowing + Lending")
- <http://www.moneystuff.net.au> (click on "Just the Facts" then on "Credit").

Reference a consumer information site relevant to your state or territory.

using the formula  $I=PRT$

- *realise the total cost and/or hidden costs involved in some types of purchase agreements*
- *make informed decisions related to purchases eg determining the best mobile plan for a given situation*
- *compare simple interest with compound interest in practical situations eg loans*
- *interpret spreadsheets or tables when comparing simple interest and compound interest on an investment over various time periods*

### **Consumer Arithmetic NS5.2.2**

- determining and using the formula for compound interest
- *analyse promotional and advertising material that is collected from a variety of sources including the Internet*

## Task 4: Investment options

### Teacher notes

In economics, investment refers to funds spent on goods that are used to produce other goods; and savings are what people do with their incomes apart from spending on goods and services and paying taxes. This definition means that individuals rarely invest; they mainly spend and save. Bank accounts and buying shares are savings, but if someone has a home business and buys equipment or a car to use in it, then they are investing.

In this unit, the term “investment” is used in the more commonly held community sense of people placing their money in something and looking for a return, usually in the form of interest or capital gain. Teachers might like to consider this distinction and discuss the meaning of savings and investment with their class or simply ignore the problem and use investment as understood generally within the community.

*H.2.5 Investment options role play* is provided to stimulate discussion.

### Scenario

At a party for friends and family of the Drivers, Elizabeth joins a conversation about investment options. All the guests favour different investment choices. Their investment options are listed below:

- Franca: bank investments
- Cher: shares
- Rouf: art
- Pat: property
- Frank: debentures and bonds
- Ozkan: diversified investments (using a number of investment options)
- Sella: superannuation.

### Student activities

#### Task 4A. Investment options

Read *H.2.5 Investment options role play*. As a class, discuss:

- the difference between saving and investing
- why it is important to save
- how much you need to save
- why you should invest your savings.

#### Task 4B. Which investment option?

In teams of 3 or 4 students, choose an investment option: shares; property; superannuation; managed funds; cash; or fixed interest investments.

Create a brochure outlining the following features:

- definition of your investment option
- how to go about investing in your option
- example of the types of people who may invest in this option, e.g. age, income level, life cycle stage
- choices related to risk and return
- investment timeframes (for how long should you invest your money?).

### Learn about, *Learn to*

#### Commerce

#### 1.2 Personal Finance

#### Investing money

- Reasons for investing - major purchases, extra income, retirement
- Overview of investment options - shares, property, superannuation, managed funds
- *Analyse reasons for saving and investing and for postponing consumption for future gain*
- *Recognise the relationship between risk and return by investigating investment options*

To gather this information, you may also use relevant Internet sites such as:

- <http://www.dollarsandsense.com.au/FinancialServices/>
- <http://www.anz.com/aus/fin/investing/options.asp>
- <http://www.fpa.asn.au/Consumers/Dollarsmart.asp>  
(Unit 3 of *Dollarsmart* has some information on investment options.)

### **Mathematics**

#### **Consumer Arithmetic**

##### **NS5.1.2**

- calculating earnings for various time periods from different sources including interest on investments
- calculating simple interest using the formula  $I=PRT$
- applying the simple interest formula to problems related to investing money at simple interest rates
- *compare simple interest with compound interest in practical situations*
- *interpret spreadsheets or tables when comparing simple interest and compound interest on an investment over various time periods*

#### **Consumer Arithmetic**

##### **NS5.2.2**

- determining and using the formula for compound interest
- *analyse promotional and advertising material that is collected from a variety of sources including the Internet*
- *question the advantages of interest being calculated on the basis of different time periods eg monthly rather than yearly*

## Task 5: Superannuation

### Teacher notes

Teachers should explain to students that:

- superannuation is not compulsory for those earning less than \$450 per month or those under 18 working less than 30 hours per week. However, practice can differ and in many circumstances superannuation is paid in these circumstances.
- employees may make voluntary payments in addition to those of the employer.

*H.2.6 Superannuation fact sheet* provides reference material for students in this task.

### Scenario

“Who needs super? I’m only 17 years old and have 40 or 50 years left until I retire. Superannuation is so complex to me. I have no idea where my money is going. At least I don’t have to worry about it until I’m working more than 30 hours a week or over the minimum wage needed. I have a friend who has changed jobs four times. She has three funds and seems to pay more fees than she’s getting in return.”

Nathan, like many others, is struggling to understand superannuation.

Student activities	Learn about, <i>Learn to</i>
<p><b>Task 5A. Why pay income tax?</b></p> <p>Help Nathan to understand more about his superannuation. Superannuation is a way to save for your retirement. At present the law requires employers to contribute 9% of your wage or salary to your superannuation fund (known as the Superannuation Guarantee Scheme).</p> <ol style="list-style-type: none"> <li>1. Read <i>H.2.6 Superannuation fact sheet</i> and use the Internet and your texts to research the following aspects of superannuation: <ul style="list-style-type: none"> <li>• superannuation contributions</li> <li>• level of retirement funding/capital growth needed</li> <li>• making voluntary payments</li> <li>• fees and charges</li> <li>• choosing superannuation investment options</li> <li>• portability of superannuation</li> <li>• accessing superannuation</li> </ul> </li> <li>2. Use your findings to: create a radio interview or a multimedia presentation; conduct a role play; or script a conversation.</li> </ol> <p>Useful websites containing a wealth of superannuation information include:</p> <ul style="list-style-type: none"> <li>• <a href="http://www.dollarsandsense.com.au">http://www.dollarsandsense.com.au</a></li> <li>• <a href="http://www.fido.asic.gov.au">http://www.fido.asic.gov.au</a></li> <li>• <a href="http://www.hesta.com.au">http://www.hesta.com.au</a>.</li> </ul>	<p><b>Commerce</b>  <b>2.2 Employment Issues</b>  <b>Taxation and superannuation</b></p> <ul style="list-style-type: none"> <li>• Superannuation</li> <li>• <i>Identify the obligation of employers towards employees in relation to superannuation</i></li> <li>• <i>Discuss the advantages and disadvantages of superannuation as a saving/investment option</i></li> </ul> <p><b>Mathematics</b>  <b>Consumer Arithmetic</b>  <b>NS5.1.2</b></p> <ul style="list-style-type: none"> <li>• calculating net earnings considering deductions such as taxation and superannuation</li> <li>• <i>read and interpret pay slips from part-time jobs when questioning the details of their own employment</i></li> </ul> <p><b>Consumer Arithmetic</b>  <b>NS5.2.2</b></p> <ul style="list-style-type: none"> <li>• <i>analyse promotional and advertising material that is collected from a variety of sources including the Internet</i></li> </ul>

## H.2.1 Driver family budget planner

Use this version only if you do not have access to the electronic version (provided separately online)

<b>Section A: Income after tax</b>			<b>Section B: continued</b>		
Your income after tax		\$	<b>Medical</b>	Health insurance	\$
Partner/spouse after tax income		\$		Doctor	\$
Pension/benefit		\$		Dentist	\$
Board money received		\$		Chemist	\$
Investments (after tax)		\$		Eye care and optometrist	\$
<i>TOTAL INCOME</i>		\$		Specialists/alternative therapies	\$
				Pet and vet	\$
<b>Section B: Living expenses</b>					
<b>Housing</b>	Rent/mortgage payments	\$	<b>Other</b>	Clothing	\$
	Land rates	\$		Haircuts	\$
	Home & contents insurance	\$		Entertainment	\$
<b>Utilities</b>	Gas & electricity	\$		Sport	\$
	Water	\$		Holidays	\$
	Mobile phones	\$		Gifts	\$
	Internet & pay TV	\$		Donations/other	\$
	Telephone	\$		Superannuation	\$
<b>Transport</b>	Petrol	\$		Life/term/income insurance	\$
	Repairs	\$		Savings	\$
	Registration	\$		<i>TOTAL BASIC LIVING EXPENSES</i>	
	Insurance	\$			
	Fares	\$			
<b>Section C: Loan expenses</b>					
<b>Food</b>	Meat	\$	Credit cards	\$	
	Fruit/vegetables	\$	Personal loans	\$	
	Other groceries	\$	Car loans	\$	
	Lunches	\$	Store cards/accounts	\$	
	Pet food	\$	Home loans	\$	
	Take-away food/restaurants	\$	<i>TOTAL LOAN EXPENSES</i>		
<b>Education</b>	School fees	\$			
	Uniforms	\$			
	School excursions	\$	Your total income (Section A)	\$	
	Tutoring/books	\$	<b>Less</b> total living expenses (Section B)	\$	
			<b>Less</b> total loan expenses (Section C)	\$	
			<b>BALANCE</b>	\$	

## H.2.2 Lifestyle choices

Look at this! You have all got to stop using your mobiles to chat to your mates. It'll be bread and water for dinner if this keeps up! Try chatting online instead to help us reduce our expenses.

How could you have so much to talk about anyway? Nathan, give me a few more ideas.

Well Dad, we can't eliminate food, housing or medical expenses, but you could change your car to a 4 cylinder engine to save on fuel. You're not a good enough driver for a V8 anyway.

You could make your own lunch instead of going for a counter lunch. Elizabeth doesn't need to download so many games from the net either. What a waste! Let's focus on our needs only.

Maybe we should give up our takeaways on Mondays when I'm at the club. I could give up my magazines and save \$400 a year. I can't give up my holidays. No way! This is all awful! I'm going to earn more income instead. Writing books on managing teenagers is looking more attractive.\* All the mums say it's getting harder and harder, so the market's growing. Maybe I could write a comedy script too.

We should refinance our debts so that we pay a lower interest rate; and try to pay off our credit cards quickly. Laurie, you never pay more than the minimum every month do you? We should also pay off the mortgage each fortnight. You could have regular payments deducted and put into your account to cover your car, electricity and phone bills. Dad, I've invited Sella's brother Bert over for dinner. Remember he's a financial counsellor and he fixes people like you!

I just can't wait to be fixed by some weedy expert called Bert, Nathan.

Bert, come in. Welcome. Nathan said you'd be keen to give a little advice.

Hi Laurie, please excuse the footie gear. I've just come from practice.

Why don't you all tell me about it?

Look, here's my suggested plan. This will allow you to stick with a reasonable budget, remain independent and in control. Making regular deductions for large bills will help you avoid dishonour fees and problems with your creditors. Just update the budget whenever Ilse's book brings in a new cheque or your situation changes. Here's a number you can ring to get help for Josefina's pokie problem, although you may find a little chat will do the trick.

Well, it's been a great holiday up here. I've loved the view, although the mozzies have been ferocious! It's been fun having you all cook and it's saved a lot of money on restaurants and tips too.

Yes it has been worth all the effort. Not sure about Nathan's rabbit stew though!

\* Ilse told us she wanted to write a book on managing teenagers called "The Cost of Being the Boss" in *Unit 1: Earning an income*.

## H.2.3 Cutting expenses and boosting savings

If you need or want to save more, see if you can reduce your expenses, control your debts, manage large bills and expenses, or get expert help. Don't forget to regularly review and update your budget.

### Reduce your expenses

Firstly, group your expenses into what you need and what you want.

**Needs** are unavoidable living expenses, for example food, clothing, housing, banking, and transport. Although you have to meet these expenses, you may still find ways to cut costs.

- ❖ **Food:** make your lunch at home. Cut back on takeaway. Buying lunch or takeaway costs far more than making your own. Learn to cook. Prepared food is much more expensive than buying fresh fruit and vegetables. Compare the cost of a trolley full of fresh food to a trolley full of prepared or processed food.
- ❖ **Banking:** some institutions issue free cheques and will even post out your bill payments for nothing. Paying bills by Internet or phone can also save money. Check fees on your accounts.
- ❖ **Transport:** when you buy a car, shop around for loan and insurance deals. The dealer's finance or insurance deal may cost more. Consider paying off any insurance monthly if there is no penalty. It's usually easier to pay a small amount each month than it is to pay a large amount once a year. Use public transport.

**Wants** may improve your quality and enjoyment of life, such as eating out, magazines, movies and holidays. Cutting back on these wants may make very little difference to you and may help your bank balance.

- ❖ **Eating out:** costs mount up quickly. Consider eating out less, even just by one less meal.
- ❖ **Magazines and movies:** libraries often let you use the Internet for free and lend videos, CDs, magazines as well as books. Share magazines and books with friends.
- ❖ **Holidays:** off-season is often cheaper and less crowded. Renting self-catering accommodation, even if you make only your own breakfast, a few lunches and a couple of dinners will probably cost less than a motel or hotel where you have to eat out for every meal.

### Control your debts

Your debts limit what you can do with your money. Interest payments and fees constantly drain away your savings. Find out what interest rates you're paying. Choose to pay off high interest loans as fast as you can. This will strengthen your financial position.

- ❖ **Spare cash:** consider paying off credit cards or personal loans.
- ❖ **Credit cards:** if you use them as a loan, you probably pay very high interest rates that quickly become a financial burden. If you only repay the minimum every month, you may end up owing an even larger debt.
- ❖ **Interest free purchases:** they look tempting when you don't have cash to spare, but they can turn around and bite you after the interest free period expires. You



may have to pay interest back dated to the day you purchased. Check the terms of “interest free” contracts.

- ❖ **Mortgages:** consider paying fortnightly, paying a little extra, or setting up a “mortgage offset account” to receive all your income. Aim to be a couple of months ahead in your minimum repayments in case you fall on tough times. Some mortgages allow you to draw down or access your advance payments if the need arises.

### **Manage large bills and expenses**

Do you often find yourself short when large bills come in? Consider having regular instalments taken from your account through a direct debit for insurance, gas, electricity, phone and rates. But make sure you have money in your account on the due date, or you may incur a large “dishonour fee” and other charges.

### **Get expert help**

If you need more help with budgeting or financial problems, talk to a financial counselling service. Financial counsellors help you take control of your situation.

They can help you:

- manage a short-term crisis and plan to prevent a future one
- remain independent and take full control of your own financial affairs
- organise your financial information, design a personal budget and suggest ways to change and improve your financial situation
- assess your eligibility for government assistance
- negotiate with your creditors
- with debt recovery procedures, bankruptcy and other alternatives
- with advice on other services, for example, gambling, family support, personal counselling or community legal aid.

### **Update your budget**

You should review your budget every year or whenever you experience a significant change to your income or expenses like getting a pay-rise or new job, selling your car, extending your family or buying a house.

As you become more familiar with budgeting, you may wish to add a percentage to your cost of living to cover cost increases in products and services and inflation. Roughly speaking inflation is expected to increase costs by about 3-4% per year, or \$3 to \$4 dollars for every \$100.

## H.2.4 Credit issues: Ask Rachel

*Dear Rachel*

*I just signed up to join FastSport Store Card scheme, because they give me great deals on the sports gear I buy if I am a member. However, my friend Trix just told me that the annual fee of \$60 is ridiculous. Please tell me that she's just tricking me! It seemed like a good deal.*

*Thanks  
Brockie*

Hi there Brockie

It looks like Trix is a very clever girl. That's right, before you enter into a store credit contract you need to be aware of things like the annual fee, comparison interest rate, interest free period (if applicable) and late payment fee. Remember, these fees and charges may make the "good deals" not such good things after all. As Grandma always says, "If you haven't got the cash now, you can't afford it."

Yours in credit  
Rachel

*Dear Rachel*

*I live with my grandpa, and recently he got so sick of me whinging about his awful old furniture, he told me to go to buy some new furniture. He had seen an ad on TV for Fresh Furniture, who will let me buy new furniture now interest free. I won't have to pay it off for one year! By then I will have a full time job for sure and I will be able to pay it off easily. What do you think?*

*Yours sincerely  
Sittee*

Hi Sittee

I am glad you asked. I always tell my friends to be wary about interest free loans. They sound great and they can be. However, there is a catch. If you do not pay off the loan in the time required, you will pay interest and a whole heap of it! The firms often backdate the interest from when you purchased the goods, not from when you defaulted. Isn't this the best kept finance industry secret?

Rachel

Sheet continued over page

*Dear Rachel*

*I am very careful with my credit cards, and often pay a bit more than the minimum repayment every month. I can't understand why I'm not getting anywhere with paying it all off.*

*Help!  
Minnie*

Hello Minnie

I'm glad to hear there is someone out there paying off more than the minimum payment. Congratulations.

As credit cards charge relatively high rates of interest (around 17%) it will take you longer to pay off this debt and you have to pay back the initial cost plus interest. Also, if you take a cash advance on your credit card, no interest free periods apply.

In order to eliminate your credit card debt, cut up your card, and make a concerted effort to pay back all the money.

Rachel

*Dear Rachel*

*I was a bit thrilled recently when Xbank sent me an invitation to receive a new gold credit card with a limit of \$8,000. They said I was a great customer. My brothers Bud and Jet said that just means I'm a shopping addict and a credit junkie. They are so mean! Please give me advice on what I can say to them.*

*Yours truly  
Elle*

Elle

The best advice I can give to you is not to increase your credit limit. Ask yourself and be honest: can I afford it? how long will it take to pay back? what is the true cost of goods and services purchased on credit (cost plus interest)? is it the most competitive interest rate? what other fees and charges are there? However, the biggest question you really ought to ask yourself: do I really need to get into more debt?

Food for thought  
Rachel

## H.2.5 Investment options role play

Franca  
the banker: What a great party Elizabeth! We ought to get together like this more often.

Elizabeth: You're right Franca. We should. While I've got you here I want to ask you a question. I have \$5000 in savings that I want to invest for the future. I'm not sure what to do with it. I know there are many places and options to invest, but it's so confusing.

Franca  
the banker: You're right Elizabeth. It can be confusing. But at the bank where I work, we make it all simple. You can invest the money you have saved in a fixed term deposit and earn a cool 6.5%. And you only have to lock the money up for 3 months at a time!"

*Cher and Rouf approach, overhearing the conversation.*

Cher: What a banker! Trust Franca to try to get you to invest money in her bank.

Rouf: Really?

Cher: Yes! Anyway, I think you should buy shares in a blue chip company. Then you will receive dividends every 6 months, as well as having your shares rise in value.

Rouf: You know what, I bought a Whiteley painting two years ago and now it's worth 25% more, and it looks good in my lounge room as well!

Elizabeth: (yells across the room): Pat come over here! *Pat and Frank wander over, bringing their corn chips with them.*

Elizabeth: What can you tell me about investing?

Pat: Start now and invest in property (he says confidently). You can buy off the plan and there are tax savings.

Frank: But you have to pay Capital Gains Tax as well as other new taxes. Why don't you just buy some debentures and bonds? Debentures are a form of investment where you lend the money to a company in return for a fixed rate of interest. They are secured to the company's assets. On the other hand, bonds are issued by the government and are documents that guarantee a specific rate of interest over a fixed period (he continues).

Ozkan: (overhearing) Why put all your eggs in one basket? Why not reduce the risk and use a number of different investment options.

Sella: (interjecting) But don't forget superannuation. It's a good form of investment. Think of it as forced savings that you can use to retire on.

Elizabeth: I didn't realise there were so many different investment options. It looks as though I have some research to do! Backyard Tasha, what do you think?

*Backyard Tasha barks out an answer, much to the amusement of friends and relatives. What did she say?*

## H.2.6: Superannuation fact sheet

### Superannuation contributions

If you are aged between 18 -70 years, are employed full-time, part-time or casual, work more than 30 hours a week, and earn over \$450 gross per month, your employer makes **compulsory** contributions into your super fund (called the "Superannuation Guarantee") at a rate of 9% of your wage.

### Superannuation funds - fees and charges:

- are applied for management of your account
- reduce future earnings by reducing the amount in your superannuation account
- vary; so shop around and compare the fees and charges for various superannuation accounts to maximise your retirement earnings.

### Accessing superannuation

Generally, most of your superannuation must be held in a superannuation fund until your earliest retirement age: at least 55. This money is often called your **preserved benefit**. Some people may have unpreserved benefits which can be paid out before their earliest retirement age. Preserved superannuation can be paid out before your earliest retirement date, under certain conditions.

**Superannuation is your money for your retirement.** It is a compulsory savings program that aims to ensure that when you retire you have some money to live on.

### Level of retirement funding/capital growth

The amount you get in retirement depends on how much you contribute to super, the return from your super fund and how much ongoing management fees have eroded your investment.

You need a \$330,000 superannuation lump sum to make \$20,000 a year in retirement; \$480,000 to make \$30,000 a year; \$830,000 for \$50,000; and \$1 million for \$60,000.

### Making voluntary payments

Your Superannuation Guarantee payments are probably not sufficient to support your desired lifestyle, so make extra **voluntary** super payments if you can.

The government has introduced a co-contribution scheme. If your total annual income is \$28,980 or less, for every dollar of voluntary super contributions you make, the Government will match it by \$1.50 - up to a limit of \$1,500 a year, tax free. This phases out altogether when your income reaches \$58,980 p.a.

### Portability of superannuation

'Portability' rules now give you, as a contributor, the legal right to move all or some of your accumulated superannuation benefit to another fund of your choice, under certain conditions.

When you change jobs you can usually transfer your superannuation to your new employer's superannuation fund, roll the amount over into another superannuation fund of your choice, or leave it in your current fund.

There may be some fees and charges involved in transferring or rolling over your superannuation benefits.

You can even start your own self-funded superannuation fund, if you have around the recommended level of \$100,000 to invest.