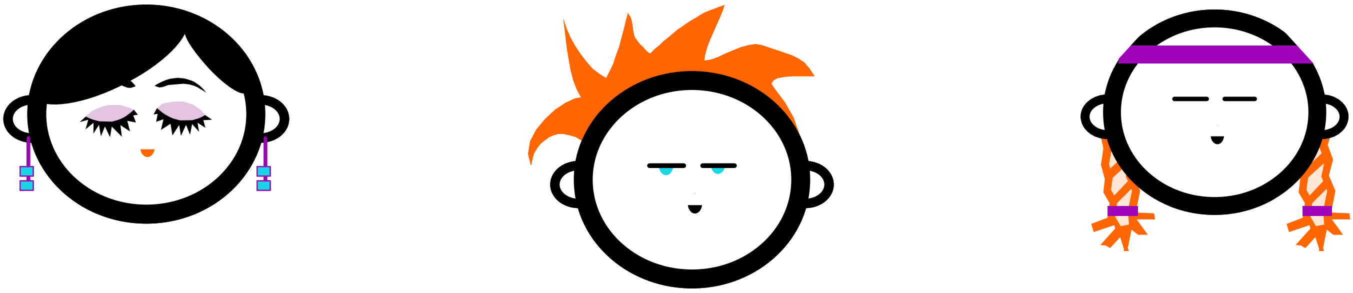


DOLLARSMART

A financial toolkit for teenagers

FPA
FINANCIAL PLANNING ASSOCIATION
of Australia Limited

Building Australia's financial knowledge

DOLLARSMART

A financial toolkit for teenagers

Let's face it, spending money can be fun, yet reading and talking about it isn't usually that interesting. But money is a fact of life. Nearly all of us will work to earn it throughout our lives so we can spend it on the things we want and need.

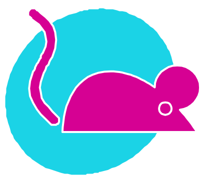
Sadly (for most of us) our parents can't support us forever. Some of you may already be learning that lesson and be venturing into that whole new world called WORK. But before you cry in your cereal… there is a fun side! Because with work comes money. And since you've earned it, YOU can decide what to do with it.

That's where the problems can start. Most people don't know how to make money work for them – except for those painful few who seem to just GET IT... but for the rest of us, managing money is something we have to learn. And the earlier we start, the better.

This toolkit can help. It will show you how to control your money and get on track for an easier financial future. We all have dreams about our future, so build some knowledge and make your dreams a reality.

USING THIS TOOLKIT

Whenever you see this symbol, pick up your pen and get ready to be involved.



If you see this symbol, reach for your mouse to find out more on the web.

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CONTENTS

FAMILIAR FACES? Pages 4 - 5
We all learn from others – often from their mistakes. Kim, Nick, Lena, Daniel and Mel all treat money differently. Check them out; you might just find one or two of them frighteningly familiar...

1 FINANCIAL PLANNING: BEING IN THE DRIVING SEAT Pages 6 - 17
The first thing to learn is that it's all about planning and it's all about you. Find out the five steps you need to take to be in control.

2 BUDGETING: WAYS TO HANDLE MONEY Pages 18 - 33
Money matters whether you like it or not. Find ways you can save and learn some good habits for life.

3 SAVING AND INVESTING: GROWING YOUR MONEY Pages 34 - 48
There are lots of ways to grow your money. Learn what your options are and a few sneaky tips to help you get ahead…

4 CREDIT AND DEBT: SMART WAYS TO USE THEM Pages 49 - 62
Credit can be useful, but it's easy to get into trouble. Find out all the ins and outs about borrowing money.

5 INSURANCE: PROTECT YOURSELF Pages 63 - 75
We all know bad things can happen. There are ways to protect yourself against them.

6 STUDY AND WORK: WHAT'S NEXT? Pages 76 - 86
Career and money are linked. Learn how to choose a career that's right for you and the types of rewards you can get.

WHAT YOU'VE LEARNED Pages 87 - 89
A lot's been covered. Review each unit and find out what happened to our familiar faces.

GLOSSARY Pages 90 - 93

FULL CONTENTS LISTING Pages 94 - 96

ACKNOWLEDGMENTS Pages 97 - 100

PRINTING GUIDE

If you select print, the complete toolkit will print (all 100 pages.)

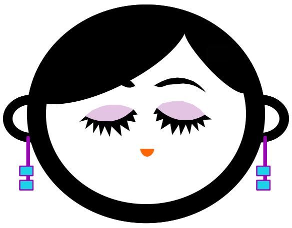
To print each unit separately, select the pages option in your print function. Then base the page ranges on the numbers shown to the left.

Get familiar with Kim, Nick, Lena, Daniel and Mel, because you'll be seeing them again. Learn from their good and, er, not-so-good decisions when it comes to money.

They're all different – but you never know how familiar they might be to you already.

Kim

Kim has tickets to the Kylie concert… everyone's going. Dilemma. Outfit. Hello? And there is no way Amber is going to out-glam her this time.

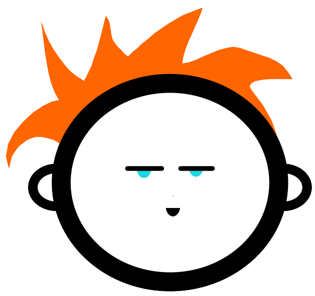


She's got the jeans, but everything else in her wardrobe is so *yesterday*. New belt, bag, shoes and top are required… and required NOW. Last week's pay went on the tickets, so there's no money in the bank. She can't ask her parents for any more cash, so she'll try and work some extra hours at the fashion shop. MUST get the new outfit.

Kim can't wait until her 18th birthday when she can finally apply for that credit card… and maybe even try to get her dream job as a junior fashion stylist.

Nick

Nick is determined to make it. He's going to be a rock star.

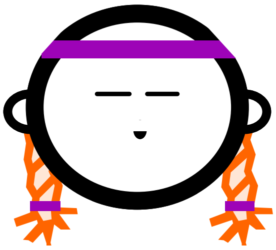


After hours of hard yakka at Maccas he's saved up enough for a shiny new guitar. And what a rush it is, even if his fingers aren't used to those six steel strings.

The guitar has taken a chunk out of Nick's savings and he intends on picking up a couple of extra shifts a week to make up for it. He knows it won't take long – no one wants the late shift on Friday night. But Nick doesn't mind as long as he has Saturday mornings to jam with the *Midget Safari's* down in Singo's garage. He also knows that if they work hard, and have some money behind them, they can cut a demo to send to music producers. It's all looking good…

Lena

Lena hates homework. Homework means being stuck in her room when she wants to be at the gym playing basketball. Tuesdays and Thursdays are easily her favourite days: two hours of gruelling team practice, followed by a team meeting to discuss Saturday's game plan.

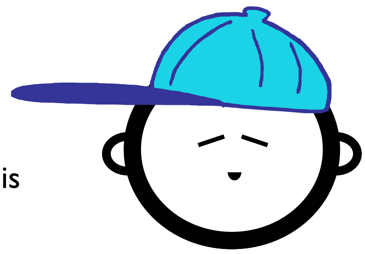


When she isn't on the court, Lena's doing everything she can to be watching basketball. Problem is, she needs money for entry to the games. Her allowance covers new gear, but there's nothing extra for tickets. She has to think about getting a part-time job if she is ever going to make it to those games…

Daniel

Daniel is definitely the man around his house. Without his dad there, and with his mum working two jobs, Daniel is the resident handyman. He can fix anything, and even earns extra cash doing odd jobs for the neighbours.

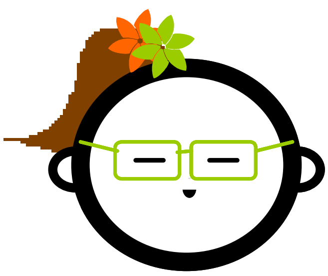
Since he was a kid Daniel's dreamed of being a mechanic. He plans to get his apprenticeship after school, but that seems like a lifetime away… he wants to get into something NOW - like a car. The thing is his money goes towards helping with the bills, so it isn't going to be easy.



Maybe he can borrow some money, buy a bomb and do it up? If he is going to be a mechanic, surely he can do it himself…

Mel

Mel knows that to get to where she wants to go, she needs to study hard. Biotechnology is becoming more and more popular, so the Bachelor of Science entrance mark keeps getting higher.



She's not interested in working at a job, that's for people who want the latest stuff. No, time now is definitely best spent studying with Miles (and she secretly loves beating him!) or going to the movies with friends. But as uni gets closer, Mel knows she'll have to start thinking about saving, especially if she wants to move to the city…

<< Contents Unit 1 >>

FINANCIAL PLANNING: BEING IN THE DRIVING SEAT

Kim has always spent her cash before she's even earned it. Nick finds out what he wants to buy (like his new guitar), works out how he's going to buy it, then saves his money until he can afford it.

Why are Kim and Nick so different? Why are some people good with money, while others never seem to have enough, and live from payday to payday?

It comes down to something called financial planning. This is just a fancy name for the process of deciding what your money goals are, then working out a plan to achieve them and putting that plan into action. It helps you to handle all aspects of your money, including spending, borrowing, saving and investing.

It's quite easy to learn how to create a financial plan for yourself – just follow these five simple steps.

What is financial planning?

Financial planning is an ongoing, thinking process.

It's not set in concrete and should change with you.

Let's take it step by step…

Step 1

It may sound pretty basic, but if you don't know where you're going, how will you know how to get there? What you need is a destination, or a goal. People with goals can plan and work out the best way to get to where they want to be. Goals are like signposts, providing direction for our plans and actions.

A big part of setting financial goals is knowing what you want. What do you want to spend money on? How much time do you want to spend working? What do you want to do with the money you make?

Apart from a few rare exceptions, most of us don't have enough money to do everything we want. We have limited amounts of time and money, so it's about making choices and tradeoffs. This means that understanding the differences between what our needs are and what our wants are is important.

Needs vs. wants

Needs are essentials, the basics of life that we need to get by. Think food, clothing, and a place to live. Wants simply increase the fun in life, like going to the movies, wearing the right clothes, and getting a new guitar.

Right now, you're probably more interested in wants. That's OK. But remember your life won't be over tomorrow if you skip the movies tonight. And for most people, needs get taken care of first.

Needs and wants: can I tell the difference?

Read the list below and tick whether the item is a want or a need.

Need	Item	Want
☐	New CD	☐
☐	Weekly groceries	☐
☐	Sunscreen	☐
☐	Movie ticket	☐
☐	Toilet paper	☐

Work out your goals

One of the most valuable things you can learn is how to identify your goals clearly. Your goal might be, say, to have fun on the Gold Coast during summer. To help you create goals that are within your reach, think about it in a SMART way.

Start setting your goals by writing them down. Be SMART and remember to distinguish between your needs and wants.

Specific. "I want to visit all the theme parks on the Gold Coast in my summer holidays." Not "I want to see the sights on my summer holiday."

Measurable. "I need $200 for the entrance fees, food and souvenirs." Not "I need some money."

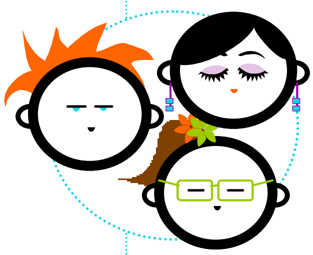
Attainable. "I'll save $20 a week for 10 weeks starting in October." Not "I'll win a radio contest to get the money."

Realistic. "I plan to visit all the theme parks in the first week of my holiday." Not "I want to go to all the theme parks on the same day."

Time-bound. "If I start to save in October and stick to my plan I'll have the $200 in time for my holiday." Not "I want to save up enough money before I go."

Timelines for goals

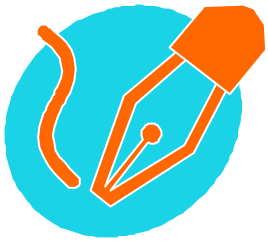
It helps to break up your goals into three time periods when you're planning. Short-term goals have a time frame of up to three months. Medium-term goals take place between three months and one year. And long-term goals are for longer than a year.



Kim's definitely a ***short-term*** girl – she needs the outfit by the end of the month.

Nick's next goal is ***medium-term*** – he's planning to hire recording equipment within the next six months.

Mel is looking to the ***long-term*** – uni is years away.



My SMART goals

Specific goal	*Achievement date*	*Timeline (short, medium or long)*	*Estimated cost*	*Amount to save each week*

If you're like most people, you may have noticed that the total of all of your goals takes more money than you have each week. Don't stress about it now though - we'll talk about how to handle that later.

This first step has been a big one. There's a lot to know about your needs, wants and goals. But it gets easier from here. And you already know loads about the next step, because the main information source is YOU.

Your current financial picture

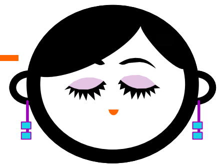
Step 2

The second step in the financial planning process is to evaluate information about yourself. Let's start with where you are now. How do you get money? Do you have a job or receive an allowance? How much do you earn each week?

Next, ask yourself where your money goes. How much do you spend each week? What do you normally spend your money on? Do you owe anyone money for the stuff you already have? For instance, maybe you borrowed money from your parents for a stereo.

Answers to questions like these help you work out your current financial picture. First off, start tracking your cash flow. Cash flow is simply what money comes in and what goes out - a measure of what money you receive and the money you spend. How you manage cash flow has a direct impact on your goals.

Kim's cash flow



Let's have a look at how Kim manages her cash…

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

As you can see, Kim spends more than she earns. She borrows money to cover her spending habits.

To help you get a handle on where you are now, complete a cash flow for the last seven days. If you can't remember every dollar you spent or received, that's OK, just do the best you can. But get into a habit of tracking your cash flow so you know what's coming in and going out weekly.

My cash flow

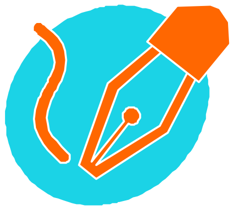
	Money coming in	*Money going out*
Monday		
Tuesday		
Wednesday		
Thursday		
Friday		
Saturday		
Sunday		
TOTAL		

OK. You should have some idea of where you are (your financial picture) and where you want to go (your goals). Now the trick is figuring out how to get there.

To do that, move to the next step.

Step 3

Remember the goals you listed in step one? Now it's time to work out how you are going to achieve them.



My left overs?

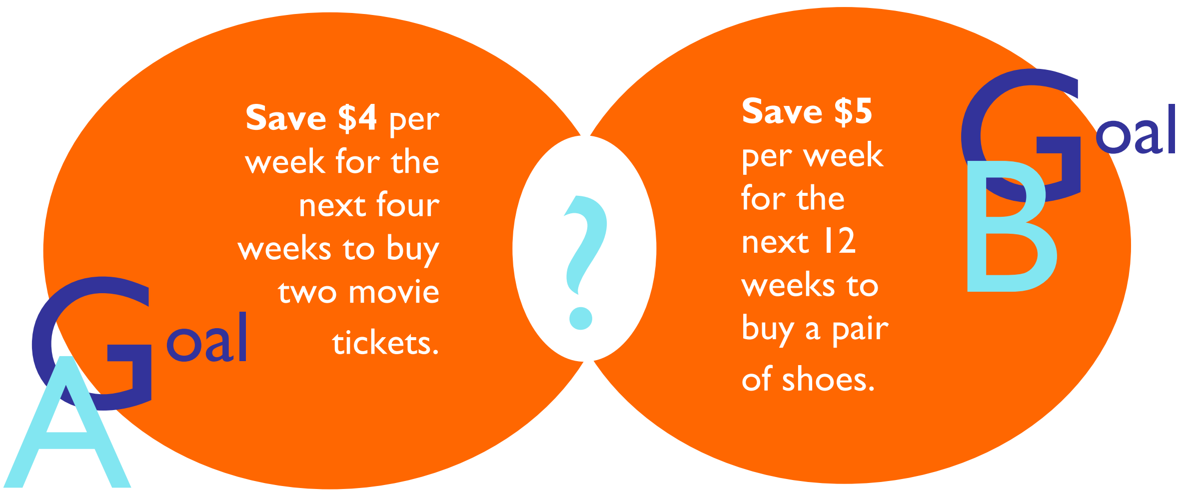
My total weekly money coming in		$
My total weekly money going out	-	$
Amount left over	=	$

If you do have money left over, you're already ahead of the game and ready to start meeting those goals.

But, if like most people your "left over" money isn't enough to cover what you need for your goals, what do you do? Simple. Start making some financial decisions and put a plan into action.

Making decisions

Let's say you have two goals you want to meet, but after doing your cash flow you realise that you have only $5 left over each week. Do you choose Goal A or Goal B?



If you go for the movie tickets (Goal A), you can definitely make the goal in four weeks. You'd even have $1 left over each week to put towards another goal. But if you choose the movie tickets, you basically give up any hope of buying shoes in the near future. That's the tradeoff.

On the other hand, you could put all your money towards the shoes (Goal B). Making this choice means you don't have enough to meet the weekly dollar goal, so it would take 12 weeks to save up the $60. But you would make it eventually. Then again, if you save all of your money for shoes, you've eliminated any hope of buying the movie tickets.

A third option would be to split your savings between the two goals (say $2 for the tickets and $3 for the shoes). In this case, you'd need a lot more time to meet both goals, but at least you'd be working towards both.

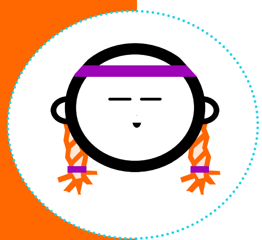
It's good to have options, and there are still more in this situation! You could either increase your income (ask for a raise in your allowance or maybe work more hours on your job) or decrease your purchases.

There is often no "right" answer. You have to make decisions based on your priorities and accept that you may have to compromise. Most people don't particularly like this - choosing one option usually means giving up something else. But the reality is, that's how most of us live. What's good is knowing what is really important to you.

To help you decide which goals you want to pursue and how you want to save for them, write down the reasons for or against each. We'll call it a PROS and CONS decision chart. Looking at Lena's situation will help you see how it's done.

Lena has $5 left over per week. Her goals are:

- Goal A, save $4 per week for the next four weeks to buy tickets to a basketball game.
- Goal B, save $5 per week for the next 12 weeks to buy new training shoes.



Let's look at her option for choosing the tickets instead of the shoes. (She'd have another pros and cons chart for choosing the shoes over the tickets):

Pros for basketball tickets	**Cons for basketball tickets**
She can easily cover the $4 a week needed.	Only has a $1 left over to put towards the training shoes.
She has a $1 left over.	Big wait to get those shoes.

My pros and cons

Now it's your turn. Here are a couple of blank pros and cons charts to help you work through your options.

Option 1: ______________________________

Pros	*Cons*

Option 2: ______________________________

Pros	*Cons*

Putting it all together

Once you decide on the goals you want to work towards now (and which ones will have to wait) you've started to put your plan in place.

My chosen goal(s)

....

....

Step 4

So you have your plan. Now you have to kick into action and make it happen! Easier said than done? Yes, knowing what you *should* do and actually *doing it* can be challenging. It takes discipline and strength to stick to your plan.

To keep on track, you can find someone in your family (or a friend) who encourages you to work towards your goals. Show them your goals and explain your plans. Then ask them to check in with you once a week to see how you're tracking. Going through the process with someone who supports you is almost always easier than going it alone.

Be aware that you may need to be flexible with your plan. Like anything in life, you may well run into unexpected obstacles. Your goals may change, your life may change, or your resources may change. All of that is normal. You may need to cope with an unexpected bill, like new wheels for your skateboard, or you might have a stroke of luck and receive $50 from your aunt for your birthday. Good and bad things will happen as time goes by.

Later in this guide, we'll talk about handling unexpected bills. For now, the key idea is to keep an eye on your plan and remember that it's not set in concrete. The plan is there to provide you with direction.

The 3 r's of money

You'll be using money the rest of your life, so you may as well sharpen your money-handling skills now.

Recognise that unless you strike it rich somehow, you'll have limited amounts of time and money to use. That's the **Reality**.

If you handle your money wisely, you can do a lot of good for yourself and others. On the other hand, it's your own fault if you blow the dough. That's the **Responsibility**.

You show **Restraint** when you have the self-control to save your money for a future goal instead of spending it now.

Step 5

Over time, your values and goals change and you'll need to revise your financial plan accordingly to keep up. When you complete a goal, cross it off your list. Then revisit your list and do a check-up. Ask yourself these questions:

1 Are your existing goals still worth doing?

2 Is there a new goal to add to your list?

3 Is there an existing goal you want to drop or change?

Stop for a minute and think about what we've covered. All the elements come together to make up the financial planning process. The decisions you make affect your goals… spending money on your wants may limit how you meet your needs… and all of this is your personal, financial responsibility.

That's financial planning in a nutshell: making money work for you. It'll let you lead the kind of life you want, guide you when it's time to make some decisions, and keep you on the straight and narrow in terms of meeting your goals. Having a plan means you know where you're going and when you're coming unstuck.

Finally, keep in mind that money is just a means to an end. Be comfortable and in control with money and watch that it doesn't control you.

To help keep you on track, print out copies of the next page. Fill it in regularly (at least every six months) and keep it somewhere handy. This will help you review how you've gone and plan where to go to next.

<< Contents　My financial plan　Unit 2 >>

Financial plan for ....

Step 1 Set your goals

Specific goal	Timeline (short, medium or long)	Estimated cost

Step 2 Your current financial picture

My total weekly income		$
My total weekly spending	-	$
Amount left over	=	$

Step 3 Your action plan

Pros	Cons

Chosen goal	Achievement date	Amount to save each week

Step 4 Get on with it

Just do it!

Step 5 Keep it moving

Today's date	
Date to revise my financial plan	

2

BUDGETING: WAYS TO HANDLE MONEY

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

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

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

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

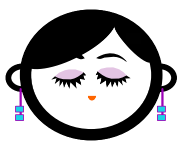
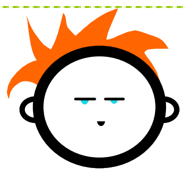
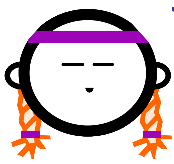
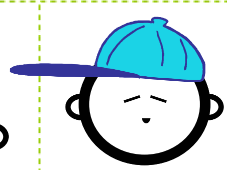
www.fido.asic.gov.au

OR

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

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

Who are the savers?

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

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

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

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

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

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

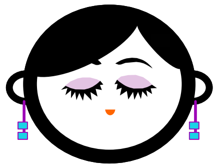
The trick to budgeting is to BALANCE income and expenses. When they're in balance, things are going well. When they're out of balance, and expenses outweigh income, it often results in debt. We'll discuss this problem more in Unit 4.

What do you spend your money on?

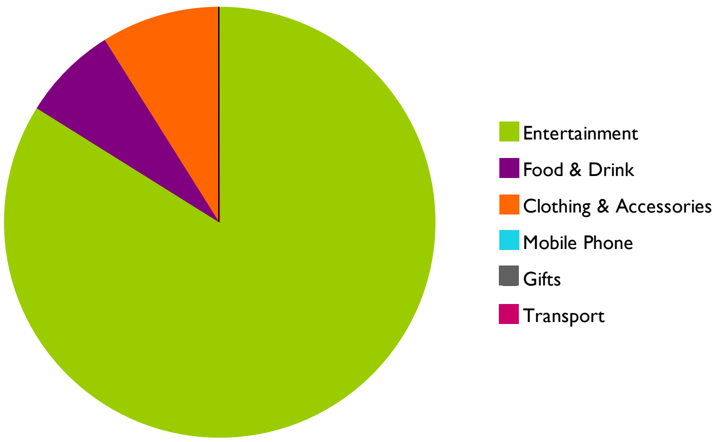
Ever wonder if you're like everybody else when it comes to spending?

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

Kim's cash flow



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



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

My spending habits

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

Any surprises?

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

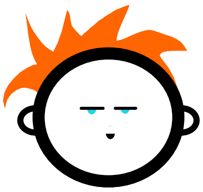
If you're anything like Kim, you probably feel like you never have enough money. Spending can seem (very) easy and saving… well, that can seem hard. The tips outlined below might help - even following just one of them may get you saving.

Pay yourself first

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

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

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

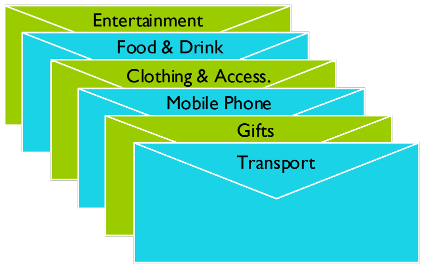


Nick's weekly budget, showing his PYF account

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

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

The envelope system



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

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

Cutting back

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

My savings

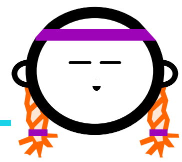
Find items where you can save and write them in the table below. Then multiply their price by the number of times per week you won't spend that money. Add them together to find your total weekly savings.

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

Cost/benefit analysis

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

Let's consider Lena as an example…



Lena's cost/benefit analysis

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

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

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

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

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

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

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

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

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

Shop around

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

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

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

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

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

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

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

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

That magic age…

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

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

Be aware of fees and charges

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

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

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

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

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

Tricks of the trade

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Your payslip explained…

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

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

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

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

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

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

What does YTD mean?

You may see YTD next to each of these figures.

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

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

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

Record keeping

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

Other records you might want to keep include…

Large purchases and warranties

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

Insurance

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

Loan papers

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

The next pages show you how to budget over time.

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

My weekly budget

Fill in the details each week.

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

What do your totals look like? Do this calculation…

IN minus OUT = $______________________

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

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

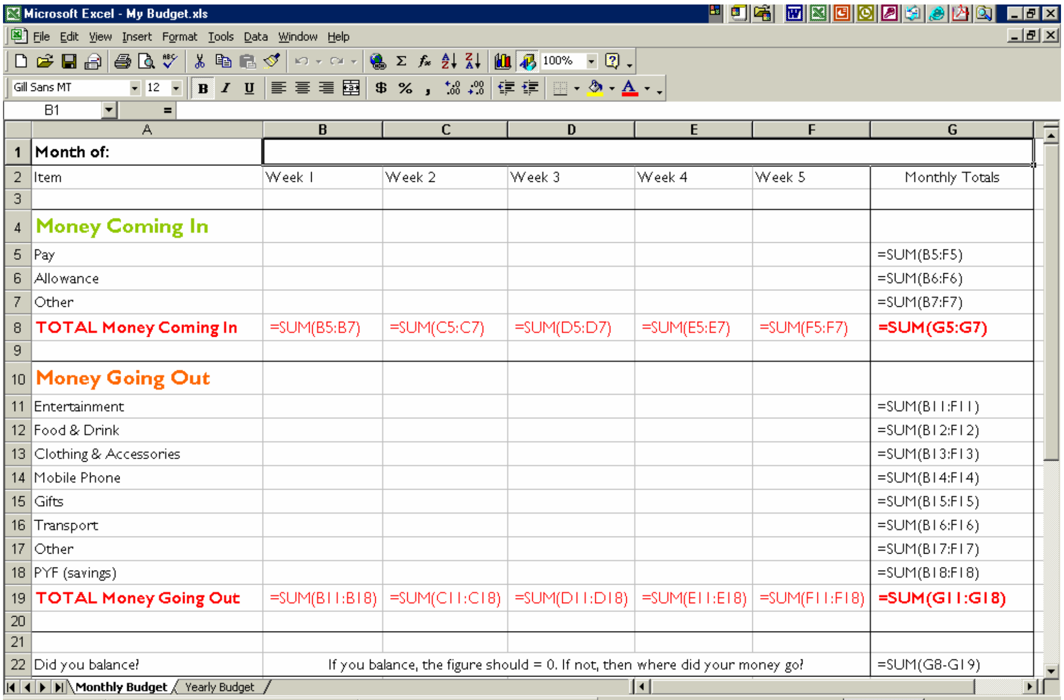
Now, go back and fill in your totals including PYF. They should balance so that IN minus OUT = $0.

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

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

My monthly budget

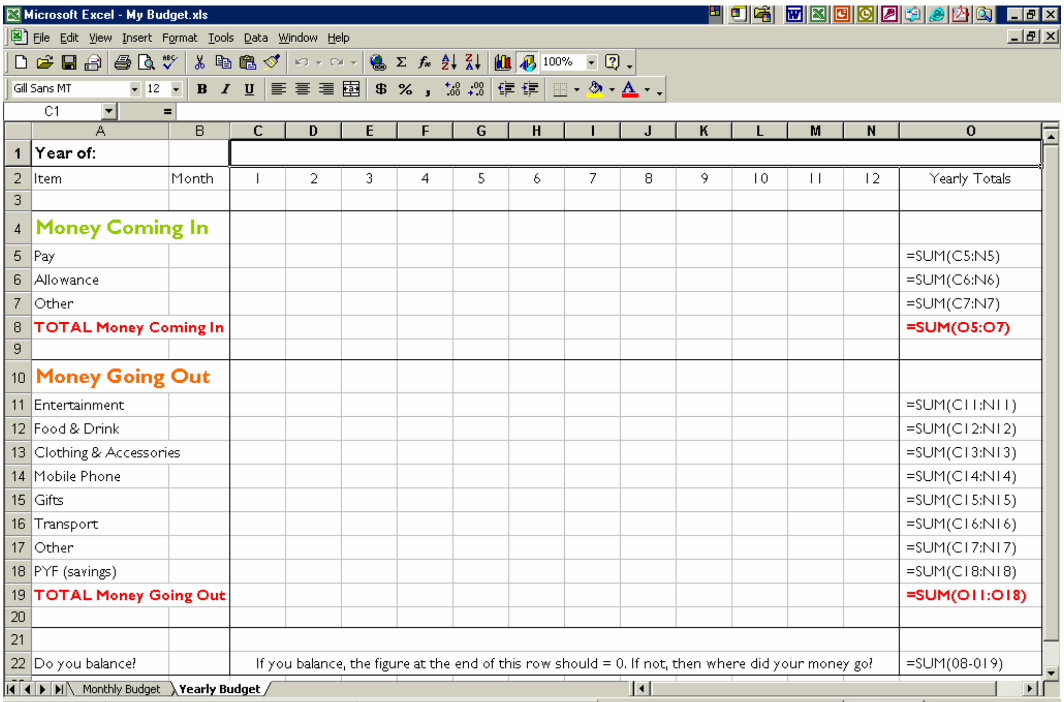
Create an excel spreadsheet using the formulas shown in the screen dump below. Then each week, enter in amounts for each item. The monthly totals will automatically sum. Each new month, either copy the same spreadsheet, or just overwrite the previous month.



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

My yearly budget

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



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	**Year of:**														
2	Item	Month	1	2	3	4	5	6	7	8	9	10	11	12	Yearly Totals
3															
4	**Money Coming In**														
5	Pay														=SUM(C5:N5)
6	Allowance														=SUM(C6:N6)
7	Other														=SUM(C7:N7)
8	**TOTAL Money Coming In**														**=SUM(O5:O7)**
9															
10	**Money Going Out**														
11	Entertainment														=SUM(C11:N11)
12	Food & Drink														=SUM(C12:N12)
13	Clothing & Accessories														=SUM(C13:N13)
14	Mobile Phone														=SUM(C14:N14)
15	Gifts														=SUM(C15:N15)
16	Transport														=SUM(C16:N16)
17	Other														=SUM(C17:N17)
18	PYF (savings)														=SUM(C18:N18)
19	**TOTAL Money Going Out**														**=SUM(O11:O18)**
20															
21															
22	Do you balance?		If you balance, the figure at the end of this row should = 0. If not, then where did your money go?												=SUM(08-019)

3 SAVING AND INVESTING: GROWING YOUR MONEY

In Unit 2, you learned how to manage your money and increase your spare cash. Now you need to put that money somewhere. You could keep it in your pocket, stash it under the mattress, keep it buried in the garden or lock it away in your bedroom. But are these really good choices? Perhaps not. So where are some of the best places to put the money you save?

Depending on your goals and the amount of money you have, you could begin investing.

There are many different types of investments. You've probably heard of various investment types such as savings accounts, shares and property. Your goals will help you work out which investment is right for you.

Your first investment

When you start working, it's likely that your employer will make superannuation contributions on your behalf.

Super is your money to use when you've stopped working and are in retirement.

Even though you can't touch it now, you do have some control. It's important to think of super as an investment and apply what you learn in this unit.

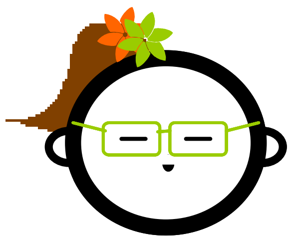
Some investments limit the access you have to your money, others give you access whenever you need it. With some you know exactly how much money you'll have at the end, whereas others are affected by unpredictable things so the end value is not known.

We know that there is a lot to get your head around when you invest money, but there are some real advantages to learning about investing early. This unit will help you get started.

Open your mind

Mel stashes all her money in her bank account. Why? Because that is what her parents do. Over the years she's listened to them at the dinner table… "Look at what shares did today, the prices change all the time!" And, " How could you sleep at night not knowing how much money you really have?"

This kind of attitude has rubbed off on Mel - she believes her bank account is the best place for her savings.



But, after reading this unit, Mel realises that by just putting money in a bank account she could be limiting her options and potential.

Get the basics

Step one in making your money work hard for you is understanding the basics. Here are three to get started with…

1 Time value of money

Time value of money means that money is worth more now than it is in the future. If someone offered you $100 today or $100 in two year's time, you'd take it today - who wouldn't? This is because that $100 is worth more to you today. Why? Because you can put the money to use… right now.

How could you use the $100? One option is to spend it, and in return you get whatever you purchased.

But what if you saved or invested it? What's your reward then? Well, when you save or invest your money, you receive earnings or interest on your original sum. That's your reward – a payment for allowing a financial institution or company to use your money while you are not.

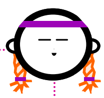
2 Inflation and taxes

Inflation can eat into your savings. How?

Inflation occurs when the price of goods and services rise. We've had inflation in our economy for decades, ranging from barely 0.5% to over 18% in a year. Fortunately, inflation usually averages between 3% and 4% per year.

But what does that mean, and why should you care? It means that you're going to be paying more in the future for the same trainers, skateboard, purse or hamburger than what you pay for them now.

Inflation can add up over a long period of time because it continues to occur year after year, even in small amounts. The result is that a dollar in the future won't buy as much as today's dollar. So when you're thinking about saving for your long-term goals, you need your money to grow fast enough to beat inflation. Let's see this in action…



Lena often wonders how much her kids will have to pay for sports shoes. At 3% inflation in 30 years time, they'll be paying $291 a pair.

Lena pays $120, so that's nearly **2 ½ times more** than what she pays now!

Today, a can of soft drink costs $1. You have $2 in your pocket, you buy the soft drink and put the remaining $1 in your savings account, where it earns 5%.

Next year, the dollar in your savings account is worth $1.05. You take your savings out and go to buy your favourite soft drink, until you realise the price has gone up to $1.10.

Inflation has gone up faster than your earnings! Can this really happen? You bet. It has and it will. Inflation can work against your money, so learn to invest wisely, follow the rate of inflation, and make sure your investment rates are higher than those of inflation.

Taxes also affect your investments. When you earn interest in a savings account, the government taxes those earnings just like income from a job. If you buy and sell investments, like shares, the government taxes you on any gains or profits you make.

3 Compounding

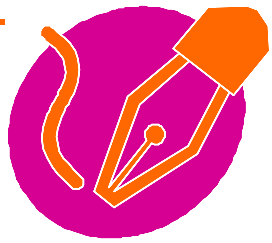
When your money is working for you it grows in value, or compounds.

Compounding, or compound interest, is the idea of earning interest on interest. This is one of the greatest aspects of personal finance, so you should probably listen up and read on.

Assume you have $100 in an account earning 10% interest per year. At the end of that one year, you have $110 in your account. In year two, your account also earns 10%. How much do you have at the end of the second year? $120? No, you actually have $121.

Where did that extra dollar come from? Compounding. In year two, you still have your original $100 working for you at 10%. But you also have the $10 of earnings – from year one – working at 10% as well. Multiply $110 times 10%, and you get a total of $11 of earnings for year two. Add that to your account value at the end of year one, and you wind up with the $121.

The power of compounding



Assume you have $10 today. Using the various interest rates listed in the table below, fill in the compound value of $10 for each of the time periods listed.

For example, $10 growing at 4% is worth $10.40 after one year. For the second year, multiply $10.40 by 4% and add the result to $10.40, for a total of $10.82.

	1 yr	*2 yrs*	*4 yrs*	*6 yrs*
4%	*$10.40*	*$10.82*		*$12.65*
5%				
6%				
8%				
10%				

The rule of 72

Mathematicians have come up with a simple rule based on the concept of compounding. It's called the Rule of 72, and it tells you how long it takes your money to double in value.

Here's how it works. You divide 72 by the interest rate to determine the number of years it will take your money to double. For example, assume you can earn 6% on your money. How long will it take $100 to grow to $200?

$$72 \div 6\% \text{ interest} = 12 \text{ years}$$

That's right. At 6%, your money will double in value in 12 years.

On the other hand, you might have a set time period in mind. You can figure out what interest rate you need to earn to double your money in this set period. If you have $200 today and need a total of $400 in eight years, what interest rate do you need to earn?

$$72 \div 8 \text{ years} = 9\% \text{ interest}$$

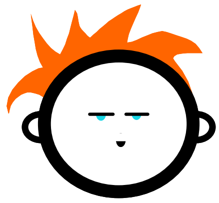
With eight years to invest, your money will double if you can earn 9%.

Use compounding to your advantage

Start early

We touched on the importance of time earlier when looking at the time value of money. But let's expand on that. The fact is, the more time you have to reach your savings goal, the more money you could have at the end of that time.

The advantage of starting early



For example, Nick decides to invest $1,000 a year— money he earns from working at Macca's – in an account that grows by 9% per year. He's disciplined and continues to invest $1,000 a year for 10 years. He stops when he turns 25.

Nick tells Baz (the *Midget Safari's* drummer) about the money he's saved over the past 10 years, and he realises that putting a little bit away for a long time can make a big difference. So at age 25 Baz starts putting away $1,000 a year (earning 9%). After 25 years Baz and Nick get together and compare how much money they've made.

Who made the most? Even though Baz invested more than twice as much as Nick, Nick ends up with over $46,000 more. Why? He took advantage of time, by starting to save earlier.

Nick invested a total of **$10,000**

Nick		Baz	
Age	Saving Early	Age	Saving Later
16	$1,000	16	
17	$1,000	17	
18	$1,000	18	
19	$1,000	19	
20	$1,000	20	
21	$1,000	21	
22	$1,000	22	
23	$1,000	23	
24	$1,000	24	
25	$1,000	25	
26		26	$1,000
27		27	$1,000
28		28	$1,000
29		29	$1,000
30		30	$1,000
31		31	$1,000
32		32	$1,000
33		33	$1,000
34		34	$1,000
35		35	$1,000
36		36	$1,000
37		37	$1,000
38		38	$1,000
39		39	$1,000
40		40	$1,000
41		41	$1,000
42		42	$1,000
43		43	$1,000
44		44	$1,000
45		45	$1,000
46		46	$1,000
47		47	$1,000
48		48	$1,000
49		49	$1,000
50		50	$1,000
Amount available at age 50	**$131,050**	Amount available at age 50	**$84,701**

Baz invested a total of **$25,000**

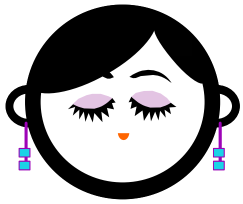
Difference due to starting early **$46,349**

Aim for higher returns

Rate of return is how fast your money grows. It is a critical factor in the savings and investment world.

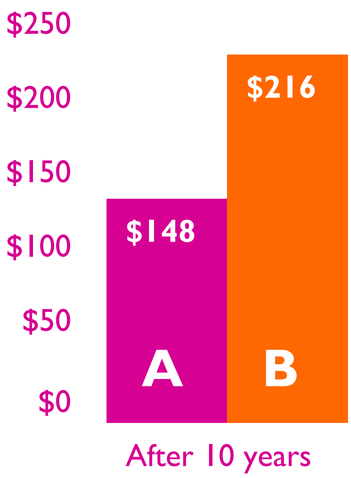
You read earlier that the more time you have, the less money you need to reach your goal. In a similar way, the higher your rate of return, the less money you need to reach a goal.

Kim did get hold of that $100 and surprisingly (?!?!?) decided to invest it. She's got two choices: Investment A grows at 4% per year, while Investment B grows at 8% per year. How much will each investment be worth after 10 years?



Even though both investments could be started with the same amount of money, at the same time, and grow for the same time period, Investment B is worth $68 more. Why?

Because it grew at a higher rate of return.



The impact of higher returns on savings and investments

Now, let's see how the Rule of 72 applies to higher rates of return…

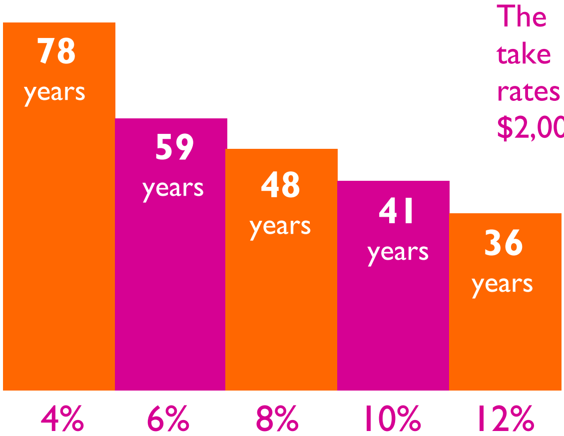
Assume you have $100 to invest right now. Using the interest rates provided and your knowledge of the Rule of 72 (if you need to refresh your memory, go to Page 37), determine how long it will take to double your money and write that amount in the appropriate column.

Interest Rate	*6 yrs*	*9 yrs*	*12 yrs*	*18 yrs*	*24 yrs*
3%					
4%					
6%					
8%					
12%	*$200*				

Make a million?

Rather than trying to win a lot of money through games of chance, you can make your own luck through smart investment planning.

The graph shows how long it will take to save $1 million at different rates of return, assuming you invest $2,000 each year.



Imagine, if you were to invest more, you'd reach your goal that much faster!

Savings and investment choices

There are many ways to put your money to work for you. The information that follows provides a broad picture of the choices available. All of the options have pros and cons, and some work better in certain situations.

Generally, people put their money to work for two reasons: income or growth. Income means they get paid – in cash – for holding certain types of investments. Growth means they hold an investment in the hope that it will increase in value over time.

In terms of months or even a few years, income investments tend to provide more reliable returns. Over the short term they are less risky than growth investments, and their returns are therefore lower.

Over longer periods of time, such as several years or decades, growth investments offer higher returns. But the returns come with a price – higher risk – and there are no guaranteed returns.

This risk-to-return relationship means the more risk you take with your money, the greater the potential return you receive. However, the reverse is also true – less risk, less return on your money.

On the following pages you'll learn more about each of the investment choices available – cash, bonds, property and shares.

Remember that each has a different risk and return potential. The diagram below shows how they all fit together.

Owner or lender?

If you are a lender, you lend your money to a financial institution, a company or the government and receive interest. If you are an owner, you buy a piece of a business or property and hope the value rises. Lenders typically take on less risk than owners, so owners tend to get paid more – but there's no guarantee.

Income investments
(Lending your money)

Cash

Savings accounts
This is your normal everyday bank account, which may have an ATM card, or cheque book attached to it. By saving your money with a bank or credit union you are, in effect, loaning your money to these financial institutions. In return, the financial institution pays you for the loan. These payments are called interest. Savings accounts are low risk investments, which means they also tend to pay low interest rates. You can usually take your money out at any time with no restrictions.

Cash Management Trusts (CMTs)
CMTs are similar to savings accounts in many ways – you can access your money at any time, and you can have an ATM card or cheque book attached to your account. However, there are some key differences. Most CMTs have limitations on how much must remain in the account (usually a few thousand dollars) and how much you can invest or withdraw at a time (usually a few hundred dollars). But in return for these limitations CMTs pay a higher interest rate than savings accounts.

Term deposits
When you invest money with your bank or credit union for a specified period of time, you get a guaranteed interest payment at the end of the period. Term deposits can range from one month through to five years, and if you withdraw your money early, you can lose some (or all) of your interest.

Bonds (fixed interest)

This is when you lend money to a company or the government for a fixed period of time. In return for your loan, you are paid guaranteed interest at certain times, and at the end of the period you get your money back. You can invest for one year, or up to 30 years.

Growth investments
(Owning something)

Shares

Shares (also known as equity or stocks) are investments that represent ownership in a company. When a company first issues shares, it does so to raise money. The company then puts that money to work to produce its product or service. It might buy some new equipment, or it may hire new employees. The investors who purchase the shares actually own a part of the company.

Because the price of a share is dependant on how a company is doing (or performing), the share price can go up or down. Ideally, when you buy a share you want the price to go up, so when you sell it you've made some money. The difference between the purchase price and the selling price is the investor's earnings, which are also called a capital gain.

For example, you invest $1,000 in a company's shares – you buy 100 shares for $10 a share. Seven years later, you decide to sell your 100 shares, but they're now worth $25 a share – making your investment now worth $2,500. The difference in the buy and sell price, $1,500, is known as your profit or capital gain.

When buying shares, you have to remember that prices can go down as well as up. Imagine if you decided to sell your shares when they were worth $5 a share – you then would have made a loss of $500.

How can you tell which companies you should buy shares in? No one can predict the future. But some people spend their lives researching which shares are the best to buy. They're known as stockbrokers and you can get advice from them when you want to invest in shares.

Over longer periods of time – such as five years, 10 years or longer - shares tend to generate higher rates of return than income investments. But because shares can also lose value, they are considered to be riskier than income investments. On the plus side, growth investments like shares have historically earned rates of return that consistently beat the rate of inflation.

Test it out for yourself

Pretend that someone on the side of the road just gave you $15,000.
OK, so it's highly unlikely, but just pretend anyway.

Go to the end of this unit and try the share market simulator. Being good at investing in shares is something you CAN learn… so why not start practicing?

Property

Investors buy property, such as land or a building, in the hope of generating a profit. Your parent(s) or family owns property if you live in a house owned by a family member. When you own property like this, it can take some time to sell and it's not always easy to turn this type of investment into cash. Property investments can range from shopping centres and apartment complexes to undeveloped land, commercial buildings, and farmland. You can also invest in property through the share market – this is called listed property.

Collectibles

Collectibles are usually unique items that are relatively rare in number. Examples include paintings, sculptures, and other works of art. If you own a collection of footy trading cards, you have collectibles. Just like shares or property, collectors buy items they hope will go up in value over time.

Because relatively few people trade collectibles, investors view them as very high in risk. What is popular and in demand one year may be 'out' the next. Prices for collectibles can change quickly and dramatically. It definitely helps to have expert knowledge about a particular collectible, like classic cars, so you know if you're getting a good deal or not.

Managed funds

When it comes to making investment decisions, investors always have a choice. They can go it alone, or they can hire a professional to make their money management choices for them. Investors who want professional management turn to managed funds.

A managed fund pools money from several investors and uses the money to buy a particular type of investment, such as shares. A fund manager is an investment expert who makes the decisions around when to buy or sell the investments in the fund.

These funds can be created for several different purposes or objectives. Some are designed to produce income, and invest in bonds or other income-producing items. Other funds are designed for growth and invest in shares or property.

Managed funds invest in almost any area of the business world. There are funds that invest in technology, in food and agriculture, in government bonds, in foreign countries, in energy, and even in gold and other precious metals. So if you have a particular interest in a product or service, and you want to invest in the companies that are part of that industry, you can do so by hiring a professional money manager and investing in a managed fund.

Because managed funds are made up of a variety of investments, investors enjoy the benefits of diversification. **Diversification** simply means spreading your money among different choices. When you divide your money up among varying types of savings and investments, you reduce the chance that any one of them will really hurt you financially with a drop in value. You are reducing (or managing) your investment risk (or chance of a loss) by diversifying your investments.

Managed funds are available through most financial services companies – such as banks, credit unions and fund managers.

Most of these organisations have websites where you can access information or use interactive tools to help you learn more.

Some sites will also let you compare what's available. For example:

www.ninemsn.com.au
www.moneymanager.com.au

Superannuation

Your first managed fund is likely to be your super fund. When you begin full-time (or even part-time) work your employer will make contributions on your behalf to a super fund.

These payments are made directly – you don't see the money, so you're not tempted to spend it. Remember, this is the money you're likely to live off in retirement once your working days are over and your income drops away.

By law, your employer has to contribute 9% of your salary to superannuation.

(Unless you are under 18 and working less than 30 hours per week OR earning less than $450 per month).

OK, retirement is way, way, way off! Why think about it now? This is the trap many of us fall into, and many people in the past relied on the government to support them after they stopped working. But things are changing. We're all living longer and we're retiring earlier. (Which is good news.) More good news is that we're cramming more in to retirement, like taking holidays… it all looks fantastic.

Go to the calculator page on www.asfa.asn.au, click on the SuperSmart Planner and have a play.
The calculator assumes 9% contribution by your employer, but you can experiment with salary, your contributions and how long you'll be contributing for. See how this can affect how much you could have when you retire (final lump sum box). Did you have any idea about how much you might save?

Now for the bad news. With more of us retiring and living longer, as time goes on Australia will have more older people than younger people. This means that the government can't afford to support all these long-living, fun-loving oldies.

So these days we need to pay for ourselves in retirement. Which means one thing: start saving now.

When you do start contributing to super, take advantage of your situation. Remember the power of compounding and the advantages of starting early, and think about putting in some extra payments.

It's worthwhile spending some time on – your super is likely to be the second largest asset you accumulate in your lifetime (after the family home). In Australia, it forms 20% of the wealth of the average household.*

* *Levels, patterns and trends of Australian household saving – A report prepared for the Financial Planning Association of Australia (FPA), November 2002, by the National Centre for Economic Modelling (NATSEM).*

Getting the right advice

With so many different types of funds it's not always easy to know what to choose. Financial planners can help by spending time with you to find out about your needs and circumstances. They then draw up a plan and make a recommendation to suit your needs.

The Financial Planning Association (FPA) is the industry association that can help you find a financial planner and let you know what planners should be providing to you.

To find a financial planner, visit the FPA's website – www.fpa.asn.au and use the *Find a Planner* tool. If you already have a planner (or someone recommends one to you), use this tool to check that they are certified and / or a member of the FPA - it's important to get someone who knows what they're doing and has to follow set guidelines and ethics. They are dealing with your money after all.

When you visit a financial planner they'll ask lots of questions to find out your goals, how much risk you want to take on, and to generally understand more about your money situation. The planner will then look at this information and recommend where you should invest your money. The recommendation is given to you as a financial plan.

To help you understand more about financial planning and what should be in your financial plan, the FPA and ASIC (Australian Securities and Investments Commission) have produced a brochure called *Don't Kiss Your Money Goodbye*. It's really easy to read and your parents might even be interested in it. Just download it from www.fpa.asn.au/services/brochures/asp or from www.fido.asic.gov.au.

Your rights

Under the law, you have the right to complain if you are not happy about any aspect of a financial product or service.

Check out www.fido.asic.gov.au - they have some important information on the steps you should take, your rights and how to make a complaint. ASIC is the consumer protection regulator for financial services. In this role, ASIC protects investors, superannuants, depositors and insurance policy holders.

<< Contents   Share market simulator   Unit 4 >>

Step 1

To make it easy, we've selected three companies you might have heard of for you to 'invest' your $15,000 in, but you can always choose other ones if you want to. Each company listed on the share market has a three-letter code. The one's we have selected are:

Company	Sharemarket code	How much should I invest?
Qantas	qan	$5,000
Telstra	tls	$5,000
Coca-Cola Amatil	ccl	$5,000

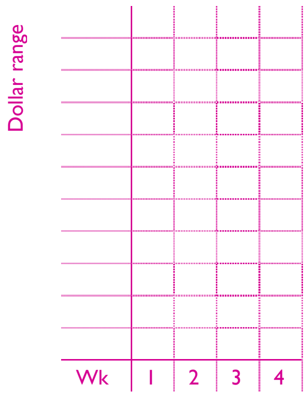
Step 2

Go to www.asx.com.au and enter the Sharemarket Code into the 'Get a price' box, and click 'Go'. Then, work out how many shares you can buy at Today's Opening Share Price (TOSP):

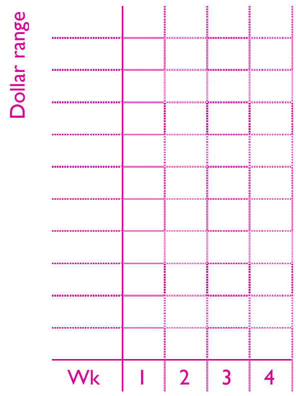
Sharemarket code	Today's Opening Share Price (This is the price in the *Open* column)	How many shares can I buy? ($5,000 / TOSP = number of shares)
qan		
tls		
ccl		

Step 3

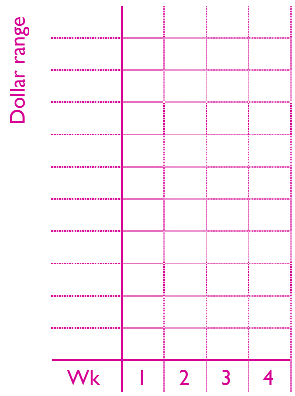
Now, it's time to follow the share price for each company for the next four weeks. Just go to www.asx.com.au at the end of every week and plot the share price on the graphs below. (Don't worry about the number of shares you have for this step – just see how often the share price changes – or doesn't change). For each of the different companies, you'll have to fill in the dollar range on the vertical axis…



Company: qan



Company: tls



Company: ccl

Step 4

After four weeks, it's time to see how much your shares are worth. Just find out Today's Opening Share Price (TOSP) and fill in the box below. Did you make or lose money?

Sharemarket code	**Today's Opening Share Price**	**How much are my shares worth?** (TOSP x number of shares *(from Step 2)* = investment value)
qan		
tls		
ccl		

4 CREDIT AND DEBT: SMART WAYS TO USE THEM

When Nick bought his guitar, he saved the money to buy it. He could also have borrowed the money from his Mum and Dad… but then that wouldn't be Nick!

Once you're 18 you have other options if you're buying something and don't have the cash at hand – you can use credit. Credit means someone is willing to lend you money – called principal – in exchange for your promise to pay it back, usually with interest. Interest is the amount you pay to use someone else's money. When you use credit you go into debt.

Australians use it more often.

Did you know that Australia has one of the world's highest rates of personal credit?

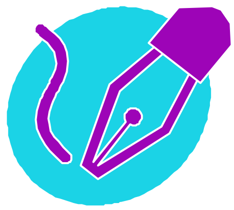
That means that more Australians are using credit for their day-to-day purchases, rather than cash.

If not looked after or managed properly, credit can get you and your family into all sorts of trouble and cause lots of unneeded stress.

It's VITAL to understand how to manage credit and debt, so it works for you rather than against you.

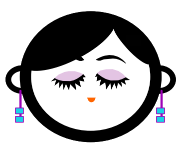
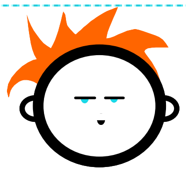
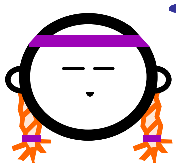
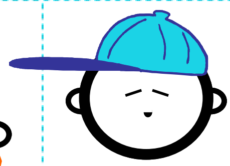
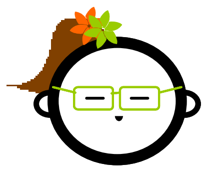
There are many different ways to obtain credit – credit cards, loans and mortgages. The different types are designed for different needs, but they all follow the same basic pattern: buy what you want now, and pay for it later. It sounds like a good deal, but there is a catch!

Yep, you've got to pay for using credit – it's not money for nothing.



Who'll get into trouble?

Who do you think is most likely to get into trouble with debt…? (Rank them from one to five, with one being the most likely.)

				
Kim's splurges?	*Nick's rock star dreams?*	*Lena's obsession with all things basketball?*	*Daniel's addiction to cars?*	*Mel's uni costs?*
☐	☐	☐	☐	☐

In Unit 3 we saw how compounding helps you earn money on your savings and investments. The bad news is that debt is an area where compounding can work *against* you.

When using credit there are three things that increase how much you end up paying…

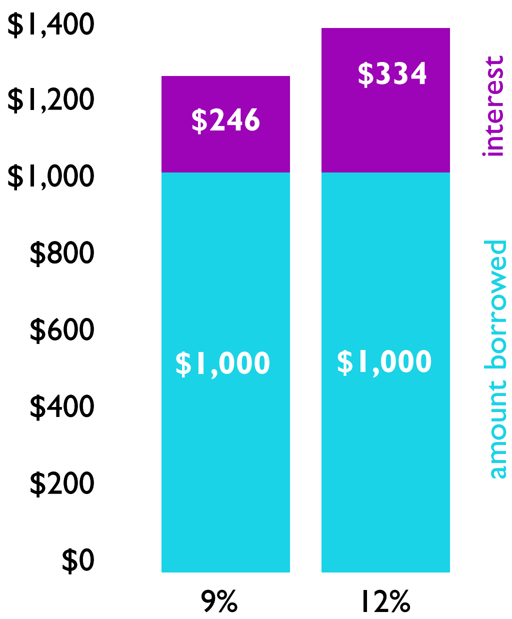
1

The higher the interest rate, the more you pay

When you pay interest the rule is, *the higher the rate, the greater the cost.* To make it easy to compare costs, interest is expressed as an annual percentage rate – the rate tells you how much extra you will need to pay each year.

Compare two loans, both for $1,000 for five years, but with different interest rates. The first loan has a rate of 9%, while the second is 12%.

In this example, the higher interest rate means the loan costs an additional $88. Although that's not necessarily a lot of money, if you think of a loan for hundreds of thousands of dollars, higher rates can add substantial costs to borrowing.

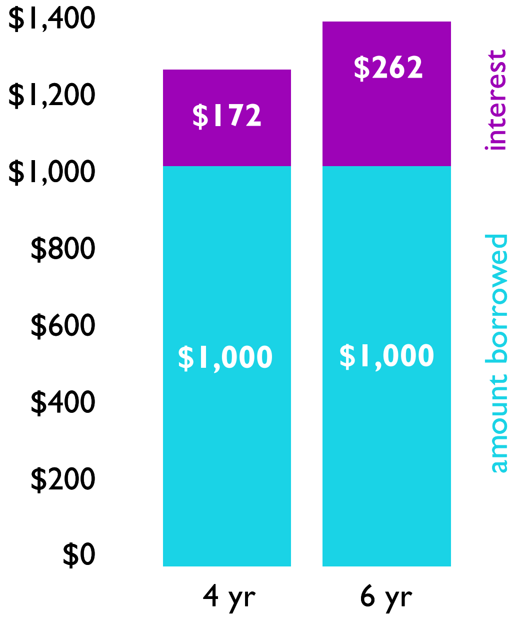


The greatest cost of credit is the interest rate, so there are real advantages in finding a lower rate…

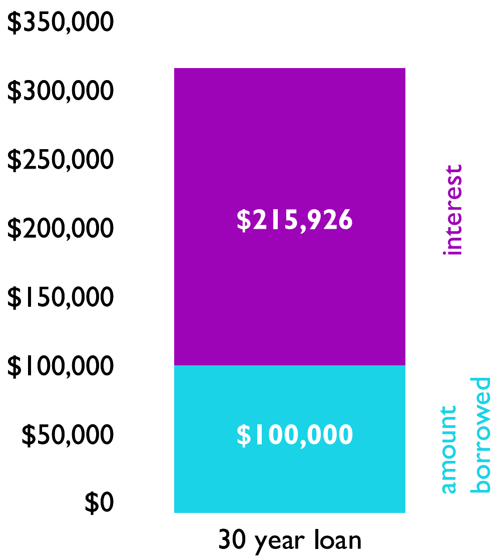
2 The longer the term of the loan the more you pay

Another key piece of information you need to use credit wisely is the term of the loan. In other words, how long the loan lasts. The rule here is, *the longer the term, the greater the cost.* That's because the longer you keep a loan, the more time you are paying interest, and the more money you are costing yourself.

Compare two loans, both with an interest rate of 8% and an identical amount of $1,000. But, they have different loan lengths – one for four years, the other for six.



Notice that it costs an extra $90 for an additional two years of loan repayments. That doesn't sound like much until you think of it as an extra $90 for every $1,000 borrowed. Imagine the additional costs if you were looking at a $10,000 or even $100,000 loan!



To put it into perspective, let's say you've found the house of your dreams. You take out a $100,000 home loan (mortgage) at 10% with a term of 30 years – a common length for a house. How much will you really be paying for your home, if you pay off the loan as scheduled?

In effect, you bought one house but paid for three! The point? The longer the length of the loan, the greater the overall cost to you.

3

Fees and charges

Of course, borrowing money isn't free, so there are a range of fees associated with using debt. These vary, depending on the kind of debt you have and the lender. Some of the more common fees are listed below.

Annual fee. Most often used by credit card companies, an annual fee is a yearly charge for having a credit card.

Establishment fee. Usually associated with home loans, this is a charge for setting up a loan.

Exit fee. If you want to move your loan from one lender to another, some lenders will charge you a fee for leaving (usually this only happens within the first few years of the loan).

How credit can help you

Now that you know some of the costs, you may be wondering if using credit is worthwhile.

As with many financial tools, it depends on your situation. Credit does have potential benefits… if you know what you're doing and you're responsible.

Access to cash in an emergency. When you need money to pay for something in an emergency, like a tow truck if your car breaks down, having a credit card can get you back on the road quickly.

The ability to use it now. Borrowing money allows you to own or benefit from the use of large purchases now, such as a car or a house. Without loans, most families would probably not be able to buy a home or even a new car.

Safety and convenience. Charging a purchase on a credit card helps avoid carrying large amounts of cash. When you're travelling, major expenses like hotel rooms, airfare and car rentals can all be put on credit cards. Also, many purchases can be made over the phone or on the Internet with a credit card.

Earn rewards. Credit card issuers frequently advertise that cardholders can earn rewards – the more you use the card the more bonus points you get. You can redeem points for a variety of rewards such as holidays, tickets, cash, vouchers, and so on. It's an attractive benefit, but it usually isn't free. Cardholders typically pay for credit card bonuses through a higher interest rate or fee. Smart consumers weigh the value of rewards against the higher cost of using a particular card.

You can borrow money from lots of places. Banks and credit unions offer credit cards, car loans, personal loans, and home loans (mortgages). Car dealers often provide financing for cars, and many department stores offer their own store cards. Some universities and financial institutions offer student loans for education. Let's look more closely at the specifics of some of these forms of credit.

Credit cards (VISA, MasterCard, Bankcard and AMEX)

A credit card is synonymous with "buy now, pay later." Credit card companies have made it easy and convenient to use their cards for purchases and to get cash when you want it. Shops, restaurants, movies - everywhere you turn you see signs saying credit cards are accepted. Unfortunately, being so easy to use often means big bills later on.

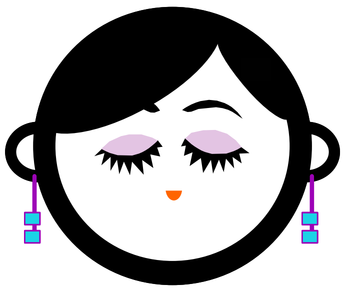
Unlike many forms of debt, there is no loan term with credit cards. That means you can pay what you owe when you want to. This is where many people get into trouble because the longer it takes to pay the balance owed on your credit card, the more it costs you.

Check the cost

Recent changes mean that you now may have to pay extra to use a credit card.

Previously, business owners paid this cost, but now they are able to pass it on to their customers. When you have a credit card, make sure you check what additional costs you may be charged before buying.

How long can it take?



Kim has fulfilled her dream of having her own credit card. But with a $2,000 credit limit, she's maxed-out her card in just a few weeks. This card requires a minimum payment of 2% of the balance, or $20, whichever is greater. If she pays the minimum amount each month how long will it take her to pay off her card when the interest rate is 18%?

More than 18 years! Plus she'll have paid over $3,500 in additional charges. In other words, Kim will end up spending $5,500 over 18 years just so she can enjoy $2,000 today. And that's if she doesn't use the card for the next 18 years… which is highly unlikely! She's put herself in debt very quickly and she's fast getting out of control.

Credit card basics

Interest rate. Credit cards can carry interest rates as high as 20%. At that rate, you know what damage compounding can do to your wallet! Compare all costs on credit cards and look for the lowest rates, especially if you do not expect to pay your balance in full each month.

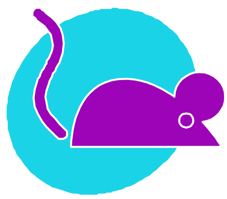
Annual fee. Some cards charge an annual fee. Often the fee is waived if you spend more than a specified amount.

Interest free period. Most cards offer a period during which no interest charges apply. The key is to pay off the entire balance of your card during the period. A typical interest free period is 55 days.

Minimum payment. Many credit cards require a minimum monthly payment of 2-3% of your purchases. Some set a minimum dollar payment, such as $15 per month. While making small payments like these may seem easy, remember that the remainder of your balance is compounding at the card's interest rate – and that's high compared with other types of debt. Your balance can easily build up and before you know it, you can be out of control.

Credit limit. All cards come with a credit limit or the total amount of purchases you can make on the card. Once you've reached your limit – say $500 – your card is "maxed out." At that point, you can't make any new purchases until you reduce the balance owed. Higher limits may sound good, but you need discipline to avoid running up big loan amounts. If you're like Kim and tempted to spend as much as you can lay your hands on, remember that big purchases quickly compound into large interest payments.

Picking the best deal



It can be difficult to know which credit card or financial institution is offering the best deal. Complete the chart below to compare what's available. Firstly, tick the card you want to compare:

☐ *VISA* ☐ *MasterCard* ☐ *Bankcard*

Then, go to www.moneymanager.com.au and compare what the four big banks offer:

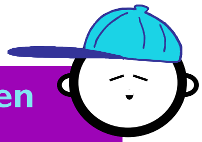
Bank	*Interest rate*	*Annual fee*	*Interest free period*	*Minimum payment*
ANZ				
Commonwealth Bank				
National Australia Bank				
Westpac				

Personal loans

If you need a loan for a large purchase, such as a car or holiday, you can take out a personal loan. Personal loans require you to make payments on a regular basis, usually monthly, until the loan is paid off. Banks and credit unions offer personal loans for many purposes, while car dealers offer them in conjunction with a third party, and only for car purchases.

Interest rates on personal loans are generally lower than credit card rates. Credit cards let you vary how much you borrow and pay back from month to month. However, with personal loans you borrow a set amount. The loan amount, loan term, and your payments are fixed for the life of the loan, which is typically two to six years.

Daniel finds heaven



It's a beaten up Holden HZ ute that he knows he can do up… new wheels, tray and sports kit should do the trick.

He's now 18, but can't afford the car – he could get a car loan for $10,000 at 9% interest for 48 months. He'd have to repay about $249 per month. At the end of four years, he'd have paid the lender about $11,950. Borrowing will increase the cost of his dream car by about 20%… but he reckons it's worth it.

It's usually best to pay off a loan as soon as you can. But with any type of loan, it's a good idea to check for prepayment penalties – these are penalties for paying off your loan early.

Student loans

If you're heading off to uni, you may need some help paying for it. Student loans are offered by banks, credit unions, and some universities.

Student loans usually carry low interest rates. Depending on your income level, some of the loans allow you to delay making payments until you finish your education.

HECS

If you do go to uni, you'll also be hit with the Higher Education Contribution Scheme (HECS). HECS is a way to ensure that students contribute to the cost of their education. There are payment choices:

- You can either pay it up front before you start studying and receive a 25% discount
- Pay at least $500 of your HECS contribution up front and defer the rest. You will receive a 25% discount on the part you pay up front
- Defer paying your contribution until you start working

If you choose the second or third option, your HECS contribution is, in effect, a loan. It's something you'll have to pay for once you start earning an income.

The impact of different loan factors

Using a loan calculator on the Internet, complete the chart for the following loans. We've helped, but there are some blanks you need to fill in for monthly payment and loan length. At the end, work out how much interest you have paid on the loan.

Loan Balance	*Interest Rate*	*Monthly payment*	*Loan length*	*Interest*
$5,000	*10%*		*4 years*	
$5,000	*10%*		*6 years*	
$5,000	*12%*		*6 years*	
$5,000	*12%*	*$200*		
$1,000	*8%*		*2 years*	
$1,000	*19%*	*$20*		
$1,000	*12%*		*5 years*	

Home loans (Mortgages)

Some day, if you buy a home, you'll probably need to take out a mortgage. It works much like a personal loan, except the length of the home loan extends over a longer period of time – usually 15 to 30 years – and the amount borrowed is usually much larger. Interest rates on home loans are usually lower than personal loans.

Banks and credit unions have come up with many different types of home loans - some have a fixed interest rate, while others have a rate that can change over time. There are also many other features available depending on your needs. It's complex so when the time comes it's worthwhile getting some advice from an expert.

Loans for phones

When you buy a mobile phone on a plan, you're using credit. Why? Because you are not paying for the phone upfront. Instead, you enter into a contract to pay a minimum amount each month for a certain time period. Therefore, your phone plan is a type of loan, and as with other loans, you pay for the privilege of getting something before you have completely paid for it.

When looking for a new mobile phone, think about how much the phone would cost you upfront vs. how much you end up paying for it through a contract. This isn't as easy as it sounds because contracts often include special offers for call costs and monthly charges – it makes it hard to compare. There are many websites that can help, which include questions to ask before signing a contract – www.aca.gov.au or www.tio.com.au are good places to start.

If you do go onto a contract, there is another factor to consider. If you spend more on phone calls and messages than what you agreed to in your contract, you are charged for it. This is why so many people get into trouble with huge monthly mobile costs… they don't realise that they've gone over their contract amount until they get their phone bill. For this reason, many people prefer prepaid phones, because they know exactly how much it is costing them.

Did you know that 45% of 14 – 24 year old Australians have a mobile phone? That is one of the highest rates in the world! And a quarter of these people struggle to pay their mobile phone bills…

Getting a rating

When you apply for a credit card or loan, lenders assess how likely you are to repay the amount. They do this by checking your credit rating, which is simply a history of your personal (or family) financial transactions for the past seven to ten years. Your credit record contains information about loans you've applied for, loan amounts you received, and whether you paid your bills on time (or not at all).

How do you build a good rating? Don't bounce cheques, make regular deposits into your savings account regardless of their size and always pay your bills when they are due. Once you have a loan, make your repayments on time. If you handle a little debt responsibly, lenders are more willing to extend larger amounts to you in the future.

You can't get a credit card or loan from a financial institution on your own until you turn 18. However, some banks and credit unions allow parents or guardians to be "guarantors". This means they guarantee to pay your debt if you can't. Having a guarantor is a financial responsibility in itself: if you don't pay your bill, your guarantor has to – legally and financially.

Rights and responsibilities

When you sign the application for a loan or a credit card, you've agreed under the law to uphold what's written in the agreement. That means you're agreeing to repay a loan and interest on time. These are your personal financial responsibilities. If you fail to keep your part of the bargain, lenders may take legal action against you to recover what they can.

You should not assume that a lender will necessarily refuse to provide credit if you cannot afford to make the repayments. You should always make it your own responsibility to decide whether you can afford the repayments.

How much is too much?
Setting yourself some limits on how much debt you have can be a good idea. A maximum of 20% of your net income – your take-home pay after taxes – should go toward all of your loan payments (excluding a home loan). That means your credit card payments, car loan, and any other loans you have. And most lenders don't want to see more than 33% of your take-home pay being used on a home loan payment.

As a consumer, you also have rights that lenders must respect. Before you enter into a contract, make sure you receive a document setting out your rights and obligations, as well as other important information about the loan such as:

- Amount of credit
- Interest rate
- Amount, frequency and total amount of repayments
- All fees and charges

Top ten questions to ask yourself before you sign on the dotted line.

TOP 10

1. Do I really need this item right now or can I wait?
2. Can I qualify for credit?
3. What is the interest rate?
4. Are there additional fees?
5. How much is the monthly payment and when is it due?
6. Can I afford to pay the monthly payments?
7. What will happen if I don't make the payments on time?
8. What will be the extra cost of using credit?
9. What will I have to give up to pay for it?
10. All things considered, is using credit worth it?

When your debt's out of control

Getting out of debt is a lot harder than getting into it. But there's one simple rule to follow: spend less than you earn! This is one place where your budget comes in handy. If you consistently spend less than you earn, you can use the additional money to pay off your debt.

If you have several loans, try to make the minimum required payments on all of them. If you can't, always try to send at least some money to all of your lenders. Talk with them, and let them know you are doing what you can to pay them back.

If there's money left over after you've made your minimum payments, use it to begin paying off one loan at a time. Start with the loan with the highest interest rate – not the loan with the largest balance.

When that loan is paid off, apply the money to the loan with the next-highest interest rate. Keep the process going until your overall debt is back under control.

So if you ever find yourself drowning in debt, follow this process: focus on your budget, spend less than you earn, and begin to pay off your loans.

What happens if things get really bleak and you can't pay off your debts? Well, you are declared bankrupt. This means a court will order you to give up control of your money and assets (like your house and car) to a "trustee". The trustee can be a person or company that has the power to sell your assets and pay off your debts. Being declared bankrupt is far from fun and is definitely the last option… downsides include being refused credit, being unable to pay for anything by cheque if it's over $3,000, being unable to leave Australia without the court's approval, and if you own your own business, you must tell everyone you do business with that you are personally bankrupt.

Getting help

If you feel that you are getting out of control, talk to someone. The worst thing people do is put this off, because it only makes the situation worse. Community financial counselling services have been set up to help with all types of financial related problems including:

- Having more debt than you can deal with
- Harassment by debt collectors
- Debt recovery through the courts
- House eviction, disconnection of utilities (gas, water, electricity)
- Uninsured car accidents, tax debts and unpaid fines

They can help you:

- Organise your financial information
- Design a budget
- Suggest ways to change and improve your financial situation
- Assess eligibility for government assistance
- Negotiate with creditors
- Explain debt recovery procedures, bankruptcy and other alternatives
- Refer you to other services (e.g. gambling, family support, family counselling or legal aid)

Where do you find them?

ACT
- Care Financial Counselling Service 02 6257 1788

NSW
- Financial Counsellors' Association 0500 888 079
- Wesley Mission Credit Helpline 1800 808 488

Northern Territory
- Anglicare NT Financial Counselling Service 08 8948 2700 or 08 8985 0000

Queensland
- Credit Help Line 1300 887 400
- Financial Counselling Services Qld 07 3257 1957, www.fcsq.org
- Lifeline Creditline 13 11 14

South Australia
- Adelaide Central Mission 08 8202 5180
- Parra Districts Community Legal Service 08 8281 6911
- Dept. of Family and Community Services 08 8226 7000

Tasmania
- Anglicare Financial Counselling Service 03 6234 3510
- Consumer Credit Solicitor at Hobart Community Legal Service 03 6223 2500 or 1800 232 500

Victoria
- Financial and Consumer Rights Council 03 966 32000
- Credit Helpline 03 9602 3800 or 1800 803 800
- Financial and Consumer Rights Council lists all financial counsellors in Victoria http://avoca.vicnet.net.au/~fcrc/

Western Australia
- Financial Counsellors Resource Project 08 9221 9411
- Consumer Credit Legal Service 08 9481 7665
- Financial Counsellor's Association of WA 08 9325 1617

Whether you're prone to Kim's spending sprees, someone like Nick who avoids debt, or somewhere in the middle of the two, understanding credit and debt is something that could have a big impact on your future.

Used wisely, a manageable amount of credit can help you make your way through life quite happily. It may give you the opportunity to travel, to further educate yourself, or to buy your first home.

But there is a catch and it's a big one! You pay a price for using money that is lent from someone else. So before applying for that credit card, think about what you're like with money, and whether you're the right person to handle debt well (or not). Be smart about it and you'll be set to enjoy all the perks of credit without the headaches!

Turn to the next page to think about the pros and cons of using credit.

<< Contents | Pack your bags | Unit 5 >>

Pack your bags

Woo hoo! You've just won a holiday to Los Angeles – accommodation, food and sightseeing all paid for. All you have to do is save up $2,000 for the return airfare and some spending money.

A condition of the prize is that you have to take the trip within twelve months. The piggy bank is empty, but luckily you've got options. You can:

1. **Put the plane ticket on your credit card and leave within the month. You can also use your credit card to pay for anything you want to buy while you're away.**

2. **Delay the trip until you save up enough money for the ticket and spending money.**

You know if you go with option 1, it means you won't be able to pay your credit card off within the interest free period, but you are confident you can meet the minimum payments each month.

Each option has pros and cons. Use the table to help you decide what you would do. To get you started, we've listed a couple of suggestions – all you have to do is put them in the right column… and possibly add a few of your own.

OPTION 1 Leave soon and pay by credit card	
Pros	Cons

OPTION 2 Delay your trip and save before you go	
Pros	Cons

Pay more than $2,000

Free travel insurance is possible when you pay this way

Pay interest

No interest payments

Immediate satisfaction

Only pay $2,000

Unforseen events may affect you taking your trip

Earn additional interest and increase spending money

Have to wait for your holiday

Reduce credit available for emergencies or other purchases

5

INSURANCE: PROTECT YOURSELF

OK, everyone knows insurance is one of those subjects that's REALLY boring… that's until something unexpected happens and you find you REALLY need it.

At the moment you won't have much need for insurance – your parents probably take care of it. But soon you'll be looking at buying a car for example, and you'll be introduced to the world of insurance.

So what's it all about? Insurance basically means paying a small amount each year, so that if the unexpected does happen, you don't have to outlay a huge pile of money all at once. It's like a safety belt that helps you handle any risks you may face.

Unexpected things that happen include your house burning down, having a car crash or being in an accident. You can get insurance for all these risks and more.

We'll start with some insurance basics so you're clear on how it all works…

Rate the following indicating how important they are to you - most important (1) to least important (5).

Car	
House	
Income	
Health	
Possessions	

You can get insurance to protect all of these.

Handling risk

Risk is the chance that something unexpected will occur. Risk management means that you use various ways to deal with potential personal or financial loss. You basically have three options:

1. **Avoid risk altogether.** Not go on a holiday, not go snowboarding, not own a car. It's probably not realistic, but if it's that important to you to avoid a certain risk altogether, it can be done.

2. **Minimise risk.** If you must travel in a car, wear a seatbelt and buy a car with safety features. You're still taking the chance of being involved in an accident, but you are lowering the risk of being seriously hurt.

3. **Pay for someone else to take on the risk.** That's where insurance companies come in, and many people choose this approach to help them manage their big financial risks.

Insurance policy. When you agree to pay an insurance company to take on your risk, the company will issue you with a policy. It sets out the details of your agreement.

Premium. An insurance premium is the regular payment you make to an insurance company in exchange for its promise of protection and help against unexpected "large losses." What exactly is a large loss? For most people, a house burning down is a large loss. Or spending weeks in a hospital recovering from an accident creates medical bills that pile up to become a large loss.

To rebuild a house from a fire might costs tens of thousands of dollars. But to insure that house against a fire might only cost several hundred dollars a year. Most people can't afford to rebuild a house with money out of their own pocket. Instead, they choose to transfer the potential cost of rebuilding their home to an insurance company for a small payment.

Most companies allow you to elect how you want to pay your premiums – monthly, quarterly, twice a year or annually.

Excess amount. Most types of insurance come with an excess. The excess is the amount of the loss you must pay out of your own pocket before the insurance company begins to reimburse you. It could be as low as $100 or as high as a $1000 or more. The higher the excess, the lower your premium.

Maximum cover. Every insurance policy has a limit on the amount that an insurance company will pay in the event of a claim. Maximum cover amounts can be just a few thousand dollars, or a few million. As you might expect, the more cover you want, the higher the premium.

Claim. When something bad happens and you have an insurance policy, you can make a claim to receive a payment from your insurance company. The company will assess your claim and let you know whether it has been accepted or rejected.

Been rejected ☹

If your insurance company rejects your claim and you are unhappy with this decision, you can do something about it. You have the right to request your insurer review your case. You may first want to get some legal advice though, because in some cases, there may be legal reasons why your insurer should pay. A legal expert can help you to assess the details of your case to see whether any of the reasons apply to you.

If your insurer has reviewed your claim and you're still unhappy with their decision, you can either go to court or use an alternative body to resolve the issue, such as the General Insurance Enquiry and Complaint Scheme (IEC) or the Financial Industry Complaints Service (FICS), which have been set up by the government for this very reason.

Benefit or payout. If you make a claim and it's accepted, you will receive an amount of money from the insurance company. This is known as a benefit or payout. You may receive this either all at once or as a regular stream of payments, depending on your insurance policy.

Renewals. Each year you will need to renew your policy. Your insurer will send you a renewal notice. Make sure you let them know about any changes in your circumstances that could affect your cover. The questions you were asked for your original policy application are a guide to the information you might need to tell them when you renew. If in doubt – ask your insurer.

Keeping your costs down

Your premiums might sometimes be larger than you'd like. Car insurance for teenagers can be thousands of dollars each year. This stuff's not cheap, but there are strategies to help you lower your costs.

1 Minimise your risks

The more you do to minimise your risks, the lower the premium charged by the insurance company. This could simply be putting locks on the windows of your house to make it harder to break into or installing a fire extinguisher. Check with insurance companies to find out what you can do to lower your rates.

2 Check the premium before you buy

The sort of car you own or where your home is affects the premiums you pay. Choosing a car or a house with lower insurance costs can save you a lot of money.

3 Pay a higher excess

Increasing the excess you would pay if you did make a claim will lower your costs. You need to weigh up whether it's better to pay more now in the form of premiums, or a higher excess if you make a claim.

4 Use one insurer for all your needs

Often you can save if you take out more than one policy with the same insurer. If, for example, you have car and home insurance with one company, ask if there are discounts available.

Would you pay?

When you make a claim it's important to be straightforward about what has happened and tell it like it is.

Here are some examples of what not to do – and yes, scarily enough, they are real statements made by people making car insurance claims.

"I collided with a stationary truck coming the other way."

"As I approached the intersection a stop sign suddenly appeared at a place where no stop sign had ever appeared before. "

"The guy was all over the road. I had to swerve a number of times before I hit him."

"The accident occurred when I was attempting to bring my car out of a skid by steering it into the other vehicle."

"An invisible car came out of nowhere and struck my vehicle and vanished."

"A pedestrian hit me and went under my car."

"I thought I could squeeze between two trucks when my car became squashed."

"The telephone pole was approaching fast. I was attempting to swerve out of its path when it struck my front end."

You may think that you don't have to worry about insurance until much later in life, but there are some things that you'll need to start insuring in the very near future – the main one being your car.

Car insurance

It's as simple as this – if you own or drive a car, you need insurance.

Owning and driving cars is a risky business. Cars can cause damage to other cars, people and property. As the driver of a car, you are liable for any damage you cause when you are behind the wheel. That is a big risk to take, particularly if you permanently injure or even kill someone unintentionally. And, aside from the damage cars can cause, car theft is one of the most popular criminal offences.

So how can you protect yourself against these things if you own a car? In Australia you must have a certain level of insurance before you can even register a car, so it's important to know about compulsory insurance and what additional insurances you might need.

What types are there?

There are three main types of car insurance in Australia:

Compulsory Third Party or Third Party Insurance.	Otherwise known as CTP, 'green slips' or TPI. This insurance covers against injuries to people caused by your car. The government has made it illegal to drive a car without this insurance. In Queensland and Victoria the cost of this insurance is included in the car's registration, whereas in other states it is bought separately.
Third Party Property.	This is the minimum insurance you can take out (in addition to CTP). Third Party Property insurance covers you against damage caused by your car to someone else's car. What it doesn't cover is damage to your own car. However, with some policies you can get additional 'third party fire and theft insurance' which provides limited cover for your own car.
Comprehensive insurance.	Comprehensive insurance cover is the most common type of car insurance. It is designed to provide the highest level of insurance for your car and covers: • someone else's property (usually car) in an accident caused by you • your car in an accident • your car against theft, fire or other damage

How much can you be covered for?

The amount will depend on the insurer and the type of car insurance you have. Generally:

1. If you damage property (car) or injure someone else, your insurance will cover car repairs, replacement or medical bills up to a certain amount. Remember *maximum cover*?

2. If you or the driver of your car are injured, then your insurance will cover medical bills up to your maximum cover.

3. If your car is damaged your insurer will pay for repairs, unless the car is written off, which means it costs more than the value of the car to repair it. In that case, your insurance will cover you to replace your car based on its market value. Market values change because they are determined by the year your car was manufactured, the make and model, the condition of the car, and any additional improvements or features you may have added. Alternatively, some insurers will agree with you on the value of your car, and that agreed value would be stated on your insurance policy.

Remember, everything you just read is completely dependant on the type of insurance you have.

So, when you are ready to get insured…

Where can you get it?

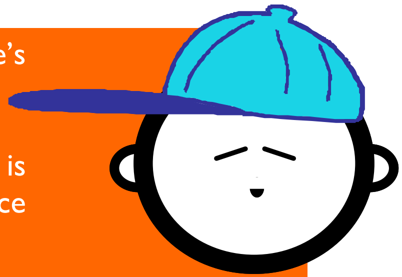
You can buy car insurance through several different sources.

- Go directly to the insurer by phoning their call centre, visiting a branch or using their website.
- Use an insurance broker, who will do the ringing around for you and can help explain what the different policies do or don't cover.

How much will it cost?

The cost of car insurance depends on many things. The following factors can raise or lower premiums:

Age	The younger you are, the higher the premium. Statistically, young people have higher percentages of accidents than other drivers. Rates fall as you get older and gain driving experience.
Gender	Males under the age of 25 have significantly higher accident rates than females under age 25. So male drivers pay higher premiums than females.
Type of car	Sports cars, powerful cars (yes, that includes V8 utes) and cars with modifications cost more to insure. This is because their theft rate is higher and they tend to be involved in more accidents than family cars.
Car features	Safety devices such as airbags, and antitheft alarms and equipment often lower a car's insurance costs. This can mean that some older cars may have higher premiums because they don't have the new safety or security features.
Where it's made	Foreign cars typically cost more to repair, since foreign parts cost more to make and ship. Local brands tend to have lower repair costs, which also means lower premiums.
Location	The odds of an accident occurring or a car being stolen are statistically greater in a highly populated city compared to a small town in a rural area. Residents of towns with small populations pay lower premiums, and if you live in the city, then you can pay lower premiums if the car is parked in a garage rather than being parked on the street.
Driving record	Drivers who haven't had any accidents have lower premiums than drivers who've had multiple accidents. Insurance companies think that a driver with a history of accidents is more likely to be involved in future accidents.
Insurance history	In Australia, there is a system in place called a "no claim bonus". If you've never made a claim, insurers offer you a bonus in the form of lower premiums. No claim bonuses can more than halve the cost of your premiums. Generally it takes more than five years to gain the top no claim bonus of 60%. And, if the amount you are going to claim is small, consider whether it's worthwhile paying the bill yourself and keeping your premiums low.

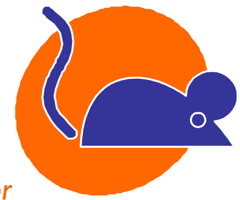


Let's go back to Daniel and his dream car. Remember? He's found an old Holden HZ ute.

Now it's time for Daniel to find out how much insurance is going to cost. He thinks it might be a bit expensive, but since the car is old, it probably won't be too much…

Daniel has a look on the Internet and works through a quote. He finds that insurance is going to be quite a bit more than he expected. How much more? Well, comprehensive cover is going to cost him around $1,800 and that doesn't factor in rego or third party!

Maybe Daniel needs to rethink his choice of car… or perhaps decide not to add the mags and sports kit… every little reduction could help Daniel with this one.



Your dream car…

Use the Internet, find the car of your dreams – www.carpoint.com.au or www.drive.com.au can help.

Then, like Daniel did, find out how much it's going to cost to insure it. Most general insurance websites have quoting tools, which give you an idea of what your premiums might be.

Work through the tools and write down how much it's going to cost for:

Type of insurance	*Annual premium*
Compulsory Third Party (Third Party Insurance)	
Comprehensive car insurance	

Scary? What if you change a few things to see if you can lower the premium? What if the engine size was smaller, the car was newer or you installed a car alarm?

What happens if…?

This might sound like we're getting on your case, but here are some situations that you should know about. Seriously.

Driving under the influence of alcohol or drugs.

If you cause an accident and you are over the legal alcohol limit or under the influence of drugs, you are not insured. This means that if you do damage to someone else's car, your own car or even injure someone else, you are going to have to pay for it yourself.

Driving without a licence.

If you don't have a driver's licence or your driver's licence has been suspended, then you are not insured to drive a car. As with driving under the influence of alcohol, your insurance won't pay and you are going to have to pay for damages yourself.

Driving someone else's car.

If you own the car then chances are, you are going to know what you are insured for. But when driving someone else's car it's important to remember these things:

- ✓ Check that the car is registered so you know that it has third party personal insurance.
- ✓ If you are under age 25, check the insurance. The owner of the car has to advise the insurance company if a person under the age of 25 will be driving the car.

Why should you remember these two points? Well, as the driver of the car, you are liable for any damage you cause to people, cars and property. That includes the car you are driving and the people in it.

If you don't have insurance, you then become responsible for paying damages – and this could cost you a lot of money.

Health insurance

Health insurance pays the medical bills in case you, or your family members, become sick or injured. Routine medical expenses easily cost hundreds of dollars, and more serious problems can cost thousands of dollars.

The Australian government has set up a universal health care system called Medicare that covers some doctors, hospitals and medicines. It allows every Australian to be treated at no charge in a public hospital. But there are some restrictions so many people pay for private health insurance as well.

Private health insurance may cover benefits like:

- choice of doctor
- choice of hospital (both public and private)
- ambulance
- glasses and contact lenses
- dental treatment
- physiotherapy
- natural therapies and medicines
- sporting equipment and shoes
- fitness courses and gym memberships

You may be included on your parent's private health insurance, but before you know it, you may have to look at getting your own cover. Some insurers will let you stay on your parent's policy up to age 22, whereas others won't allow you past age 18. There are also different rules depending on whether you are working or are a full-time student.

Once you're beyond your early twenties, the stuff to insure will start to add up. Think buying a house, starting a family, or even making more money! All these things mean you'll probably need some additional insurance.

Home and contents insurance

Home insurance pays you an amount of money to make repairs or rebuild again if your home is completely destroyed. Home insurance policies provide cover for damage from specific events such as fire, flood or earthquake, and losses from accidents such as wine spilling on your carpet.

Contents insurance protects your material possessions – your stuff – such as clothes, stereo, TV, appliances, furniture, mountain bike, computer equipment and so on. Your material goods can be damaged in a variety of ways, including fire, flood or theft. If you're a renter you only need to worry about contents insurance to protect your furniture and things. Usually your landlord will have insurance for the building itself, but not what you've put inside.

You have the option to combine home and contents insurance together – usually you'll receive a 10% discount on the premiums.

Life insurance

Life insurance protects people who depend on you financially in the event of your death. It pays them a fixed sum of money. While you are single and no one is dependent on you, you probably don't need life insurance. If you marry, and your spouse works and could get by without your income, you still may not need life insurance. But anytime someone else depends on you to help pay the bills, you need life insurance.

It can be tricky calculating how much money you would need if anything happened – and obviously the more cover you have the higher the cost. If you do take out life insurance, think about getting some expert help in working out the fixed sum you need.

Disability insurance

Disability insurance pays you income if you are sick or injured and unable to work for long periods of time. If you have been away from work too long, employers generally don't pay you, regardless of the reason. But you still have living expenses, like food and rent. How do you keep paying?

That's when disability insurance comes in handy. There are three types:

Insurance through super

Many superannuation funds offer life and disability insurance cheaply – because they're big they can get group discounts. So if you need life insurance and have a super fund, remember to compare what your fund offers before you make a decision.

Total and Permanent Disablement (TPD)
Typically provides one large payment of the amount you are insured for if you are declared totally and permanently disabled by your insurer.

Income Protection
Typically pays up to 75% of your previous income on an ongoing basis if your insurer declares that you are unable to work. Payments are often made monthly and may continue for one or two years, or until you turn 65.

Trauma
Typically covers you by paying a one off amount in the event of a serious medical condition or procedure such as blindness, coma, heart attack or cancer.

To sum it all up, insurance is one of those things that may seem really boring and unnecessary… until something happens and you're in a tight spot. Then you'll be VERY interested in insurance and how it can help you!

The more responsibility you have and the more you take on in life, the more important a role insurance will play for you. In the meantime, remember it's one of those "necessary evils" that you need to factor into your plans. Especially if you're dreaming about buying a car of your own in the near future…

<< Contents Test yourself Unit 6 >>

Test yourself…

Circle the answer you think is correct.

1. What are some ways to manage the risk of losing your TV?
    - (a) Keep it in a safe – all the time
    - (b) Give it away
    - (c) Take out an insurance policy
    - (d) All of the above

2. The higher the excess amount…
    - (a) the higher your premium
    - (b) the lower your premium
    - (c) the higher cover you have
    - (d) the lower cover you have

3. When you renew your comprehensive car insurance policy each year, you need to tell your insurer if:
    - (a) You're over 25 and have changed sex
    - (b) You've put on new tyres
    - (c) You've had parking fines during the year (and you've paid them)
    - (d) You've added mag wheels and a spoiler

4. To lower your house and contents premiums, you can:
    - (a) Get a guard dog
    - (b) Never leave the house
    - (c) Keep a detailed list of everything you have
    - (d) All of the above

5. What does Compulsory Third Party insurance cover you for?
    - (a) Damage caused by your car to someone else's car
    - (b) Theft of your car
    - (c) Injuries to people caused by your car
    - (d) Damage to your car

6. Some private health insurance policies allow you to claim for:
    - (a) New sports shoes
    - (b) Sunscreen
    - (c) Facials
    - (d) Water filters

7. If you have a bad accident and can't work for six months, what sort of insurance will pay you an income until you get better?
    - (a) Total and Permanent Disablement
    - (b) Trauma
    - (c) Income Protection
    - (d) Death

ANSWERS: 1.d 2.b 3.d 4.a 5.c 6.a 7.c

STUDY AND WORK: WHAT'S NEXT?

6

Before leaving school some people already know what career they want. Others have a few ideas, but haven't decided exactly what it is they want to do. Then there are those that aren't sure and are just looking to keep their options open.

No matter which category you fall into – because there's no right or wrong – there are things you can do to help you come to grips with working in the future. Right now you have the advantage of time. Use it to look at the opportunities available to you. When you finish school you might go to uni or enter a traineeship/apprenticeship, find a job, or maybe even start your own business. This unit gives you information about each of these options.

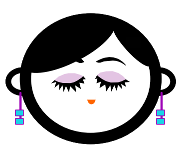
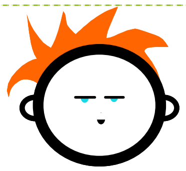
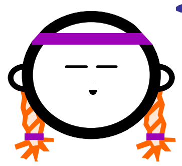
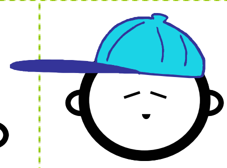
Job or career?

What is the difference between a job and a career? A job is work that "pays the bills". A career is usually a chosen profession or occupation that provides an income. Often there is a planned sequence of jobs as you build a career.

Any job can help you gain skills, even though it may not be your career. In fact, you'll discover that the lessons and habits you form now, working at seemingly "unimportant" jobs, will help you throughout your future career.

Remember that what you decide now is not necessarily forever. It's common for people to change their career – on average, working Australians make a major career shift three times during their life.

So who's familiar now?

				
Kim wants to work in the fashion industry - it's as simple as that.	Nick believes that a uni degree will give him an edge, but what degree should he do?	Lena doesn't know what she wants to do – maybe something to do with sports?	Daniel's always known what he wants to do when he leaves school – be a mechanic.	Mel's aim is to end up as a researcher in biotechnology – that means lots of study ahead.

Work's just work?

Consider how your career choice can impact on your lifestyle and financial plan.

1

How much you earn

One of your single greatest assets is the earning power from your chosen career and/or your talents and skills. Many people think a house is the most valuable thing they'll ever own, but a lifetime of earnings is usually worth much more than a house.

2

Where you live

Not all jobs are available in all places – some career choices will restrict you to the major cities, whereas others can only be found in regional areas. Wherever you are, an important factor to consider is the cost of living. The cost of living includes items like rent or home costs, transportation, insurance, utilities like natural gas and electricity, and food. If you have a choice of two jobs, it's a good idea to compare both the salary and benefits of each location – and factor in any differences in the cost of living.

3

How you work

Think about the way in which you want to work – full-time, part-time, from home, or on a casual basis. There is increasing flexibility around work practices, but it's not always available. If it's really important to you, consider a career that is likely to let you work the way you want to.

4

Ah yes, even a sense of achievement

Don't forget you'll probably be spending a lot of time working, so it would be nice to get some personal satisfaction from what you do.

Your career choice ties in closely with your financial plan over a lifetime. The individual jobs you hold over the years generate cash and other benefits that drive your financial plan. Your plan provides guidance and direction to which jobs you take and which you reject, based on your career goals.

No matter what the job, an almost sure-fire way to increase your worth out in the workplace is to have some relevant training. These days, most careers require some form of further education beyond high school.

Some of you may already know what qualifications you need for your chosen career. You might be thinking about going to uni, enrolling at TAFE, or entering an apprenticeship. Even if you haven't decided, there are other options open to you. A general qualification (like a Bachelor of Business) can provide you with skills that can take you in all sorts of different directions. Alternatively, you can delay further study and enrol as a mature age student when you feel more ready.

Further education options	**Qualification**	**Examples of jobs based on qualification**
University	Degree	Lawyer Teacher Physiotherapist
Private college	Certificate, Diploma, Advanced Diploma	Hotel Manager Business Manager Financial Planner
Technical and Further Education (TAFE)	Certificate, Diploma, Advanced Diploma	Public Relations Officer Chef Graphic Designer
Traineeships and apprenticeships	Apprenticeship (usually in conjunction with TAFE study)	Builder Hairdresser Mechanic

Study how you want to

After 12 years at school, you may find that you've had enough of full-time study and want to look at other options. Many courses give you the choice to study part-time, online or even through distance learning. (Courses can be delivered in a number of ways such as printed lesson notes, satellite broadcasts, videos, CD-Rom and e-mail.)

Be sure to check out your options before enrolling. Most institutions have counsellors who can help you with career and education planning so you make the most appropriate course choice for you.

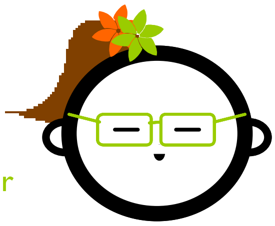
Associated costs

Furthering your education is great because it can open up opportunities and increase your potential to earn more money. But it does cost.

- **Fees & HECS.** Vary depending on the institution and course. University is generally more expensive than TAFE.
- **Text books.** Expect to pay around $80 to $100 for a textbook.
- **Living expenses.** If you don't live close by, then you might need to consider living on campus or in nearby student rental properties.
- **Travel expenses.** If you do live close by, then consider what your daily travel costs might be.

Now this may seem like a lot, but don't despair. Government allowances, scholarships and other funding might be available depending on your university.

If you're thinking about studying, make sure you visit www.centrelink.gov.au. You may be entitled to the Youth Allowance or other government assistance that can help you while studying. It's also worth checking what your uni, college or TAFE has available – financial assistance and scholarships vary based on course and place.



Mel's reality check

Mel decides it's time to think about what she'll need to pay for when she goes to uni. Being Mel, she sits down and writes a list:

- Rent or board (hopefully she'll find something on campus)
- Electricity
- Gas
- Phone (will have to factor in the long distance calls to Miles!)
- Food
- Entertainment (hmm, movies or other sorts of socialising?)
- Transport (luckily she likes walking)
- Text books and course notes
- Other studying expenses (pens, paper, photocopying etc.)
- Insurance (personal stuff)
- Clothes

And that doesn't even include her actual uni fees or HECS… it's starting to add up. Hmm, perhaps it's time to think about saving some money. Oh no, maybe she'll have to get a job after all!

When we work we trade our time, skills, knowledge and experience for money. If you are employed, money comes in the form of wages or salary from your employer. (You can also be self-employed but we'll talk about that in the next section).

Generally, the more you have to trade, the more you can earn. Not many employees are paid just for filling a chair in the office or looking good behind a counter day after day, year after year. The workplace is now a very competitive place and employers expect a lot more of their staff.

Key employee skills

A number of businesses were surveyed to find out what they considered to be key employee skills. Check out the list – you might be surprised at how many skills you already have, as many are based on your personality and ability to learn, rather than your existing knowledge…

Skill	Description
Personal values	Has loyalty, commitment, honesty, positive self-esteem, enthusiasm, reliability, good personal presentation and a good attitude towards life.
Communication	Listens and understands, speaks and writes clearly and directly, can read without assistance and can negotiate.
Teamwork	Works well with other staff (no matter what age or level in the company), can work well on own or as part of a team, and shows an understanding of other cultures.
Problem solving	Is creative, has drive to find solutions, able to estimate and calculate, understands basic budgeting, can make decisions and reason things out.
Planning and organising	Manages time well, understands processes and systems, establishes clear goals and works towards achieving them.
Learning and self-awareness	Is enthusiastic and willing to learn in any situation, open to new ideas and ways of doing things, has a personal vision, thinks about own performance.
Technology	Has basic computer skills and a willingness to upgrade skills, uses technology to seek, process and present information.

Source: *Employability Skills for the Future – March 2002.*
Commonwealth Department of Education, Science & Training

Get to know yourself

Take some time now to review how well you stack up in each key skill. Think in terms of a scale from one to five, with five being the highest. In what areas are you strong or, dare we say it, weak? Have a think about ways you could improve your weak areas.

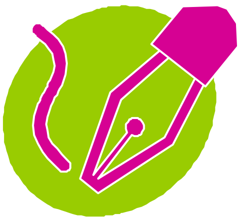
	Weak				Strong
	1	*2*	*3*	*4*	*5*
Personal values					
Communication					
Teamwork					
Problem solving					
Planning and organising					
Learning and self-awareness					
Technology					

List three ways that you feel you can improve your skills:

1.
2.
3.

Discover what's right for you

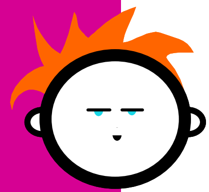
The key to doing well in a job is knowing what makes you happy and gives you a desire to succeed. Look on one of the major job websites or in the job section of Saturday's paper and find five jobs that look interesting. Write down their job titles and a brief description of each. Then compare your descriptions and find three things some of the jobs have in common.



Secrets of success

Employers reward employees with more money for several basic reasons.

Nick is popular with employers and always seems to do well. It's because he's got what it takes - he's:



- dependable
- works well with others
- a good problem solver
- delivers high-quality work
- has high productivity
- is creative about his tasks
- develops with the job
- has a great attitude

	1	2	3	4	5
Job title					
Salary					
Description					

A Product and Operations Co-ordinator – what's that?

Many jobs are now hard to define – in fact it's difficult to work out what the job's about just from the title. There are so many different roles available these days, it's not possible to imagine all the options you have, or even what some of your career possibilities look like. So keep an open mind.

What do they have in common?

1.
2.
3.

What employees want

So that's what employers are after - but what do employees want from an employer? Besides money, there are additional incentives, or employee benefits, offered by employers. Here are a few of those benefits:

- **Paid holidays**
  Employers typically offer paid time off (annual leave) of at least four weeks.

- **Paid sick leave**
  Like holiday leave, many employers allow five to ten days per year of paid time off for illness, either for yourself or to take care of a family member.

- **Superannuation contributions**
  Employers are obliged to put at least 9% of an employee's salary into a super fund.

- **Study reimbursement**
  Some employers will pay for you to go to uni or to take additional training courses.

- **Health insurance**
  Larger employers often provide health insurance for their employees.

- **Bonus scheme**
  Many companies pay an amount in addition to salary once or twice a year, if you perform well in your job.

Some estimations calculate that employee benefits can cost an employer an extra 20% to 50% of an employee's income.

As you work for different companies during your lifetime, you can decide which benefits are important to you at the different stages in your life. If you're thinking about taking a new job with a different company, don't just think about the salary, consider what benefits are on offer.

Working for someone else is not for everybody, and starting your own business is becoming more and more popular.

Some people work for themselves because they enjoy being their own boss, and they have a strong sense of discipline. Other people become self-employed in order to keep all the profits from the work they do. And then there are the "entrepreneurs" who have the creativity and ingenuity to follow through and build a business from an idea.

There are some things to be aware of before going into business for yourself. Downsides can include there being no guarantees, no direction from a boss or peers, and no regular income. So being self-employed normally means you're willing to take risks.

Start from scratch?

If you decide to go into business for yourself, you'll most likely take the following, or similar, steps:

See an opportunity to provide products or services that are currently missing or that you can provide better than any existing business.

Take the initiative to learn all you can about existing competitors, and discover what it is customers really want from your product/service.

Develop plans to market your business, analyse your potential profit or losses, and then produce the product/service.

That is a very simplified list of what it takes. Starting your business isn't always easy and it's worthwhile getting practical experience before you go it alone. Finding out as much information as you can is always a good idea – talk with people already working in the same area, they can provide valuable advice about the business you are considering. There is also help available through government organisations:

- Centrelink (www.centrelink.gov.au) offers courses to teach you the basics and assistance to help you get a business off the ground.
- Business Enterprise Centres also provide advice and can give you specific details about starting a business in your state.
- ASIC (www.asic.gov.au) provides useful information and advice on running a small business.

Do you think you have what it takes to be self-employed?

How many of the characteristics that describe the typical self-employed person do you have?

- ☐ *Independence*
- ☐ *Positive attitude*
- ☐ *Creativity and talent*
- ☐ *Risk-taker*
- ☐ *Good work ethic and honesty*
- ☐ *Hard worker*
- ☐ *Organisation and planning skills*
- ☐ *Self-confidence*
- ☐ *Good listener*
- ☐ *Team worker*
- ☐ *Decision maker*
- ☐ *Motivated*
- ☐ *Salesmanship*
- ☐ *Follow through*

Looking ahead and working out what it is you want to do might seem a bit too hard right now. Which is fair enough, considering the impact your job or career can have on your future lifestyle, happiness and wealth!

The key is not to worry. No one said it was easy. Even if you don't get things exactly right to begin with, taking one step at a time and making decisions based on what you are good at and what you enjoy will lead you in the right direction.

Your ideal job might still be waiting to be discovered, or you may work for a while and then decide to go into business for yourself. There will be opportunities out there that you've never heard or dreamed of. For now, use this unit to help you. Understand yourself and what makes you tick, make sure you possess at least some basic skills, and go from there.

[<< Contents] [How did they get there?] [What you've learned >>]

How did they get there?

Interview your parents, or other adult friends, who have careers. Find out how they got there, whether they like it and how long they think they'll stay. The answers might just surprise you!

Person interviewed ______________________________

Background

What career did you want when you were my age?

How old were you when you got your first job and what was it?

How many different jobs or careers have you had in your life?

Current

What is your career and position?

Why does it appeal to you (maybe it doesn't!)?

What education and training did you need?

If I started out in your career, what would I need to do?

Does your career provide you with the lifestyle you want?

Do you think you'll stay in this career, or do you have dreams of heading off in another direction?

WHAT YOU'VE LEARNED

They say that money talks. Well, whether that's true or not, we've certainly done a lot of talking about money over these six units!

To wrap everything up, let's take a quick tour around what was covered and the really important stuff. Then we'll call in on our familiar faces and see how they're getting on – and whether they've learned anything.

UNIT 1 FINANCIAL PLANNING: BEING IN THE DRIVING SEAT

Get your money worked out right from the start. Financial planning is simpler than it sounds – set your goals, see where you're at, make a plan and go for it. But remember you can make changes to your plan as your life changes.

UNIT 2 BUDGETING: WAYS TO HANDLE MONEY

Learn the art of budgeting! Managing how your money comes in and (importantly) goes out will be a skill you'll use for life. Definitely handy once you have bank accounts to consider and tax to pay.

UNIT 3 SAVING AND INVESTING: GROWING YOUR MONEY

Starting to save and invest early is one of the best ways to grow your money. There are many choices out there, to suit all kinds of people. Time is on your side, so do your homework and think about having a go.

UNIT 4 CREDIT AND DEBT: SMART WAYS TO USE THEM

One of the classic, all time "money traps" is the debt trap. We all want things, but it's about taking responsibility for what we spend. Getting credit, like a loan or credit card, can be a useful as long as you know what you're doing. And remember, if you get into trouble with debt, don't go it alone – there is lots of help available.

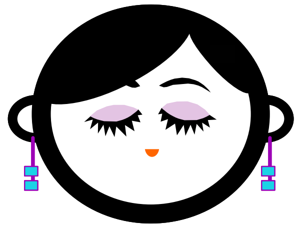
UNIT 5 INSURANCE: PROTECT YOURSELF

Insurance might sound like a yawn but it might also save your life – or just about. It can take the hassle out of some of the big problems that life throws at us from time to time.

UNIT 6 STUDY AND WORK: WHAT'S NEXT?

There is life after school… what will yours be made up of? Start thinking about the things you might want to pursue once you leave school, like extra study or getting a job.

What happened to Kim and all that spending?

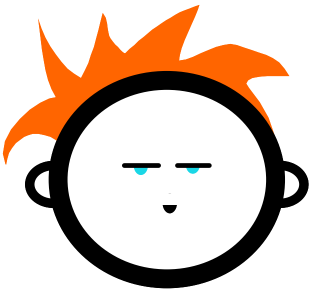


The fashion world beckons Kim, but she might have to learn how to pay for all her clothes first!

Her spending habits are still out of control, with her credit card maxed out and her (expensive) tastes showing no sign of slowing down. But at least she still looks better than Amber.

Kim needs to learn how to spend less than what she earns – fast! She may have to start using some strategies to get herself out of debt. And she may have to cut up that credit card…

Is Nick still strumming his way to fame and fortune?

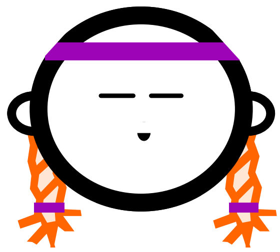


Nick may dream of being a shooting star in the music business, but he still has his feet on the ground when it comes to money.

Not only has Nick managed to buy his guitar, now he's saving for a birthday present for his new girlfriend Caroline and that all important recording equipment. Meanwhile his discipline has rubbed off and the *Midget Safari*'s have all opened savings accounts – they can't believe Nick got that new guitar and they can't afford anything!

Nick certainly seems to have what it takes when it comes to money, but will he really make the big time…?

Has Lena opened up her mind to things outside the world of basketball?

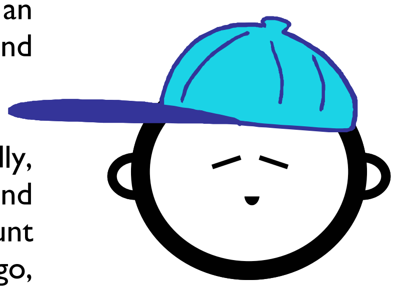


Lena still lives and breathes basketball, but she realises that to get what she wants, she does need more than just passion.

She's also learnt the satisfaction of saving up for something you really want and achieving it. After completing the coaching clinic, she is now spending Monday afternoons coaching the Under 10's at the local gym.

Lena has learnt the value of money and how it can help you achieve your dreams. Let's see if she sticks to it…

Is Daniel on the right road, or even on the road at all?

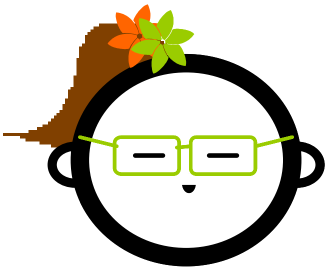


Daniel's had a lot to learn lately. He's working as an apprentice mechanic, doing his certificate at TAFE and driving his new car.

But, it's not the V8 ute – that's still a bit of a dream. Sadly, for Daniel, he had to learn the art of compromise and ended up buying a 1988 Ford Laser. Not quite the grunt he'd hoped for, but it does get him where he needs to go, was within his budget and meant he didn't need to get that loan. Besides, he's still the only one out of his mates that even has wheels!

Now that he's working, Daniel's learnt how to budget and can start saving for the V8. Guess we're safe on the roads for a while…

Did Mel recover from her reality check?



Mel took a few deep breaths and had a good think about how she could pay for all her uni costs. Although study is her top priority, she's started looking for a part-time job.

She also has another distraction these days – Miles! Yes, her love for beating him turned into just plain love. They still study together and Miles is thinking about going to the same uni.

Hasn't Mel changed – a job and a boyfriend. Wonder what's coming up next in her life…?

<< Contents

Annual fee. A yearly fee (in addition to interest) charged by institutions on credit cards, bank accounts, etc. *(Unit 4)*

Australian Securities and Investments Commission (ASIC). The Australian Government regulating body that makes sure that Corporations Law and consumer protection law is followed for investments, life insurance, superannuation and banking (except lending) throughout Australia.

Asset. Item of value, such as cash, investments or property.

Australian Taxation Office (ATO). The department that collects and manages tax for the Australian government. *(Unit 2)*

Automatic Teller Machine card (ATM card). The card your bank provides you with to access funds from your account, via ATMs or EFTPOS. *(Unit 2)*

Automatic Teller Machine (ATM). Bank machines which distribute cash from or accept deposits into bank accounts, without the need to go into a branch. *(Unit 2)*

Bankruptcy. The legal process in which the assets and liabilities of a person deeply in debt are placed with a receiver. The receiver takes control of their finances and helps them clear their outstanding debts. The process may restrict the person's financial dealings in the future. *(Unit 4)*

Bond. An income investment (also known as a fixed interest investment) representing a loan of money from a lender to a borrower for a set time period. It pays a fixed rate of interest. *(Unit 3)*

Budget. A plan for spending and saving money based on an individual's goals over a certain period of time. *(Unit 1)*

Capital gain. The difference between the purchase price and the selling price of an investment. *(Unit 3)*

Career. The work someone undertakes over a period of time, which provides an income. *(Unit 6)*

Cash flow. A measure of the money a person receives and spends. *(Unit 1)*

Cash management. How a person manages money (cash) coming in and going out. *(Unit 2)*

Compounding. Earning interest on interest previously earned. *(Unit 3)*

Cost of living. On average, what it costs to live and pay for expenses such as rent or home costs, transportation, food and utilities such as electricity or gas. *(Unit 3)*

Credit. An amount of money lent from one person or entity (such as a financial institution) to another, based on the expectation and/or agreement that the money will be repaid with interest. *(Unit 4)*

Credit rating. A measure of a person's ability to repay debt or credit. *(Unit 4)*

Debt. The amount a person or entity (such as a business) owes to lenders. *(Unit 4)*

Decision making. The process of considering and analyzing information and priorities in order to make a choice and come to a decision. *(Unit 1)*

Direct debit. An automatic transfer of funds from your bank account that you set up with your bank to happen on a regular basis. *(Unit 2)*

Diversification. Spreading invested amounts among several different savings or investments to reduce risk. *(Unit 3)*

Employee benefits. Additional benefits received by someone from their employer, such as bonuses and reimbursement for study. *(Unit 6)*

Entrepreneur. Someone who starts a business from scratch. *(Unit 6)*

Expenses. The money someone or something (like a business) spends or uses. *(Unit 2)*

Financial planning. A plan for managing the various elements of someone's money; the process of providing advice and assistance to someone to help meet their financial needs and goals. *(Unit 1)*

Financial Planning Association of Australia (FPA). The peak professional organisation for the financial planning industry in Australia. The Association is a not for profit organisation with approximately 14,500 members. The FPA represents qualified financial planners in Australia who manage the financial affairs of over five million Australians with an investment value of more than $560 billion. *(Unit 3)*

Financial year. Also known as the income year, runs from 1 July through to 30 June. *(Unit 2)*

Fixed expenses. Expenses that remain the same, week after week, or month after month. *(Unit 2)*

Goal. The aim or destination that someone wants to achieve or reach. Financial goals are often looked at in terms of short, medium and long-term. *(Unit 1)*

Gross income. The total amount of income earned (from wages or a salary) before any deductions including tax. *(Unit 2)*

Group Certificate. See PAYG Summary. *(Unit 2)*

Income. Any money a person receives. *(Unit 2)*

Inflation. An increase in the price of goods and services. This means that prices generally rise. *(Unit 3)*

Insurance. Financial protection against financial loss; an arrangement where an insurance company agrees to pay an amount of money to the insurance policy holder if a defined event occurs, in exchange for an insurance premium being paid. *(Unit 5)*

Insurance premium. The payment made to an insurance company in exchange for protection or financial help if (agreed) circumstances or events occur. *(Unit 5)*

Interest. Payment for the use of money; the return earned on invested funds; the amount a borrower pays to a lender for the use of the borrowed money. *(Unit 3)*

Interest free period. The time allowed, usually 55 days, in which new credit card purchases can be paid off without being charged interest, provided there are no unpaid amounts on the card from previous payment periods. *(Unit 4)*

Internet banking. Banking transactions and enquiries that are conducted over the Internet. *(Unit 2)*

Investment(s). An asset acquired for the purpose of producing or generating income or capital gains for its owner.

Liabilities. Debts or financial obligations.

Loan term. The length of time covered by a loan. *(Unit 4)*

Managed fund. An investment that pools money from several investors and uses it to buy a particular type of investment, such as shares. *(Unit 3)*

Marginal Tax Rates (MTR). Australia's sliding tax rates, ranging from 0% to 47% of your salary depending on the salary amount. *(Unit 2)*

Needs. The essentials or basics of life. *(Unit 1)*

Net income. The amount of someone's income that they can use or spend; the amount remaining once tax and payroll deductions are made. *(Unit 2)*

Pay As You Go (PAYG). The system where employers automatically deduct tax from each employee's gross *pay* each pay period. *(Unit 2)*

PAYG Summary. The summary sent to employees by their employer(s) at the end of each financial year; outlines the total paid to the employee and the amount of tax that was taken out. *(Unit 2)*

Payroll deductions. Amounts subtracted from gross income for items like employee benefits. *(Unit 2)*

PIN number (Personal Identification Number). The personal code or number that a customer receives from their bank, to assist them in accessing banking services such as ATMs, EFTPOS, Internet and Phone Banking. *(Unit 2)*

Phone banking. Banking transactions and enquiries that are conducted over the telephone. *(Unit 2)*

PYF. Pay yourself first – a method of saving. *(Unit 2)*

Rate of return. How quickly money in a savings or investment account grows. *(Unit 3)*

Return. The amount received or earned on money which has been invested. *(Unit 3)*

Risk. The chance that you may not receive the returns you are expecting or that an unfortunate event will occur. *(Unit 3 and 5)*

Risk management. The various ways or strategies used to manage potential personal or financial loss. *(Unit 5)*

Rule of 72. A rule used to estimate how long it takes for money to double in value. *(Unit 3)*

Savings. Money set aside for goals. *(Unit 3)*

Share. An investment that represents ownership in a company or corporation. *(Unit 3)*

Tax File Number (TFN). The personal tax identification number supplied to you by the ATO when you begin working and paying tax. *(Unit 2)*

Taxes. Fees placed on income, property or goods which is collected by the government to support costs and programmes. *(Unit 2)*

Time value of money. The relationship between time, money and a rate of return and earnings growth. *(Unit 3)*

Values. The beliefs and practices that a person or entity (like a business) holds to be important and true. *(Unit 1)*

Variable expenses. Expenses that are not fixed, and can change. *(Unit 2)*

Wants. Items, activities or services that are desired (rather than required) to increase the quality and enjoyment of life. *(Unit 1)*

<< Contents

FULL CONTENTS LISTING

FAMILIAR FACES 4

UNIT 1 FINANCIAL PLANNING: BEING IN THE DRIVING SEAT 6
What is financial planning? 6
Step 1: Set your goals 7
  Needs vs wants 7
  Need and wants: can I tell the difference? 7
  Work out your goals 8
  Timelines for goals 8
  My SMART goals 9
Step 2: Your current financial picture 10
  Kim's cash flow 10
  My cash flow 11
Step 3: Your action plan 12
  My left overs? 12
  Making decisions 12
  My pros and cons 14
Step 4: Get on with it 15
  The 3 r's of money 15
Step 5: Keep it moving 16
Financial plan for… 17

UNIT 2 BUDGETING: WAYS TO HANDLE MONEY 18
Building your own budget 19
  What do you spend your money on? 20
  My spending habits 21
Tips and tools 22
  Pay yourself first 22
  The envelope system 23
  Cutting back 23
  My savings 23
  Cost/benefit analysis 24
  Shop around 25
Bank accounts 26
  Be aware of fees and charges 26
  Tricks of the trade 27
Getting it on paper 29
  Account statements 29
  Tax documents 29
  Payslips 30
  Record keeping 31
My budget 32

UNIT 3 SAVING AND INVESTING: GROWING YOUR MONEY 34
Get the basics 35
Time value of money 35
Inflation and taxes 35
Compounding 36
The power of compounding 36
The rule of 72 37
Use compounding to your advantage 37
Start early 37
Aim for higher returns 39
The impact of higher returns of savings and investments 40
Saving and investment choices 41
Income investments 42
Growth investments 43
Test it out for yourself 43
Managed funds 44
Superannuation 45
Getting the right advice 46
Your rights 46
Share market simulator..........47

UNIT 4 CREDIT AND DEBT: SMART WAYS TO USE THEM 49
The price of credit 50
The higher the interest rate, the more you pay..........50
The longer the term of the loan the more you pay 51
Fees and charges 52
How credit can help you 52
Where can you borrow money? 53
Credit card basics 54
Picking the best deal 54
Personal loans 55
Student loans 55
The impact of different loan factors 56
Home loans (Mortgages) 56
Loans for phones 57
What else should you know? 58
Getting a rating 58
Rights and responsibilities 58
When your debt's out of control 59
Getting help 60
Pack your bags..........62

UNIT 5 INSURANCE: PROTECT YOURSELF 63
Insurance know how 64
Keeping your costs down 65
Would you pay? 66
Start thinking about it now 67
Car insurance 67
What types are there? 67
How much can you be covered for? 68
How much will it cost? 69
Your dream car 70
What happens if…? 71
Health insurance 72
Future insurance needs 73
Home and contents insurance 73
Life insurance 73
Disability insurance 74
Test yourself... 75

UNIT 6 STUDY AND WORK: WHAT'S NEXT? 76
Work's just work? 77
Being educated 78
Study how you want to 78
Associated costs 79
Being employed 80
Key employee skills 80
Get to know yourself 81
Discover what's right for you 82
What employees want 83
Being self-employed 84
Start from scratch? 84
Do you think you have what it takes to be self-employed? 85
How did they get there? 86

WHAT YOU'VE LEARNED 87

GLOSSARY 90

ACKNOWLEDGEMENTS 97

<< Contents

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THE FINANCIAL PLANNING ASSOCIATION

FPA
FINANCIAL PLANNING ASSOCIATION
of Australia Limited

The Financial Planning Association (FPA) is the peak body for specialist, professional financial planners in Australia.

What is financial planning?

Financial planning is the process of meeting your life's goals through the proper management of your finances. Life goals can include buying a home, saving for a trip overseas and planning for retirement.

When developing a financial plan for you, professional financial planners use a six-step process. The process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a strategy or plan for how you can meet your goals given your current situation and future plans.

Financial planning provides direction and meaning to your financial decisions.
It allows you to understand how each decision you make affects other areas of your finances. For example, buying a particular investment product might help pay off your mortgage faster or it might delay your retirement significantly.

By viewing each financial decision as part of a whole, you can consider its short and long-term effects on your life goals. You can also adapt more easily to life changes and feel more secure that you are on track to reach your goals.

What is a Certified Financial Planner™?

CFP™ is an internationally recognised mark for professional financial planners. A Certified Financial Planner practitioner has extensive industry experience and undergone rigorous study. The qualifications gained by a CFP practitioner are well in excess of those required under current Australian law.

Other professionals such as accountants and lawyers can provide advice on specific aspects of your financial and investment requirements, such as taxation and mortgage planning but a CFP practitioner sees financial planning as an holistic process taking into account all aspects of your financial and personal situation to tailor a plan to help meet your life goals.

How do financial planners charge for their services?

Financial planners can charge in the following ways:

- fee for service;
- a combination of fee and commission;
- or commission only.

A financial planner can charge a basic flat fee of $500 to $1,000 for a written financial plan. A financial planner may however, charge for the time spent assessing your needs and preparing the financial plan. Hourly fees can be anything from $100 to $400 per hour with $200 being a common charge when the planner does not retain any commissions from product providers.

Commissions are usually taken out of the amount you have to invest and usually range from 1.5% to 4%. There are different commissions for different products and you should ask your adviser for a dollar amount – not just a percentage.

Ask for a full written breakdown of fees, commissions and charges for each investment product and for the preparation of the plan. A member of the FPA is required to disclose ALL costs to you, as well as all remuneration the adviser receives from your investments.

Do not proceed with any financial planning advice unless you fully understand it, and if you do not, always seek a second opinion from a qualified professional.

Questions to ask when selecting a financial planner

1. Do you have an Australian Securities and Investment Commission license or are you properly authorised to represent a licensed adviser?
2. Are you a member of the FPA or the Australian Stock Exchange?
3. What experience and qualifications do you have?
4. What information do you base your advice on?
5. Do you have professional indemnity insurance?
6. What services can you provide?
7. Is there anything you don't advise on or cannot sell me?
8. How are you paid? Ask about fees and commissions.

Of greatest importance in choosing a financial planner is selecting one who is qualified, experienced and licensed to help you.

What do I do if I'm not happy with my financial planner?

If you are unhappy with your financial planner or the advice they have provided firstly, raise your concerns with your financial planner and their company. All members of the FPA must have internal complaint handling procedures. If you are not satisfied with their response you can then lodge a complaint with the FPA, the Financial Industry Complaints Service (FICS) and the Australian Securities and Investments Commission (ASIC), the industry regulator.

For further information or a referral to a financial planner

For further information, or for a referral to a financial planner contact the FPA on free call 1800 626 393, or visit the website www.fpa.asn.au.

NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

The National Endowment for Financial Education® (NEFE®) is a non-profit foundation dedicated to helping all Americans acquire the information and gain the skills necessary to take control of their personal finances. NEFE accomplishes its mission primarily by partnering with other concerned organisations to provide financial education to members of the public – in particular, to underserved individuals whose financial education needs are not being addressed by others. These partnerships are an effective means of responding to the needs of many different groups within the general population.

In all of its partnerships, NEFE functions as an active participant by providing funding, as well as the logistical support and financial planning expertise needed to create personal finance programs and materials for the public. NEFE also underwrites grants, fellowships, and research projects; and facilitates the exploration of new ideas in the field of personal financial planning by sponsoring events for professionals throughout the financial services industry.

The *NEFE High School Financial Planning Program*® (HSFPP) was initiated in 1984 as a public service to increase the financial literacy of America's youth. The six-unit program provides teens with a greater understanding of and ability to manage their personal finances in the areas of goal setting, budgeting, and saving. The program uses unique games, simulations, case studies, and interactive exercises to provide hands-on experience for students to test and apply the financial principles and concepts being taught.

There are three main purposes of the program:

- To learn the financial planning process – what it is and what it can do for students
- To give students the opportunity to apply the process through stimulating exercises and assignments provided in the program
- To take control of their finances – beginning now

The HSFPP is offered by the National Endowment for Financial Education® (NEFE®) in partnership with the United States Department of Agriculture-Cooperative State Research, Education, and Extension Service and participating Land-Grant University Cooperative Extension Services; and with the Credit Union National Association, Inc., and America's Credit Unions. To date, it has been taught to almost three million students in all 50 states.

For further information, please go to www.nefe.org or contact
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<< Contents