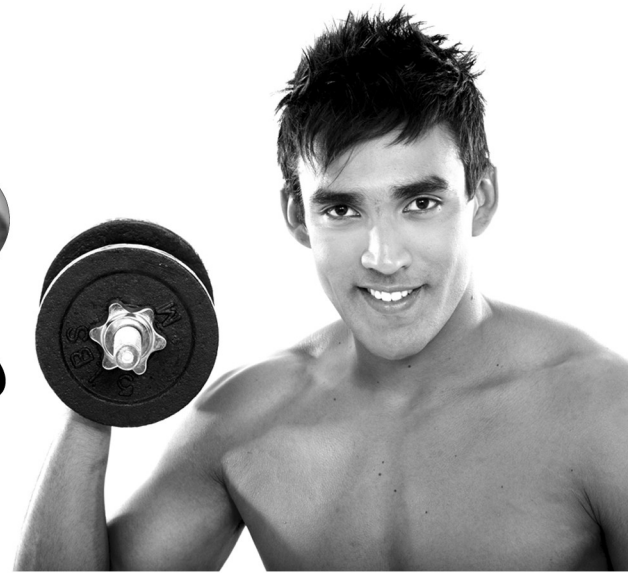


Are you Fiscally Fit?



By Rex Morgan

Are you struggling to make ends meet in today's difficult economic climate? Do you know how much you owe and how much you own? How well are you managing your money?

Just as an annual physical check is recommended to ensure our bodily fitness and long-term health, it is well worth considering a financial check-up to see what sort of fiscal shape our lives are in as we face these challenging times.

"All too many Kiwis flunk financial literacy", wrote financial journalist Diana Clement in *The New Zealand Herald*.¹ "Many have no idea of the financial impacts of stopping at the takeaway once a week, at one end of the scale, to extending their mortgage to buy the latest high-tech-must-have devices at the other."

Corporations and businesses depend on budgets for their financial stability, so why don't we make more use of them personally?

"People have no idea where they spend their money" stated a long-time banker and mortgage broker quoted in the *Herald*.² "Electronic banking allows such easy access to funds that people can just spend until their card is declined. Working to a budget is just too hard."

Retirement Commissioner Diana Crosson says "Three in ten Kiwis have low financial knowledge and haven't thought about planning for retirement. A quarter of us spend all our income as we get it and don't plan for the future. And more than one in ten of us feel out of control with our borrowing and debt."³

Sam Bejjani, general manager of financial management organisation *enableMe* says the main reason people get into financial difficulty is that they think they have a surplus of funds, when actually they are spending more than they earn. "It is the general reluctance of New Zealanders to draw up a budget, coupled with the 'cashless society' that are largely to blame for unnecessary debt", he says.⁴

Let's consider these two important financial issues isolated by Bejjani, budgeting and the use of credit.

Build a Budget

The fundamental principle for managing our personal finances is that income must be greater than expenditure, or we go into debt. The best way to be sure we are spending less than we earn is to use a budget. Too many people default to the common technique of paying whatever bills have come in since the last payday with whatever money is on hand. But this is money juggling rather than budgeting, and can lead to unpleasant surprises.

Setting up a budget does involve

some work, but it is well worth it in the end. Corporations and businesses depend on budgets for their financial stability, so why don't we make use of them personally? Putting your finances down in black and white eliminates guesswork and shows where that extra "where -did-it-go?" money can be used more profitably.

**"The rich rules over the poor and the borrower is servant to the lender"
— King Solomon**

Budgeting entails sitting down and listing all of your income and expenses. A budget isn't a record of money spent, but a plan for future spending. The basic idea is to allocate the pay you receive between the various expenses you are going to incur. Money is put aside every payday for future annual or periodic bills, such as putting away one twelfth of a total annual bill into your savings each month. If you make out a budget, you can then spend your money without worrying about it, knowing all of the expenses have been provided for in advance.

If you say "A budget is impossible for us, we're too deeply in debt," that is exactly why you need a budget! A budget is a practical tool to help you control your finances and overcome debt.

Some Helpful Hints

For help in setting up a budget, see the box on page 9.

If the budget shows expenses are greater than income, it is necessary either to increase income or reduce expenses.

Increasing income may not be easy. A couple of possible approaches include taking on an extra job or working harder in order to be worthy of a pay rise. Income-increasing options are limited, so it is important to be very focused in the area of reducing expenses. For suggestions that might help in this area, see the accompanying box.

Beware of borrowing

After setting up a budget, the other important factor in maintaining fiscal stability is to use credit wisely.

That means being very careful with our "fantastic plastic" cards, which make borrowing money so simple and convenient. In March 2009 New Zealanders owed \$5.3 billion on their credit cards.

The decision to borrow money or to purchase something on credit shouldn't be taken lightly. Borrowing is generally necessary for the purchase of a home or car, but credit purchases on smaller items should be kept to a minimum. Being in debt should not be considered normal.

The wise (and by the way, extremely wealthy) biblical King Solomon gave a telling warning about the dangers of borrowing when he said "The rich rules over the poor and the borrower is servant to the lender".⁵

What is borrowed must eventually be paid back, and more. Interest rates on credit cards are commonly 20% or over, which amounts to a significant premium on purchases.

It is so easy to put something on the plastic card that studies show people are willing to spend three times what they would if paying cash.⁶ And credit card usage can easily become addictive. Credit cards offer instant gratification, one of the hallmarks of addictive

- ◆ Avoid impulse purchases at the supermarket. Goods are often positioned at the checkout counter in such a way as to encourage purchases. If these items aren't on your shopping list, don't fall for them!
- ◆ Wash the car at home instead of paying for a car wash. You can save some money and get some exercise!
- ◆ Make your lunch at home, at least a few days a week, rather than purchasing it.
- ◆ Buy fresh fruit and vegetables at the fruit shop rather than frozen, tinned, or even fresh produce at the supermarket.
- ◆ Form the habit of buying things on special and using discount coupons. www.vouchermate.co.nz contains hundreds of discount offers.
- ◆ House brands such as "Pams" or "Signature Range" are often much cheaper than alternative products, and similar in quality.
- ◆ Instead of buying new books, use the library or share with friends.
- ◆ Discuss gift giving (birthdays, Christmas etc.) with friends and family, and perhaps come to a mutual agreement to spend less.
- ◆ Start a small backyard vegetable garden, or plant some items in pots.
- ◆ Use food scraps for garden compost to save money on fertiliser.
- ◆ Reduce visits to takeaways and restaurant meals.
- ◆ Use fruit instead of junk food for snacks.
- ◆ Do you routinely eat biscuits with your cup of tea or coffee? It might not be as hard as you think to learn a new and healthy habit: the "biscuit-free cuppa", helping your waistline as well as your budget.
- ◆ Use the supermarket instead of the convenience store for regular groceries.
- ◆ Instead of automatically using the car, try walking (or cycling) to nearby destinations. Taking the bus is another option to consider.
- ◆ If you need help, make sure you are receiving all the relevant government support to which you're entitled.
- ◆ Consider making extra payments on your mortgage. The savings can be huge.
- ◆ Beware of get-rich-quick schemes. Anything that seems too good to be true probably is!
- ◆ Enrol in Kiwisaver. It is possible to claim over \$1000 a year in tax benefits, as well as receiving \$1000 from the government just for enrolling. Nobody should look this gift horse in the mouth!
- ◆ Before buying any major product give yourself 24 hours to consider the purchase. Gather information about the item and ask those who have one or know about it. See if you can find a lower price for the same thing, or ask for a discount. Have a look on "Trade Me".
- ◆ Look after the things you have, so replacements won't be necessary. Maintain the house and property; service the car.
- ◆ Work on the finances together as a family. Financial management is a leading cause of divorce – avoid problems by communicating openly.
- ◆ Read some books on money management – many are available at the bookshop or library.
- ◆ Consider putting flyers in letterboxes as a source of extra pocket money, as well as improving physical fitness.



behaviour. For people experiencing trouble, helpful advice can be found at www.creditcardaddiction.com.

It's not the cards themselves that are bad, but the way they are used, which can be either financially beneficial or disastrous.

Credit card purchases should only be made if you have the money available to pay the bill in full at the end of the month. If you do this, you avoid paying any interest. Used in this way, credit cards can actually be a big help in financial management. They are convenient, useful in emergencies, allow earning of interest on your savings by using the interest-free credit period, and rewards can be earned.

Credit card purchases should only be made if you have the money available to pay the bill in full at the end of the month.

By following the two principles outlined in this article, using a budget and being cautious in borrowing, you can ensure you remain fiscally fit and able to face the challenges of the global credit crunch.

1. "How to kickstart your financial literacy", *NZ Herald*, 13 March 2008
2. "Weekend Money", *NZ Herald*, 14 February 2009, page C7
3. *AIG Life*, Summer 09, page 8
4. "Learn to Rein in Christmas", *Herald on Sunday*, 21 December 2008, page 65
5. Proverbs 22:7
6. "Learn to Rein in Christmas", *Herald on Sunday*, 21 December 2008, page 65

Are You Sorted?

A treasure trove of financial advice for Kiwis is available at the Retirement Commission's website, www.sorted.org.nz. For anyone wanting to prepare a budget for the first time, the site contains a simple budget worksheet, and gives step by step guidance in completing it. If necessary, an 0800 number can be called for extra help.

This excellent site offers a wide range of useful calculators and tools to help people of all ages and situations with their financial needs. There are calculators for working out your net worth, cash flow, mortgage repayments, credit card, hire purchase and car payments, savings, investments, Kiwisaver, and much more. A "Spendometer" shows how the way you pay can affect the cost of what you buy. Free booklets giving further information on many aspects of money management are offered.

The NZ Federation of Family Budgeting Services is a collective of nationwide community organisations delivering free budgeting advice. Their website, also giving practical help on financial management as well as the nationwide location of their services, is found at www.familybudgeting.org.nz.

