

Freedom Starts
Here!



MONEY WALKS

SPENDING 101

DATA FRIENDLY VERSION

MONEY WALKS



Financial Literacy for South Africans!

Objectives

Course Summary

Ages 19-24:

Focus on spending habits, budgeting, targeted value and bargains, and research methods along with budget options.

Learning outcomes:

Identify the bad habits in your spending and budget limitations. (Information).

Categorise the types of spending you would need and why. (Information).

Execute a budget with realistic and disciplined targets. (Action).

Assess your monthly spending and budget success each month. (Action).

Collaboration:

This Spending short course is being partnered with Jennifer Donnell for insight, content, and knowledge sharing purposes.

Now, let's follow Joy on her story about smart spending, setting up budgets, and managing her money!



Lesson One

Understanding your needs

This starts the story of Joy, who has always struggled to make all of her payments on time! She has a full-time job, but just can't get her spending under budget. After the conversation she had with her little sister Clarissa, she is determined to make the most of the money she makes!

So, to get started, Joy knew she had to reach out to someone that has done this budget thing right before. The only person she really admired for how they managed their money was her great friend Pearl. As someone who always has money saved for holidays and is comfortable to say no when asked to join on nights out, Joy had a feeling that Pearl would have all of the answers she needed.

Breaking up your spending

Joy asked Pearl out for a coffee date, and explained what she was hoping to do over the next year with the hopes of really making her money last. Pearl was more than happy to help, and jumped straight into the basics that Joy was clearly missing.

The gracious Pearl asked a question to Joy. Do you understand the difference between what is a need and what is a want? Joy shook her head and asked for the answer. Pearl then went on to explain – Your needs are things you should spend your money on first. Things such as food; water, electricity; accommodation; and transportation. And food refers to groceries, not restaurants and take-aways! This also includes any payments to your creditors, such as a car loan, store accounts, cell phone provider, internet provider etc. Then the last part of your needs are your debit orders, such as medical aid, insurances, schooling etc.

These would all be considered your needs, so what can we include under wants? This section will add up from anything else you spend your money on as purchases or even subscriptions. Things like hair or beauty salon treatments, car washes, take-aways, Netflix, Gym, coffees, movies, and anything else you don't really need to survive.

Pearl got out a pen and paper and made some notes for Joy: The easiest way to check is with your monthly bank statements. Get the most recent months from your bank and highlight all of the non-essential expense you made. Once you add them all up, this will give you an idea of how much money is being used on non-important things. Cutting out these non-essential spending feels equivalent to giving yourself a raise.

Find your motivation?

Pearl then took Joy's hand and said: This is only possible if you have a good reason for wanting to be better with your money. You need something to really motivate you every month when it gets hard to not spend your money and go out with friends. Each person's answer will be different. You might want to travel the world, own a business, buy your own home, save up for a wedding, or even retire your parents. Your "why" needs to be a strong motivator to enable you to say no to the things which are not in line with your goals. Joy was so grateful for this advice, she immediately went home to start her research.

Lesson Two

Starting with a budget

How do I set up my first budget?

After Joy had done her research about what she considered her budget needs, she also looked over her bank statements to see where she was spending her money. Turns out, she was spending around 40% of her monthly salary on just shopping and eating out with friends. Joy realised she needed a budget, and as soon as possible!

So, Joy sent Pearl a message to ask how best to start a budget, and what is needed to stick to it. Pearl replied with the method she had used most when she first started with budgeting – It was called the Zero-based budget.

Pearl went on to explain, a zero-based budget means that you take only the amount of money that is actually paid into your account after taxes and deductions), and then take away from this all of your monthly expenses. Every expense needs to be listed as a line item in your budget. You can get these line item costs and values by looking back at your past 3 x months' bank statements. The total at the end of your budget, after all deductions, needs to be zero or in a positive number. If you have a negative value, then you either need to decrease the amount allocated to some of the categories in your budget such as groceries or entertainment, or you need to increase your income with a side hustle. If you have a positive value (extra money) left, then this money needs to go towards savings, or paying off debt.

Pearl finished off by stating, you should use whatever option (physical or digital) that feels most comfortable to you. I prefer using an Excel spreadsheet-based budget, and others are more comfortable using the traditional pen and paper method. Many banking apps also offer value useful tools for tracking your spending.

No matter which option you choose, always make sure your budget works and that you are staying on top of your spending so that you do not go over your allocated amounts.

How do I make the most of what money I have available?

Joy finally set up her first ever budget and wanted to find out the best ways to use her money and make it stretch. She jumped onto YouTube to see what money saving tips she could find. Here are some of the most important tips she chose to use:

- You have to learn to say no, both to yourself and others.
- Make it a game to try and beat your previous personal savings best.
- Keep away from shopping centres or flea markets if these are potential triggers for you.
- Do whatever works best for you to both keep you motivated.
- Don't buy new if you can buy second hand, and don't buy second hand if you can borrow.
- Learn to cook, especially the meals you love to eat out.
- Have weekly bring and share dinners at friends' houses as a way to socialise and share costs.
- Try batch cooking and then freeze the extra portions to have an easy option in the future.

- Don't ever get locked into a gym membership. Work out at home using free YouTube content.
- Try to save up and pay cash for the most basic phone and only pay for a data plan.

What if my income is not enough for my budget – Where do I cut?

Some of the other suggests Joy found online were around what can be done if you don't have enough money each month to cover all of your expenses. Here are 5 of the best suggestions she found and is going to try out this year to help cover those costs and maybe even make a little bit extra!

- 1) Sell everything which you own and don't use, and which is not important. Recommended places to sell include: Facebook Marketplace and Facebook community groups, Cash Crusaders, local second-hand stores, and Gumtree.
- 2) Have a no-spend month. During this one month 'shop your grocery cupboard' and only go to free activities.
- 3) Consider student promotional and event work, as this can be done as a freelance basis when you have the time available and need quick cash.
- 4) Get a waitressing or bartending job, even if this is just temporary, to increase your income. This would be more of a commitment but can be good work experience as well.
- 5) Start a side-hustle. With a few options available such as: service-based side hustle, a side-hustle with a talent or skill you have (Baking, plumbing, car washing etc). Check out the Hustle Up course series on Educish for free steps on starting a side hustle!

Lesson Three

Making it last!

After a few months, Joy had tried her best to stick to her budget, but it just was not working out. Yes, she had the odd purchase that was not in the budget, but worse was that her salary didn't cover all of her expenses. Joy started to cancel some of the subscriptions she had and was not using, and she also started cooking at home every night. But she found her grocery bills and odd clothing spend was still hurting her budget. So, she went over to visit Pearl for some more guidance.

How do I track and stay on top of my spending habits and monthly budget?

Pearl looked over her budget plan and last 2 months bank statements. Pearl could immediately see the issue Joy had. She said, The most important thing in staying on track of your spending habits is your mindset. You have to be disciplined, learn to say no to both yourself and others! Remember that this is for only a period of time and will be worth it in the end. Print out your "why" list and look at it every day, as it will help you to stay on track.

Pear also had some helpful tricks that Joy could use to really start making her budget work:

Cash Envelopes – Using an envelope for each budget option is a great way to staying on budget. By paying cash for items, such as groceries, it is much easier to stay on track and to see how much you are spending. Handing over R1000 in cash feels much different than simply swiping for that amount. Plus, you are able to look into your envelope, and at a glance, see how much you still have left to work with for the remainder of the month.

Review your Budget – Once a month review your budget. If there are any categories where you are always falling short such as groceries, you may need to increase this amount, and decrease from another less important category. Also include any categories which you may have initially forgotten, to help yourself stay on track going forward.

Big Purchases – When it comes to big purchases over a certain rand amount (you can set this amount for yourself), look at it and decide whether this is a want or a need, take a photo of the item and wait at least 24 hours to think about whether you truly need it, and finally if it is something which you feel you need. Then add it in as a line item in the budget to save up for it.

Pearl then gave Joy a hug, saying: You are trying your best, and nobody gets it right the first time. But always remember you are in a much better place than you were 3 months ago! Pearl also reminded Joy to focus on the savings fund while she is paying back debt. There will come a day when you have a real emergency and you don't want to use your credit card, said Pearl.

So, try to save up some money for that rainy day when you really need it!

Outcome?

It has now been a full year and Joy is doing really well with her budget. She is making her salary cover every single expense each month and continues to pay back her debt. She did have a small set back when she had to pay for a broken fridge at home, but luckily, she had already saved up R3,000.00 in her savings fund for such an emergency! Joy is really enjoying being in charge of her money and wants to take it even further. She has got to the point where she has done the most with her budget and now needs to start making more income. A big side hustle is her plan, and she decides to get help from her boyfriend Tshepo, who has his very own Side hustle up and running...

Lesson Recap

The overview

- 1 - Understand the difference between what is a need and what is a want.
- 2 - Cutting out these non-essential spending feels equivalent to giving yourself a raise.
- 3 - Find something to really motivate you every month when it gets hard to not spend your money and go out with friends.
- 4 - A zero-based budget means that you take only the amount of money that is actually paid into your account after taxes and deductions), and then take away from this all of your monthly expenses.
- 5 - If you have a negative value, then you either need to decrease the amount allocated to some of the categories in your budget such as groceries or entertainment, or you need to increase your income with a side hustle.
- 6 - If you have a positive value (extra money) left, then this money needs to go towards savings, or paying off debt.
- 7 - Don't buy new if you can buy second hand, and don't buy second hand if you can borrow.
- 8 - Using an envelope for each budget option is a great way to staying on budget. By paying cash for items, such as groceries, it is much easier to stay on track and to see how much you are spending.
- 9 - Once a month review your budget. If there are any categories where you are always falling short such as groceries, you may need to increase this amount, and decrease from another less important category.
- 10 - Focus on the savings fund while she is paying back debt.