

MODULE 4 Money management

Learning objectives

By the end of the session you will...

Understand the concept of financial planning in the short-term, medium-term and long-term.

Understand the difference between needs and wants and the value of prioritising.

Understand how you can change your financial position through changes in income and expenditure.

Activity

4.1 *How would you define a budget?*

4.2 *Process of budgeting.*

4.3 *Short-term, medium-term and long-term financial planning.*

In order to be able to properly manage money, financial planning is necessary. Money needs to be managed:

- a) on a day to day basis (short-term management) and
- b) in the medium and longer term.

An example of short-term money management is paying household bills, etc.

An example of long-term money management is saving and borrowing for an item such as a house or a car and financial planning for retirement.

For both short- and long-term financial planning, **budgeting** is at the core, and medium and long-term planning is built on this exercise.

4.1 How would you define a budget?

What is a budget?

A budget is an estimate of income and expenditure over a given time period. It is a mechanism for short-term financial planning because it indicates whether or not income and expenditure balance.

When income is less than expenditure, and no action is taken, then a debt will arise. Should income be greater than expenditure, the excess can either be spent to buy a needed item or saved (see Module 5).

Budgeting is at the core of any financial planning since it enables financial decisions to be made based on information about current financial circumstances.

4.2 Personal budgeting

What ways of budgeting are there?

There are various ways of budgeting – some easy and others more difficult and time consuming. To do it properly you really need to complete the budget calculator. This takes time to gather together all the information required. However it is well worth the effort since it provides a clear and accurate picture of the financial situation.

Fill in as much as you can. You may need to make a note over a period of a week or a month of how much you spend on such items as newspapers, going out, etc. The results can sometimes be surprising.

Before you start on the calculator you will need to collect together the following items:

- Your payslip
- Mortgage payment / rent book
- Gas & electricity bills
- Telephone / Internet / Sky / cable bills
- Water bill
- Council tax bill
- Insurance bill
- Credit card statement
- Loan statement
- Food / grocery bill
- Investment earnings
- Bank Interest

Budget Calculator

INCOME

£

TOTALS

(per week/month)

Take home pay
(to include regular earnings,
bonuses, overtime, commission)

Other income
(to include, bank interest, investment
income, spare time earnings)

Pension
(to include company pension,
portable or private pension,
disability pension, war pension,
state pension)

TOTAL £

OUTGOINGS (expenditure)

Mortgage / rent

Food / groceries

Gas

Electricity

Water

Telephone / Internet / Sky / cable

Council tax

Insurances

Credit card

Loans

Car

Travel costs

Other fuel

Clothing

Furniture / electrical

Home and garden

Savings

Newspapers etc

Holiday / leisure

Presents / gifts

Miscellaneous

TOTAL £

There are simpler ways of budgeting although they do not give the complete picture. They are quicker however, and better than doing nothing. Ways to budget simply include:

- 1 Checking your bank statement at the end of each month and adjusting this to allow for known annual events e.g. a holiday, renewing car insurance, etc.
- 2 Writing down everything you spend over a set period. Remember that these are very crude ways to budget; the best way is to use the budget calculator – at least from time to time.

What happens if your budget doesn't balance?

You can either increase your income or reduce your expenditure. Some items of expenditure are easier to reduce than others.

Look again at the budget calculator. Which items of expenditure or outgoings can you most easily reduce?

The items at the bottom of the list such as eating out, presents etc. can most easily be reduced. It is important to maintain credit card repayments and paying other bills.

On your list of expenditures which are needs, which are wants? You can manage without the wants.

Managing without the items such as outings, newspapers and magazines, and replacing non-worn out items is helpful if the budget doesn't balance. Surprisingly large amounts of expenditure are not strictly necessary.

What are the benefits of preparing a budget?

Benefits include:-

- a) Knowing your financial situation
- b) Being able to make informed financial decisions
- c) Being aware of issues that need to be addressed
- d) Being aware of financial problems in good time
- e) Financial efficiency

4.3 Short-term, medium-term and long-term financial planning

Having worked out a budget you can then look at short-, medium- and long-term financial planning.

For clarity, short-term is the next couple of months, medium-term is up to five years and long-term is anything over five years.

Look at the following case studies and the example. Think about the one closest to your circumstances. How would that person mark short- (S), medium- (M) and long-term (L) against the items? Then complete the financial planning issues for your own situation.

There are many factors that could influence how medium- and long-term planning issues are viewed. Marital, partner and single sex relationships, the presence of children and responsibility for elderly relatives may be significant. In terms of work situations, the possibility of redundancy, short-term contracts or voluntary job changes, can influence attitudes about expenditure and savings.

Example

Joy and Tom are in their mid-forties. Joy works full-time and Tom works freelance. They have two teenage children, one of whom is hoping to go to University. They need to plan for this and have thought about buying an insurance policy to help them. They also want to pay their mortgage off as soon as possible and look at increasing their retirement income. They already have pensions but think paying AVCs would give them more income in retirement.

Financial Planning issues for Joy and Tom

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement		x	
	Remarriage			
	Retirement			
Retirement location				
Pension	AVCs		x	
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			x
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				x
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			x
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 1

Iain is 26, single and at the moment earns more than he spends, so he would like to take on a mortgage to buy a house instead of renting. He would like to have a holiday later this year and is thinking of borrowing some money next year to buy a car. He also knows that he needs to start a pension now if he is going to have enough to live on in retirement.

Financial Planning issues for Iain

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
Housing	Buying a house			
	Moving house			
	Repaying the mortgage			
	Selling your house			
	Taking out a mortgage			
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 2

Susan is 29, married and works part-time. She wants to plan for the education of her two children, which could involve long-term saving. At the same time she is saving for a holiday for the family in the short- or medium-term. Although she is only working part-time and not earning a lot, she still wants to plan for a pension. She also intends to get round to some estate planning.

Financial Planning issues for Susan

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
Housing	Buying a house			
	Moving house			
	Repaying the mortgage			
	Selling your house			
	Taking out a mortgage			
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
Taxation				

Case Study 3

Rahul is 32 and married with one child. His wife works full-time and they would like to buy their own house within the next five years. Since both he and his wife are currently working (but may not continue to do so), they would like to save a bit more. Both of them think it would be a good idea to start a pension and pay off their car loan.

Financial Planning issues for Rahul

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 4

Harry and Ann are in their fifties. Ann works part-time but Harry has just been made redundant. Their children have both left home recently so their expenses have reduced but Harry wants to financially manage his redundancy in the short-term. He is thinking of selling their house and has taxation issues that need attending to. He has a lump sum of money that he may pay off the mortgage with or invest. If he has enough left he would like to plan a holiday as being made redundant has been very stressful.

Financial Planning issues for Harry and Ann

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 5

Martin and Maureen are both retired and looking after Maureen's elderly mother who lives nearby. They each have a small pension. Their TV needs replacing so they want to save for a new one and in the short- and medium-term they are considering planning for health care in later life. Maureen's elderly mother is also considering estate planning.

Financial Planning issues for Martin and Maureen

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 6

Sarah has just left University and started work some ten miles away from her parent's home. While she is happy living at home for the short-term she is considering borrowing money to buy a house. She is also saving for the costs associated with this. Sarah is a great believer in saving and would like to start a pension as well as save up for her own car to drive to work.

Financial Planning issues for Sarah

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Travel			
Housing	Buying a house			
	Moving house			
	Repaying the mortgage			
	Selling your house			
	Taking out a mortgage			
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
Taxation				

Case Study 7

Barbara and John are in their mid-forties and have two young children. Barbara’s mother has just died and Barbara has just inherited £200,000. The two of them would like to pay off their mortgage or move to a bigger house with the inherited money, but they are also considering saving for the education of their children. Estate planning is important to them and they may take the opportunity to have a trip to Spain.

Case Study 8

Richard is in his thirties and works freelance. He wants to get married in the next two years. He will need a bigger house when he marries which could mean a bigger mortgage. However, because he works freelance his job is insecure so he is reluctant to take on a bigger mortgage. He thinks he would be better saving for this and also knows that he should be starting a pension if he wants to have enough to live on when he retires.

Financial Planning issues for Barbara and John

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

Financial Planning issues for Richard

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
	Charity giving			
	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
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	Power of Attorney			
	Redundancy			
	Taxation			

Case Study 9

Betty is a widow in her early seventies. She lives alone, some distance from her family. She has a good pension and lives in a house that is too big for her to manage. She feels she would be better off selling her large house and moving somewhere smaller and perhaps closer to her family. She is also considering how she will manage if she needs healthcare later in life and wants to do some estate planning to minimise the tax paid on her estate.

Look again at the chart and tick off the short, medium and long-term financial issues for you.

Fill in the chart choosing from the list and ticking the block on the right to show short (S), medium (M) or long-term (L) planning.

Financial Planning issues for Betty

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
	Job changes			
	Part-time work			
	Planning for retirement			
	Remarriage			
	Retirement			
	Retirement location			
Pension	AVCs			
	Pension choice			
	Private pension			
	Starting a pension			
	State pension			
Financial expenditure	Car purchase			
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	Child minding			
	Education / further education			
	Family			
	Health care			
	Holiday			
	Saving			
	Travel			
	University debt repayment			
	Housing	Buying a house		
Moving house				
Repaying the mortgage				
Selling your house				
Taking out a mortgage				
Miscellaneous	Borrowing for an item e.g. a car			
	Buying other financial products			
	Credit card management			
	Estate planning			
	Financial Advice			
	Having a good time			
	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			

		S	M	L
Insurance	Accident cover			
	Car insurance			
	Income Protection			
	Life insurance			
Life style	Aged parents / caring			
	Career changes			
	Changes of life style			
	Divorce			
	Early retirement			
	Full-time work			
	Grandparenting			
	Inheritance			
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	Remarriage			
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	Making a will			
	Management of debt			
	Power of Attorney			
	Redundancy			
	Taxation			