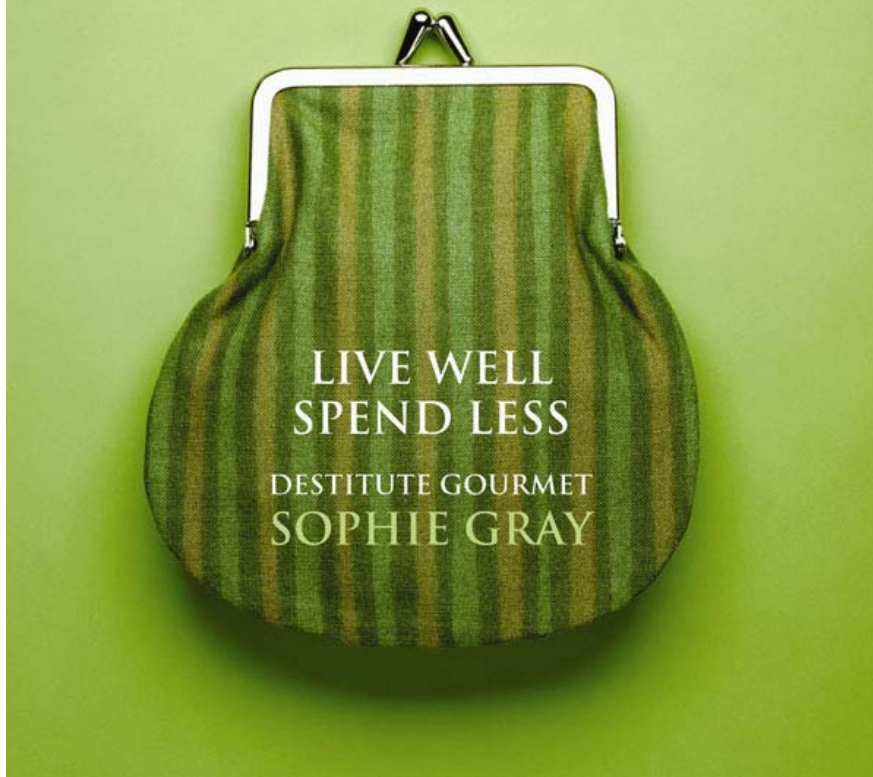


EASY WAYS TO **SAVE MONEY** IN EVERY PART OF YOUR LIFE



# Live Well Spend Less

by Sophie Gray

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**Extract from Chapter 1**

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## Chapter 1

## MANAGING YOUR MONEY

Budget is a bit of a dirty word, and I have to admit that I avoid using it if possible because it seems to have negative connotations for many people. If I talked about 'budget cooking' no one would want to buy my recipe books, despite all the delicious and inexpensive dishes they contain. Instead we talk about 'fashionable food that doesn't cost a fortune', just to avoid the 'B' word.

**B**ut a budget is simply a way of organising your spending so that you can live within your means and achieve your goals. It's a tool, not a punishment for the sins of overspending.

There is no way of avoiding it when it comes to managing your money, though. Without a budget you are like a ship with no rudder. You'll drift into dangerous waters and probably sink.

**A budget is simply a way of organising your spending so that you can live within your means and achieve your goals. It's a tool, not a punishment for the sins of overspending.**

There are lots of ways to organise your personal or household budget, and many of them are free, using spreadsheets or online calculators. They really are fantastically clever and detailed. We use one of the systems on [www.sorted.org.nz](http://www.sorted.org.nz) for our general household budgets. We've also created budgets for the kids (in the hope they might avoid some of our youthful mistakes). They even have specialist budget planners on there for students, and other specific variations. All you have to do is key in your details, and you can update or change the elements whenever you want so it's always current. If you get a pay rise, for example, or your hours at work are reduced, you can just change the figures in that section of your plan and it will recalculate your whole budget for you to accommodate the adjustments. It's clever stuff, it's free, and if you have internet access there is no excuse not to do it.

The less money you have, the more you need to be able to account for every last dollar. Knowing that the bills are covered and you have money allocated for your other expenses is a terrific stress-buster and gives you choices you didn't have before.

If you don't have a budget you will end up fretting about bills, feel that you shouldn't spend anything on yourself, feel miserable, treat yourself so you'll cheer up, worry about what you have spent, then fret about the bills . . .

## FYI

In a British study into the effects of 'debt advice', participants who were in debt were asked to indicate how easy or difficult it was to carry on living a normal life while experiencing their current debt problems. The researchers used a scale from 0 to 10, where 0 was 'not at all' and 10 was 'extremely' difficult. The mean was 8.4.

Eighty-nine per cent of clients also reported worrying about their money problems 'most' or 'all' of the time. Perhaps as a consequence, the great majority of them believed their health had been adversely affected by their debt problems. Forty-eight per cent described the impact of their money problems on their health as 'great', and 43 per cent felt that their health had suffered 'to some extent'. Around three in five clients reported having received treatment, medication or counselling as a result. On average, GPs were reported to have been visited once a month, and a number of people reported visiting hospitals, counsellors or psychiatric nurses.

Relationships were also affected by debt problems. Forty-five per cent of clients stated that money problems had a negative effect on their relationships with partners. Negative impacts on relationships with children, other family members and friends were also regularly reported. In addition, 19 per cent (42 per cent of clients currently in work) reported that they had needed to take time off work as a result of money worries, and 12 per cent suggested problems led to them giving up jobs. Six per cent stated that their financial situation had led to them losing their job. Nineteen per

cent reported that money problems had resulted in their finding it difficult to obtain new jobs. Finally, 15 per cent reported working longer hours to ease financial pressures.

Data also indicated that debt problems can have an adverse impact on people's health, personal relationships, housing and economic circumstances and confidence.

— *Impact of Debt Advice Research Project*,  
Department for Constitutional Affairs, UK, 2004

### The less money you have, the more you need to be able to account for every last dollar.

If you've never operated a budget before, I personally think you can't beat a cash system. The primary reason is that cash is visible, tangible, and we don't like to part with it!

Researchers have found that people who shop with cash spend up to 20 per cent less than people who use plastic. That's reason enough alone to use a cash budgeting system.

The easiest and most flexible is the envelope system. There are variations to the way the system operates, but this is the way we found worked best with our very limited resources.

## How to set up the 'envelope system'

This system is really easy to set up and operate. It's been around a long time and it works whether you are a one-person household or a large family.

I recommend using a weekly system as it's easier to keep track of — and to correct if you've run amok in the January sales.

To start with you need to know what your total annual income is, so list your income from all sources and total it. Check your last tax return for sources of income you may have forgotten, then write down the after-tax total.

Now think about your expenses.

We will divide them into two categories: **fixed expenses** and **variable expenses**.

**Fixed expenses** are things you have to pay every month, like rent or mortgage payments, loan payments, insurance premiums, regular transport costs, rates, and utilities such as water, power and gas. While some of the amounts vary a little from month to month (power, for example) they are predictable and you always have to pay for them.

**Variable expenses** are all the other things you spend money on — groceries, entertainment, sports, vehicles, personal grooming, etc. — things where your choices make a big difference to the overall amount you spend.

Fixed expenses include:

- \* Housing — rent/board/mortgage
- \* Household insurance
- \* Car insurance

- \* Medical insurance
- \* Life insurance
- \* Council fees such as rates, water rates or other local taxes
- \* Transport
- \* Utilities

Variable expenses include:

- \* Vehicle maintenance/servicing
- \* School fees and expenses such as uniforms, stationery and trips
- \* Sports subscriptions
- \* Satellite or Sky TV
- \* Groceries
- \* Haircuts
- \* Lawn and garden services
- \* Gifts: Easter, Christmas, birthdays, Mother's and Father's Day, friends. . .
- \* Childcare/babysitting
- \* Outings and entertainment
- \* Holidays
- \* Maintenance and repairs
- \* Decorating
- \* Clothing
- \* Pocket money
- \* Doctors' and dentists' visits
- \* Charitable giving, tithes, child sponsorships and donations

Include anything else that you are likely to spend money on, such as green fees, gym memberships, and magazine or newspaper subscriptions. Be ruthlessly honest — there is no point in pretending you won't buy candy bars on the way to work; you might as well factor them in so you can enjoy them guilt-free (except for the calories, that is).

Some of these expenses will be easy to calculate by looking at previous bank statements and the like. For others, such as haircutting, transport, groceries and gifts, you may have to take an educated guess — it's likely you will underestimate, so be generous in your estimates.

Deduct the total of your **fixed expenses** (mortgage/rent, insurances, utilities, etc.) from your income. The figure that remains is how much you have left for all your **variable expenses** and for **savings**.

Now you want to break it down so it's easier to keep track of. If you divide your annual totals by 12, this will give you monthly budget figures; dividing by 26 gives you fortnightly figures. I prefer to work weekly, so I divide my income and expenditure totals by 52.

If you have a surplus (more income than expenditure) you should allocate the difference to savings, as you don't actually 'need' it to get by from week to week. If the money doesn't get moved into a savings account you will just fritter it away. But you'll be amazed how even a small surplus like \$30 a week will add up — over 12 months that's \$1560. That's a nice little holiday or a new appliance paid for.

If your expenses exceed your income, it's time to take stock of your variable expenses and make some cutbacks. Identify exactly how much you are overspending each week, and work out where you can make cutbacks or

generate extra income. This may be just a short-term situation while you clear a debt. If you have a serious shortfall you will need to look at ways of increasing your income as well as decreasing your expenditure.

Need to cut back now? Check out Chapter 2, 'Eat well, spend less', and get serious about saving at the supermarket.

- \* Can you reduce your spending on grooming? I taught myself to cut the family's hair, and estimate conservatively that I have saved us at least \$520 per year, allowing for haircuts approximately every six weeks. That's \$7800 over 15 years. A \$35 haircut kit with clippers, scissors etc. got me going, and I did some research at the library and online so I could give everyone an 'as good as a bought one' cut. You could attend a night class for a small fee, and save thousands if you have a big family.
- \* Can you reduce your spending on garden and household maintenance? A lawn mower can pay for itself in one year — but only if you have someone in the family who will actually get outside and push it around the lawns. Having paid for the mower, can you or one of the family top up the coffers by mowing the neighbours' lawns too?
- \* Do you actually need those extra pay TV channels?
- \* Can you rethink your entertainment and outings? A coffee out every other day adds up to over \$700 per year. If your expenses outweigh your income you simply can't afford this.
- \* Could you rent out the spare room to clear the debt while you get your spending under control? See Chapter 5, 'Room to rent', to explore these options.

### How to get your envelope system working for you

The first thing you need to do is ensure all your bills are paid each week before anything else — that's a huge worry taken away immediately. Set up automatic banking payments for all your fixed expenses. For all your variable expenses you are going to use cash.

You will need to buy a pack of plain envelopes and allocate one envelope to each variable expense. Write the name of the expense and the amount you need to set aside each week on the envelope.

For example:

Groceries — \$180 (9 x \$20 notes)

Babysitting — \$10 (2 x \$5 notes)

Gifts — \$25 (5 x \$5 notes)

Pocket money — \$10 (1 x \$5, 1 x \$1, and 2 x \$2 = \$6 Ruby, \$4 James)

Chapter 2, 'Eat well, spend less', has specific strategies for reducing and managing grocery spending. You can either include your groceries in your envelope system or use the method described in Chapter 2, or a combination of both, which is what we do. I draw the cash we need for our groceries each week and keep it in the envelope. I then follow the destitute gourmet principles for grocery spending, and any money I save from the groceries goes in an envelope marked 'Grocery Surplus'.

Once a week you will need to go to the bank and draw your envelope money in cash, in the right denominations for each envelope. I keep a card in my wallet so I know exactly how many twenties, tens, fives and coins I need to withdraw. It will be the same each week (allowing for the odd adjustment). The bank tellers have got to

know me over the years; I just explain that this system works and get on with it.

If you don't have any of the smaller denominations when you need them your whole system can come unstuck. For example, if you need to give the kids their pocket money but you only have 20-dollar bills, or you need to pay the babysitter \$25 and you have no fives — arghh.

### Set up automatic banking payments for all your fixed expenses. For all your variable expenses you are going to use cash.

By drawing the exact denominations, you will have exactly what you need when you need to pay a bill, or pay the lawn guy, babysitter or buy a gift — the money will be there in the envelope.

If you are contemplating a trip to the movies and the 'Entertainment' envelope is empty you have to rethink your plans. No, you cannot snatch it out of one of the other envelopes, because then you won't have enough in that one when you need it. If the money isn't there you have to accept the reality — you can't afford it this week. It's not a grey area or a judgement call — the money is there, or it isn't.

If you haven't spent anything on decorating or doctors, for example, and the envelope has filled up, you can reallocate those funds — put them in your savings account or into another area where you may be regularly falling short. If you end up with an expensive dentist's bill and you need to pay it now, you can take money out of envelopes that are for luxuries like entertainment, outings or babysitting.

**Bills always have to come before luxuries.** It does take discipline, but if you stick with it, the envelope system works.

It works! It works! It works!

Making any purchase, whether it's clothing or groceries or gifts, will be less stressful because anytime you shop you know exactly how much, or how little, you have to spend.

We always try to allow some grown-up pocket money too if the budget allows, so buying a coffee or a magazine comes from our own 'pocket money'. We don't have to have each other's permission or justify how we spend our own money. Often that too mounts up, and it can be used for a more substantial treat, so we don't feel deprived.

You don't accumulate any interest on the envelope money as it's not in the bank, but for people with limited resources the amount of interest would be negligible anyway. And avoiding paying interest on overdrafts or loans is a real benefit.

If you are saving some money in the bank, then your savings account will be gaining interest.

You may also be worried about the security of having cash in the house. Be sensible! Don't tell teenagers, visitors or guests where you keep it. Don't put it under the mattress, in the dresser drawer or bedside cabinet. Find an accessible but unlikely spot. They're only envelopes, after all, not likely to attract a lot of attention from burglars looking for big-ticket items.

## Teaching the young 'uns about money

As parents we don't want to burden our kids with worries or adult responsibilities

before their time, but financial intelligence is an essential life skill. I don't believe a child will be screwed up for life if from time to time their parent says, 'No, we can't afford that', or 'We would have to save for a very long time for that', or 'We have to be careful about our spending as we need to be sure we've paid all our bills'.

The sooner they learn that the cashflow machine isn't making new money for you whenever you insert your card the better.

## Pocket money

Pocket money is a good starting point. In any family there are things you must do simply because you are part of the family — helping when asked, putting away your clothes, doing dishes, etc. Those kinds of things are just part of life, and the kids shouldn't expect to be paid for simply doing their share.

Generally, children learn their attitudes towards money from home. Pocket money creates the opportunity to teach children about spending thoughtfully, saving, and the consequences of losing money, gambling with it or giving it all away.

Pocket money also helps teach children about having to make choices, saving up and waiting for things they want. Letting your children make a few mistakes is part of the learning process, and you can put limits on what they spend their money on or how much of it they can spend on lollies or junk food. (They'll cry, 'But it's MY money'; we reply, 'Only because we give it to you!')

Your child learns a lot by watching you and how you deal with money. Spending, saving, withdrawing or donating money: they're all chances to teach your child more of the basics around money.

## FYI

Young people have more discretionary money at their disposal than any other sector of society. With a part-time job and regular pocket money, they can afford to have quite expensive tastes. That's all very well while they're living at home, but once they're on their own and having to pay for everything those expensive habits can be a real problem. It's hard for them to give up things they're accustomed to, like a comfortable home with a well-stocked fridge at their disposal, and a cashflow card to buy whatever they fancy.

The current generation of youth don't seem inclined to 'rough it'. KIPPERS — the acronym stands for 'kids in parents' pockets, eroding retirement savings' — are an increasingly common phenomenon these days.

What happens is this: they leave home, want all the comforts of home, spend up large, get into debt and have to move back home to their old bedroom with the Boyzone posters on the wall. Where they sponge off Mum and Dad who, God bless them, started out with nothing, used two saw-horses and an old door as a dining table for the first three years they were married, never bought anything unless they had the cash, and have worked and saved their whole lives looking forward to a retirement now being eroded by their feckless kids.

Any pocket money system you institute must be appropriate for the ages of the kids and sustainable in the overall household budget. There are lots of variations, including:

- \* Make pocket money totally task-oriented by paying per job:

\$2 for cleaning the car, \$10 for mowing the lawns . . . This can get complicated as they will tend to zero in on the particular jobs that yield the best return for the least effort, and may expect to be paid for doing something that didn't need doing, or do a really rubbish job and then expect you to cough up the full whack.

- \* Paying all the children exactly the same amount, on a weekly or monthly basis.
- \* Paying them to do certain tasks, such as mowing lawns, folding washing, putting out the recycling. This system can come unstuck when the child would rather go without the money than do the job but the job still has to be done.
- \* Pay each child according to his or her age; so the four-year-old gets \$4 and the six-year-old gets \$6 . . .
- \* Have a linked pay scale in five-year increments — 5–10 years, \$5; 10–15 years, \$15.

It's a really good idea to have them save a portion of their pocket money each week in a piggy bank or savings account. Kids need to experience the satisfaction of seeing money accumulate. If you give it to them in cash, with no restrictions, they are likely to spend it all every time.

Spending is one of the rewards of working and should be enjoyed, but if you want to instil sensible financial habits in the kids, then create a system so they can't spend everything they earn. Encourage them to have a savings goal — something pricey that they want to buy for themselves, so the saving has a purpose.

### Teenagers and bulk funding

When a child begins college, the serious business of learning to manage their money really starts. In our family we use a system we refer to as ‘bulk funding’ to ease the kids into managing their money in a broader sense. Different families do it different ways, but this is how bulk funding works in our family.

The year they start college we stop paying them pocket money, and instead we allocate a sum of money at the beginning of the year for their expenses. Each month we deposit their ‘allowance’ into their account.

That money is to be used by them to pay for all their clothing (excluding uniforms), personal grooming and entertainment. It will be slightly less than they are likely to need so a part-time job is essential.

We pay ALL school expenses and ALL sporting or education-related costs such as camps, music lessons and tutoring. We pay all medical bills and the costs of family activities. We also pay for personal items purchased as part of our routine grocery shop — shampoo, deodorant, etc. If they want a flash, expensive brand, they have to pay for it themselves.

Some families pay the kids one lump sum for the year — if they blow it all on designer clothes in the first month they have to live with the consequences. Other families do it quarterly, which allows four chances to correct an overspend. We’ve opted for monthly, and that’s working for us.

Some families charge their bulk-funded teens a family tax, so they contribute to family events such as holidays — making the whole thing as much like real life as possible but in a safe, guided way.

You may want to draw up a contract that outlines the obligations and

expectations of each party. You might include things like ‘a reasonable standard of dress and personal hygiene is maintained’; for example, boys, we have observed, will forgo replacing needed items of underwear and regular haircuts in favour of spending the money on entertainment.

While they live under your roof, you should expect them to maintain certain agreed standards, while allowing freedom of expression and personal style.



Our experiences with bulk funding have shown that initially they are very careful with the budget. After a while, however, we found we were frequently being asked to advance money. After going through the transaction statements and seeing how much was being frittered away on drinks, donuts and other non-essentials, we withdrew the cashflow card for a while until things got back on track. Bulk funding in our house is a privilege, and you must prove that you can be responsible with money to be allowed that independence.

At first, with clothing I insisted the tags stayed on till I’d seen the garment — not to control what they’d spent, just to check it was age-appropriate.

I did from time to time suggest something was not a great choice, for whatever reason, and left it at that. I was surprised that on several occasions the garment was returned or exchanged!

Girls seem to make gift-giving a priority, and will allow for it in their budget or be very extravagant with gifts. In our experience boys tend to opt out of gift-giving, having spent all their money on other things. We don't think this is on, and believe they should be giving too, as they'll be there with their hands out every birthday and Christmas. Check out Chapter 9, 'Celebrations', for easy, inexpensive gift ideas that they can try.

## FYI

### Theft and standover tactics

Cellphones and cashflow cards carry risks — standover tactics or outright theft must be discussed. One teen we know received a text from the phone of a mate, telling him to meet him at a certain place. When he arrived there he was held up at knifepoint by a stranger who, having stolen the cellphone, was working his way through the contacts list, sending texts to arrange meetings with all the kids, who assumed the text was from their mate simply because it came from his phone. After forcing them to the cashflow machine he extracted all their money. Fortunately for our friend, when it happened to him he only had 11 cents in his account! (No surprises there, but it could have been much worse.)

## What to do in a financial emergency

With the best intentions in the world you may face financial hardship that requires external help.

- \* The first thing to do is contact your creditors and explain the situation — see if you can set up a payment plan.
- \* Can you take a 'mortgage holiday' or 'insurance holiday' — this means your provider allows you to miss or delay a payment without it affecting the terms of your agreement. You will have to arrange this with them and establish the exact terms of the break. You cannot simply skip a payment and call it a payment holiday — they will see it as defaulting on your payments. Nor are they obliged to grant a payment holiday, but if you are a longstanding client with a good payment history it is worth asking.
- \* If you have several outstanding debts, such as hire-purchase agreements, credit cards and personal loans, identify which has the highest interest rate and pay that off first.
- \* If you have a personal loan with a lower rate than the other things, consider paying off all the others using the loan, and then chip away at that over time, paying the lesser interest rate.
- \* AVOID AVOID AVOID borrowing from 'fast cash now' money lenders. The terms and interest rates are crippling. What may seem like a quick solution to your problems is likely to make a bad situation much worse.
- \* Contact a budget advisor — [www.familybudgeting.org.nz](http://www.familybudgeting.org.nz) is the website for the New Zealand Federation of Budget Services. You can use the site to find free budget advisors in your area. Alternatively, look

in the phone book for Budget Advisory Services — this is a voluntary organisation with branches in most areas.

- \* Talk to Work and Income or other social services — they may be able to offer suggestions.



Budget Advisory Services and the Citizens Advice Bureau are **free** services. Citizens Advice Bureau, [www.cab.org.nz](http://www.cab.org.nz), can provide information to assist with almost any issue, and if they can't, they'll find someone who can. Whether you're about to be evicted from your flat, need to find local childcare, or want advice on how to deal with a neighbour, they have trained CAB volunteers to assist you. They'll discuss your options with you and give you contact numbers for any services or organisations that will be able to help further.

## Emergency food

If you are unable to buy groceries and are ineligible for emergency funds from the government social services agencies, then a food bank may be able to help you.

Food banks are generally run by churches, and staffed by volunteers. Their stock comes from donations.

Don't be embarrassed to ask for help — that's what the food bank is for. They will probably want to know how many people are in your household, and you

may need to explain the cause of your hardship. Organisations vary — some food banks will supply fresh food and meat as well as staples; others only supply tinned and shelf-stable items.

They may well have a limit on how many food parcels they are willing to supply to any given household, and they do not usually give more than one per week as they do get exploited. Some will allow several deliveries but require you to take budgeting help or other advice or training.

You are not obliged to attend their church, and accepting a food parcel should not put you under any feelings of obligation. Most churches provide a food bank because they simply want to help. The Salvation Army and Presbyterian Support Services are nationwide 'ministries', but many local churches take responsibility for trying to meet the needs in their communities and will take referrals from Work and Income or other social services and community trusts.

If calling a food bank makes you squirm, but you have no food, think of something you can offer in return — then you may feel more comfortable receiving the assistance. Can you, for example, offer to do some cleaning or mow a lawn, or deliver a letterbox drop by way of thanks. You can also make a contribution to the food bank when you are back on top of your finances.