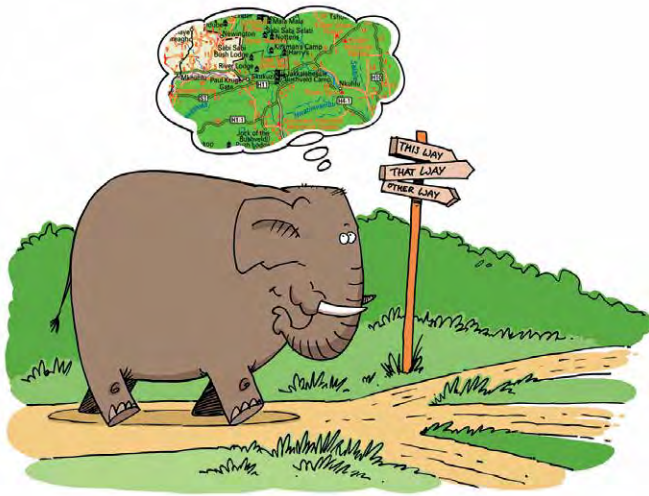


The Secret of the Elephant



“Learn what you earn, know what you owe and spend”



THE SECRET OF THE ELEPHANT

The African elephant never forgets. Its knowledge, aided by its memory, is its power. It remembers the places it has been, and uses this knowledge to plan its future.

What can I learn from the Elephant?

- An elephant’s knowledge, aided by its memory, is its power. In a recent study of wild African elephants, findings show that dominant females build up a social memory as they get older, enabling them to recognise “friendly” faces.
- This gives them a huge advantage: the old mothers, who lead the packs, signal whether an outsider is a friend or foe (to the rest of the herd), allowing family members to focus on feeding and breeding when there is no danger.
- For us human beings, knowledge is also power. But, because our memories are not as good as the elephants’ (especially when it comes to spending), we need to write down what we earn, owe and spend so as to keep the knowledge and then plan our future.

The main reason why you should budget is that this is the only way you will be able to answer this question:

- Do I have any extra money each month that I can use to pay off debt faster or save more aggressively?

Learner Outcomes

At the end of the module “the Secret of the Elephant” you will be able to:

1. Identify different kinds of expenses and how to manage them.
2. Develop a family budget at least once a year.
3. List a simple five-step budgeting process that works.
4. Develop a plan to track difficult variable expenses using the elephant envelopes method.



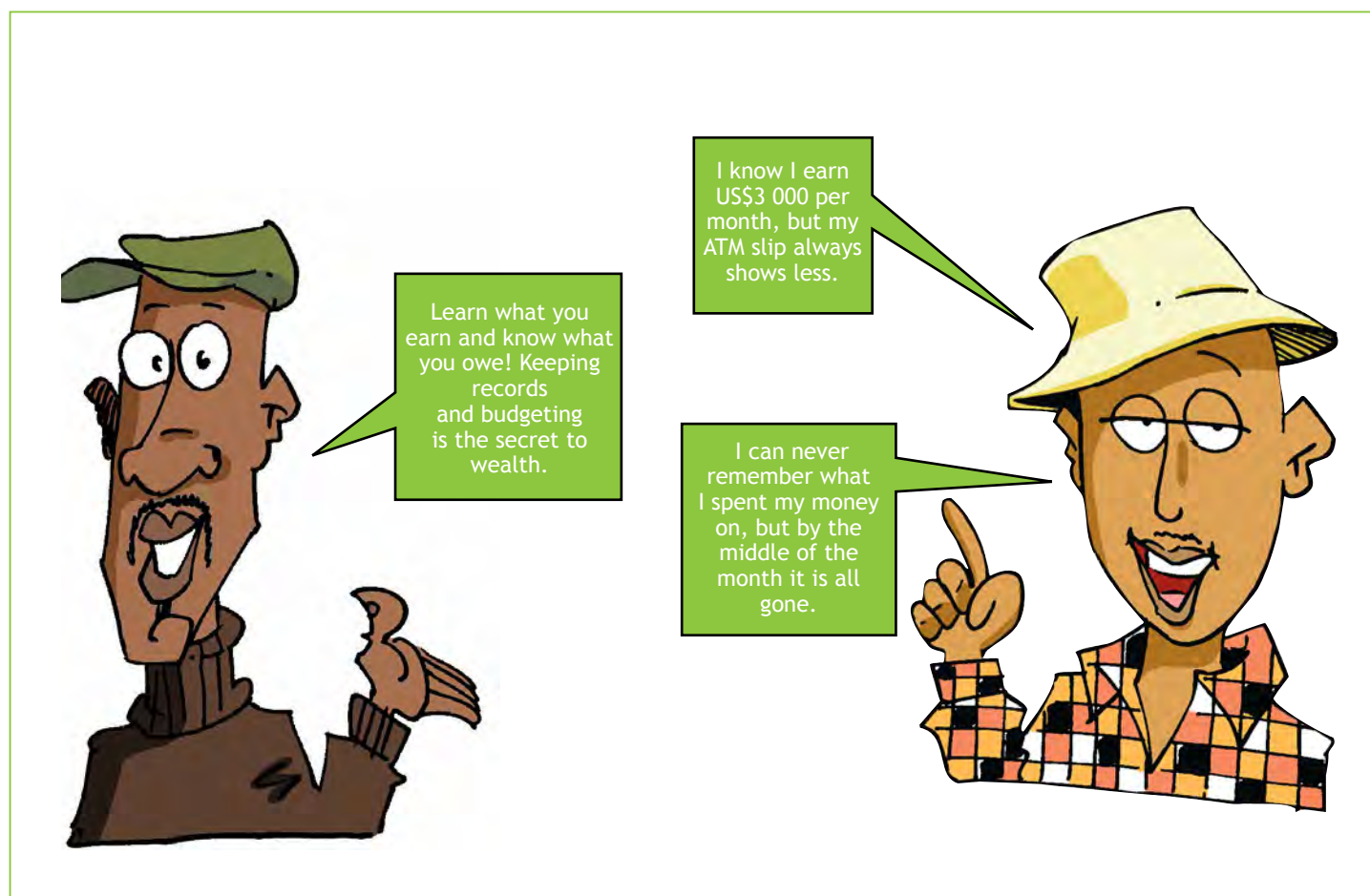
Are your monthly expenses more than what you earn?

Do you know exactly what you earn, or exactly where your hard-earned money is going each month? A great secret of wealthy people is that they take control of their earnings and expenses.

The **Secret of the Elephant** says that **knowledge is power**. Know and remember the details of your earnings and spending. Use this information wisely to plan your spending. **Learn what you earn, know what you owe and comprehend what you spend.**

Unlike the elephant, human memory is unreliable. Luckily, we have the ability to read and write to help us remember. So with proper **record-keeping** we can remember as well as

the elephant. Collect the details of your income and spending - and write it down. Proper record-keeping will help you understand your spending habits so much better. It might surprise you to see how much you actually spend on items such as transport, lunches, cellphones, relaxation, account payments, etc. Once you have recorded what you actually earn and spend your money on, you can plan how to change your spending to suit your income and future goals. This knowledge gives you the power to change. **Budgeting** is a skill that everyone can learn.



Don't be like Brezhnev and think that knowing more or less what you earn and spend is good enough. To be in control of your finances, you need to actively take control. Be honest with yourself and find out exactly what you are spending your money on. Careful budgeting is key to creating wealth.



How do I take control of my money matters?

Learning to budget is a very important life skill. All you need to budget successfully is a commitment to getting control over your finances, a calculator, some paper and a pen. It's really easy.

A budget will help you to:

- know how you are actually spending your money;
- decide on your priorities and what needs to be changed;
- plan how to use your money in the future; and
- take control of your finances.

Step 1: Learn what you earn

Look at your salary slip and bank statements

- How much money is coming in each month?
- What deductions are taken from your salary?

Step 2: Know what you owe - record your expenses

Write down all your expenses.

- What do you spend your money on now?
- What money do you owe?
- Are there other expenses due in the next 6 months?

Step 3: Reflect on and change your expenses

Work out your income less your expenses.

- Are you living beyond your means?
- What can you sacrifice or change?
- Are you saving enough?

Step 4: Draw up your budget

Design a workable budget for your household.

- What is your household's disposable income?
- Plan your fixed, variable and irregular expenses.
- What can you adjust to live within your means?

Step 5: Review your budget

At the end of each month, compare your budgeted expenses to your actual expenses.

- Are you sticking to your budget?
- Is your budget realistic?
- What changes does your budget need?

Are we losing control?

These days we see very little "real" money or physical cash. Weekly wages might still be paid in cash, but most salaries are transferred directly into our bank accounts electronically at the end of the month. Debit orders and stop orders often pay for bond repayments, cellphone accounts, insurance premiums and other monthly expenses automatically. People are using less cash for these. We can buy clothing, furniture, air-time and even groceries using ATM debit cards, store cards or credit cards. Other accounts can be paid from an ATM, via telephone banking or using the internet, without any real cash ever changing hands.

Convenient? Yes, but it does make the money that we earn a bit unreal. It is easy to forget that we spend our money when we don't **see** the money. Many shops in fact encourage you to buy now and pay later. Money can be spent even when you don't have money to spend!

This modern world makes record-keeping and budgeting more important than ever. If you don't know what is coming in, and you're not sure what is going out, you'll never be able to see where you might be able to find extra money for savings. This is why a budget is so important.



Step 1: Learn what you earn



The first step in budgeting is to know exactly what you earn and exactly what is left after all deductions. You must know what your employer deducts from your salary, and how your net salary is calculated.

Did you know...

By law, your employer must give you a payslip each month. This is the key to understanding what you earn. Taking control means not just accepting what your payslip says. Tax tables are complicated, and even employers can make mistakes! Check your payslip every month. Does it show deductions that you haven't agreed to? Is your medical aid deduction correct? Are you paying for benefits that you no longer have (e.g. parking)?

You have the right to question and understand how your salary is calculated.

Quick Quiz

Answer this quiz to see how much you know about your earnings and spending. Circle Yes or No as your answer.

1. I always check my payslip. Yes No
2. I know exactly what I earn. Yes No
3. I know the total amount of all of the deductions on my payslip. Yes No
4. I know exactly how much money is paid by my employer into my bank account each month. Yes No
5. I know how the UIF deducted from my salary each month is calculated. Yes No
6. I know for certain that my employer is deducting the right amount of tax. Yes No
7. I know exactly how much money I owe each month. Yes No
8. I know how much money I spend each month. Yes No
9. I keep a record of my expenses each month. Yes No
10. I have a budget that I try to stick to each month. Yes No

Check your rating! How many times did you circle “yes”?

0-3 YES	4-7 YES	8-10 YES
Your finances are completely out of control! Financial disaster is a big possibility. You urgently need to implement the Secret of the Elephant .	You are on the right track and understand the Secret of the Elephant , but you need to be more disciplined and start implementing financial control now.	You are already practising the Secret of the Elephant . Read on for tips to strengthen and stick to good financial control.



To budget you need to be clear on the differences between your gross income, your net income and your household income.

Gross Income

This amount should be what was agreed to in your letter of appointment or any subsequent increase letters. It can be broken down into a basic salary and allowances such as a travel allowance, but the total earnings reflected on your payslip would be your gross income.

Net Income

Your net income is usually transferred to your bank account each month. This is calculated after taking into account deductions such as:

Tax

This is calculated by your employer using the latest taxtables. Depending on what you earn, you will pay PAYE tax.

Pension or Provident Fund Contributions

Your employer may have a pension or provident fund that you contribute to for your retirement. If you leave before you retire, your contributions will be paid back to you, hopefully with some interest. Your deduction will be a percentage of your gross income.

Medical Aid Contributions

Some larger companies have medical aid schemes for their staff. If you join, your deductions will depend on which of the medical aid options you choose, your gross income, and how many dependants you have.

Other Deductions

Other deductions must be with your permission, for example, union fees, parking bay fees, tea fund or, as in the case of Brezhnev, a voluntary deduction for a big end-of-year Christmas party.

Household Income or Disposable Income

Your household might have other sources of income. Remember to include these in calculating your household income:

- your partner's income
- extra income earned informally
- any investment income like rental income from lodgers,
- a monthly pension, child grants or disability payments that your household might receive.

1. Look at your payslip

Bra Joe's Chain Stores Payslip

Employee: Brezhnev Nkosi **Pay Period:** May 2011
ID Number: 59 750928 s 80 **Pay Cycle:** Monthly
Bank Details: CABS
Acc No: 0123587
Tax Number: 567895214

Earnings	Amount	Deductions	Amount
Basic Salary	3 000.00	Taxation	15.18
		Christmas Fund	10.00
Gross Earnings	3 000.00	Total Deductions	25.18
		Net Salary Transferred	2 974.82

2. Write down your gross earnings

My Payslip

My Gross Earnings: US\$ _____ per month

Example - Brezhnev's Payslip

Brezhnev's Gross Earnings: US\$3 000 per month

3. Check your net income

My Net Income

Tax US\$ _____
 Medical Aid US\$ _____
 Pension/Provident Fund US\$ _____
 Other US\$ _____

Total Deductions US\$ _____

My Net Income US\$ _____

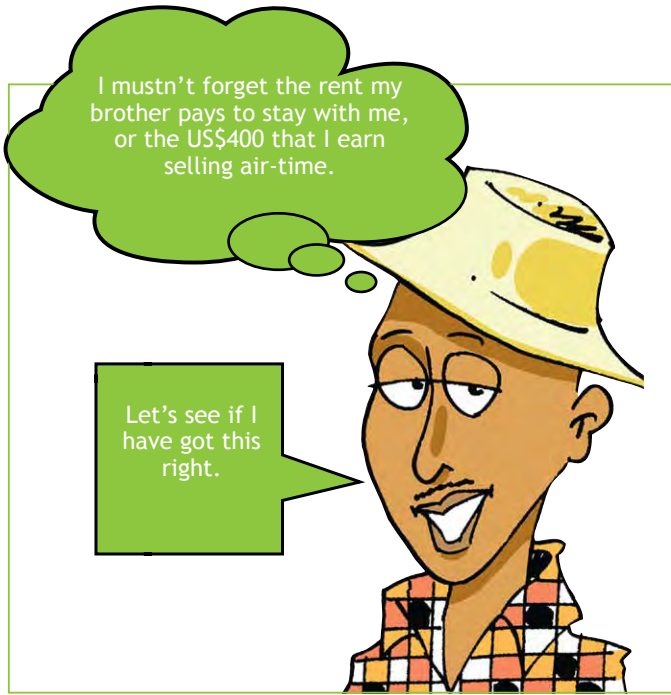
(Find this by subtracting total deductions from gross income.)

Example - Brezhnev's Net Income

Gross Earnings US\$3 000.00
 Less Total Deductions (25.18)

Brezhnev's Net Income US\$2 974.82





4. Remember any extra income!

My Net Income	US\$ _____
Partner's Net Income	US\$ _____
Interest earned	US\$ _____
Total Extra Income	US\$ _____
Total Household Income	US\$ _____

Example - Brezhnev's Extra Income	
Rent	US\$200.00
Air-time sales	US\$400.00
Total Extra Income	US\$600.00

Now let's put it all together!

Monthly household income			
My Gross Salary		US\$ _____	
Less deductions			
Tax	US\$ _____		
Medical	US\$ _____		
Pension	US\$ _____		
Other	US\$ _____		
Less total deductions		US\$ _____	
My Net Income			= US\$ _____
Partner's Gross Salary		US\$ _____	
Less deductions			
Tax	US\$ _____		
Medical	US\$ _____		
Pension	US\$ _____		
Other	US\$ _____		
Less total deductions		US\$ _____	
My Partner's Net Income			= US\$ _____
Other income			
Rent	US\$ _____		
Part-time job	US\$ _____		
Other	US\$ _____		
Other	US\$ _____		
Total other income			= US\$ _____
TOTAL HOUSEHOLD INCOME			= US\$ _____

...so that means my total household income for my budget is:

Net Income
US\$2 974.82

Add other income
US\$600.00

My disposable income is
US\$3 574.82



Step 2: Know what you owe and spend



The Secret of the Elephant shows us that it is important to “memorise” what we spend. Successful budgeting relies on an accurate “memory” of how we spend our money. When we write things down, we realise that we in fact spend more on some things, and less on others, than we expected.

Take the time to accurately record how you have spent your money for one month. Keep all your receipts, and keep a notebook in your pocket. If you don't have a receipt, write the item, the amount and date in your notebook. You will be surprised at how much you “waste” on unnecessary items! Being **aware** of what you spend is the first step to getting your spending under control.

Elephant Envelope method

The “Elephant Envelope” method can help you organise receipts and records in a useful way.

Step 1:

Take a pile of envelopes and label each one with the main categories of expenses that you spend your money on in a month. Include ones for:

- fixed expenses (pension, savings, insurance),
- essential expenses (electricity, rates, debt repayments),
- transport,
- telephone and/or cellphone,
- groceries and food,
- clothing,
- entertainment (movies, eating out, drinks),
- occasional expenses (school fees, school clothes, gifts),
- other categories that you might have.

Step 2:

Every evening, sort out all your slips of your day's spending and put them into the correct envelope. If you don't have a slip, make one, using a small notebook or piece of paper. If they don't fit logically into an envelope, you can make a new envelope.

Step 3:

At the end of the month, add up all your receipts in each envelope and write the total on the front of the envelope.

Step 4:

Take a good look at what you have written. Ask yourself if your spending was necessary. Be honest with yourself. How much of your spending was essential?

Don't forget...

A lot of your monthly spending also happens without you physically handing over money. Services like rent, insurance policies, store accounts and telephone accounts are often paid by stop or debit order. Your bank statement will show you what your latest expenses for these items are. Also note all the bank charges on your bank statement. Every time you withdraw money from an ATM or pay an account with a debit order, the bank charges you an amount. You will be surprised how much these amounts add up to.



Step 3 - Reflect on and change your expenses



What can Brezhnev do?

Earn More Money!

Brezhnev can try and look for ways to earn more money. Perhaps he can step up his air-time sales, or work overtime at Bra Joe's store.

Reduce His Debt!

How much is Brezhnev paying on repayment of debt?

■ Fridge	US\$140.00
■ Micro Loan	US\$220.00
■ Clothing Accounts	US\$225.00
Total:	US\$585.00

What % of income is this? $\frac{585 \times 100}{3\ 575} = 16\%$

16% is high and Brezhnev must focus on reducing this as soon as possible. His budget would be much better if he sacrificed some luxuries for a month or two, and paid off the micro lender over the next two months.

Control Impulse Spending!

Brezhnev spends about US\$300 a month on clothing, as well as repaying a clothing account. Is this spending really necessary? He could also save on his take-away lunches and cokes by bringing his own lunch to work, and drinking water. He would be healthier for it too!

Analyse Variable Expenses!

Brezhnev is spending more than 10% of his earnings per month on his cellphone. He should look into buying a pre-paid contract with some free minutes each month. He should try to only make calls during off-peak call times.

Adjust Savings!

How much is Brezhnev saving?

$$\frac{100 \times 100}{3\ 575} = 2.8\%$$

Brezhnev is saving automatically and paying himself first, just as the **Secret of the Lion** taught him, but it is not really enough. He should be saving closer to 10% (US\$350.00 per month). Once he has paid off his debt to the micro lender, he should put that US\$220 into his savings plan.

Brezhnev's current income and spending

Household Income			
Net salary after deductions		2 974.82	
Rent received		200.00	
Air-time sales		400.00	
Total Household Income			3 574.82
Fixed Expenses			
Savings debit order	100.00		
Rent paid	480.00		
Burial society fee	60.00		
ABC Appliances - fridge on HP	140.00		
TV licence	20.00		
Micro loan	220.00		
Total Fixed Expenses		1 020.00	
Variable Expenses			
Electricity/water	120.00		
Groceries	500.00		
Luxury foods – take-aways	240.00		
Taxi fares	180.00		
Entertainment	200.00		
Clothing	300.00		
Clothing accounts	225.00		
Medicine and toiletries	75.00		
Cellphone	450.00		
Total Variable Expenses		2 290.00	
Irregular Expenses			
Medical expenses	200.00		
Household repairs	200.00		
Transport and expenses for Christmas Gifts (US\$840/12 months)	70.00		
Total Irregular Expenses		540.00	
Total Expenses			3 850.00
Still Needed			275.18

Brezhnev has a problem! He is living beyond his means, and although he knows he needs an average of US\$400 per month for medical and household repairs, he hasn't been keeping this aside. Last month, when his stove broke, he had to borrow money from a micro lender at very high interest rates, making his budget even more difficult!



Now try and record YOUR current income and spending patterns.

My current income and spending

Household Income			
Net salary (after deductions)		US\$ ____	
Partner's net income (after deductions)		US\$ ____	
Other income		US\$ ____	
Total Household Income			=US\$ ____
Fixed Expenses			
Savings	US\$ ____		
Rent/bond/rates	US\$ ____		
Insurance – life policy	US\$ ____		
Insurance – home	US\$ ____		
Insurance – car	US\$ ____		
School fees (if paid monthly)	US\$ ____		
Burial society fee	US\$ ____		
Furniture or appliance repayments	US\$ ____		
Other loans	US\$ ____		
Other	US\$ ____		
Total Fixed Expenses		=US\$ ____	
Variable Expenses			
Electricity/water	US\$ ____		
Groceries	US\$ ____		
Luxury foods – take-aways	US\$ ____		
Transport – petrol/taxi/bus	US\$ ____		
Entertainment	US\$ ____		
Clothing	US\$ ____		
Clothing accounts	US\$ ____		
Medicine and toiletries	US\$ ____		
Telephone/internet connection	US\$ ____		
Cellphone	US\$ ____		
Other	US\$ ____		
Total Variable Expenses		=US\$ ____	
Irregular Expenses			
Medical expenses	US\$ ____		
Car repairs	US\$ ____		
Household repairs	US\$ ____		
School fees if paid per term	US\$ ____		
School clothing and books	US\$ ____		
Holiday/gift/birthday expenses	US\$ ____		
Other	US\$ ____		
Total Irregular Expenses		=US\$ ____	
Total Household Expenses			=US\$ ____
Budget Surplus or Deficit (Income minus Total Expenses)			=US\$ ____

What does this all mean?

Can you increase your income?

Can you ask for an increase? Work overtime? Apply for a promotion? Do another job part-time? Buy and sell things?

How much are you saving?

Include your savings plans, retirement and annuity payments.

What percentage of your total income are you saving?

$$\frac{\text{Savings}}{\text{Total household income}} \times \frac{100}{1} = \text{_____} \%$$

How much extra should you be putting away to get this to 10% of your household income?

Analyse your expenses

- Do any of your expenses look over the top?
- Are all these expenses really necessary?
- How much are you spending on repaying debt?
- What loans or debt are you repaying?
- Can you cut back on your cellphone or telephone?
- Are you buying your clothes on account?
- Are you paying extra interest by paying accounts late?
- Can you reduce your entertainment expense for a couple of months to focus on repaying debt?
- Can you reduce your transport costs? Join a lift club? Catch a cheaper bus?
- Write a plan to reduce this over the next 6 months.

Are you living within your means?

Do your expenses exceed your income – if so, by how much?

What can you change?

Commit yourself to things that you can change. Even a small sacrifice makes a difference!

For example:

To Change? Cellphone bill How? Send more SMSs vs calls, make calls during off-peak times

To Change? _____ How? _____

To Change? _____ How? _____

To Change? _____ How? _____



Step 4 - Draw up your budget

Making Budgeting Easier

- Make budgeting a family affair. Get the whole family involved in drawing up and, more importantly, sticking to your budget. Explain the bigger picture, so they can see the future rewards for the sacrifices they make now.
- Keep your debt low. It is common to take a bond when buying a house, but most other purchases are better paid in cash. If you don't have the money for it – don't buy until you do.
- If you do have debt, make this your priority. Pay it off as quickly as possible. This not only frees up future cash, but saves you money in interest.
- Keep your records organised. Being in control of your paperwork is the first step to being in control of your finances.
- Be honest with yourself and your budget. Do you really need to spend as much on all your items? Does your budget help you create wealth?
- Review your budget regularly – at least every couple of months. Make changes where necessary. Check that your changes will help you become wealthy.
- Make sure you are budgeting enough for savings. Remember the **Secret of the Lion** and pay yourself first. The earlier you start, the more wealth you will create.
- Use **the Secret of the Leopard** and remind yourself of your vision often. Use it to motivate and inspire you.
- Don't give up. Persist and you will gain control of your money.

In the previous exercise you analysed how you spend your money now. You were forced to look at your spending habits and identify problem areas. You now need to decide how you are going to spend your money in the future. Now that you have enough information, it is time to draw up a workable budget for your household.

My monthly budget

Household Income			
Net salary (after deductions)		US\$ ____	
Partner's net income (after deductions)		US\$ ____	
Other income		US\$ ____	
Total Household Income			=US\$ ____
Fixed Expenses			
Savings	US\$ ____		
Rent/bond/rates	US\$ ____		
Insurance – life policy	US\$ ____		
Insurance – home	US\$ ____		
Insurance – car	US\$ ____		
School fees (if paid monthly)	US\$ ____		
Burial society fee	US\$ ____		
Furniture or appliance repayments	US\$ ____		
Other loans	US\$ ____		
Other	US\$ ____		
Total Fixed Expenses			=US\$ ____
Variable Expenses			
Electricity/water	US\$ ____		
Groceries	US\$ ____		
Luxury foods – take-aways	US\$ ____		
Transport – petrol/taxi/bus	US\$ ____		
Entertainment	US\$ ____		
Clothing	US\$ ____		
Clothing accounts	US\$ ____		
Medicine and toiletries	US\$ ____		
Telephone/internet connection	US\$ ____		
Cellphone	US\$ ____		
Other	US\$ ____		
Total Variable Expenses			=US\$ ____
Irregular Expenses			
Medical expenses	US\$ ____		
Car repairs	US\$ ____		
Household repairs	US\$ ____		
School fees if paid per term	US\$ ____		
School clothing and books	US\$ ____		
Holiday/gift/birthday expenses	US\$ ____		
Other	US\$ ____		
Total Irregular Expenses			=US\$ ____
Total Household Expenses			=US\$ ____
Budget Surplus or Deficit (Income minus Total Expenses)			=US\$ ____



Step 5 - Review my budget

The final step is arguably the most important. Review where you are after a month, 3 months, 6 months and a year. If your circumstances change, revise your budget. Check if you are sticking to your budget. Does your budget support your long-term vision to create wealth? If not, what can you change? To be wealthy, you have to have a workable budget and live within your means.

Understanding different expense types

It is easier to budget if you break your expenses down into three types:

1. Fixed Expenses

These expenses are the easiest to budget for, as they stay more or less the same each month. Often they are paid automatically by stop or debit order. Check your bank or ATM statements for these.

Furniture, car and loan repayments are typical fixed expenses, as you pay a fixed amount each month. Items like rent and insurance policies usually only change once a year and can be easily budgeted for. Often items like school fees and your TV licence are paid monthly, making them a fixed monthly cost.

Don't forget that your automatic savings are also a fixed expense!

2. Variable Expenses

Expenses that change every month are called variable expenses. Some months you spend more on these expenses than in other months. Often this is normal — like spending more on electricity in winter — but these are expenses that need to be tightly controlled.

Telephone, electricity and clothing accounts are easier to keep track of as you usually receive an account or statement at the end of each month. Look at a couple of your past accounts to see what your average expense is. See if there are any patterns to your spending.

Casual spending is the most dangerous. Buying a take-away for lunch every day does not seem like a lot, but when you add it up at the end of the month you will be surprised at how much you have spent.

3. Irregular Expenses

These are the hardest types of expenses to budget for because they don't happen every month. Some of them are expected, like annual school fees or school uniforms and stationery. You know that these are paid annually, or at the beginning of each term, and know more or less how much they will be. Gifts and birthday presents also come up fairly regularly, although not always every month.

Some expenses, like car repairs, unexpected medical costs or a broken water pipe, cannot be predicted. You need to budget for these unexpected expenses. Think about all the irregular and unexpected expenses you have paid over the past 12 months. Add them up and divide by 12 to get an average monthly expense, which you should budget for.



