OLD MUTUAL'S

ON THE MONEY

THE BIG FIVE SECRETS OF MONEY MANAGEMENT

DO GREAT THINGS | OLDMUTUAL

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MESSAGES

A message from the Financial Education Sponsor

"A family that saves together, stays together"

In studying the behaviour of the families of the Big 5 animals found across Africa, Old Mutual has developed a programme to help Malawians, of any income-earning ability, to manage their money better. The unique characteristics of the Lion, Leopard, Elephant, Rhino and Buffalo, as found in nature, have been distilled to teach us truisms about how to manage our personal and family finances.

This programme, delivered by a team of Financial Facilitators, and non-salespeople within Old Mutual, is touching the lives of our consumers. Explaining financial concepts, by using facts about these magnificent Big 5 animals, has made it easier for our consumers to grasp the underlying principles of money management.

We live in a country that is alive with possibilities for our citizens to realise their dreams. As we learn new ways of managing our money, we strengthen the fabric of our families and communities. And ultimately, are able to pursue our dreams and secure a future filled with financial success.

Chris Kapanga
Managing Director
Old Mutual Malawi

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UNDERSTANDING THE **RELATIONSHIP** BETWEEN **EARNING ABILITY** AND **WEALTH CREATION**

Is there a link between how much you earn and how well you manage your money?

Why is it that some people can earn very little money, but always seem to be able to take care of all their financial needs and live comfortably?

Why do other people who earn a lot appear to always be in debt and struggling to make ends meet?

Surely, if you earn a lot of money, you should be financially stable. And if you earn very little, you should always be in debt and struggling financially.

So why is this not what we see with the people we live with and hear about through the media?

The truth is that there is no connection between what you earn and how well you manage your money. That is good news for everyone. It means that despite our earning levels, we can all learn good money management habits and we can all aspire to a good level of financial security. Indeed, we can do more than just aspire, we can actually do something to achieve that financial security during our lifetimes.

Learner Outcomes

At the end of the ON THE MONEY Money Management Programme, you will be able to:

1. Explain the importance of managing your personal finances.
2. Acknowledge your current "money" personality.
3. Understand the importance of changing your financial behaviour.
4. Demonstrate how you can break old habits that get in the way of financial stability and establish worthwhile new ones.

True or false

You can never be financially secure if you don't earn a lot!	t	f
Earning well guarantees you will become financially secure.	t	f
Managing your money is easy to do.	t	f
If you've reached 40, it is too late to do anything about your money!	t	f

QUIZ: UNDERSTANDING MY MONEY PERSONALITY TYPE

1. If you go shopping do you:

A. Walk the aisles whilst grabbing essentials and also a few treats.
B. Shop regularly, keeping an eye out for items on special and have a list to refer to.
C. Take advantage of advertised discounts or in-store promos that save money.
D. Stop at the convenience store and buy from there.

2. Do you remember if your parents ever taught you about saving or investing money or taught your children?

A. No
B. Sometimes
C. Always
D. Can't remember

3. If you purchase something like a fridge, bed or TV, do you:

A. Make deposits on your purchase or take a loan?
B. Pay cash.
C. Ask your employer for a pay advance?
D. Borrow from family or friends.

4. If you carry more cash around than you usually do, how does that make you feel?

A. I want to spend it.
B. I hide it in a compartment in my wallet/purse.
C. I believe that I'll use it for the intended purpose.
D. I end up giving some away or buying an unplanned gift.

5. Have you set up any financial goals?

A. A bit
B. I have them but I haven't written them down
C. Yes, I refer to them sometimes
D. No

6. How do you pay your bills?

A. Sometimes on time, but sometimes I let them slip.
B. On time, every time.
C. On the very last day before interest kicks in.
D. Always late.

7. Do you save?

A. Not much
B. A certain amount with every pay check
C. Regularly and continually increase the amount saved over time
D. I can't

8. When you receive a windfall such as a bonus, or a tax refund would you:

A. Spend it
B. Save it
C. Pay off debt
D. Party

9. You spend your money:

A. To feel better
B. Strictly to budget
C. Whenever I need to
D. To survive

10. What does being in debt mean to you?

A. Less to spend.
B. A burden that must be paid as soon as possible.
C. A way to make money a part of life.
D. Continuous worry.

Check your score on page 74

The Peacock personality

The Ostrich personality

Key behaviours influencing successful money management

MY **PERSONAL NOTES** PAGE

REVIEW OF **MONEY MANAGEMENT BEHAVIOURS**

What have I learned?

Self-assessment: (Individual Activity)

- Which of the behaviours (Ostrich and Peacock) do you identify with?
- What do you think you need to do, to break the old habits?

THE **SECRET** OF THE **LION**

"Pay yourself first, live off the rest"

THE SECRET OF THE LION
The lion eats first, ahead of the pack. You too should "eat first" by arranging an automatic deduction from your salary or wages.

What can I learn from the Lion?

- Lions are the only social wild cats. They live in family groups called prides, which are made up of as many as 12 females and their young, and up to three adult males.
- The lion is the only animal in the world to hunt in packs and then after the hunt, the leader of the pack eats first — all the others back off, so that he can eat first and alone.
- This might look selfish, but the leader always makes sure that there is food for others, and by keeping himself strong, makes sure that he can better take care of his family.

Objectives of this module

Introduce the SECRET OF THE LION:

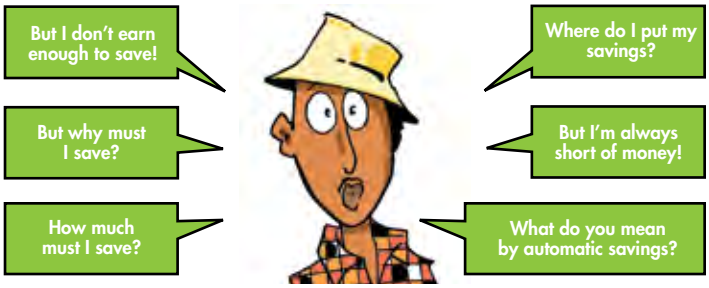
Learn about:

1. The advantages of getting into the habit of saving first, through an automatic pre-spending savings mechanism.
2. Committing to a savings plan.
3. The minimum savings level you should have and how to achieve this.
4. The different savings vehicles available to you.

"I can't save!" "There's nothing left to save at the end of the month!" How many times have you heard this? Have you said it yourself? Not being able to save is one of the biggest reasons why some people don't become wealthy.

Most people understand that they need to save, and save "a little bit" at the end of the month whenever they can. But this often doesn't work, as there always seem to be other expenses that eat into this amount. The first secret of the Big Five, the **Secret of the Lion**, turns this behaviour around and says "save first", ahead of all other expenses, and not last, out of any leftovers. Like the lion, which eats first ahead of the pride, you should pay yourself first and save a fixed amount each month. Make this saving an automatic deduction taken from your pay, before you start paying other expenses. By looking after your savings needs first, you are securing the future of your own pride – your family's future.

The **Secret of the Lion** forces you to change your spending patterns. Even if you start with a small savings amount, you will develop a savings habit. This habit will make it easier to increase your savings over time. If you practise the **Secret of the Lion** and commit to an automatic pre-spending savings plan, you will be well on your way to real wealth and long-term financial security.



QUIZ: Understanding my savings habit

Take this test and evaluate your personal savings habits. Be honest and tick the answer that is closest to your behaviour.

1. Describe your savings plan.

a) I have none.
b) I save when I can.
c) I save a little every month.

2. How much are you saving every month?

a) I am not able to save at the moment.
b) I save whatever is left at the end of the month.
c) I save a fixed amount every month.

3. Where do you keep your savings?

a) I have no savings.
b) I keep it in my bank or in cash at home.
c) I pay it into a separate account or an investment of some sort.

4. What makes you dip into your savings?

a) I don't have any savings.
b) Things I want and can't resist.
c) I only dip into my savings for unexpected emergencies.

5. What stops you from saving more money?

a) I don't earn enough to save.
b) My family needs always seem more important.
c) I have budgeted for how much I can save.

Which scenario applies mostly to you?

I ticked mostly A's

You have no savings plan, and are caught in the cycle of just living from month to month. If you don't change your savings habit, you will never really be in control of your money – it will control you. You must apply the Secret of the Lion now and Save First, Save Automatically.

I ticked mostly B's

You understand the need for savings, and try to save whenever you can. You will find it helpful to practise the Secret of the Lion and make your savings a regular, fixed and automatic priority.

I ticked mostly C's

You are well on your way to understanding and applying the Secret of the Lion! Remember to review your savings plan regularly so that it keeps up with your income. When you get an increase, add a little bit to your automatic savings.

WHY DO I **NEED TO SAVE?**

The Secret of the Lion says that we must pay ourselves first and save in order to protect our family's future. But what is it that we need to protect ourselves from? How prepared are you for these life-changing situations?

Ask yourself:

- What if I lose my job?
- What will happen to my family if I die?
- How will I pay any unexpected medical bills?
- Where will I get the money to pay for any major car or house repairs?

We don't only need to save for disasters and emergencies, we also save to improve the quality of our lives in the future, and achieve some of our dreams. Tick the goals you want to save for.

We save for emergencies and for a better life for the future. We need to get out of the habit of spending everything now. **Think about tomorrow**. Even if you cannot afford much, get into the lifelong habit of saving. You are never too young to start saving. The earlier you start, the better. So, develop a savings plan **NOW**. This is the first step towards taking control of your future.

Most people understand that they need to save, but just can't do it month after month, without a break. To start a meaningful savings plan, we need to **change our savings attitudes and habits**. Savings must become a **priority**. Almost anyone who earns a regular salary is able to save something each month, even if it is only a small amount. Our inability to save is usually because we lack discipline and are tempted by things we see in shops, on TV or magazines. Advertising makes us think we need to spend. In reality, we probably don't need expensive new shoes or a hi-fi and even if we did, cheaper ones are often just as good.

Paying yourself first, by taking a set amount from your salary on payday, will force you to change your spending. This is a very good thing. Eventually you will forget about your saving and not even miss the money. Psychologically it should just become another "fixed expense" in your budget (the Secret of the Elephant will help you understand budgeting). By paying savings at the beginning of the month, it makes the money unavailable for spending.

Another important aspect of changing our savings habits is to make the savings **automatic**. You need to decide on a way that automatically deducts the money from your account at the beginning of the month, and transfers it into a savings account or other investment.

If it is not automatic and you have to transfer the money yourself, you will soon find reasons for not transferring it immediately. "I didn't have the time", or "I needed it for new school clothes for the children" and similar excuses will soon stop your savings plan from working.

Three ways to automate your savings:
1. Debit order 2. Stop order 3. Payroll deduction

There are different ways to make savings automatic:

- Some employers are willing to deduct the money from your salary and pay it into a savings account or investment, but you must ask for this.
- You can go to your bank and arrange a **stop order**.
- Some investment companies ask you to sign a **debit order** for the amount.

By implementing one of these methods, you will be on your way to **disciplined savings**, which is the true **Secret of the Lion**.

Fact file

Debit Order

A debit order is an instruction to your bank to pay money from your account into another company's account every month, on the same day of the month.

- The other company makes all the arrangements once you have signed a Debit Order Authorisation Form.
- If you want to change or cancel the debit order, you need to make the arrangements directly with the company and not the bank.
- The company pays all the bank transaction costs with regard to the debit order.
- Make sure you only sign debit orders with companies you really trust, such as investment or insurance com-panies.
- Always check your bank statement to ensure that the correct amount has been deducted from your account.

Stop Order

A stop order works in a similar way, but you personally make the arrangements directly with your bank, and not the other company.

- You have greater control and can change or cancel the stop order directly with your bank at any time.
- The bank will charge you a small fee for this service.
- A Word of Caution!
- You must always ensure that you have enough funds in your account to cover all your debit or stop orders. Banks charge heavy penalties if you don't have funds in your account on the day that the automatic payments are due.

HOW MUCH **SHOULD I SAVE?**

The answer to how much you should save is simple – AS MUCH AS YOU CAN AFFORD. The lion eats as much as he can, because he is not certain of his next meal. Just like the lion, your future is not certain, and the more you stock up now, the better for your future.

Having said that, everyone has different needs and cir-cumstances, which will tell them what they can afford. If you save MK1 000 per month on a salary of MK10 000, you are doing well, but if this is all you can afford to save on a salary of MK100 000 per month, you need to examine your expenses carefully and see where you can "cut back". A great tip is to save between **10% and 15%** of your monthly salary. If that is too much, start with what you can afford. It is better to **start earlier rather than later** and with a smaller amount rather than not at all. You can always increase the amount later, when you can afford more.

Now look at your own situation and calculate how much you can afford to save.

Brezhnev earns MK30 000 per month working in Bra Joe's spaza. Work out what you should be saving next to Brezhnev's savings:

% x Brezhnev's salary:	% x Your salary:
1% x MK30 000 = MK300	1%x _____ = _____
5% x MK30 000 = MK1 500	5% x _____ = _____
8% x MK30 000 = MK2 400	8% x _____ = _____
10% x MK30 000 = MK3 000	10%x _____ = _____

A percentage means per 100. So:

10% is 10 per 100 = $\frac{10}{100}$

25% is 25 per 100 = $\frac{25}{100}$

To calculate a percentage of an amount, simply multiply the percentage by the amount, and divide by 100
e.g. calculate 10% of Brezhnev's salary of MK30 000.

$\frac{10}{100}$ x MK30 000 = MK3 000

OR

punch in 30 000 x 10% = into your calculator.

To calculate what percentage a certain amount is of another amount, divide the first amount by the other amount and multiply by 100, e.g. Brezhnev saves MK1 000 from his MK30 000 salary.

$\frac{1\,000}{30\,000} \times \frac{100}{1} = 3{,}3\%$

OR

punch in 1 000 ÷ 30 000 x 100 into your calculator.

Brezhnev only saves MK1 000 per month of his salary. He should try and add another MK2 000 per month to get his savings up to a total of MK3 000 per month. This is 10% of his salary.

Work it out!

- How much money are you saving each month? _____
- What percentage of your monthly salary are you saving? _____
- How much do you need to add to your savings to get it up to 10%? _____

WHERE CAN I **SAVE MY MONEY?**

It is hard deciding **where** to save. There are thousands of options, with different degrees of **risk**. When you start saving, you want to make sure your money is safe and earns good interest. Some investments go up in value very quickly, but can also just as easily lose a lot of their value. These are called "high risk" investments. Until your savings plans are well under way, it is best to steer clear of them. Remember the saying, "If it sounds too good to be true – it probably is." Many people have been cheated out of savings by promises of doubling their money quickly. It is easy to be tempted by promises of getting rich, but in reality, people investing in "get rich quick" schemes lose their money fast.

If you are **starting to save**, begin by putting your money into **safe investments** such as those offered by the banks or post office. Once you have got into the savings habit, you can look at other investments. Read about some of these options and think about the questions that follow.

Some ways to save

1. The Piggy Bank or Mattress Method

This is a very high-risk way to save money. If you hide your money in your cupboard, under the mattress, or in a piggy bank, it could easily be stolen or destroyed, e.g. fire. Your money cannot grow, as it will earn no interest at all, but the highest risk of all is that you will be tempted to use it.

This is not a wise investment.

2. A Savings Club

Savings Clubs, also known as Chipereganya, are a popular means of saving money. Members usually know each other well, and contribute a certain amount each month. Members encourage each other, so it becomes easier to save. Members usually take turns to get a lump sum out.

Often no interest is paid on the savings, and it usually runs on a trust basis. There are usually no written contracts and no protection if your money is stolen.

This could be a useful way of saving for something in the shorter term, but you should also have your own savings plan and accounts.

This method is useful for short-term savings.

3. A Savings Account at a Bank or SACCOs.

This is a good way to start a savings plan. It is relatively easy to open, and you can usually access your savings account through an ATM card or a savings book. You will probably need to keep a minimum amount of money in it to keep it open. There are usually no restrictions about when you can withdraw your money. A savings account doesn't earn much interest. For savings cooperatives, the interest gained is dependent on the actual earnings of the cooperative in the year through its investments and the interest realised from lending.

A good way to start saving your money!

4. Notice Deposits

You can invest your money at the bank at a better rate of interest if you take out a notice deposit. Depending on the terms of the account, you will have to give the bank the required period of notice, usually 32 or 60 days, if you want to withdraw your savings.

Useful for saving a lump sum that you need in the future.

5. Fixed Deposit

Once you have accumulated a certain amount of savings, you might want to invest a lump sum at a higher rate of interest with your bank. This means that your savings will grow more than in a savings account, but you will not be able to withdraw it for a fixed period of time, e.g. 6 months, or 1 year, depending on the terms.

A safe way of saving for the medium to longer term.

6. Government Bonds

Bonds are a safe, risk-free way to save money for the medium term. They are fixed-term investments with a fixed interest rate, as decided on the day that you invest your money. The Malawi Government issues bonds for different periods – 2 years, 3 years and 5 years. They are easy to buy, provided you are a Malawian and they usually require a minimum investment of MK100 000. Details can be obtained from the Reserve Bank of Malawi.

With government bonds, you can withdraw your money before maturity date, but you will have to pay a penalty. In order to get the best out of your investment, it is best not to draw your funds early.

A good medium-term investment.

WHERE CAN I **SAVE MY MONEY?** (CONTINUED)

7. Treasury Bills
A short-term debt obligation backed by the government with a maturity of not more than a year. T-bills are sold in denominations of MK10 000 and have maturities of 91 days, 182 days and 364 days. T-bills are issued through a competitive bidding process.

This is a short-term investment which is secure as it is provided by the government.

8. Shares
A share is a single unit of ownership in an organisation. A company divides its capital into shares, which are offered for sale to raise capital. Thus, a share is an indivisible unit of capital, expressing the proprietary relationship between the company and the shareholder. The total capital of a company is divided into number of shares.
The income received from shares is known as a dividend. The share price will go up or down depending on the company's performance. A shareholder, is a person who owns shares of a certain company or organization, and is thus a part-owner of the company. The process of purchasing and selling shares often involves going through a stockbroker as a middle man.

This is a medium to long-term type of savings.

9. Retirement Annuities (RAs)
There are two main ways to save for retirement. If your employer has a pension fund, you will probably be forced to join it. If not, a good option is to take out a retirement annuity policy with an insurance company. This is a contract where you pay an amount each month into the RA, and the insurance company invests it wisely and makes it grow for you. On retirement – between age 50 and 70 — you will get paid out a monthly pension for the rest of your life. (You will also be able to take a lump sum of 40% of the savings amount on retirement.)

The Malawi Government encourages this type of savings and will give you a tax deduction on your monthly contributions.

Remember, you cannot draw any money from this type of savings until at least age 50, making it a good way to save for your old age.

Make sure you fully understand the conditions of an RA before signing one.

10. Unit Trusts
Unit trusts are a way to buy shares and bonds, without knowing too much about the stock market. Your money is pooled with other people's money, and is used to buy and sell shares and bonds. The value of unit trusts should increase over time as interest and profits from the shares are added.

Unit trust growth is not guaranteed, and could even decrease in value, if the shares it has bought are not doing well, or the stock market "crashes". Unit trust savings must be a longer-term investment, where you are prepared to leave the money to smooth out the "highs and lows" of the stock market.

A unit trust is very flexible and you can change your savings amount at any time. You can also sell your unit trusts whenever you want, although the costs of buying and selling must be considered. There are different unit trusts to choose from, and you need to consult an adviser to decide which type will suit you best.

A good way to grow your savings if you can afford to take some risks.

11. Endowment Policies
One way to save for a specific goal like a car, education or a deposit on a house, is to take out an endowment policy with an insurance company. The policy will be for a fixed period, e.g. 5, 10 or more years. You pay an amount into this policy every month for the whole term, and at the end of the period, you will be paid out a lump sum.
This is a binding legal contract where you will pay commission to the broker who sells you the policy.
There will be heavy penalties if you stop the policy before the end of its term. However, your savings will probably grow by a higher amount than in **a normal** savings or interest-bearing account, although this is not guaranteed. This is a slightly higher-risk investment, but if you are prepared to stick with it for the whole period, it is a very good disciplined way to save money.

Be warned – this is a serious commitment! Don't stop and start, because you will lose!

Once you have some secure savings, you can start exploring some of the many other products and investments available. Speak to your bank, or an investment adviser that you trust.

Think about it!

- How much money are you saving each month?
- What percentage of your monthly salary are you saving?
- How much do you need to add to your savings to get it up to 10%?

HOW DO I **MAKE** MY **SAVINGS HABIT STICK?**

Once you start saving, you will need to examine how committed you are to a savings plan. We all use excuses or have psychological barriers that stop us from saving. Tick the excuses you have used before.

- I don't earn enough.
- It seems selfish to pay myself first.
- My children always seem to need something new for school.
- I have so many debts to repay.
- I don't know how to work out what I can afford – there is never any money left.
- Now that I am a single parent, there is never enough money.
- I don't have the time at the beginning of the month to organise my savings.

How to stick to your savings

1. Remember the **Secret of the Lion** – PAY YOURSELF FIRST, SAVE AUTOMATICALLY.
2. Remind yourself – you are not being selfish by saving. You are ensuring your and your family's future needs are met.
3. Arrange an automatic savings transfer, immediately after payday.
4. Put your money in a safe interest-bearing place where you can't be tempted to use the money.
5. Once you have done this, re-budget your monthly expenses carefully – which ones can you really cut back on – perhaps on your cellphone, clothing, entertainment, etc.
6. Try not to buy clothes and furniture on credit! You will be tempted to buy with money that you don't have and could get caught in a cycle of wasting big money on the interest you have to pay off on your loans and debts.
7. If you have short-term debts or loans, sacrifice now and pay them back as quickly as you can. They are very expensive because of the high interest charged.
8. When you are tempted to spend, think of your longer-term goals. Picture yourself in the future. Spending now can destroy these goals.

Almost everyone, no matter how much they earn, feels that they don't earn enough. The reality is that anyone can save with a bit of discipline and commitment. Of course, it means that we might have to sacrifice some of our less important spending, but the benefits in the long term will be well worth it. Not only will you be more financially secure – you will also sleep better!

This is what some people say about their savings success

- I was without a job for 6 months, and managed to keep my family going – thanks to my savings!
- My savings are putting my daughter through university at the moment!
- I have just bought a car for cash thanks to our 3 years of savings. I avoided paying thousands in interest!

MY **PERSONAL NOTES** PAGE

REVIEW THE **LION**

What have I learned?

- Group Activity: Working in pairs, discuss with your partner
- What is the Secret of the Lion?
- Advantages of using the Secret of the Lion
- Write them in your workbook and give feedback to the class

REVIEW THE **LION** (CONTINUED)

What have I learned?

Self-assessment: (Individual Activity)

What savings vehicle would you prefer for your short-term and long-term savings? Give reasons for your choice.

In your own words write down your understanding of:

- Stop Order
- Debit Order
- Retirement Annuities

THE **SECRET** OF THE **LEOPARD**

"Create a financial plan"

THE SECRET OF THE LEOPARD

The leopard never lets its prey out of its sight, patiently planning and moving towards its goal, never backing off or giving up...

What can I learn from the Leopard?

Have you ever watched a leopard hunt?

- Leopards find a high vantage point, in a tree or on a hill, and from there they plan their day. First they figure out what they want to eat (vision). Then they identify which animal they are going to bring down (set a goal).
- You too can do much better on the hunt for the prize in your life: financial security, good money management, wealth, if you have great vision. Use your vision to help you remain focused on making your dreams come true.
- Most of us, to tell the truth, don't have these powerful visions. We may have some idea of what we want. Sometimes our ideas are unrealistic, but even when they are realistic, we often don't make them happen. Often they are unsupported - we've got no-one backing us to make them a reality; and, in truth, we don't even have a back-up system.
- This lack of any kind of vision is exactly why so many of us do so much unplanned spending.

Learner Outcomes

At the end of the module "The Secret of the Leopard" you will be able to:

1. Record planned, powerful, clear and specific short, medium and long-term visions that are realistic, achievable and inspiring.
2. Understand the importance of reflecting on and researching your visions, and the best way to get support for achieving them.
3. Use your visions to ensure easier and more consistent financial discipline (i.e. help you deal with the urge to splurge).

Oprah's story

Oprah Winfrey, one of America's most famous people and TV talk show hosts, started from humble beginnings. Her story is inspiring and holds an important lesson for all.

Oprah grew up in the American South. It was a time of great racism and oppression in America. Like in apartheid South Africa, schools were segregated as were many public facilities. But she had a dream. Her dream was specific – it was to own a house with eight trees.

She could "see" her house and trees, and imagined in great detail what it would be like to own a house. Her goal was very specific and achievable, and helped motivate her through some difficult times.

Oprah achieved this goal and also went on from there to set new and more challenging goals for herself. Today, she is one of the wealthiest women in the world, loved and adored by millions of fans.

Your vision can only become real if you imagine it first!

HOW DO I CREATE A **CLEAR FINANCIAL VISION** FOR MY LIFE?

"Of course I have a goal for my future – I want a better life." Does this sound like you? It is great to aim for a good life, but to really succeed you need more concrete goals.

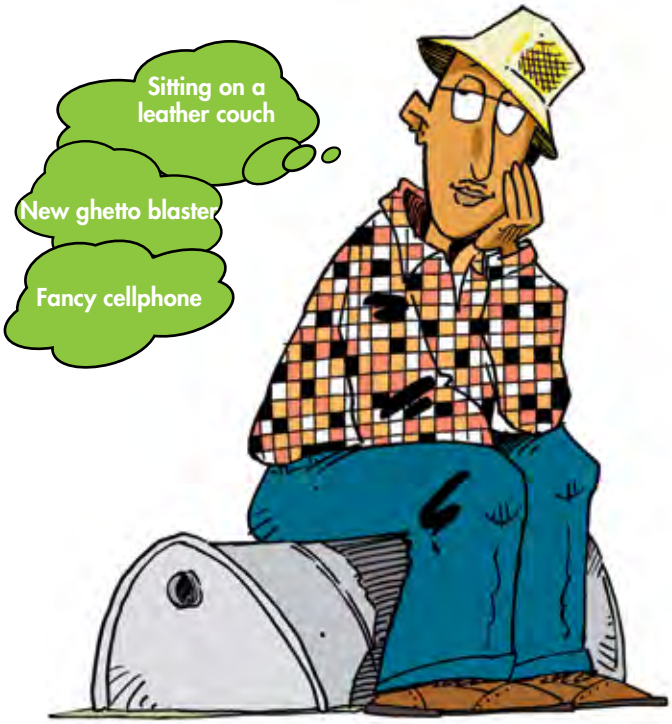
Many savings plans fail because their goals are too vague. The **Secret of the Leopard** is very simple: learn from the leopard and have a very clear idea of what you are saving for. Saving isn't easy. **You need a vision** – something really inspiring to keep you on track when times are tough. If you have a powerful visual image, this will help you to "stick to the plan", and achieve your goals with the same determination of the leopard.

Remember the leopard always aims at things it knows it **can** achieve. When it is young, it first learns to stalk easy targets, like weak or young buck. As it grows up and becomes more experienced, the targets change to more challenging ones, such as bigger animals!
The **Secret of the Leopard** gives you powerful tools to set you on the path to becoming wealthy. This section helps you explore your vision in detail. What does your vision **look** like? What will it **feel** like? Can you imagine it so well that you can **smell** it, **hear** it or even **taste** it?

Explore why you want to achieve your goal – is it really what you want? The important thing is that you must truly believe you can reach your vision. Choosing a vision you would like, but don't believe that you can really reach, will not motivate or inspire you. Realistic goals will encourage you and keep you on track.

Do you recognise Brezhnev's trap?
His goals of being wealthy and having more fun are too vague. His goal of marrying J-Lo is unrealistic. The Secret of the Leopard shows you how your goals can become more concrete, specific, believable and achievable!

WHAT IS MY **VISION FOR THE FUTURE?**



Brezhnev now has three specific goals he wants – and believes he can achieve. He knows from the **Secret of the Leopard** that the goals must be concrete, and by imagining and visualising them, saving for them will become easier. But his goals are still not complete; they are all short-lived. He might be able to achieve his dream of "having more fun" for now, but how are these goals going to fit with his vision of becoming more wealthy? Having medium and longer-term goals are vital for creating long-term wealth. Your savings plan should have all three types of goals – short, medium and long-term goals that inspire you.

To increase the success of achieving your goals, find someone who can help remind you to keep track of your goals. Research shows that if you have **support** for your goals, you are much more likely to achieve them. Telling someone increases your commitment and excitement. Ask someone you can trust who can remind you of your goals occasionally.

Once you have your **short, medium** and **long-term** goals that you want to save for, you must break them down in more detail. You need to decide what it will take to reach each one.

Ask yourself these questions for each of your goals.

- Can you describe each goal in detail?
- By when do you want each one?
- How much do you need to save for each one?
- What do you need to do to achieve this?
- Who will help support you and remind you of your goals?

Short term

means something you want to achieve within the next 2 years.

Medium term

means something you want to achieve within 3 to 5 years.

Long term

means something you want to achieve that will take 5 to 30 years to reach.

HOW DO I **DEVELOP A FINANCIAL PLAN TO REALISE MY LIFE VISIONS?**

Now that you can see your future, you need to develop a plan that will help you reach your goals. The Secret of the Elephant will help you to challenge your current spending and budgeting patterns, and is an important step in putting your future plan into action. But before you "budget" for your future, here is a wonderful way to achieve your goals. Do each of these steps and you will be on your way to reaching your dreams.

Step 1 – Know your goals

- What are your goals for the short, medium and long term?
- Write down one big reason for wanting each goal – why do you really want it?
- Imagine your goals in all their glory. What do they look like? Think of colours, sounds, and the feelings that they bring.

Step 2 – Research your goal

- Ask yourself – what must I do to achieve this?
- Collect information about them – where and how can you achieve your goal?
- What are the extra costs attached to achieving it? For example, a new car will need to be licensed, insured and maintained; a TV requires a licence.
- Where can you find the best value for money? Shop around!
- Who can help you make your decision about your goals – a bank adviser, a broker, an elder, a mentor?
- Do you need to qualify/apply to achieve your goals? If so, what do you need to do to apply/qualify?

Step 3 – Reality check your goals

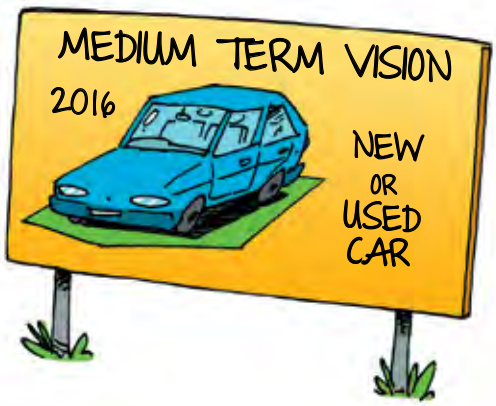
- How achievable are your goals, given your current earnings, education level or home circumstances?
- What would you need to do to make your goals realistic – earn more, get a tertiary education, win the lottery?
- Are your goals really the things you want to achieve? Do you believe you can achieve them?

Step 4 - Prioritise your goals

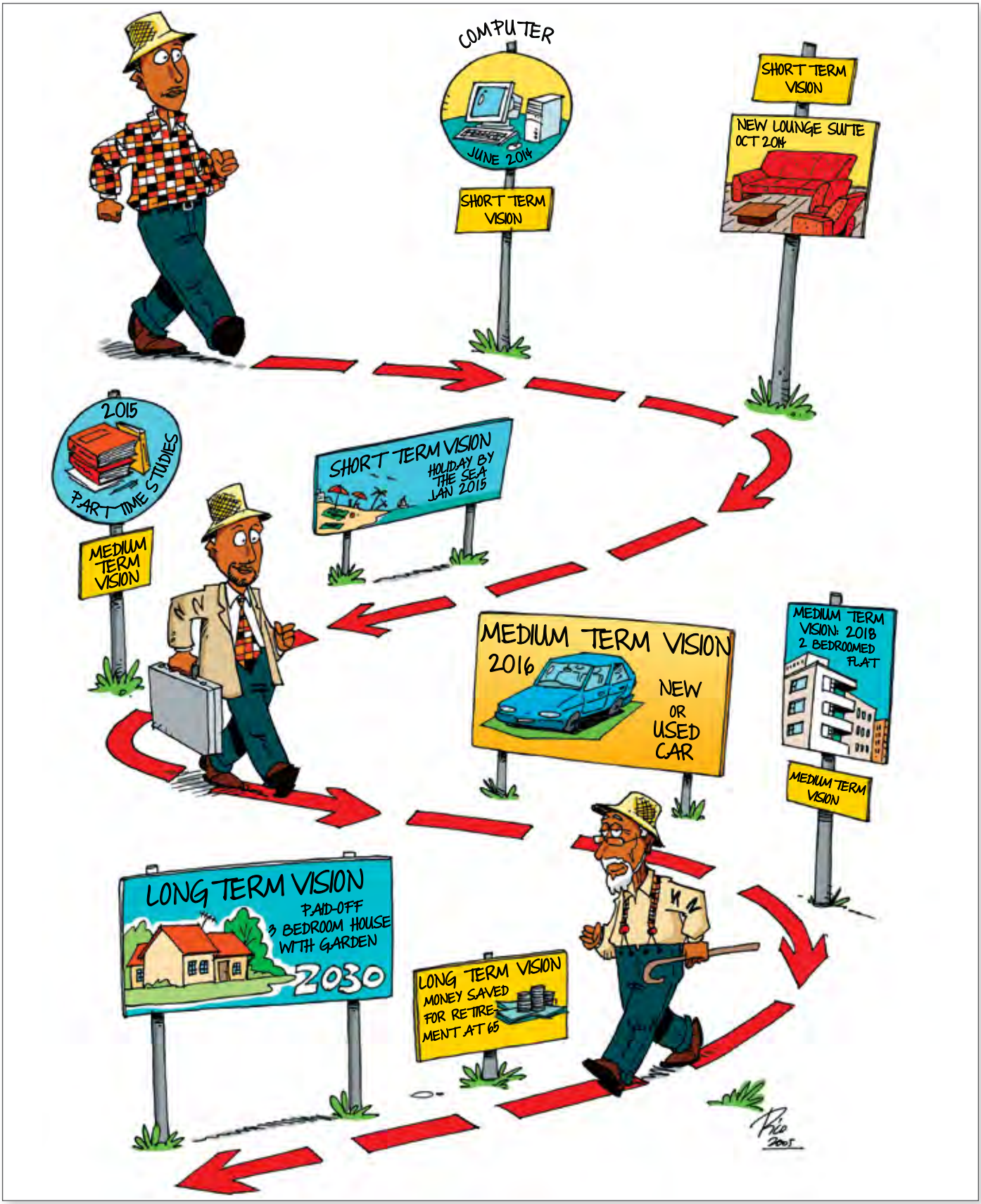
- Can you save for all your goals at once?
- Which ones will you start with?
- Remember medium and long-term goals take longer to save for. Are they included as a priority?

Step 5 - Plan your savings for your goals

- Budget for them now.
- What are you prepared to sacrifice now, for your future? Fewer cellphone calls? Less spending on clothing? Fewer take-aways?
- How can you increase your earnings to help you save for your goals? Working overtime? Taking a second job? Studying and working towards a promotion?
- Who can you choose to support you and occasionally remind you of your goals?



WORK OUT YOUR **SHORT, MEDIUM AND LONG-TERM** FINANCIAL VISIONS



WHY SHOULD I **REVISIT AND UPDATE MY VISION AND PLANS?**

The Secret of the Leopard shows how important a visual image of your dreams is. If you regularly refer to your carefully thought-out vision, it will help inspire and motivate you to stick to your savings goals.

As you start achieving some of your goals, you will need to review and update your vision. Details of your goals might change over time with escalating costs. You might develop new goals to match your new earning potential. New circumstances in your life might also make you change your goals. A new baby might change your priorities from saving for a fancy car to saving for an educational fund. Reviewing and updating your "Vision Map" regularly will set you on the path to better long-term wealth creation.

Keeping your vision alive

REFER
to your vision regularly - keep it in a visible place.

RESEARCH
your vision regularly - find the best value-for-money-and-energy.

REVIEW
your vision regularly - update it to reflect new or more refined goals.

Many people who have achieved their goals such as "buying a new computer", "buying new shoes", "buying a house", "retiring with enough money to live well" or "sending a child to a good school" will tell you that visualising their goal really helps them achieve it. The support of friends and family plays a vital role in keeping the vision alive. Your vision is wonderful. Why not think of it every day? The more often you think of it, the more inspired you will be to achieve it.

WHAT LIFESTAGES MILESTONES **SHOULD I PREPARE FOR?**

- At different points in your life, you are faced with new financial decisions and obligations. You need to plan your life in anticipation of those life stages.
- This means that, should you wish to get married around the age of 30 years, you may need to save enough money to have a wedding, buy a family home and start a family by this time. Therefore, you have to start planning and setting money aside for this life stage while you are single.
- Most of us do not know when is the best time to start planning for different life stages. Take this quiz to get an idea of when you should start.

Quiz: By when do you want to achieve the following?

1. **Paying off a house completely!**
   IDEAL: in less than 20 years, and before you are 55 years of age.

2. **Start saving toward retirement!**
   IDEAL: by 25 years of age.

3. **Having an amount equal to four times your annual salary saved safely for retirement!**
   IDEAL: by 40 years of age.

4. **Having an amount equal to six times your annual salary saved safely for retirement!**
   IDEAL: by 50 years of age.

5. **Having an amount equal to, or more than, ten times your annual salary saved safely for retirement!**
   IDEAL: by retirement, i.e. 60/65 years of age.

6. **Have a separate Emergency Fund equal to six times your monthly salary!**
   IDEAL: by 35 years of age.

7. **Being Debt-free?**
   IDEAL: as early as possible but certainly by 55 years of age.

HOW DO I KNOW IF I HAVE **PLANNED ENOUGH FOR MY RETIREMENT?**

Old Mutual has developed a tool to calculate if you are setting aside enough money towards your retirement planning.

All you need is this information:

- monthly income
- accumulated retirement savings
- current age

The Old Mutual Retirement Savings Calculator can help you:

- Work out how much income you will need later in life (i.e. based on the lifestyle you will want in retirement).
- Calculate the right amount of savings you will need (i.e. identifies if you have a savings shortfall).
- Decide if you need to save more now (i.e. to cover the shortfall).

Visit the ON THE MONEY website at Old Mutual to calculate your readiness for retirement

www.oldmutual.co.mw/onthemoney

Or phone

+265 (1) 820 677 Pensions

Or bring your information to the Buffalo module of the ON THE MONEY workshop for an on-the-spot assessment.

My information for the retirement calculator:

- Monthly income:
- Accumulated retirement savings to date: _____
- Monthly savings directed towards retirement: _____
- Current age: _____

Retirement readiness feedback:

- Green
- Amber
- Red

What can I do next?

_____

_____

_____

_____

_____

_____

_____

_____

_____

MY **PERSONAL NOTES** PAGE

REVIEW THE **LEOPARD**

What have I learned?

Group Activity: (Groups of 7)

- Discuss the importance of creating short, medium and long-term visions for your finances.
- What steps can you take to reach your financial goals?
- One person will report back to the class.

Self-assessment: (Individual Activity)

- What will I start implementing today to ensure that I achieve financial security using the Secret of the Leopard?
- How will I measure my progress?

Quick Quiz - What have you learned?

1. **The Secret of the Leopard says that:**
   a) you shouldn't aim for too much in life.
   b) your goals must be visual and specific.
   c) you need to be rich to achieve your goals.

2. **The moral of Oprah's story is:**
   a) you must be rich to reach your dreams.
   b) you must have trees in your dream.
   c) your dream must be detailed and specific.

3. **You need to research your goals because:**
   a) it will keep you busy.
   b) it will help you know how to achieve your goals and what you must save.
   c) you are a researcher.

4. **Prioritising your goals:**
   a) allows you to decide which goals to focus on first.
   b) tells you that you must throw away some of your goals.
   c) means that you can't achieve all your goals.

5. **It is better to first start saving for your short-term goals, and then later for medium and long-term goals.**
   a) True
   b) False

6. **Creating a collage of your future is important because:**
   a) it motivates and inspires you to stick to your savings.
   b) other people can see what you want.
   c) it will help you to get a loan for your goals.

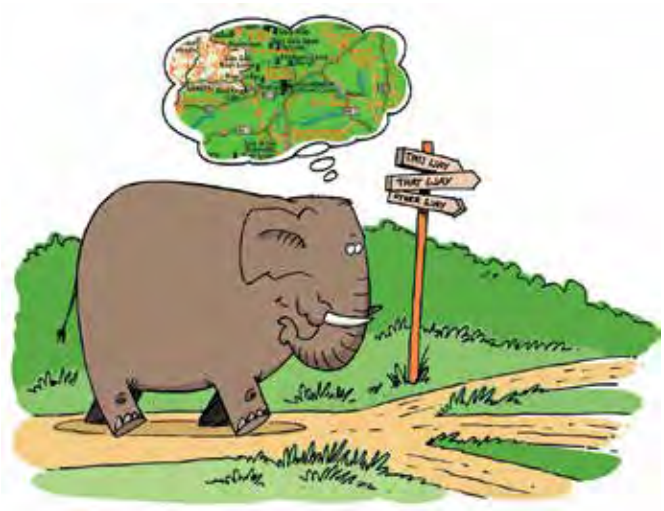
7. **Once you have outlined your short, medium and long-term goals, they should be fixed and never change.**
   a) True
   b) False

Answers to the QUICK QUIZ

1.b) Visual goals are more inspiring and they motivate you to stick to your savings plans.
2.c) Your dream must be concrete, with as much detail as possible.
3.b) Researching your goals in detail makes them more realistic and visual.
4.a) Focus on the goals that are most important to you, then move on to other goals.
5.b) FALSE – Long-term goals are very important, but you need a balance of short, medium and long-term goals.
6.a) Creating a collage makes your dreams more visual and dramatic, and easier to stick to.
7.b) FALSE – You should review your goals regularly, especially if your circumstances change.

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 pension 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 statutory deduction 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 house 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 tax tables. Depending on what you earn, you will pay PAYE tax.

Pension Contributions

It is now compulsory for your employer to set up a pension fund or have a pension arrangement that you can contribute to for your retirement. Your deduction will be a percentage of your gross income. The minimum threshold is currently five percent.

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 and loans.

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: 98303311239857 **Pay Cycle:** Monthly

Bank Details: Ndalama Bank

Acc No: 0123587

Earnings	Amount	Deductions	Amount
Basic Salary	30 000.00	Taxation	1 500.18
Gross Earnings	30 000.00	Total Deductions	1 500.18
		Net Salary Transferred	28 499.82

2. Write down your gross earnings

My Payslip _____

My Gross Earnings: MK _____ per month

Example - Brezhnev's Payslip

Brezhnev's Gross Earnings: MK30 000 per month

3. Check your net income

My Net Income

Tax	MK_____
Medical Aid	MK_____
Pension Fund	MK_____
Other	MK_____
Total Deductions	**MK**_____
My Net Income	**MK**_____

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

Example - Brezhnev's Net Income

Gross Earnings	MK 30 000.00
Less Total Deductions	MK 1 500.18
Brezhnev's Net Income	**MK28 499.82**

4. Remember any extra income!

My Net Income	**MK**_____
Partner's Net Income	MK_____
Interest earned	MK_____
Total Extra Income	MK_____
Total Household Income	**MK**_____

Example - Brezhnev's Extra Income

Rent	MK2 000.00
Air-time sales	MK4 000.00
Total Extra Income	**MK6 000.00**

Now let's put it all together!

Monthly household income

My Gross Salary		MK _____	
Less deductions			
Tax	MK_____		
Medical	MK_____		
Pension	MK_____		
Other	MK_____		
Less total deductions		**MK**_____	
My Net Income			**= MK**_____
Partner's Gross Salary		**MK**_____	
Less deductions			
Tax	MK_____		
Medical	MK_____		
Pension	MK_____		
Other	MK_____		
Less total deductions		**MK**_____	
My Partner's Net Income			**= MK**_____
Other income			
Rent	MK_____		
Part-time job	MK_____		
Other	MK_____		
Other	MK_____		
Total other income			**= MK**_____
TOTAL HOUSEHOLD INCOME			**= MK**_____

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

Net Income
MK28 500

Add other income
MK6 000

My disposable income is
MK34 500

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 standing 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.

Brezhnev'ss current income and spending

Household Income			
Net salary after deductions		28 500.OO	
Rent received		2 000.00	
Air-time sales		4 000.00	
Total Household Income			**34 500.00**
Fixed Expenses			
Savings debit order	1000.00		
Rent paid	4 800.00		
Micro loan	2 200.00		
Total Household Income		**8 000.00**	
Variable Expenses			
Electricity/water	4 000.00		
Groceries	5 000.00		
Lunch	2 400.00		
Minibus Fares	1 800.00		
Entertainment	2 800.00		
Clothing	3 000.00		
Medicine and toiletries	2 000.00		
Cellphone	4 500.00		
Total Variable Expenses		**22 450.00**	
Irregular Expenses			
Medical expenses	2 000.00		
Other	3 000.00		
Total Irregular Expenses		**5 000.00**	
Total Expenses			**35 450.00**
Still Needed			**-950.00**

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?

Micro Loan	MK2 200
Total:	MK2 200

What % of income is this? $\frac{2\ 200 \times 100}{34\ 500} = 16\%$

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 MK3 000 a month on clothing and about MK2 800 a month on entertainment. Is this spending really necessary? Perhaps there are ways to cut down on both.

Analyse Variable Expenses!

Brezhnev is spending a significant portion 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 send more SMSs and try to buy airtime bundles to save money on his cellphone bill.

Adjust Savings!

How much is Brezhnev saving?

$\frac{1\ 000 \times 100}{34\ 500} = 2.8\%$

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% (MK3 500.00 per month). Once he has paid off his debt to the micro lender, he should put that MK2 200 into his savings plan.

Brezhnev has a problem! He is living beyond his means, and although he knows he needs an average of MK2 000 per month for medical expenses, he hasn't been keeping this aside. Last month, when he needed to go to the hospital suddenly, 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)		MK _____	
Partner's net income (after deductions)		MK _____	
Other income		MK _____	
Total Household Income			**MK** _____
Fixed Expenses			
Savings	MK _____		
Rent/house loan/rates	MK _____		
Insurance – life policy	MK _____		
Insurance – home	MK _____		
Insurance – car	MK _____		
School fees (if paid monthly)	MK _____		
Other loans	MK _____		
Other	MK _____		
Total Fixed Expenses		**=MK** _____	
Variable Expenses			
Electricity/water	MK		
Groceries	MK		
Lunch	MK _____		
Transport – petrol/taxi/bus	MK _____		
Entertainment	MK _____		
Clothing	MK _____		
Medicine and toiletries	MK _____		
Telephone	MK _____		
Cellphone	MK _____		
Other	MK _____		
Total Variable Expenses		**=MK**_____	
Irregular Expenses			
Medical expenses	MK _____		
Car repairs	MK _____		
Household repairs	MK _____		
School fees if paid per term	MK _____		
School clothing and books	MK _____		
Other	MK _____		
Total Irregular Expenses		**=MK**_____	
Total Household Expenses			**=MK**_____
Budget Surplus or Deficit (Income minus Total Expenses)			**=MK**_____

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 pay-ments.

What percentage of your total income are you saving?

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

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 credit?
- 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?
- 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 call times etc.

To Change? _____ How? _____

To Change? _____ How? _____

STEP 4: DRAW UP YOUR BUDGET

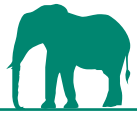
Making Budgeting Easier

- 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)		MK_____
Partner's net income (after deductions)		MK_____
Other income		MK_____
Total Household Income		_____**MK**
Fixed Expenses		
Savings	MK _____	
Rent/house loan/rates	MK _____	
Insurance – life policy	MK _____	
Insurance – home	MK _____	
Insurance – car	MK _____	
School fees (if paid monthly)	MK _____	
Other loans	MK _____	
Other	MK _____	
Total Fixed Expenses		**MK** _____
Variable Expenses		
Electricity/water	MK _____	
Groceries	MK _____	
Lunch	MK _____	
Transport – petrol/taxi/bus	MK _____	
Entertainment	MK _____	
Clothing	MK _____	
Medicine and toiletries	MK _____	
Telephone	MK _____	
Cellphone	MK _____	
Other	MK _____	
Total Variable Expenses		**=MK**_____
Irregular Expenses		
Medical expenses	MK _____	
Car repairs	MK _____	
Household repairs	MK _____	
School fees if paid per term	MK _____	
School clothing and books	MK _____	
Other	MK _____	
Total Irregular Expenses		**=MK**_____
Total Household Expenses		**=MK**_____
Budget Surplus or Deficit (Income minus Total Expenses)		**=MK** _____



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. Other items like school fees are paid per term, also making them a fixed 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.

MY **PERSONAL NOTES** PAGE

REVIEW THE **ELEPHANT**

What have I learned?

Group Activity: Working in pairs, discuss with your partner

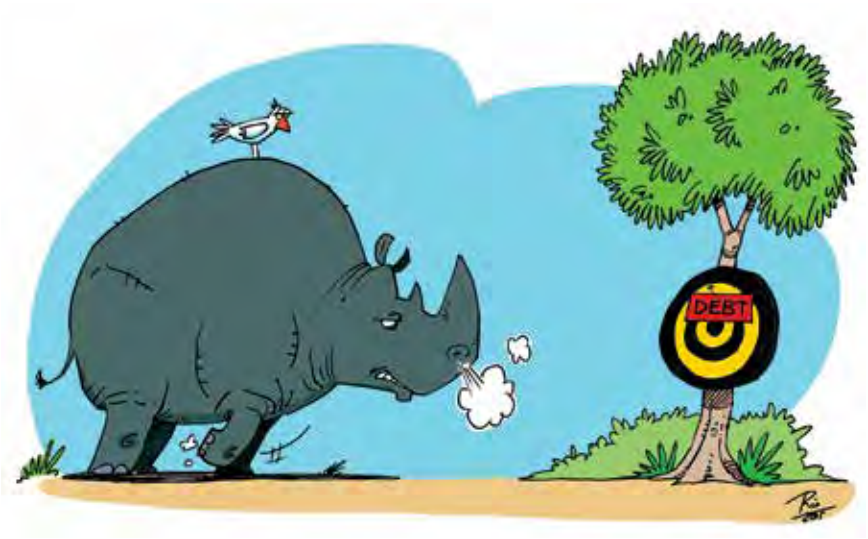
- What can you do to learn what you earn?

Self-assessment: (Individual Activity)

- What do you understand about the Secret of the Elephant?
- What will you do to apply this secret using the Elephant Envelopes method? Write down your method.
- How often will you review your plan?

THE **SECRET** OF THE **RHINO**

"Charge down your debt"



THE SECRET OF THE RHINO

The rhino's weapon is to charge. When threatened, it looks for the biggest threat and charges, taking swift control of the situation.

What can I learn from the Rhino?

- Rhinos are fairly peaceful and don't have many enemies, yet the mother rhino often has to defend her calves from multiple predators or dangers. She often has to weigh up her options. The only option she does not have is not to deal with the threats.
- So what does the Rhino usually do when it is threatened? It charges down the predator to protect itself.
- It is the same with your money; you need to manage the level of debt you take on to ensure it does not threaten your financial security. The debt you use should be part of your plan, as it may help you create wealth. But if you don't manage it carefully, you can wind up paying back large amounts of your income to debt throughout your life, thereby destroying your wealth.
- Because debt is so expensive, and eats away at so much of your wealth, we all have to find ways to reduce it rapidly, and always manage it carefully. Debt only becomes unmanageable if it eats away too big a portion of your income each month, and if you pay it off too slowly.

Learner Outcomes

At the end of the module "The Secret of the Rhino" you will be able to:

1. Plan and manage your debt.
2. Identify the risk, pitfalls, limitations and unforeseen events that affect a budget and explain the consequences of poor financial planning.
3. Understand how to charge down your debt.
4. Explain the consequences of not having a good credit rating in the context of credit-related purchases.

The trick is to keep your debt down to a manageable proportion of your income, and to learn from the rhino and charge it down in a logical, orderly way.

UNDERSTANDING **DEBT**

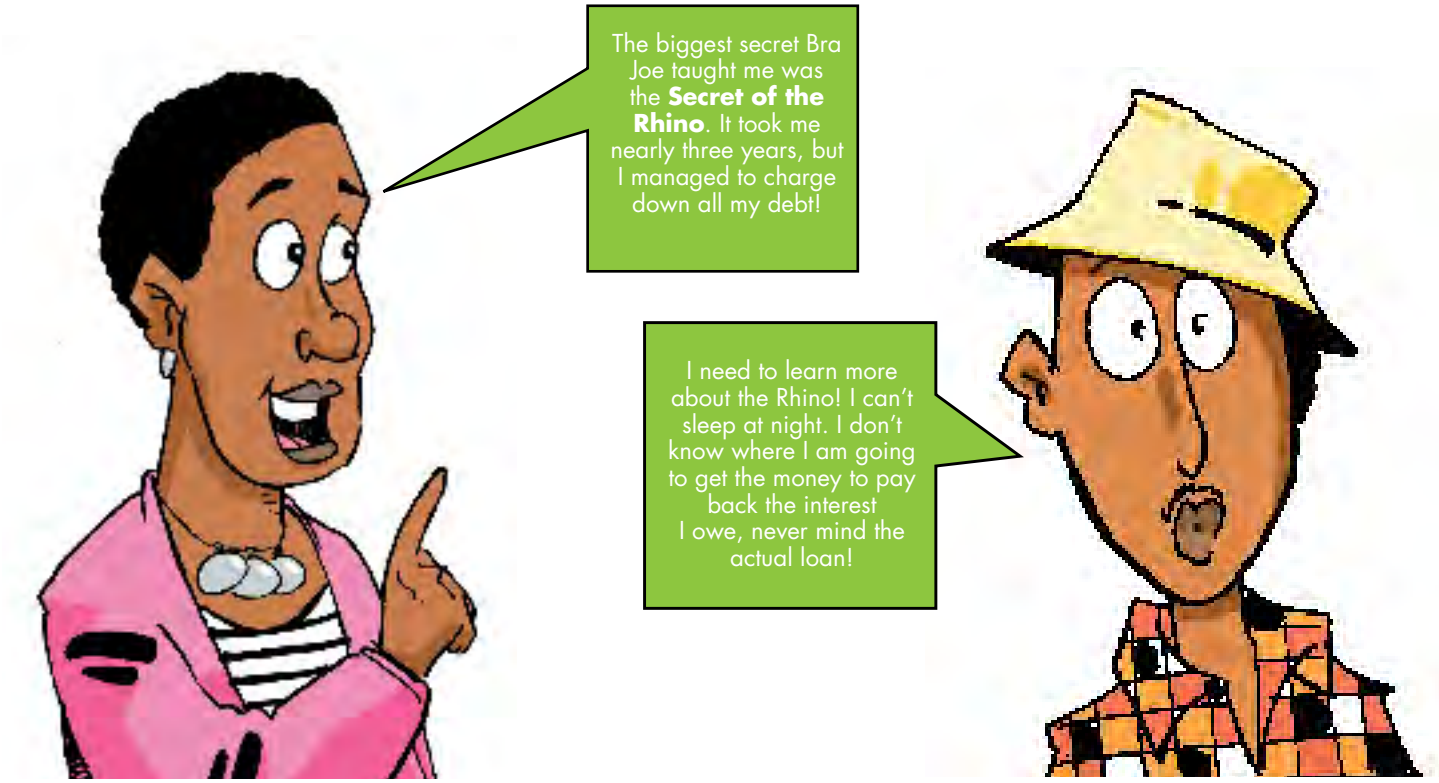
Getting out of debt can be one of life's most difficult challenges. But it is also one of the most important things you can ever do.

Why do we borrow money and get into debt? Sometimes it is because of an emergency that we did not expect. So we borrow, because we are short of cash. Sometimes we need to buy something big and expensive – such as a car or a house. These days, it is often impossible to buy a house or a car for cash. But, for most of us, we get into debt because we hope that there will be better days tomorrow, and we want something now. This is usually something we cannot afford!

Debt itself is not a bad thing, if you can borrow **carefully** as part of a bigger plan. But many people tend to get into debt without thinking about its dangers and pitfalls. Credit is easily available; very quickly we are overwhelmed by our debt and end up in a cycle of buying on credit and using most of our salaries just to repay interest and debt.

The **Secret of the Rhino** teaches you to **face** your debt head-on. It tells you to charge down your biggest threat to financial stability – debt. Learn from the rhino – charge down your debt as fast as you can! If you feel overwhelmed because you have a lot of debt, charge down the biggest threat first – usually the one with the highest interest.

You can reduce your debt over time, but it takes discipline. The benefits are great – not only will you sleep better, but you will have taken constructive steps to creating wealth and protecting what you have.



Brezhnev is caught in a typical debt trap, but he has taken the first step by acknowledging his problem. Learn about the hidden costs of debt and how it threatens your wealth creation plans. Take a tip from the rhino and commit yourself to charging down your debt fast!

UNDERSTANDING **DEBT**

Debt is here to stay! It is a feature of the modern consumer society – we are bombarded with messages to buy more every day.

Credit is easily available and we are continually en-couraged to buy unnecessary items. When we can't repay our debts, we often take out bigger, more expensive loans, and the cycle of debt continues.

Using debt as part of a bigger wealth creation plan can be useful. For example, you might take out a bond in order to buy your house, so that in the long run you will save on rent, and have a good asset that increases its value over time. But most of us find ourselves caught in too much debt on items we don't even need and that decrease in value over time. Debt is a serious threat to any long-term wealth creation plan.

Dealing with debt isn't only a financial problem, but an emotional one as well. It can raise feelings of helplessness, guilt and even fear. It can make us uncomfortable. But like the rhino, we must charge down our fear – and our debt!

I needed to understand how I got into my cycle of debt, before I could charge it down.

Are you a debt ostrich?

Do you:

- always feel guilty about your debts?
- not allow yourself to think about your debts?
- struggle to sleep at night because your debts worry you?
- feel overwhelmed by your debts?
- ever borrow from Peter to pay Paul?
- ever receive letters from your creditors threatening you?
- know the interest rates you are paying on your different debts?

Get your head out of the sand! Confront your debt and charge it down.

HOW DO I **MANAGE DEBT** TO MY ADVANTAGE?

Whenever you want to use debt, go through the following 5 steps to help you manage your money:

STEP 1

Know how much the cost of debt ADDS to the cost of the item

The longer you take to pay off a purchase made on credit, the more you end up paying for the item as a result of interest.

Cash cost	Interest paid	Total cost	Monthly payment
100 000	**Year 1** MK10 015.99	MK110 015.99	MK9 168.00
100 000	**Year 2** MK19 817.84	MK119,817.84	MK4 992.41
100 000	**Year 3** MK30 148.62	MK130 148.62	MK3 615.24

- The interest payment alone on the MK100 000 purchase is MK30 148.62.

Things to note:

- If you pay for household goods over more than 3 years, you will pay double or more of the purchase price.
- If you pay for your house over more than 10 years, you will pay double or more of the purchase price. Over 20 years you will pay about 2.5 times the purchase price.

MK5 000 000 bond paid off over 20 years, at 11% interest, attracts MK7 449 242.71 interest over the term. So the final cost of the house after 20 years is MK12 386 260.80.

Year	Loan Balance	Interest Paid	Principal Paid	Total Interest
2000	619 313.04	72 916.58	546 396.46	4 927 083.42
2001	619 313.04	81 354.40	537 958.63	4 845 729.02
2002	619 313.04	90 768.64	528 544.40	4 754 960.38
2003	619 313.04	101 272.88	581 040.76	4 653 688.10
2004	619 313.04	112 991.39	506 321.65	4 540 696.71
2005	619 313.04	126 066.62	493 246.41	4 414 630.09
2006	619 313.04	140 654.90	478 658.13	4 273 975.18
2007	619 313.04	156 931.33	462 381.71	4 117 043.86
2008	619 313.04	175 019.24	444 221.80	3 941 952.62
2009	619 313.04	195 352.59	423 960.44	3 746 600.03
2010	619 313.04	217 321.04	401 354.47	3 528 641.46
2011	619 313.04	243 180.48	376 132.56	3 285 460.98
2012	619 313.04	271 321.04	347 992.00	3 014 139.95
2013	619 313.04	302 717.99	316 595.04	2 711 421.95
2014	619 313.04	337 748.17	281 546.87	2 373 373.78
2015	619 313.04	376 831.99	242 481.04	1 996 841.79
2016	619 313.04	420 438.55	198 874.48	1 576 403.24
2017	619 313.04	469 091.21	150 221.82	1 107 312.02
2018	619 313.04	523 373.90	95 939.13	583 938.12
2019	619 313.04	583 938.12	35 374.91	0.00
TOTAL PAID	12 386 260.80	4 999 928.59	7 449 242.71	

How interest works

If you rent a house, you have to pay rent for using the house. Interest is the same. If you borrow money, you need to pay for the use of the money. This amount is called interest. Interest is always given as a percentage. Similarly, if you have savings at a bank, the bank pays you interest for the use of your money.

For example: 20% interest per annum (per year) means that if you borrowed MK100 for one year, you would have to pay interest of MK20 at the end of the year, as well as the MK100 that you borrowed. If you repaid the loan after 6 months, your interest would be MK10 as you only had the loan for half the year. The longer you take to pay, the more interest you will pay.

Banks lend money all the time, including to big companies. The rate at which they lend to their biggest and best clients is called the prime interest rate. Usually, banks will lend you money at higher interest rates than the prime interest rate. Credit card companies, furniture and clothing stores will let you buy now and pay later at a much higher interest rate. Micro lenders can charge whatever interest they like (provided they disclose it to you), and this can often be as high as 30% interest per month, making the amount you pay back four or five times the amount of the original loan.

Don't get caught!

Interest rates do change. Interest rates of 20% - 25% on loans are common now, but we shouldn't forget the mid-1990s when interest rates peaked at 35%. Many people who could afford to repay 12% on loans, were forced to pay double the interest, causing many to lose their cars and houses. Interest rates can rise at any time. Make sure that you can afford higher repayments if interest rates go up!

STEP 2

Always pay CASH when you can and request a discount.

Cash is king

- Do you know you can ask for a cash discount of up to 20% when paying in coin or paper money? This is because the merchant does not have to pay any fees related to transactions made on credit or debit cards.
- Using the example of the MK100 000 item, paying cash could have resulted in a savings of MK10 000 on the purchase price (if you are given a 10% discount). That saving could be used to pay off other debt faster or be set aside towards a savings plan.
- But in addition to the cheaper purchase price, you also save yourself MK30 148.62 extra in interest that you would have had to pay if you bought the item on credit.
- What could you do with an extra MK40 148.62? (MK10 000 + MK30 148.62)

STEP 3

Pay off your debt as fast as you can and pay off your most expensive debt fastest

- If you have extra cash and you put it towards paying off your debt faster, you will be able to reduce the interest you will pay over the entire duration of the credit payment. This can save you hundreds of Kwachas or more.
- But how do you know which debt to pay off fastest when you owe many people?
- Should you pay off the largest debt?
- Should you pay off the debt that attracts the highest interest?
- Most of your money should go towards paying off the debt with the highest interest, as it will save you having to pay a significantly higher total purchase price at the end of the term.
- Number the debt below in the order of highest to lowest priority debt.

Things to note:

- If you pay one-third more monthly into your MK5 000 000 bond, you will pay it off within 10 years and save **MK4 121 260.03**
- If you pay double your monthly repayments into your MK5 000 000 bond, you will pay it off within 5 years and save **MK5 863 533.79**.
- If you pay your MK5 000 000 bond off over 20 years, you will pay in total MK12 386 260.71.

STEP 4

Pay off all debt long before you have to stop using the item you bought on credit

- Is it appropriate to purchase your monthly groceries on credit, if you repay them over a term that is longer than one month?
- What about buying shoes over three years? How would you feel about having to continue paying for these shoes for six more months?
- A house, on the other hand, is an appreciating asset; its value goes up even after purchase, whereas most other purchases depreciate immediately upon purchase and/or use.
- Also, a house is a structure that remains standing for years, and even generations. And, if built and maintained properly, will remain in a good condition for years. There-fore, as you pay it off, it not only stores its value, but also increases as the debt on it goes down. This is why property is considered a sound way to store and create wealth.

STEP 5

Plan your debt-free day

- The sooner you pay off all your debt, and live debt free, the more money you can put into savings and investments. This can, of course, be for your retirement, for when you don't work any more.
- If you start early enough, you can do even more than that: you can then create real wealth.
- Try to reach your debt-free day as early as possible in your life.

Creditor	Capital Payments	Monthly Rate	Interest Charged	Payments Owed	Total
ABC Clothing	2 200	262.08	17%	9	2 358.72
House Loan	5000 000	51 609.42	11.5%	240	12 386 260.71
Hire Purchase	6 000	591.48	16.5%	11	6 506.28
Phiri's Furniture	12 000	625.50	22.5%	24	15 000
Car loan	180 000	4 475.15	12.5%	54	236 258.10

HOW DO I **GET OUT OF DEBT?**

Use the following 5-step plan to help you get out of debt.

STEP 1: FACE THE PROBLEM

Know and research all your debt

- What types of debt do you have?
- How much do you owe?
- How much are you repaying each month?
- What interest rates are you paying?
- When will you finish repaying each of your loans?
- Which debts have the highest interest rates?

Part of facing your debt is knowing **exactly** how much debt you have. Make sure you understand the different kinds of debt that you have, and their legal implications. Check the interest rate of each debt and how much it is costing you each month. Find out how many payments you still have to make. This knowledge will make it easier to establish which debts pose the biggest threat to your financial wellbeing.

Collect the statements of the last three to six months for all your debts. Analyse them closely. Here is Brezhnev's list as an example.

Debt	Amount Outstanding (without interest)	Interest Rate	Monthly Repayments (with interest)	When will it be Repaid in Full?
ABC Appliances – Fridge (MK100 000)	MK45 347.33	18% per annum	MK3 615.24	13 months
Micro Loan (MK600.00)	MK300.00	20% per month	MK220.00	3 months

Clearly Brezhnev's loan of MK600 at 20% per month is very expensive. If he repays the whole loan over 6 months, he will have paid MK720.00 in interest, more than the actual outstanding loan. Micro lenders make their money legally, by charging extremely high rates of interest like this.

Now, make a list of all your debts. Include bonds, overdraft, HP contracts, credit cards, bank loans, store cards, micro loans, family loans, etc. Add it up!

STEP 2: SHARE YOUR PROBLEM

Develop a support system to keep you focused on your goal

- Who can support you while you charge down your debt?
- Where can you get advice?

STEP 3: ADJUST YOUR BUDGET

Revise your budget

- How much extra debt repayment can you afford?
- What can you change to increase your debt repayments?
- How long will it take for you to charge down your debts?

STEP 4: CREATE STRATEGIES TO DEAL WITH YOUR DEBT

Find practical ways to deal with your debt

- Which debts pose the biggest threat?
- How do you deal with your creditors?
- What are your options?
- What will you do if you are blacklisted?
- Is there a sensible level of debt?
- If so, what is a sensible level of debt for you?

Find and identify your biggest threat

Just like the rhino, you must charge down your biggest threat first. Debts with the highest interest rates are usually the biggest threats, as they are the most expensive. If, however, you are behind on payments for home loans, vehicles or furniture, you stand a real chance of having them repossessed, with nothing to show for all your months of payments. In this case, your home loan could be your biggest threat even if the interest rate is the lowest. Look at all your debts and prioritise them. Be logical and systematic.

Contact your bank and creditors

If you are in trouble and you cannot make your monthly debt repayments, let your bank and creditors know. If you have a home loan, it is very important to explain your situation to the bank. Ask if there is a lower possible repayment for a couple of months, until you get back on your feet. Creditors are more open to arranging longer terms if you contact them before you miss a few payments. They would rather collect your money slowly than not at all. But remember that these are only temporary measures and that you will still have the original loan to repay, now with added interest. Get back on your full repayment schedule as quickly as possible.

Debt consolidation

If you earn a regular income, you might qualify to consolidate your debt. Some companies specialise in debt consolidation and will agree to settle all your accounts and debts elsewhere. You then owe them only one large amount, which covers all your debts. This makes repaying your debt much easier as you only have one creditor to repay, and you can often negotiate more favourable interest rates and repayment terms.

This might sound like the answer to your debt nightmare, but it has its risks. You still have the same amount of debt to repay, and now one creditor holds a lot more power over you than all your individual creditors had. Some people then reopen their accounts again, and before they know it they are in the same situation, and now also have their big consolidated debt to repay.

Consider selling your assets...

If your assets are in danger of being repossessed, then consider selling them first and using the money to settle the debt. If you have been paying the items off for a while, the balance outstanding might be quite low, and you might even come out with some cash to spare. If it is repossessed, it is unlikely you will get anything out other than a bad credit record rating.

What if you are blacklisted?

If you don't manage your accounts properly and repay your debts on time, your bank and creditors can give you a poor credit rating. This makes it difficult to get further credit, as companies contact your bank and past creditors when you apply for an account or loan.

If you can't keep up your repayments and haven't made arrangements with your creditors, they can take legal action against you. This involves issuing you with a summons to pay and getting a judgment against you. Your name is then registered with a credit bureau and you are blacklisted. This means that you will not be able to open an account anywhere, nor will you qualify for a home loan. Your creditors can also have your assets attached and sell them to cover costs.

Calculating the ideal debt-to-income ratio

How much of your take-home salary is being used to pay off debt repayments?

- Total monthly debt repayments (house loan, and your other loans)
- Monthly take-home salary
- Ratio: debt/income = __%
- E.g. Debt repayments of MK5 000, monthly take-home pay of MK10 000. Debt/income ratio = 50% or half of your monthly salary goes towards repaying debt monthly.

What is an acceptable level?

It is accepted that this amount should not exceed 30% if you want to achieve financial security for yourself.

STEP 5: NO NEW DEBT

Stop yourself from incurring any new debt

- How will you live within your means?
- How will you stop creating new debt?

Stop and Think...

Before you take on any new debt, ask yourself:

- Do I really need it?
- How will buying it affect my savings plan?
- Have I budgeted for it?
- Can I afford the instalments now and in the future?
- How long will it take to repay it? What if I need something else while I am repaying it?
- How much interest will I pay? Is this per month or per year?
- What if the interest rates increase? Will I be able to afford the higher repayments?
- What would it cost if I bought it for cash? How much cheaper would it be?
- If I really need it, can I buy it cheaper somewhere else?
- If I really need it, how much interest will I save if I pay it off over less time?
- How does the purchase help my long-term vision of wealth creation?

No new debt!

Undoubtedly, the hardest part in charging down your debt is going to be to resist taking out new debt.

This is going to require sacrifice, commitment and strength of character. You need to challenge your old habits, and develop new ones.

UNDERSTANDING DIFFERENT TYPES OF CREDIT FACILITIES: **MY RIGHTS** AND **LEGAL RESPONSIBILITIES**

Bank Loans

Bank loans are usually determined by your salary and your bank history. Loans from banks usually have standard terms in their contracts, but look out for "the small print". Check the admin charges, whether interest rates can be changed at any time, and any other conditions. You might be forced to take out life insurance to get the loan – an added expense! Some typical bank loans are:

Bank Overdraft

You can arrange a bank overdraft on your cheque account – usually the account your salary is paid into. This means they will let your cheque account be overdrawn. The interest rate is a lot higher than the prime interest rate. You do not have to repay the overdraft within a fixed time, but the bank will review it at least once a year, and can withdraw it at any time.

Revolving Credit

This will be a fixed amount of money that the bank agrees to loan you. You don't have to take it all at once, and as soon as you pay some back, you can re-borrow that amount. This kind of loan is flexible, but has a high interest rate.

Bank Loans

Depending on your circumstances, you might qualify for a longer-term loan, where you have to make fixed repayments every month. The bank might ask you to provide something as security for this loan, such as a piece of land. If you cannot repay the loan, the bank then has the right to keep your asset that you offered for security.

Specialist Loan Companies

There are many loan companies around, encouraging you to buy your dream holiday, add on a patio to your house, or fulfil other dreams now and pay later. But beware, they are expensive and have hidden costs.

Hire-purchase Agreements

Some people buy cars, furniture or appliances, using an HP contract. The seller arranges finance for you from banks that specialise in this type of loan. You are usually required to pay a deposit and sign an agreement where the loan is registered over the items that you buy.

HP is expensive, and you usually end up paying more than double for the item. If you cannot pay for a month or two, you run the risk of having the item repossessed. You will then have nothing to show for all your months of repayments.

Vehicle Finance

Some banks have special divisions that only provide loans for motor vehicles. The interest rates are more favourable than ordinary loans. If you have an accident or your car is stolen, you would still need to repay the loan, unless you had insurance cover. If you stop paying your loan, your car will be repossessed.

Home Loan or Bond

Most people take out a home loan or mortgage bond to buy or build a house. This is a long-term agreement between you and the bank, where the loan plus interest is repaid over 20 or 30 years. The bond is legally registered over your property and if you can't repay the loan, it acts as the bank's security. Usually the interest is one of the lowest rates that you will get, but it is linked to the bank's prime interest rates. If interest rates go up, you could find yourself not able to pay the higher repayment amount. In the late 1990s, home loan rates rose to 35%, making many people unable to repay their home loan repayments. This meant that they lost their houses. You are also usually expected to take out life insurance for the value of the bond.

Paying extra into your home loan each month, or paying it off sooner, dramatically saves you interest. It is a good idea to put any extra bonuses or money into your bond. Usually you can arrange with the bank to withdraw any extra payments if you need it. In this way you can use your bond to keep your savings in.

Micro Credit

Micro credit means the provision of small loans to small or micro enterprises, low income customers, financially underserved customers or as determined by the registrar where:

a. Such loans are granted to a person whose income depends on his own business or economic activity.
b. Security for such loans may include non-traditional instruments such as group guarantees or compulsory savings.
c. The borrower may be required to make frequent payments in small amounts. Such loans may take the form of micro-housing or micro leasing products designed for micro customers.

Micro lenders are flourishing because, for some people without regular salaries, it is the only way to borrow money. Often, because the interest rates are so high, the only way to repay a micro lender is to take out another loan. Soon a vicious cycle spirals out of control. Some micro lenders employ debt collectors who use threats and violence to collect their money. Make sure you only borrow from registered micro lenders.

KNOW YOUR RIGHTS

Registered micro lenders:

- Must register with the Reserve Bank of Malawi (RBM) and abide by the Microfinance Act.
- Can charge you any interest rate they like, as long as they disclose it to you.
- Must give you a copy of your contract.
- Cannot keep your ID or ATM card (never give them your PIN number).
- Cannot ask you to sign any blank forms.
- Must allow you to pay off the loan earlier, and reduce your interest paid accordingly. Check whether any penalties would apply to early settlement.
- An individual should check if they can cancel the contract within from inception. Must allow you to cancel the contract within 3 working days.

If you feel you have been unfairly treated or have a complaint, contact the Reserve Bank of Malawi on Tel/Fax: + 265 (0) 1 770 600.

Credit is easily available from a whole range of sources. Banks, vehicle finance companies, micro loan companies and family members are all possibilities for borrowing money. Most people lend money with one thing in mind – to make money.

This can be through charging you interest and administrative charges, like the banks, or by encouraging you to spend more money with them, like furniture stores. In all cases, the credit facilities that you have will cost you money. How much it will cost you, depends on the type of loan. **Look at the typical loan below. Do you think it is expensive?**

Fair Deal Loans

Choose the loan instalment that will suit you. Choose the period that you want to pay it back. Minimum loan MK4 000. We are flexible so that you can borrow what you can afford.

Monthly repayments include a compulsory MK12.00 admin fee and MK6.20 protection cover.

All loans are subject to credit approval. The table is quoted at July 2010, and is subject to change.

Rates quoted are a guide and could vary, depending on your personal circumstances.

Amounts	24 months	36 months	60 months
MK 4 000	265	203	153
MK 6 000	393	298	224
MK 8 000	519	393	296
MK10 000	647	490	367
MK12 000	754	560	415
MK14 000	778	656	483
MK20 000	1 250	934	685
MK25 000	1 560	1 252	853

How much does a loan from Fair Deal Loans actually cost you?

Let's look at a MK4 000 loan

Total repayment over **2 years** = MK265 per month x 24 months = MK6 360 — Total interest paid over 2 years = **MK2 360**

Total repayment over **3 years** = MK203 per month x 36 months = MK7 308 — Total interest paid over 3 years = **MK3 308**

Total repayment over **5 years** = MK153 per month x 60 months = MK9 180 — Total interest paid over 5 years = **MK5 180**

Let's look at a MK10 000 loan

Total repayment over **2 years** = MK647 per month x 24 months = MK15 528 — Total interest paid over 2 years = **MK5 528**

Total repayment over **3 years** = MK490 per month x 36 months = MK17 640 — Total interest paid over 3 years = **MK7 640**

Total repayment over **5 years** = MK367 per month x 60 months = MK22 020 — Total interest paid over 5 years = **MK12 020**

What do you notice?

When you calculate the total interest you get a clear picture of how bad debt is for you.

Notice that:

- It is better to repay loans over a shorter period. Although the monthly repayments are cheaper for a longer period, the total amount paid rises dramatically.
- The company doesn't actually specify the interest rate. If they told you the interest rate was 25% to 30% per annum you might be put off. They are hoping that you won't do the calculations above.
- The small print says that your actual rates could be different, depending on your circumstances. Once you are there, they can convince you that you are not a good credit risk, and then offer you a loan at even higher rates.
- The rates are subject to change. You could suddenly find yourself with higher monthly repayments if interest rates increase.
- There are extra costs – personal cover of MK6.20 per month and an admin fee of MK12.00. These might not sound a lot, but over 5 years they amount to over MK1 000.

TIPS FOR MANAGING **MY DEBT**

For most of us, taking out a bond is the only way we will ever own a home. The Secret of the Rhino tells us to charge down our debt and keep it at sensible and well managed levels. This means that if you are going to have debt, you should stick to some rules.

Rules for manageable debt

Have a plan

Only borrow if it is part of your bigger wealth creation plan. Is it a valuable investment that will help increase your overall wealth?

Don't miss payments

Make debt repayments part of your budget. Decide what you will sacrifice to make your repayments.

Stay within your means

If you have to buy a car on Hire Purchase (HP), make sure you can afford it, and pay the biggest deposit that you can. Cars lose value quite quickly – you can lose MK20 000 in value in the first minute you drive it out of the showroom.

Don't use Hire Purchase (HP) for smaller purchases!

Never buy furniture and appliances on HP. If you don't have the money, save up until you can afford it. It won't take as long as you think, and you can save many thousands of Kwachas.

Compare rates

Shop around for the best deal. You can often negotiate better terms and interest rates.

Don't fall for ads

Resist clever advertising. Adverts are designed to encourage you to spend money that you don't have.

Understand what you sign

Read your debt contract carefully. Look for the hidden extra costs, and check what penalties will apply if you pay it off sooner. Never take a loan that doesn't allow you to pay extra or pay it off sooner.

A credit provider must provide you with a quotation, showing all relevant costs and repayment values before you sign the agreement.

The quote is valid for a specified number of days, during which you can shop around and explore other options.

The dangers of credit!

- Hidden costs like admin, protection cover and club fees add up over the period of a loan.
- If you cannot repay a loan, even if you have paid for many months and even years, you will probably have your goods repossessed.
- If you can't repay your loans on time, you could be given a bad credit rating and blacklisted or even liquidated. This makes future loans very difficult.
- Family loans might have lower or no interest, but they can cause guilt and shame and put strain on your relationships.
- Unscrupulous micro lenders may physically threaten you or your family. It's illegal, but it happens.

Beware of seductive tactics...

Stores and banks want you to spend as much money as possible with them. They offer credit and encourage you to spend money you don't have. This increases their profits and keeps them in business. They use sophisticated techniques to lure you in, hoping that once they catch you, you will spend more with them.

Ask yourself: do I really need what they are advertising? Here are a few seductive phrases to be critical of:

Buy Now, Pay Later!

This encourages you to spend money you don't have and makes buying on impulse much easier. If you don't settle the debt in full by the agreed date you will usually be charged very high interest.

6 Months Interest Free!

This catches many people who plan to repay their debt before it starts earning interest. In reality most people don't manage to stick to their plan and they end up paying high interest charges every month.

Free Vouchers!

Often stores offer you a couple of MK100 vouchers off your first purchase, if you open an account. Your first purchase might be cheaper, but the interest you pay on future purchases and the compulsory extras like "club membership" make your account very expensive.

Club Membership and Competitions!

Some stores add extra benefits if you open an account – benefits such as clubs, competitions, discounts, funeral benefits, invitations to special events, etc. These are all designed to encourage you to spend more money with the store. But be careful, you often have to pay extra each month for all these benefits. These costs are often automatically added to your account every month, and also incur interest if not paid on time.

MY **PERSONAL NOTES** PAGE

REVIEW THE **RHINO**

What have I learned?

In pairs role-play the following scenario: Imagine that you are at a round table with your friends or colleagues. A phone rings from Fairdeal Electronics –

Debt collector is Lisa

Lisa: May I speak to Ms/Mr X?
Mr/Ms X: Speaking!
Lisa: I'm phoning from Fairdeal stores in connection with your account, which is in arrears for an amount of MK600. Do you have any reason for not paying your account for three months?
Mr/Ms X: Yes
Lisa: Do you understand that this affects your credit history?
Mr/Ms X: I'm sorry my battery is flat?

- How did you feel when you were making the call?
- How did you feel when you received the call?
- What strategies can you suggest to Ms or Mr X to develop, in order to manage his/her debt?

REVIEW THE **RHINO** (CONTINUED)

What have I learned?

Self-assessment: (Individual Activity)

- List some of the rules you will use if you are going to have a debt.
- Give reasons why you are choosing that rule.

THE **SECRET** OF THE **BUFFALO**

"Protect your assets, make your money work for you"

THE SECRET OF THE BUFFALO

The mighty buffalo is deliberate and steady, waiting all day for the hot African sun to pass. It steadily grows and protects its herd, knowing its strength and future are in its numbers.

What can I learn from the Buffalo?

- Buffalo form really big herds, some of the biggest in nature. A single herd can consist of over 450 animals! This gives the buffalo a great deal of protection.
- Buffalo have no natural enemies except lions, and lions are actually pretty scared of them in a herd. Hyenas and leopards may occasionally attack the young, but they don't take on the herd. Lions often come off second best when they attack the herd.
- The buffalo knows its wealth and strength is its family. Even though building a large herd takes a great deal of patience, it pays off in the end.
- Buffalo can inspire you to grow your wealth patiently. You can be inspired to protect your assets using the combined strength of an insurer.

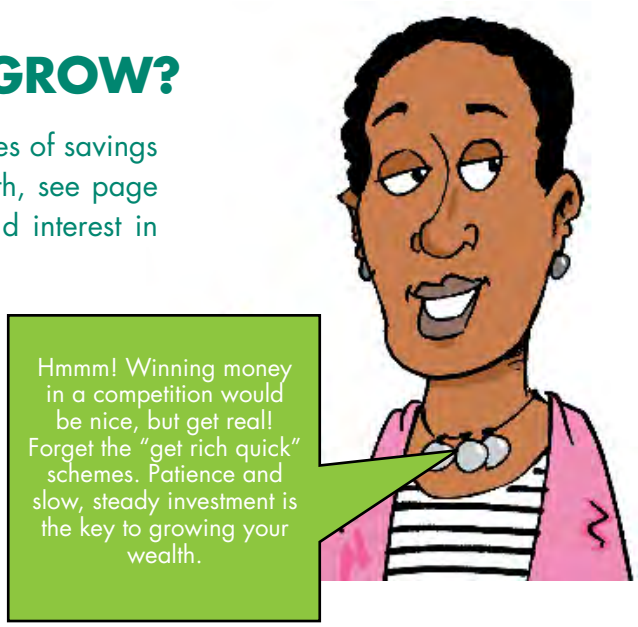
Learner Outcomes

At the end of the module "The Secret of the Buffalo" you will be able to:

1. Understand why you have to invest to increase your assets.
2. Have a clear understanding why you have to insure to protect your assets and pass on wealth to future generations.
3. Explain the power of compound interest.
4. List and explain four financial options to save money and thereby ensure long-term financial stability.
5. Know your rights when dealing with investment brokers and products.

HOW CAN I MAKE **MY MONEY GROW?**

In the Secret of the Lion, we learned about the different types of savings and investment vehicles you could use to grow your wealth, see page 13. What is important to know is the power of compound interest in growing your wealth quickly.



Just like you pay interest on loans, a financial institution will pay you a reward for investing your money with them. Financial institutions, like banks, or companies like Old Mutual, invest your money, or lend it out to other customers (subject to strict government rules), at a higher rate of interest than they would pay you. Either way, their job is to make your money grow - and your job is to choose the investments that suit you, and to stick with them.

The buffalo knows that a small herd can grow steadily into a huge herd, once the young buffaloes are born, and start maturing and breeding. It knows that its strength lies in its numbers, and that long-term growth is essential to its survival. Just like the buffalo, if you leave your investment for a long period of time, the investment not only grows each year, but grows exponentially. This means that you not only earn interest on your initial investment, but the interest gets added each month or year to the initial amount, and you earn interest on that interest as well. This interest is called **compound interest**, and is the key to long-term growth and wealth. On the next page we look at how this actually works.

Saving without interest

If you saved MK1 000 each and every year for 10 years, and kept your savings under your mattress, your money wouldn't earn any interest. After 10 years it would be worth:

MK1 000 x 10 years = MK10 000

Saving with interest

This sounds like a lot of money, but compare it to savings with interest. If you had saved it in an investment that earned 10% interest per year, it would be worth more than MK17 500 after 10 years. This is because the **interest is compounded**, causing the investment to grow much faster. See how this works next...

Beware of inflation!

Inflation can threaten the growth of your investments. That is why investors always look at the "real growth". Real growth is the actual growth of your investment minus the current inflation rate. But what is inflation and how is it measured?

Simply put, inflation is a measure of how much the prices of goods and services increase from year to year. It is calculated by taking an average shopping basket of goods and services that most people would use, such as the price of basic groceries, rent, transport, electricity, etc., and then comparing the total price of the basket to what it cost the year before.

From this, the average percentage increase for the year is calculated and called the inflation rate or consumer price index (CPI). This is published monthly by the government.

This means the value or buying power of your money decreases by the inflation rate. So, MK100 last year could buy more than MK100 can buy this year. To get the same goods and services this year, you would have to spend MK110 if the inflation rate was 10%.

Inflation rates keep changing so it is important to make sure your investments always take inflation into account! An inflation rate of 5% can cut the real value of your investment by half in just over 10 years.

SAVING WITH **INTEREST**

If you saved MK1 000 every year at the beginning of the year, for 10 years, and invested it at 10% interest per annum, your money would grow by a MK1 000 each year, as well as the interest that it earns on the interest. Let's look at how compound interest grows the money:

	New Added Savings	Total Savings at Beginning of Year	10% Interest per Year	Total Balance with Interest
Year 1	MK1 000.00	MK1 000.00	MK100.00	MK1 100.00
Year 2	MK1 000.00	MK2 100.00	MK210.00	MK2 310.00
Year 3	MK1 000.00	MK3 310.00	MK331.00	MK3 641.00
Year 4	MK1 000.00	MK4 641.00	MK464.10	MK5 105.10
Year 5	MK1 000.00	MK6 105.10	MK610.51	MK6 715.61
Year 6	MK1 000.00	MK7 715.61	MK771.56	MK8 487.17
Year 7	MK1 000.00	MK9 487.17	MK948.71	MK10 435.89
Year 8	MK1 000.00	MK11 435.89	MK1 143.58	MK12 579.48
Year 9	MK1 000.00	MK13 579.47	MK1 357.95	MK14 937.42
Year 10	MK1 000.00	MK15 937.42	MK1 593.74	MK17 531.12

Note how the interest gets more and more each year, growing exponentially, even though you are investing the same amount each year. This is because you earn interest on both your initial investment, and on the interest that you have earned.

This shows that an investment grows slowly in the first few years, but grows by leaps and bounds after a couple of years. The longer you leave it, the greater the impact compound interest has on the growth of your investment.

Compare the **MK17 531.12** return on investment with 10% compound interest over 10 years, with that of the **MK10 000** with no interest when put under the mattress! If the interest was compounded monthly, and not annually as above, the returns would be even more — over **MK18 000**! Most investments compound interest monthly, earning you better returns.

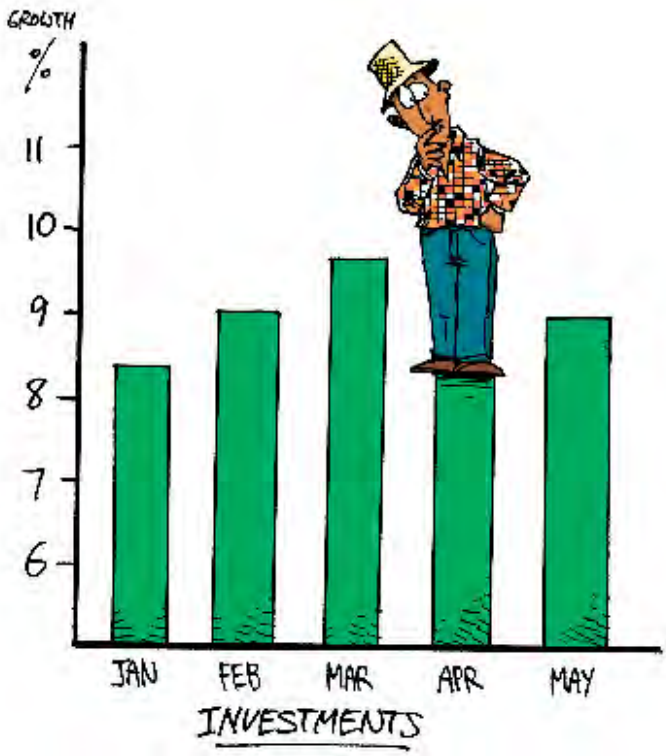
Did you know...?

If you invest directly in a company, in shares or unit trusts, you don't always earn interest on your investment. By buying shares in a company or unit trusts, you actually become a part-owner of the business, and you would share in the profits of the business. These are paid to you, the shareholder or unit trust holder, as a dividend.

The decision to invest is the same, except in shares the dividend is not guaranteed. It could be bigger or smaller than you expected, making it a riskier investment. You should make your investment decision based on what percentage dividend you expect to get each year, or how much you expect the company to grow each year. Long-term growth must still be your objective!

SOUND PRINCIPLES TO HELP ME **CREATE WEALTH**

1. Investments are **risky**. The risks affect the **returns** and growth potential. The greater the risk that an investor takes, the greater the returns expected. If you expect high returns, be prepared to risk a large loss as well. Choose **risk levels** that you are comfortable with, taking into account your age, income and family circumstances.
2. Avoid **get rich quick schemes**. If it sounds too good to be true, then it probably is. Although there are a few overnight millionaires, most wealth is accumulated through long-term savings and investment.
3. **Time in the market** is more important than trying to **time the markets** correctly. Don't wait because you think it is a bad time to invest. The longer you have an investment, the greater the returns.
4. Have a **long-term strategy**. Changing investments is expensive. Many investments only start earning real growth after a couple of years.
5. Don't put all your eggs into one basket. **Diversify your investments**, making sure you have a range of high, medium, and low-risk investments. Spread your investments between the stock market (shares), property, and interest-earning bonds or savings accounts. That way, if one sector goes through a slump, your other investments keep your **portfolio** stable and growing. You could consider taking some money **offshore**, to spread your risk even further.
6. Choose an adviser that you can trust. Before you invest your money, make sure they are registered and licensed and make sure they conduct a proper needs analysis for you. Stay away from advisers who promise you fantastic returns they can't guarantee.
7. Ask to see the **admin costs and broker's com-mission** upfront for any policies or investments. See how much of your investment goes to cover expenses, and how much is **actually invested**.
8. **Past performance** is not an indicator of **future performance**. Just because an investment has done well in the past, doesn't mean it will be a winner for the future. This depends on factors such as the market, the economy, the environment and management.
9. Investments **change daily**. Don't make decisions based on daily fluctuations. Rather take a longer-term view over several years.
10. All markets go through **highs** and **slumps**. Ride them out and stick with your long-term strategy.
11. When you are younger, you might afford higher-risk investments, as you have time to wait for the slumps to recover. As you get **older**, invest in lower-risk, stable, income-generating investments.
12. Look for **real returns on investment** – remember inflation eats into investment growth. Your return should at minimum be higher than inflation.
13. **Be responsible** for your investments. Good financial advice is important, but remember **knowledge is power**. Read up about your investments and keep up to date.
14. **Review** your investments regularly. Check your returns and read all your statements carefully. While it is not good to chop and change investments often, you might need to make changes to keep your portfolio balanced and to meet the needs of changing times and circumstances. Arm yourself with knowledge and speak to your adviser about sensibly adapting your portfolio.



HOW CAN I **PROTECT MY ASSETS?**

Once your investments and net worth start growing, you need to look at ways to protect your assets.

This includes making plans for your family if you should die or become unable to work. **Insurance companies** provide **insurance cover** to reduce your risk. For a certain amount paid monthly or yearly, they will pay you out if an **insured event** occurs. If you have car accident insurance and you have an accident, the insurance company will pay you the money to fix your car, provided your payments are up to date, and you were correctly insured.

Insurance falls into two types – long-term insurance and short-term insurance. Not everyone needs to insure every-thing. Insurance can be expensive, and you need to do an **insurance analysis**, to help you decide which assets are most at risk, and which you need to insure. Make sure you understand your insurance policy, especially any conditions that they expect you to fulfil, such as burglar bars on your house, or always parking your car in a locked garage. If you don't meet their conditions they could **refuse** your claim, and you would end up getting nothing back if you are robbed. It is **your responsibility** to make sure you have enough insurance cover. You must update your policy when you buy or sell more goods, or change your assets and lifestyle in any way.

Long-term insurance

Long-term insurance provides cover for events that you could expect to happen in the future. This includes:

- Life insurance cover pays out a lump sum to your beneficiaries if you should die. You can take out term insurance for a fixed term, if you have to provide life cover insurance for a fixed period of time, such as for the bank while you repay your mortgage bond. Whole life insurance would cover you until you die and is useful if you want to leave a lump sum for your family when you die.
- Disability insurance pays out if you are disabled and cannot work anymore. Often your payments are added to a life cover policy.
- Retirement and endowment policies pay out when you retire or after a fixed period of time. They are a way of saving for the future, and some can include life cover. There are many options available, and you need to take care that the one you choose meets your long-term retirement and savings needs.

Medical insurance

Medical insurance is not the same as medical aid cover. If you want private health care, you need to contribute to a medical aid fund which will pay for your day-to-day medical costs, and certain hospital costs. Again many options are available, and you need to find cover that suits your needs.

Medical insurance is one way to make sure that you can afford the best care in life-threatening situations. You can insure certain medical conditions like a heart attack, car accidents, cancer, etc., and should you suffer from one of the listed conditions, you will be paid out a lump sum, to help cover any extra costs.

Short-term insurance

This provides risk cover for your possessions for a short period of time. If you sell the item, like your car or business, or no longer want to insure something, you can cancel the insurance cover on it. Make sure you understand exactly what the insurance cover is for, and that you meet their insurance requirements. Research your insurance needs and shop around for quotes. Cheaper often means that you get less cover, but short-term insurance is quite competitive and some good deals can still be found. Most short-term insurance policies have an excess which you would be required to pay first if you claim. Check what excesses your policies have.

- Homeowners insurance covers your physical house for damage caused by fire and natural disasters. If you have a bond, the bank will force you to take out this insurance. Different policies have different exclusions, so check your policy carefully.
- Household insurance covers the contents of your home against fire, water and lightning damage, accidents, theft, etc.
- Motor vehicle insurance covers your vehicle for theft or accident damage. Your premium depends on the value of your car, and what type of insurance cover you take out.
- Business insurance can cover your business against theft, fire or accidental damage.
- Travel insurance is often taken out when you travel internationally to cover lost baggage, delays, theft or medical costs in a foreign country.
- Personal liability insurance is often included in a policy to cover you against being sued for accidental death or injury on your property through your negligence.

HOW CAN I MAKE THE **BEST DECISION FOR MYSELF?**

Unfortunately, there are no sure investments.

The millions of investment opportunities available can be scary. Some are less risky than others, so it is important that you get the best advice possible. Your adviser must conduct a thorough needs analysis of your circumstances, and help create an investment plan that works for you.

There are many financial advisers or **intermediaries** out there, all earning commission on the policies that they sell or investments that they make for you. Some work directly for the banks, insurance or investment companies. Others are independent and can sell invest-ments for a whole range of companies. Find out who your adviser works for, and which companies he is allowed to represent. **Do not** take the first investment offered to you - shop around, gaining as much knowledge as you can about the risk, return and most importantly the commission and admin charges that you will pay on the investment.

Many people have bought policies without understanding the terms of the investment, causing great losses to themselves. Intermediaries now have to abide by a code of conduct laid down by **the Insurance Act 2009.**

Know your rights - your adviser must:

- Conduct a needs analysis.
- Protect your best interests.
- Give you enough information for you to make an informed decision.
- Disclose the commission and admin charges upfront.
- Make sure you fully understand all the terms and con-ditions of your policy.
- Provide you with all documentation within 30 days.

Take responsibility for your investments. Don't leave it all up to the adviser. Arm yourself with knowledge and shop around for better interest rates and charges. Research your adviser, making sure he is registered with the required authorities. Make sure that you don't sign any blank forms and be cautious with advisers who offer you fantastic returns. No-one can guarantee the future!

WHERE DO I GO IF I AM UNHAPPY WITH THE ADVICE I RECEIVED?

More and more, intermediaries who give bad advice are being held accountable. If you feel you have a valid complaint, contact the following:

Banking

The Director
Bank Supervision
Reserve Bank of Malawi
P O Box 30063
Capital City
Lilongwe 3

Life Insurance

The Director
Pension and Insurance
Reserve Bank of Malawi
P O Box 30063
Capital City
Lilongwe 3

Financial Services

The Director
Microfinance and Capital Markets
Reserve Bank of Malawi
P O Box 30063
Capital City
Lilongwe 3

What can I learn from the Buffalo?

- How can I make my money grow?: the power of compound interest
- Sound principles to help you grow your wealth
- How can I protect my assets?
- How can I make the best decision for myself?

REVIEW THE **BUFFALO**

What have I learned?

Group Activity: (Groups of 7)

- Discuss why you have to invest to increase your assets.
- What are some ways you can use to protect your assets using the Secret of the Buffalo?
- Give some examples in your discussions.

Self-assessment: (Individual Activity)

- List some of the rules you will use if you are going to have a debt.
- Give reasons why you are choosing that rule.

MY **PERSONAL NOTES** PAGE

MY **PERSONAL FINANCIAL** PLAN

The financial goals I want to achieve within the next six 6 months

The financial goals I want to achieve within the next year

The financial goals I want to achieve within the next three years

The financial goals I want to achieve within the next five to ten years

Now that we understand more about savings, it is time to develop our own personal savings plan.

FILL IN: MY **PERSONAL SAVINGS** PLAN

1. I want to save for: _____

_____ in the next 3 months.

_____

_____ over the next 3 to 5 years.

_____

_____ for the longer term.

2. My monthly income is: MK _____

1% of my monthly income = MK _____

5% of my monthly income = MK _____

10% of my monthly income = MK _____

15% of my monthly income = MK _____

I am aiming to save MK _____ per month. This is _____ % of my income. By (date), I will increase this to

_____ (percentage) of my income.

3. I am going to make my payment automatic by:
the _____ method (choose stop order/debit order/salary deduction)

on the day of the month (as soon after payday as possible).

4. I am going to put my savings into:
a) for now because

b) in a year's time because

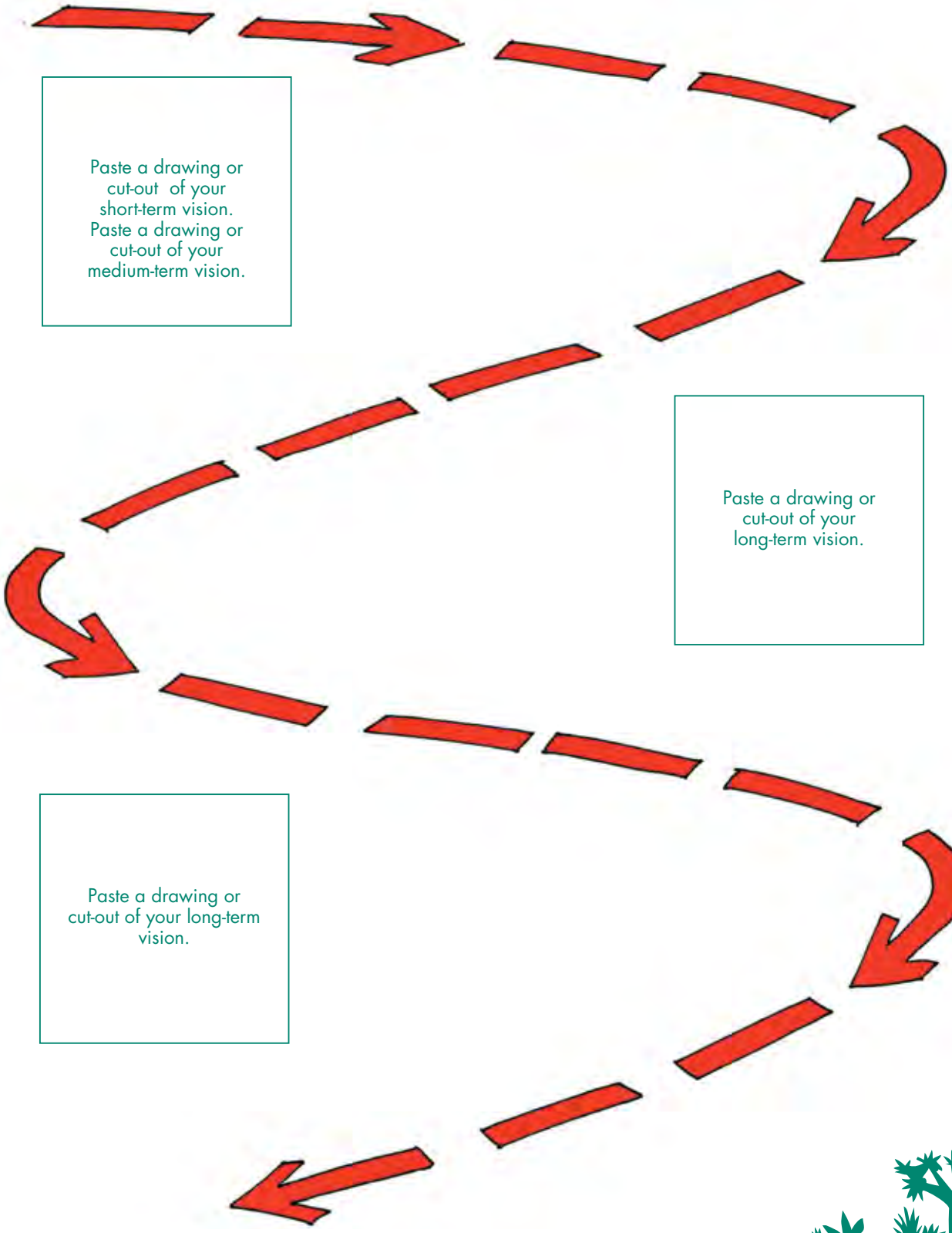
5. I will review my savings plan after months.

FILL IN: **MY FINANCIAL GOALS** FOR MY LIFE

Write down some short, medium and long-term goals. Think of these questions when writing them down.	By when do I want to achieve it?	How much will it cost?	What do I need to do?	Who will support me?
I would like to save in the short term for:				
I would like to save in the medium term for:				
I would like to save in the long term for:				

COMPLETE THIS VISUAL COLLAGE: **CREATE MY OWN FUTURE**

Take the time to make a collage of your financial dreams. Cut out pictures, collect some brochures, write a description or draw your dreams. Add as much detail as you can imagine. Creating your future in this way will force you to think about exactly what you are aiming for. Put your final collage in a place where you see it often – on your fridge, above your desk, the front of your diary. This motivating exercise has been proven to help define your goals and to keep you focused. It will be worth it!



TRACKING **STICKY EXPENSE** ITEMS USING THE **ELEPHANT ENVELOPES** METHOD

Item being tracked: _____

Month	Budget	Available	Actual spend	Over/Under
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				

Item being tracked: _____

Month	Budget	Available	Actual spend	Over/Under
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				

LIST, **IN ORDER OF PRIORITY,** MY DEBT REPAYMENT PLAN FOR THE NEXT YEAR

Debt	Amount outstanding (without interest)	Interest rate	Monthly repayments (with interest)	When will it be repaid in full?	Total interest paid for the month
Total:					

CALCULATE YOUR **IDEAL DEBT-FREE DAY** AND WORK OUT HOW YOU WILL AFFORD TO LIVE **DEBT-FREE** FROM THAT DAY ONWARDS.

My debt-free day

I shall be able to achieve my debt-free day once I have done the following things:

Action **Due Date**

My ideal debt-free day is:

I will be able to live debt-free from this day onwards because I shall use cash from:

My asset protection plan:

GLOSSARY

Asset	Anything an individual or a business owns that has a commercial value. Examples of assets are business, property, stock, cash, gold, precious metal and copyright.
Annuity	An investment designed to produce retirement income. Usually managed for a fixed fee by a life assurance company or investment company.
Balance	The amount owed on a loan or credit card or the amount available in a savings or investment account.
Banknotes	A term used synonymously with paper money or currency issued by a bank. Only the Central Bank of Nigeria is authorised to issue banknotes.
Budget	A plan of your income and expenditure over a future period.
Credit	An agreement to pay in the future for goods and services used today. The person that receives the credit agrees to repay the debt to the lender at a later date.
Debt	Anything that is owed by one person or entity to another.
Life assurance	A policy that will pay out money to the policyholder's family when he or she dies.
Income	The earnings of an individual or institution. It can take the form of wages, salaries and any other source, interest, or profits.
Interest	What the lender charges you, for lending you money. Also it is money paid to a customer by the financial institution for storing his or her money with them.
Interest rate	Interest that is charged or paid expressed as a percentage.
Investment	Money set aside for a longer period to make more money.
Loan	Money borrowed from a person or financial institution.
Overdraft facility	A service of the bank to customers with current accounts, allowing them to overdraw their accounts to an agreed limit. Interest is paid on an overdraft.
Pension fund	A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees.

ANSWER TO THE **QUIZ** FROM **PAGE 5**

How to find out your score:

Tally up all the As, Bs, Cs and Ds and write the number in the boxes below.

Total A + D ☐

Total B ☐

Total C ☐

Mainly A's and D's – Spender

You have different reasons why money goes out faster than it comes in. You may not have any method or plan of managing your money. At times you are unable to accurately account for where your money goes. Your knowledge about how to save and invest is low to moderate and you therefore don't have much confidence in making money-related decisions. It's likely you don't ask many questions with regard to money as you aren't sure which questions to ask and are unaware of the low-cost support options that are available to you. You tend not to take risks in areas that would most benefit you financially; you are unlikely to have investments other than a savings account at a bank.

Mostly B's – Careful personality

You watch your income closely and you generally have a system of managing your money, although your system may be a bit rough and ready. You are open to learning more about money if it comes from someone you trust or value. You like to take your time when making decisions as you have a fear of losing your money. You are confident in handling and allocating your money, but you don't take the risky opportunities that might be presented, preferring to stick with conservative choices of a financial product or investment. You tend to spend the fruits of your labour in a controlled manner, although you will splash out every so often. You don't like being in debt, but if you are you stay in your comfort zone, as you like to know that you have the capacity to service the debt.

Mostly C's – Savvy personality

You have a solid level of money knowledge. You have gathered the know-how from constant learning, direct education or even trial and error. A key element of your money personality is your propensity to listen and learn more about money and the various strategies you can follow to improve your wealth. In this way you are more than willing to accept the input of others and you definitely seek the advice of experts. You expect your money to work as hard as you do. You have a moderate to high level of confidence, which means you appreciate and understand varying levels of risk associated with your financial affairs, but are just as happy to have an expert look after it for you. Although your spending is controlled, you will not hold back if you really need something; however, you are always on the lookout for good value.

Money Quiz – adapted from Unlock The Secrets of Your Money Personality and Change Your Life.

MY **PERSONAL NOTES** PAGE

MY **PERSONAL NOTES** PAGE

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