

Unit 5: Basic skills for financial management



"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy."

George Lorimer



5. Unit 5: Basic skills for effective financial management

1.1 Introduction

Financial responsibility is one of the most important skills a student will need if they are to be successful in university and in life. Making good financial decisions in university will help you make your transition to the working world a much easier one. Making bad financial decisions can affect your life so negatively and can last for many, many years afterwards. Money management is a skill you will carry with you throughout your life and the money management habits you develop now are likely to stay with you forever.

1.2 Learning outcomes

After working through this unit, you should be able to:

- apply the basic skills for effective financial management.

1.3 Assessment criteria

1. The issues that lead to financial stress at university are discussed.
2. The ten principles for effective financial management are applied.

1.4 Learner activities

For this unit, students are expected to:

Before Class	During Class	After Class
<ul style="list-style-type: none">• Access the prescribed reading / audio-visual materials for this unit.• Come to class with a general understanding of the material and be prepared to participate!	<ul style="list-style-type: none">• Participate in a Life Skills lecture/workshop on <i>Basic skills for financial management</i>.	<ul style="list-style-type: none">• Complete the following activities and tests that will form part of your final assessment for this module: 1. Activity 5: My spending habits 2. Quiz 5 3. Unit Test 5

1.5 Financial issues at university

Did you know that financial issues are one of the most commonly noted reasons students leave or dropout of university? These financial issues include but are not limited to:

- How they will pay for their fees.
- Finding affordable accommodation.
- Money for basic needs such as food, clothing, transport, medical needs.
- Money for entertainment and lifestyle.
- Others...?

1.6 Financial Stress at university

Financial stress is a reality for many students at university. Financial stress can be defined as “the inability to meet one’s financial obligations but can also include psychological or emotional effects” (Northern, JJ., O’Brien, WH. And Goetz, PW. (2010). You may be unable to meet some of the financial obligations at university which manifests in the following ways: being unable to purchase all of your textbooks or stationery; when you are unable to attend classes because the cost of transport is too high; part-time work that interferes with your schoolwork; engaging in risky behaviours to try and make extra money, e.g. gambling, stealing, transactional sex etc.

The following are some negative outcomes/symptoms of financial stress:

- Depression
- Anxiety
- Poor academic performance
- Poor health

If you or someone you know are experiencing any of the above symptoms, you need to seek help. Visit your Student Development and Support (SDS) office for counselling and guidance.

1.7 Effective financial management

Managing money is not something we all get to learn in a classroom, unless we are studying towards a financial diploma or degree! It is however something that we ALL need to learn! If you are experiencing symptoms of financial stress, effective financial management should help you towards overcoming that stress. And even if you are not financially stressed, you can

benefit greatly from learning how to be more effective in how you manage your relationship with money.

When you manage your money effectively, you can:

- Save for your future.
- Afford your basic needs.
- Manage your expenses responsibly.
- Stay out of debt.
- Pay for an unexpected event – e.g. emergency.
- Avoid overspending or unnecessary expenses.
- Reduce monthly costs.
- Have peace of mind!

1.7.1 Ten basic skills for effective financial management

We will now take you through ten (10) skills for effective financial management. You are encouraged to apply these skills to your life in order to demonstrate competence in the management of your finances.

The following information was taken from content accessed from www.thebalance.com; www.selflender.com & www.open.edu/openlearn.com.

1.7.1.1 Separate your needs from your wants

The difference between wants and needs is quite simple, at least on the surface:

- **Need:** something you HAVE to have
- **Want:** something you would LIKE to have

In actuality, you only NEED FOUR THINGS in life to survive:

- A roof over your head.
- Enough food and water to maintain your health.
- Basic health care and hygiene products.
- Clothing (to remain comfortable & appropriately dressed).

Everything that goes beyond this -- a big house, name-brand clothes, fancy foods, a new car -- is a WANT. Does that mean that you should only buy the things that you need? Not at all.

Life is meant to be lived, not survived. Treat yourself to some wants along the way, but do so when you can afford to, and enjoy those wants as the extras that they are.

1.7.1.2 Track your spending

Have you noticed that your spending is sometimes on essential things and sometimes on fun items that are clearly not essentials? What about the things that are neither of these?

Without altering your behaviour, write down EVERYTHING you spend money on for a full week. Most people who engage in this activity are shocked to realise how much money they spend on non-essential items. After you have tracked your spending, analyse it for yourself by reflecting on where you are spending money on things that are not important and how you can change this...Then make some changes!

Earlier we discussed how it can take over 60 days to create a meaningful habit. So, be patient. This will take time and it will not feel easy at first. Stick to it and your future self will thank you for it!

How would you classify the items of expenditure listed below? Work through the list and decide which of these categories best describes each item by making a cross in the table below for each item:

- *An essential*: a must have item, similar to a need. You can't do without this.
- *A non-essential*: a nice to have item, similar to a want. You don't need it, but it would be nice to have.
- *A desirable*: not a need or a want but something you would like to have if you could.

Item	Essential	Non-essential	Desirable
A cellphone			
An iPad/tablet			
Gym membership			
Meal out with friends each week			
Clubbing			
A holiday			

Christmas presents for your friends			
Insurance for your phone			
Daily coffee bought from the campus cafeteria			

Now that you have classified items according to whether they were an essential, a non-essential or a desirable for you, take a look at the suggested answers below. Do you agree with how they have been categorised?

Item	Essential	Non-essential	Desirable
A cellphone	✓		
An iPad/tablet		✓	
Gym membership			✓
Meal out with friends each week		✓	
Clubbing		✓	
A holiday			✓
Christmas presents for your friends			✓
Insurance for your phone	✓		
Daily coffee bought from the campus cafeteria		✓	

Of course, classifying these items of spending is a personal matter. Some people view a phone as essential, others do not. Choices will vary from one person to another and will depend in part, on what other members of your family and your friends do. The people closest to you and social pressures are very influential when it comes to financial behaviour.

Why should you engage in this activity of deciding what is essential and what is not?

- It is so that you develop clear thinking about where to make economies if your income is not keeping pace with your planned spending.
- When you make cutbacks to your spending, start with the clear non-essentials.
- And then, if necessary, target those things that are not really essential – even though it's difficult for you do without them.
- Sometimes managing your money means making tough choices.

1.7.1.3 Live frugally

Being frugal means living without wasting, being economical or thrifty. Whilst it might be tempting to flaunt a lifestyle you cannot afford, stop and ask yourself: Who are you trying to impress? Life is not a popularity contest. Living frugally means that what you spend every month is less than or at least equal to the amount of money that is coming into your account each month. Starting now makes it much easier to adopt similar behaviours when you start making a salary that brings in more money. If you value the money you have now, you will value more later.

Adopt some of the following behaviours to begin living frugally:

- Buy some of your groceries in bulk & cook in bulk!
- Split the costs of certain household items with your roommates / friends.
- Learn to cook instead of eating out every meal.
- Take packed lunches to campus!
- Master the art of buying items on sale / seasonal shopping.
- Buy used or second-hand items – e.g. textbooks, phones for laptops etc.
- Embrace DIY (do it yourself) – instead of taking your car to the car wash, wash it yourself; instead of getting an expensive gym contract, exercise from home; instead of going to the nail salon, do your own nails.
- Embrace NO-SPEND-entertainment – you can have fun for free! Google some fun and creative ideas...
- Use less – less toothpaste, less electricity, less water etc.
- Drink more water – fewer soft drinks and juice!
- Walk more! Skip the transport costs.
- Live with intention – be aware of yourself and always ask, *"Do I really need this?"*

These entire tips boil down to one important thing: STOP spending money just to elevate your status, impress people or to look good! And STOP spending money unnecessarily or wasting money.

1.7.1.4 Save for your future

The future is not just when you retire – the future is tomorrow! Save TODAY, save consistently and save wisely! Automate your savings through your bank so that the money goes automatically and immediately and stays. So, for example, set up a debit order with your bank

to take R100 (or more if you can afford it) at the start of each month. If you wait until the end of the month to save, the likelihood will be that there is not much left to save. Pay your future first! To motivate you, choose something to save for. Think: 5 years from now what would you like to have? Save for that!

To begin saving, do the following as recommended by bettermoneyhabits.com:

- *Record your expenses:* Keep track of all your spending habits. Every. Single. Purchase. Write it down or download an app on your phone. Earlier we spoke about the importance of tracking your spending so that you could differentiate between essential and non-essential spending.
- *Budget for saving:* Saving should not be seen as something to do once you have spent money on what you need. Saving is a need. It is more important to spend money for 5 years from now than to spend money for today. We discuss budgeting in more detail later.
- *Cut your spending:* Earlier we discussed the importance of living within your means. Adopt some of those frugal behaviours to reduce the amount of money you are spending each month, and instead of just spending that money on something else, put it into your savings. Immediately.

1.7.1.5 Start an emergency fund

This is crucial to anyone's long-term financial health. Life is full of the unexpected and your emergency fund serves as a safety net that you can fall back on for those "rainy days" where you find yourself experiencing a financial crisis.

Emergencies are never fun, but creating a safety net for life's unpredictabilities can give you peace of mind and can help you lay a strong financial foundation that will last you for years to come (bettermoneyhabits.com).

Examples of emergencies that some extra money could assist for can include:

- Loss of income, e.g. losing your part-time job.
- You need to repair something urgent in your flat/home.
- You have a medical emergency, e.g. dental treatment.
- You need to travel on short notice, e.g. for a funeral.

Your emergency fund is there to help you get back on your feet. How much you save each month is up to you and your financial situation. A good rule of thumb for an emergency fund

is having at least three (3) months of your total expenses saved up. Key though is to make sure you are saving something each month — no matter how small the amount may initially seem. This teaches you self-discipline.

Your emergency fund is not the same fund as your savings. Ideally, your savings is money that you will not be able to touch until much later, sometimes years later. An emergency fund needs to be more accessible and is only used for situations that are truly unforeseen and “desperate”. Those pair of shoes that you just need to have for your cousin’s wedding are not an emergency!

1.7.1.6 Ask for help!

Finances do not come easy to anyone! This is an area of your life that will require you to reach out to others. Other who have been where you have been, others who have tried and failed, others who have tried and succeeded. The most important thing is to ask. At university, speak to your financial aid advisors for ways you can fund your studies. Speak to senior students for advice on how they survived their early years. Speak to your lecturers who may give you ideas for how to make some extra income. Speak to your bank about a financial package that suits your lifestyle and student status.

A lot of financial information is also available online. Make sure though that the information you reference is legitimate and verifiable. If anyone ever asks you to pay a fee for advice, information or to guarantee you financial rewards, be careful! Many people have found out the hard way that by giving out their money in order to make more money is more often than not too good to be true.

1.7.1.7 Budget, budget, budget

Managing your money is about being smart with what you’ve got and not about always wanting more. The skills you are learning here are equipping you with a training regime that will keep your money in good shape. Like most people, you probably feel the pressure to spend money on goods and services – on “stuff” – and on things you like to do. We need to spend money, but at the same time we all need to avoid debt, to save and to invest for the future.

Why we should budget

How does setting a budget help you manage your finances? It helps you control spending by comparing your income with your spending. It helps you check that you have enough income to pay current and future bills without having to borrow. It enables you to plan on how you will meet your goals. You can do a budget at a very early age. Your first source of income was probably pocket money that you received from your parents/guardians. Whatever the source, your first income meant that you could make choices about what you wanted to do with the money.

Start doing this NOW! List your monthly income, savings, and any additional allowances or stipends. Next, write down your estimated expenses for the month. Consider things like books, school supplies, laundry, food outside your meal plan, and personal care items to make sure you're painting an accurate picture of your spending habits.

Creating a budget does not mean that you cannot have fun. Also, consider your "fun" expenses when creating your budget but try not to go overboard. Going to Durban for the weekend should not be a weekly or monthly event. Neither should eating out at restaurants every week. Make these "once in a while" events and you'll actually enjoy them more. Setting these limits ahead of time will put you on the right path to better money management in the future.

At the end of this unit, you will complete a budgeting activity. An essential part of budgeting is working out if your current spending habits leave you with a surplus or an excess of income. A surplus is the amount of money you have left over after all your spending requirements have been met. Having a surplus of funds enables you save more for the short term at least to cover a month where spending exceeds income.

If you have an *excess* of spending over income, it means you have gone over your limits. It is when you have a shortage of funds to meet your needs. You will have to draw on another source of funds to cover the shortfall. But even better than that, go back and retrace your spending. Is there any expense that you can eliminate completely?

Spending each month is naturally going to be different. You might be in excess one month, and then find you are in surplus the next. For example, spending is expected to peak at key points of the year – at an annual festival that you celebrate with your community, like Christmas, or when you go on holiday. Income can also expect to rise during school holidays

when you can work for longer hours, or even when it's your birthday and you receive cash gifts.

With this in mind, it is always a good idea to embed 'savings activity' into the management of your finances. It makes sure that you have extra resources to draw on when you are forced to make major purchases or at other times when your finances are under pressure.

Changing your expenditure habits

What if your spending exceeds your income? Which of the following would *you* do?

- Do nothing and hope things get better. Things might get better (hey, you might win the Lotto!), but things might also get worse. Unexpected bills are a common reason why people go into debt.
- Increase your income. This could be done by working overtime or by taking a first/second job.
- Change the pattern of expenditure. Work out how you can spend less and save more.

The third option is probably the wisest!

Think about your essential and non-essential expenditure. Spending on food and housing would be defined as essential, but other items are less easily defined. Look at the goods and services you spend money on. Which do you consider to be essential? Where particular goods or services are seen as essential, expenditure on them can't be cut out completely. In this instance, budgeting is more about reducing the costs of these and other items, for example by buying fewer of them, or cheaper versions.

Here are some ways you can begin to cut down the amount of money you spend month to month:

- Cut down on the number of takeaway meals you have.
- Call your cellphone provider and find out if there is a better package to suit your needs.
- Buy some of your groceries / toiletries in bulk.
- Take packed lunches to campus or work.
- Check whether a local market is cheaper than a supermarket – especially for fruit and vegetables.
- Turn off the lights, don't leave stand-by buttons on.

- Make a shopping list each week and stick to it.

Think about this! If you spend R60 on a McDonalds meal each week, you've spent R3120 a year! R60 might be a small amount to spend now, but imagine putting that aside every week to enjoy the greater reward of R3120?

1.7.1.8 Know your student loan options

Many students are overwhelmed by the rising costs of living and all that needs to be paid for whilst at university. Some of these costs include school fees, accommodation, food, entertainment, clothing etc.

Ultimately you have to pay for university somehow and if you do not have the funds available, student loans are a viable option. Knowing that your student fees are covered in full can be a great relief and an enabler in helping you manage some of your other responsibilities. Some student loan options even come with additional coverage for accommodation and textbooks.

Consider all the ways in which you can lower university costs; ask your university's financial aid office about student loan options to help determine what approach might be best for you.

Some student loans can be turned into fully paid scholarships or bursaries. Good academic performance is usually what attracts donors to sponsoring students. Bursaries that come with the condition of working for the donor company are not all too bad. This is a great way to motivate you to achieve well during your academic career and guarantee the reward of a job at the end.

Remember that when opting for student loans, **you will have to pay back everything you borrow plus interest.** Most people do not know the great impact student loans can have on their finances. Have you worked out how long it will take you to pay off your student loans? Are there any conditions attached to the loan, e.g. having to work for the company/donor that sponsored you once you graduate?

Be very careful when signing student loans. You are essentially signing a contract that is binding, that by law requires you to fulfil their terms and conditions. If you do not read the small print, you are putting yourself at risk for not meeting your future financial goals. Loans are not bad, but you must weigh the costs of paying these back against the other plans you

have for spending your money. You must also shop around for a loan agreement that is flexible to your needs.

Long after you graduate, student loans can also affect things like your credit score. A credit score is a numerical expression used to determine how creditworthy you are, i.e. how good you are at paying back the money you loan. The more creditworthy you are, the more companies will allow you to purchase on credit. Ironically, if you have never purchased anything on credit because you prefer paying for things when you have the money, the less likely companies are to give you credit. You will need to establish a good credit record by applying for smaller purchases on credit, e.g. a cellphone contract, and demonstrate by paying it back in full and on time, that you are "worthy" of applying for bigger credit purchases, for example your first car or house.

So, how well you pay back your loans (payment history) and the period over which you choose to pay it back (length of credit) play an important role in credit score calculations. For example, those who pay back their student loans in a timely manner over a shorter period e.g. 6 months instead of 12 months, should see a positive boost to their overall credit and end up paying less interest. Estimate the amount of student loan debt you will owe upon graduation and come up with a payment plan for how you will pay it back ahead of time so you can avoid any bad credit.

There are various options available for funding your hefty student fees. The important thing is to do thorough research on the options available to you. It is also very important that you understand the financial terms used when applying for these loans: terms such as 'interest rate', 'breach of contract', 'floating charge' etc. Always read the small print. And if you are not sure...ASK!

1.7.1.9 Generate additional income

Making money whilst studying is not a bad idea. Whilst on the one hand it might help you meet some of your most pressing financial needs, on the other, it will also teach you some of the essential skills required for entering the world of work.

Make a list of all the different ways you can generate income whilst studying. Some examples include:

- Finding a part-time job. Check out www.isilumko.co.za for flexible promotional jobs for students at university.
- Running errands for others: Check out <https://www.errandworld.co.za/> and register yourself as a “runner”, doing things for others that you are either good at doing (e.g. fixing things, teaching a musical instrument) or to make some extra cash. If you are in need of someone to do some things around the house, e.g. fix your toilet, this site might offer a cheaper alternative to calling a plumbing company.
- Use your talents/special skills – e.g. if you are good at playing a musical instrument or singing, find out places you can play during weekends, e.g. restaurants that promote live music, for extra money.
- Sell something – e.g. if you like to bake or cook, why not arrange to prepare meals for other students at a cheaper rate.

Working whilst studying will give you the extra income you need while providing you with valuable job experience you can use in the long run. Universities also offer job options for students. Ask about being a student assistant or a residence advisor or working at the school bookstore. And remember, volunteering counts! If you get an opportunity to volunteer, i.e. help out free of charge, don't discredit this too quickly. Show that you are willing and able and you never know when this opportunity can turn into something more permanent and at the least fruitful. i.e. a salary!

If balancing work and school is too stressful for you, consider applying for holiday jobs during recess. Remember, you should not and probably CANNOT get a full-time job whilst studying. However, making a little money is better than making no money at all.

1.7.1.10 Appreciate what you have

Planning for your financial future might feel like an exercise in always wanting more but think for a moment about everything you already have. Do not fall into the trap of feeling DEPRIVED when you are not. Take time to reflect on all the ways that you have been blessed. Develop the habit of writing in a gratitude journal at the end of each day, or just reflect to yourself quietly about what you are grateful that you have at the end of each day. Of course, you should always keep that go-getter (enterprising) spirit and work hard to get what you want, but never forget to stand in peace for all the gifts that already surround you!

Visit <https://www.shutterfly.com/ideas/how-to-start-a-gratitude-journal/> and learn how to go about creating a gratitude journal. Writing daily about the things that you are grateful for has been found to be associated with lower stress levels and a greater sense of calm (as cited in Huffington, 2014).

Now that you have come to the end of this unit, complete the following activity to assist in becoming more aware of your spending habits. We hope that this activity will help you better understand your relationship with money, and furthermore that it will allow you start NOW setting financial goals that will reward you in years to come!

Access Activity 5 on myTUTOR and follow the instructions. Once you have completed the activity, proceed to Quiz 5. **NOTE:** You must successfully complete the quiz to be able to access Test 5 for this unit. You may complete the quiz as many times as you wish.