

## **Episode 5**

“If you get wiser you can get rich.”

“I struggle to save money.”

“Whatever you have you will want more.”

“I’ve tried to save.”

“I think I’m pretty good.”

“Going budget for the big ones.”

“I just avoid it completely.”

“I don’t want my kids to end up like me.”

“I don’t think I’m the kind of person who will ever be rich.”

“I don’t know how to handle money.”

“To be honest, it scares me.”

*This is “Making Friends with Money” a financial education and money management podcast from Woolworths Financial Services. Giving you the information you need for greater financial fitness is Dr Harry Dugmore, expert in financial behaviour change.*

### **This podcast is all about financial planning and budgeting.**

“I think it’s going to be a total waste of time for me to budget because I don’t earn enough to budget in the first instance. It’s so little so obviously they’re all accounted for.”

My question to you is how do you know how much money you have? If you don’t do a budget you simply don’t know and that’s the bottom line about why. This is not an optional extra in terms of managing our money. People say, “Budgeting, how boring, you’re sitting down, I’ve got a box of receipts and I’ve got a box of expenditure and I’ve got my pay slips and just the thought of it makes me want to run screaming.” And what I say is you need to just re-imagine the exercise, it’s not a difficult thing to do. It can be fun and I’ll tell you how. It can be something you actually look forward to. And most profoundly of all it can be a habit that you get into so it becomes automatic – you don’t even have to think about it, you just do it. It’s an hour a month and maybe one day a year. Because if you’re not doing the basics of recording you just don’t have any idea.

Do you know what you’re really spending?

What do you spend on your cellphone? People say, “Well I think about…” “Think about” is not good enough. You go and work it out and we sit together and almost always you’re wrong. It’s less than you thought or it’s more than you thought. If you think you’re

spending about R500 a month on your cellphone or R300 a month on your cellphone I guarantee you that it's not going to be spot on. Maybe one in a hundred people. But R350 if you thought it was R300, well it's R50 a month more than you thought. Now you're not surprised why you're always short at the end of each month because if you're slightly wrong on your cellphone and you're slightly wrong on what you think you're spending on fast foods or eating out, and you're slightly wrong on what you think you're spending on magazines, now you know where that R500 or R800 a month is disappearing to. Budgeting gives you the control of simply knowing what the ins really are and what the outs really are.

Ins are easy. We kind of pretty much know what our income is although you'll be amazed how many people when calculating their income don't quite understand the deductions on their pay slip or they forget to add in the little bit of extra money they're getting from renting the room to somebody or whatever their source of income is. You need to be clear about the income side. That's relatively easy.

Where it gets a lot more murky is on the expenditure side. It's very very useful to divide your expenditure into at least two categories. One is your regular and predicable stuff, you know your rent or your bond repayment that is going to be the same every month at least for the next 12 months, and the other is your irregular expenditure such as your entertainment and those are a little bit more tricky for sure to keep a track on. I mean how do you... You really have to be quite sharp just to work out for example what you spend on clothes. Every time you spend something just keep a record. What do you really spend on shoes per year? You have to just work that out. Hopefully it's only 3 or 4 receipts. You add it all up, you divide it by 12 and you can see, "Oh, I'm spending R150 a month on shoes per year." Even if you only buy the shoes once a year you still do that exercise. I'll give you a very good example of something that for me just is why budgeting is an exciting thing and a liberating thing. Most people are totally unaware of what they spend on their kind of lunch time food – their lunch time Monday to Friday. And usually when they guess they're out by something like 20% or 30%, usually under. A lot of people are easily spending anything between R10 and R25 a day on their lunch time food. You know, you buy a sandwich, you buy a cup of coffee or maybe a fruit juice and you're already down R15 or R16 – no sweat. When you start writing that down just keep a record at the back of your diary, back of your hand, wherever you want to put it, you'll very quickly discover that your little lunches, which are important, I'm not saying cut down on your lunch, but if you're spending R25 and you cut it down to R15, you're going to save R200 a month. It's as simple as that. R10 a day, R200 a month if you have 20 working days in a month. And that's where budgeting just gets all its power because it answers the most fundamental question in financial planning and that is how do you know what's coming in and what's going out?

"Budgeting is, in my mind, you know sort of in a line with rationing or allocating and why budget when I know that I feel safe with what I have in my bank account?"

If you have no debts people say, "Why do a budget? I don't have a lot of debt, I owe a little bit here and a little bit there." It all gets back to accumulating a pool of money, or preferably two or three pools of money that you can call your reserves. You have your rainy day money and that should absolutely never be less than about one month's salary, preferably three months' salary. So try and work out in your budget firstly where you can find money for saving. If you have debt you have two sets of priorities because you have to save and reduce debt. Now you're using your budget for two very powerful

things: to work out where you cut down in order to start attacking some of that debt as well as, particularly once the debt is all taken care of, how you can start increasing your savings, there's a third stage and we'll talk about it later in "Making Friends with Money" which is retirement money. It's very much for the longer term future for most people. Some people are retiring next year so that's a lot more urgent. So budgeting is absolutely critical because it allows you to see where the money can come from. I don't know how you want to imagine it – three big piles of money / three big vaults of money / three big money bags? One for short term emergencies, one which is your sort of investment money for longer term things, particularly deposits on a house, deposits on a car. And the third pot of money or bag of money is for your long term retirement. That's what... If you put something into that bag every year for 40 years you're going to be fine.

It's January 10<sup>th</sup> so it must be budget day!

People often find it very amusing that I say you can look forward to doing your annual budget because for most people it's like the worst chore – sitting down and doing a budget and working out what you have spent and what you can spend. It's just not something that people want to do. How do you make it more fun? How do you make it a less laborious kind of exercise? Well the simple thing that I find works, it certainly works for me, is to try and do it on the same day every year. I'll tell you why that makes such a difference is that somehow you enlist the help of your own unconscious mind into getting into this habit. You know they say in order to get into any kind of habit you have to repeat an action 5 or 6 or 7 times minimum. Some people say a lot more. But if you can just do it the same day each year for 2 or 3 years you'll find out that if you try and sort of duck out of that in the fourth year your own mind comes to you and says, "Wait a second, that's our budget day, you know, we've agreed on the 10<sup>th</sup> of January or the 30<sup>th</sup> or..." And that really helps you because you now start feeling a bit guilty, you've made this commitment. So commit to a particular day.

The second trick that really works, the second way of encouraging you to look forward to it is that it's so important if you're able to and you have a family, involve your family. Budgeting is a family exercise. Expenditure is a family exercise. Kids are never too young to sort of bring them in to the discussion about "Where can we cut things out?" You know, if you are going to cut cable television or satellite TV have a discussion because it could be a very unpopular decision if you don't allow people to democratically vote on it. But you'll find kids are... I find kids are amazingly resourceful when it comes to thinking of little things that they can give up. And they love getting into the spirit of the programme. So make it a family thing. The reason it will become a positive and good habit if you can do that for two or three years is that the power of knowing what's going on is so liberating that you'll really come to look forward to it. And the power of not only knowing what's going on, but being able to take some proactive decisions together to say, "Ah, if we cut back there we can do A, B and C." Those are the kind of exciting things that you can do. So you turn it into an exercise that first involves the whole family, that's done regularly on the same day every year and that also has a lot of forward looking pos... Plan your holidays on that day – where you're going to go, how much can you spend – and then hey, it becomes not budget day, but kind of planning the year fun day. And that I find is very empowering for most people who can get into that habit. They do it once and then it's just something they do for the rest of their lives.

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