Wealth 4 kidz

A kids guide on saving, investing and being responsible with money

Welcome to Wealth 4 Kids

Our junior readers

Why have we created this content for you?

It is very important that you learn about what money is and how to manage it – and this understanding should happen sooner rather than later.

Financial skills are as important as any other skills that you will learn – but they are rarely taught.

Whether at school or at home, it seems surprising that so many people enter their adulthood without really understanding about money, saving, investing or any of the other aspects of finance.

You don't need to be an expert, but basic knowledge is essential to managing your financial situation and future, however unimportant money may seem at the moment.

So we have been inspired to create a website and set of resources to give you a grounding in this subject. We want to do our bit to try to help make you well-prepared to face up to responsibilities and challenges you might face.

Parents and teachers

Why have we created this content for kids?

At some point in every child's life, they will need to understand what money is and how to manage it. That time should be sooner rather than later.

Financial skills are as important as any other skills that a child will learn – but they are rarely taught.

Whether at school or at home, it seems surprising that so many people enter their adulthood without really understanding about money, saving, investing or any of the other aspects of finance.

Not everyone must be an expert, but basic knowledge is essential to managing one's own financial situation and future.

So we have been inspired to create a website and set of resources to give kids a grounding in this subject so they are well-prepared to face up to responsibilities and challenges they might face.

This is also aimed to give you as a parent / teacher content which you can use to have conversations with these kids about financial knowledge.

About this guide

What information is covered

The content we have created is divided into the four main things you can do with money when you have it:

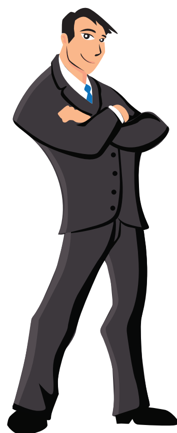
Spend it | Save it | Invest it | Give it away

In each of these sections, we look at the various terms and concepts we think you need to know and understand. These include

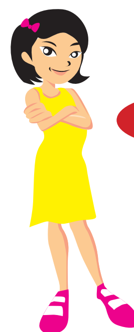
1. **Spend it** – budgeting, spending wisely, and taxes
2. **Save it** – saving, and the role of banks (including borrowing)
3. **Invest it** – setting your goals, investing, insurance, fees and retirement
4. **Give it away** – charity and philanthropy

We have also developed some fictional characters to help bring more life to a subject that is often quite technical.

Mum



Dad

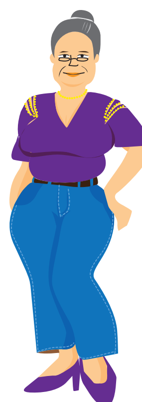


Jenny

Charles

Mary

Henry



Betty

Jack

Key take-aways

We believe we have covered a lot of ground with our content – but probably the most important money-related lessons you should take away from all this material are summarised as:

- **Take control** – to be able to manage it well, it's important to, some simple tips are: start early, set up a budget, spend only what you have or can afford, do not let debt build up, and save an emergency fund of three to six months of living expenses to deal with any unexpected crisis

- **Set financial goals** – however large or small, doing this can give you a real target to aim for. Even if your goals change or you create more of them at different points in your life, you need them to work towards and save for.

- **Start saving early** – this will be a big advantage for you, because of the impact of something called 'compound interest' (to be discussed under the section on 'Save it'). It also creates good discipline as you can quickly accumulate money you need to achieve your goals – including big ones like buying a house and having enough for retirement.

- **Avoid anything which is 'too good to be true'** – if you come across opportunities to earn money, invest in something, or borrow more money which seem better than anything else you have seen or heard about, it probably needs further research. This also applies to this is supposedly 'free' advice from professionals. Somebody will be getting paid for it, even if they don't tell you how and it isn't obvious. Always ask questions until you understand exactly what you are buying, and how much it will cost – both now and over the long term.

- **Don't borrow more than you can afford** – borrowing money is not a bad thing, as there are different goals and certain types of 'debt' that you accumulate is considered 'good' debt, which has a specific goal that is positive over the long-term. However, you need to be aware of 'bad' debt that might cost a lot more in the long run than you thought it might, or might be more than you can afford to pay back.

Who we are

We are a dedicated group of individuals from backgrounds including senior management, business development, marketing, journalism, technology, and learning.

We run a content and training business called Hubbis (www.hubbis.com), which focuses on driving professional development among individuals working in Asian wealth management.

Please do send us your feedback to: wealth4kidz@hubbis.com

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Money and where it comes from

What is money?

Everyone needs, wants and uses money.

It is what people must have to buy something from another person or company who is selling it.
A simple way you can think about money: the coins and banknotes which you use in exchange for items you want.

Money also exists in electronic format. People don't have to give coins and notes to buy something. They could also send money to another person using the internet, or pay in a different way – like a credit card, debit card, or cheque

Where does it come from

Money gets created in each country by the Central Bank of that country.

This is an institution (a type of financial company) whose job is to look after the financial / banking services for the government and all other banks.

This includes various tasks all relating to helping to control and manage money – called the "money supply".

How can I get money?

There are many different ways in which people can get money.

The most obvious and common one is getting a job. This involves working to earn a salary, or pay, at the end of a week or month.

People also earn money by inheriting it. This means that when someone has passed away, individuals who were close to the deceased person will be left money and items belonging to the deceased, as stated in a will.

Knowing how you get money is very important because at some point, your mum and/or dad will stop giving you money to buy the things you want. You will then need to source money on your own.

What can you do with money?

There are only a few things you can do with money, as outlined in the introduction: Spend it, Save it, Invest it, and Give it away.

- **Spend it** – budgeting, spending wisely, and taxes
- **Save it** – saving, and the role of banks (including borrowing / lending)
- **Invest it** – setting your goals, investing, how insurance works, fees and retirement
- **Give it away** – charity and philanthropy

Why is money important?

If money did not exist, then people would need to exchange other things with each other to get what they wanted. This is called barter.

But this does not work well in many cases. This is because, for every item someone wanted to buy, they would need to find someone with that item and then give that person something they also wanted.

For example, a person who can fix cars will want food. But to get food, they will need to find someone who has food and also has a car which needs to be fixed!

Spend it

How to budget and spend wisely

We all want to buy different things. Some are small and cheap, like a candy bar or a magazine. Others are more expensive, like a bike, a computer or horse riding lessons.

Sometimes they cost a lot more than you think.

It's unlikely you (or mum and dad) will have enough money to buy everything you want.

Some things cost a lot of money, and would take you a lot of time to get enough to buy them.

For example, you might see a new mobile phone that you like, but it costs USD250. If you get USD10 a week, how many weeks would it take to buy the phone, if you saved all your money towards it?

It might take even longer than you think, because you will have to spend your money on more than one thing. And sometimes you need money to spend on things you hadn't thought about too. Unless you are organised, you might run out of money!

The best way to plan to get what you want and make sure you don't run out of money, is to have a Budget.

What is a budget?

A budget is a record of the money you have, plus a plan that works out how much money you are likely to get and how much you are likely to spend in the future.

Budgets help you understand how much money you usually spend, and how much you save. If you plan a budget and stick to it, you can buy much bigger things than you can afford with your weekly allowance.

This gives you financial discipline – which is fundamental to all aspects of managing your money.

For example, you might want a new pair of headphones that cost USD10, but only have USD4. If you get a USD2 allowance a week and save it all, you can save up the extra USD6 to buy the head-phones in three weeks!

How do I create a budget?

- First, work out how much money you have.

1

You need to begin by adding up all the money you already have. But first of all, get a spare notebook or piece of paper. At the very top, write that this is your budget – for example, 'Jenny's Budget'.

Below this, put a vertical line down the middle of the page. On the left write 'Money In', and on the right write 'Costs & Savings'.

Once you have done this, write 'My money' in the left column, below 'Money In.

After that, go to any piggy bank you have and count how much money is in it. Then add any spare bank notes or coins, and add any money you have in bank accounts that you are allowed to use. Ask mum and dad if you are not sure or need help counting it up.

Add the total of each amount of money into the left-hand column. And once you have put down everything, add it up and put this number at the bottom of the column, next to a 'Total'.

This tells you how much money you already have.

For example, Jenny checks her piggy bank and counts her coins, and works out she has USD23.75. She then checks her drawers and finds USD15 in notes. And then she asks mum and dad how much money she has in bank accounts that she is allowed to use. They tell her she has USD150.

So she fills out her budget like this: JENNY'S BUDGET

MONEY IN
My money

Piggy bank: USD23.75
Spare notes: USD15
Savings account: USD150

TOTAL: USD188.75

- Secondly, you need to work out how much money you are likely to get over regular periods.

2

Next, you need to know how much money you are getting, and how regularly.

This means you know how much in total you should get over a week, or a month. When you know this, you can make better plans for saving money, particularly for items that cost more than you get over a week or two.

Now you need to add this to your Budget.

You need to go to the left-hand column again, and below the previous figures write ‘Monthly Monhey In’, in a new colour or big letter to make it obvious.

Then you add in each item below this.

EXAMPLE: Jenny’s mum and dad give her USD10 a week, provided she does her chores around the house. And once a month, Jack, her grandfather, gives her another USD15. Assuming Jenny does her chores and sees her granddad once a month, she gets USD55 each month.

JENNY’S BUDGET
MONEY IN
My money

Piggy bank: USD23.75
Spare notes: USD15
Savings account: USD150
TOTAL: USD188.75

Monthly Money In
Weekly pocket money USD10
Monthly pocket money from grandpa USD15
MONTHLY REVENUE: USD55

- Thirdly, you need to work out how much you usually spend or save over a regular period. 3

You then need to work out how much you spend each week or each month. You must be honest, as you need to have correct figures to make your budget.

You also must not forget to consider costs like snacks, books or magazines, apps or video games, new clothes, or travel fares. Some of these might seem small, but they quickly add up!

These costs are called 'expenses'.

You can divide up your expenses into three types:

Regular expenses. These are costs that you have very often. One could be a bus or taxi fare to a shopping mall you visit once a week; another could be the cost of buying your favourite magazine each month.

Savings. This is the money you should be putting aside each week or month, for the future. You should talk with your mum and dad about how much it should be. Usually 10% to 20% of what you get is enough.

Giving. You should also put some money aside to give to good causes. There are many people in the world who have less fortunate lives than you. You should begin to put a small amount of your money aside now so you can help them. Again, you should talk with you mum and dad about how much, but 5% to 10% is probably enough.

EXAMPLE: After working out her money and the money she is likely to earn, Jenny works out her costs. She thinks about it, and remembers that she likes buying 'Top Teens!' magazine once a month, which costs USD10. She also usually buys herself three candy bars a week, which costs USD3, or USD12 over a month. She also buys pencils and erasers at least once a month, which costs about USD15.

Jenny has also agreed to put 10% of her money each month towards savings, and another 5% towards giving.

After working this out, Jenny writes this into her budget.

JENNY'S BUDGET
EXPENSES

Recurring:
Magazine: USD10
Three candy bars: USD12

Stationery: USD15
Savings: USD5.50
Charity: USD2.75

TOTAL : USD 45.25

- Fourthly, you need to work out what you want.

4

Wants and needs are very different. Using a simple example, you might want a bike or a new mobile phone. But you need food to eat to stay alive and healthy.

You should make a 'Most Wanted' list of the top 10 things you can think of that you would really like to buy.

When you do this, try to be realistic – you can't buy a jet plane or a submarine! Instead think of all the things you would really like. And keep it to 10, or 15 things at the most. A list of hundreds of items is not useful.

After you have done this, you must work out how much each item costs. And then number them from 1 to 10, with 1 being the thing you want most, and 10 being the thing you want the least on her list.

EXAMPLE: Jenny writes her 'Most Wanted' list. Her top item is an iPhone, which she works out would cost USD300. Her second item is a pink bike, which costs USD150, and her third item is a new bag, which costs USD60.

- Fifthly, you need to work out how much money you can save. 5

To do this you need to get the amount you have worked out you earn each month, and subtract the amount of recurring expenses you have, plus any one-off items you know you will also need to pay for.

The amount left each month is how much you have available.

EXAMPLE: Apart from her USD188.75 in savings, Jenny has worked out she is likely to earn USD55.50 a month, but she spends or saves USD45.25. Therefore she has USD10.25 a month left. She can put this money towards items on her 'Most Wanted' list.

- Sixthly, talk with mum and dad about your plans.

6

If you haven't already been getting mum and dad's help, you now need it, so you can make some plans about how best to use your money.

To begin with, go through all your sums about how much you think you have and will make, and how much you spend and save. See if they agree, or if they make any changes.

After you all agree on how much you have and are likely to earn per month, you need to work out how long it will take to save up to buy the number 1 item on your 'Most Wanted' list.

You may find out that it will take a long time to get some of the items, especially if they are expensive. This might mean you have to consider whether you want to save for these items or not. Mum and dad might be willing to help you, provided you are willing to put aside your money for a long time.

EXAMPLE: Jenny wants an iPhone most, but it will cost USD300. And she only has USD10.25 a month, so it would take her 30 months to make the money – or two and a half years! Mum and dad also remind Jenny that if she buys an iPhone it would cost USD20 each month to pay the bill. Jenny realises she cannot afford to buy the iPhone, and so takes it off her list.

The second item on Jenny's list is a bike for USD150. Because she has USD10.25 at the end of each month, it would take her 15 months to make the money, or one year and three months. However, Jenny's mum and dad agree she can use USD30 from her savings account towards the bike's cost. And after that, they say they will put in USD1 for every USD1 she saves towards the bike.

So, Jenny works out that paying USD30 towards the cost means she needs another USD120. And if mum and dad pay half, she needs USD60. Given the money she has spare each month, Jenny works out it would take her six months to earn enough to get the bike.

The third item is a new bag, for USD60. This would take Jenny six months to earn, but her mum and dad don't agree to put money towards it, because they think it is not something she will use much. Jenny thinks about it, and decides she really wants the bike. She starts saving towards it.

Important! Tips for planning a budget

Be honest!

To plan a really good budget, you need to be very honest with yourself. You have to work out how much money you really spend a week or a month. If you work out that you spend money on five candy bars and five cans of soda a week, don't pretend it is only two or three.

If you do it will only mean your budget is inaccurate, and you spend more money than you planned for.

Update it!

Budgets only work if you stick to them. The best way to do that is to check it regularly. You should look at the budget and update it once a week. Schedule a time with mum and dad to go through it on Saturday or Sunday.

By doing so, you can see how you are spending your money, and how well you are saving it. That way you can see if you are on track to save enough to buy the items on your 'Most Wanted' list.

Don't be scared to change your budget!

Sometimes you will want to change the budget plans you have made. You may find you want to spend money on a particular item every week that you hadn't originally planned for. Or perhaps a new item of clothing or game is released, and you want to put it at the top of your Most Wanted list. Or maybe you want to save more each week, to buy your number 1 Most Wanted item faster. Or maybe you can't do so many chores, so you will get less money each week.

If this happens, you need to re-do your budget, thinking of what the changes mean for your budget plans. If you add a new Most Wanted item, first of all delete another item.

Then work out how much it will cost to buy, and remember this means the previous items will take even longer. Lastly, if you want to save more money or you are going to get less money than you originally planned, think of what you are spending money on now and how you can drop these costs.

Then, update your Budget with your new revenues, costs and savings, and purchase plans.

Be careful of impulse buys!

Everybody goes to the shops and sees something that they suddenly want to buy. If you cannot control the urge to buy it, even though you hadn't put the item in your budget, then you are making an 'impulse buy'. This is also a purchase which you make without carefully thinking about the consequences.

If you see something like this, try not to buy it straight away. Instead, go home and see whether you want to add it to the 'Most Wanted' list. (Don't forget – if you do, you need to take something else off!).

If you add it to the list, work out what number it should be. Then, if it is near the top, think of how you could best afford to buy it, and if it really is one of the things you want to buy most of all, and also what impact buying it will have on your other purchase plans.

Be tough!

You have to make tough decisions sometimes, or risk over-spending. So think hard every time there is something new you would like to buy.

Do you really want it? Do you want it more than the other 'Most Wanted' items? Why? And if you do, how can you change your budget to buy it without losing money, or how can you plan to save for it?

It's important to think about how buying something you hadn't planned for affects your other plans.

Consider all the costs of an item!
Many items only cost the money you have to pay for them. But some, such as mobile phones, online gaming apps, or club memberships, continue to cost money.

You need to add this recurring cost into your budget when you consider adding it to your Most Wanted list.

Taxes

What is tax?

Tax is a charge the government puts on money you make, or that it adds to goods and services. It does this to raise money so it can build roads and railways, maintain a police force, and make sure everyone follows the law.

There are several types of tax that you have to pay when you make money or invest it.

Below are the most common:

Income tax

This is a standard rate of tax charged upon any money you get paid by a company for the work you do. It usually begins after you earn a certain fixed amount of income, and is a percentage of the money you earn above this.

Some countries have several levels of income tax, which rise as you earn more money. These are called tax brackets.

EXAMPLE

1. Dad earns USD8,000. Under his country's rules, he can earn up to USD10,000 without paying income tax, so he does not have to pay anything.

2. Mum earns USD15,000. She earns the first USD10,000 tax-free, but has to pay 20% tax on the other USD5,000.

   Q: How much does Mum pay in tax?
   A: USD1,000 in tax.

3. Uncle Henry earns USD50,000. He gets USD10,000 tax-free. He has to pay 20% tax from USD10,000-USD40,000. And he has to pay 40% tax from USD40,000 to USD50,000.

   Q: How much does Uncle Henry pay in tax?
   A: USD10,000 in tax

In some countries like the UK, income tax is automatically taken away from your salary and paid to the government by your employer.

In other countries, it has to be paid all at once, at a certain time of year. This is, for example, the case in Hong Kong.

TOP TIP!

If you have to pay your income tax all at once, remember to put some money aside during the year.

You should work out how much tax you have to pay, divide that amount by 12, and put that aside into a spare bank account each month. Otherwise you suddenly have to pay a lot at once!

Capital gains tax

This tax is charged on any money you make after you buy an investment and then sell it for more money. The extra money you make is called profit, or 'capital gain'. The exact amount charged varies in different countries, but it is often around 20%.

For example, if you invest USD10,000 in stocks and sell them after six months for USD11,000, you have made USD1,000 in profit. However you would be charged capital gains tax of 20%, or USD200.

Capital gains tax is charged on money made from investments like stocks, bonds. It is also charged on any money you make from selling a house for more than you bought it.

Inheritance tax

When a person dies, they usually leave their goods and property to their loved ones.

However, many countries charge a tax on the money that to be given over. In some countries this rate of tax can be a lot – in the UK for example it is 40% for estates with more than GBP1 million.

Save it

Saving

What is saving?
Saving is when money is kept for the future, often in a bank account, or for a time when you need or want it for a specific reason.

Another way to think about saving is money you have but do not spend today. You can also save by spending less money on buying new things.

People use their savings in many different ways. For example, to buy a house, a car, to go on holiday, to buy a special item they want, to use for investing, or to give to someone else (like a child or a parent).

How do people save?
A deposit account which pays interest is typically used to hold money for future needs. This is generally the safest way to save money.

There are also other ways to save, but these refer to some form of “investing”.

But there is a difference between saving money and investing it (we will explain this later).

Why is saving important?
Saving money, and doing it regularly, is the foundation of all financial success you will enjoy in your life.

If you have money saved, then you are ready to buy things when you want or need to (such as your headphones).

Even if you are only saving a small amount of money, it is important to save something.

We will discuss later that if you save money every week or month, then over a longer period of time this will add up to a large sum that you can enjoy in the future.

Smart ways to save
It may be helpful to break up larger savings goals such as buying a house or planning for retirement into some smaller, shorter-term goals such as buying a car or going on holiday.

You should list out some clear and realistic savings goals to help you have an easy reminder about what you are saving for.

TOP TIP!

Money-saving tips often include the following:

- Avoid impulse buys. Delay buying items so that you can think about whether it is really something you want.
- Start a diary to list what you are spending. If you keep a record of every dollar you spend, you'll know exactly where your money is going, and be more conscious of your spending habits.
- Find a substitute. If the item you want is more expensive than you have budgeted for, you could look to buy a similar, but less expensive item.
- Compare. Shop around to compare prices at different places, including online.
- Set rules. Give yourself limits for how often you buy something.

What are interest rates?

The best way to understand 'interest rates' is as a pre-agreed amount (rate, typically as a percentage of the total amount you have) of money (interest) which gets paid by the bank or other party (known as 'borrower') that you give the money to.

It might be paid every month, or every 3 months, or every year – whatever is agreed in advance.

And it is paid until the money is taken out of the bank account, or until the end of the investment period.

EXAMPLE

Dad wants to borrow USD1,000. The local bank says '10% Interest'. So to borrow the USD1,000 for 1 year will cost Dad the following:

USD1,000 × 10% = USD100

In this case the 'Interest' is USD100, and the 'Interest Rate' is 10% (people often say '10% Interest' without saying 'Rate').

Of course, Dad will still have to pay back the original USD1,000 after one year, so this is what happens:

- Dad borrows USD1,000, but has to pay back USD1,100
- This is the idea of Interest... paying for the use of the money

To understand the special words used in this situation:

- Dad is the 'Borrower'
- The bank is the 'Lender'
- The 'Principal' of the loan is USD1,000
- The 'Interest' is $100

It is also important to understand that, for various reasons, interest rates might be higher or lower.

This is to do with whether there is a higher risk for you by choosing this investment. Or it might be based on the policy chosen by the government of that country.

What is inflation?
'Inflation' is best understood as a regular increase in the general level of prices for goods and services. It tends to be measured as the percentage of the increase on a yearly basis.

In terms of what this means to you, is that as inflation goes up, every dollar you have to spend can buy less of a particular good or service. Or, in other words, you need a little bit more money to buy the same thing a year earlier.

EXAMPLE: If the inflation rate is 2% annually, then, in theory, a USD1 pack of chewing gum will cost USD1.02 in a years' time.

2 key terms to help you understand more about saving

Liquidity
This is a technical word that you need to understand and be aware of because it affects whether you have money available to use when you want to.

- If something is 'liquid' – you can basically have the money for spending on anything else. It means you can quickly sell something you own to get the cash. This will help you to do important things like buy food.
- If something is 'illiquid' – you cannot get your money quickly because it takes a lot more time to sell the investment you own. For example, your house will likely take several months to sell, so you cannot get your money quickly, making it relatively 'illiquid'.

Liquidity is also something which is important to understand when you come to investing.

Compounding
This is something which refers to the benefits of saving at a young age so that the money can start to grow as soon as possible.

This works in the following way – after 1 year of keeping your money in a bank, it earns interest. This interest gets added to the amount you started with. At the end of year 2, you get interest on this new, larger amount – not just the money you started with. This continues each year, so that you get interest on an amount of money which gets bigger every year.

To see the real benefit of "compounding", you will need to wait for probably more than 10 years. But it has a very big impact that will significantly boost your wealth.

EXAMPLE

Jenny and Charles both start to save money when they are 11 years old.

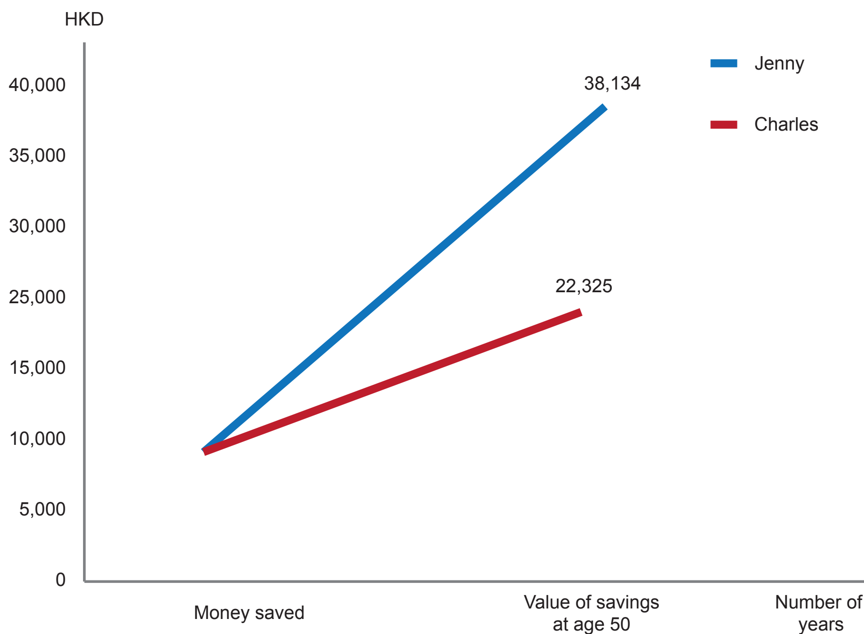
Jenny saves the HKD10,000 that Uncle Henry gave her as a generous birthday present at an annual compound interest rate of 5.5%. When she turns 50, her investment will have grown to HKD38,134.

Charles waits until he is 35 to invest the HKD10,000 that Uncle Henry gave him for his 11th birthday. He gets the same interest rate. By the time he reaches age 50, his investment will be worth HKD22,325.

Even though they both invested the same amount, Jenny gave her money more time to grow. She earned a total of HKD28,134 in interest, while Charles earned only HKD12,325.

This shows why it is so important for you to start saving your money now!

Comparative savings of Jenny and Charles



Banks

How banks work
You have probably heard your mum and dad talking about their bank account, or the fact they need to go onto a bank website or into a bank branch to pay a bill.

But if you ever go into a bank branch they look like very uninteresting places, where people queue up a lot and fill out forms or take money out of ATMs. Why are they so important?

Banks are responsible for taking care of most of the money in the country. People who earn money tend to put most of it into their bank accounts, while other people who need to borrow money mostly do this from banks.

The main purposes of a bank
Banks do a few important things.

1. They keep your money safe.

Your mum and dad usually earn money from the jobs they do, plus any investments they have. But it's risky to keep all this money at home. Imagine if your house was burgled, or got damaged in a fire. All the money would then be gone!

Instead, most people choose to put their money into an account at the bank. These are called deposit accounts. There the money is safe, as the bank takes care of it and promises to always give it to you whenever you need it.

The bank pays you to keep your money with it.

The bank also pays you an interest rate for keeping your money there. While this is usually not very much, it means you make more money simply for keeping your money at the bank!

2. They lend you money if you need it.

The reasons banks pay you to keep your money is because they use your money and lend it to other people or companies, and then charge extra money for doing so.

Most people borrow from banks at some point. Your mum and dad might have borrowed money to buy your house. This is called a mortgage, and involves borrowing a lot of money over many years.

Companies borrow money too. They might want to build a new factory, or hire lots of new workers to grow their business, but don't have the money right now. So they go to the bank and borrow the money, and pay a rate of interest for doing so.

3. They can help you pay your bills more easily.

Families tend to have many payments they need to make every month. For example, they need to pay for electricity, water and gas.

Remembering to pay these can be annoying. So the bank offers auto-payment facilities. This means the bank will automatically move money from your parents' account to pay all the bills they have set up for auto-payment. It saves a lot of time and hassle!

How does a bank operate?

1. Getting your money out of a bank

There are several ways to get the money you keep at a bank.

Usually you can access the money through a debit card, which you use at an ATM to get money out. There are lots of ATMs in towns and cities. Try looking out for ones with the symbol of your bank next time you are walking on the street!

You can also write a cheque to someone else, to pay them without using cash. The person then takes the cheque and gives it to their bank. That bank talks to your bank, which agrees to move the money to their account.

You can also transfer money to online bank accounts, using the internet. But don't forget your bank details and password!

2. Charging interest

While banks lend money to lots of different people, they typically only agree to lend the money for a certain period, and they charge interest rates on the money during this time.

The interest rates they charge can change a lot, from only 1% or 2% of the original amount a year to up to 15% to 18% a year for the use of something called a 'credit card'. This is a small plastic card, generally issued by a bank, which allows the holder to buy goods or services on 'credit' – meaning they do not need cash and instead pay it back later.

The main reason the rate of interest varies so much is because some people or companies are riskier, so the bank charges more.

Let's use Mum and Mary as an example.

Mary earns a lot of money, has always paid her loans promptly and on time. She also has a lot of money in bank accounts at the bank.

Mum is a new bank customer, and has never borrowed before. She also makes a lot less money than Mary.

TOP TIP!

Always understand how much interest you will have to pay before you agree to any type of loan, and work out if you can afford to pay it. Sometimes banks quote the interest they charge on a monthly basis because it sounds low, but the yearly rate is actually quite high.

For example, a bank might offer a personal loan for 1% a month, which sounds good. But the yearly interest rate on this loan is 12%!

Borrowing comes in many forms
There are many types of borrowing, and some of the most common include:

- Mortgages. These are very large loans that last for a long time, often 20 years. The banks lend the money to people to buy a house. The reason the banks do so is because the interest rates are quite good, and also if the people cannot pay the mortgage the bank will take over ownership of the house and sell it, to get its money back. The house is called 'collateral' for the loan.

"Collateral' means that if you cannot pay back the loan, the bank is allowed to take whatever has been pledged as the collateral and sell it to make sure that they get the money back."

- Credit Cards. A credit card is basically a plastic loan. If you use it, you are borrowing money from the bank and spending it on something. However, you have to pay it back in a month if you want to avoid being charged interest. And the bank charges high interest rates on credit cards, because they can be used to pay for anything. So it's best to pay it back quickly!
- Car loans. This is like a mortgage, except the money is put towards a car rather than a house. The car will be collateral for this loan.

TOP TIP

It is advisable to avoid short-term debt where possible, because this generally requires you to pay higher rates of interest.

Why people borrow money
There might be various reasons why you would want to borrow money, and the different types of 'debt' you take on when someone lends you money can be considered as 'good' debt and 'bad' debt – depending on the purpose you are using the money for.

For example:

1. Borrowing to help make a plan come true.

Many people don't have enough money to pay for something they want to do, such as create a new business or buy a house. However, they think that over a longer period of time they will make money, so they are prepared to borrow money to get what they want.

By lending them the money, banks help these people or companies make their plans work. This can be very good news for the borrowers, and for the bank too – as it gets paid interest for lending the money.

2. However, borrowing can be risky

Borrowing money from the bank can be risky too. If the borrower doesn't spend the money carefully, or something goes wrong, they can end up struggling to repay the money. If they cannot keep up with their payments they can get into a lot of trouble with the bank.

Therefore, it's a wise idea to think carefully about how you will repay any money you borrow, and whether you can afford to repay it.

Also, some of the money you can get access to by borrowing is lent over a short-term period. This leads to higher interest rates, so if you borrow this type of money and do not pay it back quickly, then you will pay back a lot more over time.

Other services

- Insurance. Many banks provide types of insurance (this will be explained in more detail later). Insurance is like a type of protection. You pay the bank some money to protect you against something happening. If that thing happens, then they will pay you some money in return. Banks often offer life insurance, in which a person pays them some money every month, and when the person passes away the bank will pay an agreed amount of money to the person's family.

- Investment products. Banks often help people to invest in investment products too (this will be explained in more detail later). These are financial instruments you can put your money into, with the hope that you will get more money back. Common products are shares, which are essentially the ownership of a tiny amount of a company, or bonds, which are ownership of a tiny amount of the debt of a company.

TOP TIP!

Responsible borrowing
Although it is tempting to borrow money as a quick or easy way to buy something now and not have to wait, you need to make sure it is a sensible decision for you in the long run.

- **The first consideration is whether you can afford to borrow**
  You first need to know how much you will need to repay and how often. You can then see if you can afford this considering your other expenses.

- **You then need to make sure you are clear what you are borrowing for**
  Getting a loan to pay for your house or perhaps your children's education might make sense. But borrowing for a holiday or a car, or any non-essential items, may not be necessary.

If you owe too much money or to too many people, this can be a burden and also take you a long time to pay it all back.

- **Is borrowing your best thing to do?**
  Borrowing is not always be the best choice. You might instead be able to save more in the short term, or wait longer for the item you want to buy, instead of borrowing now.

- **How much does borrowing cost?**
  When you borrow money, you need to make sure you understand not only how much interest you have to pay back, but also when the repayments are, how often and how (if at all) they might change over time.

  You need to be aware that financial institutions may also charge other fees, including charges for any overdue or missed repayments, or even if you want to pay back the money more quickly than first agreed with the lender.

Mortgage repayment

Mum and Dad have decided to buy their first house and have gone in to the bank to apply for a USD2,000,000 mortgage.

After discussing what they need and their financial situation, the bank asks them to choose how they want to repay the loan, and over what time period.

Many banks offer long repayment periods (up to 40 years). Although the monthly payments are smaller, you will end up paying significantly more in interest payments compared to a shorter repayment term.

The Mum and Dad looked at 3 different options for how long they would take to repay the mortgage loan – 10 years, 25 years and 40 years – each at an interest rate of 5%.

USD2,000,000 mortgage at 5%	10 year repayment	25 year repayment	40 year repayment
Monthly repayment	USD21,213	USD11,692	USD9,644
Total repayment interest	USD545,609	USD1,508,892	USD2,633,839

The shorter the repayment period, the less overall interest Mum and Dad have to make, although they will have to pay back more each month.

Invest it

Setting your goals

Why should you plan your finances?
Now you understand how to budget, and plan and spend wisely, you need to create and follow a more detailed plan to properly manage your money and overall financial situation.

You need to do this if you want to be able to achieve your goals for how you want to live and how much money you want to have in the future.

It doesn't matter what your goals are – you still need to have a plan that you can follow.

How can you plan?
You need to think carefully about what is important to you.

There are likely to be lots of different things that matter, but you might not be able to achieve everything at the same time. So you must also choose which is most important.

Also, you need to think about important moments in your life – even if they seem like a long time away. For example:

- Your first bank account
- Your first part-time job
- Buying your first car
- Getting married
- Having children
- Buying your first home
- Starting work

There are also other things which need to be discussed with someone who is qualified to give financial advice. These relate to your individual personality and how you will want to invest your money.

How can you create a good plan?
Putting together a sensible financial plan that will help you meet your goals involves several steps:

1. Make a realistic budget that you can stick to.

2. Set a time by when you want to achieve your goals.

3. List all the things which may happen which will mean you cannot stick to points 1 and 2. For example, you might need to use some of your money to buy a replacement for something which gets broken and didn't expect it to. Or you need to buy a friend a birthday present but you didn't think about it before.

Why you need to set goals – and stick to them
There are many dangers if you do not plan your money:

- You might not have enough money when you need or want it for buying new things or making an investment.

- You might not be able to do things for your family – like go on holiday, pay for your child(ren) to go to the school you want.

- You might not be able to prepare yourself against unfortunate events such as injury, losing a job, or illness.

Why do you need to manage your money?
It is very important for you to understand why you need to manage your money carefully – and how you can do this.

This is typically done through the process of "wealth management".

In the world of finance, this is done based on the amount of money and other financial assets someone has. So the term "wealth management" refers to a service of financial planning that manages the money and financial life of people in all parts of the world, with the aim to sustain and grow long-term wealth.

Why you should get advice
There are some people who are trained, qualified and experienced in providing you with advice for managing your money.

- These people are generally called "financial advisers" or "financial planners". Some of the ways these people can help you are:
- Talking openly with you so that they can understand what is important to you, what your current financial situation is, and what you want for your future,
- Identifying and trying to close any gaps between what you want to achieve and what money and other finances you already have.
- Matching what you need with investments and other financial tools to achieve your goals.
- Reviewing what you want to achieve on a regular basis, and also looking at your financial situation, to see if any changes are needed.

What do you need to know about this process?
As a starting point, there are 3 main things to keep in mind when managing money:

1. You are an individual who is different to everyone else. You have your own ideas, needs and plans. So you need to make sure you manage your money and plan for the future based only on your goals and objectives.

2. Professional advice is something which is provided by people who are trained and experienced to advise you. They are called "professionals".

3. You will be getting a service from these people, which you will need to pay them for. But this should mean that you get good advice and information because those people giving it to you are experts in this area.

Investing

What is investing?
Investing is about putting money to work with the expectation of making it grow. This means using your money to buy something which will hopefully help you get more money in the future.

This growth might be through generating additional income and/or growing the original amount of money (also called "capital") in the future.

This means you can afford to buy more things that you want, increase your freedom to make more choices, and make you feel more secure about what you might need in the future.

Investing is NOT gambling, because when you invest you make a plan and carefully select what you invest in. This is also based on what you want to achieve, how quickly you want to achieve it, and why you want to achieve it.

Just as you are different to anyone else you know, the approach you take to investing is likely to be different also.

However, the choices of what you can invest in are generally put into three or four groups because this helps you to decide what to buy, to help you try to achieve your goals.

What can you invest in?
The different things you can invest in are broadly called "investment products". There are lots of types, and some of them have slightly different names, but they can broadly be divided into groups.

1. **Cash and bonds** – these produce an income and you should look to invest in these if you want to invest for a short period of time – maybe a few months or a year. The aim is to use your money to try to make it grow by a small amount that you expect to get back quite soon.

2. **Equities and property** – these are assets you can buy to try to achieve more growth for your money. You should buy these if you have more time to wait for your money to grow. Also, there is a higher chance with equities and property that they might not always give you more money, so you might need to be more patient and wait for a longer time than with cash and bonds.

Watch out for the risks
You need to be aware that when you use your money to buy investment products, there are some risks.

This means that there are times when the money does not do what you hope or want it to do.

For example, the amount of money might shrink, not grow.

Or there might be a time when you want your money back, but you have to wait to get it because the product you have does not let you have your money back straight away.

There are also risks that some items you might want to purchase – including food, or a house, will cost more, so you will need more money tomorrow than you needed yesterday to buy the same thing.

What are “asset classes”?
Asset classes are groups of types of investments that are similar in the way they behave – which means what happens to your money.

The main “asset classes” that you can buy are:

- Cash
- Bonds (or fixed income)
- Equities

They tend to achieve the following, affecting your reasons for wanting to invest in each of them:

- Cash – to give liquidity without taking credit risk
- Fixed income – as more of a defensive asset class to get a certain level of capital preservation, as well as some yield
- Equities – as a growth asset, making it generally more risky

You can also invest in:

- Property
- Currency (the different type of money in general use in individual countries)
- Alternatives, which include other assets not included above

What are “asset classes”?
Asset allocation is the process or strategy of choosing between the different kinds of assets you can buy.

These assets are then grouped together into what is called a “portfolio”. This contains a mix of the products you have bought.

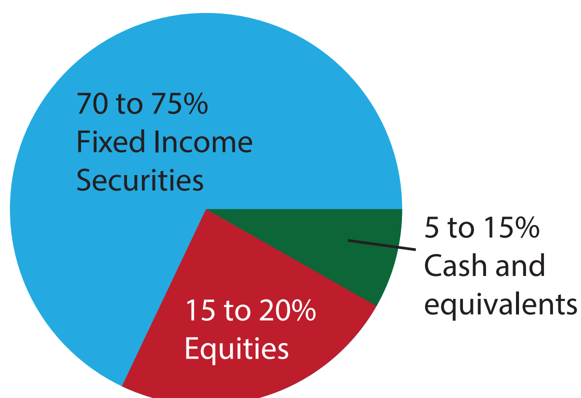
The aim is to buy different products which can give you a better chance to meet the goals you have for your investments.

Doing proper asset allocation can also enable you to achieve something known as “diversification” – which is how people combine the different investments and assets they own within a portfolio.

The aim is to help them make their money grow more than if they didn’t have this mix, and/or make it less likely their amount of money will shrink.

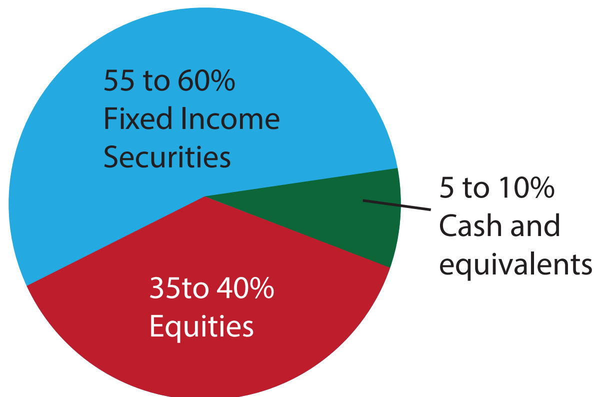
EXAMPLE

Conservative portfolios – these include a large percentage of allocation to lower-risk securities such as fixed-income and money market securities. The main goal is to protect the money you originally invest, with some small possibility to increase the value, often to help offset inflation.



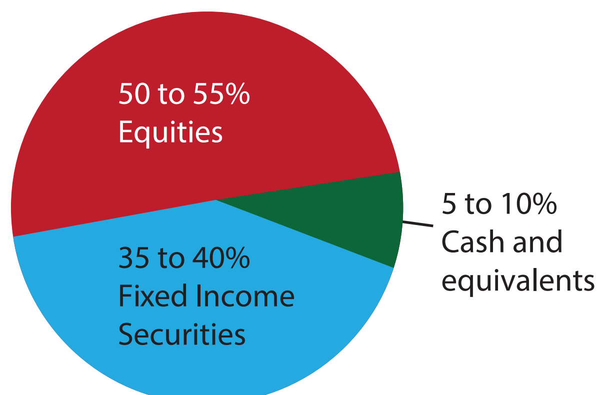
Moderately conservative portfolios – this would suit you if you want to preserve a relatively large portion of the total value of your assets in the portfolio, but are willing to take on a bit more risk to get some additional money back (return).

Moderately Conservative Portfolio

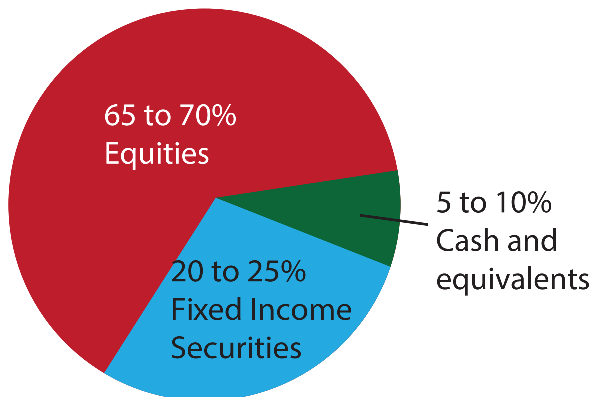


Moderately aggressive portfolios (or balanced portfolios) – the assets tend to be divided fairly equally between fixed-income securities and equities, to provide a balance of growth and income. There is a higher level of risk with this type of portfolios, so you might need to wait bit longer before you can expect to get a return – generally at least 5 years.

Moderately Aggressive Portfolio



Aggressive portfolios – these mainly consist of equities, so their value tends to go up and down more than other portfolios. The main goal with this type of portfolio is long-term, to grow the value of your assets.



Insurance

What is insurance?
Think of the last time you lost something, or broke something, or got sick. These things happen to every family, and they can be annoying or worrying. They can also cost a lot of money.

Imagine, for example, you broke your parent's most expensive plates, which cost hundreds of US dollars. First of all, you would be in a lot of trouble! But it would also be expensive for your mum and dad to replace them.

However, there are ways that people can protect themselves against some of the cost of such accidents, or bad luck. It is called insurance.

How insurance works
Insurance is an agreement by a company to pay you back if something bad happens.

The way it works is that you agree to pay an insurance company a certain amount of money each month to cover a certain type of risk. This is your insurance policy – which is essentially the agreement between you and the insurance company of the terms for you buying the insurance and them giving you the protection you want.

You then, for example, get a lot more money back if the risk you agreed to cover happens.

Why do insurance companies do this? They have worked out that if they get lots of people to take insurance, they will make more money from all the monthly fees they take than the money they have to pay out for claims. Meanwhile, the insurance can offer you or your family peace of mind.

There are a lot of different types of insurance available. Popular types of insurance coverage include insurance relating to objects, individuals and family.

OBJECTS
House insurance, in which the insurance company agrees to pay for broken or lost items in a house, and will also usually cover the costs of a burglary too.

Personal liability coverage, which is within your house insurance, also provides coverage for bodily injury and property damage sustained by others for which you or your family members are legally responsible.

Fire insurance. Insurance companies agree to cover the costs of any fire damage to your house, or your company.

Motor insurance. In order to own and drive a car or motorcycle, everybody needs insurance.

This is so that if you are involved in a crash, the insurance company will help pay for the damage.

Travel insurance. Many people have experienced the annoyance of missing a flight, or losing a suitcase. This insurance offers some money when this happens.

INDIVIDUALS

Health insurance. Insurance companies agree to cover most of the costs related to any sickness you suffer.

Disability insurance. This insurance is paid if you suffer some sort of injury that could affect your ability to work, either for a short time, a long time or forever.

Life insurance. Eventually, everybody has to pass away. With life insurance someone can insure themselves so that the insurance company will pass money onto their family if this happens.

FAMILY

Education insurance. With this insurance parents pay money to an insurance company to save for their children's education.

Pet insurance. This is like health insurance for a pet. Vets can be expensive, so getting pet insurance can help cover the cost of pets getting sick.

How insurance helps
Insurance can be a very helpful service. Many countries do not offer free healthcare, so taking out health insurance can help reduce the costs of visiting the doctor, buying medicine and any hospital stays.

Equally, families that rely a lot on one person to make money may well want to get life insurance, as it could make things very difficult if that person were to die.

And anybody that wants to drive has to have car insurance. So it's very important to get!

Important things to remember about insurance

- While insurance can be very useful, it cannot cover all risks.
- Insurance policies are limited. It is a good idea to remember that insurance policies are usually very detailed, and only cover certain things. Insurance companies are very careful over what they agree to insure and how long they will do so, so they don't have to pay too many people. So you have to be very careful when deciding what you want to cover!
- Compare different companies. There are lots of different insurance companies, and they assess risk in different ways. It's a good idea to get quotes from several for the sort of insurance you want and the limitations they put into place before you agree to any policy.
- You should also work out how long you want the insurance coverage to last for. Term insurance has a set time frame, which makes it cheaper, but also means you are not covered outside this period.
- Holiday insurance and life insurance are types of term insurance.

Insurance as an investment
It is also possible to use some types of insurance products as an investment.

With these products you pay money on a regular basis, which the company invests on your behalf, and then pays you back money based on these investments.

Choosing the right insurance

Jenny is a keen horse rider. During holidays she wants to visit stables and ride horses. But on one of her recent holidays, in Canada she had a small accident and fell off the horse and needed to go to hospital for a minor injury to her arm.

Jenny has a personal accident insurance coverage (which excludes horse riding) and she gave the claim immediately to the insurance company when she got back from holiday.

However, her claim was rejected. Her insurer explained to her that horse riding was excluded in Jenny's personal accident insurance policy.

Jenny also learnt that her travel insurance coverage also did not cover higher-risk sports.

She now realises the importance of assessing what coverage she needs and choosing the most suitable type of insurance policy.

Fees

What are fees?
When you ask experts to give you advice or help you with complicated services, they often charge you money for their time and help. This is called a fee.

Lots of people charge fees. Doctors usually charge you a consultation fee when you need their help. Lawyers also charge fees per hour for offering their advice on any legal issues you have.

Many people who give financial advice charge fees too. For example, investment advisers such as fund managers, stockbrokers or private bankers charge you fees if you want their help on investing your money.

It's important to know how the adviser charges you fees. Some people charge a flat rate fee by the hour. Others charge a fee as part of investing money for you. For example, a fund manager might charge 0.5% of the money you give them. The more money you give them, the more they earn from investing.

The cost of fees can change a lot too, depending on the person you hire, their level of experience, and the area that they focus upon.

TOP TIP!

It is fair that advisers (who are competent and experienced) charge a fee for their service.

But before you agree to use an expert, get them to tell you exactly how they charge fees, and if there are any other costs as well.

Some financial advisers claim to charge a certain fee, but include several other costs that they don't make obvious. Every dollar you spend on fees is a dollar less that you have to invest.

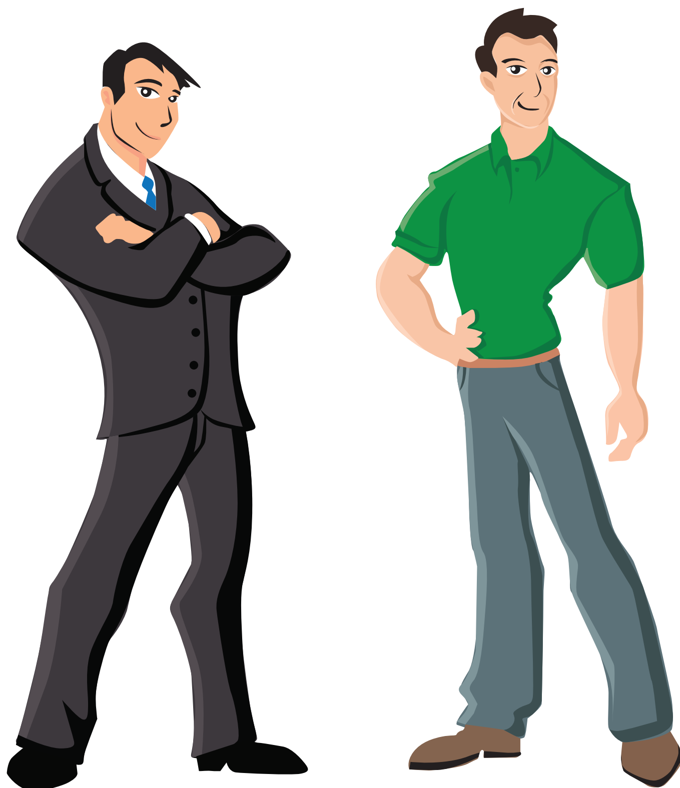
Unless you ask, you may find your final bill is much higher than you expected!

Try to get the adviser to write down all the fees and costs they will charge you, before you agree to their help. This will help in case you are charged more costs later.

Get fee and cost estimates from several of the advisers you have been recommended. You may find that some offer the same service for less money than others.

It is also important that you can confirm that the individual you are getting advice from is qualified to give that advice.

This means that not only do they have the required training or licence to be advising you, but also that they have the skills, knowledge and experience to do so.



Retirement
Everyone gets older, and eventually they decide they no longer want to work, and would like to relax and enjoy their lives. So they give up their jobs. Often they do so when they are 60 to 65 years old. This is known as retirement.

Many countries have a retirement age, usually at around 65 years old. After this age, some people can stop working and claim money each week from the government. This is called a public pension, and is offered to help these people cover their living costs.

However, in many countries only poor people receive a public pension. Most other people need to set up private pensions if they want to have money and enjoy themselves after they retire.

What is a private pension?
A private pension is a type of investment, which lasts a very long time. You start putting a certain amount of money into a pension fund each month, and this money is then put into various types of investment such as shares or bonds by a pension company.

This money then builds up over the years, and by the time you decide to retire there should be a lot of money available. You can then start taking some of it each month to cover your costs.

The amount of money you have should be much more than you put into the pension fund, because the investments should make money each year, and as the amount of money being invested rises, so does the total amount each year.

EXAMPLE

Mary starts saving USD10,000 a year for her pension when she is 30 years-old. The average amount that is returned on this amount is 5% a year, on average. She decides to retire at 60.

In total, Mary has USD740,827 in her pension when she retires.

Dad starts saving USD10,000 a year for his pension when he is 40 years old. He can also earn 5% a year, and wants to retire at 60.

In total, Dad has USD373,725.50 in his pension when he retires.

By saving for 10 extra years, Mary ends up with nearly twice as much money for her retirement as Dad. This is because of the benefits of compounding (which we discussed in Section 2 on Saving).

TOP TIP!

You should start putting money aside for a private pension as early as possible.

The earlier you do so, the more money you make, and the more you have left when you eventually retire.

You can start by saving a smaller amount and increase it as you get older and make more money.

Other retirement investments
Apart from a pension, you can make other plans to have money after you retire. A good example is to buy one or more houses when you are young, and pay off the mortgages.

Then, by the time you retire, you will usually have paid off the mortgage and own the house completely.

If you fully own a house when you retire, you can choose to live there without paying anything except your electricity, gas and water bills. If you have more than one house, you can choose to rent some of them out. Then you make money from the rent you get in each month, which can help cover your own bills.

Another option is one type of life insurance policy, which agrees to pay you a lump sum of money if you reach a certain age.

TOP TIP!

Think about how much money you would like to have each year when you retire. Then work out whether you goal is realistic, and how you can plan to reach it. If you start early enough, it may not be too difficult!

Give it away

Charity

You should understand charity as the voluntary act of giving help, often in the form of money, to those people in need and who cannot support themselves and / or lack outside means of support.

It can either be done by giving money to someone directly. More often, an organisation is set up to provide help and raise money for those in need.

The types of institutions which can help support and offer these services include a foundation, either publicly or privately run.

Charitable giving is often linked to religious duties.

What does charity aim to achieve?

Most forms of charity are focused on providing basic necessities such as food, water, clothing, healthcare and shelter.

Other charitable actions might include, for example, educating orphans, or visiting people who are in hospital and have nobody else to visit them.

They might also involve donations to fund cancer research.

Philanthropy

The conventional definition of philanthropy today refers to private initiatives, done for public good, that focus on improving the quality of life of people and societies which are unable to achieve this themselves.

This combines the social science element with human intervention.

How does philanthropy differ from charity?

While elements of philanthropy seem to overlap with charity, not all charity is philanthropy, or vice versa.

The main difference is that charity tends to be about shorter term, more focused efforts to relieve pain or suffering of whatever sort.

Philanthropy, by contrast, attempts to solve problems at their root. You can think of it as giving someone a house to live in (charity) compared with teaching them how to build it and maintain it (philanthropy).

Understanding trusts

Commonly connected to giving and wealth protection are 'Trusts'.

These are a type of special bank account or investment account, into which a person puts some of their assets, such as money, property or investments.

The trust is managed by people the first person has picked, who are called trustees. They agree to manage these assets on behalf of the original person, who officially is no longer the owner of the assets.

Eventually the trustees arrange to pass on some or all of the trust's assets to other people, often family members. The people who will benefit from the trust's assets are called beneficiaries.

Trusts help with inheritance tax because the original owner of the assets is no longer the legal owner of them when he puts them into a trust. So the government cannot include them when it is working out how much inheritance tax should be paid.

(However, this does not apply in every jurisdiction.)

EXAMPLE

Jack has made USD1 million, and owns his family's USD5 million house. He is getting old though, and wants to pass his money to his three children.

So he sets up a trust, appoints some people to manage it, and puts into the trust USD500,000, plus the ownership of the house.

Jack names his two children, Mum and Uncle Henry, as the beneficiaries of the trust, but says they can only start getting money from it five years after he dies, and can only take out USD20,000 a year maximum.

Because Jack does this, only USD500,000 of his assets will face inheritance tax after he dies.