

## MHJC Financial Literacy

Anshu Mani Manju Chetty



ONE TEAM.

# Saving, borrowing & Managing Accounts

- Why save
- How to save
- Dumb debt
- Account conduct
- Kiwisaver
- Loans
- Interest
- Buying a home



## Items we Buy







## Why save?



Or





Or



ONE TEAM.

#### How to save

- Open a separate savings account
- Have a goal remember it when tempted!
- Savings 'Account hold'; can't touch them online
- Only touch savings when needed or reach goals
- Don't 'over save' then have to dip into them (good habits)

#### Avoid dumb debt

- What is dumb debt?
- Why should we avoid buying on credit?
- How to avoid using credit cards to buy things?
- Be smart now & know the dangers of debt (has big impact on your financial position later)

## Dumb debt - an example

Borrow \$10,000 for a trip to Europe

Pay \$250 application fee & interest rate 15%)

Now pay back \$115 every week for 2 years

The \$10,000 trip actually costs you \$11,873.

What else could you have spent the \$1873 on?!

## Dumb debt - real life examples

### Good account conduct

- Healthy bank accounts keep your finances in order
- Strong habits keep you on track with savings goals
- Pay on time to avoid fees & to show you're responsible
- Put money into your savings and leave it there
- Don't use silly descriptions for account payments
- Good savings history, no dumb debt & good account conduct helps personal or home loan applications

## Kiwisaver Knowledge

Heard of Kiwisaver?

What do you already know?



## Where'd you want to live?





#### How Kiwisaver Works

- Start contributing at any age
- Automatic when you start a job
- Every \$1 you contribute, Government adds 50c (max \$521 a year & entitled to it when 18 yrs old)
- Employees can contribute 3%, 4% or 8% of salary.
- Employers must add 3% of your pre-tax pay. (entitled to it when 18 yrs old)
- Invested in conservative, balanced or growth funds.
- Used for deposit on first homes, hardship & retirement.
- Withdraw deposit on first home after 3yrs, except \$1000.
- Kiwisaver Homestart Grant \$5000 (existing home) or \$10,000 (new home)

### Sooner you start contributing ...

#### ... the better

Every little bit adds up.

And remember . . .



Or



#### Personal and Home LOANS

- Heard of borrowing money, loans, mortgages?
- What do you already know?



## How can borrowing help you?

- To help with life stages, events & changes
- Buy a car so you can get to your job
- Re-consolidate debt to repay it quicker
- Cope with unforeseen events
- Buying a house



## What's needed to get a loan?

- Income
   Enough for living expenses, savings & loan repayments
- Good savings history
   Shows good money habits & commitment
- Good account conduct
   Make payments on time and save regularly
- Good credit score

## Types of lending products

- Overdraft

   a limit on overspending on a current account
- Credit Card
   allows you to spend up to an approved amount
- Personal Loan for one-off items eg car, phone, holiday (<u>un</u>secured)
- Home Loan
   to help you purchase property (secured)

## Paying Interest?

- Who here knows what interest on a loan is?
- Why do we charge interest
- Banks charge interest to cover the cost of the money that they are lending.
- Unsecured Interest rates These rates are generally higher due to the fact that it is a higher risk to the bank with no security being held.
- Secured Interest rates rates are generally lower due to lower risk as banks hold security against the debt.

## Earning (receiving) Interest

- When you lend or deposit funds in a savings account.
- Banks use your savings to offer loans to other people.
   They pass some of their revenue to you as interest.
- Example: You deposit \$1,000 in a savings account that pays a five percent interest rate. With simple interest, you'd earn \$50 over one year. To calculate:

Multiply \$1,000 in savings by five percent interest.

 $$1,000 \times .05 = $50 \text{ in earnings}$ 

Account balance after one year = \$1,050.

 However, most banks calculate your interest earnings every day – not just after one year. This works out in your favor because you take advantage of compounding. Assuming your bank compounds interest

18

## Earning Interest - an example

Deposit \$1,000 in a savings account at 5% pa.

 $$1,000 \times 5\% = $1,000 \times 0.05 = $50$ With *simple interest*, you earn \$50 in 1 year.

Savings account balance at yr end = \$1,050

But, banks calculate *daily* (*compound*) *interest*. Savings account balance at yr end =\$1,051.16

## Basics of buying a house

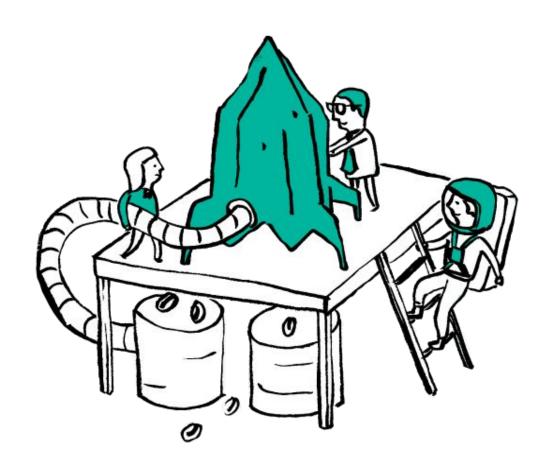
- 1. Work out your weekly budget & save
- 2. Work out how much deposit you have
- 3. Get pre-approval on a loan So you know your price limit & repayments
- 4. Look for houses. Real estate agents can help.
- 5. Find a house that ticks the boxes & make an offer
- 6. Get builder's reports, LIM, & other information
- 7. If the offer's accepted, prepare to move in  $\odot$

# Saving, borrowing & Managing Accounts

- Why save
- How to save
- Dumb debt
- Account conduct
- Kiwisaver
- Loans
- Interest
- Buying a home



## Questions?



ONE TEAM.