

Developing a savings plan



Learner guide

Personal finance skills

Pre-employment skills

Developing a savings plan

Version 1.1



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Why save money?

When you earn money you can use it to pay your bills and other expenses. If you're lucky, you might have some money left over. You have the choice of either spending the leftover money or saving it for later.

If you spend it, you will have no more money until you earn more. If you save it, you can put it aside to be used at a later time. You might choose to use it next week, or you might add it to your savings so that you can purchase something that is more expensive than your regular income allows.

Have you ever thought about what would happen if you needed money quickly but didn't have any? In Australia, one in five people could not or did not know if they could access \$2,000 within a week if there was an emergency (Centre for Social Impact, *Financial Resilience in Australia 2016*). People often need to borrow money in an emergency but are then left with the problem of having to pay it back.

An emergency is one reason why you should consider saving money. If you were to fall ill, have a serious accident or lose your job, where would you find the money to pay your bills? There are many other things that people save money for. These include:

- holidays
- cars
- houses
- home renovations
- televisions
- concert tickets
- new clothes.



People's attitudes towards saving are changing. It used to be very difficult to borrow money, so people would save for a long time for a deposit to buy a house or car. Now many people want to purchase items immediately rather than wait until they have saved enough money, and it is much easier to borrow money by using a credit card or by getting a loan. However, the 'buy now and pay later' approach means that many people end up owing more money than they earn and find it difficult to pay back the money they have borrowed.

Story

Tamir wants to buy a car that costs \$2,000. He decides to wait and save enough money to buy the car. After three months, Tamir has saved \$500 and is on track to buy his car within 12 months. But then Tamir's dog breaks his leg and Tamir needs to use all his savings to pay for vet bills. Tamir is disappointed about his savings setback, but grateful he has money available to pay for his dog's treatment.

Activity 1

Read the story again and then answer these questions.

1. Why did Tamir need to use his car savings to pay for the vet bills?

2. How might Tamir have paid for the vet bills if he didn't have any savings?

[Click to complete Activity 1](#)

Putting money in a savings account or investment

As a child, you may have had a money box for saving your money. You can save any amount of money this way, but it might be unsafe and you will miss out on receiving additional money in the form of interest.

Interest is money paid to you by a financial institution, such as a bank, when you save your money with them. The bank uses the savings of all its members to lend money to other members, who pay the interest on that loan back to the bank. You receive a share of this interest. The amount varies depending on the type of savings account you have and how much money you have in the account.

There are two types of interest when it comes to savings:

- simple interest
- compound interest.



Simple interest is paid at the end of a specified amount of time. An example of this is a term deposit, where you deposit an amount of money, but cannot access that money for a specified time. At the end of that time, you are paid interest.

Compound interest is paid on both your initial deposit and on the interest that you have earned during that time. An example of this is an online savings account paying monthly interest.

This table shows you how the same deposit of \$1,000 pays different amounts of interest over a two-year period:

		Year 1	Year 2	Total
Simple 5% interest per year, paid at end of term	Deposit	\$1,000	\$0	\$1,100.00
	Interest	\$0	\$100.00	
Compound 5% interest per year, paid monthly	Deposit	\$1,000	\$0	\$1,105.00
	Interest	\$51.20	\$53.80	



Saving money in a bank is very safe if it's an authorised deposit-taking institution (ADI). The government guarantees savings in an ADI up to a maximum of \$250,000. You just need to be aware of any account fees or penalties that may cost you money.

When it comes to investing money, activities that promise higher returns are generally also higher in risk. If you invest your money, there is always a chance that you may not make a profit. You might even end up with less money than you started with or nothing at all! Investing wisely involves taking a calculated risk that is right for your circumstances. If you're saving a few thousand for a holiday, then you may be better with a savings account. However, if you're saving for a house or retirement, long-term investments may provide a good profit if you spread your risks across a range of investment types.

There are a number of types of investment, including:

- term deposits
- shares
- property
- superannuation
- crowd-sourced funding.

You need to do research and speak to a financial advisor if you're considering investing money. Good places to start your research are ASIC's MoneySmart website (<http://aspirelr.link/money-smart>) and Australian Investors Association (www.investors.asn.au).

The decision to invest your money or save it in a bank will depend on your savings goals and your personal situation. Before you choose, you will need to develop your own savings plan.

Story

Tamir begins saving again for his car. He cuts back on his expenses so he can save \$200 per month. He puts his money into a special bank account each time he is paid. One night he sees on the news that his bank is in trouble and investors might lose money. He begins to panic until the news report says that anyone with savings under \$250,000 had them guaranteed by the government. Tamir is very relieved, but decides it might be time to change banks.

Activity 2

Read the story again and then answer these questions.

1. If Tamir's car cost \$2,000, how long would it take him to save enough money?

2. Why are Tamir's savings safe even if the bank disappears?

[Click to complete Activity 2](#)

Develop your own savings plan

There is a number of steps that you need to take in developing your own savings plan. Start by asking yourself the following questions:

- What do I want to save for?
- When do I want to reach my savings target?
- If I want to save for more than one thing, which is most important?
- Do I know how much I can save in a week or a month?
- Is there anything I could do to save more money?
- Where am I going to save my money?

To answer the first two questions, fill in the following table with all the things you want to save for. The first line is an example answer.

I'm saving for a...	It costs...	I want it by...	How important is it?
<i>Surfboard</i>	<i>\$500</i>	<i>26 Dec</i>	<i>Very</i>

If you have more than one thing on your list, take a look at the last two columns. Do they help you decide what you should save for first? If it's not clear what you should save for, you could save for the cheapest thing first. Another option is to put a little bit of money towards each of your goals each time you save money. Whatever methods you use, it is important to prioritise your savings and work out a plan to meet your savings goals.

The next thing you need to do is work out how much money you can save each week or month. To do this, you will need to prepare a personal budget. A budget is a way of working out if you have enough money to spend on the things you need and how much you have left over to save. If you don't know how to do a budget, take a look at the *Preparing a personal budget* guide in this series or visit <http://aspirelr.link/budgeting> to use their online budget tool or download their budget spreadsheet. It makes preparing your budget easy; the hard part is sticking to it!

Once you know how much you can save each week or month, look at your savings goals again and work out how long it will take you to reach your savings target. If you need help, try using this online savings calculator: <http://aspirelr.link/savings-goals-calculator>

If it's going to take you longer than you'd like, think about what expenses you can cut back on. For example, perhaps you could skip going to the cinema and watch a movie at home instead.



Now that you know how much you can save and how long you need to save for, you need to decide where you're going to save your money. Don't be tempted to hide it under the mattress; it's not safe and it's too easy to access if you're thinking about breaking your budget.

Where you put your money will depend on how much you're saving, whether you have a short-term or long-term savings goal and if you need quick access to that money in case of an emergency.

If your savings goal is five or more years away, you might want to consider investing your money. Investing is riskier, so financial advice is always recommended. Do some research first and then find a licensed financial adviser to guide you. You need to be sure that you understand the risks of investing your hard-earned money.

For short-term goals, an online savings account is likely to be your best option. You will need to research the best online savings account to suit your needs. When you're researching, consider the following criteria:

- What interest rate does it pay?
- How often is interest paid? (e.g. Monthly or annually?)
- Are there any fees?
- Are withdrawals allowed? Will you lose interest if you withdraw money?
- Are you required to deposit regularly? Are there penalties if you don't?
- Does it have a minimum or maximum account balance requirement?
- Do you need to have a linked account that your income is paid into?
- Can you check your balance when you want to?
- Are there incentives if you get a friend or family member to join up?



You can use comparison websites to help you in your research, but remember that these websites don't provide information about every financial institution. Financial institutions are required to clearly outline the interest, fees and conditions of an account, so you should be able to find out the information you need from their websites. You don't need to choose a well-known bank or the one you currently bank with, but you do need to check that the account is offered by an authorised deposit-taking institution (ADI). You can find a list of ADIs here:
<http://aspirelr.link/adi-list>

If you can't find the information you're looking for online, try calling and getting answers to your questions over the phone. Don't be talked into signing up to an account over the phone; this is just a way of doing research. When you feel you have enough information to make a decision, choose the option that is best for you.

Story

Tamir has saved \$1,000 and is looking for a new savings account. He receives an email from his friend saying that she has signed up for a savings account and if Tamir signs up for the same account, they would both get \$100. Tamir is excited because the extra money would make it easier to reach his savings goal. He clicks on the link in the email and immediately signs up for the savings account.

Activity 3

Read the story again and then answer these questions.

1. What should Tamir have done before signing up for a new savings account?

2. Tamir discovers that the interest rate on the new account is 1.5% per annum, while his previous savings account paid 2.5% per annum. Tamir wants to reach his savings goal of \$2,000 in the next six months. Given that the new account offers him an extra \$100, is Tamir better off with the new or with the previous savings account? Explain your answer.

[Click to complete Activity 3](#)

Getting your savings started

Once you've done your research and chosen a savings account that best suits your needs, you'll need to open the account. To open a savings account, you will need to:

- be at least 18 years old if you wish to apply online
- supply a tax file number as you will pay tax on the interest you earn (unless you are under 16 or earn less than \$120 from your savings),
- provide information from a form of identification such as your driver's licence, passport or Medicare card.

If you are opening your account online, always make sure a padlock symbol appears in the address bar of your web browser: this means the site is secure. If you have any concerns about security, it might be a good idea to go into a bank branch to open your account.

Some accounts might require you to make an initial deposit when opening them, while others might let you wait until you're ready. To ensure you stick to your savings goal, it might be a good idea to set up an automatic payment to your savings account on the day you get paid. That way the money is safely put aside towards your savings goal.

It's a good idea to monitor your savings to ensure you stay on track. It's also a good feeling to watch your savings grow. If you're paid monthly interest, you will see that accumulate in your account. It might only be a few cents each time, but every bit will help towards your savings goal.



Don't give up if you can't continue to save the same amount every month or if you have to dip into your savings. Try the following things:

- Find even the smallest amount to put into your savings to help it to grow.
- Look at your expenses again – is there anything you can live without or spend less on?
- If you can't save any money for a while, set yourself a target date when you can start saving again.
- Consider what you are saving for – is it unrealistic? Is there something more achievable you can save for?
- Keep your savings goal firmly in sight – if it's a car or a holiday, keep reminders around to stop you buying that extra coffee or new pair of shoes.
- Check that the rules on your savings account aren't costing you money. If you stop making regular payments or need to withdraw money, make sure that the account is still the right one for you. If it isn't, you can close it and open a new one. Transfer any money from your old account to your new account.

Developing a savings plan and learning good saving habits are important to keep in control of your money.



Story

Tamir has \$1,300 saved towards his car when his boss tells him that his hours are being cut back. This means Tamir will earn less money. Unless he makes further cuts to his expenses, Tamir is only going to be able to save \$50 a month.

Activity 4

Read the story again and then answer these questions.

1. How long from now will it take Tamir to save up \$2,000 for his car?

2. Tamir is considering giving up on saving for a car. What advice would you offer him and why?

[Click to complete Activity 4](#)

What you have learnt

Put a ✓ in the box when you have understood these things.

- Money that is left over can be saved.
- Money can be saved for any purpose you choose.
- It is good to have money saved for emergencies.
- It helps to have a clear savings goal so you know how much you need to save and when you need to reach your goal.
- Money can be saved in savings accounts with financial institutions or through investing.
- There are two types of interest paid on savings accounts:
 - Simple interest
 - Compound interest
- Savings accounts might be better suited to short-term savings goals.
- You should consider investing if you have long-term savings goals.
- You should research savings accounts to find the one that is right for you.

Check your learning

Read the following statements and decide if they are true or false.

1. The Australian government guarantees savings in ADIs up to \$250,000.
2. You will always get a much better return if you invest money.
3. Everyone has savings for emergencies.
4. All banks pay the same interest rate on savings.
5. Simple interest is better than compound interest.
6. You need to provide identification to open a bank account.
7. It's a good idea to seek financial advice before investing your money.
8. Interest earned must be declared for taxation purposes.
9. If you can only save a dollar or two, it's probably not worth saving.
10. A savings plan helps you work out how much you need to save to reach your goal.

[Click to complete](#)

Answers

Answers to activities

Activity 1

Answer to Question 1

Tamir only had savings of \$500. He had planned to spend them on a car, but due to an emergency he had to use these savings for another purpose.

Answer to Question 2

Tamir might have borrowed money from his parents or family to pay the vet bills. Other options would be to use a credit card or ask the vet if he could pay the bill off over a period of time.

Activity 2

Answer to Question 1

If Tamir could save \$200 a month, it would take him 10 months to save \$2,000 for the car.

Answer to Question 2

Tamir's savings are safe because the Australian government guarantees savings for his bank up to the value of \$250,000.

Activity 3

Answer to Question 1

Answers will vary, but should include finding out if there were any terms or conditions he had to meet to receive the \$100, finding out the interest rate and type of interest paid, checking to see if the bank was an ADI, and ensuring there are no fees which might eat away at his \$100 bonus.

Answer to Question 2

Yes, Tamir is still better off as he is saving a small amount of money and the difference in interest will only be small. Tamir gets a much better return from the \$100 offered by the bank for opening the savings account.

Activity 4

Answer to Question 1

Tamir needs to save a further \$700. If he can only save \$50 a month, it will take him 14 months.

Answer to Question 2

Answers will vary. They could include:

- Save for a cheaper car.
- Consider if he can save more money. If he's working less hours, will his travel costs be less?
- Consider whether he can find another job so he can get his car faster.
- Encourage Tamir to stick to his savings. He has done really well so far and he will reach his goal eventually.

Answers to check your learning

1. True. The Australian government guarantees savings in ADIs up to \$250,000.
2. False. Investing money does not guarantee a return.
3. False. Not everyone has money saved for an emergency. Some people need to borrow money in this situation.
4. False. Banks pay different interest rates depending on a number of factors, including how much money you have saved.
5. False. The best interest rate depends on a number of factors, including how much money you have and how long you are saving for.
6. True. You need to provide identification, such as a driver's licence, to open a bank account.
7. True. You should seek financial advice before you invest your money.
8. True. You need to declare any interest for taxation purposes.
9. False. It's worth saving even very small amounts of money, as this will build up over time.
10. True. A savings plan can help you reach your savings goal.