Sort it out!

Sorting your financial future

Key money terms

Topic 1: Creating a budget

A **budget** is a tool to help you manage your income and expenses and save money. It shows how much money a person has coming in (income) and going out (expenses) over a period of time. It is also referred to as a spending plan or a money plan.

An **emergency fund** is a sum of money you put aside for an emergency. It's to cover costs if something goes wrong like losing your job, sickness or unexpected expenses like a dental or car bill. The suggested amount for an emergency fund is three months' worth of your expenses.

Money goals are the targets that you make when you need or want something that costs money. They can be saving for a car, a home deposit, an overseas trip or a special event like a concert ticket.

Interest is the money we pay to use other people's money. If we are using the bank's money (by taking a loan), we pay them interest. If a bank is using our money (such as in a savings account) they pay us interest.

Interest rates are the amount of money we pay on a loan or are paid for an investment, usually expressed as a percentage. Seemingly small changes in these rates can make huge differences over time. Have a formal discussion with someone to reach an agreement about something.

To **negotiate** is to have a formal discussion with someone to reach an agreement about something.

Needs are goods or services that you need to function and live. These include your needs for food, clothing, shelter and health care. **Wants** are goods or services that are not necessary but that you want, like a gaming console or holiday.

Topic 2: Funding study

Credit is the money you can get to buy goods or services, then pay for them later. For example, a credit card allows you to buy something right now, and then pay for it later.

Compulsory Fees cover all your tuition fees. Fees are paid directly to the institution by StudyLink.

Course related costs cover things like stationery, textbooks, childcare, travel or computer equipment. This is paid directly to your bank account.

Debt is when you borrow money from a whānau member, a bank, or a loan company. For example, if you borrow $100, you have a debt of $100. Debt is spending someone else's money to pay for goods and services. You have to pay interest and fees on this debt until you pay it off. It always costs you more in the long term.

You can borrow up to a set amount each week for **living costs**, which is then direct credited into your bank account. If you receive a student allowance this will reduce the amount you can borrow.

A **student loan** is if you decide to study when you leave school, you can borrow money from the government to cover your course costs such as tuition, books and supplies, and living expenses. Once you start working, you have to start paying it back. Student loan repayments are taken straight out of your pay. If you go overseas for more than six months you will have to pay interest on your student loan.

Topic 3: It's work time

The **Accident Compensation Corporation** is the New Zealand Crown entity responsible for the accidental injury compensation scheme, commonly known as the ACC scheme.

The **Accident Compensation Corporation (ACC) levy** is used to pay for the prevention, care, and recovery costs related to people having accidents.

The Early Resolution Service within the Ministry of Business, Innovation and Employment (MBIE) is a free phone-based service for employees and employers that helps to resolve workplace issues early, quickly, and informally, before they become too serious or require a more formal process.

Employment agreements detail the terms and conditions of employment. Every employee must have a written employment agreement.

Freelance work is a temporary contract for an assigned task to be completed by an independent contractor over an agreed period of time.

Your **gross pay** is the total amount you earn for the work you've done.

Individual employment agreements are negotiated by an employer and an employee; the terms and conditions of employment are fully discussed and laid out in the employment agreement before the employee starts work.

The **Inland Revenue** (IR) collects taxes for the New Zealand government as well as advising the Government on policy around revenue. It is commonly shortened to just Inland Revenue or IR.

An **investmen**t is something you put money into, expecting it will grow in value over time and earn you money. Some examples include buying property, buying shares in a business or gold.

Your **net pay** is your gross pay less your taxes and other payments, like KiwiSaver. Your net pay is the amount that goes into your bank account each payday.

Employers must pay for minimum **rest breaks** but don't have to pay for **meal breaks**. Rest breaks must be a minimum of 10 minutes, and meal breaks at least 30 minutes.

Self employed people carry out business activities on their own. Self employment includes contracting, working as a sole trader and a small business owner.

A **sole trade**r is someone who is self-employed. That person has sole responsibility for and control of their business.

A workplace policy sets clear and consistent expectations for employees across an organisation for employees. They help to prevent misunderstandings, because employees have clear information about what is expected of them.

The **30-day rule** is for new employees. For the first 30 days, new employees must be employed under terms consistent with the collective agreement where there is a collective agreement in place. An employee and employer may agree on additional terms that are more favourable than the terms specified in the collective agreement.

Topic 4: Buying a car

A **borrower** is someone who borrows something from someone, with the intention to give it back. For example, you are a borrower if you borrow money from a whānau member, a bank, or a loan company.

You are a **consumer** when you buy goods or services, because you will ‘consume’ or use them.

Credit is the money you can get to buy goods or services, then pay for them later. For example, a credit card allows you to buy something right now, and then pay for it later.

When you use a **credit card**, you are spending money that you don’t have. The bank lets you borrow money up to an agreed amount to pay for things, but you have to pay the money back within a set amount of time. If you don’t pay it back before the deadline, the bank will charge you interest.

A **credit contract** is an agreement to pay a loan back.

A **cooling off period** is a set amount of time in which you are able to change your mind about a signed agreement.

A **credit rating** is an assessment or judgement of how likely you are to pay the money back if you borrow it.

Debt is when you borrow money from a whānau member, a bank, or a loan company. For example, if you borrow $100, you have a debt of $100. Debt is spending someone else’s money to pay for goods and services. You have to pay interest and fees on this debt until you pay it off. It always costs you more in the long term.

A **disclosure** statement outlines the terms of the contract and the rights and responsibilities of the lender.

First-tier lenders are banks with rates and fees advertised on their websites.

Hire purchase is a way to buy goods so you get them straight away and pay for them later. With HP you usually pay a deposit followed by monthly payments (including the interest and fees charged) over a set amount of time.

A **guarantee** is agreeing to be responsible for paying another person's debt if the person who is primarily responsible for it defaults (fails to repay the debt).

A **guarantor** is a person or organisation that makes this guarantee.

A **lender** is the person or organisation who lends you money.

A **loan** is money we borrow to use over a set period of time. To do this, we typically pay a setup fee and a certain rate of interest as we pay back the borrowed amount over time.

Interest is the money we pay to use other people's money. If we are using the bank's money (by taking a loan), we pay them interest. If the bank is using our money (such as in a savings account) they pay us interest.

Second-tier lenders are brokers like insurance or mortgage brokers, or money unions who will often match or have lower rates than banks. Some people have brokers who look after their finances and the broker seeks out the best rates and fees.

Third-tier lenders are mobile truck traders, pawn shops, car yards and instant cash operators. These lenders often operate in areas where families are struggling financially. Their rates vary and often higher interest rates are charged if a payment is missed or late. People might use third-tier lenders if they have a poor credit rating or have no history of savings with a bank. Money can be given quickly. Lenders have different rates so you need to ask about these

A **variation** is a change to a contract which is agreed on by both parties (the lender and the borrower).

Financing your first vehicle

Sometimes you don't have enough cash to buy a vehicle so you might consider getting a loan. Before you sign, there are some important things you need to find out:

- **Interest rate**: what is the interest rate and how much will it add to the price of the vehicle? The easier it is to get a loan, the higher the interest and repayments are likely to be.
- **Loan term:** how long will it take to repay the loan? This information will be included in the paperwork. A longer loan term may require lower monthly repayments, but it will be more expensive than you may realise – a longer loan term usually means you pay a lot more in interest.

- **Total cost:** what is the total cost of the car, including interest charged and fees? Make sure you know this before you sign the loan agreement.
- **Repayment Schedule:** what will the monthly repayments be? Can you afford to make the repayments?
- **Resale value:** how much will the car be worth when you have repaid the loan? Some cars look great but have a low resale value because they might be older, have a lot of kms on the clock, or use a lot of petrol, and cars always lose value over time
- **Insurance cost:** where will you get insurance and how much will it cost? Mistakes happen on the road that can have serious financial consequences – it's crucial to have insurance.
- **Petrol cost:** estimate how many kilometres you'll drive weekly and how much petrol will cost. Can you afford it? If you drive your friends around, they should help with cost of the petrol.