

Mental Health and Financial Capability

GUIDEBOOK



GEMMA
know, plan, act.

Introduction

Financial literacy and financial capability play an important role in building the capacity of a person to manage finances wisely. Sometimes there may be challenges and barriers to action, such as in the presence of mental health problems.

Persons facing cognitive problems can find it hard to assimilate the basic financial skills. Mental health issues can reduce the ability to understand financial matters, hinder correct budgeting, lead to poor judgement,

or trigger impulsive behaviour. These problems can place a person at a greater risk of falling into poverty and, in the more serious cases, impede independent living.

The stress of too much debt, or struggling to make ends meet, can leave a person feeling nervous or even depressed. Periods of poor mental health can lead to a loss of financial skills or bring about inadequate financial attitudes or both.



Such circumstances can add further difficulties, such as: being more prone to impulsive behaviour, finding it difficult to react appropriately to changing and challenging financial circumstances,

being unable to cope with financial decisions unless these are broken down into manageable chunks, and finding it hard to manage own finances in a forward-looking manner.

The building of financial capability and mental health care can work together to achieve financial inclusion and a better quality of life. Increasing financial capability – defined as a person’s ability to manage finances effectively in order to sustain quality living within one’s means – can produce other tangible benefits for the individual, such as:

- alleviating stress, anxiety, and depression;
- promoting individual wellbeing;
- increasing life satisfaction;
- decreasing health problems related to anxiety and depression;
- increasing living standards;
- promoting savings behaviour;
- planning ahead;
- making ends meet;
- staying informed;
- experiencing fewer mood swings; and
- being better focused.

It is important that persons feel confident in handling current and future expenditure and income flows, as well as having a mindset

geared towards correct financial behaviour. Equally useful is the ability to prioritise and set realistic goals.



Another channel through which mental health problems can undermine financial capability is by impacting motivation and strength of intention. A lack of attitude, knowledge, skills and self-efficacy may result in a person being unable to access appropriate financial products to assist good quality living.

The guidebook - the first step towards financial wellness

GEMMA wanted to create a programme that, once completed,

could help a person achieve a solid foundation required to manage current income and expenses and plan for future possibilities. This guidebook dissects the concept of financial capability into its basic constituents. A step-by-step process is adopted, while taking stock of the special challenges being faced by persons who suffer mental health problems. It presents the subject in an intuitive and structured manner. The guidebook provides simple examples to facilitate learning, while showing the applicability of each topic in daily living.

Being able to manage personal finances is an important skill which is often taken for granted and, if not mastered, can lead to ongoing financial stress. This skill may be learned from home – by observing adults’ behaviour; from school – through dedicated lessons; from friends – through peer pressure; or through life experiences – by reflecting on own mistakes.

Acquiring financial capabilities in this manner, however, may not be possible for everybody. Households that lack financial capability may be unable to pass on the necessary wisdom. Cognitive limitations may hinder the absorption of knowledge through schooling or self-reflection. Peer pressure may not necessarily portray the correct financial skills.

The content of this guidebook can thus enable the professionals to explore the subject of financial

capability with the persons concerned in a piecemeal and tailored manner. The guidebook presents a holistic approach to financial capability. Its purpose is to act as a tool for professionals who engage with persons who need to develop, enhance or improve their money management skills. It explores the subject in a very broad manner, and builds on twenty-three different components of financial capability. The various aspects discussed in this guidebook can help a person learn how to manage personal finances adequately.



THE GUIDEBOOK
PRESENTS A HOLISTIC
APPROACH TO
FINANCIAL CAPABILITY.

The twenty-three components can be grouped as follows: expenditure capabilities 1 – 4; valuation capabilities 5 – 8; income capability 9; forward-looking capabilities 10 – 14; technical capabilities 15 – 19; and attitude-related capabilities 20 – 23.

Each capability is explained and supplemented with a task to facilitate the understanding of the subject. The guidebook starts with the basic ideas and gradually progresses to higher-level concepts. Professionals making use of this guidebook are advised to tailor the course to meet the specific requirements and background of those following this financial capability programme.

The guidebook was compiled on the basis of research on how the

subject of financial capability was explored in the literature. It borrows insights from economics, finance, psychology and pedagogy to present a multidisciplinary learning tool. It also benefited from the insight gained during four training sessions which were delivered to mental health patients as part of a pilot project which was launched between GEMMA, HSBC Malta Foundation and the Occupational Therapy Services within Mental Health Services, Ministry for Health in 2020.





BEING ABLE TO MANAGE
PERSONAL FINANCES
IS AN IMPORTANT SKILL
WHICH IS OFTEN TAKEN
FOR GRANTED

LEARNING OUTCOME - 01

Able to distinguish between different types of spending

Consumer spending is about purchases of products which can be classified as durable products, consumables or services.

Durable products are those items which can be used over time, rather than consumed at one go. These products provide benefits over a period. In general such products are expected to have a lifespan of two or more years. They do not normally wear out quickly.

On the other hand, consumables are products which are used once, or have an expected lifespan of less than two years. In this sense, consumables are short-lived products.



Services are intangible products, that is, they do not have a physical nature. Normally services cannot be stored. A service is some kind of assistance given in return for payment. Some services may have a long-lasting benefit (such as maintenance to an apartment), but other services are designed to meet a person's needs for the short term (such as when dying your hair).



Distinguish between different types of products.

Examples of durable products:

Air conditioner, furniture, fridge, washing machine, computer, car, gold jewellery, house, dog, and curtains.

Examples of consumables or services:

Visiting a spa, cigarettes, going on holiday, fuel, attending a concert, playing bowling, going to the hairdresser, buying fashion clothes, going to the restaurant, and a soft-drink.

LEARNING OUTCOME - 02

Able to estimate the relative cost of products

Different products are sold at different prices. There are some products which normally have a high price and others which normally have a low price. However, what may be considered as expensive for a particular person may be viewed as cheap by another person. This variation is normally due to the fact that a person's financial resources could be different from those of another person. A common problem is that people may be unaware of the price of certain types of products, particularly if these are rarely bought.

A high-priced product is one which costs a lot. Its purchase uses up a significant portion of available money. This type of product is not normally purchased with the money which is kept in the wallet or purse. Nor is it something which is bought very often. Such product may sometimes be paid for by the customer under a buyer's instalment plan (for example, getting the product by paying, say, thirty euro per month for a number of months or years). In this scenario, the seller remains the legal owner until the final instalment is paid by the customer.



On the other hand, a low-priced product is one which can normally be purchased with the money kept in the wallet or purse. This is a product which a person can afford to buy without making any plans. One can also afford to buy such product often. If lost or broken, it can be easily replaced by a new one.



Distinguish between the higher and lower-priced type of products.

Examples of high-priced products:

Car insurance, monthly rent, cruise holiday, electricity bill, fridge, smartphone, weekend break, cosmetic surgery, tablet, and private specialist consultation.

Examples of low-priced products:

Sweets, stationery, paperback reading book, newspaper, VRT service, basic picture frame, washing liquid, coffee, bus ride, and potatoes.

LEARNING OUTCOME - 03

Able to detect if a product requires a future expenditure commitment

Products can be distinguished between those which are stand-alone, that is, their purchase is basically separate from anything else, and those whose purchase would require the acquisition of other products, or periodic maintenance.

Stand-alone products can be defined as products that are consumed at one go or that do not need a replacement. Such products are not related to the consumption of other products and do not involve other future expenditure commitments.



On the other hand, certain products may require future or additional spending. This happens when a product requires another product to function. Future commitments are also created when a product requires

frequent servicing or maintenance. The same applies when products, or parts of a product, need to be replaced often. In this case, the initial purchase is likely to be followed by repeated purchases.



Distinguish between items which normally require further spending versus stand-alone products.

Examples of products requiring further spending:

Car, mobile, apartment, pet, plane ticket, day by the pool, private school, dying hair, separation litigation, and computer playing console.

Examples of products which do not necessarily require additional spending:

Quilt, shoes, sofa, biro, drinking water, table, jeans, book, clock, and meat.

LEARNING OUTCOME - 04

Able to control impulsive buying behaviour

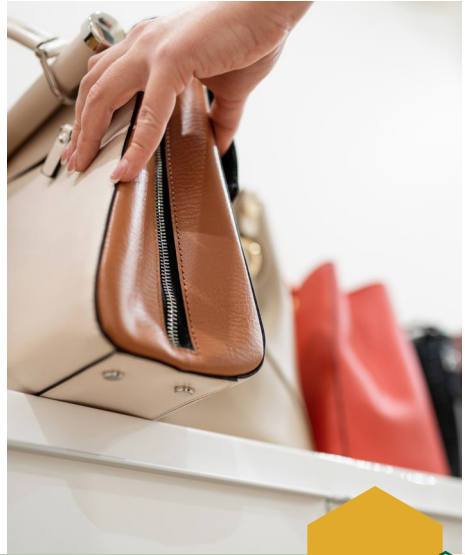
Impulsive buying is the tendency of a customer to buy goods and services on the spur of the moment, without much thought. The action involves a hasty decision to satisfy a want, or desire, or thought. Such purchases often represent unplanned spending. This behaviour can be driven by an intense urge to buy for gratification purposes. There can be an urge to spend money on something, irrespective of what product it is, or whether it is really needed.

Another example of impulse purchasing behaviour is a strong attraction to special offers, or sale items, simply for the satisfaction of purchasing something at a decreased price.



There can be an immediate attraction towards an object or service that looks fascinating. It can also be an immediate decision to buy something which is novel. People may buy something simply because they observe someone else buying it.

An impulse purchase may make a person immediately happy, but this feeling is often followed by a rapid loss of interest in the product and a sense of regret.



Distinguish between an unplanned or spontaneous purchase which you would go for versus purchases you would think twice about:

Smartphone, car, designer clothes, shoes, chocolate, soft drink, tablet, chicken nuggets, magazine, watch, cocktail, birthday present, mobile plan, lotto, and earphones.

LEARNING OUTCOME - 05

Able to predict the expected lifetime of a product

The possible duration of a product varies. Some products are expected to last for a long period of time, while the lifespan of others may be brief. However, many are those who have difficulties at judging the durability of certain products.

Long-lasting products (also known as durable goods) are those which can be used for more than two years. Such product remains useful for many years. It is normally of good

quality, so it can last a number of years. It can also be used for many different purposes. The product does not depend on whether it is fashionable in a particular year.

On the other hand, there are other products which are expected to last only a short period. Sometimes, you go for inexpensive items simply because they cost less. However, you may end up replacing two or three times over a decade, if not beforehand.



Other products that are expected to last only a short period of time include: products designed to break easily, those that go quickly out of fashion, and those having limited usage. A short lifespan product may be very popular in a year but goes out of fashion by the following year. There are also some services that last for a definite period of time.



Divide between long-lasting products and those having a short lifespan.

Examples of long-lasting products:

Smart TV, bathroom, bedroom, LED light, car, curtains, window, dinner set, swivel chair, and house.

Examples of products with a short lifespan:

Soft drink, cheap toy, holiday, restaurant meal, false nails, dying hair, blow dry, fashion clothes, newspaper, and car insurance.

LEARNING OUTCOME - 06

Able to distinguish between substitutes and complements

Two products can be related to each other in different ways. They can be either substitutes, or complements, or not related at all.

Substitutes are products which serve the same purpose, ultimately resulting in the client choosing one and forgoing another. Some substitutes may be perfect, because the two products are virtually identical. Other products can be weaker substitutes, because the products are similar but not identical. The choice between

substitutes can be based on criteria such as: price, quality, appeal or convenience.



On the other hand, complements are goods or services whose demands are interrelated. In the case of complements, the usage of one of the products requires the other. Indeed, one cannot use one product without having the other product. Hence, a person needs to remember that a decision to buy one correlates the decision to buy the other, rather than look at one product in isolation.



Is it a substitute or a complementary product?

Examples of substitutes:

Smartphone model 'A' or smartphone model 'B'; travel to Spain or travel to Italy; drinking orange juice or drinking water; car model 'X' or car model 'Y'; day by the pool or day at the beach.

Examples of complements:

Smart phone, top-up card; air conditioner, electricity; car, fuel; dying hair, regular visit to hairdresser; apartment, maintenance.

LEARNING OUTCOME - 07

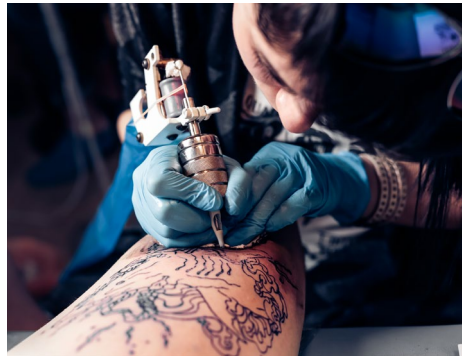
Able to judge the relative importance of products

Some products are important and essential, while others are less important and you can likely live without.

The important products are those which are necessary for survival, like food, clothing and shelter. These can be products which are needed for many purposes. Equally important are those products which support hygiene or provide basic comfort.

Needs are numerous and may differ from one person to the other. Maslow's hierarchy of needs describes human needs as ranging

from basic physiological ones (food and shelter) to safety needs, love and belonging, esteem and self-actualization. Maslow's hierarchy of needs illustrates where needs fall in terms of priority.



On the other hand, less important products are desired products which we can do without. Some services may also not be so crucial to spend money on. They can be considered as a luxury whose affordability depends on the available financial resources. Also keep in mind that some products may be easily replaced by other much cheaper products, making the higher-priced product optional.



Categorise the important and not so important products.

Examples of important products:

Baby nappies, hair shampoo, vegetables, electricity, visit to doctor, internet connection, basic laptop, accommodation, house maintenance, and pasta.

Examples of less important products:

Sweets, bingo, expensive car, boat, false nails, very large smart TV, diamond earring, tattoo, expensive cocktail, and cruise holiday.

LEARNING OUTCOME - 08

Able to understand trade-offs when choosing one thing and foregoing another

Trade-offs occur when a person has to give up something in order to obtain something else. This happens every time one has to make a choice.

It is a fact that in life people cannot have everything they want because resources are limited. There are

limitations ranging from financial resources available to time constraints and physical constraints.

Sometimes the trade-offs may relate to small things, but in other instances the trade-offs may be substantial.





Reflect on the next best thing. What can I buy or do instead?

- Attending a yoga session
- Buying a smartphone
- Spending money on a hobby
- Buying a car
- Buying fashion clothes
- Going on a holiday
- Going out
- Buying a decoration for the house
- Watching TV
- Buying sweets

LEARNING OUTCOME - 09

Able to distinguish different types of income

Income represents a source of funds which can finance spending. There are different types of income, with the wage normally being the most common.

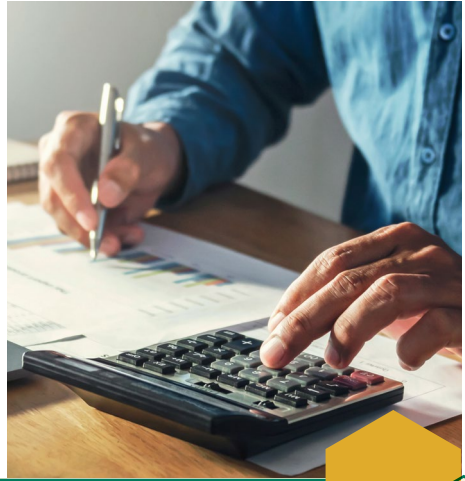
Income may be stable. In this case, a person can determine the next pay, know the payment date, and know how much would be earned over a period of time (for example, one year).

Other income may however vary from month to month. This may depend on the job, tasks and responsibilities involved.

Furthermore, some jobs are paid by the hour, whereas others have a fixed wage. Other factors which may influence the income earned may be beyond one's direct control, such as: the demand for that particular job, productivity, how many hours will the individual work, and the overall performance of the entity involved.



Apart from earned income, there is other income which does not depend on work done. Such income may be in the form of social benefits which one may be entitled to. In this case, the applicable amounts are set by the government. Other income may derive from inheritance, interest earned on savings, monetary gifts, or lottery winnings.



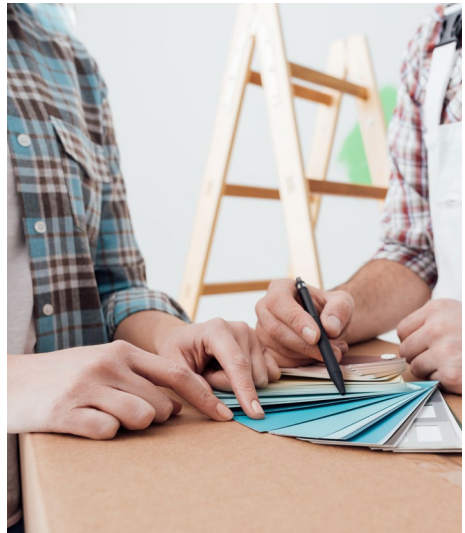
Link one or more of the following qualities to the different types of income: Stable; Unstable; Regular; Occasional; Rare.

- Basic salary
- Self-employed income
- Social benefits
- Inheritance
- Interest income
- Gifts
- Performance bonus
- Lotto or betting winnings
- Rental income
- Dividends
- Overtime pay

LEARNING OUTCOME - 10

Able to understand when planning and reflection are needed

If something is carried out regularly, it may not require much planning, as it is part and parcel of our daily routine. However, planning ahead is an important component of correct financial behaviour. For example, one might need to save for a future spending, such as when the expense is much higher than the monthly income. The uncertain future becomes more manageable with knowledge, planning and pro-active action.





Identify the actions which require thorough planning.

Requires planning:

- Buying property
- Changing the car
- Getting married
- Having a baby
- Going on holiday
- Changing the bathroom
- Undergoing private cosmetic surgery
- Sending children to a private school
- Redecorating the home
- Installing solar panels

Does not require much planning:

- Going to a restaurant
- Shopping at supermarket
- Watching TV
- Buying sweets
- Going for a walk
- Going for a drive by car
- Having breakfast
- Phoning your friend
- Listening to music
- Buying a magazine

LEARNING OUTCOME - 11

Able to form reasonable expectations

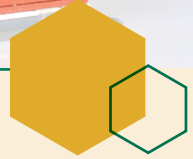
It is natural for human beings to think about the future. Thus, it is important for one to be able to differ between reasonable and unreasonable expectations.

To form reasonable expectations, a person must be able to face the facts and control own biases. There are many potential biases. People are prone to believe what they want to believe.

A positive bias exists when a person always expects positive things to happen in the future. A positive bias

can make a person lose touch with reality. On the other hand, a negative bias may lead people to always expect the worst. This may create a sense of hopelessness and inaction.

As a general rule, if something looks too good, it is probably not true. Keep this in mind to avoid being victim of a scam. Reasonable expectations strike a balance, taking into account the specific circumstances without being excessively optimistic or excessively pessimistic.



Identify the reasonable and unreasonable expectations.

Reasonable expectations:

- "If I do not have regular income it may be hard for me to get a loan from the bank."
- "Sometimes I may need to go to the doctor."
- "In my job, if I work hard, maybe someday I will be promoted."
- "If I look hard I may be able to find clothes which are not too expensive."
- "Having a family requires more money than if I lived alone."

Unreasonable expectations:

- "I will surely win the lottery next week."
- "When I will be thirty I will surely own a luxurious car."
- "After I take this new job I will surely get a big promotion within a year."
- "I will surely find cheap accommodation if I need."
- "If I spend more money I will surely be happy."

LEARNING OUTCOME - 12

Able to budget for a future financial commitment

Financial commitments relate to spending which needs to take place at a future date. Such spending normally cannot be avoided. Though we are almost sure about such an expense, we cannot always predict with certainty when it will take place, and how much it would cost us.

The future outlay involved is more often than not higher than the monthly income. Hence, this future spending normally needs careful thought about how much you need to save and for how long. One way of accumulating the necessary savings is by putting a set amount of money aside each month.



ONE WAY OF ACCUMULATING
THE NECESSARY SAVINGS IS BY
PUTTING A SET AMOUNT OF
MONEY ASIDE EACH MONTH.



Reflect on how savings could be accumulated to meet future financial commitments.

Method 1

Reduce daily spending by cutting unnecessary items, or buying cheaper products.

Method 2

Reduce occasional spending by buying fewer products, or delaying their purchase.

Method 3

Increase income by carrying out additional tasks, or by obtaining a better paid job.

LEARNING OUTCOME - 13

Able to plan for unexpected events

Some events can be well anticipated, but other events may be difficult to predict. It is almost certain that there will be circumstances that will take a person completely by surprise. Planning can help you stop worrying about things you cannot control.

Adequate planning can cater for the negative effect of unexpected developments. It can also facilitate a quicker recovery. Setting up an emergency fund by saving an amount of money every month is an important part of the planning.





Decide whether such an event is an expected event or an unexpected one.

Expected events:

- Paying the monthly accommodation rent.
- Paying the electricity bill.
- Buying a birthday present.
- Paying for the yearly family holiday.
- Paying the annual car license.

Unexpected events:

- Suddenly requiring an urgent private visit to a health consultant.
- Replacing the fridge because it broke down.
- Needing to buy a new car after a traffic accident.
- Becoming unemployed.
- Your partner breaking up with you.

LEARNING OUTCOME - 14

Able to smooth consumption patterns over time

There are two possible consumption patterns: irregular consumption behaviour or balanced consumption behaviour.

People with irregular consumption behaviour manage to spend all their take-home pay or available money. This behaviour results in a situation whereby when income is high, consumption is high, but when income is low, one has to scale down on consumption. In this case, the spending pattern can go on a rollercoaster, sometimes being very high and sometimes being very low. Such pattern is undesirable, because



it forces a person to then struggle to make ends meet at the end of the month after having passed through a spending spree. It can be quite difficult to curtail consumption when financial resources fall. Irregular consumption behaviour may create stress and cause negative emotions or problematic behaviour.

It is wiser to adopt a balanced consumption behaviour. This means that a person spends a percentage of the monthly take-home pay. When income is higher than normal, the additional money can be mostly saved. These savings can then make up for when income turns out to be lower than normal, or for when an unexpected expense arises. In this way, past savings are used to finance consumption when income is low. This balanced consumption pattern is desirable because it keeps

consumption stable, rather than having to scale back spending to make ends meet.



Reflect on your spending patterns.

Do you agree that a stable consumption pattern is preferable to experiencing wide fluctuations over time?

Can you recall instances when irregular consumption behaviour created problems?

LEARNING OUTCOME - 15

Able to search for the appropriate financial advice

Learning is a lifelong process. Nobody is an expert in everything. With regards to financial matters, a person often needs the help of others to be guided through complex issues.

Not everyone's opinion merits the same attention. An opinion is valid if it is given by someone who is knowledgeable about the specific subject. It is equally important that the advice is sought from someone who is honest.

Given that in the market there are many financial products and financial advisers, it is important to shop around before making a financial decision. Consult with more than one expert and choose the one whom you consider the most trustworthy. Seeking expert advice from the proper channel is the wisest thing to do. It is the job of qualified experts to guide the public on financial decisions.



Match the concern with the appropriate expert.

Concern:

Toothache
Cooking
Mathematics
Headache
Water leak
Faulty plug
Stress
Wall crack
Saving
Loan

Expert:

Dentist
Chef
Teacher
Doctor
Plumber
Electrician
Psychologist
Architect
Banker
Banker

LEARNING OUTCOME - 16

Able to ask the right questions and not hesitant to clarify

Everyone has a right to receive the best financial advice. However, what is suitable for a person might not be the right choice for another since it depends on the specific situation and preferences of that person.

Adequate knowledge can be acquired by asking the right questions. Prior to making any financial decision, it is important that the person asks all the relevant questions. This is useful to clarify all



possible queries and doubts to be able to make informed and prudent decisions. It is equally important that the person discloses all background information to enable the expert to fully understand the circumstances facing the client, as well as the client's financial background.

If the explanations provided by the advisor are not clear, one should

ask again until the person is fully satisfied that the relevant issues are well solved. Standard questions which can be asked include: How will the financial decision affect me and my family, both now and in the future? What are the immediate costs involved, and how will such costs evolve over time? Can I cope with these costs? What am I to gain from the proposed financial transaction?



Come up with a list of possible questions which could be asked to an expert in the following situations:

- Enquiring about a car loan
- Enquiring about a mortgage loan
- Enquiring about a current account
- Enquiring about a term deposit account
- Enquiring about health insurance
- Enquiring about a savings plan

LEARNING OUTCOME - 17

Able to borrow money wisely

One golden rule is that money should normally be borrowed to finance the purchase of durable goods. This generally represents a justified purpose for indebtedness. To repay a loan it will take a person many years, so it makes sense to use such funds to buy a product which provides you with benefits over a number of years. On the other hand, there are many things you can purchase without the help of a bank loan. In this case, you just need to save periodically.

Borrowing money incurs a cost since the person has to repay back the

amount borrowed plus the monthly interest. The interest rate is the cost of borrowing. It makes sense to select a loan whose interest rate is most advantageous (the lowest). It is wise to compare the lending conditions offered by the different banks.



An important issue to consider is whether the interest rate for the loan is fixed throughout the entire period, or whether the bank can change it. If the bank can increase the interest rate at a future date it means that there is the possibility that the person ends up paying more interest over the lifetime of the loan than originally anticipated. Apart from the interest rate, it is important to be aware of any additional fees and other costs which may be associated with the loan. Keep in mind to borrow money only from banks, not from friends or other people, as the latter may

impose much more costly terms which at times could even lead into the problem of usury.

Always ask questions that will help you make a prudent decision whether to borrow money or not. Relevant questions include: How much money is needed? For how long will I need the loan? Will I be able to settle beforehand? Do I have any savings that I can use instead? Do my incomes and expenditures allow me to take out such debt? Do I have any security to offer against the loan?



Decide when it is appropriate to borrow money.

Sensible to take out a loan:

- To buy a car
- To buy property
- To buy a fridge

It is not sensible to take out a loan:

- To go on a weekend break
- To pay monthly electricity bills
- To give a present

LEARNING OUTCOME - 18

Able to understand, tolerate and manage risk

Bad things happen at times. That is a fact of life. These may include: losing your job, having a car accident, or a household appliance breaking down. The objective is to try to mitigate the effect of such adverse developments.

Precautionary savings can play a very important role. Savings are shock absorbers for adverse income shocks, or to finance unexpected expenditures. Insurance can also help. By paying a small sum of money, the person can pass on most of the risk to another party. Insurance products exist for a myriad of risks such as those related to buildings, travel, health, life, driving and possessions.

Depending on the cost of insurance, the person can decide whether it makes sense to keep the risk, or else insure against it. However, there are instances where laws or banking practice make the purchase of certain types of insurance mandatory, such as in the case of driver insurance, or when applying for a home loan.



**SAVINGS ARE SHOCK
ABSORBERS FOR ADVERSE
INCOME SHOCKS**



Reflect on risk mitigation options.

Risk - electricity surge damaging appliances:

- Buy home insurance
- Save sufficient money to buy new appliances

Risk - unable to go on holiday because you turn sick:

- Buy travel insurance
- Save sufficient money to be able to go on holiday another time

Risk - injury requiring non-urgent surgery:

- Buy health insurance
- Save sufficient money to be able to afford a private hospital

Risk - losing your job:

- Invest in acquiring new skills to be able to find a new job quickly
- Save money to supplement the unemployment benefits

Risk - losing cash:

- Keep only the money you need in your wallet
- Use debit card to make payments

LEARNING OUTCOME - 19

Able to choose among various types of saving instruments

Saving can be for the short-term, medium-term or long-term. Depending on your financial goals, this will influence the type of saving instrument which may be best suited.

Short-term saving relates to funds which may be needed within one year. In this case, a good option is to open a savings account at a bank and continue adding to it periodically. This should be separate from a rainy day fund. In this case, money can be deposited whenever one wants to. Ideally, you will set up an automatic deposit from the salary account to the savings account.

Money can also be withdrawn regularly and when needed. Keeping all money in cash may not be wise because it can be more easily spent, besides facing the risk of theft.

Medium-term saving relates to funds which may be needed within a longer time period, say between two and ten years. In this case, a good option is to open a fixed term deposit account. The money can be deposited when one wants to, subject to a minimum amount, which can vary by bank.



However, this money can normally only be withdrawn at the maturity of the term deposit. Hence the amount to be deposited depends on whether you are comfortable to wait until the stated maturity. Charges may apply if, in exceptional circumstances, the bank allows the amount to be withdrawn before maturity. These conditions reduce the temptation to break the term deposit and use such funds. In this manner, a term deposit can act as a good commitment device towards saving. The money in a bank account is guaranteed by the Government up to €100,000 per depositor per bank, so the risk is practically nil. The fixed term deposit offers safe keeping of money, plus some interest. The interest rates prevailing in a particular year may at times be low and at other times high, depending on the performance of the euro area economy. The interest rates on offer by each bank may also

be different, and therefore it is always advisable to shop around for the better interest rates.

Long-term saving relates to funds which a person is sure that will not be needed for at least ten years. Aims of such investment might differ, ranging from saving money received from inheritance to money saved for the children, or money saved for post-retirement. There is risk inherent in nearly all investments. The degree of risk varies, ranging from diminished liquidity to partial or complete loss of the investment. There are two golden rules in finance: the higher the return, the higher the risk; and one should always diversify the investment portfolio. It is important that one only opts for such products after seeking expert advice and after one is sure that these products are fully understood and the product fits within the person's risk appetite.



Match the scope to the most suitable financial product:

"Every month I want to save €50 for when I grow old."

- Savings plan

"I just inherited €10,000 which I do not need and which I will not use for the next 10 years."

- Government or private bond

"This month I received a present of €200 which I will spend on my next holiday next month."

- Savings account

"I received a bonus of €1,000 and I am not using it this year but maybe I will use it to buy something over the next years."

- Fixed term deposit

"I sold my car and I am waiting to buy a new car next month."

- Savings account

LEARNING OUTCOME - 20

Able to appreciate the importance of managing money

The foundation of sound money management is financial planning. Your budget is your plan for your money. Its benefits are numerous: to track expenditure, to relate expenditure to income, to identify spending patterns, to prioritise expenditures, and to pin-point aspects where one can improve.

A financial plan creates a money-conscious environment. Financial planning means that one prepares for the future financial needs. When one prepares for the future, it can be easier to cope with the financial needs. Being prepared is always a better strategy than management by crisis.





Reflect on the following situations:

Breakdown of a household appliance

No planning	You are unable to replace the appliance.
With planning	The appliance can be replaced without hardship.

Need for a private medical visit

No planning	This cannot be afforded.
With planning	Savings can be used for this special need.

Wanting to use the air conditioner everyday

No planning	The electricity bill could be unaffordable.
With planning	You can use the money which was saved.

Car breaking down

No planning	You need to wait until you save enough money to be able to afford the repairs.
With planning	You can buy the spare parts immediately using past savings.

Wanting to go on holiday

No planning	You need to wait until you save enough money to be able to afford the holiday.
With planning	You can go on holiday when you wish because of past savings.

LEARNING OUTCOME - 21

Able to turn financial knowledge into action

What are knowledge and skills without action or application? Knowledge and skills are useless if sound and informed financial decisions are not made. It is like having the foundations to act, and knowing you can act, yet you remain in a static position. Financial capability consists in the awareness of suitable financial products and the ability to spend and save wisely. Money skills are as important as job skills and parenting skills.

Financial capability permits independent and decent living. Hence, it is important that money

skills become part and parcel of our daily routine. Mistakes can be made, and indeed are an integral part of learning, but they should be viewed as a boost to enhance learning.



Although finance-related matters may look complex, if these are broken down into simple steps, they can be easily assimilated. Financial knowledge can be built piecemeal, at a pace which is commensurate with

the person's circumstances. Success breeds confidence. Confidence generates energy. Energy leads to activity. Activity forms good habits. Good habits create more success.



Draw up action points which can guide you to spend wisely.

Ideas on how to get a habit of searching for cheaper alternatives before buying a product.

Ideas on how to control impulse purchases by avoiding purchasing something when first viewed.

Ideas on how to focus on the products you need and avoid comparing with what others are buying.

LEARNING OUTCOME - 22

Able to plan a lifestyle by taking ownership of your financial life

Lifestyle reflects the way we live. Our financial resources determine the lifestyle which we can afford. Therefore, it is all about how to manage your money successfully to afford a lifestyle you love. Day-to-day living has to reflect the monthly income. It is important not to live beyond one's means.

Over-spending may offer temporary satisfaction but often creates long-term problems. Happiness does not depend on how much we spend but rather on how we spend. The objective is not to cut spending drastically but rather to spend wisely.

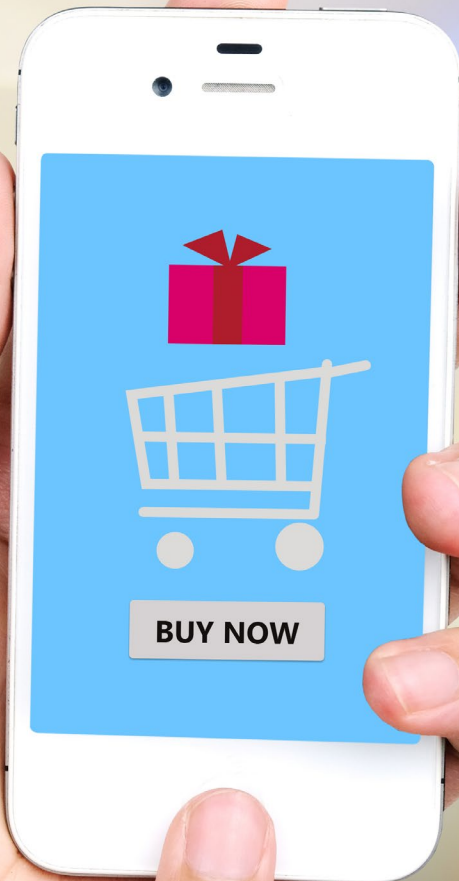


It is helpful to keep in mind the following biases which could make correct money management more difficult:

Overconfidence	I will always be able to cope.
Judgement errors	I always know what is best.
Wrong rules of thumb	I always behaved this way.
Present bias (time preference)	I am only concerned about the present.
Impulsive behaviour	I act without thinking.
Over-optimism	I will always manage.

It is equally important to be aware of the following challenges which can make it more difficult for a person to manage finances adequately:

Social influence	I do things so that others will admire me.
Credit card dependence	I can spend as much as I want.
Conspicuous consumption	I want to appear rich.
Down payment	I forget that for some purchases there is need to put some own money upfront.
Sensation seeking	I need to feel the thrill in life and I can only get this by spending.
Lack of confidence	I will never be able to manage my money well.
No supporting environment	My family has never saved, so why should I start saving?
Lack of self-control	When I get some money I need to spend it immediately.



USE A PRE-COMMITMENT
DEVICE TO AVOID
IMPULSIVE ACTIONS

In order to address these challenges there are some helpful techniques which can be used:

- Create a separate budget (partitioning) for particular purchases.
- Reflect on the purchases which were made, and the following week ask yourself whether you should have made those purchases.
- Use a direct debit facility so that you do not forget to carry out the necessary payment and avoid incurring financial penalties.
- Carry out occasional self-reinforcement. Every so often use part of your new savings to award yourself with a small purchase (a pleasant activity to reward your diligent financial behaviour).
- Consider regular saving commitments to ensure that you get a habit of saving.
- Use a pre-commitment device to avoid impulsive actions, such as by limiting cash in the wallet.
- If you own a credit card, set a low credit limit to avoid problematic and costly debt.
- Seek advice on adequate insurance cover.
- Keep a weekly log of your financial activities to keep track of how you are spending your money and how the payments are changing over time.



Relate to the relevant biases and challenges affecting your financial behaviour and come up with possible solutions, keeping in mind the circumstances of one's life.

Biases:

Challenges:

Possible solutions:

LEARNING OUTCOME - 23

Able to recall and apply the various elements of financial capability

This guidebook has presented each element of financial capability in isolation. However, these components are all interrelated. Together they can make a person financially capable. Some aspects

may be more familiar or relevant than others. However, it is important to revise each topic from time to time. This can help improve financial capability, as well as contribute positively towards mental health.





1. Able to distinguish between different types of spending
2. Able to estimate the relative cost of products
3. Able to detect if a product requires a future expenditure commitment
4. Able to control impulsive buying behaviour
5. Able to predict the expected lifetime of a product
6. Able to distinguish between substitutes and complements
7. Able to judge the relative importance of products
8. Able to understand trade-offs when choosing one thing and foregoing another
9. Able to distinguish different types of income
10. Able to understand when planning and reflection are needed
11. Able to form reasonable expectations
12. Able to budget for a future financial commitment
13. Able to plan for unexpected events
14. Able to smooth consumption patterns over time
15. Able to search for the appropriate financial advice
16. Able to ask the right questions and not hesitant to clarify
17. Able to borrow money wisely
18. Able to understand, tolerate and manage risk
19. Able to choose among various types of saving instruments
20. Able to appreciate the importance of managing money
21. Able to turn financial knowledge into action
22. Able to plan a lifestyle by taking ownership of your financial life
23. Able to recall and apply the various elements of financial capability



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