

**FINANCIAL WELLBEING  
PRESENTATION  
TEACHING YOUTH ABOUT  
MONEY  
SESSION 2**

## Week 2

***Topic 1: Financial SMART Goals***

***Topic 2: Compound Interest***

***Topic 3: What is Debt***



## Financial SMART goals...

**What is a Financial Goal?**



## Financial SMART goals...

***Specific:*** state exactly what you wish to buy/accomplish with the money you save.

***Measurable:*** indicate the exact dollar amount you need to accomplish your goal.

***Achievable:*** identify the steps necessary to reach your goal.

***Relevant:*** the goal must be meaningful or you may lose motivation to stick with your plan.

***Timely:*** by when do you want to meet your goal?

## Financial SMART goals...

An example:

***Specific:*** to buy an Ipad.

***Measurable:*** will require \$520.

***Achievable:*** if save \$10 per week then I will have saved \$520 in 12 months ( $\$520/\$10 = 52$  weeks).

***Relevant:*** an Ipad will be useful for homework and doing research.

***Timely:*** buy an Ipad for the Christmas holidays.

# My financial SMART goal

Name: \_\_\_\_\_



Specific	State exactly what you wish to buy/accomplish with the money you save.	
Measurable	Indicate the exact dollar amount you need to accomplish your goal.	
Achievable	Identify the steps necessary to reach your goal (e.g. look at your budget to figure out how long it will take you to save for your goal).	
Relevant	The goal must be meaningful or you may lose motivation to stick with your plan.	
Timely	By when do you want to meet your goal?	

# The Power of Compound Interest



# What is interest?

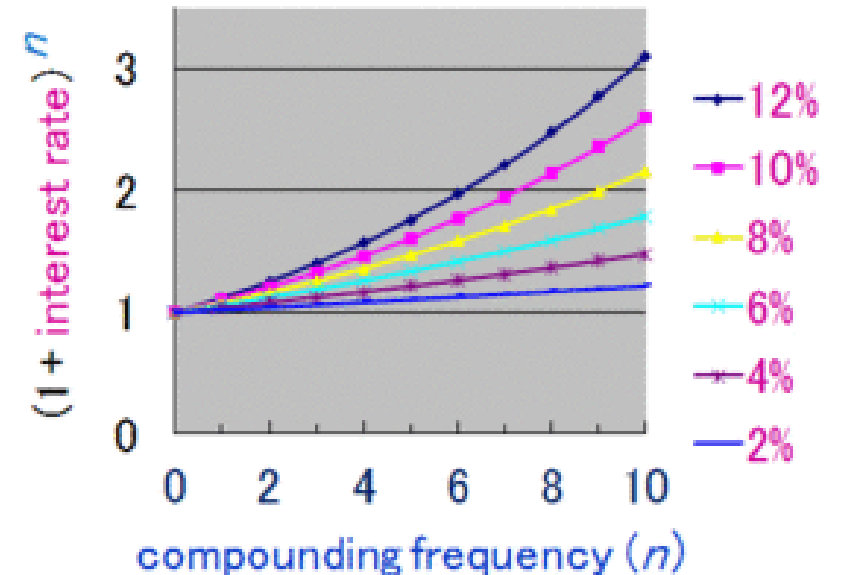
- Interest is a payment you receive in exchange for the use of your money that you have earned and saved
- Interest can also be charged to you when you borrow money
- We are going to be investigating the power of compound interest when you save money





# What is compound interest?

- Compound interest is interest paid on interest.
- An example of compounding interest is;
- A saving of \$100 and 10% monthly interest paid
- \$100 saved in the 1<sup>st</sup> month
- \$10 interest paid
- \$110 balance after the 1<sup>st</sup> month
- \$11 interest paid
- \$121 balance after the 2<sup>nd</sup> month



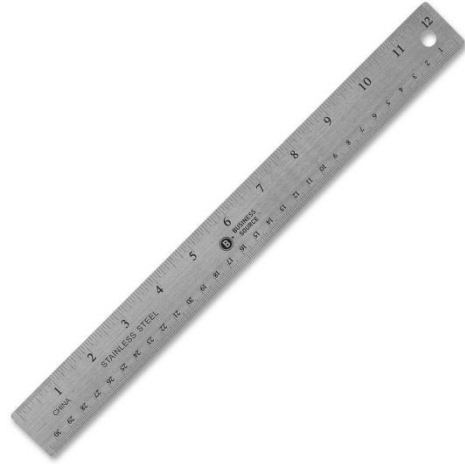
# How do you get \$100?

- You need to do some work for the money you are saving and not spend it on stuff.
- You can help out your family with jobs, or delivering catalogues, flipping burgers at a food outlet, mowing lawns, odd jobs for an elderly neighbour for example taking their bin out and bringing it in, maybe even washing their bin. Pet walking or baby sitting when you are older.



# An activity to demonstrate the power of compound interest

- Ruler
- Wool
- Scissors
- Tape



# Steps for the compounding activity

- 2 Different coloured wool

Cut one piece of the pink wool 5.5 inches and cut the green wool 31 inches

Each inch is going to represent \$10,000 so the pink wool is representing \$55,000 and the green wool is representing \$310,000

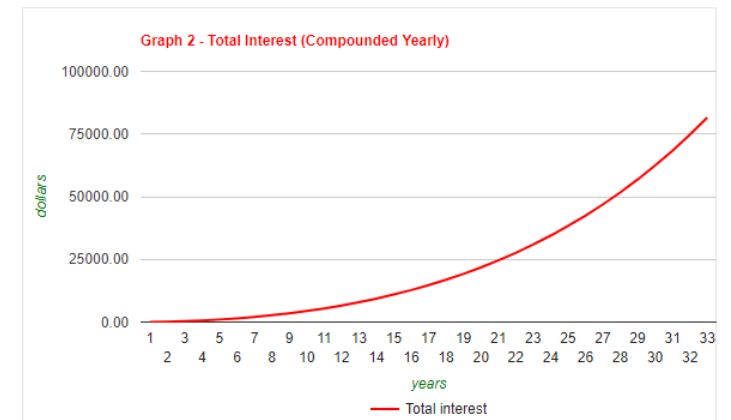
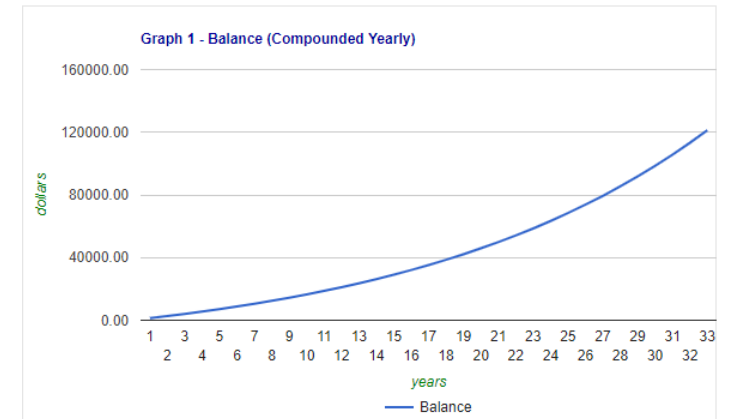
<https://www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator.php>

# Scenario to demonstrate the power of compounding interest

- You get together with your best friend at 15 years old and see who can save \$100 every month until you are 62 years old. That is 47 years.
- Your friend puts the money in their mattress or in the bank in a no interest earning account.
- They will have saved **\$56,400**
- You put your money in an investment earning **6%** annual interest
- You have saved **\$313,187**
- The difference is **\$256,787**

# Starting to compound saving later in life

- Take the pink wool measure 4 inches each inch is equal to \$10,000
- Take the green wool measure 12 inches
- You start at age 25 years with \$100 month
- At age 62 years in 33 years time at 6% return
- Your friend will have saved \$39,700
- You will have saved \$121,258
- Extra income of **\$81,558**
- The difference in 14 years **\$175,228**



# Active Income



VS

# Passive Income



# What is it active income?

- What did you do to earn the money?
- Odd jobs, helping out at home, birthday money or Christmas money
- You had to actively work for the money in some way and or had to be disciplined not to spend the money and save it.
- To earn the income took some sort of effort or action to keep adding to your savings





# What is it passive income?

- FREE money no effort required
- This money was earned when you were watching a movie, having fun with your family or friends even when you were sleeping
- You earn this money without doing anything at all
- It was the power of compounding, the interest is growing on the interest earned



# 3 Key takeaways on the power of compound interest

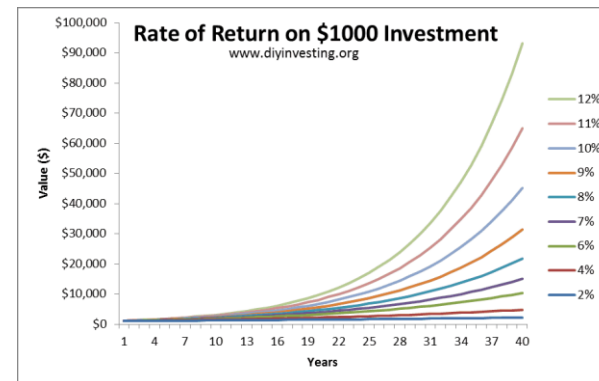
- TIME



- AMOUNT OF MONEY



- RATE OF RETURN



## What is Debt?

- It is a sum of money that is owed or due.
- It is the state of owing money.
- Debt is created when one person (the borrower) owes money to another (the lender) according to a contract.



## About debt...



- Debt can be used by a borrower to buy something they can not afford right now.
- Debt comes at a cost (fees and interest) and borrowers should shop around for the best deal when borrowing money!

## About debt...

**What are some examples of debt?**

**Credit cards, afterpay, unpaid bills, personal loan, car loan, home loan...**



## The Cost of Borrowing



<https://moneysmart.gov.au/other-ways-to-borrow/rent-vs-buy-calculator>

<https://moneysmart.gov.au/loans/payday-loan-calculator>

<https://moneysmart.gov.au/credit-cards/credit-card-calculator>

# What happens if I don't pay my bills

- **Credit files**

How Credit files are used

- **Debt collection**

Dealing with debt collectors

Potential for judgement debts

'Old debts' (Statute barred periods)



## Key Points...

- Know what you can afford to spend
- Save for things you want
- Know the actual cost of credit
- Know where to go for help



*Long term wealth is NOT crated by how much you earn,  
it's by how much you SAVE*