



Personal Finance Management

Handbook for Social Workers

Klaipėda – Kuressaare - Jelgava, 2017

Nordplus Horizontal project NPHZ-2015/10009 **Learning Strategies for
Learners with Poor Basic Skills in a Planning of Personal Finances**

Personal Finance Management, Handbook for Social Workers/
Vintere A., ed., Klaipeda – Kuressaare - Jelgava, 2017: 119 p.

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ISBN 978-9934-8495-5-8

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FREFACE

The present Handbook and course curriculum for social workers and youth training was created in the framework of the Nordplus Horizontal project “Learning Strategies for Learners with Poor Basic Skills in a Planning of Personal Finances” on the basis of the research about youth finance skills. Research showed the main problems which face young people in everyday personal finance management, what skills they lack to develop their financial literacy as well as the needs of social workers in the area of personal finance management.

Handbook for social workers comprise development of social workers’ knowledge, skills and competences to provide consulting about personal finance management to socially excluded young people.

Acknowledgements

The project team express thanks to anyone who took part in this project!

COURSE CURRICULUM

Introduction

This course curriculum is the result of Nordplus Horizontal project “Learning Strategies for Learners with Poor Basic Skills in a Planning of Personal Finances” implemented by Klaipeda State University of Applied Sciences (LT), Kuressaare College of Tallinn University of Technology (EE) and NGO Education Innovations Transfer Centre (LV). The project aims to expand the competences of social workers who work with socially excluded groups of young people, to advise them about issues of personal finance management.

Course consists of 6 modules:

Module I. Personal Finances: Basic principles of management of personal finances, motivation.

Module II. Income increase: different ways to increase income, self-employment, principles of starting business, education and qualification improvement; volunteering – as an option to get experience, social networks for trading, social entrepreneurs, training for entrepreneurs.

Module III. Living according to the income (or income and expenses planning): (short term planning) saving, spending

less, shopping with list, using money effectively, development of saving skills, preparing the money budget.

Module IV. Managing the money: (living now – implementing short term goals in daily life) real incomes, budget model sample, income and expenses planning, planning of financial reserve (extra money).

Module V. Financial Freedom: (long term planning and long term financial goals) investments (pensions, insurances), long term aims, person in society (the importance of taxes, social insurance, etc.), role of state money and subsidies in life (paying benefits, cheaper tickets), (most important is to earn living themselves, as that brings financial freedom).

Module VI. Credits, debt management and borrowing: essence of credit, consumer (fast) credits, pawn shops, terms and conditions of borrowing, the importance of paying back on time – credit history.

Course description

Module I. Personal Finances: Basic principles of management of personal finances, motivation.

Duration: 7 hours

Objectives:

1. To understand main principles of the financial management;
2. To be able to explaining the process of personal finance management;
3. To identify the connection between financial needs and life cycle.

Description of content:

- Principles of managing personal finances. Benefits of financial planning;
- Financial planning. Implementing of financial plans. Evaluation of financial activities results. Revision (review) of financial plans;
- Purposes of life cycle. Stages of personal financial behaviour.

Teaching Methods:

- Presentation;
- Presentation and Situation analysis;
- Presentation and Case study.

Evaluation criteria:

- Ability to describe principles of personal finances management;
- Ability to characterize steps of the personal finances management process;

- Ability to identify financial needs in different stages of life cycle.

Equipment:

- Video projector, paper, markers.

Module II. Income increase: different ways to increase income, self-employment, principles of starting business, education and qualification improvement; volunteering – as an option to get experience, social networks for trading, social entrepreneurs, training for entrepreneurs.

Duration: 7 hours

Objectives:

1. To expand the knowledge about the different sources of income;
2. To be able to explain the different ways to increase income;
3. To be able to prepare personal income plan.

Description of content:

- Labour income, income from the disposal of property, business income, subsidies, etc.;
- Improving of qualification and competencies. Entrepreneurship and self-employment;
- Preparing of the financial plan.

Teaching Methods:

- Presentation. Brainstorming. Situation analysis;
- Presentation;
- Practical workshop.

Evaluation criteria:

- Ability to identify the different sources of income;
- Ability to identify the different ways to increase income;
- Ability to prepare the personal income plan.

Equipment:

- Video projector, paper, markers.

Module III. Living according to the income (or income and expenses planning):

(short term planning) saving, spending less, shopping with list, using money effectively, development of saving skills, preparing the money budget.

Duration: 7 hours

Objectives:

1. To learn about different types of personal expenditure;
2. To understand cost reduction techniques;
3. To be able to preparing expenses plan.

Description of content:

- Main expenses. Extra/additional expenses. Additions;

- Forming new habits: saving. Using money effectively;
- Preparing expenses plan.

Methods:

- Presentation, group work;
- Presentation. Brainstorming;
- Practical workshop.

Evaluation criteria:

- Ability to identify different types of expenses;
- Ability to identify cost reduction techniques;
- Ability to prepare plan for personal expenses.

Equipment:

- Video projector, paper, markers;

Module IV. **Managing the money:** (living now – implementing short term goals in daily life) real incomes, sample of budget model, income and expenses planning, planning of financial reserve (extra money).

Duration: 7 hours

Objectives:

1. To learn about the principles of preparing personal budget;
2. To prepare personal budget;

3. To identify saving goals, means (instruments) and methods.

Description of content:

- Steps of preparing personal budget;
- Preparing personal budget;
- Saving goals. Saving instruments. Saving methods.

Methods:

- Presentation;
- Practical workshop;
- Presentation. Brainstorming.

Evaluation criteria:

- Knowledge of steps of the personal budget;
- Ability to prepare personal budget;
- Ability to identify saving goals, means (instruments) and methods.

Equipment:

- Video projector, paper, markers.

Module V. Financial Freedom: (long term planning and long term financial goals) investments (pensions, insurances), long term aims, person in society (the importance of taxes, social insurance, etc.), role of state money and subsidies in life (paying

benefits, cheaper tickets), (most important is to earn living themselves, as that brings financial freedom).

Duration: 6 hours

Objectives:

1. To learn about financial security measures;
2. Ability to choose appropriate funding methods;
3. To learn about the possibilities in government social support scheme.

Description of content:

- Investments. Savings;
- Funding methods;
- State social support measures and system.

Methods:

- Presentation;
- Situation analysis;
- Presentation.

Evaluation criteria:

- Ability to characterize possibilities of investments and savings;
- to compare and choose appropriate funding method;
- to identify state social support measures.

Equipment:

- Video projector, paper, markers.

Module VI. Credits, debt management and borrowing:

essence of credit, consumer (fast) credits, pawn shops, terms and conditions of borrowing, the importance of paying back on time – credit history.

Duration: 6 hours

Objectives:

1. To learn about the borrowing methods;
2. To be able to evaluate risks of borrowing.

Description of content:

- Types of credit. Leasing. Liabilities;
- Cost of borrowing. Credit risk. Credit history. Management of liabilities.

Methods:

- Presentation. Brainstorming.
- Presentation. Situation analysis.

Evaluation criteria:

- Ability to identify borrowing methods;
- Ability to choose proper borrowing method according to credit risk. Ability to manage liabilities.

Equipment:

- Video projector, paper, markers.

Final evaluation of the course.

Module I. PERSONAL FINANCES

*Basic principles of management of personal finances,
motivation.*

Aims of topic:

4. To understand main principles of the financial management;
5. To be able to explaining the process of personal finance management;
6. To identify the connection between financial needs and life cycle to define...

THEORETICAL MATERIAL

What does it mean: **Personal financial management**? - All financial decisions and activities of an individual, that could include budgeting, insurance, savings, investing, debt servicing, mortgages and more.

Managing your money successfully is the key to doing well financially. It includes:

- **Managing your income.** The key to financial success is to spend less than you earn. If you can do that, you can

begin to build success through saving and investing your money.

- **Managing your debt.** The best way to manage your debt is to eliminate as much of it as possible. The first step is stop using your credit cards, and then work to pay them off. It is suggested by specialists to keep your debt payments below twenty percent of your income.
- **Managing your savings and investments.** There are two different types of savings: your savings and your investments. Your investments are beneficial because they will earn your money and increase your wealth.

Personal financial planning should be carried out every person who wants to manage their budgets in order to:

- improve well-being
- make informed savings and
- be prepared for unexpected expenses (wages, life has come to an end, credit card blocked, the crisis in the country, etc.).

Budget management means - your income and expenditure in the amount of awareness and scheduling future. Savings ensure that financial stability in times of unplanned expenses will be - accidents, loans without jobs with a negative credit history, large purchases, etc. That's why you have to make an

effort to organize your finances and be confident in your personal finances management.

Financial goals and motivation

The first thing you should do – well-considering. You have to understand yourself, why have you decided to arrange your finances, since it is not worth doing, just because you've got someone from relatives, friends or acquaintances it is recommended. You yourself have to be sure that you do want, and that you've got, it's necessary. It is necessary to aim. For example:

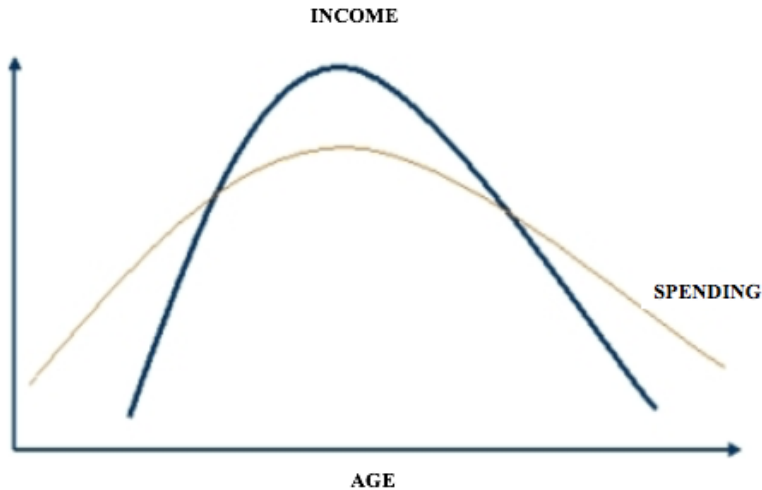
- you're going to spend less money than you receive or
- you want to reduce your spending by 20% or
- get rid of all loans and debts
- a year to save up 3,000 euros to be able to travel,
- you lack a certain amount of money to buy a new car, etc.

These are examples of the objectives for which it is worth to arrange your finances The goal that you want to achieve is a very good **motivation**.

Financial needs and life cycle

The human life cycle has several stages when the direction of financial flows changes. In our childhood and youth

we are supported by parents, in the years of adulthood we maintain ourselves, we receive social security benefits in retirement and we use personal savings (see figure below).



This means that for most people in the world, financial needs are very similar in the same life cycle. So the question is - to provide lifecycle needs with adequate finances.

As for personal financial management and planning, it should be noted that future prosperity is, first of all, only in your own hands. Secondly, it must start to be built as early as possible in order to achieve the goals of a near or far perspective in general.

Financial planning

It is well known that all over the world, people spend three times more than they receive. All this is because not controlled their wishes and are realized either, momentary whim. Therefore, it is very important to control your budget, monitor your financial position to be able to achieve their goals - to buy an apartment, a house, a new car, go traveling u. t. t. so that it can be done, it is important to reduce unnecessary and unplanned expenses. Deliberate purchase the necessary planning is an internal financial discipline forming.

If you are ready to begin to change your financial habits you have to make financial planning.

Planning

Financial planning can be divided into three phases:

- Planning
- Expenditure inspection
- Analysis and conclusions.

Only fulfilling all of these steps can be fully and effectively plan your finances.

The first thing that must be conceived of personal financial planning is the agenda and accessories. To carry out this planning requires a couple of things:

- **Discipline.** Financial planning is not possible without discipline. Any failure to comply with the basic rules may prove to be intentional and unnecessary budget deficiencies. For example, casualty checks and records may also damage the proposed financial plan.
- **Way to enumerate.** The budget is to be compiled in order to effectively be able to transparency and as soon as possible to make conclusions. Some of the ways to do it:
 - a check collection,
 - recording notebook,
 - PC or on the board (the Internet access to several examples of the table),
 - "budget calculator",
 - "the money controller" and
 - other alternative financial accounting methods.

With the help of this thing is to score a picture of their monthly income for regular, mandatory, and other expenses.

Expenditure inspection

Planning is only the beginning of a process. The second thing in this work is the expenditure survey. Throughout the planning and the subsequent period will follow the track of expenses and there is need to register.

It means that all check collection and recording of expenditure as well as the accounting of expenditures for which the checks issued. It should be done every day and the end of the month.

This financial planning is the most important part and should be done very carefully, avoiding the above-mentioned self of fraud and data inaccuracies. Every half a year or a year it is recommended that all expenditure browsing.

Analysis and conclusions

Once you have passed any period of time, you can collect data, **analyse** them and **make conclusions**. Each month and half at the end you must perform an analysis of the information obtained, and it can be concluded that in your finance pose the greatest loss and how you can change it. On this analysis it is possible to take action and have full management of your budgets to personal finance to control cash flow.

How to organize personal finances

The principles of personal finance are:

- **Spend less than you earn;**
- **Avoid debt.**

It is known that our well-being consists of income and expenditure gap. Any wish to increase, which means that we

have to increase revenues or reduce costs. You can increase income with the possibilities offered by the state (social benefits, etc.), find the opportunity to work on or make money with your hobby, and build profitable savings funds. In turn, we cut expenses with personal financial planning.

The spending structure change is based on spending cuts. When expenses are listed, they should be divided into 2 groups - regular payments and everyday spending.

Regular payments are those that we pay back each month on various goods and services. They can be reduced by choosing a cheaper provider. Casual spending account for a major share of the cost. They are also the easiest to variable costs of which should focus on the food, leisure and bill costs.

Once you've accounted for your expenses, you would have to conclude whether they are appropriate for your **living standards and priorities**. It certainly will help to make changes within your spending and less money to allocate goods or services without which you cannot do and which are superfluous to your financial plan target.

The author of the book "The Only Investment Guide You'll Ever Need" Endrju Tobiass offers the following solution:

- 1) Freed from loans and debts.

- 2) Saves or invests 20% of its revenues (never do not spend this money).
- 3) Living in their joy of the remaining 80%.

For all it is clear that it is better not to take money or credit on the show, because often disadvantaged because of the interest, you will come to overpay a lot of money. But if, however, has it happened that you have a credit or debts relatives then tried every month, of their income to allocate 10% of debts. In any case, you will be returned to this debt, better to do it is gradually. Remember, your financial plan is drawn up so that next year, your debts are no longer intended. This is called financial independence.

Now we move on to the second point. The main thing to remember is that you must first return the 20% of their revenue and then spend the remaining part of the money and not vice versa. Many are accustomed to postpone what is left in the end of the month, but this is not correct, because there will always be one of the urgent needs and the end of the month will no longer be postponed.

If you initially feel that 20% is the amount you cannot afford to delay, then start with at least 10%, or to a specific amount that you can afford. The main thing - start! It is important that it will develop into addictive and you gradually start to build

up your savings fund. To not spend money, you can deposit in the bank, in the accounts in which you instantly it will not be available, such as the deposit. **Collect the money - your financial security guarantee.** This amount is needed for those cases (as mentioned before) where you will stay out of work or suddenly become ill, because then, even such a difficult situation, you will not think about the money and take the credit or borrow.

Next, prepared for the fact that every month you will need to work hard to write down all your income and expenses. This can be done by ancestral methods to collect receipts and write down the notebook, but nowadays are able to do well on mobile devices, which are equipped with special programs and will help you understand where your money flow. You yourself will become a meticulous, all of its revenue and expenditure, calculator. Salary, bonuses, extra income - everything must be entered in the revenue column.

Now as an expense. You are left with 80% of thy earnings. How to divide? Some experts recommended to do so:

- a) 50% spend all the necessary expenditures (food, utilities, transportation costs, clothing, etc.),
- b) 30% of the things like - Internet, cable TV, restaurants, tickets to the theaters, concerts, books, hobbies, etc. t. t.).

Distribution of a particular group are parts of the budget so as you need, such as utilities, food, etc. just like do-well with a second group of budget.

Then you start to compile forecasts, articles spending and what you plan to buy in the near future and how much it pays around. Try spending zoom in revenue. So, you gradually learn to feel, where you can spend more money, but where you need to save and why.

Everyone has a different understanding of quality of life. Some, maybe you cannot imagine their life without a night club visits and restaurants, but solid, perfectly sufficient for a party at home. Therefore, if you are going to arrange your finances and save, then specialized for what you like and which you prefer. Experts believe that in no case should not abandon **the basic satisfaction** - a roof over your head, food, clothing, etc. May refuse only on what does not belong, essential goods list. For example, you're accustomed to eating breakfast sandwich with eggs, but if you do it will convert to something else, or out of it, your standard of living will change very much? What conclusions can be done? We are looking for the same quality, only much cheaper.

Summary - essentials of personal finance

The scope of personal financial planning covers different aspects of your life: earning, saving, expenses, budgeting, taxes, insurance, loans, investment, debt management, estate planning etc. There are five keys that can help you get control of your finances. It gives you a clear plan that you are following.

Set your financial goals

The first thing you should do is to write specific goals about what you want to do with your life and your money. Finances can affect many different areas of your life. Your goal to travel the world affects how you will plan your finances. Your goal to retire early is dependent on how well you handle your finances now. Home ownership, starting a family, moving or changing careers will all be affected by how you manage your finances.

Once you have written down your goals you will need to prioritize them. This makes sure you are paying attention to the ones that are most important to you. You can also list them in the order you want to achieve them, but for a long-term goal you should be working towards it while working on your other goals. Start by setting long-term goals like getting out of debt, buying a home, or retiring early. These goals can help you focus your shorter term goals.

Prioritize your goals to help you create your plan (which is the next step). Set short-term goals, like following a budget, decreasing your spending, or stop using your credit cards.

Create a plan

A plan will help you reach your goals. The plan should have multiple steps. The first part of your plan should be to get control of your budget. Your budget is key to success. It is the tool that will give you the most control of your financial future. Your budget can help you reach the rest of your plan.

Stick to your budget

Your budget is one of the biggest tools that will help you succeed financially. It allows you to create a spending plan so you can focus your money in a way that will help you to reach your goals. A budget lets you decide how to spend your money. Without the plan, you may spend your money on things that are not important to you. If you are married you and your spouse need to work together on the budget. This will help you to achieve your goals together.

Get out of debt

Debt is a huge obstacle to reaching your financial goals. Set up a debt elimination plan that will snowball your payments. While

making minimum payments, you focus extra money on one debt at a time and then move all the money you were paying on the first debt to the next debt. Once you are out of debt, you need to make a commitment to stay out of debt. Stop carrying your credit cards around with you, and save up an emergency fund to cover unexpected expenses so you do not need to turn to a credit card to cover them.

Ask for financial advices

Once you are ready to grow your wealth and begin investing you should speak to financial consultants to help you make your investment decisions. A good consultant will share the risks involved in each investment and help you work towards your goals as quickly as possible. A financial consultant can also help you with your budget. It should be noted that investing is a long-term strategy to building wealth. Check out these personal finance tips too.

The following sections of this manual address these issues in more detail.

Check your understanding:

- 1) Why it is important to organize your personal finances and make personal financial planning?*
- 2) Name the main principles of the financial management?*

- 3) *Please compare your and your parents' financial needs and discuss main differences?*

Practical assignment

- 1) *Please write down your financial goals!*
- 2) *Write the financial plan details how to accomplish the goals.*

Sources of information

1. Financial literacy guide:
https://wcms.nordea.com/sitemod/upload/root/www.nordea.lv%20%20lv/bankas_vadiba/Nordea_Finansu_roka_sgramta_parvaldisana_final_13.pdf
2. Family Budget Planners:
<http://www.seb.lv/infotelpa/analitiska-informacija/gimenes-budzeta-planotajs>
3. Planning of the personal finances:
http://www.iksd.riga.lv/upload_file/IKSD_pievienotie/0_2014/2014_10/noticis%20seminars/15_novembris/FINANŠU%20PLĀNOŠANA.pdf
4. Effective financial planning:
<http://www.zuz.lv/efektiva-finansu-planosana>
5. How to survive with very low incomes?

<https://compeuro.lv/ka-izdzivot-ar-loti-maziem-ienakumiem/>

6. How to manage personal finances:

<http://www.wikihow.com/Manage-Your-Finances>

7. Steps to Help You Manage Your Personal Finances:

<https://www.thebalance.com/manage-your-personal-finances-2385812>

Module II. INCOME INCREASE

Different ways to increase income, self-employment, principles of starting business, education and qualification improvement; volunteering – as an option to get experience, social networks for trading, social entrepreneurs, training for entrepreneurs.

Aims of topic:

- 1) To expand the knowledge about the different sources of income;
- 2) To be able to explain the different ways to increase income;
- 3) To be able to prepare personal income plan.

THEORETICAL MATERIAL

There are different options how to survive with very low incomes:

- reduce expenses where possible,
- understand the difference between saving and parsimony,
- as much as possible to do the same,
- find free opportunities to have fun,

- look for ways of additional income, etc.

Ways to increase your income

Cutting down on expenses

- Reduce your rent
- Bike or walk to work, rather than drive
- Avoid eating out
- Do free leisure activities
- Get into a do-it-yourself lifestyle, etc.

Generating extra income

- Talk to your employer about a raise
- Do freelance work or part time work
- Start a side business

Investing your money

- Create sources of passive income
- Purchase stocks and bonds
- Consider investing in penny stocks.

Self-employment

Self-employed person - someone who is self-employed is the owner of a business, an individual who earns a living by working for himself / herself and not as an employee of someone

else, and doesn't work for an employer for wages or salary. Self-employed person is also someone who "owns an unincorporated business." You are self-employed if you have one of the following types of businesses:

- sole proprietorship
- partnership
- limited liability company.

A self-employed person must pay self-employment taxes (social security and income), while an employee of a company must pay half of these taxes and the employer pays the other half.

In order to register for self-employment, you must apply to your local municipality (where you are registered or declared your place of residence). You must submit an application for the specific activity in which you want to operate. Depending on the type of activity, you must also submit an appropriate education or qualification document (for example, translators, craftsmen, etc.). Then the special commission decides whether to allow the relevant activity to be carried out. Taxes agency will issue an individual work registration certificate.

Principles of starting business

The other way to increase your income is to start your own business. Information how to start business and register

company in Latvia, Estonia and Lithuania available at:
<http://www.baltic-legal.com/latvia-company-types-of-legal-entities-eng.htm>.

At first, you have to do a business plan. As a result of completing the plan you will be much better prepared and know whether or not your business idea is feasible.

Secondly, think about:

- 1) How is your business unique, and why will your goods or services appeal to customers?
- 2) What are the primary differences between your company and your competitors?
- 3) What are the driving factors to choose your business over another?
- 4) In other words, what is the underlying reason a customer would do business with your company?

Define your business and vision

Defining your vision is important. It will become the driving force of your business. Here are questions that will help you clarify your vision:

- Who is the customer?
- What business are you in?
- What do you sell (product/service)?
- What is your plan for growth?

- What is your primary competitive advantage?

Write down your goals

Create a list of goals with a brief description of action items. If your business is a start up, you will want to put more effort into your short-term goals. Often a new business concept must go through a period of research and development before the outcome can be accurately predicted for longer time frames.

Create two sets of goals:

- 1 Short term: range from six to 12 months.
- 2 Long term: can be two to five years.

Explain, as specifically as possible, what you want to achieve. Start with your personal goals. Then list your business goals.

Answer these questions:

- As the owner of this business, what do you want to achieve?
- How large or small do you want this business to be?
- Do you want to include family in your business?
- Staff: do you desire to provide employment, or perhaps, you have a strong opinion on not wanting to manage people.
- Is there some cause that you want the business to address?

- Describe the quality, quantity and/or service and customer satisfaction levels.
- How would you describe your primary competitive advantage?
- How do you see the business making a difference in the lives of your customers?

Understand your customer

It is not realistic to expect you can meet the needs of everyone, no business can. Choose your target market carefully. Overlook this area, and I guarantee you will be disappointed with the performance of your business. Get this right and you will be more than pleased with the results.

- Needs: what unmet needs do your prospective customers have? How does your business meet those needs? It is usually something the customer does not have or a need that is not currently being met. Identify those unmet needs.
- Wants: think of this as your customer's desire or wish. It can also be a deficiency.
- Problems: remember people buy things to solve a specific problem. What problems does your product or service solve?

- Perceptions: what are the negative and positive perceptions that customers have about you, your profession and its products or services? Identify both the negative and positive consequences. You will be able to use what you learn when you start marketing and promoting your business.

Learn from your competition

You can learn a lot about your business and customers by looking at how your competitors do business. Here are some questions to help you learn from your competition and focus on your customer:

- What do you know about your target market?
- What competitors do you have?
- How are competitors approaching the market?
- What are the competitor's weaknesses and strengths?
- How can you improve upon the competition's approach?
- What are the lifestyles, demographics and psychographics of your ideal customer?

Financial matters

How will you make money? What is your break-even point? How much profit potential does your business have? Take the time to invest in preparing financial projections.

These projections should take into account the collection period for your accounts receivables (outstanding customer accounts) as well as the payment terms for your suppliers. For example, you may pay your bills in 30 days, but have to wait 45-60 days to get paid from your customers.

A cash flow projection will show you how much working capital you will need during those “gaps” in your cash position. I recommend thinking about these six key areas:

- 1 Start-up Investment
- 2 Assumptions
- 3 Running Monthly Overhead
- 4 Streamlined Sales Forecast
- 5 Cumulative Cash
- 6 Break-even

Identify your marketing strategy

There are four steps to creating a marketing strategy for your business:

- 1 **Identify all target markets:** define who is your ideal customer or target market. Most companies experience 80% of their business from 20% of their customers. It makes sense then to direct your time and energy toward those customers who are most important.

- 2 **Qualify the best target markets:** the purpose of this step is to further qualify and determine which customer profile meets the best odds of success. The strategy is to position your business at the same level as the majority of the buyers you are targeting. It is critical to figure out who your best customers are and how to best position your company in the marketplace.
- 3 **Identify tools, strategies and methods:** a market you cannot access is a market you cannot serve. Marketing is the process of finding, communicating and educating your primary market about your products and services. Choose a combination of tools and strategies, that when combined, increase your odds of success.
- 4 **Test marketing strategy and tools:** the assumptions we do not verify are typically the ones that have the potential to create business problems. Take the time to test all business assumptions, especially when you are making major expenditures.

Volunteering – as an option to get experience

- Volunteering is a win-win situation. By helping others, you have the opportunity to boost not only your career

but also your own well-being. Here's how **volunteering can help you:**

- **You expand your personal and professional networks.** People already working in your target field are great sources of information about job openings, affinity organizations, and people you should meet. And if you have a good experience volunteering, your supervisor might serve as a reference when you're applying to jobs.
- **Volunteering will help you develop new job skills as well as apply current skills in new ways.** For instance, a mid-career professional who has worked in concert promotions could use her marketing skills to help an organization with their fundraising or other mission-based events. A college student accustomed to doing research for school assignments could volunteer to research an issue or demographic for a non-profit. For inspiration about what skills you might share and an overview of some organizations' current needs, peruse our information about volunteering in your country or abroad, and search volunteer opportunities around the world.

- **Volunteering allows you to try on different organizations, roles, issues, etc.,** without job-hopping. Of course, volunteering isn't the same as being on staff, but it can expose you to the work of an organization in a deeper way than becoming a member, following it on Twitter, or even conducting an informational interview with an employee.
- **Volunteering builds your confidence.** Volunteering can help you feel active, useful and productive.
- **Volunteering helps you get to know yourself.** Knowing your skills, accomplishments, interests and values is the foundation of career success. Volunteer experience can be a good way to learn more about yourself and your potential to grow and develop. It also gives you a chance to find out how other people view you and your strengths.

Social entrepreneurship

Social entrepreneurship is

- About applying practical, innovative and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and poor.
- A term that captures a unique approach to economic and social problems, an approach that cuts across sectors and

disciplines grounded in certain values and processes that are common to each social entrepreneur, independent of whether his/ her area of focus has been education, health, welfare reform, human rights, workers' rights, environment, economic development, agriculture, etc., or whether the organizations they set up are non-profit or for-profit entities.

- It is this approach that sets the social entrepreneur apart from the rest of the crowd of well-meaning people and organizations who dedicate their lives to social improvement.

Social entrepreneurs drive social innovation and transformation in various fields including education, health, environment and enterprise development. They pursue poverty alleviation goals with entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices.

A social entrepreneur, similar to a business entrepreneur, builds strong and sustainable organizations, which are either set up as not-for-profits or companies. A social entrepreneur is a leader or pragmatic visionary who:

- Achieves large scale, systemic and sustainable social change through a new invention, a different approach, a

more rigorous application of known technologies or strategies, or a combination of these.

- Focuses first and foremost on the social and/or ecological value creation and tries to optimize the financial value creation.
- Innovates by finding a new product, a new service, or a new approach to a social problem.
- Continuously refines and adapts approach in response to feedback.
- Combines the characteristics represented by Richard Branson and Mother Teresa, etc.

The following criteria characterizing leading social entrepreneurs: Innovation, Sustainability, Reach and social impact.

Social entrepreneurs share some common traits including:

- An unwavering belief in the innate capacity of all people to contribute meaningfully to economic and social development.
- A driving passion to make that happen.
- A practical but innovative stance to a social problem, often using market principles and forces, coupled with dogged determination, that allows them to break away

from constraints imposed by ideology or field of discipline, and pushes them to take risks that others wouldn't dare.

- A zeal to measure and monitor their impact. Entrepreneurs have high standards, particularly in relation to their own organization's efforts and in response to the communities with which they engage. Data, both quantitative and qualitative, are their key tools, guiding continuous feedback and improvement.
- A healthy impatience. Social Entrepreneurs cannot sit back and wait for change to happen – they are the change drivers.

Training for entrepreneurs

In all countries involved in the project, there are various educational activities for young people to start their own business, e.g.: <http://www.connectlatvia.lv/activities/training/>. There are also various support measures in all countries, such as facilitated business start-ups, finance, etc.

Practical assignment *(discussion with the adviser)*

- 1) *Discuss the ways to increase your income.*

- 2) *Identify the strengths and weaknesses of each option.*
- 3) *Identify the financial resources, qualifications or legal requirements for each opportunity.*

Practical tasks

- 1) *Check out self-employment and business registration options at your place of residence.*
- 2) *Find out opportunities of volunteering at place of your residence. Choose an opportunity that strikes your interest.*
- 3) *Identify your business interests! What activities does it involve! Which business form would be most suitable for? Describe what could be your business start-up process!*
- 4) *If you are employed, evaluate options for the promotion and salary? Find out if there's any chance of an additional work hours or part time work.*

Sources of information

- 1) How to survive with very low incomes?

<https://compeuro.lv/ka-izdzivot-ar-loti-maziem-ienakumiem/>

- 2) How to Increase Your Income:

<http://www.wikihow.com/Increase-Your-Income>

- 3) Bussiness startup strategy:

<http://articles.bplans.com/business-start-up-strategy/>

- 4) What is a Social Entrepreneurship:

<http://www.schwabfound.org/content/what-social-entrepreneur>

- 5) How to start business in Latvia, Lithuania and Estonia:

<http://www.baltic-legal.com/latvia-company-types-of-legal-entities-eng.htm>

- 6) Training for entrepreneurs:

<http://www.connectlatvia.lv/activities/training/>.

Module III. LIVING ACCORDING TO THE **INCOME**

Income and expenses planning

Aims of topic:

1. To learn about different types of personal expenditure.
2. To be able to prepare an expenses plan.
3. To understand cost reduction techniques.

THEORETICAL MATERIAL

Classification of expenses

For the implementation of short-term and long-term goals it is necessary to know your financial capabilities. It can be set in planning cash flows. **Cash flow** is what we get and what we spend, or, in other words, income and expenses. **Cash flow planning** - cost of planning and the allocation of income (that of the existing and planned expenditure does not exceed the current and future income).

Our needs and desires can be unlimited. If we would want to implement all of them, very quickly our expenditure would exceed income. This would result in a lack of money, meaning

that we would have to borrow or spend our savings. However, savings are limited, and some people do not have them at all.

Income is usually generated once or twice a month, but it is spent daily. For example, some parents give pocket money to their child once a week or once a month, but their child has to pay for school lunch each day. Therefore, it is important to divide or allocate income so that the child can buy what is necessary and would not need to borrow. People who work and receive a salary once or twice a month, have to allocate the money so that all family members can eat and be clothed for a whole month as well as have money to pay for housing maintenance and so on.

Usually income is fixed and the expenses are not. For example, some parents will give their child the same amount of money each week, but the costs for lunch in the school canteen vary every day, depending on what your child eats. Housing maintenance costs and the cost of food every month may vary so it is important to handle the costs in a way that they do not exceed the income, to spend less than is received. This becomes even more complicated if different amounts of income are received every time. In this case, it is difficult to plan how much money will remain for personal expenses. You always need to pay for the most important things first (food, housing maintenance and so on.), and

only if you have money remaining, it can be spent on not as necessary items or services. You have to prepare a cash flow budget in order to see whether costs exceed income, or there's free money.

We do not have any more income without salary, so most people know their incomes well and don't even count it. The situation with expenses are a bit different. There are very different types of expenses.

Therefore, more attention should be given for expenses management. there are more difficult to control income than to control expenses. Because the size of income depends for certain factors: do we have job or no, what is the amount of salary, is there a lot of work and etc. Expenses are managed by ourselves so it is important to know how to manage it.

The expenses can be grouped in various ways. Classification of expenses in various aspects are useful because they provide a lot more information and opportunities to start managing them.

Expenses by function

Expenses by function can be grouped as they are distributed by the (Statistics of Lithuania) Classification of Individual Consumption by Purpose (COICOP) developed by the European Cooperation and Development, cooperation with Eurostat:

- Food and non-alcoholic beverages;
- Alcoholic beverages, tobacco;
- Clothing and footwear (also cleaning, repair and hire of clothing);
- Housing maintenance costs (housing, water, electricity, gas and other fuels);
- Furnishings, household equipment and routine household maintenance (furniture and furnishings; carpets and other floor coverings; household textiles, household appliances; glassware, tableware and household utensils; tools and equipment for house and garden; goods and services for routine household maintenance);
- Health (medical products, appliances and equipment; outpatient services; hospital services);
- Transport (purchase of vehicles; operation of personal transport equipment; transport services);
- Communication (postal services; telephone and telefax equipment and telefax services);
- Recreation and culture (Audio-visual, photographic and information processing equipment; other major durables for recreation and culture; other recreational items and equipment, gardens and pets; recreational and cultural

services; newspapers, books and stationery; package holidays);

- Education (pre-primary and primary education; secondary education; post-secondary non-tertiary education; education not definable by level);
- Restaurants and hotels (catering services and accommodation services);
- Miscellaneous goods and services (personal care; personal effects n.e.c.; social protection; insurance; financial services n.e.c.);
- Individual consumption expenditure of non-profit institutions serving households;
- Individual consumption expenditure of general government.

The above grouping of expenses are useful as specified activities require the greatest cost. In addition, grouped expenses can compare how a person lives to a statistical citizen.

Expenses by the frequency

It is useful to group expenses by the frequency: daily, monthly, seasonal, annual, one-time expenses. Classification of expenses by frequency is helpful when they are planning for a longer period of time.

Expenses according to the standard of living

Grouping expenses according to the standard of living – minimum, normal, luxurious – allows to accurately count the cost of a personal life or family life, to see what the minimum amount of money would be to survive, what it would cost to live normally and how much a luxurious life would cost.

Expenses according to the needs

Everyone can set and estimate their needs, which is dependent on the desired standard of living. It is therefore recommended to group expenses according to the needs (Figure 3.1). Such grouping is useful to estimate your goal because the higher the needs the higher the cost.

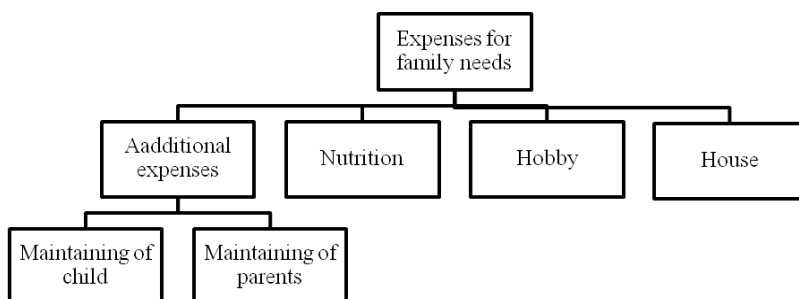


Figure 3.1. Expenses classification according to the needs

Expenses according to the degree of regularity

Expenses are classified according to the degree of regularity (Table 3.1):

- fixed expenses (food, utilities);
- regular expenses (clothing, footwear, cosmetics);
- one-time expenses (treatment, durables).

Table 3.1. Example of annual income and expenses plan

Month	January	February	March	April	May	June	July	August	September	October	November	December
Fixed expenses												
Regular expenses												
One-time expenses												
Income												

Some fixed costs are the same, such as: various payments (cable TV, internet, sports clubs); housing rental and maintenance costs (regular payment); transport costs (monthly tickets); loan fees; savings (the money you want to save should be attributed to the expenses). Other fixed costs are changing every month, maintenance costs (fees for water, electricity, heating, gas); food expenses; charges for mobile phone; fuel

costs; various personal expenses (products of personal hygiene, hairdressing services, etc.); expenses for entertainment.

Expenses according to the degree of necessity

Expenses are classified according to the degree of necessity:

- necessary expenses (for food, clothing, treatment);
- optional expenses (education, insurance, stocks and bonds).

Expenses according to the purpose of use

Expenses are classified according to the purpose of use:

- consumer expenses (to pay for purchase of goods and services);
- taxes and mandatory and voluntary payments;
- savings deposits, stocks and bonds;
- purchase of foreign currency;
- increase of own money.

Different expenses are managed by different tools. Easy manageable expenses depend on human purpose and choice. Intractable - the expenses of which cannot be avoided (costs for heating, electricity, water, determined by previous decisions of costs - debt).

The main and most common expenses: commitments (loans), food and transport. Other expenditure includes clothing, shoes, children's expenses, entertainment, travel, money for saving. Not all expenses have the same costs. Costs for children (pocket money) are relevant only to people that have children, therefore others do not have such costs.

Expense budget

You can start managing the expenses when you know what type of expenditure incurred. You can do this through spending plans called **expenses budgets** (Table 3.2). A plan like this will help you to always know how many you can afford and you can avoid unnecessary costs therefore it is possible to reach the financial goals.

When you are planning expenses, you should review current costs, analyse them and make expenses plan for the future according to the income. You could use the information already available - records of bank card statements, old receipts and so on.

There are also costs that occur only occasionally, and the amounts can be more different. This could be the costs of new household appliances, new clothes, entertainment. These may be pleasant for everyone, but they are not necessary objects.

Table 3.2. Example of monthly expenses plan

X month income EUR	1 000				
Expenses EUR	Plan	01	02	03
Food and non-alcoholic beverages	250				
Housing maintenance	60				
Transport	60				
Health care	5				
Clothing and footwear	0				
Communication	30				
Personal hygiene products	20				
Pocket money for children	10				
Recreation and culture	20				
Education	0				
Restaurants and cafe	60				
Housing maintenance	0				
Gifts	20				
Other	30				
Instalment of loans	230				
Life insurance and pension	60				
Savings	60				
<i>Total</i>	915				

Keeping the expenses plan is recommended for a long period of time - a few months, half a year or a year, then you can predict which of the fixed costs rise and when any one-time costs might occur. When you have more time to prepare, and have more opportunities to take care of the necessary money - save, borrow, to change today plans and so on.

To determine if the cost plan is right, it can be compared to the planned expenses and revenues. If it's a longer period (six months or a year) the planned costs are higher than planned revenues and savings are available, it is worth looking through the plan and perhaps immediately refuse some of the wish. Before deciding to borrow the missing money it should be planned in advance, as from what money and when (how long) to return debt.

If you have longer-term plan, you will need to create a monthly spending plan. Monthly spending plan – the part of a year expenses plan. We already know how much monthly income we should get as we plan to spend as much as we can so we should save. Each time we spend money in the relevant expenditure line we will need to write down how much spent and how much money was left in the month.

Before you begin to live according to the plan, there should be at least half of the monthly income margin. This may be required if inexperience caused it to be planned unwell.

Expenditure management includes the concept of optimization. After analysis of each item of expenditure you can ask yourself, how many one or the other costs are needed for, or maybe you can the same need satisfy cheaper.

How to control the costs

The costs should be controlled in 3 ways:

- 1) Identification of optimal collection types of expenditure.
That is to review all existing costs and to decide if they are related to the satisfaction of the necessary needs;
- 2) Checking the amount of consumer goods or services. Do you really need so much? If consumption can be reduced, it is necessary to provide the ways to do so (water and energy savings by turning off the lights as you exit, turn off the tap water when finished, buy more economical household appliances);
- 3) Revising the prices of consumer goods and services.
Maybe you can buy the same amounts of goods at a lower price?

Costs optimization and saving needs help us to ensure the quality of your life, and that's what we want. We just need to

learn to save and to keep doing it. Saving should start with the little things. Low-cost and minimum wages – are unfavorable for saving. The expenses consist of basic costs - housing, food and transport. Therefore, it is very difficult to live with low incomes. Having low-income and being able to meeting basic needs - it's already a skill. But, in this case, even with low-income, it's necessary for everyone to know their budget and costs.

How to reduce your regular expenses

- Do not carry the money that you want to save in a wallet. The money should be kept in a safer place, maybe someone could keep it, or maybe the money should be placed in a bank deposit account or piggy bank.
- If you have a weakness for spending more money than needed in store, you have to limit the number of visits you take to the store or when you do not know exactly what you will buy, go to the store without cash. You can limit the time you spend in the store.
- Shop once a week with a minimum list of products. Don't go to the store hungry. The best way to save on food - to form a full week list of products which will you need for dishes.

- Look at what products you still have at home. Shopping should start from a kitchen inspection so that you won't buy too much or buy unnecessary products in the store.
- It is cheaper to buy more units at once of the longer existing goods. You can wait for a sale.
- Only buy when you need it, rather than because of a "discount" as it is not very good to buy more than what is necessary.
- Buying online can be cheaper, because you can find and compare prices, as much as one or the other product costs to different seller. Finally, you can go to the store and buy it after choosing it online.
- If you have dinner in a restaurant you will spend less if you do not buy any drinks.
- You can save in housing maintenance if you reduce the flow of water and will use economical light bulbs, and will refuse some services (telephone, Internet, cable TV) or replace them with cheaper ones.
- When you make the year budget it is important to know not only the expenses but also to existing contracts. You can check the contract to find out if you have a good Internet, telephone and television use conditions. There are many promotions, discounts and other suitable proposals. Just go to

your service provider, and they will adopt the best conditions, suitable for your needs.

- To save transport costs you can organize driving with several people in one vehicle rather than one.
- If you do not have time to make a plan, and then control costs, you could create a periodic transfer agreement with a bank, then from the account to which salary is transferred immediately to the date of receipt of income savings deposit account would be transferred to the desired amounts of savings.

Check your understanding

1. Why is it necessary to manage cash flow and costs?
2. What are the reasons for budget preparation or not preparation?
3. What expenses are fixed?
4. What expenses are regular?
5. How expenses are classified according to the degree of regularity?
6. How to reduce your regular expenses?

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Practical tasks and situations

3.1 Task. *Divide the specified costs payment priority order from a financial point of view*

No.	Costs	Order of priority
1.	Housing maintenance	
2.	Food	
3.	Medicine	
4.	Transport	
5.	Holiday / time off	
6.	Financial liabilities	
7.	Clothes and shoes	

3.2 Task. *Personal income from wages is 500€. Together with her friend they rent an apartment. They have borrowed 200€ from their friends. They use financial support from their parents. Financial goals of the resident - to live from given wages and to give borrowed money back to friends.*

W resident budgets and whilst adjusting the amount of expenditure, offer how to accumulate to pay the debt and become financially independent.

Resident budget:

Monthly earnings	Sum, EUR	x
Wage	500	x
Financial support from parents	100	x

Total earnings	600	x
Monthly expenses	Sum, EUR	Proposed expenditure, EUR
Housing maintenance	100	
Electricity / water / gas	60	
Internet	10	
Mobile phone	15	
Home care, household goods	10	
Food, non-alcoholic drinks	150	
Eating out (Restaurants)	60	
Alcohol and cigarettes	30	
Clothes and shoes	50	
Personal hygiene products	20	
Public transport	10	
Taxi	20	
Theatre, cinema	15	
Events, clubs	50	
Savings for debt		

Total expenses	600	

3.3 Task. *Personal income from wages is 300 €. The majority of this sum is spent on a variety of items and entertainment. Sometimes spend too much on unnecessary items so they end up having to ask their parents for money. They live with their parents and they pay for housing maintenance and costs. Financial goals of the resident – to live from given wages and to accumulate 600 € in a year.*

View the resident's budget and adjust the amount of expenditure offer how to live from given wages and how to accumulate money.

Resident budget:

Monthly earnings	Sum, EUR	x
Wage	300	x
Total earnings	300	x
Monthly expenses	Sum, EUR	Proposed expenditure, EUR
Mobile phone	15	

Food, non-alcoholic drinks	50	
Personal hygiene products	20	
Clothes and shoes	75	
Eating out (Restaurants)	80	
Theatre, cinema	20	
Events, clubs	40	
Alcohol and cigarettes	30	
Public transport	20	
Savings		
Total expenses	350	300

3.4 Task. Prepare your yearly expenses plan

Yearly expenses plan

[illegible]

[illegible]

3.5 task. *Specify 10 saving tips, which should be followed whilst shopping:*

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

3.6 Task. *Specify 10 saving tips, which should be followed in preparation for Christmas / Birthday party / other parties:*

1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

Module IV. MANAGING THE MONEY

*Living now – implementing short term goals in daily life
- real incomes, sample of budget model, income and expenses
planning, planning of financial reserve (extra money)*

Theoretical material

Daily life arrangement is in many ways connected to money. We exchange money for what we need for a daily survival, i.e. we make expenditures.

In everyday life, every person needs to have a thorough understanding of what money is and how important it is. First and foremost, one needs to have an overview of his/her income and expenditure. Everybody has to know where their incomes come from (what are their sources of income) and how big they are. It is equally important for each person to know what and how big their expenses are. It is wise to group one's expenses. Comparing our incomes and expenses we are able to draw conclusions about our financial behaviour.

Example:

A person receives 400 euros of monthly salary (after tax) to his bank account. Can this person afford a smart phone that costs 420 euros?

Before you answer, think if/how it is possible to get the missing 20 euros; if the person really has these 20 euros (for instance, he has saved it from his previous month's salary), would it be wise to purchase this phone or not?

Why is it not reasonable for this person to buy this phone? (He does not have enough money for living – food, accommodation, transport, and other basic needs).

To be able to manage one's everyday life in terms of money, one needs to learn how to estimate one's expenditure and how to make a budget. Write down all your costs; don't forget accommodation costs, food, entertainment, clothes and other items. It is important that a young person could control his/her impulses to waste money on things that s/he cannot afford and/or does not need.

To avoid unpleasant financial surprises, a young person and his/her adviser should analyse together what s/he spends money on and how big are his/her regular daily and monthly expenditures, and how much s/he spends on single-purchase items. It is important to discuss if/what kind of expenses can be covered with the support of the parents, relatives, or social welfare benefits. It is important to stress that a person with financial literacy problems needs to discuss and analyse all these

ideas with his/her adviser. If s/he intends to ask for financial support from his/her family, local government, etc., it has to be well planned and there has to be a clear understanding and agreement between the parties about the procedure and remuneration of the money to the person who has covered the expenses.

Example:

Please explain a situation and analyse the possible outcomes if you plan to buy something and think (without discussing with the family) that your parents will pay for it. In reality it turns out that your parents cannot or do not agree to do it.

To make expenditures, we need money

- We have to spend money on food, clothing, housing, communication facilities, transport etc.

Practical assignment:

Discuss with the young person

- *what he spends money on daily/every month;*
- *which are his/her recurrent/regular and one-time expenses;*

- *what is his/her main item of everyday expenditure;*
- *which expenses can be reduced or cancelled, and which expenses are inevitable and cannot be changed;*
- *what is impulse purchase (wasting of money) and what could be the consequences of making impulse purchases?*

Arranging one's daily life

- Possibilities for getting money, i.e. actual income – salary, scholarship, government benefit etc.
- Possibilities for spending money –

Practical assignment (discussion with the adviser)

- 1) *Explain/discuss different ways of obtaining/earning money with a focus on the importance of paid employment in formation of income.*
- 2) *Do the person's qualifications, skills and experience enable him/her to increase his/her income?*
- 3) *Explain/discuss the opportunities and schemes for applying for scholarships and grants.*
- 4) *Explain/discuss the system and terms of the government support schemes.*

Financial planning and setting of goals

Planning:

- ✓ Analyse your wishes and needs
- ✓ Assess your possibilities
- ✓ Choose, compare and decide

Practical assignment:

Discuss together with the adviser why setting financial goals is important, so that the person advised could understand and admit the significance of goal setting and planning.

When we discuss planning, we should talk about everyday activities and events: planning a weekend, a birthday party, meeting up/gathering with one's friends, etc. Everyday financial planning also includes finding out/comparing the prices of items (a phone, a bike, a computer, etc.) when one plans/needs to purchase something rather expensive.

Practical assignment (discussion with the adviser):

Was the above example about short-term, medium term or long-term planning?

Approximately how long a period in time could the process of planning cover in case of long-term planning?

Long-term planning

Obviously, speaking of long-term planning, we mean a period of time more than five years ahead.

Practical assignment (discussion with the adviser):

- 1) Is it possible/ realistic to make plans for 20-30 years ahead?*
- 2) Explain/discuss the aspect/importance of money and the amount of money needed in the context of different life events.*

We can, conclude that if a person is able to rationally manage and plan his/her finances, s/he is also able to cope financially in all everyday situations as well as to be prepared for unexpected circumstances.

It is important to plan and make preparations for the events that we know will take place, but also to be ready for unexpected situations. In addition to positive and happy events, life can also bring sudden negative turns, which we have not expected to happen.

Example:

- There is a problem with your computer. At the workshop it becomes clear that the repair is too expensive as one

could get a new computer at the same price. The estimated cost of the repair is 400 euros. What are your options: have you saved money and are able to pay for the repairs/to buy a new computer, or should you get a loan? Or should you change your IT habits and use the library or other public computer/ Internet access facilities until you have been able to save up for a new computer?

Discussion with the adviser:

What is more reasonable - to buy a new computer or to have the old one repaired?

Will a new computer purchased with a loan be more expensive in the end?

- *What are the actual financial options and needs if one gets a notice of dismissal? Is it possible to find a new job and how long that could take? What kind of monetary compensation can a person get (redundancy payment, unemployment benefit) during a limited period of time in case of dismissal? Does s/he have any savings to pay for food, accommodation, loans, etc. between two jobs?*
- *If a person who has lost his/her job has a family, it is important to consider such life events as the birth of a*

child, a child/children starting school, etc. that require additional expenses.

Short-term goals

Short-term goals → planning income and expenditures of the near future

Example of a short-term goal:

You plan to go on a holiday to Greece next year. For that you will need 900 euros, but you have no savings. It means that you will need to save a minimum of 75 euros each months ($(900/12 = 75)$).

You could also use a bank loan. The yearly interest rate for a loan of 900 euros is 24% and you have to make equal repayments to the bank every month (this is called annuity). It means that every month you have to pay to the bank 85 euros which includes the repayment of the principal amount of the loan and the interest, the total amount per year is 1020 euros. So, for the bank loan of 900 euros you have paid additionally about 120 euros of interest. Normally the bank also charges you for concluding the loan agreement, which adds even more to the amount that you have to pay to the bank.

Medium-term goals

Medium-term goals → wishes for purchases during the next couple of years

Example of a medium-term goal:

You plan to purchase a car. You opt for a used car that costs about 5000 euros. If you can save 100 euros a month and supposing the cost of the vehicle category does not change, you will be able to buy the car in four years. If you purchase the car with a bank loan, the interest rate being 20%, you will have to make monthly repayments of approximately 152 euros, with a total amount of 7303 euros. The total amount of the interest paid to the bank is 2303 euros plus the loan agreement charge. You have purchased the car quickly but in the end you pay for it nearly twice as much as its original price.

Long-term goals

Long-term goals → wishes for purchases after more than five years

Example of a long-term goal:

A person who is 30 years old wishes to get a monthly pension of 600 when he/she retires, which is the double of the currently paid average retirement pension. Let us presume that

the current state pension scheme does not change and the retirement age is 65 years. If a person lives to the age of 80 or over, s/he has to save at least 54,000 euros during 35 years (300 €/month, or 3,600 € a year, $15 \text{ years} \times 3,600 \text{ €} = 54,000 \text{ €}$). A person building up this amount of money during 35 years needs to save for 128 a month, which is quite a big sum of money to be set aside.

It is also important to keep oneself informed about other ways of saving money and enhancing one's incomes offered by alternative pension schemes.

Planning procedure

1. Make a list of 12 items that need to be purchased during the next five years.
2. Group the items in short, medium and long-term purchases.
3. Select the three most needed items from a short-term period and identify their prices.
4. Select one medium-term and one long-term item and identify their prices.
5. Where to get money to buy the items; estimate how long it will take to save up the required sum to buy the items needed.

To gain a financial independence

Producing a personal budget and financial plan may help gaining a financial independence:

Step 1 is producing a personal financial plan → identifying goals

Step 2 is producing a budget: comparing income and costs

It is reasonable to split expenditures into inevitable and optional ones. Inevitable expenditures are those on food, housing, hygiene, in some cases on medicaments etc.

Optional expenditures are those on leisure time, travelling etc. To a certain extent, also expenditures on household, clothing and other durable goods are optional. Optional expenditures may be reduced without jeopardising one's life, health and future, although the cuts may not be pleasant.

For most people, salary is the main income source. In some cases, government benefits, earnings from investments or entrepreneurship may be an income source. When planning one's income, it is reasonable to consider that the income level may change over time, and not always upwards.

Step 3 is carrying out analysis

In case the income exceeds the running costs, one can find out how many of the financial goals can be reached from the surplus. In case, there is no surplus or it is too small, one should first of all revise the costs. Only a few people keep their expenditures entirely rational. After a critical look on costs, take a look on the income – is it possible to increase one's income by additional work or change a current job for a higher paid one?

Personal budget:

INCOME - COSTS

Income exceeds costs → possibility for saving

Costs exceed income → all expenditures cannot be made (need for cutting costs or seeking for additional income)

For cutting costs, it is necessary to have a priority list, i.e. list of costs that are inevitable and cutting of which is problematic (food, housing, transport).

Need for saving arises from situations requiring emergency (not planned) expenditures and they may sometimes occur. Think of such possible situations.

Savings (the money saved) secure bearing such costs without getting into a crisis situation.

Action in case of solvency problems:

- Analyse your financial situation – be honest and critical in finding the reasons why you do not have enough money to cover your costs; make sure if it is a short-term or a continuous problem;
- Draft a budget for yourself/your family – that will help you to get an overview of the actual situation and real needs and possibilities for adjustment of your incomes and expenditure;
- Cooperate with your creditors or partners to who you are in debt;
- You must not get a new loan to pay your outstanding previous loans;
- Try to repay as much as you can - by doing that you demonstrate your willingness to pay your debts;
- You have to cut your expenditure;
- As you need more money to pay the debts, look for additional sources of income;

- Consider selling your immovable property, or try to exchange your current home for a cheaper dwelling;
- Be sure to communicate with your creditors and read through their emails/letters. You should not ignore their negative messages but need to respond to them;
- Seek for the moral support of your family and friends and familiarise yourself with the legal aspects of the processes that have started – you need to know your rights and obligations.

Module V. FINANCIAL FREEDOM

Aims of topic:

4. To learn about financial security measures;
5. Ability to choose appropriate funding methods;
6. To learn about the possibilities in government social support scheme.

THEORETICAL MATERIAL

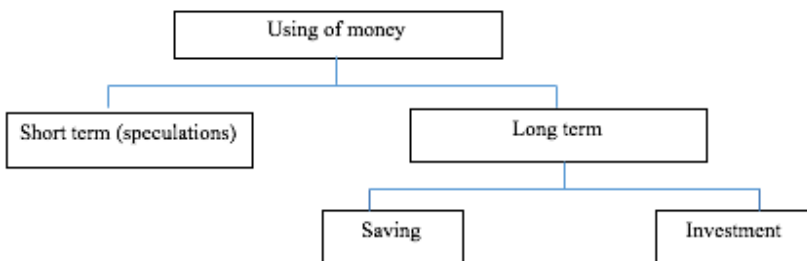
Description of content:

- Investments. Savings; Insurance
- Funding methods;
- State social support measures and system.

Investing in Your Future

Investing is necessary to have financial freedom in future.

Make your life all that you want it to be by building your future on financial investments that meet your goals.



Saving

Saving is most simple and safe way to create your financial freedom.

Saving is essential to building your long-term wealth, and it is important to save early in life and often. Regardless of your age, you should save a percentage every time you receive money. The everyday decisions you make about money can have a lifelong impact. Saving allows you the freedom and flexibility to fulfil your goals and helps you develop good personal finance habits.

Opening a bank account shall be the first step towards successful cooperation. Having opened an account with bank, you will be able to safely keep your funds and conveniently manage your daily financial matters.

Opening a bank account is simple - you have to arrive at any customer service outlet of bank and enter into a bank account agreement.

When opening an account, the Bank staff will ask you to furnish the passport or ID.

When the account is open for a person younger than 18 years, the birth certificate of the under-age person must be submitted.

For the purpose of opening a bank account the initial entry shall be optional. You may have an unlimited number of accounts. An agreement may be terminated at any time if necessary, withdrawing the entire amount held in the account.

Deposits – safe and flexible method of investment

You can choose a method for saving and investing money best suited to your needs and expectations. Only don't keep your savings in wardrobes or socks – let the money “work”

- obtain for your bank account payment cards of different types as well as credit limit;
- keep money in your account in all currencies operated by the Bank;
- find out your bank account balance and receive monthly statements mailed to you;
- having opened a deposit account, transfer to it free funds from the bank account - this is a convenient way of saving and earning higher interest on funds that are not used.

Savings deposit

- You can increase the deposit amount periodically or when you have free funds.

- Where appropriate, once in 3 months you can withdraw up to 50% of the deposit amount without losing interest (minimum deposit amount should be felt in the deposit account).

Interest is paid in the end of the agreement term. Save money for a larger purpose or monetary reserve.

Term e. deposit

Easy and safe way of keeping accumulated funds.

Time regular deposit

For those who want to maintain the accumulated monetary reserve and receive accruing interest on a monthly basis.

Investing in your future

Investing is not just for the wealthy. The best known way to build wealth is to make your money work for you. Stocks, bonds and mutual funds are all common investments that can build wealth over the long-term.

Why you need not only saving?

- Saving is setting aside a certain amount of your income over a period of time in order to accomplish a goal.
- *Investing* is a long-term activity accomplished by having your money make more money for you.

Why is important to invest?

There are many good reasons. Investing helps you stay ahead of inflation, and meet long-term goals like buying a house or paying for college. Investing also helps you earn enough money to maintain a lifestyle you will enjoy in retirement.

Today banks offer a wide range of financial services, including securities (stocks and bonds) sales. You can also buy investments from brokerage houses and mutual fund companies. Like banks, these institutions may offer a wide range of financial services, including savings and investment plans.

Protect yourself

- Never invest in a product that you don't understand.
 - Be sure you have enough information before making an investment. Ask questions until you are satisfied.
 - Understand the risks involved in your investment.
- Investments always entail some degree of risk.

Types of Investments

Stocks

Stocks are one investment option. When you buy stock, you become a part owner of a company, and make money through the sale of stock when it has risen in value. Some stocks

also pay dividends (distribution of income) to shareholders, usually quarterly.

Historically, the stock market has been a leading way to make money and stay ahead of inflation over time, making it good for long-term investment goals such as retirement.

It is never guaranteed that stock prices will go up or that you will make money on stocks. Before buying stock it is wise to find out about the company's business, financial performance and management.

Bonds

A bond is a loan you make to a federal or state agency, municipality or corporation. In exchange for the use of your money, the issuer pays a fixed interest rate for a specific number of months or years, until the bond matures (comes due).

The amount of interest paid is based on the issuer's creditworthiness as well as current interest rate trends. Issuers with good credit are rated higher and pay a lower interest rate. Bonds issued by companies with poor credit are called "junk" bonds. Junk bonds are high-risk investments but they pay more interest, which is why another name for them is high-yield bonds.

Bonds can vary in term length. They can be as short as one year or as long as 30 years. Usually, the longer the term the

better interest rate you receive. However, if you sell your bond before the term is up you will lose money. It is best to keep bonds for their full term.

Mutual funds

Mutual funds are portfolios of stocks, bonds and other securities in which the public may purchase shares. Each investor shares in the fund's gains, losses and expenses.

With a mutual fund, your money goes in a pool with other investors to create a large portfolio that is overseen by a fund manager. Most funds buy a variety of investments like stocks, bonds, or other securities.

To invest in a mutual fund, an investor buys shares of the fund and becomes a shareholder. That fund makes money two ways: by earning dividends or interest on its investments and by selling investments that have grown in price. The fund then pays out its profits to the shareholders. Many believe index mutual funds are a good way to invest money for the long term. They have very low fees and attempt to replicate a market indices like the Dow Jones or S&P 500.

Real estate

Real estate is "property consisting of land and the buildings on it, along with its natural resources such as crops,

minerals or water; immovable property of this nature; an interest vested in this (also) an item of real property, (more generally) buildings or housing in general.

To rent or buy? Practical work.

A word about risk

When making investments, it’s important to understand not only the potential returns, but also the risks involved.

We would all like to earn the highest possible return on our money. However, as the potential return goes higher, so does the risk that you might lose money.

Social security system

How money come to Social security system? How government manage our money?

Social security system			Special social support
Social insurance	Social support		
	Social money support	Social services	
Pension	Social pension	Social care institutions	Military pension
Maternity/Illness	Family pension	Senior care home	Presidential pension
Health			
Unemployment			

Occupational Desease Accidents at work	Funeral Benefit Transport compensation	Child care home Day centers Homeless shelter Help at home Nursing at home	Police officers pension Scientist pension..
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Additional reading:

<http://www.socmin.lt/lt/titulinis.html>; <http://finmin.lrv.lt>;

<http://www.vsaa.lv/lv/pakalpojumi>.

How State manage our Money

Where are money from?

- Income taxes;
- Social insurance payments;
- Taxes on additional value (VAT);
- Excise duties;
- Health insurance.

How state spend our money?

- Social security;
- Education;
- Health protection;
- Public security;
- Military;
- Roads,
- Culture events;
- Recreation;
- Environment.

Insurance

According to the object of insurance, insurance business is divide into personal insurance, property insurance, and financial loss insurance.

Personal insurance includes:

- Insurance against death and accidents,
- Insurance for foreign citizens' emergency assistance in Lithuania costs,
- Emergency medical assistance when traveling abroad expenses insurance,
- Health Insurance.

Property insurance

Property Insurance essence of loss resulting from an insured event, salary. The most common of such risks are insured property damage or destruction, and non-receipt of

expected income due to default of the counterparty or other reasons.

Property insurance includes:

- Vehicle (Casco) insurance,
- Building insurance,
- Home Insurance,
- Livestock and pet insurance.

Life insurance

Motivation to sign life insurance contract could be:

- Regular savings
- Financial support in case of emergency
- Income after retirement
- Money for children education
- Financial spouse protection
- The gift
- Debt-back guarantee.

Life insurance features

• The bonus payment. This means that each person pays as much as his age is determined based on actuarial statistics. Bonuses, depending on the type of life insurance policy are paid annually, semi-annually, quarterly or monthly.

• Participation in profit. Some insurance companies share part of their profit with the insured persons who have purchased

a policy with profits - so insurance policyholders could be involved in the insurance company's profits.

- Tax system. In order to encourage the life insurance market in some countries, including Lithuania, income tax deductions may be applied to individual life insurance contracts.

Life insurance companies

Life insurance can be divided into:

- pure life risk insurance,
- net cumulative insurance;
- mixed life insurance.

Pure life risk insurance is a kind of insurance product which insures a human life for a certain period of time. The contributions paid to insurance company will not be refunded, the insurance shall be paid only in one case - the loss of life.

Net cumulative insurance - is insurance product whereby the insurer, in exchange for the payment of insurance premiums, undertakes to pay the insured capital or annuity (an annuity), the latter, they can live up to the date specified in the contract. Cumulative risk - life expectancy of insured person, taking into account the potential loss of revenue for old age. Net cumulative insurance can be added to the pension insurance.

Mixed life insurance – is a mix of both insurance products. Mixed life insurance offers the insured person to

conclude a contract covering the risk of death for a lower price and guaranteed savings in a single insurance policy, thus avoiding duplication of insurance contracts.

Life insurance products

According to the use of premiums can be cumulative insurance and investment insurance. Cumulative life insurance - insurance such as periodic payment of contributions to saving a certain amount of money and builds on its security interest to the policyholder or his family's future. With such insurance, the investment risk is taken by the insurance company because it pays to the insured person interest, guaranteed by the contract. Investment insurance from traditional cumulative life insurance is different in that part of the premiums paid for investments in the hope of getting more profit than the fixed rate, but the investment risk is the responsibility of the policyholder. Investment life insurance covers two transactions - personal life insurance and investment.

Final insurance premium depends on:

- Reimbursement of premiums,
- Contribution periods,
- Investment profitability
- In addition, selected insurance protection (insurance in case of accidents, critical illnesses).

Depending on individual needs, may include: individual insurance, family insurance, child (studies) insurance. Family Insurance is life insurance product, where one of the life insurance contract covers each family member's life, and the insurance benefits shall be allocated at the discretion of the policyholder. Family Insurance can be a traditional cumulative or investment.

Child and Child Study insurance

Child and Child Study insurance - life insurance products such as periodic payment of contributions accumulated a certain amount of the child's future, while insuring the policyholder (eg., one of the parents') lives.

In case of emergency a certain amount should be paid, and the rest of the child's contribution to financial stability continue to pay the insurance company. There may also be a child's study insurance, wedding insurance, and so on.

By choosing life insurance, you can have additional insurance protection - accident or critical illness.

State Social Insurance Pensions types

The state social insurance pensions are as following:

- 1) Retirement pension;
- 2) Work incapacity (disability);

3) Widows and orphans.

The minimum state social pension insurance period of state social insurance old age pension is 15 years.

The obligatory state social pension insurance period of state social insurance old age pension for men and for women is 30 years (in Lithuania).

Module VI. CREDITS, DEBT MANAGEMENT

AND BORROWING

Essence of credit, consumer (fast) credits, pawn shops, terms and conditions of borrowing, the importance of paying back on time – credit history

TEORETICAL MATERIAL

Borrowing (taking a loan)

Borrowing (taking a loan) is taking a sum of money or a commodity as a debt to be returned.

A loan or credit is a sum of money (commodity) borrowed and to be paid back to the creditor in an agreed form and term whereas in most cases interest has to be paid to the creditor.

Discussion with the adviser:

Analyse how reasonable borrowing is. The person intending to take a loan needs to ask him/herself if the item s/he wishes to purchase lasts longer than the loan repayment period.

Possible solutions and developments:

- ✓ In case one intends to take a loan for purchasing a home or a car, the answer is obviously „yes“. However, one should also know how much s/he has

to pay to the bank for loan servicing and consider if s/he can afford it.

- ✓ In case of a consumer loan taken for travelling, purchase of clothes, etc. the answer tends to be „no“.

As in previous case, one should also know how much s/he has to pay to the bank for loan servicing and consider if s/he can afford it. But it is also important to analyse how necessary the item to be purchased is. On the other hand, in some situations a consumer loan is justified. For instance, one has to buy a new pair of winter boots if the old ones are completely worn out.

Normally, it is reasonable and cost-effective to postpone the purchase until one has collected the required amount of money.

So, we may conclude that if a person is able to repay a loan with the interest, s/he is also able to postpone the purchase until s/he has saved the required sum of money.

The person advised and the adviser should discuss whether it is cheaper to collect/save money and buy the item needed then, or to use a loan that has to be returned with the interest.

It is important to guide the person toward admitting that:

- Loan is not income;

- Loan is a liability, an obligation, a promise to return the amount of money borrowed by a certain time in the future together with the interest;
- One has to keep its promise to make the repayments by certain dates and in agreed amounts;
- Violation of the agreement, or late payment will result in additional expenses due to a default interest;
- Taking a loan includes additional costs (agreement charge, insurance, etc.);
- If one borrows money, the financial resources s/he has for everyday consumption decrease by the amount of the loan and the interest to be repaid; as a rule, it is approximately 30% of the income;
- During a certain period of time, the person intending to take a loan could try to do with 30% less money than s/he normally has in order to test if s/he is capable of coping with the loan.

Borrowing money must be planned carefully. One should analyse their family's budget and solvency (see the above recommendation to do with 30% less money).

One should bear in mind that the item or property purchased with a loan requires additional expenses (insurance or

renovation of the property, insurance, maintenance and fuel in case of a car, etc.).

Paying back a loan takes several years or even decades during which one needs to be ready for unexpected turns and situations (loss of job, long-term illness, etc.) which might complicate repayment of loan. Thus, one should avoid the burden of debt, as it can lead to deterioration in quality of life and cause serious financial problems.

Before signing the loan agreement one has to critically and objectively assess and evaluate his/her financial status and to answer the following questions:

- 1) How big a loan can you afford to be able to cope with the monthly loan repayment and other payments made every month?
- 2) What is the loan repayment deadline, or in other words – how long would be the period of your loan contract?
- 3) How expensive will the loan be including the interest and other fees and charges to be paid in addition to the principal amount of the loan (e.g., contract fee). The formal term for all loan-related expenses is annual percentage rate of charge, expressing the total cost of a credit agreement to the consumer including

all expenses connected with the use and servicing of a loan that the borrower has to pay in addition to the principle amount of the loan.

Annual consumer credit rate of charge

Annual consumer credit rate of charge is an index that is calculated as an annual percentage which reflects the total cost of the loan for the borrower including the interest, contract fee, and other fees directly related to the loan. These are very important aspects that a person who is planning to take a bank loan has to know about and to consider. Before you take a loan, consult a specialist (bank/credit institution staff, loan officer, or a credit advisor), but bear in mind that it is the borrower him/herself who makes the decision and is thus responsible for the loan.

NB!

- Advisers are not responsible for the loan decision and the loan commitment made.
- Avoid being misled by smart advertising!

Interest is a charge for using a loan or additional money that adds up to the loan sum to be paid back to the creditor. In a sense, interest is the price of money.

With the help of the adviser, to make clear what the components of interest rates are and how the interest rate is formed.

It is also important to make sure if the principles of formation of the interest rate can change within the period of the loan contract.

To calculate interest, an interest rate expressed per cent is agreed and it is calculated as the percentage of the loan sum.

Methods of interest rate formation

In case of loans, the following methods of interest rate formation are used:

- fixed interest,
- floating or variable interest rate.

Fixed interest

This is an interest rate fixed at a certain percentage which is agreed between the borrower and the creditor and stated in the loan contract. Fixed rate of interest is used in case of short-term loans when the amount borrowed is not big.

The borrower and the bank agree the interest rate for the whole period of the loan contract. Because the interest rates on fixed-rate loans stay the same, the borrowers' payments also stay the same.

However, the borrower who has opted for a fixed rate of interest has to know that even if the cost of money on the financial market decreases and the expense of new loans (and their interest rate) goes down as well, with a fixed interest rate one must pay as agreed in the contract and the rate will remain unchanged.

Which loan interest rate is more favourable, either the fixed rate or the floating rate, depends on the current status of The Euro Interbank Offered Rate (Euribor) - an interest rate based on the average interest rates at which a panel of European banks lend money to one another, Information on the current Euribor interest rates is available on the websites of banks as well as here.

Floating, or variable interest rate

This is a rate of interest in case of which bank's margin is added to the *Euribor* rate. Bank's margin is also called the bank's risk premium.

In case of a loan with a floating, or variable interest rate the interest rate is made up of two components: of the *Euribor* rate varying in time, and of the margin agreed between the bank and the customer. As a rule, such floating interest rates are used for home loans or large consumer loans.

Bank's margin

Bank's margin is a percentage that is usually fixed for the whole loan period. The margin is calculated individually for each borrower, depending on the loan amount, length of the loan period, value of the real estate collateral, borrower's income and history of his/her previous borrowings (has s/he repaid previous loans as fixed in the contract).

Euribor (European Interbank Offered Rate)

Euribor (European Interbank Offered Rate) is an interest rate based on the average interest rates at which a panel of European banks lend money to one another changing every office day. In a loan contract, *Euribor* is fixed for an agreed period of time (normally, it is 3, 6, or 12 months). Depending on the length of the period, will change the loan interest rate and thus also the amount of interest to be paid. In reality, when *Euribor* rates decrease, the interest rates and the amount of interest to be paid will also decrease, and vice versa.

Example → A loan sum of 150€ at an interest rate of 12% a year means that in such a case 18€ of interest at the rate of 12% has to be paid if borrowing 150€ for a 1-year period. It means that when paying back the loan sum, one has to „pay extra 18€ for using the loan. One borrows 150€ but has to pay back 168€.

For calculating interest there are different methods (possibilities) that result in different sums (the sum of interest that has to be paid for using a loan).

It is very important that a borrower follows how much it is required to pay interest in addition to a loan sum → compare the loan sum to the sum due to be paid back.

Various other fees may add to the sum due to be paid back, for example a contract fee.

Fees and payments related to a bank loan

It needs to be discussed together with the adviser that borrowing means that the borrower has to make several single and regular payments. Regular payments include a monthly loan interest, surety insurance, as well as loan and/or life insurance.

Examples of the fees to be paid:

- **Interest as the cost of the loan to be paid**
- **Real estate appraisal fee**

If the bank requests, real estate has to be appraised (the market value of the property set as collateral has to be defined) by an authorised impartial real estate appraiser.

- **Contract fee**

Usually, the bank charges a loan contract conclusion fee as a certain percentage of the amount borrowed, or as a fixed amount.

➤ **Notary fee and state fee**

After signing a home loan contract, a contract of purchase and sale of immovable property, as well as a contract for the establishment of a mortgage on property are concluded and signed at notary's office. The property is mortgaged in favour of the bank. After signing the contracts, the borrower has to pay the notary fee and state fee. The amount of the notary fee depends on transaction value; notary fees are stated by the Notary Fees Act. State fees also depend on transaction value and they are levied according to the State Fees Act.

➤ **Insurance costs**

With signing a loan contract, the borrower undertakes to insure the immovable property securing the loan and has to pay insurance premium during the loan period (or longer). The bank uses it as a tool of risk management in case of deterioration or destruction of the property. Before concluding an insurance contract, read carefully the loan contract to find to what extent and against which risks the bank requires your insurance.

Loan terms

Loan terms mean the date when a loan is due to be repaid.

- A loan term is agreed in a loan contract between a borrower and creditor.
- In a loan contract also all other conditions are agreed.
- Signing a loan contract means that a borrower (loan taker) assumes a liability to pay the loan, interest etc. back to a creditor (loan giver) by a certain date. This is a document allowing a creditor to claim the loan back from a borrower in accordance with legal acts.
- In addition to a loan contract, also a repayment schedule is produced that identifies the date(s) when a loan and interest (or instalments) are due to be paid.
- In case of exceeding the due date, a financial penalty (fine for delay) is charged.
- The rate of a fine interest is agreed in a loan contract and is, as usual, several times higher of the loan interest.
- A fine for delay is calculated for each day of delay.
- Thus, the sum of money to be repaid increases each day if the repayment deadline is not kept.

A speed loan

A speed loan is a type of loan characterised by a relatively short term and high interest rate. As a result, a borrower must pay a substantial sum for using the money borrowed as a speed loan.

- As a rule, a borrower has to pay a contract fee that is rather expensive in case of speed loans.
- If taking a speed loan without a proper consideration, it may easily bring along a rapid growth in sums to repay a loan, interest on loan and interest on delays, if due term is failed, that a borrower is obliged to a creditor.

Pawn shops

Pawn shops pay money against valuables, items of electronics or any other marketable items. A date is agreed when the owner will collect the item and pay back the money received whereas the sum due to be repaid is higher than that of received for the item.

The situation may also be explained like this: a pawn shop buys an item for a certain period of time by paying its owner a relatively low price (not more than half of a market value) for it and after an agreed time period the owner buys the item back at a higher price. In case the owner does not buy the item back, the pawn shop will have it for selling.

Other terms of a loan contract

In addition to knowing the main points of a loan contract (interest rate, etc.); attention must be paid also to other aspects, such as the terms for early repayment of the loan, how to apply for a grace period, etc. Please consult bank staff if something needs to be clarified or explained.

After a loan has already been taken, one can seek information about possible changes in the loan agreement, borrower's additional obligations, or possible penalties.

Terms and definitions to discuss the issues of bank loans

Terms and definitions that advisers may need in discussing the issues of bank loans:

Loan disbursement;

Terms, conditions and important dates connected with the disbursement of the loan stating when exactly and to which account is the amount paid; whether the payment is made in full or in instalments, and if there are additional terms, e.g., presenting of additional agreements or invoices.

Repayment of a loan contains all information on repaying the loan, it is important to pay attention on which account and by which date the amount stated has to be available

for repayment. The borrower has to know when the first payment is debited from their current account so that s/he can secure that there is enough money for that on his/her account.

Terms of early repayment also include the term/time of advance notice and the contractual fees.

Amendments of conditions of a loan agreement concern any changes made in the loan agreement. As a rule, a fee is charged for amending the conditions of a loan agreement. It is important know how much one has to pay for the amendment(s) to be made. The conditions of the agreement are usually amended upon agreement of both parties, but there can be circumstances that one party of the does not agree with. Thus, in case the borrower applies for a grace or wishes to prolong the loan period, the bank may set additional conditions. For instance, if you apply for a grace, the bank may request additional collateral, or increasing your risk margin.

Payment schedule

Payment schedule is an important document supplementing the loan agreement containing all the important information about loan repayment – the terms, the amount(s) of the repayment(s) including the principal part and the interest.

Special conditions of the loan agreement

Often there is the obligation to open an account with and/or transferring the earnings to the bank disbursing the loan.

This obligation may concern also the co-borrower or the guarantor. In case of a home loan, the loan agreement may have a clause stating that the borrower has to immediately inform the bank about other loans taken in the period of the current loan, if their amount exceeds a certain percentage of the unrepaid amount of your loan.

Grace period

It is important to make clear how one can apply for a grace period, why/under which circumstances grace period is granted, how much it costs, etc.

Annual percentage rate is an index that is calculated as a percentage per year and it shows the total amount of the loan expenses for the borrower (interest rate, contract fee and other fees).

Penalty for late payment / Late payment interest

If you do not make the contractual payments in due time, bank may demand penalty for late payment. It is important to know the rate/amount of the penalty. In the loan agreement it is usually stated as an amount per day. Late payment penalty or

interest is calculated from the date that the financial obligation/debt falls due (normally the date by which the loan repayment has to be made) until the loan is fully repaid.

Late payment interest is calculated on the principal of your loan, per each day of repayment delay. Penalty for late repayment cannot be claimed on unpaid interest.

History of loan behaviour shows how a person has earlier taken and used loans and how the person has met repayment terms. Databases have been created to record a person's loan history, so that a creditor can follow how correct a borrower's behaviour has been towards previous loans. In case, a borrower has had a trouble in due repayments, another loan may be refused.

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ISBN 978-9934-8495-5-8

*This project has been funded with the support from the Nordic Council of Ministers, Nordplus Horizontal programme project ID: NPHZ-2015/10009 “**Learning strategies for learners with poor basic skills in a planning of personal finances**”.*

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