

# Financial Planning

## SLIDE 1

[silent]

## SLIDE 2

Welcome to the first module of a short financial education course for women.

## SLIDE 3

Compared with other countries, Italy has a particularly low financial literacy rate, with women generally scoring worse than men. There are many reasons for this: women have a lower employment rate and so their incomes are lower; they tend to delegate dealing with financial matters to their male partners; their attitude towards money is affected by gender stereotypes; they approach financial topics with unease, and even when they do know more than men, they don't feel confident about their knowledge. Let's try together to raise our level of knowledge and boost our confidence and sense of independence, starting with financial planning.

## SLIDE 4

Planning (or budgeting) means managing your financial resources based on a well-defined plan. We may not be aware of it, but we make financial decisions every day. The choices we make impact our today and tomorrow, and they can best be faced through planning, which allows us to make the best use of our resources by ranking them according to priority.

Financial literacy is essential, especially in a crisis (whether financial or health-related) and is a test of an individual's financial resilience – that is, her ability to build up a financial buffer to ensure that she can withstand any financial hardship.

As George Kinder, founder of a life planning movement, sees it, 'People don't have financial goals, but rather they have life goals that may have financial implications'.

## SLIDE 5

The facts show that financial planning contributes significantly to a person's financial wellbeing. Financial wellbeing is a state in which people can meet their current financial commitments, feel confident about their financial future and make choices that allow them to live their life to the fullest. Therefore, our wellbeing improves in correlation with our ability to meet our current financial commitments, which makes us feel more secure and freer to choose not just today – by keeping our expenses in check and making decisions that improve our lives – but also tomorrow – by allowing us to handle financial emergencies and to achieve our goals and, consequently, self-fulfilment.

## SLIDE 6

And now, three questions to break the ice.

## SLIDE 7

[Read the slide and animate by highlighting right answer]

The word 'budget' comes from the French *bougette*, purse. But what does it mean to make a budget?

- A. Putting away any monetary gifts received, perhaps in a bank account
- B. Keeping a record of projected income and expenses to understand how much you have left over
- C. Memorizing your income and expenses in the hope that you haven't spent more than you make
- D. A type of retirement plan

The correct answer is B.

#### SLIDE 8

A budget is a record of projected income and expenses covering a specific period of time. Keeping a budget means understanding which of your expenses are really important, as well as prioritizing them based on your salary and any other sources of income. You may even find that you have some recurring expenses that you can cut out – your wallet will thank you!

#### SLIDE 9

[Read the slide and animate by highlighting right answer]

Which of these time spans is not suitable for a budget?

- A. A day
- B. A week
- C. A month
- D. A year

The correct answer is A.

#### SLIDE 10

A budget involves planning and organizing income and expenses over time, therefore it makes no sense to take into account a time span of just 24 hours.

So the first step in making a budget is choosing a specific time span, which can be a week or a month or a year, and writing down all incoming and outgoing amounts – that is, how much we expect to earn and spend in the chosen time span.

#### SLIDE 11

[Read the slide and animate by highlighting right answer]

Let's turn to the last question:

Which of the following is the correct definition of 'regular expenses'?

- A. The purchase of the same products or services
- B. The conventional name for children's expenses
- C. Expenses for the purchase of household cleaning products
- D. Recurring expenses which can be easily calculated on a monthly basis

The correct answer is D: these are all recurring (and therefore predictable) expenses.

#### SLIDE 12

And now, regardless of how you did on our test, let's see what more we can learn.

We can approach planning in 5 easy steps.

#### SLIDE 13

The first step is to pinpoint your financial goals, which must be specific, measurable, achievable, relevant and time-bound, or SMART. The time span can be a week, a month or a year.

While the financial goal of becoming rich, for instance, may seem appealing, it is not actually a very SMART goal. If, on the other hand, we decide to save 50 euros every month for a year, we have set a SMART goal, which will prove more effective.

#### SLIDE 14

Drafting a budget allows us to plan money coming in and going out over time, to track it, to prioritize our expenses and to understand that we can't have everything – that is, that one decision may impact another. It also gives us a chance to learn how to make choices, listing out our expenses and deciding which ones are urgent and which ones can be postponed.

There are plenty of budgeting calculators, apps and other software available. At the end of the module you will find one that you can freely download that can help you make your budget. Persistence is the key.

#### SLIDE 15

Bear in mind there are two types of expenses:

- regular expenses are the ones that recur periodically and can be easily calculated on a monthly basis, such as food, transportation, petrol, as well as your mortgage payments, or rent.
- irregular expenses are ones you will incur occasionally, and can be paid using funds previously saved for the purpose.

Income follows a similar pattern.

Planning teaches us how to distinguish our needs from our wants. Identifying our most pressing needs requires some thinking and self-awareness, and may lead to different results for different people, based on income, occupation, marital status and so on.

With this in mind, we can distinguish between essential and non-essential expenses, and then start to plan ahead.

#### SLIDE 16

It is also important to review your budget at the end of the period. Comparing your estimates with what really happened will help you fine tune and improve your planning over time, and this is how you can start to save money.

#### SLIDE 17

On the subject of savings, please remember that building up a financial culture and careful planning are what will help you save for the future.

A few tips to bear in mind:

- Always plan ahead for your larger expenses, setting aside a designated sum of money each month.
- Try to keep something aside for your irregular expenses as well as for unforeseen events – not everything's predictable!
- Think about your own long-term future and that of your loved ones by taking out insurance, setting up a pension fund, and making other forms of investment...

#### SLIDE 18

As the last step, let's consider some common planning mistakes so that we can try to avoid them. First of all, planning is all about the future. This means we are dealing with uncertainty and have to decide among a number of equally valid alternatives.

Also bear in mind our decisions are often driven by the emotional part of our brain, not by the rational one. Research into the psychology of choice has identified a number cognitive biases that affect people's choices when it comes to buying and saving, even leading them to make decisions that go against their own best interests. In 2002, psychologist Daniel Kahneman was awarded the Nobel in Economics for his work on human judgement and reasoning.

#### SLIDE 19

... if emotions prevail over reason.

Have you ever put off changing your telephone service provider even though you knew you could get a better rate? Well, that sort of laziness comes at a cost... have you ever left a shop with a purchase you didn't need, just so you wouldn't disappoint the courteous shop assistant? Here too, emotion prevailed over rationality and good financial sense.

#### SLIDE 20

What if your final budget balance shows your calculations were off? Don't be discouraged!

You can rethink your spending plan, reconsider your priorities, and maybe you'll find some expenses weren't as essential as you thought.

You can review your utility rates, and maybe save some money by switching providers or renegotiating your mortgage.

You could also consider applying for a small loan that matches your ability to repay it, but pay attention to its costs and sustainability over time.

#### SLIDE 21

Do you have any questions? Would you like more information on some of these topics? Please visit the websites of Banca d'Italia and of the *Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria* to find out more.