1
MODULE
Employment & Earnings
रोज़गार और कमाई
1

MODULE

Employment & Earnings

रोज़गार और कमाई
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We acknowledge Ms. Nandita Batra for her efforts in
putting together the content.
Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with essential knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.
Course Structure

Modules:
• Pre-Assessment
• Module 1: Employment & Earnings
• Module 2: Spending
• Module 3: Savings
• Module 4: Borrowing
• Module 5: Financial Planning
• Post-Assessment

Overarching Objectives:
• Explain the components of salary income so that students can read their salary slips
• Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
• Equip students to prioritize, budget, and plan for total expenses
• Highlight the financial and emotional costs of borrowing
• Explain the concept of return and link to borrowing for consumption vs. production
• Introduce the formal banking sector and its role in financial management & planning

Outcomes:
By the end of the curriculum, students should have:
• Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
• Identified a short and long-term goal to provide ongoing motivation for savings
• Opened a savings account (or at least attempted to open one)
**Module Structure:**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Activities</th>
<th>Suggested Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Types of Employment</td>
<td>Types of Employment I Want to Earn More Money</td>
<td>30 mins</td>
</tr>
<tr>
<td>1.2 Types of Pay</td>
<td>Types of Pay</td>
<td>30 mins</td>
</tr>
<tr>
<td>1.3 Components of Pay &amp; Minimum Wage</td>
<td></td>
<td>45 mins</td>
</tr>
<tr>
<td>1.4 Salary Slips</td>
<td>Reading a Salary Slip</td>
<td>45 mins</td>
</tr>
<tr>
<td>1.5 Earnings-Spending Equation</td>
<td>Apka Aaj Apka Kal Banata Hain</td>
<td>45 mins</td>
</tr>
</tbody>
</table>

**Module Objectives:**

*By the end of the module, students should:*

- Understand the different types of employment and pay received
- Know about the national minimum wage & applicable state minimum wages
- Know how to read a salary slip and understand gross and net pay
- Understand the impact of the earning-spending equation on long-term financial health

**Homework:**

- At the end of the 1st or 2nd class, ask students to complete this homework exercise:

  *Using the worksheet on page 4 of your student booklet, record all the things that you spend money on over the next week. Note down the item and cost.*
1.1 Types of Employment

In India, there are many jobs in both the formal & informal sectors, but the employment conditions in each sector are different.

Formal (Organized) Sector: Consists of companies that pay taxes and are monitored by the government. These employers pay workers at least the government-required minimum wage. They also provide terms of employment or employment agreements and give salary slips.

*Examples: stores in malls, BPO’s/call centers, insurance companies*

Informal (Unorganized) Sector: Consists of mostly small, unregistered, entrepreneurial ventures which do not keep official records of earnings, salaries etc. These employers may pay less than the government-required minimum wage. They do not provide terms of employment, employment agreements, or salary slips.

*Examples: Paan shop, mehendi wala, dhaba cook*

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**Types of Employment**

- **FORMAL/ORGANISED**
  - That pay taxes
  - Salary slip
  *Examples: Stores of Malls, Insurance camp*

- **INFORMAL/UNORGANISED**
  - Do not provide salary slip
  *Examples: Paan shop, Dhaba cook etc.*
Within both the formal & informal sector, there are different classifications of employment.

<table>
<thead>
<tr>
<th>Type of Employment</th>
<th>Definition</th>
<th>Formal Sector Examples</th>
<th>Informal Sector Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed</td>
<td>Self-employed people work for themselves. They may provide everyday goods &amp; services in the informal or formal sector, or professional services in the formal sector. Their income varies from day to day and month to month.</td>
<td>• Owner of chemist shop • Graphic designer</td>
<td>• Sabzi wala • Dhobi • Shoe shiner • Landowning farmer</td>
</tr>
<tr>
<td>Contract employee</td>
<td>A contract employee in the formal sector is placed by an agency to work for a company for a fixed-term period and fixed salary. The employer &amp; agency may not pay for Provident Fund or Employer State Insurance. The length of the contract is usually determined in advance, but may be renewed or extended. A contract employee in the informal sector finishes a specific job (e.g., painting a house).</td>
<td>• IT employee • Teacher • Data entry employee</td>
<td>• Laborer • Migrant worker</td>
</tr>
<tr>
<td>Permanent employee</td>
<td>A permanent employee works for an employer on a regular basis in the formal or informal sector. In the formal sector, he/she may be part-time (less than 20 hours/week), or full time (40 hours/week).</td>
<td>• Salesperson in a mall • Call center employee • Secretary</td>
<td>• Cook in a dhaba</td>
</tr>
</tbody>
</table>

**Trainer Note:** Trainers should be aware that a specific job can fall into different classifications.

*E.g., a teacher can be a contract or a permanent employee*

*E.g., a graphic designer can be self-employed or can be a contract or a permanent employee*
Contract Employees

In the formal sector, companies are increasingly hiring contract employees. This is done through a third-party known as the employment agency or staffing companies. Employees use the agency to help find a job. Employers use the agency to find appropriate employees for their positions.

A contract employee is asked to work for a specific company for a fixed-length term or contract period and a fixed salary or hourly rate. During the contract period, the employee does not receive an increment or salary increase. The employer may not contribute to a contract employee’s Provident Fund (PF) or Employee State Insurance (ESI).

If the employee works hard and does well, the contract may be renewed or extended. Or the employee may be offered a permanent position, with PF & ESI contributions by the employer and maybe a higher salary or hourly rate.

Therefore, it can be a good idea to stay in one contract job for a long time, rather than moving around from one contract job to another.
Training & Probation
When you first start a job, you may have to complete a training period. During training, you learn about the company and learn additional skills and knowledge specific to your job. This training period is usually not paid but you must complete it to start working and earning your salary.

When you first join a job as a permanent or contract employee, you may have a probation period. During this period, the employer is carefully observing your behavior and performance at your job. If you behave or perform poorly during probation, you can lose your job. You can get a “permanent employee” status once you complete your probation and your employer likes your work.

Exercise – Types of Employment
Write down the name(s) of people you know who are employed in each of these ways:
Self-employed in formal sector: __________________________
Self-employed in informal sector: __________________________
Contract employee in formal sector: _______________________
Contract employee in informal sector: ______________________
Permanent employee in formal sector: _______________________
I Want to Earn More Money

Rohan and Mohan are friends from their MAST training course. They both received placements at Big Bazaar as contract employees with a salary of Rs. 5,000 per month.

However, Mohan left the job after three months because he did not like having to work at night when new products arrived. It took him one month to find a new job as the jobs he interviewed for always asked why he left Big Bazaar so soon. Finally, he got another contract position at Reliance Fresh for the same salary of Rs. 5,000 per month.

A few months later, Rohan learned that Mohan had again left his job and had been looking for a new job in the last month. He told his friend not to change jobs so often as he would lose salary while looking for a job. Rohan told him that he had been offered a permanent position with Big Bazaar at a salary of Rs. 6,000 per month as he had stayed with the company for 9 months and been a good employee.

Because Rohan was more patient than Mohan and worked hard at his job, he earned a lot more money – an extra Rs. 13,000 in one year!

<table>
<thead>
<tr>
<th></th>
<th>Rohan</th>
<th>Mohan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month 1</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 2</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 3</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 4</td>
<td>5,000</td>
<td>Looking for job</td>
</tr>
<tr>
<td>Month 5</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 6</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 7</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 8</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 9</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 10</td>
<td>6,000</td>
<td>Looking for job</td>
</tr>
<tr>
<td>Month 11</td>
<td>6,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Month 12</td>
<td>6,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Total</td>
<td>63,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>
1.2 Types of Pay

How our pay is earned depends on the terms of our employment.

- **Hourly**: Fixed rate per hour. The total amount earned depends on the number of hours worked.

- **Salaried**: Fixed monthly or annual rate. The total amount earned will be adjusted if the employee works for only part of a month or takes unpaid leave.

- **Job-Based**: Pay based on the number and type of jobs performed. The total amount earned varies from day to day.

- **Commission-Based**: A commission-based employee earns a fixed percentage of his/her product sale value. Typically he/she also earns some salary. **Commission is a form of payment for services rendered.**

- Shyam earns Rs. 3000 as his monthly fixed salary. Over and above he gets Rs. 40 for each insurance he sells after he has achieved a target of selling 50 insurance policies.

  His quarterly target to sell minimum 100 insurance policies. He exceeded his target and sold 150 policies. So he earns additional Rs 10 for those 50 policies.

- **His total Salary will be**: 3000 + 40x150 + 50x10

Salaries are usually paid every 15 or 30 days. It can be paid to the employee in different ways, depending on the sector.

### Examples

- McDonald’s or Subway employee
- Salesperson in mall
- Call center employee
- Salon worker
- Car salesperson
- Insurance agent

**Fixed salary + Commission + Incentive**

“Incentive a reward for increased productivity”
**Informal (Unorganized) Sector:** employees (both permanent & contract) are paid in **cash** and do not receive a salary slip or receipt

**Formal (Organized) Sector:** employees receive a salary slip with the details of their pay. They may be paid by:

- **Cheque** made in the employee’s name. The employee must take the cheque to the bank to exchange for cash or deposit it in his/her account.

- **Bank Deposit**, whereby the employer deposits the salary directly into the employee’s bank account (employer may help with opening an account if needed).

- **Bearer’s cheque**, which is payable to the person who presents the cheque. A bearer’s cheque does not indicate the payee’s name, and therefore, must be kept safely until s/he can take it to the bank to deposit or exchange for cash.

**Exercise – Types of Pay**

What type of pay would each of these people receive? Select from these options: **Hourly, salary, job-based, commission**

- Salesperson in mall
- Jewellery store employee
- Call center employee
- Nirula’s employee
- Salon worker
1.3 Components of Pay & Minimum Wage

We must understand the different components of salary in the formal sector, as this impacts how much money we ultimately receive.

- **Gross pay**: Gross pay is the total amount of compensation we have earned. Gross pay itself consists of different components:
  - **Basic pay**: Fixed hourly or monthly rate for our work. If paid hourly, the total amount will depend on the total hours worked in that period.
  - **Conveyances**: Cost of providing transportation services to & from place of employment.
  - **Allowances**: Supplemental amount to cover costs such as housing, work-related travel & expenses, food etc.
    - Allowances offered will vary by employer and position.
  - **Overtime**: Additional pay if the employee works above and beyond the regular hours. Overtime may be paid at a higher rate than basic pay.
    - A salaried employee will receive overtime pay if s/he works more than the hours in the terms of employment.
    - An hourly employee will receive overtime pay for any hours s/he works beyond the normal hours required per day or week.
  - **Commission**: Certain sales jobs may involve commission-based pay. The amount of commission paid will vary based on the employee’s results against sales goals.
  - **Incentive (bonus or wage supplement)**: Additional, one-time income that may be given at the employer’s will. This amount is not guaranteed and can vary from year to year, person to person, and company to company. Bonuses are typically given (1) based on employee performance; or (2) for a major festival (e.g., Diwali).
  - **Increment**: When we have been in a job for a long time and our responsibility increases then the employer looks at giving an increment to the employee.
**Minimum Wage**

The Government of India has established a minimum wage policy. All employers are required to pay their workers at least this amount. The minimum wage applies to the total of all compensation given to the employee, including:

- Basic pay
- Conveyances & allowances
- Contributions to Provident Fund or other social insurance scheme.

As of April 2011, the **minimum wage throughout India is set at Rs. 115 per day.**

Some states have their own minimum wages, which must be at least as high as the India-wide rate. These minimum wages may vary based on sector of employment. The minimum wage rate ranges for some states are listed below.

Note: The minimum wage rates are updated often. The table below reflects the latest information as of July 2011 and is provided only as a guide.

<table>
<thead>
<tr>
<th>Worker Type</th>
<th>Delhi</th>
<th>Gujarat</th>
<th>Haryana</th>
<th>Rajasthan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi Skilled</td>
<td>Rs. 259</td>
<td>Rs. 175</td>
<td>Rs. 178-183</td>
<td>Rs. 145</td>
</tr>
<tr>
<td>Skilled</td>
<td>Rs. 285</td>
<td>Rs. 176</td>
<td>Rs. 188-193</td>
<td>Rs. 155</td>
</tr>
</tbody>
</table>

Note: Gujarat & Rajasthan data reflects minimum wage rates for hotel, restaurants & eating houses sector. These rates are similar to those for the shops & establishments sector.

**Trainer Note:** The minimum wage rates are updated often. The table above reflects the latest information as of July 2011 and is provided only as a guide. Trainers should confirm that the rates listed above have not been updated.
1.4 Salary Slips

For permanent positions in the formal sector, we must be familiar with the different components of a salary slip to understand the difference between our gross and net pay.

**Gross pay**: Total amount of compensation earned by an employee, including base pay and, if relevant, conveyances, allowances, commission, and incentives.

**Deductions**: Amounts deducted from gross pay for various reasons, including:

- **Income taxes**: Money paid to the government as required by law.
- **Employee State Insurance (ESI)**: Money deducted to provide insurance for the worker and his/her dependants. Currently, employees contribute 1.75% of their salary (deducted from gross pay). Employers also contribute to each employee’s ESI, but this amount is not deducted from the employee’s pay. *
- **Employees’ Provident Fund (EPF or PF)**: Money paid into the government-run EPF.
- **Costs incurred by the employer** (e.g., uniform costs).

**Net pay (cash-in-hand)**: Gross pay minus all deductions. Net pay is the amount of pay finally received by an employee.
Employees’ Provident Fund (EPF)

Purpose: The EPF helps employees save for their living expenses in retirement.

Eligibility: Employees earning less than Rs 6,500 per month are required to join the EPF. Employees earning more than this amount can also join the EPF. Full-time, part-time, and contract employees are all eligible to join the EPF.

Contributions: Employees must contribute at least 12% of their basic salary* to their EPF. This contribution is deducted from their salary and deposited into their EPF by the employer. The employer also contributes 12% on the basic salary for salaries up to Rs. 6,500 – this goes to both the EPF fund and pension fund and is not deducted from the employee’s pay.

Interest: The monthly balance of an employee’s EPF account earns interest at a fixed rate. In 2008-2009, the interest rate was 8.5%. The employee can take out his/her accumulated contributions and interest after age 58, provided s/he has given at least 10 years of service.

Change of Job: If an employee changes jobs, s/he can transfer his EPF to the new organization.

Note: Employees should make sure their EPF funds are deposited correctly by checking the contribution card kept by the employer. The EPF does not use agents or middlemen.

***Basic salary does not include bonus/commission/overtime or cash value of food concessions
## Salary Slip Example 1
### Customer Relations and Sales Salary Slip

<table>
<thead>
<tr>
<th>Employee Code</th>
<th>Name</th>
<th>Bank A/c No.</th>
<th>DOJ</th>
<th>PF No.</th>
<th>Worked Days</th>
<th>Worked Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>18673</td>
<td>Asha Rani</td>
<td></td>
<td>15 Nov 2010</td>
<td></td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Department</th>
<th>Designation</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH &amp; CARRY</td>
<td>Floor Associate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Amount in Rs.</th>
<th>Deductions</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASIC</td>
<td>2,750.00</td>
<td>PROIDENT FUND</td>
<td>6 330.00</td>
</tr>
<tr>
<td>HOUSE RENT</td>
<td>1,868.00</td>
<td>LABOUR WELFARE</td>
<td>7 1.00</td>
</tr>
<tr>
<td>ALLOWANCE</td>
<td></td>
<td>FUND</td>
<td></td>
</tr>
<tr>
<td>GROSS EARNING</td>
<td>4,618.00</td>
<td>GROSS</td>
<td>9 412.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEDUCTIONS</td>
<td></td>
</tr>
<tr>
<td>NET PAY</td>
<td>4,206.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Leave Balance Details

<table>
<thead>
<tr>
<th>Leave Types</th>
<th>Opening Balances Last Year</th>
<th>Current Year Entitlement</th>
<th>Availed Leave</th>
<th>Total Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Details</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Pay Period  
2. Basic Pay  
3. Allowances  
4. Gross Salary  
5. Net Salary  
6. Employee's EPF Contribution  
7. Labour Welfare Fund  
8. Employee State Insurance Contribution  
9. Total Deductions
Salary Slip Example 2

### Contract Employee's Salary Slip

**Adecco Flexione Workforce Solutions Pvt Ltd.**

**Payslip for the month of JUNE 2011**

**Deployed At:** FVRL BB DIAMOND HARBOUR

<table>
<thead>
<tr>
<th>Employee No.</th>
<th>387298</th>
<th>PAN No.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Name</td>
<td>DIPANKAR CHAKRABORTY</td>
<td>ESI No.</td>
<td></td>
</tr>
<tr>
<td>Designation</td>
<td>PROMOTER</td>
<td>Client Employee id</td>
<td></td>
</tr>
<tr>
<td>Department</td>
<td>N/A</td>
<td>Paid Days</td>
<td>30.00</td>
</tr>
<tr>
<td>Bank A/c No.</td>
<td>[redacted]</td>
<td>LOP Days</td>
<td>0</td>
</tr>
<tr>
<td>Bank Name</td>
<td>HDFC Bank Ltd.</td>
<td>OT Hrs.</td>
<td>0.00</td>
</tr>
<tr>
<td>PF No.</td>
<td>[redacted]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>WEST BENGAL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Earnings

<table>
<thead>
<tr>
<th></th>
<th>In Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>2175.00</td>
</tr>
<tr>
<td>Conveyance</td>
<td>870.00</td>
</tr>
<tr>
<td>House Rent Allowance</td>
<td>1305.00</td>
</tr>
<tr>
<td>Incentive</td>
<td>2675.00</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>7025.00</td>
</tr>
</tbody>
</table>

#### Deductions

<table>
<thead>
<tr>
<th></th>
<th>In Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESI</td>
<td>77.00</td>
</tr>
<tr>
<td>Income Tax</td>
<td></td>
</tr>
<tr>
<td>Labour Welfare Fund</td>
<td>3.00</td>
</tr>
<tr>
<td>Provident Fund</td>
<td>261.00</td>
</tr>
<tr>
<td>Professional Tax</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total deductions:</strong></td>
<td>371.00</td>
</tr>
</tbody>
</table>

**Amount in Words:** Six Thousand Six Hundred Fifty Four only.

**NET PAY:** 6,654.00

**Mode of Payment:** Bank Transfer

---

This is computer generated pay slip. Signature is not required

For all your queries Call: 3532-3532 (prefix your nearest STD code)

Mail: asc@adecco.com
Fill in the blanks below based on Neha’s salary slip.

For the pay period _______________, Neha’s total earnings were _______________.

However, after deductions, she received a cheque for the amount of _______________ which is her net earnings.

The largest deduction from her salary was for _______________.

Neha did not earn any _______________ this period.
1.5 Earning-Spending Equation

How much we spend relative to how much we earn impacts our financial & emotional health.

If spending is...

Greater than earnings, we will have to borrow to meet daily expenses. Although we may feel happy for a few days after we buy something new, we will also have a lot of tension for weeks & months afterwards as we worry about how to pay our bills & loans. We should reduce and delay spending on non-essential items and quickly repay our loans.

Equal to earnings, we are spending carefully and within our income. However, in this scenario we have no savings. In the event of a future need (e.g., Diwali, sister’s marriage, illness, emergency), we could end up spending more than we earn. We should look for opportunities to reduce spending (e.g., by cutting back on wants) in order to start saving.

Less than earnings, we are managing our income responsibly by spending carefully and saving. The savings will be useful for covering irregular expenditures in the future (e.g., Diwali, sister’s marriage, illness, emergency). We must make sure we continue to save and use our savings wisely.

Trainer Note: If time is limited, ask students to form small groups. Assign each group one case study and allow them time to complete the activity per the instructions above. Then ask each group to share their work with the class and discuss the three case studies.
Activity – Apka Aaj Apka Kal Banata Hai

Read the case studies below & imagine what each person's financial situation will be in 5-10 years. For example:

- Will he or she have enough money for food & clothes?
- Will he or she live in a house or a hut?
- Will he or she own a scooter/cycle?
- Will he or she have to borrow money?
- Will he or she have to work a second job to increase his or her income?

Be creative!

Spending > Earnings

Mohan works at Café Coffee Day and earns a net salary of Rs. 4,000. Every time he gets his salary, he immediately buys new clothes for Rs. 2,000 and sees 4 new movies for Rs. 500 total. He spends the remaining Rs. 1,500 buying food for his family, but often he cannot afford more than one meal a day for them.

Spending = Earnings

Zara works as a ticket vendor in the metro. She earns a net salary of Rs. 3,500. She spends Rs. 3,000 providing daal & rice for her large family of 8 people. She spends another Rs. 300 to buy credit for her mobile phone. She spends the remaining Rs. 200 on sweets & drinks.

Spending < Earnings

Sita works as a salesperson at Big Bazaar. She earns a net salary of Rs. 4,000. She spends Rs. 3,000 providing food for her family. She spends another Rs. 150 buying credit for her mobile and uses the landline as much as possible. Once a month, she treats herself to ice-cream for Rs. 50. She pays Rs. 200 for insurance and saves the remaining Rs. 600.
Homework – Tracking Your Family’s Expenses

Using the table below, track how much money your family spends on each category in one week. Then estimate the total monthly expense by category.

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Sun</th>
<th>Mon</th>
<th>Tues</th>
<th>Wed</th>
<th>Thur</th>
<th>Fri</th>
<th>Sat</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan repayment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing/rent</td>
<td></td>
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</tr>
<tr>
<td>Food</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water bill</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas supply</td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Electricity bill</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School fees</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical care</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
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<td></td>
</tr>
<tr>
<td>Petrol</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Insurance</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothes &amp; shoes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cable TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigarettes/paan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Festival spending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movies/party</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birthdays/functions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
MODULE
Spending
आमदनी अटूनी खर्चांचा रुपया
2

MODULE

Spending

आमदनी अद्भुती खर्चा रुपया
Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with essential knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.
Course Structure

Modules:
- Pre-Assessment
- Module 1: Employment & Earnings
- Module 2: Spending
- Module 3: Savings
- Module 4: Borrowing
- Module 5: Financial Planning
- Post-Assessment

Overarching Objectives:
- Explain the components of salary income so that students can read their salary slips
- Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
- Equip students to prioritize, budget, and plan for total expenses
- Highlight the financial and emotional costs of borrowing
- Explain the concept of return and link to borrowing for consumption vs. production
- Introduce the formal banking sector and its role in financial management & planning

Outcomes:
By the end of the curriculum, students should have:
- Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
- Identified a short and long-term goal to provide ongoing motivation for savings
- Opened a savings account (or at least attempted to open one)
Module Structure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Activities</th>
<th>Suggested Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Understanding Spending</td>
<td>Shopping Spree</td>
<td>45 mins</td>
</tr>
<tr>
<td>2.2 Types of Expenses</td>
<td>Going to the Market Need or Want?</td>
<td>120 mins</td>
</tr>
<tr>
<td>2.3 Affordability</td>
<td>Can I Afford It?</td>
<td>30 mins</td>
</tr>
<tr>
<td>2.4 Budgeting</td>
<td>Creating a Monthly Budget</td>
<td>60 mins</td>
</tr>
<tr>
<td>2.5 Marketing &amp; Pressures to Spend</td>
<td>Coke vs. Pepsi Taste Test What Influences You? Role Play</td>
<td>120 mins</td>
</tr>
</tbody>
</table>

Module Objectives:

By the end of the module, students should:

- Grasp that money can be spent much faster than it is earned
- Understand the different types of expenses – fixed, variable, regular, & irregular
- Recognize the difference between needs & wants and know how to prioritize these expenses
- Understand the concept of affordability and judge whether one can afford an item under different scenarios
- Know how to create a monthly budget and make their own budget based on their anticipated income
- Recognize different forces that try to influence how we use our money, and develop tactics for resisting these pressures
2.1 Understanding Spending

What is Spending?

- Spending is the process of using money to buy goods or services for consumption. Consumption means that once we spend the money, we cannot get it back.
- We all buy lots of things. Many of these things we use, but some of these things go to waste. By buying something that we do not make use of, we are not spending carefully.

**Spending**

Spending is the process of using money to buy goods or services for consumption.

**Goods:** Physical objects that we can touch & feel  
*Examples: Food, furniture, clothes*

**Services:** Things that we purchase but cannot touch  
*Examples: Mobile phone credit, electricity service, bus travel, visit to doctor, water service*

**Consumption:** Purchase and use of goods & services. Once we use the good or service, we cannot return it or sell it for money
A Rupee Spent Vs. A Rupee Earned

How long does it take to buy a new pair of jeans costing Rs. 1,000?

- **5 minutes** if you know exactly which brand, style, and size you want to buy
- **½ hour** if you want Levi’s but have to try on different styles to see the fit
- **1 ½ hours** if you can’t decide on what brand & style you want and have to look in many different shops

How long does it take to earn the Rs. 1,000 that you will spend?

*Let’s assume you earn a salary of Rs. 200 per day*

To earn Rs. 1,000, you will need to **work for 5 days**

But some of your gross salary will be go towards your EPF (Provident Fund) and ESI (State Insurance). So you might have to **work 7 days to receive Rs. 1,000 in your hand**

You also have to buy food & water. You might have to **work 10 days to save Rs. 1,000**

Money that takes days to earn can be spent in a matter of minutes!!! Therefore, it is important to think carefully before spending money and recognize the difference between needs & wants

**Trainer Note:** The purpose of this activity is to make students realize that it is much easier to spend money than earn it. The activity has been designed so that students first “dream” how they will spend their salary (step 1), then estimate the cost of all these items (steps 2-3), then compare the total cost to their expected salary (step 4).

- You should not give the students a salary range or constraint for Step 1 unless they struggle with the activity. You may need to give students guidance on their expected salary for step 4.
- After students have finished the activity, check their work to ensure it is realistic. Have they estimated the costs correctly? Have they prioritized basics like food over extras like parties
**Activity – Shopping Spree**

How will you use your *first salary* when you receive it?

1. Write or draw below how you plan to use your first salary (in order of priority).

<table>
<thead>
<tr>
<th>Item</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. In the second column, estimate the cost of each item.

3. Add up the total cost of all the items you have listed.
   
   Total Cost: ______________________

4. How does this compare to your expected salary?
   
   Expected Salary: ______________________
2.2 Types of Expenses

This lesson starts with an activity to help students realize how easy it is to buy wants and how much money it takes to provide our basic needs.

Activity – Going to the Market

Trainer Notes

Materials: For this activity, you will need the following:
- Open space to create a “market” that students to walk around.
- Goods to sell (use the item cards in the supplemental materials of the curriculum).

Preparation to do Before Class:
- Set up the “market”, by posting the “item cards” on the wall.

Conducting the Activity in Class:
- Tell students that they have received one month’s salary worth Rs. 4,000. They must walk around the market and decide how to spend their salary. They should assume that they are the only person in their family who received income this month.
- To “buy” an item, the student should write down the name & cost of the item in his/ her student book.
- Once the student has spent all his/her salary, s/he should sit down.
- Discuss with the class how they used their salary:
  - Did they take care of the basics first (food, water, electricity)?
  - How much did they spend on needs vs. wants?
  - How quickly did they run out of money?
  - What did they forget to buy?
  - What would they do differently?
We can classify our spending as wants vs. needs. Recognising the difference between these is important for managing our spending.

- We use money to buy things that meet our daily needs. Needs are items which are necessary to ensure that a family can survive. This includes basic food, shelter, clothing, and healthcare. In today’s world, education is also a need as education helps one earn enough income to provide for needs.

- We also use money to enjoy things that are not required to survive but that we would like to purchase. These non-essential items are wants. Wants will vary from person to person and can include items like movies, scooter, TV, DVD player, ice-cream etc. Wants also include spending on festivals and social functions like marriage & childbirth. Not purchasing a want or delaying the purchase does not impact ability to survive.

- Each of us has a limited income and can choose how to spend it. However, we should make sure that we can meet our daily needs before considering any wants. Also, the more money we spend on wants, the less money we have to build a stable and happy future through savings and investments.

**Needs vs. Wants**

- Needs are things that are required for survival
- Wants are things that we would like to have but are not required for survival
Examples

<table>
<thead>
<tr>
<th>Needs</th>
<th>Wants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic food</td>
<td>Special foods, eating at restaurants</td>
</tr>
<tr>
<td>Shelter</td>
<td>Living/staying in a hotel</td>
</tr>
<tr>
<td>Basic clothing</td>
<td>Brand-name clothing</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Scooter/bike/ car</td>
</tr>
<tr>
<td>Doctor/hospital</td>
<td>TV/DVD player</td>
</tr>
<tr>
<td>Medicines</td>
<td>Mobile phone</td>
</tr>
<tr>
<td>Education</td>
<td>Entertainment (e.g., movies, party)</td>
</tr>
<tr>
<td>Electricity</td>
<td>New cricket bat</td>
</tr>
<tr>
<td>Water</td>
<td>Tours</td>
</tr>
</tbody>
</table>

Activity – Need or Want?

1. With your classmates, determine if each item below is a need or want. Discuss why.

<table>
<thead>
<tr>
<th>Item</th>
<th>Need or Want?</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweets for festival</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doctor’s fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movie ticket</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levi’s shirt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigarettes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Review your responses to the “Shopping Spree” activity. Next to each item, indicate if it is a need or a want. Keep in mind the definition of need & want below.
We can also classify expenses based on their time pattern and cost pattern. This is especially important for creating a budget, which we will do in lesson 2.3: Budgeting.

Classifying expenses based on time pattern:

Regular: Regular expenses occur on an ongoing basis and in a fixed pattern/cycle. E.g., rent (monthly), milk (daily), grains (weekly), cable (monthly), school fees (monthly)

Irregular: Irregular expenses do not occur in a fixed pattern and may be unexpected. E.g., medical costs due to illness, party, tour, repairs, guests, festivals, social functions

Classifying expenses based on cost pattern:

Fixed: Fixed expenses cost almost the same amount every time we buy the item. E.g., rent, insurance premium/BIMA, cable

Variable: Variable expenses cost a different amount every time we buy the item. They may cost more or less than the previous time. E.g., Vegetables, rice, shoes, clothes, medical costs, social functions, petrol

*Trainer Note:* Variable expenses cost a different amount every time because either:

1. The market price changes (e.g., a kilo of rice is Rs. 18 today but Rs. 25 next year because there was little rainfall)
2. We have many choices and do not purchase the exact same item every time (e.g., clothes, shoes)
Examples of Different Types of Expenses

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>Irregular</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>Rent Insurance premium</td>
<td>Train ticket to village</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Movie ticket</td>
</tr>
<tr>
<td>Variable</td>
<td>Vegetables</td>
<td>Bus ticket for job interview</td>
</tr>
<tr>
<td></td>
<td>Petrol for scooter</td>
<td>Medicines for illness</td>
</tr>
<tr>
<td></td>
<td>Mobile phone credit</td>
<td>Repairs (e.g., car, scooter, TV)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Clothes &amp; shoes</td>
</tr>
</tbody>
</table>

Irregular and variable expenses are usually the easiest to control!

**Trainer Note:**

- The table above classifies sample expenses based on their cost and time pattern. You can also create a list of these expenses and ask students to place each in the correct cell of the table.

- The classification of certain items can be debated depending on the context and situation. For example:
  - A bus ticket to work is a fixed & regular expense, but a bus ticket for a job interview is variable because the fare depends on where the interview is.
  - Petrol for scooter would be a regular expense if someone drove their scooter to work every day and needed to fill petrol on a regular schedule. But it could be irregular if someone only uses their scooter occasionally on the weekend.
2.3 Affordability

Before purchasing something, we should always ask ourselves if we can afford it – especially if it is a want.

- “Afford” means that we have enough money to purchase the item at that time, while still:
  - Providing for our daily needs (e.g., food, water, shelter, healthcare)
  - Fulfilling our obligations (e.g., loan repayment, giving money to family)
  - Saving for emergencies and our goals
Activity – Can I Afford It?

Your salary is Rs. 4,000 and your regular expenses are Rs. 3,400. You want to buy a mobile phone that costs Rs. 3,000. Read each scenario below and decide if you can afford to buy the mobile. Circle the correct answer and explain why or why not.

- **You have Rs. 2,500 in savings and borrow Rs. 500 from a friend to buy the phone**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________

- **You take a loan of Rs. 2,500 to buy the mobile**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________

- **You have Rs. 3,000 in cash today for the mobile but will have to take a loan of Rs. 2,000 next month to help pay for your sister’s wedding**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________

- **You have Rs. 3,000 in cash today for the mobile but if you buy the phone you will not be able to eat for the next three days until you get your next salary**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________

- **You have Rs. 1,000 in cash today and you can take Rs. 2,000 from your savings**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________

- **You have Rs. 2,800 that you have been saving for a mobile, and you can get another Rs. 200 by not going to a movie this month like you usually do**
  
  CAN AFFORD  
  CANNOT AFFORD
  
  Explanation: ______________________________________
2.4 Budgeting

A budget can help us make smart choices about how we manage our money every day.

- A budget is a plan for spending and saving money. It helps us decide how much money we can afford to spend on specific items on an ongoing basis.

- A budget helps us manage our money and live within our income. Income is the money we receive from our job (i.e., salary) or other sources.

Creating a budget involves 3 steps:

- Estimate your regular monthly income: Include only regular income, such as your salary. Do not include irregular income such as gifts or income from small side jobs as you cannot depend on this income on an ongoing basis.

- Plan how you will use your regular income every month: This should include the following:
  - Loan repayment: if applicable
  - Money you have to give to your parents: if applicable
  - Needs and wants: Address your needs first before thinking about wants
  - Fixed and variable expenses: For variable expenses, estimate how much you will spend on average every month
  - Safety fund: A small fund of money that you reserve for irregular expenses

- Calculate the total money earned and total money used. If your plan uses more money than you earn, you must cut back on some expenses. Remember that you cannot cut back on your loan repayment or you will have an angry lender chasing after you or keeping your possessions.
**Activity – Creating a Monthly Budget**

<table>
<thead>
<tr>
<th>Regular Income (Money In):</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Salary</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Other (___________)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td><strong>Total Income:</strong></td>
<td>Rs. ___</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses (Money Out):</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan repayment</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Money to parents</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Housing/rent</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Food</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Utilities (water, electricity)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Transportation</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Insurance</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Clothing</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Mobile credit</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Entertainment (movies, party)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Birthdays/social functions</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Other (___________)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Other (___________)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Other (___________)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Other (___________)</td>
<td>Rs. ___</td>
</tr>
<tr>
<td>Fund for irregular expenses</td>
<td>Rs. ___</td>
</tr>
<tr>
<td><strong>Total Expenses:</strong></td>
<td>Rs. ___</td>
</tr>
</tbody>
</table>

Include only income that you receive on an ongoing basis.

Include fixed & variable expenses and wants & needs.

Are your expenses greater than your income? If so, you must reduce some expenses.
2.5 Marketing & Peer Pressures

There are many things that can influence how we spend our money

- One such influence in advertising & marketing. Every day, we see or hear hundreds or thousands of advertising messages for different products and services. We also face lots of marketing and consumerism pressures when we go to the shops or market, such as:
  - Buy one, get one free!
  - By one, get one 50% off!
  - Buy this today for only Rs. 300 per month! (buying on installments is like taking a loan – you pay a lot more for the item than if you had paid for it in full)
  - Sale! Up to 70% off! (often, only a small number of items are 70% off while the rest may be only 15 or 20% discount)

- However, the products we buy are not always as good as they seem to be based on advertising or packaging

- Another influence on how we spend our money is people, such as parents, siblings, friends, cousins, and celebrities. Even people we don’t know, like people we see on the street, can influence our spending by shaping our ideas of fashions & trends.
Activity – Coke Vs. Pepsi Taste Test

Trainer Notes

Materials: For this activity, you will need the following:

- 1 bottle of Coca-Cola & 1 bottle of Pepsi
- A disposable cup or glass for each student
- Examples of advertisements for Coca-Cola & Pepsi both *(if possible)*

Preparation to do Before Class:

1. Remove the labels and caps from each of the soft drink bottles
2. Write “A” on the Coca-Cola bottle & “B” on the Pepsi bottle

Conducting the Activity in Class:

1. Show students the sample advertisements for Coca-Cola & Pepsi. Ask the students to discuss what the ads tell them and how they make them feel.
2. Ask each student to write down in his/her student book which drink he prefers.
3. Pour each student a sip of drink “A”. Then pour each student a sip of drink “B”. *It is better to go student by student and serve each student one drink followed by the other, than to serve all students drink A and then serve all students drink B.*
4. Ask students which drink they liked better by raising their hands for drink A or B. *If the class is almost evenly split between drink A & B, you can emphasize that one drink is not “better” or “cooler” than the other.*
5. Ask students to write in their books which drink they liked better. Reveal which drink is Coca-Cola and which is Pepsi. Ask students to compare to their original answer.
Activity – Coke vs. Pepsi Taste Test

1. Which drink would you rather have? (circle one)
   
   COCA-COLA       PEPSI

2. Do the taste test exercise conducted by your teacher. Which drink did you like better?
   
   DRINK A       DRINK B

3. After your teacher has revealed which is Drink A and which is Drink B, how does your answer to #2 compare to your answer to #1?

Trainer Note: The activity below can be conducted as a written activity or class discussion.

Activity – What Influences You?

1. Write down what products & services you most often see advertising & marketing for.

2. Write down the people who influence how you use your money. Do they influence you to spend or save?

3. How do you decide to buy something that you want? Who do you talk to/listen to? How do you decide how much to spend? How many shops/items do you look at?
There are many strategies we can apply to resist these pressures and use our money wisely.

- Firstly, remind yourself that it is your salary and you can choose how to spend it.
- Ask yourself if the item is a need or want. Think twice before spending money on a want.
- Buy a different version of the same item for less money. For example, instead of buying brand-name jeans for Rs. 1,500, buy unbranded jeans for Rs. 300.
- Spend less time with people who like to spend a lot or influence you to spend.
- Avoid going to the bazaar/market/mall unless you really need something.
- Make a list when you go to the bazaar/market/mall and carry just enough money to buy what you need so that you are not tempted to buy other things.
- Buy mobile credit for a fixed amount and on a fixed cycle (e.g., once a month). If you use up the credit before the period is over, force yourself to manage without your mobile.
- Don't see a movie immediately when it is released. Instead, wait until your friends have seen it to find out if it is even worth seeing.
- Keep a copy of your budget in your purse or wallet so you can always remember your spending priorities.

Trainer Note: Trainer can present these strategies to the students or ask students to suggest their own strategies for resisting pressures to spend.
Activity – Role Play

Form groups of 3-5 students and act out different situations where you encounter pressures to spend. 2-4 students should play the role of influences or pressures while 1-2 students in the group try to resist these pressures.

Example situations:

- Your friend buys a new mobile phone with lots of features and wants you to buy one too.
- You go see a movie at the cinema with your sister. After the movie, she wants you to treat her to lunch but you don’t want to spend more money.
- You go to the bazaar to buy a new shirt for your job. The shopkeeper tells you he will give you a discount of Rs. 100 if you also buy jeans.
- Your little brother wants you to buy 10 new cable TV channels so he can watch more programs.
3 MODULE
Savings
आज बचाओ कल सुधरो
Module 3
Savings
आज बचाओ कल सुधारो
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putting together the content.
Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with essential knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.
Course Structure

Modules:
• Pre-Assessment
• Module 1: Employment & Earnings
• Module 2: Spending
• Module 3: Savings
• Module 4: Borrowing
• Module 5: Financial Planning
• Post-Assessment

Overarching Objectives:
• Explain the components of salary income so that students can read their salary slips
• Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
• Equip students to prioritize, budget, and plan for total expenses
• Highlight the financial and emotional costs of borrowing
• Explain the concept of return and link to borrowing for consumption vs. production
• Introduce the formal banking sector and its role in financial management & planning

Outcomes:
*By the end of the curriculum, students should have:*
• Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
• Identified a short- and long-term goal to provide ongoing motivation for savings
• Opened a savings account (or at least attempted to open one)
MODULE 3
Savings
आज बचाओ कल सुधारा

Module Structure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Activities</th>
<th>Suggested Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Importance of savings</td>
<td>Reasons for Saving Game of Life, How much should they save? Budget review</td>
<td>120 mins</td>
</tr>
<tr>
<td>3.2 Strategies for saving</td>
<td>My dreams &amp; goals</td>
<td>60 mins</td>
</tr>
<tr>
<td>3.3 Savings goals</td>
<td>Where did my savings go?</td>
<td>30 mins</td>
</tr>
<tr>
<td>3.4 Where to keep savings</td>
<td>Understanding compound interest</td>
<td>60 mins</td>
</tr>
</tbody>
</table>

Module Objectives:

By the end of the module, students should:

- Understand the main three reasons why it is important to save (unexpected life-cycle events, expected life-cycle events, achieve goals & build assets)
- Be aware that everyone needs an emergency fund of savings equal to 3-6 months’ salary
- Have some simple strategies for saving money, whatever their income level
- Know how to set savings goals, and set one short-term & one long-term goal of their own
- Understand the risks and benefits of keeping their savings at home vs. in the bank
- Understand the concept of compound interest and how it links to the principles of savings
- Grasp the concepts of inflation & the time value of money
3.1 Importance of Savings

Saving money regularly is important in stages of our lives, not just when we have a family.

What is Savings?

- **Savings** is money set aside as a reserve or fund for future expenditures. Savings are built from the sum total of income that is not spent on consumption or debt repayment.
- Recall the Earnings-Spending equation we discussed in Module 1:

\[
\text{Spending} < \text{Earnings} \rightarrow \text{Savings}
\]

The only way to save is to spend less than you earn!

- Some people may refer to savings as reducing expenditures or cutting down on costs. This is one way that people can build their savings fund, but when we talk about savings here, we will discuss the collected funds that have been set aside.
### Why is Savings Important?

Having savings helps ensure our long-term health, happiness, and stability. Savings help us:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Examples</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage unexpected life cycle events</td>
<td>• Illness</td>
<td>• Unexpected life cycle events are emergencies. We cannot pay these expenses with our income alone.</td>
</tr>
<tr>
<td></td>
<td>• Hospitalization</td>
<td>• Without savings, we would have to borrow money to pay for these expenses, creating an added financial and emotional burden.</td>
</tr>
<tr>
<td></td>
<td>• Loss of Job</td>
<td>• Savings provide a reserve fund that we can draw upon to manage emergencies with less stress.</td>
</tr>
<tr>
<td>Manage expected life cycle events</td>
<td>• Marriage</td>
<td>• Expected life cycle events increase the number of family members or the needs of existing family members, both of which require additional money.</td>
</tr>
<tr>
<td></td>
<td>• Children</td>
<td>• Savings can help us prepare for these events to ensure that our family is healthy &amp; happy.</td>
</tr>
<tr>
<td>Achieve long-term goals &amp; build assets</td>
<td>• Buying a house</td>
<td>• An asset is something that you own that has long-term value. If you needed to, you could sell the asset and receive money in return.</td>
</tr>
<tr>
<td></td>
<td>• Starting a business</td>
<td>• Some assets can also generate income for us, like a house (if we rent it out) or a business.</td>
</tr>
<tr>
<td></td>
<td>• Buying gold</td>
<td>• Without savings, it is difficult to buy these assets that provide us long-term security.</td>
</tr>
</tbody>
</table>
**Activity – Reasons for Saving**

Below is a list of different situations in which we may need savings. Classify each situation based on the reasons to save:

1. Managing unexpected life cycle events
2. Planning for expected life cycle events
3. Building assets & achieving long-term goals

*Situations Requiring Savings:*

- Accident
- Buying a vehicle
- Household needs when you don’t have employment
- Going on a pilgrimage
- Emergencies like natural disasters (e.g., flood, earthquake)
- Buying a house
- Repairing the house
- Social customs on childbirth
- Buying business assets or supplies

<table>
<thead>
<tr>
<th>Unexpected Life Cycle Events (Emergencies)</th>
<th>Expected Life Cycle Events</th>
<th>Assets &amp; Long-Term Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.2 Strategies for Saving

Building savings may seem difficult, but it can be done. It doesn’t matter how much money we earn – we can all save if we apply discipline, just like we do for brushing our teeth every day.

How Much Savings Do We Need?

• The amount of savings we each need depends on our individual & family goals.
  
  For example, a boy who wants to buy a motorbike for Rs. 60,000 will need to have more savings than a girl who wants to buy a scooter for Rs. 40,000

• However, everyone should have savings equal to at least 3 months’ salary to manage emergencies (“emergency fund”). Large families should have 6 months’ salary set aside.

How Can We Build Savings?

There are many simple strategies that we can use to make it easier to save

| Put savings before spending | • Immediately put a certain amount of money in your savings fund every time you receive your salary. You will be less tempted to spend the money if you have already set it aside  
|                           | • Start small and try to save at least 10% of your income every month  
| Spend less money | • Spend less on wants (e.g., give up ice-cream, see fewer movies)  
|                           | • Buy the same item for less (e.g., shirt for Rs. 200 instead of Rs. 500)  
|                           | • Eat at home instead of eating outside (e.g., take your lunch to work)  
|                           | • Don’t carry too much cash with you to avoid the temptation to spend  
| Earn more money | • Work overtime/extra shifts  
|                           | • Do little jobs on the side (e.g., mehendi)  
|                           | • Earn a promotion by working hard and doing well at your job  

A Note of Encouragement
When we first start saving, it may feel like we are making slow progress towards our goal. However, discipline and patience pays off. Over time, our regular savings habit can add up to a large amount.

### Overcoming Challenges to Saving

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Strategies</th>
</tr>
</thead>
</table>
| … I barely have enough money to feed my family and pay for other basic necessities. | • Start setting aside something every week or month, even if it is only a very small amount. This small amount will grow over time.  
• Look hard for ways to cut unnecessary spending. |
| …someone in my family always uses the money I have saved.                 | • Keep money in a secure location, preferably out of the house so it is not accessible.  
• Open a bank account.                                                   |
| …my income is irregular.                                                  | • Save at least 10% each time you earn some income.                           |
| …I must use all the available earnings to pay off debts.                  | • Save just a small amount every week or month while you are paying off your debts.  
• Make a schedule to pay off the most expensive debts first.              |
Exercise – Budget Review

Review the budget that you created in 2.4: Budgeting. Identify ways to spend less money so that you can save at least Rs. 500 per month towards your emergency fund. Find ways to:

- Spend less on wants
- Spend less on specific items by buying cheaper versions

Remember also to be realistic! For example, don’t say that you will save money by not eating for a week or by not paying your electricity bill.

How I Will Save at Least Rs. 500 per Month:

- 
- 
- 
- 
- 
- 
-
3.3 Savings Goals

In addition to saving for an emergency fund, we should save for short- and long-term goals. Knowing how to set a savings goal properly makes it easier to save.

- A savings goal states what you are saving for and how you will work towards it.

- When setting a savings goal, we should include:
  - Kya: What are we saving for?
  - Kitna: How much money will we need?
  - Kab: When will we achieve our goal by?
  - Kaise: How will we do it? How much will we need to save per month to reach our goal?

- After we have completed the goal-setting process, we should assess whether the goal is realistic. For example, if we need to save Rs. 1,000 per month to achieve our goal, but our income is only Rs. 4,000 and our housing cost is Rs. 2,500, our goal may not be achievable as we still have to pay for food and our daily needs. In this case, we should:
  - Evaluate our budget and spending pattern to see where we can make cutbacks to increase our monthly savings.
  - Assess whether we can extend the deadline for achieving our goal without significantly disadvantaging ourselves or others.
Exercise – My Dreams & Goals

Dreams
What dreams do you have for yourself and your family? What would you like to achieve in your life? Where do you see yourself in 1 year? 5 years? Write down your dreams below:

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

Goals
To turn your dreams into reality, you need a plan. Setting savings goals can give you a plan. The table below is an easy way to set savings goals.

Look at the dreams you wrote down. Choose 2 dreams to set savings goals for. Try to choose dreams that will help you increase your money, like starting a business.

In the table below, write:

• One short-term goal (to be achieved within 6 months of starting your job) and
• One long-term goal (to be achieved within 12 months of starting your job)

Make sure you can achieve your goal with the salary you expect to earn

<table>
<thead>
<tr>
<th>Kya</th>
<th>Kitna</th>
<th>Kab</th>
<th>Kaise</th>
</tr>
</thead>
<tbody>
<tr>
<td>What I am saving for?</td>
<td>How much do I need?</td>
<td>By when do I need it?</td>
<td>How much to save per month?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>
3.4 Where to Keep Savings

We must ensure that the savings we build through our discipline and hard work is kept safely.

What Forms Can Savings Take?

- All savings starts with cash. Once we have cash savings, we can put it in the bank or in non-cash forms such as gold/jewellery, livestock, and land
  - Cash is the most liquid form of savings and provides greatest flexibility
  - Non-cash forms of savings generally hold or increase their value and can be sold for cash, although some may take time to sell (e.g., land, livestock)

Where to Keep Cash Savings?

- Some people keep their savings at home. Maybe they don’t have a bank account, or maybe they find it more convenient than going to the bank.
- But home may not be the safest place for keeping our savings:
  - It’s not safe from us: With our savings so easily accessible, we may be tempted to spend the money on a want, like a new mobile phone.
  - It’s not safe from others: Our brother or sister could decide to “borrow” from our savings to watch a movie.
  - It’s not safe from thieves: If a thief enters our house, he will take our savings.
- Keeping our savings in a bank may be a better alternative than keeping it at home:
  - Money is safe and secure: The money is registered in the bank in our name. We can access the money only by signing a withdrawal slip or using our bank card.
  - Helps build discipline in savings: We are less likely to spend our savings on temptations or wants when we have to go to the bank to access our money.
Tracks progress towards savings: The bank can give a statement showing our account balance. This makes it easy to track how close we are to our savings goals.

Helps our money grow: Savings accounts earn interest, which helps our money grow. We will discuss interest in the next lesson – 3.5: Growing Savings.

Builds relationship with bank: Having a savings account helps us build a relationship with the bank. This may help us later when we want to take a loan.

However, there are some drawbacks to keeping our savings in the bank

- Banks often have minimum deposit/balance requirements & fees (annual fees, transaction fees for each withdrawal/deposit) which can slow our savings progress.
- Banks have fixed hours and we may not be able to access our money immediately in the case of an emergency, unless we have a bankcard and use an ATM.

We must weigh the benefits and drawbacks of keeping our savings in the bank. Generally, the more savings we have, the more the benefits outweigh the drawbacks.

Note: We will discuss bank accounts further in Module 5

Where to Keep Non-Cash Savings?

- We should also secure our non-cash savings properly.
  - Gold & jewellery can be kept in a locker at home or in a locker at the bank. We can open a locker for a fee if we are a customer of the bank.
  - Land should be monitored regularly to ensure that no one has taken over our property. We should maintain the title (documentation of ownership) and our purchase records.
  - Livestock should be protected by putting an identifying mark on our livestock. We should also monitor the livestock to guard against theft and maintain our purchase records.
Activity – Where Did My Savings Go?

1. Form groups of 3-4 students. Imagine that you are all keeping your savings under your mattress at home. Think of different things which could happen that would cause you to lose your savings. For example:

   A thief breaks into the house and steals your TV and all your savings

   Share your ideas with the class. Be creative!

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

2. In your groups, think of secure places where you could keep your savings if you are not able to open a bank account. Discuss with the class.

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
3.5 Growing Savings

*We’ve all heard the expression, “money doesn’t grow on trees,” which is true. However, by managing our savings intelligently, we can grow or increase our money.*

- As we mentioned earlier, one benefit of having a bank account is that it can help us increase our money. Banks pay interest to owners of savings accounts, fixed deposits, and recurring deposits.
- Interest is money paid as a fixed percentage of the account balance. The rate of interest will change over time based on changes in national economic factors, such as the level of employment and production.
- When we leave our money in an interest-bearing bank account, we earn interest on the amount of our deposits. We also earn interest on the interest that we have already received. This is called **compound interest**.

---

**Compound Interest**

Compound interest occurs when the interest is added to the principal and both earn more interest. In other words, the interest earns interest on itself.

**Savings Principles**

The concept of compound interest illustrates 3 principles about savings, which we will discuss through the examples in the “Understanding Compound Interest” exercise:

- The more regularly we save, the more our money will grow
- The earlier we start saving, the more our money will grow
- The more we save, the more our money will grow

Finally, there is one more principle of savings to remember:

*It’s never too late to start saving!*

*Trainer Note: In this lesson, the focus is on simple savings accounts. In Module 5, we will discuss other ways to grow our money, such as fixed deposits, recurring deposits, and investments.*
Exercise – Understanding Compound Interest

Rani and her friend Rajni work at Café Coffee Day. Every month, they try to save some of their salary. They deposit their savings in an account that pays 1% compound interest every month.

1. Rani is disciplined and saves Rs. 400 every month. However, Rajni gives in to temptation, and saves nothing one month and Rs. 800 the next month to make up for it. If Rani & Rajni save in this pattern, who will have more money after 6 months?

<table>
<thead>
<tr>
<th></th>
<th>Rani</th>
<th>Rajni</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit</td>
<td>New Balance</td>
<td>Interest</td>
</tr>
<tr>
<td>Month 1</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Month 2</td>
<td>400</td>
<td>804</td>
</tr>
<tr>
<td>Month 3</td>
<td>400</td>
<td>1,212</td>
</tr>
<tr>
<td>Month 4</td>
<td>400</td>
<td>1,624</td>
</tr>
<tr>
<td>Month 5</td>
<td>400</td>
<td>2,040</td>
</tr>
<tr>
<td>Month 6</td>
<td>400</td>
<td>2,461</td>
</tr>
</tbody>
</table>

After 6 months, Rani has Rs. 12 more than Rajni because the interest on her savings was compounded from the very first month.

The more regularly we save, the more our money will grow.

**Trainer Notes:**

- Write out the detailed calculations for at least the first of the three examples to reinforce the concept of compound interest.
- In this example, we have used a 1% monthly compound interest rate to simplify the calculations. Note that savings accounts usually pay in the range of 4-12% annual interest (depending on the economy), which equates to 0.33% - 1% monthly.
- Emphasize to the students that the actual results (i.e., actual pace at which money in a savings account will grow) depends on the interest rate and the time period considered. In this example, the difference is fairly small because we are only discussing 6 months.
### Exercise – Understanding Compound Interest

Rani and her friend Rajni work at Café Coffee Day. Every month, they try to save some of their salary. They deposit their savings in an account that pays 1% compound interest every month.

2. Now suppose that for the first 3 months, Rani saves Rs. 400 per month and Rajni saves nothing. For the next 3 months, Rajni saves Rs. 400 per month and Rani saves nothing. Who will have more money after 6 months?

<table>
<thead>
<tr>
<th>Month</th>
<th>Rani Deposit</th>
<th>New Balance</th>
<th>Interest</th>
<th>Account Balance</th>
<th>Rajni Deposit</th>
<th>New Balance</th>
<th>Interest</th>
<th>Account Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>400</td>
<td>400</td>
<td>4</td>
<td>404</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>400</td>
<td>804</td>
<td>8</td>
<td>812</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>400</td>
<td>1,212</td>
<td>12</td>
<td>1,224</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>1,224</td>
<td>1,224</td>
<td>12</td>
<td>1,236</td>
<td>400</td>
<td>400</td>
<td>4</td>
<td>404</td>
</tr>
<tr>
<td>5</td>
<td>1,236</td>
<td>1,236</td>
<td>12</td>
<td>1,249</td>
<td>400</td>
<td>804</td>
<td>8</td>
<td>812</td>
</tr>
<tr>
<td>6</td>
<td>1,249</td>
<td>1,249</td>
<td>12</td>
<td>1,261</td>
<td>400</td>
<td>1,212</td>
<td>12</td>
<td>1,224</td>
</tr>
</tbody>
</table>

After 6 months, Rani has Rs. 37 more than Rajni because she earned interest on her deposits and interest for 6 months, while Rajni only earned it for 3 months since she had no account balance for the first 3 months.

The earlier we start saving, the more our money will grow.

**Trainer Notes:**

- Write out the detailed calculations for at least the first of the three examples to reinforce the concept of compound interest.
- In this example, we have used a 1% monthly compound interest rate to simplify the calculations. Note that savings accounts usually pay in the range of 4-12% annual interest (depending on the economy), which equates to 0.33% - 1% monthly.
- Emphasize to the students that the actual results (i.e., actual pace at which money in a savings account will grow) depends on the interest rate and the time period considered. In this example, the difference is fairly small because we are only discussing 6 months.
**Exercise – Understanding Compound Interest (cont’d)**

*Rani and her friend Rajni work at Café Coffee Day. Every month, they try to save some of their salary. They deposit their savings in an account that pays 1% compound interest every month.*

3. Now suppose that Rajni and Rani both save regularly for 6 months. Rajni is more disciplined about saving and deposits Rs. 500 per month, while Rani deposits Rs. 400 per month.

**Who will have more money after 6 months?**

<table>
<thead>
<tr>
<th></th>
<th>Rani</th>
<th></th>
<th>Rajni</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposit</strong></td>
<td><strong>New Balance</strong></td>
<td><strong>Interest</strong></td>
<td><strong>Account Balance</strong></td>
<td><strong>Deposit</strong></td>
</tr>
<tr>
<td>Month 1</td>
<td>400</td>
<td>404</td>
<td>4</td>
<td>404</td>
</tr>
<tr>
<td>Month 2</td>
<td>400</td>
<td>812</td>
<td>8</td>
<td>812</td>
</tr>
<tr>
<td>Month 3</td>
<td>400</td>
<td>1,224</td>
<td>12</td>
<td>1,224</td>
</tr>
<tr>
<td>Month 4</td>
<td>400</td>
<td>1,640</td>
<td>16</td>
<td>1,640</td>
</tr>
<tr>
<td>Month 5</td>
<td>400</td>
<td>2,061</td>
<td>20</td>
<td>2,061</td>
</tr>
<tr>
<td>Month 6</td>
<td>400</td>
<td>2,485</td>
<td>25</td>
<td>2,485</td>
</tr>
</tbody>
</table>

*After 6 months, Rajni has Rs.622 more than Rani. Of this amount, Rs. 600 is from depositing Rs. 100 per month more than Rani. The remaining Rs. 22 is due to the effect of compound interest!*

**The more we save, the more our money will grow**

**Trainer Notes:**

- **Write out the detailed calculations for at least the first of the three examples to reinforce the concept of compound interest.**
- **In this example, we have used a 1% monthly compound interest rate to simplify the calculations. Note that savings accounts usually pay in the range of 4-12% annual interest (depending on the economy), which equates to 0.33% - 1% monthly.**
- **Emphasize to the students that the actual results (i.e., actual pace at which money in a savings account will grow) depends on the interest rate.**
4
MODULE
Borrowing
कर्ज़-कब, किससे और कैसे
4
MODULE

Borrowing

कर्ज़-कब, किससे और कैसे
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or commercially exploited in any other manner.

We acknowledge Ms. Nandita Batra for her efforts in
putting together the content.
Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with essential knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.
Course Structure

Modules:
• Pre-Assessment
• Module 1: Employment & Earnings
• Module 2: Spending
• Module 3: Savings
• Module 4: Borrowing
• Module 5: Financial Planning
• Post-Assessment

Overarching Objectives:
• Explain the components of salary income so that students can read their salary slips
• Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
• Equip students to prioritize, budget, and plan for total expenses
• Highlight the financial and emotional costs of borrowing
• Explain the concept of return and link to borrowing for consumption vs. production
• Introduce the formal banking sector and its role in financial management & planning

Outcomes:
By the end of the curriculum, students should have:
• Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
• Identified a short- and long-term goal to provide ongoing motivation for savings
• Opened a savings account (or at least attempted to open one)
4
MODULE
Borrowing
कर्ज़-कब, किससे और कैसे

Module Structure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Activities</th>
<th>Suggested Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Assets &amp; Liabilities</td>
<td>My Family's Assets &amp; Liabilities</td>
<td>60 mins</td>
</tr>
<tr>
<td>4.2 When &amp; Why to Borrow</td>
<td>Should They Borrow?</td>
<td>30 mins</td>
</tr>
<tr>
<td>4.3 Costs of Borrowing</td>
<td>Can He Take a Loan to Buy That Phone?</td>
<td>45 mins</td>
</tr>
<tr>
<td>4.4 Borrowing Process</td>
<td>So You Want a Loan?! (role play)</td>
<td>60 mins</td>
</tr>
<tr>
<td>4.5 Risks of Borrowing</td>
<td>Hari is Trapped…in a Debt Trap</td>
<td>30 mins</td>
</tr>
</tbody>
</table>

Module Objectives:

By the end of the module, students should:

- Know the difference between assets and liabilities and how they impact our financial situation
- Understand consumption and production borrowing and relate this to good vs. bad borrowing
- Understand the financial & emotional costs of borrowing
- Know what lenders generally look at when deciding whether to make a loan
- Be equipped to approach the borrowing process as an informed borrower
- Understand the risks of borrowing, including debt traps
4.1 Assets & Liabilities

*Understanding the difference between assets & liabilities can help us make better, long-term financial decisions.*

- **An asset** is something we own that has long-term value. An asset can put money in our pocket as it can be sold for money or used to earn money. Good assets are those which can be sold in the future for a higher amount than what we paid originally. Assets can be physical objects, such as gold or a house. They can also be personal skills & qualities which can help us earn more income, such as education.

  *Examples: House, jewellery/gold, savings, education/training.*

- **A liability** is something we owe to another person or organization. A liability takes money out of our pocket. Liabilities are typically debts and may be secured or guaranteed by our asset(s). Liabilities usually have an interest charge attached, which may be stated or hidden. Because of the interest cost, we pay back much more than we initially owed.

  *Examples: Loan, payment plan for purchased item, balance due to shopkeeper*

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>Bank loan</td>
</tr>
<tr>
<td>Education</td>
<td>Gold loan</td>
</tr>
<tr>
<td>Jewellery/gold</td>
<td>Loan from friends/family</td>
</tr>
<tr>
<td>Cash/savings</td>
<td>Loan from moneylender</td>
</tr>
<tr>
<td>Fixed deposit</td>
<td>Loans could be for any purpose – e.g., education, wedding, bike, food etc.*</td>
</tr>
</tbody>
</table>
Trainer Note: While a car has some long-term value and can be sold for money, its value decreases over time. Therefore, a car is not a good example of an asset.

- We can measure our “financial health” by calculating:

  \[
  \text{Total Assets} - \text{Total Liabilities}
  \]

<table>
<thead>
<tr>
<th>Assets &lt; Liabilities</th>
<th>Assets &gt; Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>We <strong>owe</strong> more than we <strong>own</strong></td>
<td>We <strong>own</strong> more than we <strong>owe</strong></td>
</tr>
<tr>
<td>We must pay down our liabilities (loans) responsibly, or we may become weighed down with debt</td>
<td></td>
</tr>
</tbody>
</table>

- This is a measure of our “financial health” at a specific time. Our health can change over time, depending on the total amount of assets vs. the total amount of liabilities.
- Our goal is to eventually have more assets than liabilities and to keep increasing assets.
Exercise – My Family’s Assets & Liabilities

In the table below, draw pictures of your family’s assets and liabilities. Refer to the definitions below.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assets vs. Liabilities

An asset is something we own that has long-term value. Assets put money into our pocket.

A liability is something we owe to another/person/organization. Liabilities take money out of our pocket.

**Trainer Note:** Students may feel sensitive sharing their family’s financial information. To make them feel more comfortable, prepare photocopies of this activity and ask students to draw pictures of their family’s assets & liabilities and submit the worksheet without their name in a drop box.

4.2 When & Why to Borrow

We borrow when we need additional money to pay for a good or service. However, borrowing can be very costly. We must understand types of borrowing, good & bad reasons to borrow, and how much we can afford so that we borrow wisely.
What is Borrowing?
• We borrow when we take another person or organization’s money, with their permission, with a promise to repay the money within a certain period of time. The amount borrowed is the principal and must be repaid by the borrower, along with interest, through a fixed schedule of regular repayments.
  ♦ **Borrower:** person taking the money with a promise to repay within a fixed time.
  ♦ **Lender:** person giving the money with the expectation that it will be repaid.
  ♦ **Principal:** amount borrowed (“loan amount”).
  ♦ **Interest:** fees charged by the lender for the convenience of using his money.
  ♦ **EQUITED MONTHLY INSTALLMENT (EMI) or Installment:** agreed amount to be given by the borrower to the lender on the agreed schedule. The repayment amount is applied first to interest and then to principal.
  ♦ **Default:** occurs when the borrower fails to make payments as agreed. The loan becomes “bad” and the borrower becomes untrustworthy.
  ♦ **Secured loan:** loan which is provided against a valuable item (“collateral”) owned by the borrower (e.g., gold, jewellery, house). The collateral provides the lender with some guarantee of getting his money back. If the borrower defaults, the lender has the right to keep and/or sell the collateral.
  ♦ **Unsecured loan:** loan in which no collateral is provided by the borrower. Unsecured loans are based on trust and are usually smaller than secured loans.
  ♦ **Loan Costs:** The total costs involved in repaying a loan, over and above the principal amount. This includes interest costs and other fees & charges such as documentation/processing fees, late fees pre-payment penalties, and commissions.
Gold Loan
In a gold loan, the lender estimates the value of your gold (including gold items such as jewellery). Based on this, he will lend you an amount less than the value of your gold – usually 75% of the value – and keep your gold or gold item as collateral. You must repay the lender in installments of a fixed amount. Once you have made all the payments you can get your gold or gold item back.

When do People Borrow?
- People borrow when they need additional money to purchase a good or service. This can happen in two situations:

1. **Consumption Borrowing** is when people borrow to buy goods & services to use. This occurs when their spending is more than their income (recall the earnings-spending equation). The money borrowed may be spent on everyday necessities like food, or on wants like a new mobile phone.

   \[\text{Earnings} < \text{Spending}\]

2. **Investment Borrowing** is when people borrow to buy an asset that they cannot pay for in cash, such as a house or a business investment which generates further income. They expect that the asset will be worth more in the future or will increase their income, by an amount greater than the total costs of the loan. They hope their loan will produce money. Investment generates positive cash flows which means by definition education and health are investments while buying a TV is consumption. Of course, if your work requires using the TV for income
What Are Good & Bad Reasons to Borrow?

• **Investment borrowing is good borrowing** if we believe that the additional money we generate from the asset purchased will be greater than the costs of the loan (i.e., amount paid above and beyond the principal amount borrowed).
  - Not all loans used to purchase an asset are good loans. If the asset purchased produces less additional money than the total loan costs, this is bad borrowing.

• **Consumption borrowing is bad borrowing** as it does not generate any money. We should borrow with care for consumption purposes, as the interest costs add up quickly and result in us paying much more for the item. Instead, we should save for consumption.

• **Finally, we should never borrow money** (from a lender or from a friend/relative) to repay another loan. When we have to borrow to repay a loan, we are borrowing much more than we can afford to. Now we have to repay two loans, and we are paying interest on top of interest (i.e., interest on the second loan to pay the interest on the first loan). Eventually we may pay off the first loan but have to borrow again to pay off the second loan. We get caught in a never ending cycle of borrowing, also known as a **debt trap**.

• **Idea of Borrowing – Golden rule** - Loan amount should be based on the capacity to repay.
Example 1: Consumption Borrowing
Anuj wants to buy a mobile phone costing Rs. 8,000. He uses Rs. 1,000 from his salary to purchase the phone, and takes a loan of Rs. 7,000 from the local moneylender. Anuj must repay the lender Rs. 500 every month for the next 24 months.

In total, Anuj will repay the lender Rs. 12,000! This is Rs. 5,000 more than the amount he borrowed (Rs. 7,000) and Rs. 4,000 more than the cost of the phone.

If Anuj had waited to buy the phone until he had enough money saved, he would have spent Rs. 4,000 less. This amount is almost one month’s salary, which Anuj could have used for something else, like putting in his emergency fund or paying college fees for his sister.

Example 2: Investment Borrowing
Reena wants to do a one-month training course in Secretarial Work, but she only has Rs. 1,000 saved and the fees are Rs. 8,000. For the remaining Rs. 7,000, she takes a loan from the moneylender with an agreement to repay in installments of Rs. 500 every month for the next 24 months. Reena expects that this course will help her earn an additional Rs. 1,000 per month.

In total, Reena repays the lender Rs. 12,000, which is Rs. 5,000 more than the amount she borrowed (Rs. 7,000) and Rs. 4,000 more than the cost of the course.

However, the course helps her get a job as a secretary in a big company. Deepa now earns Rs. 5,200, which is Rs. 1,000 more than her previous salary. So in the same 24 months that Deepa repays the loan, she earns an additional Rs. 24,000. This is an example of production borrowing as Deepa earns much more (Rs. 24,000) than the interest on the loan (Rs. 5,000). And she will continue to earn Rs. 1,000 more per month even after she has repaid the loan!
Consumption vs. Investment Borrowing

**Consumption Borrowing:** Taking a loan to purchase goods or services that will have little to no monetary value left once we use or consume them.

**Production Borrowing:** Taking a loan to purchase an asset that will increase in value or increase our income by an amount greater than the total costs of the loan.

<table>
<thead>
<tr>
<th></th>
<th>Item Cost</th>
<th>Savings</th>
<th>Loan Amount</th>
<th>Installment</th>
<th>Loan Length</th>
<th>Total Repaid</th>
<th>Benefit from Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anuj</td>
<td>8,000</td>
<td>1,000</td>
<td>7,000</td>
<td>500</td>
<td>24 mo.</td>
<td>12,000</td>
<td>0</td>
</tr>
<tr>
<td>Deepa</td>
<td>8,000</td>
<td>1,000</td>
<td>7,000</td>
<td>500</td>
<td>24 mo.</td>
<td>12,000</td>
<td>24,000</td>
</tr>
</tbody>
</table>
Activity – Should They Borrow?
Read each of the situations below and determine if this is an example of good or bad borrowing. Remember the lesson on production vs. consumption borrowing.

1. Ali works at a store in the mall and earns Rs. 4,500 per month. His sister is getting married in 3 months and he wants to take a loan of Rs. 3,000 now to start buying her outfits for the wedding.

   **GOOD BORROWING**          **BAD BORROWING**
   
   Reason : _________________________________________

2. Meera works in a garment factory and earns Rs. 3,000 a month. Her father stopped working 5 months ago due to an injury & her income now provides for her family's basic needs. On Diwali, her family usually gives sweets generously to friends and neighbors. To give sweets this year, Meera will have to borrow Rs. 1,000.

   **GOOD BORROWING**          **BAD BORROWING**
   
   Reason : _________________________________________

3. Arun works at a call center and earns a good salary of Rs. 6,500 per month. He wants to take his family on pilgrimage to Tirupati, which will cost Rs. 2,000. Arun only has savings of Rs. 500 and wants to borrow the remaining Rs. 1,500. He will have to make repayments of Rs. 500 per month for the next 4 months. His mother believes they will suddenly get money after the pilgrimage and should take the loan.

   **GOOD BORROWING**          **BAD BORROWING**
   
   Reason : _________________________________________

4. Nitesh wants to start his own photography business, but he does not have a good camera. They money lender will give him a loan of Rs. 10,000, on which Nitesh will have to make repayments of Rs. 1,000 per month for the next 12 months. Nitesh expects he can earn at least Rs. 2,000 per month from this business.

   **GOOD BORROWING**          **BAD BORROWING**
   
   Reason : _________________________________________
How Much Can We Afford To Borrow?

- How much we should borrow depends on how much we can afford to repay every month. Recall the definition of “afford” discussed in Module 2:

  “Afford” means that we have enough money to purchase the item at that time, while still:
  - Providing for our daily needs (e.g., food, water, shelter, healthcare)
  - Fulfilling our obligations (e.g., loan repayment, giving money to family)
  - Saving for emergencies and our goals

- We can afford a loan if we can make the required repayments while still meeting our daily needs, fulfilling existing obligations, and continuing to save.
  - If the answer to any of these is no, we should not take the loan.
- Additionally, our total monthly repayment amount (across all loans) should not be more than 20-25% of our regular income.
- Finally, we should ensure we have enough savings or income to cover an emergency situation and still make our loan repayments.

**Financial Literacy for Youth**

Our total monthly repayment across all loans should not be more than 20-25% of our regular income.

A bad loan is one that we cannot afford to repay.

4.3 Costs of Borrowing

*While borrowing may seem like an easy option in a moment of panic or difficult situation, it is important to understand the significant financial and emotional costs involved.*

**Financial Costs of Borrowing**

- **Principal**: the amount borrowed (“loan amount”), which must be repaid in full
• **Interest**: fees charged by the lender for the convenience of using his money. Interest is typically calculated as a percentage of the principal amount, but moneylenders or gold lenders may not clearly state the interest rate and may just state the installment amount
  - Interest charges add up quickly and became a significant part of the repayment. The total interest paid may be as much as the original loan amount
  - If we miss a payment, the lender may charge interest on the principal and the outstanding interest

**Other fees**: Some lenders may charge other fees associated with the loan, such as:
  - **Documentation/processing fees** for preparing paperwork and/or loan
  - **Late fees** for missed or late payments
  - **Pre-payment penalty** for making payments ahead of schedule; paying more than the EMI amount (unless making up a missed or late payment); or paying off the loan in full before the agreed upon end date
  - **Commission** charged by the broker for helping obtain the loan

---

**Flat vs. Reducing Interest**

A **flat rate loan** charges a fixed percentage interest rate every week/month/quarter on the *original principal amount*. The principal is either repaid in installments along with interest, or in lump sum at the end of the loan. Loans from money lenders or against gold are usually flat rate loans.

A **reducing rate loan** charges a fixed percentage interest rate every week/month/quarter on the *remaining principal* (original principal – repayments applied to principal). Banks usually give reducing rate loans.

*Remember that the EMI is first applied to interest, then principal*

---

*Every loan is different. We must read/understand the terms & conditions before taking a loan. We should also try to negotiate the terms of the loan.*
Example – Flat vs. Reducing Interest

Gaurav wants to take a loan of Rs. 10,000 to buy a new sewing machine for his father’s tailoring business, which is doing very well. With this machine, his father can employ a worker who will produce more outfits.

The moneylender is willing to give Gaurav a secured loan to be repaid in monthly installments of Rs. 1,120. The moneylender gives Gaurav a choice of taking a flat or reducing rate loan.

Which type of loan should Gaurav take – flat or reducing rate? Why?

<table>
<thead>
<tr>
<th></th>
<th>Flat Rate</th>
<th></th>
<th></th>
<th>Reducing Rate</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Repayment Amount (EMI)</td>
<td>Interest</td>
<td>Principal</td>
<td>Repayment Amount (EMI)</td>
<td>Interest</td>
<td>Principal</td>
<td>Principal Balance</td>
</tr>
<tr>
<td>Month 1</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Month 2</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>108</td>
<td>1,012</td>
<td>7,988</td>
</tr>
<tr>
<td>Month 3</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>96</td>
<td>1,024</td>
<td>6,964</td>
</tr>
<tr>
<td>Month 4</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>84</td>
<td>1,036</td>
<td>5,927</td>
</tr>
<tr>
<td>Month 5</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>71</td>
<td>1,049</td>
<td>4,879</td>
</tr>
<tr>
<td>Month 6</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>59</td>
<td>1,061</td>
<td>3,817</td>
</tr>
<tr>
<td>Month 7</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>46</td>
<td>1,074</td>
<td>2,743</td>
</tr>
<tr>
<td>Month 8</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>33</td>
<td>1,087</td>
<td>1,656</td>
</tr>
<tr>
<td>Month 9</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>1,120</td>
<td>20</td>
<td>1,100</td>
<td>556</td>
</tr>
<tr>
<td>Month 10</td>
<td>1,120</td>
<td>120</td>
<td>1,000</td>
<td>562</td>
<td>7</td>
<td>556</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>11,200</td>
<td>1,200</td>
<td>10,000</td>
<td>10,642</td>
<td>642</td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

Gaurav should take the reducing rate loan in this case as he will pay Rs. 558 less in interest

Assuming the interest rate and repayment period are the identical, and that we will make our repayments on time, a reducing rate loan is better than a flat rate loan as we will pay less interest in total.
Other Costs of Borrowing (Non-Financial)

- **Risk of asset loss**: If we fail to repay our loan as agreed, we can lose the asset we gave to secure the loan.

- **Mental tension**: When we borrow, we are constantly worrying about how we will repay the loan and what will happen if we cannot make a payment or cannot repay the full loan.

- **Sleepless nights**: Mental tension can lead to sleepless nights. This can make us less productive at work, which could result in loss of income.

- **Health problems**: Mental tension also contributes to health problems. Additionally, we may sacrifice important basic necessities, such as food and proper hygiene, to repay the loan. These sacrifices can have costly consequences for our health.

- **Social standing**: Having too much debt or borrowing too often can reduce our status and that of our family in society. This can also affect the marriage prospects of the children.

Minimizing the Costs of Borrowing

- **Don’t borrow unless absolutely necessary**, and then only for a productive purpose

- **Choose a reducing rate loan** if possible, assuming both the interest rate and repayment period is the same or lower as for a flat rate loan

- **Repay the loan quickly** to reduce the total interest costs, *if there is no prepayment penalty*. Remember that interest is usually charged as a fixed percentage of the original principal (flat rate interest) or outstanding balance (reducing rate interest). By repaying the loan quickly, we pay interest for fewer periods, which reduces the total interest we pay on the loan

- **Don’t miss an installment or repayment**, otherwise we will have to pay the amount later with even more interest
4.4 Borrowing Process

We must be familiar with the borrowing process works so that we can understand our chances of getting a loan and try to get the best loan terms possible

What Does the Lender Look For?

- The lender is looking at his own safety and is most concerned with our ability to repay the loan. Moneylenders and banks will both judge this by look at things like:
  - Our/our family’s monthly income
  - Repayment record (if we have taken a loan from the same lender in the past)
  - The value of our collateral (asset(s) we can give for securing the loan)
- Moneylenders may also look at our standing in society
- Banks will look at additional factors, such as:
  - Installment amount on other loans that we are currently repaying
  - How much of our own money we will put towards buying the item. Banks often want to see 15-20% is our contribution. The lender believes that we are less likely to default if we have some of our own money at stake as well
  - Our credit score (a measure of how trustworthy and reliable we are as a borrower)

What Should We Look For?

- We should also look at our safety by asking the lender several things when taking a loan:
  - Interest rate
  - Interest rate method (flat vs. reducing rate)
  - EMI/installment amount
  - Repayment schedule (e.g., weekly, fortnightly, monthly etc.)
• Other fees charged by lender (documentation/processing fees, late fees, pre-payment penalty, commission) – important costs often forgotten by borrowers!

• We should talk to different lenders – they may offer different interest rates & loan terms

• See the “checklist for borrowing” on the next page for a full list of things to consider before, during, and after taking a loan

**Activity – So You Want a Loan?**

For this activity, you will need to find a partner in your class. One of you will play the role of borrower and the other of lender. The borrower will act out the process of asking for a loan for a specific purpose, while the lender will act out the process of deciding whether to give the loan.

Remember the borrowing process and criteria we have discussed!
Checklist for Borrowing

When thinking about taking a loan…

• **What is the loan for** – consumption or production?
  - *If consumption:* is the item an urgent need that you must take a loan for it?
  - *If production:* is the extra income produced greater than the loan costs?

• **How much does the item cost?** How much can you pay? How much do you need to borrow?
  - Can you wait a bit, increase your savings, and buy the item without a loan?

• **Can you afford the loan?** What other loans do you currently have?
  - Is the total monthly repayment amount for the current loans and this new loan less than 20-25% of your monthly income?
  - Do you earn enough salary to repay: (1) all loans; (2) regular household expenses; (3) any transportation or other costs for repaying the loan?
  - Do you have enough savings set aside for any emergencies that may occur?

• **Can you repay the loan regularly and on time?** How will you ensure this?

When meeting with different lenders to do research…

• **What are the terms of the loan?** *(read terms & conditions if available!)*
  - Interest rate & method (*flat vs. reducing rate*)
  - EMI/installment amount
  - Repayment schedule (*e.g., weekly, fortnightly, monthly etc.*)
  - Other fees charged by lender (*documentation/processing fees, late fees, pre-payment penalty, commission*) – important costs often forgotten by borrower

• Does the lender require collateral? If so, what type? Can you provide this? Is it worth the risk of losing the collateral if for some reason you default on the loan?

• Take documentation of the loan (amount borrowed & agreed terms) & keep it safely

After taking the loan…

• Keep a record of all repayments made, including date & amount
### Types of Lenders

<table>
<thead>
<tr>
<th>Moneylender</th>
<th>Microfinance Institute (MFI)/Private Company</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Usually charges higher interest rate than bank</td>
<td>- May charge higher interest rate than bank but lower interest rate than moneylender</td>
<td>- Usually charges lower interest rate than moneylender</td>
</tr>
<tr>
<td>- Can give you money immediately</td>
<td>- May need to understand your goals before giving you money</td>
<td>- May take a few days/weeks to give you money</td>
</tr>
<tr>
<td>- Usually knows you &amp; gives loan based on your reputation in the community</td>
<td>- May not know you and may require you to take a group loan</td>
<td>- Does not know you &amp; requires identification/credit score to give loan</td>
</tr>
<tr>
<td>- May provide loan for consumption or production purposes</td>
<td>- Primarily provides loans for investing in assets, especially small businesses</td>
<td>- Usually provides loan for purchasing assets; does not easily provide consumption loans</td>
</tr>
<tr>
<td>- May or may not require collateral to secure the loan</td>
<td>- May not require collateral to secure the loan</td>
<td>- Requires collateral to secure the loan</td>
</tr>
<tr>
<td>- Provides short-term loans (few weeks to 1-2 years)</td>
<td>- Provides short-term loans (few weeks to 1-2 years)</td>
<td>- Provides medium-to-long term loans (1-30 years)</td>
</tr>
<tr>
<td>- Often comes to your home to collect payments</td>
<td>- Often comes to your home to collect payments</td>
<td>- Borrower must submit payments to bank</td>
</tr>
</tbody>
</table>
4.5 Risks of Borrowing

*In addition to the financial and non-financial costs of borrowing, there are also risks.*

- The biggest risk in borrowing is that we *cannot repay the loan in the future*. While we may have calculated before taking the loan that we can afford the installments, unexpected events and emergencies can occur which affect our ability to repay the loan.
- When we cannot repay the loan, we will have an *angry lender* who will keep or sell our collateral (or come banging on our door asking for money if we took an unsecured loan).
- In this situation, we feel pressured and may take on a new loan to repay the existing loan. However, as discussed earlier, we should never take a loan to repay another loan as we will find ourselves in a *debt trap*.
- Once we are in a debt trap, it is very difficult to get out of it. If we can’t afford to repay the first loan and take another loan, how will we be able to repay the second loan? Once we pay off the first loan, we still have to repay the second loan, and end up taking another loan to pay that off. We are trapped, or caught, in a constant cycle of borrowing and debt.
Hari is Trapped…in a Debt Trap

To celebrate his new job, Hari spent Rs. 1,500 on Diwali gifts for his family. Since he had only Rs. 200 in savings, he took the remaining Rs. 1,300 on loan from the moneylender. He had to repay the loan in five installments of Rs. 400 per month. The Rs. 200 per month that he was previously setting aside as savings would now go towards the loan repayment.

Hari made the first two installments on time, but in the third month, his mother became ill and had to go to the doctor. The doctor’s fees and medicines cost Rs. 1,000. After providing for his family’s basic needs, Hari had only enough salary left to pay Rs. 400 of the medical costs. But he still had to pay the remaining Rs. 600, and the Rs. 400 installment for his Diwali loan, for a total of Rs. 1,000.

So Hari took on a second loan of Rs. 1,000 with his mother’s earrings as collateral, and used this money to make the installment on his Diwali loan and pay the remaining medical expenses. This loan had to be repaid in five installments of Rs. 250 per month.

The next month, Hari owed Rs.650, of which Rs.400 was for the Diwali loan and Rs.250 was for the second loan. But he could only afford to make the payment of Rs.400 from his salary. He borrowed another Rs. 250 from his chacha. Hari was trapped in a debt trap.
5
MODULE
Financial Planning
कमाई, बचत और नियोजन
5

MODULE

Financial Planning

कमाई, बचत और नियोजन
We acknowledge Ms. Nandita Batra for her efforts in putting together the content.
Introduction

This curriculum has been developed by the American India Foundation (AIF), with financial and technical support from Citi. The materials draw from the “Financial Literacy for Poor Women” Curriculum developed by Citi and the Indian School of Microfinance for Women (ISMW), and the “Young People: Your Future, Your Money” materials that are part of by the Global Financial Education Program, which is supported in part by the Citi Foundation. We would also like to acknowledge the support of our partners at Saath in reviewing the content and developing the pre- and post-assessments.

The objective of this curriculum is to equip AIF’s MAST trainees with essential knowledge and skills to effectively manage their personal finances. These skills are especially critical once they receive job placements and start earning an income. The field of financial literacy is broad and this curriculum deliberately focuses on only a subset of all possible topics. Our intent in designing the curriculum was to provide MAST trainees with information that is most relevant to their circumstances, is easy to understand, and can be easily implemented by them.

Trainers should remember that the topic of finances is highly personal and sensitive. Trainers should take care to deliver the content as objectively as possible, without passing judgment on students’ financial choices. Every family’s financial circumstances are different and are shaped by a variety of factors, including parents’ own financial literacy, family values, and circumstances such as an illness in the family.
Course Structure

Modules:
- Pre-Assessment
- Module 1: Employment & Earnings
- Module 2: Spending
- Module 3: Savings
- Module 4: Borrowing
- Module 5: Financial Planning
- Post-Assessment

Overarching Objectives:
- Explain the components of salary income so that students can read their salary slips
- Encourage good spending behaviors in the context of individual priorities & values and financial & life goals
- Equip students to prioritize, budget, and plan for total expenses
- Highlight the financial and emotional costs of borrowing
- Explain the concept of return and link to borrowing for consumption vs. production
- Introduce the formal banking sector and its role in financial management & planning

Outcomes:
*By the end of the curriculum, students should have:*
- Created a monthly budget (including loan repayment and savings) for themselves (to implement once they start earning) or their family
- Identified a short- and long-term goal to provide ongoing motivation for savings
- Opened a savings account (or at least attempted to open one)
Module Structure:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Activities</th>
<th>Suggested Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction to Banking</td>
<td>Open A Bank Account</td>
<td>60 mins</td>
</tr>
<tr>
<td>5.2 Banking Basics</td>
<td>Going to the Bank</td>
<td>60 mins</td>
</tr>
<tr>
<td>5.3 Introduction to Insurance</td>
<td>How Much Would It Cost to Replace My Things?</td>
<td>90 mins</td>
</tr>
<tr>
<td>5.4 Introduction to Investing</td>
<td>N/A</td>
<td>60 mins</td>
</tr>
<tr>
<td>5.5 Record Keeping</td>
<td>N/A</td>
<td>30 mins</td>
</tr>
</tbody>
</table>

Module Objectives:

By the end of the module, students should:

- Understand the basic activities of a bank as taking deposits and providing loans
- Be aware of three special types of bank accounts (small, small deposit, and no-frills accounts) and the requirements for opening each
- Know how to use counter slips, register log (passbook), and cheques
- Understand how basic health & life insurance works and why it is important
- Understand the basic concept of investing and the idea of risk vs. return
- Know why and how to keep financial records
5.1 Introduction to Banking

Banks provide products and services that help customers manage their money

What do Banks Do?

- Banks are primarily in the business of (a) safeguarding peoples’ money through bank accounts and deposits; and (b) lending people money (“loans”)
  - Bank accounts include savings accounts (which pay interest to the customer), and checking accounts (which typically do not pay interest but include the facility to issue personal cheques)
  - Deposit accounts include fixed deposits (also known as term deposits) and recurring deposits
  - Banks issue loans for various uses, such as buying a home or car or education, but the requirements for obtaining a loan can be quite strict
  - Banks make money by charging customers interest on loans. They also charge fees on some types of bank accounts. In turn, banks pay customers interest on savings and deposit accounts

How Can Banks Help With Money Management?

- As discussed in Module 3, there are many benefits to a bank account, including:
  - **Money is safe and secure:** The money is registered in the bank under our name. We can only access the money by signing a withdrawal slip or by using our bank card which has a unique access code
  - **Helps build discipline in savings:** We are less likely to spend our savings on temptations or wants when we have to go to the bank to access our money
  - **Tracks progress towards savings:** The bank can provide us with an account statement showing our total account balance. This makes it easy to track how close or far we are from our savings goals
• **Helps our money grow:** Savings accounts earn interest, which helps our money grow. We will discuss interest in the next lesson – 3.5: Growing Savings

• To open most bank accounts, we need to establish our identity and address (see “Know Your Customer (KYC) Requirements at Banks” on the next page)

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**“Know Your Customer” (KYC) Requirements**

Many companies, including banks and insurance companies, are required by the Government of India to use these “Know Your Customer” requirements to establish the identity of new customers. To meet the requirements, you must provide valid proof of identity & address documents from the list below.

### Proof of Identity

At least two of these documents:

- Photo
- PAN card
- Voter’s ID card
- Driver’s license
- Passport
- Armed Forces ID card

### Proof of Address

And one of these documents:

- Electricity bill (*in your name*)
- Telephone bill (*in your name*)
- Ration card
- Bank statement (*last 90 days*)
- Professional license with photo
- Trade license with photo

Along with a self-attested passport-sized photograph

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**Aadhaar (UID)**

Aadhaar is a recent mandate from the Government of India to provide every Indian with a 12-digit Unique Identification number (UID), which is linked each person’s photograph, 10 fingerprints, and eye-scan. This information will be stored in a centralized database. Residents can receive an Aadhaar whether or not they already have identity documents. The aadhaar program will make it easier for Indians to clearly establish their identities for uses such as getting ration cards, opening bank accounts, and voting in elections.

**To receive an Aadhaar,** you must first register at an Enrolment Camp. Details of enrolment camps, including documents you may require, are circulated by the local media. After registering, your photograph, fingerprints, and eye-scan will be taken and you will be given an enrolment number. Your application will then be processed and you should receive a letter with your name, address, and UID number within 60-90 days.
There are some bank accounts that can be opened with simpler identity requirements, such as small accounts & small deposit accounts. We will discuss these along with no frills accounts.

<table>
<thead>
<tr>
<th>Requirements for opening account</th>
<th>Small Account</th>
<th>Small Deposit Account</th>
<th>No Frills Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Can be opened with KYC documents OR with &gt; UID letter (with name, address &amp; Aadhaar number) &gt; or NREGA job card</td>
<td>• Can be opened with KYC documents OR &gt; introduction from an existing customer of bank</td>
<td>• Proof of identity (2 documents from the KYC list)</td>
<td></td>
</tr>
<tr>
<td>• Self-attested passport photo (signature/thumbprint must be given in bank officer’s presence)</td>
<td>• Introducing customer must certify your photograph and address</td>
<td>• Proof of address (1 document from the KYC list)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• “Introducing” customer must have opened his account with proper KYC documentation, had the account for at least 6 months, and have good transaction history</td>
<td>• Passport-sized photograph for each account holder</td>
<td></td>
</tr>
<tr>
<td>Note: After 12 months, the account owner needs to provide valid KYC documents to maintain the account. If s/he provides proof that s/he has applied for such documents, the bank may renew the account for another 12 months, after which the bank can close the account if documents are not presented</td>
<td>Note: Banks may accept other proof of identity &amp; address for KYC requirements – varies by bank</td>
<td>• Some banks may require an opening deposit amount (usually less than Rs. 500)</td>
<td></td>
</tr>
<tr>
<td>Restrictions</td>
<td>Restrictions</td>
<td>Restrictions</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• Account balance cannot be more than Rs. 50,000</td>
<td>• Account balance cannot be more than Rs. 50,000</td>
<td>• Individual accounts may have specific restrictions</td>
<td></td>
</tr>
<tr>
<td>• Total of account credits (deposits/transfer) cannot be more than Rs. 1,00,000 per year</td>
<td>• Total of account credits (deposits/transfer) cannot be more than Rs. 1,00,000 per year</td>
<td>• May be limits on number of free transactions</td>
<td></td>
</tr>
<tr>
<td>• Withdrawals &amp; transfers cannot be more than Rs. 10,000 per month</td>
<td>• If either of the above occurs, transactions will not be allowed without giving documents per KYC requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Cannot send or receive money from abroad</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th>Other</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Account includes passbook</td>
<td>• Bank will notify customer when total balance reaches Rs. 40,000 at any given time or Rs. 80,000 in a year</td>
<td>• Account has low or zero minimum balance requirements &amp; low fees</td>
</tr>
<tr>
<td>• Debit card &amp; cheque book is optional</td>
<td></td>
<td>• Some services may involve additional fees (e.g., internet banking)</td>
</tr>
</tbody>
</table>

*Trainer Note: This is one of the most important activities in the entire Financial Literacy Curriculum. Trainers should tell students that this activity is compulsory.*
Activity – Open a Bank Account

Go to a bank near your house to open a bank account. If your parents have a bank account, you can go to the same bank.

**Step 1:** Review the special types of accounts we discussed. Decide which account you want to open based on the requirements:

- **Small Deposit Account:** can be opened with UID/Adhaar letter or NREGA job card
- **Small Account:** can be opened via introduction of an existing account holder
- **No-Frills Account:** must be opened with proof of identity & address documents as per KYC requirements

**Step 2:** Prepare for your visit to the bank:

- Collect the documents you will need to open an account (see “Types of Savings Accounts” & “Know Your Customer (KYC) Requirements”)
- Bring a passport-sized photograph
- Bring some money for the opening deposit on your account (at least Rs. 100 is recommended)
- If you plan to open a small account with the introduction of an existing account holder, arrange for the account holder to go with you to the bank

**Step 3:** Visit the bank:

- Inform the bank officer that you'd like to open a savings account (specify which type of account)
- The bank officer may ask you some questions or give you a form to complete
- If the bank officer says you cannot open an account, politely ask why. Find out what else you need to open an account, then return to the bank with these items

*Remember, the worst thing that can happen is that the bank officer says “No, you cannot open an account.”*

*As we go through life, lots of people may say “no” for various things but we must never give up.*
Savings vs. Current Accounts

- A **savings** account is available to individuals and Hindu Undivided Families for their personal use. A savings account pays interest.
- A **current** account is available to businesses for official use. A current account does not pay interest.

Types of Deposit Accounts

- With deposit accounts, you deposit a certain amount of money for a fixed period ("deposit term")
- During this period, the deposit earns interest at a fixed rate. The rate depends on the deposit term
- Initial deposit amount & earned interest can be withdrawn at the end of the deposit term
- In case of early withdrawal, the bank issues a penalty on some of the earned interest
- There are two main types of deposit accounts: fixed deposit and recurring deposit

### Fixed Deposit
- *One-time deposit…*
- …of a fixed amount
- …for a certain period ("term")
- Good if you have a large enough sum of money to deposit at once

### Proof of Address
- *Regular deposit…*
- …of a fixed amount
- …at fixed intervals (e.g. monthly)
- …for a certain period ("term")
- Good if you want to save regularly but do not have a large enough sum of money to deposit at once
Activity – Deposit Accounts

In January 2011, Aditi opens a fixed deposit with Rs. 1,200 for a deposit term of 12 months.

<table>
<thead>
<tr>
<th>Deposit</th>
<th>Aditi – Deposit Account</th>
<th>Amir – Recurring Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 1,200</td>
<td>Deposited Amount</td>
<td>Rs. 300</td>
</tr>
<tr>
<td>Account Balance</td>
<td>Interest Earned</td>
<td>Account Balance</td>
</tr>
<tr>
<td>Jan 2011</td>
<td>1,200.0</td>
<td>1,200.0</td>
</tr>
<tr>
<td>Feb</td>
<td>1,212.0</td>
<td>12.1</td>
</tr>
<tr>
<td>Mar</td>
<td>1,224.1</td>
<td>12.2</td>
</tr>
<tr>
<td>Apr</td>
<td>1,236.4</td>
<td>12.4</td>
</tr>
<tr>
<td>May</td>
<td>1,248.7</td>
<td>12.5</td>
</tr>
<tr>
<td>Jun</td>
<td>1,261.2</td>
<td>12.6</td>
</tr>
<tr>
<td>Jul</td>
<td>1,273.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Aug</td>
<td>1,286.6</td>
<td>12.9</td>
</tr>
<tr>
<td>Sept</td>
<td>1,299.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Oct</td>
<td>1,312.4</td>
<td>13.1</td>
</tr>
<tr>
<td>Nov</td>
<td>1,325.5</td>
<td>13.3</td>
</tr>
<tr>
<td>Dec</td>
<td>1,338.8</td>
<td>13.4</td>
</tr>
<tr>
<td>Total</td>
<td>1,200.0</td>
<td>1,352.2</td>
</tr>
</tbody>
</table>

After 12 months, Aditi will have earned Rs 58.5 more interest than Amir. Why? Because she deposited the total Rs. 1,200 earlier than Amir. Remember the savings principles!
Savings Principles

- The more regularly we save, the more our money will grow
- The earlier we start saving, the more our money will grow
- The more we save, the more our money will grow

Trainer Note: Although Amir saved more regularly, Aditi saved more early on and got more interest

5.2 Banking Basics

Knowing how to use a bank account is important for managing our money properly.

Counter Slip

- You need to complete a counter slip with the following information to deposit money (put it into your bank account) or withdraw money (take it out of your bank account):
  - Date
  - Your name
  - Account number
  - Amount to be deposited or withdrawn
  - Your signature
- The bank officer will keep the counter slip and accept your deposit or provide you with the money you want to withdraw.

Passbook

- A passbook (register log) is a tool for tracking how much money is in your bank account.
- Every time you make a deposit or withdrawal, you should note in your passbook:
  - Date of transaction
  - Amount deposited/withdrawn (in the appropriate column)
  - New total bank balance
Bank Card/ATM

- A bank card lets you access money by inserting your card into an ATM machine and entering your unique access code (PIN). You must not share your PIN with anyone!
- You can also purchase an item electronically with your card & PIN via a debit transaction.

Cheques – Cashing

- A cheque is a document that authorizes the payment of money from the bank account of a person or organization (“drawer”) to another person or organization (“bearer”/“payee”).
- To receive funds from a cheque issued in your name, you can deposit the cheque in your bank account or take it to the issuing bank (printed on the cheque) and exchange for cash.
  - If you deposit the check in your account, it will take 0-7 days to “clear” (for the funds to be available in your account), depending on where the check was issued.
- To receive funds from a bearer’s cheque, present it to the bank with an identity document.

Cheques – Issuing

- To issue a cheque, you need to have a bank account and a cheque book, which you can get from the bank. To issue a cheque, you must write in the following information:
  - Date of issue
  - Name of the bearer/payee (the person who will receive the funds)
  - Amount to be paid (in numbers and words)
  - Your signature

Note: Your name & account number should already be printed on the cheque
- Only the account holder can issue a cheque against that account.
• After issuing a cheque, you should record the payee & amount in your passbook as a “withdrawal” (as the check amount will be taken out of your account).

*Other:* You may also be able to access your bank account through internet, phone, or SMS

---

**Understanding a Cheque**

1. Date of issue
2. Name of bearer/payee
3. Amount (in words & numbers)
4. Issuing account holder’s signature
5. Issuing account holder’s account number
6. MICR band (identifies bank branch and account number to withdraw funds from)

When writing a cheque, you should:

- Make sure that the amount in numbers and words matches
- Prevent people from changing your cheque by (a) including rupees & paise when writing the amount in numbers; and (b) writing “only” after the amount in words
- Confirm any changes you make to the cheque by signing next to the altered item(s)
- Not modify the MICR band in any way (by writing, pasting, folding, stapling etc.)
5.3 Insurance

Insurance helps us protect the assets that we have built up through effort and sacrifice.

What is Insurance?

- Insurance is a product we can purchase to protect against the risk of losing assets.
- First, recall the definition of assets from Module 4:

```
Assets
An asset is something you own that has long-term value. An asset can put money in our pocket as it can be sold for money or used to earn money. Assets can be physical objects, such as gold or a house. They can also be personal skills & qualities which can help us earn more income, such as education.
```

- Now, let’s understand our definition of insurance in a little more detail:

```
Insurance
Insurance is a product we can purchase to protect against the risk of losing assets.
```
• **Purchase**: We purchase an insurance policy for a fixed term (usually 1 year or more) by paying the “premium” to the insurance provider. The premium is the price of the policy, and the premium cost depends on the value & condition of the asset, and the risk of losing the asset, as assessed by the insurance provider. The premium is often paid in regular installments (e.g., monthly, quarterly, yearly).

• **Protect**: In the event we lose our asset due to some mishap or accident, the insurance provider can pay us money to reduce the costs of replacing the asset (as long as we meet certain conditions, such as providing sufficient evidence of the loss or accident). The amount of money the insurance provider will pay depends upon the terms of the specific insurance contract (known as the insurance “policy”) that we purchased.

• **Risk of losing assets**: Insurance protects against risk – that is, some unknown possibility of losing an asset *in the future*. The asset may be a physical object (such as a house), or cash (such as the expense associated with an accident). Insurance companies will not sell us insurance for an asset that we have already lost. For example, if we break our leg and have to go to the hospital, we will not be able to buy insurance that will cover the costs of that particular hospital visit.
Activity – How Much Would It Cost to Replace My Things?
Below, make a list of all the things your family owns. Estimate how much it would cost to replace each of these things if there was a fire in your house, for example.

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td></td>
<td>Blankets</td>
<td></td>
</tr>
<tr>
<td>Refrigerator</td>
<td></td>
<td>Linens (towels, sheet)</td>
<td></td>
</tr>
<tr>
<td>Other appliances</td>
<td></td>
<td>Dishes, glasses etc.</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
<td>Food supplies</td>
<td></td>
</tr>
<tr>
<td>Clothes</td>
<td></td>
<td>Cooking supplies</td>
<td></td>
</tr>
<tr>
<td>Shoes</td>
<td></td>
<td>Books</td>
<td></td>
</tr>
<tr>
<td>Mobile phones</td>
<td></td>
<td>Toys/games</td>
<td></td>
</tr>
<tr>
<td>Other (_________)</td>
<td></td>
<td>Other (_________)</td>
<td></td>
</tr>
<tr>
<td>Other (_________)</td>
<td></td>
<td>Other (_________)</td>
<td></td>
</tr>
<tr>
<td>Other (_________)</td>
<td></td>
<td>Other (_________)</td>
<td></td>
</tr>
</tbody>
</table>

What Types of Insurance are Available?

- **Life insurance**: protects our family in the event of death. Upon the death of the insured person, his/her family (or other persons named in the insurance policy) will receive money. The amount of money depends on type of life insurance and the terms of the policy. There are two types of life insurance:
  - **Term Insurance**: we pay a yearly premium and our beneficiaries receive a fixed coverage in the event of our death. If we stop paying the premium before we die, our beneficiaries will not receive money from the insurance company.
  - **Endowment Insurance**: we pay a yearly premium (usually higher than the premium for term insurance). Part of our premium is invested by the insurance company. In the event...
of our death, our beneficiaries receive the total of our invested amount or the coverage amount of the policy, whichever is greater. If we cancel the insurance before our death, we will get back the total of our invested amount in a payment. Note that the investment component involves risk.

- **Medical insurance**: covers medical expenses such as doctor’s fees, hospital visits, and medication. Good health is an important asset for earning income, today and in the future.
  - If we do not have any medical needs one year and therefore, do not use our insurance, we will get a discount on our premium the following year.

- **Automobile insurance**: protects our vehicle from theft or damage, and protects us and our passengers against injury caused by an accident.

- **Property insurance**: three types of property insurance are available:
  - **Loan**: covers remaining repayments on our house loan in the event of our death. Without this insurance, our family members are responsible for making the remaining repayments. Once we have paid off our house loan in full, we do not need this insurance.
  - **Structure**: protects against damage to our house structure caused by natural disasters, fires, accidents etc.
  - **Possessions**: protects the value of our household possessions (e.g., furniture, television). However, to protect jewellery kept at home, we typically need to add special coverage to our insurance policy (at an extra cost).
**ESI: Employees’ State Insurance**

Employees’ State Insurance (ESI) is a government scheme in which employees earning less than Rs. 15,000/- per month contribute a fixed percentage of their salary to the ESI and in return, can receive benefits such as:

- Medical benefits for themselves and their dependents
- Sickness cash benefit for certified sickness requiring medical care & absence from work
- Maternity benefit for pregnant women
- Disablement benefit in the case of work-related disablement

**Note:** that employees may have to meet certain conditions to qualify for benefits

The scheme is available to employees working in the following types of organizations:

- Factories employing 10 or more people
- Shops, hotels, restaurants, cinemas, road motor transport undertakings, and newspaper establishments employing 20 or more people
- Private medical & educational institutions employing 20 or more people

*As of July 2011, the scheme has been implemented in all states except: Nagaland, Manipur, Tripura, Sikkim, Arunachal Pradesh, and Mizoram*

**Trainer Note:** Some additional information on how insurance works & when we should buy insurance is included in the Appendix at the end of this module. This material in the Appendix does not have to be covered in-class but is available for your reference if the students have additional questions.
5.4 Investing

In the previous lesson on insurance, we discussed the risk of losing assets. We will now explore the concept of risk, and the related concept of return, with regard to investing.

What is Investing?

- Investing is putting money or time into something in hopes of getting back something greater. For example:
  - By going to school until 10th or 12th standard, we are investing both time & money in the hopes that we can get a higher-paying job with a 10th or 12th pass
  - By investing money in a fixed deposit, we are giving up money that we can use today in hopes that we will have more money (by earning interest) in the future
- What we get back from our investment is the return. Return can be positive (which is good as it means we have gained money) or negative (which is bad as it means we have lost money).
- Investing can help us grow our money, but investing also involves risk. Risk means that the outcome is not certain – we do not know for sure if our return will be positive or negative. In other words, we are taking a chance
- Some of the common types of investments are:
  - Savings account
  - Deposit account (fixed or recurring deposit)
  - Mutual funds
  - Chit fund
  - Stockmarket

Investing, Risk & Return

**Investing** is putting money or time into something in hopes of getting back something greater

**Return** is what we get back from our investment. Return can be positive or negative

**Risk** exists when the outcome is not certain. In other words, we are taking a chance

The greater the risk, the greater the potential return.
The Relationship Between Risk & Return

- In investing, there is a relationship between risk & return: 
  \textit{The greater the risk, the greater the potential return}

- To encourage us to take on the extra risk, the investment option attracts us with the possibility of a greater return. While we could gain a lot, we must also remember that return can be negative and thus, we could lose a lot.

- We can classify different types of investments by the relative level of risk \textit{generally} involved:

<table>
<thead>
<tr>
<th>Less risky</th>
<th>More risky</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower relative return</td>
<td>Higher relative return</td>
</tr>
<tr>
<td>Savings account</td>
<td>Stock market</td>
</tr>
<tr>
<td>Deposit account</td>
<td>Mutual funds</td>
</tr>
<tr>
<td>Chit fund</td>
<td></td>
</tr>
</tbody>
</table>

Tolerance for Risk

- Every borrower has a different \textbf{tolerance for risk} – that is, the amount of risk that they are willing to take on when investing.

- An individual borrower’s tolerance for risk will depend on various things, such as:
  - \textbf{Amount of savings}: Someone who has a lot of money in savings can take on more risk as the savings provide security for emergencies and other needs.
  - \textbf{Amount invested}: Someone who has a lot of money invested will want to take on less risk as they have a lot of money at stake.
  - \textbf{Timeline for investing}: Someone who invests for a long-term goal (e.g., child’s education) can take on more risk as they have more time to make up any losses.
  - \textbf{Investment goals}: Someone who is investing to buy their first house will want to take on less risk than somebody who is investing to buy their second house.
  - \textbf{Steadiness/security of income}: Someone who has more steady income can afford to take on more risk.
  - \textbf{Personality}: Someone who likes to take risks in general is also likely to take on more risk when investing.
5.5 Record Keeping

Keeping records helps us manage our money and make better financial decisions.

What Records To Keep and For How Long?

<table>
<thead>
<tr>
<th>Type of Record</th>
<th>How Long to Keep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary slips</td>
<td>For at least 1 year</td>
</tr>
<tr>
<td>Bills (record on the bill when it was paid, how much was paid, and how it was paid)</td>
<td>For at least 6 months</td>
</tr>
<tr>
<td>Bank Account Records (deposit receipts, statements)</td>
<td>For at least 1 year</td>
</tr>
<tr>
<td>Loan documentation (terms of loan, repayment records)</td>
<td>For at least 6 months after repaying loan in full</td>
</tr>
<tr>
<td>Insurance policies</td>
<td>For as long as the policy is valid</td>
</tr>
<tr>
<td></td>
<td>If the policy has expired but you have an outstanding claim, you should keep the policy until the claim is settled</td>
</tr>
<tr>
<td>Asset ownership documents (e.g., for car, house etc.)</td>
<td>As long as you own the item</td>
</tr>
<tr>
<td>Identification documents</td>
<td>Forever</td>
</tr>
<tr>
<td>Ration card</td>
<td>Forever</td>
</tr>
</tbody>
</table>

Where to Keep Records?

- All records should be kept in a place that is safe and easy to access.
- Certain types of records should be kept extra securely (e.g., in a locked cupboard or locker), such as:
  - Identification documents
  - Asset ownership documents
Appendix

How Does Insurance Work?

- The risk of losing an asset or having an accident is relatively small – such things do not happen every day, every month, or even every year. However, when such an event does occur, it can have a big negative impact on our financial situation. Insurance can reduce the financial impact that such events can have on us.

- With insurance, we pay a small amount (“premium”) on a regular basis. So does everyone else who has purchased insurance. This creates a pool of funds that the insurance company can allocate to customers who lose an asset or have an accident.

- The system works because not all customers will face such an event in a given year. In other words, the insurance company receives money (premium) from a greater number of customers than the number of customers that it gives money (benefits) to.

- Be aware that certain conditions must be met before the insurance company will pay money (benefits) to a customer. For example, in the event of a car accident, we may have to provide photographs of the accident and wait for the insurance company’s surveyor to come to the accident scene and witness the damages. The exact conditions will vary from one insurance company to another.

When Should We Buy Insurance?

- Although we may feel like we don’t need insurance right now or can’t buy insurance, it’s important to understand what insurance is and how it works. This way, we can be more prepared when we are ready to buy insurance.

- We should also know that it’s better to buy insurance earlier rather than later, for two reasons:
  1. Once we need insurance, it’s too late to buy it – no insurance company will pay us benefits once an event has already occurred
2. Some types of insurance, like life insurance and health insurance, are cheaper when we are younger and cost more as we get older. It makes sense to buy insurance early on and build a good relationship with our insurance company.

- So when should we buy insurance? We should consider buying life and health insurance within 6-18 months after we start working if our employer does not provide it.

Annexure: Post office Savings Account
Post office saving account is similar to a savings account in a bank. It is a safe instrument to park those funds, which you might need to liquidate fully or partially at very short notice. Post office savings accounts are especially suited for those living in rural and semi-rural areas where the reach of banks is very limited.

How to Open Account?
The account can be opened at any post office with a minimum balance of Rs. 20. Maximum of Rs. one lakh for single account holder and Rs. two lakhs for joint account holders can be deposited. There is no lock-in or maturity period. One can just walk into a post office, meet the clerk, complete the formalities and the account would be opened.

Who can Open Account?
Single account can be opened by an adult, a minor with minimum age of ten years, or a guardian on behalf of a minor or a person of unsound mind. Joint account can be opened by two or three adults.

Withdrawal of Money
The amount can be withdrawn anytime subject to keeping a minimum balance of Rs. 50 in simple account and Rs. 500 for cheque facility accounts.

Interest Paid
Rate of interest is decided by the Central Government from time to time. Interest is calculated on monthly balances and credited annually. Usually it is between three to four per cent.
Salient Features
• One could decide to close the account anytime.
• Nomination facility is available.

Income Tax Benefit
Income tax relief is available on the amount of interest under the provisions of section 80L of Income Tax Act.

Benefit of Large Network
Post offices have the largest service network in India. Post men do their job even in remote regions of the country. There are places where you could see old post men riding on bicycles and distributing letters, being awaited so eagerly by the kith and kin of the people who are far from their families and friends. Reach of post offices is of course greater than banks and this is the reason behind the government introducing something like saving accounts through post offices. They can take the benefit of having saving accounts right to the people who need them the most. If one is living in a remote corner, sometimes it is better to have a savings account in a post office rather than a bank. Just because post office and postman is closer to him.
APPLICATION FOR NOMINATION OR CANCELLATION OR VARIATION OF NOMINATION

| Name of the Post Office | Account No. ........... |

* I/We the depositor(s) of Savings/Cumulative Time Deposit/Recurring Deposit/1/2/3/5 year Time Deposit Account No. ................. hereby nominate the person(s) named below under Section 4 of the Government Savings Bank Act 1873, to be sole recipient(s) of the amount standing at the credit of the said account.

<table>
<thead>
<tr>
<th>Name and address of nominee</th>
<th>If nominee is minor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Birth</td>
<td>Name and address of person who may receive the said amount during the Nominee’s minority</td>
</tr>
</tbody>
</table>

$ The name(s) of nominees(s) may not be entered in the passbook

& This nomination supersedes the previous nomination made in respect of the said account which stands registered under No. ........... on ............ (date)

@ No nomination has been previously made in respect of the said account, which is in force I/We, the depositor(s) of savings/cumulative time deposit/recurring deposit/1/2/3/5 year time deposit account no. ............ no ............ (date)

The Passbook for the account is enclosed.

Signature(s) or thumb impression, if illiterate and name(s) of depositor(s)
| Witness     |                                                      |
| Signature   | ........................................................................|
| Name and address | ........................................................................|

| Signature of Branch Postmaster | Signature of Sub Postmaster | Signature of Head Postmaster |

* Strike out if no nomination is required
& Strike out if no previous nomination is in force
@ Strike out if a previous nomination is in force
# Strike out if nomination on variation thereof is required
$ Strike out if not required