# FINANCIAL LITERACY
## FOR YOUTHS

Budgeting: Staying High During the Lows

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## Introduction

For the 99 percent, lacking disposable income for desired goods has become the thorn in our side that we have learned to live with. The conflict between a never-ending demand for things and our limited purchasing power adds on to the thousands of frustrations that is part and parcel of living in this hectic and sophisticated society. A sustainable solution is to impose a budget onto oneself, making sure that the inflow and outflow of cash is supervised in rational accordance to our daily needs and wants. The importance of being money-savvy is further amplified with the arrival of an economic recession.

An **economic recession** can be defined as a period of time (at least six months to a few years) in which a country's overall economy plunges into a significant decline (Investopedia, 2003). Symptoms include drops in the stock market, a hike in unemployment rates followed by a decrease in wages, slumping housing markets, and such other gloomy omens that make even the most astute of bankers cringe when they open their morning papers (Study.com, n.d). These harbingers of economic gloom are all caused by a fall in the country's **Gross Domestic Product** (Investopedia, 2003). In short, people in that particular country have notably less **disposable income** and thus **purchasing power**: the populace will have less cash on hand to spend on necessities, services, assets, luxury goods, and investments. Based on statistics, the Malaysian median monthly income during the 2008 financial crisis was RM4,025 while the inflation rate reached above 8%. Despite there was a 9.2% increment of median monthly income compared to 2007, households could not enjoy the extra disposable income as it was offset by the high inflation. The extent of a recession's impact on the average citizen's lifestyle can be hard to measure, despite its tangible effects. Having budgeting skills and systems in place during hard times will not only come in handy-- it could save your life.

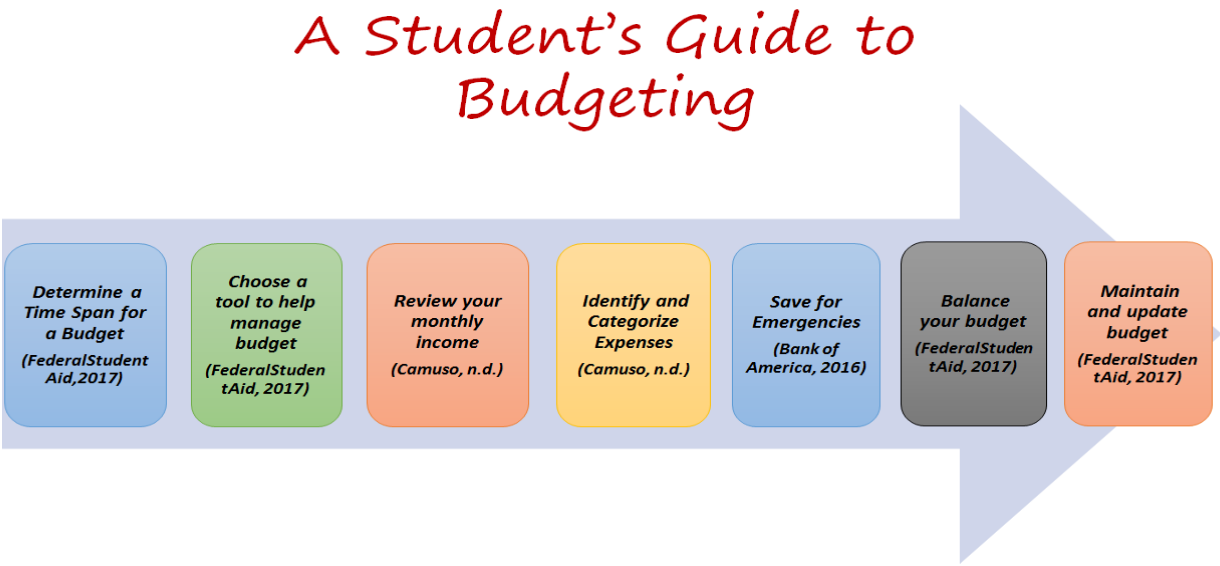
Budgeting strategies differ for people with different demographic backgrounds. Here we break down the effects of a recession on the 3 most vulnerable groups -- and talk tips for weathering the storm.

**Students**

In Malaysia, the estimated cost of studies and living for a Bachelor's Degree in a private institute ranges between RM 75,000 to 93,000 (Mustafa, 2017). It is not uncommon for a student to discontinue their course of study during a recession, to lighten the financial burden on their parents. Those that do not drop out face the twofold blow of having their academic achievements affected by a tighter lifestyle and significant uncertainty in landing future employment. In the US, The Chronicle of Higher Education (2012) revealed that more than a third of seniors and more than a quarter of freshmen did not purchase required academic materials due to its high costs, which affects their learning experience. It also unsurprising that some students need to work extra hours just to get their hands on additional money -- resulting in less time devoted to academic pursuits.

Most students of our generation have faced the almighty fear of post-degree unemployment from the long years of recession at the time we come of age. The anxiety boogeyman runs rampant, doggedly reminding youths of the very real possibility that their hard-earned degree could be obsolete before it even gets to be put to use. With less pocket money for treats like movie tickets, hearty meals, fitness and other motivators, the drain on a student's mental well-being could enforce patterns of demoralisation that are tough to bust.

As students are usually working part-time or unemployed, the reasonable course of action is to rationalise their spending with a recession-proof budget. The chart below shows a simple yet effective guide to making your own:




For a clearer understanding, please refer to:
https://www.mindmeister.com/preview/980060486/student-s-guide-to-budgeting-federal-studentaid-2017

Students can opt for ways to temporarily reduce their parents' expenditure with help from the colloquial "gah-ment". A tried and true method is to apply for the **National Higher Education Fund (PTPTN loan)**. The fund was set up with the aim to provide education loans for students pursuing their studies at local higher education institutions, be it public or private. Students can apply online through their official website -- but be wary of its registration times (better set that alarm!). Information in regards to its availability for registration, procedures, loan amounts, bank account and repayment methods can be obtained from your respective university's registry department or the PTPTN official website. By the time graduation comes around, the recession could have ended and with only a 1% flat rate interest per annum, a student can settle their debt quickly and be back on their feet in no time (PTPTN, 2016).

Students as early as primary or secondary school level can also open a **SSPN-i or SSPN-i Plus account** under the National Education Savings Scheme. These are affordable saving schemes that offer competitive dividends and comprehensive takaful protection (Mustafa, 2017). With it, students take a proactive role in securing funds for their future degree.

Should a student find themselves in the mood for unicorn hunting, there are a rainbow of **scholarships** offered by their educational institutes, and by external sources (Maybank, The Star Education Fund, Petronas Scholarship, Yayasan Khazanah). Note that some scholarships offered by companies consists of bonds in the contract, where the scholarship recipient can secure work with the company once they have graduated -- like following a leprechaun and landing in its pot of gold. In between that and mermaid spotting on the scale of achievability, getting enlisted in the Dean's List (or its equivalent) usually entails a fee discount and other perks.

**Working adults**

Singles in an economic slump can end their lamenting -- it is much easier to shoulder monetary concerns for one than it is for marrieds and families.

During a downturn, the slacking economy will always contribute to a higher unemployment rate: as a measure to maintain the profit margin, employers tend to **lay-off their employees** to reduce operational costs (Tejvan Pettinger, 2012). Employees are the victims as they have less bargaining power in securing their careers -- hence the general mood of dread whenever hard times call.

For those who survive the first wave of layoffs, a **wage reduction** comes around to tighten everyone's belts. Accompanied by a rising cost of living, slashed wages will further reduce employee's purchasing power and increase the burden of bearing the cost of daily living. Those who fall under the lower income bracket are the most susceptible to this threat, as they usually do not have a large amount of savings to fall back on.

Sadly, when members of society have little options left (as is the case during a slump), the **rate of social crimes** like drug dealing, robbery and fraud increases. In a society driven by desperation, trust erodes -- and without this vital societal glue, families and communities fall apart at the seams.

A recession is not the time to turn your nose up at menial jobs. A working adult can double as a GrabCar/Uber driver or a babysitter after their 9-5s to earn extra money (John Uzie, 2016). The main concept of seeking alternative income is to lighten the financial burden of an individual or a family in times of need.

With limited income, every working adult should plan their finances effectively and efficiently. A proper planning of expenses is required to avoid unnecessary splurging. One financial tenet that all working adults can live by is the **70/20/10 rule** (John Paul Quiambao, 2015): of all the income available, 70% should be spent on living expenses while 20% should be kept for savings. The remaining 10% can be used for investments or for paying off current debts. This rule is crucial in financial planning -- having extra income would not matter at all if the individual leads an extravagant lifestyle.

Debts are another major burden for working adults. Paying back car loans and housing mortgages can be extremely taxing as working adults need to constantly settle debts despite facing constraints. When extra savings are available, it is advisable to fork out a portion to pay back what is owed. Overpaying is better than under -- anything that expedites the repayment period will pave the way for more financial freedom.

As the going gets tough, the tough gets going. The key to really surviving a depression is having mettle, grit, and a fighting spirit. In fact, the generation that grew up during the Great Depression in 1930's America became known as "The Greatest Generation" -- having lived through hardship and all the lessons it dealt, they used their post-war prosperity to achieve great ambitions.

**Senior Citizen**

Retired or soon-to-retire citizens are the most vulnerable of the 3 groups as they have the least bargaining power in maintaining their income, regardless of being blue or white collar. With lower efficiency and lack of tech literacy, senior employees are more often than not forced into **early retirement** as a means to reduce overhead costs in companies. As a result, they are usually left with pension funds and personal savings to see them into their old age.

Retired citizens who have invested some retirement funds into portfolios will have to make do with lower returns, as the market enters a bearish period (Mike Patton, 2012). As many retirees usually look to investing as a small means of income, having one route cut off becomes yet another hindrance in their golden years.

During a recession, the level of debt for this group increases, especially when they are forced to leave the workforce earlier. Many must still bear the burden of supporting their offspring's education and repaying mortgages. Expensive healthcare services become another major issue for the elderly as they no longer have the privilege to pay for them. Overall, the quality of life for retirees declines sharply.

There is no way to predict if you will retire during a period of prosperity or scarcity. To guarantee a stress-free retirement, look telescopically at the future: early budgeting and planning of personal finance is crucial. While working, investing a portion of income into an investment portfolio is one way to accumulate wealth for retirement. However, investing in the financial market can be more risky if one is not financially literate. To invest in a smarter and safer way, one can consider investing in a unit trust, indices or bonds which have lower risk as compared to stocks. The ultimate goal in investment is to ensure that there are sufficient funds for retirement rather than as a money making tool.

Retirees can practise **Dollar Cost Averaging (DCA)** when investing. The idea is to inject a fixed investment fund over a period of time, and not pushing all the money on hand at once into a portfolio. DCA deals with short to medium term market volatility. In simple terms, investments will be less risky with the DCA method because it offsets the effect of price fluctuation (NerdWallet, 2014). However, this method is not a universal technique and depends on the level of risk an individual is comfortable with. (Extra reading can be found in "**A Dollar Cost Averaging Tale**" at http://www.flymalaysia.org/dollar-cost-averaging-tale/)

**Life insurance** is another alternative way to cushion the transition into retirement. It serves as protection for individuals and their family (Tim Maurer, 2016). The coverage of life insurance varies among all providers, but it usually includes covering the education expenses of offspring, paying housing mortgage and providing healthcare services. The earlier you invest in life investment, the more benefits you will enjoy over the course of your life.

## Conclusion

Life's track goes up and down. You could need a parachute one day, and a trampoline the next. It is always better to plot your course wisely before bad days set in. In a recession, everyone in society becomes survivors; each stakeholder can overcome the headwinds and outlive the gruelling days if a backup plan is ready to be put into play. How will you tough out the lows and keep your head held high?

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