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# Financial Wellbeing

Enabling you to thrive



**Bank of  
Ireland**



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# 1

## Introduction

Almost half (49%) of Irish people don't feel confident managing their money while a third (34%) are very worried about their personal finances according to a Bank of Ireland Financial Wellbeing National Survey\*.

At Bank of Ireland, we want to help you to manage your money with confidence.

In this booklet you will learn how to take control of spending, set a budget, and plan for both unexpected life events and your future.

We hope it will help you to begin a journey to better financial wellbeing.

\* Bank of Ireland Red C Financial Wellbeing National Survey (2018)

# 2

## What is Financial Wellbeing?

**Financial wellbeing is your ability to confidently manage your money and plan for the future, regardless of how much money you have.**

When we asked 3,000 people how they felt about their finances, in a Bank of Ireland Financial Wellbeing National Survey, we discovered that they were managing but not thriving\*.

In response, we created a 2-minute financial wellbeing health check to give you an insight into how you are doing.

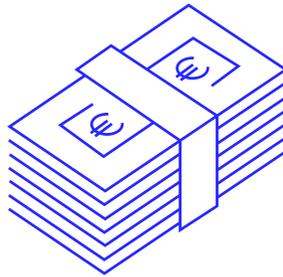
You can take the health check at [boi.com/financialwellbeing](https://boi.com/financialwellbeing)

We also created a range of supports including seminars, one-to-one financial adviser meetings, and this booklet.

\* Bank of Ireland Red C Financial Wellbeing National Survey (2018)

# 3

## Spending



To manage our money better, we first need to take control of our spending.

# How to stop overspending now

We all overspend from time to time. But when it becomes a habit, it can be hard to break. Happily, there are steps you can take to get on top of your spending.

## Understand your spending triggers

- 1 Trying to keep up appearances? Stressed and looking for retail therapy? Start avoiding situations that lead you to overspend.



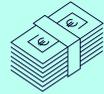
## Track your spending

- 2 Take some time to review your bank account and credit card statements to work out exactly where your money is going.



## Make money visible again

- 3 Get receipts for everything! At the end of the month, simply add up where you are spending your money. This is making money visible; you will see where your money is going.



## Choose your money goals

- 4 Do you want to build up a deposit for a home, buy a car or pay for a wedding? You might need to cut back now to save for what you want in the future.



## Set a budget

- 5 Work out the cost of your essentials – mortgage/rent, bills, food – and set yourself a budget for each week and month.



# 10 steps to setting up a budget

Do you know how much money you have to spend for the rest of the week or month? Or do you just spend until the money runs out then borrow or go without?

1. Start by getting hold of 3 months' worth of bank and credit card statements.
2. Write down your weekly or monthly income from all sources.
3. Make a note of the cost of the things you absolutely need to spend money on. Things like mortgage or rent, gas, electricity, broadband, food and transport.
4. Add them all up to get the cost of your weekly/monthly essentials.
5. Then take a look at everything else you spend money on. Group it into categories like going out, coffees, takeaway etc.
6. How much do all these non-essential things add up to?
7. Add your essential spending to non-essential spending.
8. Is your total spending more than your income?
9. If yes, can you cut back on non-essentials? If no, you can choose to save or spend some more.
10. Set yourself a reasonable budget for your non-essentials each week or month.

# Personal Income & Expenditure

Step 1: Income	Monthly
Wages or salary (after net deductions)	
Partner's wages or salary (net)	
Tips or commission	
Other earnings net	
Maintenance/Child support	
Own/partners pension	
Social welfare	
Boarders / Lodgers	
Other income	
<b>Total Income</b>	€

Step 2: Housing	Monthly
Mortgage payment	
Rent	
Top up / other secured loans	
Local Property Tax	
Service or water charges	
Building / home & contents cover	
Life protection cover	
Gas	
Electricity	
Other fuel costs	
Waste charges	
Insurance	
Other	
<b>Total Housing Costs</b>	€

<b>Step 3: Priority Payments</b>	<b>Monthly</b>
Telephone (including mobiles)	
Maintenance Payments	
Pension Payments	
Hire Purchase	
TV License	
Broadband / cable	
Instalment Orders	
Other	
Court Fines	
<b>Total Priority Payments</b>	<b>€</b>

<b>Step 4: Everyday expenses</b>	<b>Monthly</b>
Food & Drink / Housekeeping	
Newspapers and magazines	
Travel & Fares	
Car Tax	
Petrol or Diesel	
Car Insurance	
Car Repair and maintenance	
Childcare (including pocket money)	
School meals	
Cigarettes	
Clothes and Shoes	
Household Items	
Health Costs	
Back to School Costs	
Other	
<b>Total Everyday expenses</b>	<b>€</b>

<b>Step 5: Other expenses</b>	<b>Monthly</b>
Entertainment / Eating Out	
Savings / Emergency fund	
Health club, courses, professional fees	
Gifts (birthdays, Christmas)	
Priority debts/ liabilities	
Rent arrears	
Mortgage arrears	
Electricity arrears	
Fuel / heating arrears	
Other	
<b>Total Other costs</b>	<b>€</b>

<b>Step 6: Summary</b>	
Total Income (Step 1)	
Housing Costs (Step 2)	
Priority (Step 3)	
Everyday expenses (Step 4)	
Other expenditure (Step 5)	
<b>Total Outgoings</b> (Add Steps 2,3,4,5)	<b>€</b>
<b>Monthly Net Disposable Income</b> (Subtract Total Outgoings from Total Income)	<b>€</b>

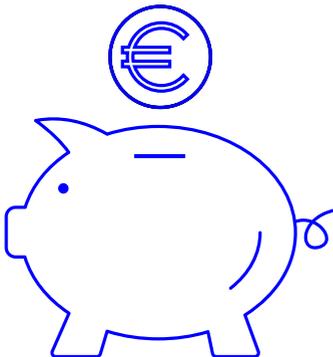
# What is 50/30/20 budgeting?

The 50/30/20 rule is a way of managing your money by setting aside:

- ▶ 50% of your take home income for needs
- ▶ 30% of your take home income for wants
- ▶ 20% of your take home income for savings

Needs include life essentials like rent or mortgage payments, gas and electric, refuse collection, transport, medicines, child support etc.

Wants include more discretionary type spending including eating out, entertainment, hobbies and fashion items.



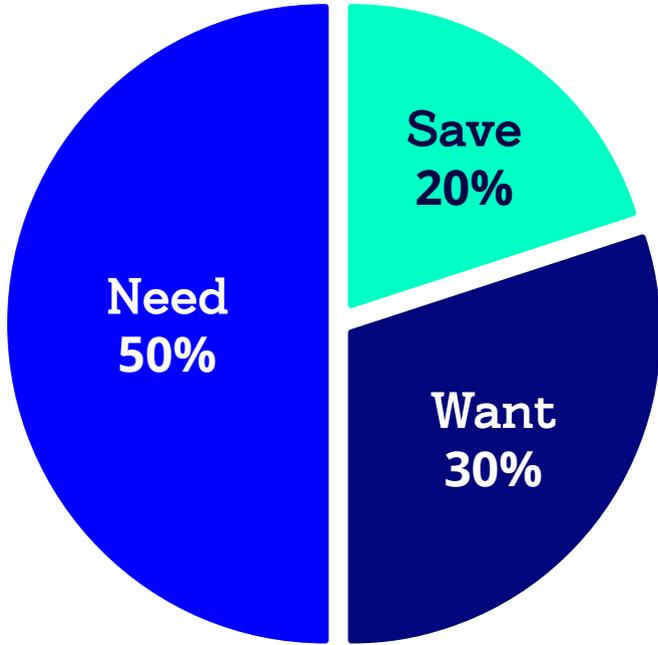
Savings include repaying debts, saving money for emergencies and saving for the future (including taking advantage of employer sponsored retirement plans).

## Applying the 50/30/20 rule

So if your income is €2,400 a month according to the 50/30/20 rule you should try to:

- ▶ Use €1,200 for your needs (50%)
- ▶ Spend €720 on your wants (30%)
- ▶ Keep €480 for your savings (20%)

If you are struggling to pay for all your needs, you might have to do without a few wants for a bit and use some of that money for your needs until you can get your needs down. Check back on your budget planner. What is your ratio like for needs, wants and savings?



**50%** of your take home income for needs

**30%** of your take home income for wants

**20%** of your take home income for savings

# How to read your payslip

## **PPSN (Personal Public Service Number)**

This is your unique reference number and it is used by government departments to identify you.

## **PRSI (Pay Related Social Insurance) Class**

The rate of PRSI you pay depends on what class of job you do.

## **Cut-off**

The point between the lower and higher tax rates charged on your earnings.

## **PAYE (Pay-As-You-Earn)**

Tax taken directly from your earnings

## **Tax credit**

Tax credits, if you qualify for them, reduce the amount of tax you pay.

## **USC (Universal Social Charge)**

An income-based tax you have to pay when you earn over a certain amount.

## **Gross pay**

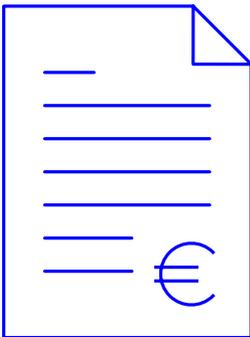
The money you earned before tax and deductions were taken out.

## **Net pay**

This is the actual amount of money you take home after all tax and other deductions are taken out!

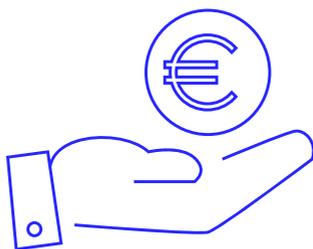
## **Total deductions**

The total of all the tax and any other deductions taken from your gross pay.



# 4

## Borrowing



Manage your borrowing better by understanding how late or missed repayments affect your credit profile and contrasting ways to get out of debt.

# What is a credit rating and why does it matter?

Have you got a history of paying back loans on time or have you missed repayments and failed to repay a loan? When you want to borrow money, banks and other finance providers want to know if you can afford to repay it on time.

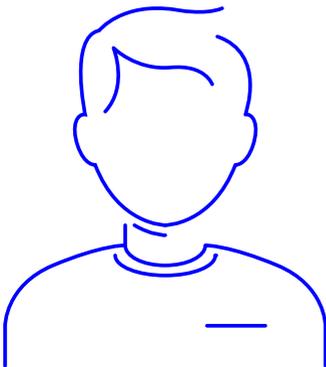
Most lenders look at your credit rating to help them decide so having a positive credit rating matters if you want to get things like a credit card, an overdraft or a mortgage. The Central Credit Register (CCR) maintains an accurate and up-to-date credit report for each borrower.

Each month, the CCR receives a loan repayment update from various creditors about credit cards, mortgages, personal loans, overdrafts, moneylender loans, local authority loans and business loans from banks, credit unions, and any other lender that is providing consumer loans for €500 or more.

This report will list which borrowers have paid their outstanding loan repayments on time and which have missed a payment.

You can get a free copy of your credit report and additional information about the Central Credit Register by visiting [www.centralcreditregister.ie](http://www.centralcreditregister.ie)

In Ireland, there is also a second credit reporting body called the Irish Credit Bureau (ICB) which offers a service that is largely similar to the CCR. To find out more about the ICB, visit [www.icb.ie](http://www.icb.ie)



# Ways to clear debt

If you have outstanding loans or credit card balances, you may want to make it a priority to pay them off. But if you have more than one debt, which one should you repay first?

Some experts say you should use the snowball method, which works like this.

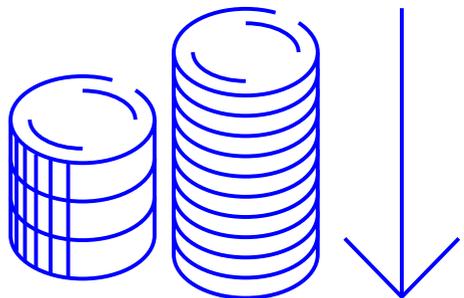
- ▶ Order your debts from smallest to largest in terms of money owed.
- ▶ Use any extra cash you have available to pay off more of your smallest debt first
- ▶ Continue until all the debts are paid off, swapping the smallest debt as each is cleared.

Other experts say you should use the avalanche method, which works like this:

- ▶ Order your debts from the highest interest rate to the lowest interest rate

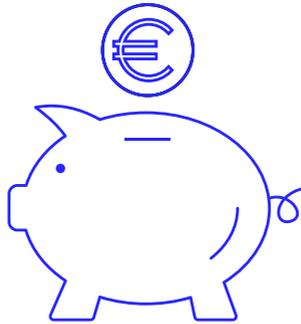
- ▶ Use any extra cash you have available to pay off more of your debt with the highest interest rate
- ▶ Continue until all the debts are paid off, swapping the debt with the highest interest rate as your debts are cleared.

There are other options available for paying off debt and you should consider all options carefully before deciding the best option for you.



# 5

## Saving



Learn how much money experts think you should be saving and why a 'rainy day' fund is so important.

# Why you need a rainy day fund

Things often happen when you least expect them - the car breaks down, the boiler fails, you spend longer finding a job – and can knock your finances for a loop. A rainy day fund can help cover the kind of large unexpected bills like these.

How much do you need to put away? **Experts say you need to build up a fund with up to 3 to 6 months' essential expenses in it.** By essentials the experts mean mortgage/rent, food, utility bills, transport, medical bills etc.

Check back on your budget planner and see how much you spend on essentials each month. If all your bills add up to €2,000 a month then, ideally, you'll need a rainy day fund of €6,000 to €12,000.

That might seem like a lot if you have no savings. The key is to start saving what you can now and build it up gradually. And make saving automatic by setting up a direct debit or standing order to transfer money to a separate account as soon as you get paid.

But, if this sounds like an impossible ask, then look to start small. Saving €11 per day for 90 days would add up to about €1,000.



# What is compound interest and how does it work?

There are two types of interest applied on borrowings and savings; simple and compound.

Let's say you borrow €1,000 (this is called the principle amount) over 3 years (this is called the 'term') for a rate of interest set at 5%. The interest is calculated over the term of the loan.

In this case, the amount borrowed (the principle) is €1,000 and the total amount repaid per month is €30 which is paid over 3 years (36 months). In this example, the total amount repaid is €1,079 ( $€30 \times 36 = €1,079$ ). So, the cost of interest is €79.

The borrower knows in advance the cost of the interest they will pay in addition to the original amount of the loan. It is a simple calculation. This is why it's called Simple Interest.

That's how simple interest works (we won't get into tax on interest, here). Compound interest on the other hand is much more complex

and the rate of interest paid (on loans) or received (on savings or investments) is largely unknown in advance. But, to make this easy, compound interest is where interest is PAID on interest. In other words, when it comes to borrowing, it makes borrowing really expensive but when it comes to savings and investments, it is a very powerful way of increasing the amount saved and invested over time.

So if you keep €100, plus 3% interest, in a deposit account then it will add up like this:

<b>Year 1</b>	€100 + €3	= €103
<b>Year 2</b>	€103 + €3.09	= €106.09
<b>Year 3</b>	€106.09 + €3.18	= €109.27

With compound interest, you get paid interest on the principle and on the interest you previously earned.

# 6

## Planning



Why it's important to plan longterm while still managing your short-term, everyday expenses.

# Why you should be saving for your retirement now

The good news is that people are living longer. The not so good news is that because they are retired for longer they need money to enjoy retirement.

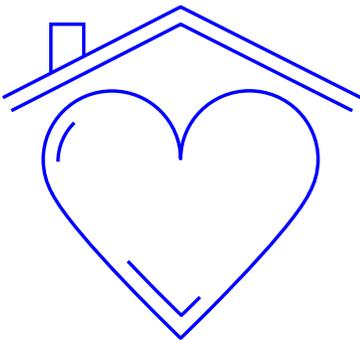
A private pension can help if you want a similar lifestyle to the one you have during your working life. Unfortunately, if you rely solely on the State pension, your income could drop by over 70% when you retire.

For most adults in full-time employment, the contributory State pension is currently €12,636 a year (or €243 a week), but the average

full-time salary in Ireland is much larger - €46,402\*. That's a potential drop in income of €33,766 a year, on the day you retire.

Putting the right private pension in place depends on:

- ▶ Your age
- ▶ Your expected retirement date
- ▶ The lifestyle you want when you retire
- ▶ What you can realistically afford to save.



\* Source: CSO, Average annual earnings for full-time employees in 2017, Earning and Labour Costs 2017.

# Should you be saving or investing?

Saving	Investing
<p><b>Easy access to cash</b></p> <p>With savings or deposit accounts you can generally get your cash when you need it. Some deposit accounts have rules about how much and how often you can withdraw cash and how much advance notice you need to give.</p>	<p><b>Used for long-term goals</b></p> <p>Investing can help you reach long-term goals like paying for children's education or planning for retirement.</p>
<p><b>Very low risk</b></p> <p>Your funds are covered by the State Deposit Guarantee Scheme up to certain limits.</p>	<p><b>Takes time to get your money out</b></p> <p>When you invest your money, you may not be able to get your money out for a set period of time and it may take longer than it would to take money out of a savings account.</p>
<p><b>Earn interest</b></p> <p>You can earn interest on your money but savings accounts may earn a lower return than investments.</p>	<p><b>Always involves risk</b></p> <p>You are not guaranteed a return and it's possible to lose some or all of the money you invest.</p>
<p><b>Low returns</b></p> <p>Interest rates are particularly low, right now, but over time, the returns from deposits are lower than investments.</p>	<p><b>Earnings potential</b></p> <p>Investments have the potential for higher returns than a savings account.</p>

# Being prepared for the worst

We don't like to think that the worst could happen to us but unfortunately it can and sometimes it does.

Have you thought about how you or your family would pay the household bills each month if you got seriously ill or died prematurely?

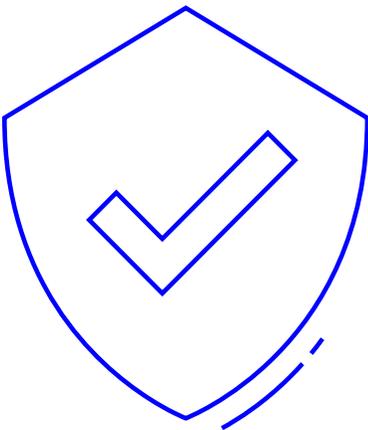
Fortunately, you can take out insurance which can help you and your family survive the financial shock of events like this.

As long as certain criteria are met, income protection insurance pays you a monthly income to replace

some of your income if you fall sick for a set period of time or until you return to work.

## **A family protection plan can:**

- ▶ Clear any loans or debts at the time of death
- ▶ Pay a monthly income in the event of illness or death
- ▶ Pay a monthly income to your family if a stay at home parent dies
- ▶ Pay a lump sum amount if you suffer a serious illness
- ▶ Pay a lump sum amount on death to cover funeral expenses.
- ▶ Insurance means peace of mind that your loved ones will be protected if the worst happens.



# Action Plan

What are the three steps you're going to take to improve your financial wellbeing?

	Actions	By when
1		
2		
3		

**Top Tip:** Record your 3 actions into your calendar on your phone to act as a reminder to yourself



# 7

## Useful resources

### **Financial wellbeing tool**

Take the financial wellbeing survey at [boi.com/financialwellbeing](http://boi.com/financialwellbeing)

### **Citizens Information**

Information on your rights and entitlements.  
[www.citizensinformation.ie](http://www.citizensinformation.ie)

### **Competition & Consumer Protection Commission**

Practical, independent information on consumer issues.  
[www.ccpc.ie](http://www.ccpc.ie)

### **Revenue**

For all tax queries.  
[www.revenue.ie](http://www.revenue.ie)

### **Pensions Authority**

A straightforward guide to pensions.  
[www.pensionsauthority.ie](http://www.pensionsauthority.ie)

### **Health Insurance Authority**

Compare private health insurance plans.  
[www.hia.ie](http://www.hia.ie)

### **My Welfare.ie**

Easy, online access to a range of welfare services.  
[www.mywelfare.ie](http://www.mywelfare.ie)

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# Notes

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