HSBC UK

Audio transcript

The Financial Fitness Podcast – Episode 1: **Paul Stroud & Michelle Ashman**

Getting started and understanding your spending

Paul: Welcome to the financial fitness podcast from HSBC UK. My name is Paul Stroud, your host and I'm part of the Financial Wellbeing team here in HSBC UK, with my experience and with the help of guests, we will help you improve your financial fitness, whatever your fitness level may be.

We will be covering a wide range of topics, everything from first steps of budgeting and credit scoring, to how to make your money work the hardest for you. If you want to be involved, then we would love to hear from you. Visit HSBC.co.uk/podcast to provide feedback on how you're finding the content and share any questions that you would like us to cover on the show.

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In this episode, we'll be talking about how you can understand where your money goes in something called the '50:30:20' rule. Before you can start improving your financial fitness, you need to understand where your money goes. So, if you start afresh on this journey and are looking to get started with us - then this podcast is a perfect introduction for you.

Today I'm joined by Michelle Ashman. Michelle brings with her 16 years of experience within the banking industry and is currently working in Customer Propositions looking after financial fitness.

Paul: Michelle, how are you?

Michelle: I'm good, thank you Paul, how are you?

Paul: Yeah, I'm doing really well, thank you. Learning to live the new normal. So, I'm sure you're in the same boat as me Michelle.

Michelle: Yes. So it's a challenging time, isn't it Paul? Because probably like a lot of the people out there, we're in a different circumstance because my husband's been furloughed. So it makes you re-look at everything that you're doing and especially from a financial fitness point of view, it's really important that we look at that and yeah, it's just it's strange times, isn't it? All three of us in the house all day, everyday it is.

Paul: Yeah, tell me about it.

Michelle: It’s a tough new way of living, isn't it?

Paul: So it is yeah, getting used to the dog or one of the children coming into the room whilst you're in the middle of a call, used to be the big no, no, but now it seems like it's the norm and everyone accepts it.

Michelle: Yeah, exactly. So if you haven't done a Zoom meeting without someone joining in or your child getting involved…

Paul: You’ve not done enough Zoom meetings (laughing). So this podcast is all about getting financially fit. So what does that mean to you?

Michelle: Yeah, so financially fit or financial fitness to me is, I suppose, similar going to the gym. So, everyone has a level of personal fitness. Whether that is, they run a marathon and are fantastic at it or just always want to improve their time or something about what they do? Or you going to the gym for the first time, for the first run, everyone has a fitness in similar way that everyone has financial fitness, everyone's at a different point but actually, it'd be great if everyone could improve their financial fitness, no matter where they are on the scale of financial fitness, if that makes sense.

Paul: Yeah. No, definitely using that analogy, I think it's you know, we're not saying to people, actually, you need to be able to run that marathon already, but we just want to help you laced those trainers up and get you out the front door for the first time and then moving on, you know moving, people will get fitter and fitter as the weeks go by.

Michelle: Yeah, it's funny you say that actually, because one of my friends is messaging me asking me to go for a run this evening and I do run, but I spend all day dreading it. And then as soon as I’ve actually got my running stuff on and stepped out the door...

Paul: And get out there and do it.

Michelle: ..It's fine, but I always feel so much better afterwards. And I think it's exactly the same with financial fitness because actually, all of us are probably guilty at some point of putting off looking at your balances and looking at your bills and all of that kind of thing. But once you actually start it and do it, you feel 100% better afterward.

Paul: I totally agree, totally agree. The whole sticking your head in the sand. Yeah, you may try to avoid it, but deep down you are still thinking about on a daily basis.

Michelle: You do feel better afterwards. I mean, it might not be an instant better if your situation isn't great, but the fact that you've actually looked at it and done something about it, is the first step to getting financially fitter.

Paul: Yeah, yeah, 100% agree. So each episode we're going to start with a statistic related to the content's theme. This week, according to the Adult Financial Capability Survey of 2018, which was conducted by the Money Advice Service, less than half of people know their exact current account balance. So, Michelle, give us your thoughts on that.

Michelle: It doesn't surprise me, it could be difficult to keep track of incomings, outgoings from subscriptions, and different things that you have that sometimes can take you by surprise, so I can understand why that is. It is important to check your balance. It is important to know where your money goes.

Paul: Yeah, definitely. So, it's all about becoming aware and understanding. As a consumer, how would I get started with something like this?

Michelle: I think the first thing you just need to do is find out exactly where your money goes. What I've done previously is look at, like my last three months spending, so everything from the direct debit in standing orders to what I spend at the supermarket or the shops, treats or takeaways you name it.

Paul: Wow, treats and takeaways is not going to be a good number to add up. Especially now. I seem to be spending more money on treats and chocolate at the moment than I do that the rest of the year.

Michelle: I know I'm the same. My shopping bill has gone through the roof at the moment. But the reason why I say over three months is, because you don't necessarily treat yourself every month and part of your bills that you have to pay every month, sometimes like your shopping bill or maybe treats and going out is not the same every month exactly, so I think that's a good reason why, over three months you can get an average of that kind of spend - to really understand what your spending is like.

Paul: Yeah and to bring it to that reality as well, isn't it? And actually, one of the messages that I deliver when we're running Financial Wellbeing seminars is - when you are doing a shop, buy absolutely everything I can think of, in my one weekly big shop. I spend less than if I try and be a bit more frugal on my big shop because I end up going out and doing a little shop two or three times during the week. Maybe, if I'd just popped out for some butter or some milk and we all know that you don't ever just go into your local shop and get just some butter or some milk. You walk away with something that was on offer and some chocolate and some sweets, and that all adds up. So if I actually put my shopping into categories of shopping and put everything together, I think I'd be quite surprised, really?

Michelle: Yeah, that's true. It's like you said, you'll nip to the shop. You won't grab a basket or anything, but you're only going for one thing, and then you try to get to the till and you've got your arms filled with all types of random stuff that you hadn't gone in for it all. So, once you add all of those little shops up as well as your big shop, it's yeah, it could be quite surprising, can't it?

Paul: So yes, I guess when you've categorised or your monthly spending. That's when you need to start looking at your needs versus your wants. So, you need to be in things like your food, petrol, household bills, your direct debits, electricity etc, versus your wants, which could be going out to the cinema, drinks with friends, restaurants, etc.

Michelle: I think it's a grey area as well, though, isn't it? Because sometimes wants feel like needs and I think it can be difficult to separate them out, to make sure they're in the right kind of area when you're breaking it down. If that makes sense?

Paul: No, it does. It's very easy, isn't it, to convince yourself that a want is a need because then you find that actually, you feel like you have to spend the money. So you know, going out for meals or going out with friends, sometimes you think, I know I've got to do this. It's a need. I have to go out and actually that is still your decision, it's still your choice. I'm not saying those things are bad, but actually, if you don't have any money and you're trying to save for something specific or you're struggling, those things will cost you money. And that's where you need to make sometimes a little bit more of a hard choice, don't you?

Brilliant. So, what sort of things can I do or what questions can I ask myself to help me understand then, those needs versus wants, because I struggle sometimes when I'm looking at why outgoings as to whether something is a want or something is a need?

Michelle: Yeah, it's a good question, actually, because I remember years ago, I was told that a need is what you would have to pay for to kind of survive and keep a roof of your head, keep yourself fed and watered, that kind of thing so all of your essential bills that you must pay like car insurance, your rental, mortgage, you know, council tax, gas, electrical – all of that kind of stuff and your food because that's essential obviously, to help you survive.
And then a want is more, I want a takeaway, I want to spend some more money on clothes or beauty products or I want to go out with my friends for dinner. That's not a need and a necessity, that's just a something extra that I would like to do.

Paul: Yeah, and I think one of things I heard once before as well, when you're purchasing something, you should wait an hour for every pound that that item costs. So if you're gonna buy something this £100 instead of being bought into the whole rush of purchasing and the marketing team that have thrown the different colours at you and the flashing banners saying the sales only lasted for two more minutes is to go right, I'm going to walk away now for X amount of hours and if I still want to purchase that in those number of hours, I'll go back and I'll buy it.

Michelle: It's a really good point, isn't it? Because, you know, over the years, it's just got easier and easier to buy things. I mean, even now it's like you just need to click one button on your smartphone and you suddenly purchased and its arriving the next day, which is great because we want everything at our fingertips, but at the same time, you do run away yourself, maybe spend money that you wouldn't normally have spent had you walked away from your smartphone. Have a good think about it, and then you realise, and then realise you don't really want it and you don't actually need it, you just wanted something. We've all been there.

Paul: Oh yeah, completely and just thinking about all the things I've bought recently where I think actually, I didn't really need that. I have heard as well and I know where we are talking some of our little tipsy already. But I have heard the tip of putting things in your basket and then leaving and then you normally get an email from the company offering you a discount on whatever that is, because you've left it in your basket and didn't purchase there and then. So, more tips for you guys out there, if you want to take control of your spending.
So, another way is the '50:30:20 Rule'. We talked about it in the beginning of the podcast, that this is what we're going to discuss today. So, let's talk around, what that '50:30:20 Rule' is.

Michelle: The '50:30:20' is a rule of thumb. It's not going to suit everybody because everyone's circumstances are different. However, 50% is all of your essential spending if you like. Like all your bills and your mortgage, your rent etc. The 30% is the wants and then 20% is savings. So, either savings, depending on your circumstances or paying down debt first.

I know not everyone can go down the '50:30:20' and when you work it out yourself, you may be a million miles away. But it's about just understanding where your money's going and into how splitting it up looks. It's always good to save. You do always need some sort of wants, but you might not be able to spend 30% because more of your money is going on essential bills, so that might be reduced. But I tried to go down that kind of rule of thumb if you like, to manage my money, and it's not always perfect at all, and it's taken me many years to get to this.

Paul: It's a good guide isn't it? It's a way to start. And I guess you know, during these times with the Covid-19 pandemic that's on at the moment, you might make adjustments so that actually it might be more 60:20:20 but I guess whatever works for you. Whatever means that you're A) saving money, which is really important, but B) understanding how much you are spending in the first place.

Michelle: Yeah, that's true, like you said: in the current environment, you may find yourself having an emergency budget. So you might have had a budget before anyway, but now you're having to re-look at it, like we are because myself and husband are now in a different situation. So we've just had to rejig what we're spending on 'wants' to make sure all of the bills are covered and things like that. So we've had to sit down and have a look at that and think, OK, what is the effect on us? And it doesn't have to be Covid, it could be anything that happens in your personal circumstances that suddenly throws a curveball where you're having to re-look at everything.

Paul: Yeah, and almost the situation we're in at the moment has forced people to look at a budget and look at where they're spending money. Whereas in the past you might not have done that. You might have just said, actually, I'm all right on a month to month basis; I maybe have not been saving, but I feel like I'm okay. Then all of a sudden, something like this hits, and you realise you've only got one month's worth of salary saved up should something really go wrong. So it's not great times, but it has given people the insight to now start looking at their finances, looking at their budgets.

Michelle: And I think it's something that everyone should do twice a year anyway, because there's different things that happen normally throughout a year.

Paul: Yeah, really important. And actually, one of the things I talk to my children about is when they first get a job, saving 20% of all the money they get paid, as soon as they get paid, just so they learn to live on the 80%. So it's almost from the 50:30:20 rule you talked about. Taking that 20% out of your pay from the minute you start earning money. Just because then you start learning to live on 80% of your wages. And actually, when you do get pay rises, move jobs, earn more money, etc, you're able to put even more aside because you've learned to live on 80% of what you've earned. And I mean honestly, I wish someone had told me that when I was younger, because that would have really helped out. But it's now the day and age that we can pass this onto our children.

Michelle: Yeah, I agree, and that's a great way. I mean I hope they take that on board when they do start their first job!

Paul: Well, at the moment, all three of them are completely different. My daughter saves nearly all of hers and my middle son spends nearly all of his. So, the oldest one's about in-between so he gets it, but the other two are complete opposites.

Michelle: But it's a great conversation to have and like you say, it's a habit, and if you can get into that kind of habit really early on, it then is embedded for when you get a bit older. So obviously all you can do is kind of teach them that path. I've got a seven year old and trying to teach him about money and trying to do the same sort of thing from a spend, save, and give point of view. He's starting to understand it a little bit more when they have to hand their own money over to buy things, they tend to question themselves.

Paul: Yeah that's when it becomes real! Yeah, actually, do I really want this? Correct. Is it a need or a want? I can see us both doing that in supermarkets and shops across the UK. So, some tools then to try and help people understand their spending, understand their balance. I know there's lots of apps out there that give you your balance after bills. I know the HSBC app on IOS, you can do your balance after bills. But is it just as simple as putting some stuff down on paper maybe?

Michelle: Yeah, definitely. I mean, I love the balance after bills, but I am quite old fashioned in the fact that I've got a spreadsheet. I wasn't like this years ago, but I've learnt. You know, it's a new behaviour that I've had to learn over the years. But yeah, I like to make sure I understand. But also, most apps these days, like your banking apps, will give you your standing orders and direct debits that you can see. And you can add those up really easily if you haven't got the balance after bills, so that you know what you're spending your money on, how much you're spending on essentials. But otherwise yeah, nothing wrong with a good old pen and paper and writing it down.

Paul: And I think that's really important as well, because I know that a lot of the time when you're trying to get yourself physically fit, sometimes you put yourself off, or you delay doing something because you say, 'I haven't got the right trainers to go running' or 'I haven't got the right T shirt to run in this weather', so you don't go out. Whereas actually, you can go out running in any pair of trainers, they don't have to be good, and you can start writing down your bills on a piece of paper with a pencil on the back of an old envelope if you need to. It doesn't have to be anything special, does it? But I think that what we're trying to say is: know what you're spending, because as soon as you understand what you're spending, that's when you can start to work out what you can save and how you can save.

Michelle: I suppose it's if you know what you're spending. And everyone is in a different situation/circumstances. So, it may be that your essential bills are extremely affordable and actually you're spending far too much on 'wants', and you're not saving enough. And actually writing it down and having a look at it, will really show you that, and then you can start thinking about what do you want to save for and what are your goals? And maybe you can tweak what you're doing to make that better. Or, you may be in a situation where you're kind of living month to month, so you're not really saving. So then therefore it's, 'Okay, so what can you do to save money on your bills?

What can you do to save money on your supermarket shop?' Whatever it may be, you can then have a look and see where you can reign in a little bit, to be able to save a little bit more. Whether that's on wants or whether that it's just on your essential bills. There's different ways of looking at it, isn't there? It depends on personal circumstances.

Paul: Definitely. And I know that we're going to touch on some of these, as the episodes play out over the course of the year.

Right, so for our listeners: balance after bills is a feature on the HSBC UK app. You need an iPhone or iPad to use balance after bills, and it shows you how much you could have left for the month ahead. Once scheduled, bills, standing orders and direct debits are taken into account.

So that brings us to the end of this episode. Let's just take a quick recap of our key take away points. So first of all, it's all about understanding how much money you've got, and how much money you've got after bills. Understanding the difference between the need verses want, and then applying that 50:30:20 rule.

Thank you for joining us for this episode. Thank you, Michelle, for being on here as well. We hope you enjoyed it. Please subscribe to our podcast to make sure that you don't miss out on any future episodes. If you want to be involved, then we'd love to hear from you. So visit HSBC.co.uk/podcast to provide feedback on how you're finding the content and share any questions that you'd like us to cover on the show. The link is in our episode notes, and it also provides access to HSBC's financial fitness hub, where you'll find online guides to help you to continue improving your financial fitness.