



Co-funded by the
European Union



FinPower

Module: Saving



Prepared by: Framework



Table of contents

INTRODUCTION	2
LEARNING OBJECTIVES.....	3
ABOUT SAVING	4
WHY SAVING IS IMPORTANT.....	5
EMERGENCY FUND	6
Calculation of emergency fund	7
DIFFERENT TYPES OF SAVING.....	8
SAVING VS. INVESTING	9
MASTERING SAVINGS: STRATEGIES TO IMPROVE SAVING	11
Myths busting about saving.....	11
A rule for a daily saving plan.....	11
Practical tips for boosting your saving.....	12
TIME VALUE OF MONEY AND INFLATION	17
What is inflation?	17
Understanding Purchasing Power.....	19
Quick calculator of purchasing power	20
What is the impact of high inflation and rising interest rates for loans with fixed or variable interest rates?	22
What do inflation and rising interest rates mean for my savings?	22
What does inflation mean for my insurance and private pension?	23
CONCLUSION.....	25
REFERENCES.....	26

INTRODUCTION

Saving is a fundamental aspect of financial stability and security. In a world where unexpected expenses and emergencies can arise at any moment, having savings provides a safety net and peace of mind. The Saving module is designed to equip women with the knowledge and tools necessary to build and maintain a robust savings plan tailored to their unique circumstances.

Saving goes beyond just setting aside money for a rainy day; it's about creating a foundation for future financial success and freedom. Having savings allows individuals to weather economic downturns, pursue opportunities for personal or professional growth, and achieve long-term goals such as homeownership, education, or retirement. Moreover, saving instills discipline and financial responsibility, fostering a sense of control over one's financial future.

This module emphasizes the significance of saving as a proactive measure for financial security. It aims to empower women to take charge of their financial well-being by cultivating a savings mindset and adopting strategic saving practices. Through education, planning, and consistent effort, women can achieve greater financial resilience and autonomy, paving the way for a more prosperous future.

LEARNING OBJECTIVES

The goals of the module are the following:

1. Understand why saving is significant in achieving personal life goals and reaching a financially balanced life, with a focus on the long term;
2. Knowledge of different main savings instruments;
3. Understand the circular process between earning, budgeting, saving, investment and retirement;
4. Understand what inflation is, and how it affects your savings; the concept of money depreciation and purchase power. Differences between nominal and real value. How the purchasing power has been modified during the last years. How money depreciation affects the retirement plan and the pension's real value.

So, the woman will acquire the skill to:

1. Be able to calculate personal saving needs and saving potential. Identify the personal situation where a low saving level can be risky;
2. Implementing strategies to reduce unnecessary expenses and increase savings;
3. Be able to create an effective personal saving plan to reach life goals (how, when and where saving) and monitor the process;
4. Be able to value money compared to the purchasing power and the cost of living.

ABOUT SAVING

In today's volatile economy, building a robust savings account stands out as a crucial step in taking control of your financial well-being. The last thing anyone wants is to constantly worry about being just a paycheck or two away from financial turmoil due to unforeseen circumstances. These can range from job loss and disability to unexpected expenses like car repairs, medical emergencies, or caring for a sick loved one, putting immense strain on finances. By accumulating savings, individuals create a financial safety net, offering a sense of security and tranquility amidst life's uncertainties.

Establishing an adequate emergency fund serves as a vital shield against unexpected financial shocks, allowing individuals to navigate through tough times without resorting to debt or sacrificing their financial stability. Moreover, once this foundation is laid, savings can serve as the cornerstone for venturing into higher-yielding investment opportunities, such as stocks, bonds, or mutual funds, further strengthening financial resilience and potential growth (GGI Insights, 2024).

Furthermore, recent research from Northwestern Mutual underscores the connection between savings and overall happiness. The study reveals that individuals who engage in proactive financial planning, including setting goals and taking concrete steps like saving money, tend to experience higher levels of happiness and satisfaction with their lives compared to those who lack such plans. Additionally, findings from the Consumer Federation of America emphasize the importance of having spending and saving plans, especially for individuals with lower incomes. Those who adhere to structured financial plans with clear goals are significantly more likely to have emergency funds set aside, providing further evidence of the positive impact of intentional financial management on overall financial well-being (O'Neill, 2009).

Economists and psychologists attribute findings like these to the sense of control that people have when they plan and know what they need to do to get from where they are now to where they want to be. It is well established by research that people who feel a sense of control over life events are often happier, cope better, and are more resilient in times of stress than others. Conversely, people are especially unhappy in situations where they perceive themselves to have a lack of control. It is, therefore, no surprise that commuting ranks high on the list of things that make people most unhappy. Commuters never know from day to day what traffic gridlock, accidents, and weather-related hassles they'll encounter (O'Neill, 2009).

WHY SAVING IS IMPORTANT

Understanding the purpose behind saving makes the process significantly easier. It facilitates better management of unforeseen circumstances, providing enhanced financial stability. Moreover, saving contributes to overall well-being and aids in the accomplishment of specific life goals. It's important to recognize that savings can be allocated towards multiple objectives simultaneously.

Here are seven simple reasons why saving money is important (MAPFRE 2023):

- **Establishing an Emergency Fund:** Individuals can save up enough money to cover their expenses for three to six months. This helps if something unexpected happens, like losing a job or needing to fix something urgent at home.
- **Debt Repayment:** Saving some money from one's income can help in paying off debts faster. Starting with the ones that charge the most interest allows individuals to save money on interest payments in the long run.
- **Investment Opportunities:** Saving money can lead to investing, wherein individuals put their money into things that can make more money over time. Even starting with small and safe investments can grow one's money in the long term.
- **Fulfilling Travel Dreams:** Saving money can assist individuals in achieving their travel dreams. Having some extra cash for trips, whether it's a weekend getaway or a road trip, can enhance one's travel experiences.
- **Investing in Education:** Saving money can be directed towards personal or children's education. Education is crucial for a good future, and having savings can make it easier to afford quality education.
- **Securing Retirement:** Saving money now can contribute to a comfortable retirement later in life. Consistently setting aside funds can accumulate over time, providing peace of mind during retirement years.
- **Attaining Financial Stability:** Saving money not only helps individuals plan for the future but also gives them a sense of security. It offers more freedom to pursue personal goals and handle unexpected expenses.

Common situations where saving becomes vital can be grouped into four main categories:

1. **Short-term goals:** Many individuals save up for short-term goals, such as purchasing a car or going on a vacation. These are things they want to achieve within a relatively short time frame, typically within a year or two.
2. **Medium-term goals:** Saving for medium-term goals involves setting aside money for objectives that might take a bit longer to achieve, like saving for a down payment on a house. These goals usually span a few years and require consistent saving efforts.
3. **Long-term goals:** Planning for retirement is perhaps one of the most critical long-term goals individuals should save for. Encouraging individuals to

start saving early for retirement ensures financial security in later years when they may no longer be working.

4. Rainy day fund: Means having an emergency fund for unexpected expenses. This fund acts as a safety net during challenging times, such as medical emergencies or unexpected home repairs.

EMERGENCY FUND

An emergency fund is a financial safety net you can rely on when unexpected expenses or life events occur. Emergencies can include a sudden job loss, medical expenses, home repairs, car repairs and more. By having an emergency fund, you can avoid going into debt or dipping into other savings, kid's college fund. An emergency fund is a crucial component of a healthy financial plan.

Why Do You Need Emergency Funds?

- Financial Security: Ensures a sense of stability during unexpected financial setbacks.
- Avoiding Debt: Helps avoid reliance on credit cards or loans with high-interest rates.
- Peace of Mind: Reduces stress by knowing you're financially prepared for emergencies.
- Financial Independence: Allows autonomy without relying on others during tough times.

The amount of money you should have in your emergency fund can vary depending on your personal and financial goals. As a rule of thumb, financial experts recommend having enough savings to cover three to six months' worth of living expenses.

If you have a stable job with a regular income, you may be able to get by with three months' worth of living expenses. However, if you have a more volatile income or are self-employed, you may want to aim for six months' worth or more.

Other factors to consider include your level of debt, any dependents you have, and your overall financial goals. For example, if you're planning to purchase a home, launch a business or start a family shortly, you may want to save more aggressively to build up your emergency fund.

Calculation of emergency fund

Calculating your emergency fund can be broken down into a few simple steps. Here's how to get started.

1. Calculate Your Monthly Expenses

Determine the right amount for your emergency fund by calculating your monthly expenses. This includes rent or mortgage payments, utilities, groceries, transportation, insurance premiums and any other recurring bills. Multiply this total by the number of months you would like to have covered by your emergency fund.

For example, if your monthly expenses (including mortgage or rent payment, utilities, transportation, food, medical, non-mortgage debt payments, childcare, education, child support and alimony, and other essential expenses) are € 3,000 and you want to save for three months, your emergency fund goal would be € 9,000.

2. Evaluate Your Risk Factors

Next, evaluate your risk factors. If you have a stable job and income, you may be able to get by with a smaller emergency fund. However, if your income is unpredictable or you work in a volatile industry, you may need to save more. Additionally, if you have dependents, a mortgage or other financial obligations, you may need to save more to cover your expenses.

3. Consider Your Comfort Level

Finally, consider your comfort level. How much of a safety net do you need to feel financially secure? If it's a standard three- to six-month emergency fund, that's great. Make that your goal. But if your life obligations still leave you feeling vulnerable, up your emergency fund to an amount that feels right for you.

Building an emergency fund is a vital step toward financial stability and peace of mind. Tailoring personal savings strategy to the unique circumstances and goals is a way to ensure lasting financial security.

More reading available here:

- [What Is An Emergency Fund And Why Is It Important - FasterCapital](#)
- [Building Your Safety Net | Essential Guide to Emergency Funds \(fcaa.org\)](#)
- Emergency Fund calculators can be found here: [Emergency Fund Calculator – Forbes Advisor](#)

DIFFERENT TYPES OF SAVING

By this activity learners should think on different types of saving products and methods and name them.

Tips for a trainer:

Learners can name several types of savings products and methods that can help to save money:

1. Savings Accounts: Traditional savings accounts offered by banks or credit unions allow you to deposit money and earn interest on your balance.
2. Certificates of Deposit (CDs): CDs typically offer higher interest rates than regular savings accounts, but you must keep your money deposited for a specified period, known as the term, to earn the interest.
3. Money Market Accounts: Money market accounts are similar to savings accounts but often offer higher interest rates and may have limited check-writing abilities.
4. Individual Retirement Accounts (IRAs): IRAs are tax-advantaged savings accounts designed to help you save for retirement. There are different types of IRAs, including Traditional IRAs, Roth IRAs, and SEP IRAs.
5. Employer-sponsored retirement savings plans that allow employees to contribute a portion of their paycheck to a retirement account.
6. Automatic Transfers: Setting up automatic transfers from your checking account to your savings account on a regular basis can help you save consistently without having to think about it.
7. High-Yield Savings Accounts: These savings accounts offer higher interest rates compared to traditional savings accounts, allowing your money to grow at a faster rate.
8. Investment Accounts: Investing in stocks, bonds, mutual funds, or exchange-traded funds (ETFs) can help grow your wealth over time, although it carries more risk compared to traditional savings accounts.
9. Health Savings Accounts (HSAs): HSAs are tax-advantaged accounts that allow individuals to save for qualified medical expenses if they have a high-deductible health insurance plan.
10. Emergency Funds: Keeping a portion of your savings in an easily accessible account for unexpected expenses or emergencies is essential for financial stability.
11. Budgeting and Expense Tracking: While not a traditional savings product, budgeting and tracking expenses can help you identify areas where you can cut costs and increase your savings.

These are just a few examples of the types of savings products and methods available.

No matter one's age, background knowledge, or financial status, saving is a personal journey. It's crucial to find the approach that suits them best.

Here's a breakdown of various savings options to help navigate:

1. **Savings Account:** Widely used in Germany, a savings account is an interest-bearing account where individuals can regularly deposit money, each with its unique IBAN. Savings grow thanks to the associated interest rate. Unlike a checking account for daily expenses, a savings account is solely for accumulating funds. Withdrawals up to €2,000 are typically fee-free. Savings accounts are designed to hold money not intended for immediate spending. They often pay interest on deposits, with rates varying between banks. While they may have minimum balance requirements and monthly maintenance fees, they don't usually come with a debit or ATM card, nor allow check writing. Exceeding the allowed number of withdrawals per month may incur an excess withdrawal fee.
2. **Passbook:** Similar to a savings account, a passbook earns interest on savings but exists only in paper form, often inaccessible online.
3. **Easy-Access Savings Account (Money Market Account):** This type of account offers interest similar to a traditional savings account but with more flexibility. There's no withdrawal limit or overdraft, allowing free access to funds without penalties.
4. **Fixed-Term Deposit Account:** Offering relatively high and stable interest rates, fixed-term deposit accounts often yield higher returns than regular savings accounts. The interest rate remains fixed for a set period, providing security even if key interest rates fluctuate. However, funds cannot be accessed until the term ends, although individuals have the flexibility to choose the term length, up to a maximum of ten years.

The best way to save money is by utilizing the services of institutional entities, as they typically offer insurance to protect deposits. Governments may also offer insurance against bank failure.

Banks provide various ways to save money until it's needed for consumption. The primary difference among the accounts offered is the compensation for liquidity, opportunity cost, and risk, depending on the degree of liquidity one is willing to sacrifice. More liquidity is forfeited when committing to a minimum time or amount of money to save or lend.

SAVING VS. INVESTING

Saving involves the act of individuals depositing their money into a chosen account, such as a savings account or a fixed deposit, with the intention of accumulating wealth over time. This accumulation often occurs through the process of earning additional money on the deposited amount, known as

interest. Essentially, saving enables individuals to set aside funds for future use, whether it be for emergencies, upcoming expenses, or long-term financial goals.

On the other hand, an investment entails individuals allocating their resources towards acquiring assets or financial instruments with the anticipation of generating returns in the future. These returns may manifest in various forms, such as capital appreciation, dividends, or interest payments. However, unlike savings, investments inherently carry risks, as the value of assets can fluctuate over time due to factors such as market conditions, economic trends, and company performance.

It's crucial for individuals to recognize that while saving and investing both aim to build wealth, they serve distinct purposes and involve different strategies. While saving provides a secure means of preserving capital and earning modest returns through interest, investing offers the potential for higher returns but involves accepting a certain level of risk. Therefore, understanding the differences between saving and investing is essential for making informed financial decisions and achieving long-term financial objectives.

MASTERING SAVINGS: STRATEGIES TO IMPROVE SAVING

Below we will explore some practical tips to help improve saving.

Myths busting about saving

Let's debunk some myths about saving. Despite common misconceptions, there are important truths to consider:

- **It's Never Too Late:** Contrary to popular belief, you can start investing at any age. While starting later means less time for compound interest to work its magic, you may have more capital to invest.
- **It's Never Too Early:** Even if retirement feels distant, starting to save early is crucial. Whether tackling student loans or building wealth, early saving habits yield significant benefits over time.
- **Even Small Amounts Matter:** Saving small sums may seem insignificant, but they add up. For example, setting aside €20 monthly could result in €2,400 in a decade, fostering essential financial habits.
- **Your Money is Safe:** Concerns about economic downturns are common, but statutory deposit protection safeguards funds up to €100,000. Additionally, low-risk investment options provide peace of mind during uncertain times.
- **Finance Products Aren't Complex:** Despite perceived complexity, intuitive savings tools and accessible investment options exist. Some banks, especially digital ones, offer user-friendly interfaces for saving and investing within their apps.

A rule for a daily saving plan

The universal appeal of the 50/30/20 rule is its simplicity. If you want to know how much of your salary you should save, or what percentage of your income you should allocate to housing or food expenses, the 50/30/20 rule will help you. It divides all outputs into three simple categories.

50% for necessities / 50% of your salary should be spent on essentials such as rent, bills, transportation, and food. These are things that cannot be done without. They are essential things.

30% for desires / 30% should be spent on leisure activities and hobbies, such as gym membership, holidays or buying takeaway food on Fridays, when you are completely exhausted. These are all things that are desired but not necessary for survival.

20% for savings / The last 20% of your salary should be put towards savings or paying off any debts, such as credit cards or student loans.



Practical tips for boosting your saving

Once you've clarified why you want to save, the next step is determining how to do so effectively. Here are five practical tips to boost your savings:

1. **Track Your Expenses:** Keeping a detailed record of all expenses is crucial, whether through your bank's app, specialized software, or simply using pen and paper. This insight helps identify areas for trimming, including every coffee, newspaper, or snack purchase throughout the month, along with fixed expenses like gas, groceries, and mortgage payments.
2. **Cut Unnecessary Spending:** After documenting expenses, pinpoint non-essential categories ripe for reduction. Cancel unused subscriptions, curb impulsive purchases, and scrutinize utility bills for potential savings. Comparison shopping can also yield significant savings on everything from groceries to utilities.
3. **Establish a Monthly Budget:** Craft a realistic budget based on insights from expense tracking. The popular 50-30-20 rule allocates income into fixed expenses, variable expenses, and savings. Even if starting with a lower percentage, forming the habit of saving is key. Adjust the percentages over time to align with your financial goals, including regular but non-monthly expenses like car maintenance check-ups.
4. **Segregate Your Savings:** Create a dedicated savings account to separate funds earmarked for future use. This separation helps discourage dipping into savings for non-essentials, fostering disciplined saving habits. Plan your savings by allocating a percentage of your income within your budget, aiming for at least 15%. If necessary, cut back on non-essentials.

like entertainment and dining out before reducing spending on essentials like transportation or housing.

5. **Set Saving Goals:** Establishing saving goals makes it easier to get started. Decide the timeline for each goal and prioritize them based on personal preferences. Implement the "pay yourself first" approach by allocating a percentage of your income—such as 15% or 20%—toward savings on the first of each month. This proactive strategy ensures consistent saving and encourages living within your means.

Practical tips for building an emergency fund

Emergency fund was already explained as an important part of the saving.

However, here are some additional tips on how to build your emergency fund:

- **Start Small, Aim Big:** Begin by saving small amounts regularly.
- **Automatic Transfers:** Set up automated transfers to savings accounts.
- **Save Windfalls:** Allocate unexpected income towards your emergency fund.
- **Cut Back on Non-Essentials:** Reduce unnecessary spending and redirect funds towards savings.
- **High-Yield Savings Account:** Consider accounts with higher interest rates for faster growth.

CREATING A SAVING PLAN- EXERCISE

Exercise Title: Creating a Personal Saving Plan

Objective: To develop a comprehensive saving plan tailored to individual financial goals.

Exercise Steps:

Step 1: Introduction:

1. Explain the importance of setting financial goals and creating a saving plan.

Begin by discussing the value of having a clear vision for one's financial future. Explain how setting specific, measurable financial goals provides individuals with direction and motivation to make informed financial decisions.

Highlight the role of financial goals in prioritizing spending and saving activities. Emphasize that without clearly defined goals, individuals may struggle to allocate their resources effectively and may be more susceptible to impulsive spending or unnecessary debt.

Discuss the link between financial goals and personal values and aspirations. Encourage participants to consider their long-term dreams and objectives, such as homeownership, travel, or early retirement, and explain how setting financial goals aligned with these aspirations can bring greater fulfillment and satisfaction. Illustrate the importance of creating a saving plan as a practical tool for achieving financial goals. Explain how a saving plan outlines specific steps and timelines for saving money, making it easier for individuals to track their progress and stay on course towards their objectives.

Share examples of the positive outcomes that can result from setting financial goals and adhering to a saving plan, such as increased financial stability, reduced stress, and greater opportunities for wealth accumulation and personal growth.

Encourage participants to take an active role in defining their financial goals and developing a saving plan that aligns with their values, priorities, and lifestyle. Remind them that while the process may require discipline and sacrifice, the rewards of achieving their financial goals can be immensely satisfying and empowering.

Emphasize the role of saving in achieving short-term and long-term objectives.

Provide concrete examples of short-term objectives that can be achieved through saving, such as building an emergency fund, purchasing a new

electronic device, or taking a vacation. Highlight how saving money allows individuals to fulfill these goals without relying on credit or loans.

Discuss the importance of saving for long-term objectives, such as retirement, homeownership, or education expenses. Explain how consistent saving over time can help individuals accumulate the necessary funds to achieve these larger goals and provide financial security for the future.

Encourage participants to consider their own short-term and long-term objectives and how saving money can help them accomplish these goals. Prompt them to think about the benefits of delayed gratification and the satisfaction that comes from achieving financial milestones through prudent saving practices.

Step 2: Stating the Question: What do you need to save for?

Present the following question to the learners: "For what purpose do you need to save?"

- Offer multiple-choice answers, such as:
 - a) For holidays
 - b) For retirement
 - c) For a car
 - d) For a house
 - e) Other (allow learners to specify)

Discussion:

Discuss the significance of each potential saving goal.

Encourage learners to reflect on their own financial aspirations and priorities.

Step 3: Saving Plan Preparation

Instruct learners to choose one or more saving goals from the options provided or specify their own.

Provide a worksheet or template for creating a saving plan.

Template:

1. Selected saving goal(s)

- for holidays
- for retirement
- for a car
- for a house/apartment
- other (specify.....)

2. Desired amount to save

- Goal 1: € _____
- Goal 2: € _____ (if applicable)
- Goal 3: € _____ (if applicable)

3. Timeframe for achieving the goal(s)

- Goal 1: _____ months/years
- Goal 2: _____ months/years (if applicable)
- Goal 3: _____ months/years (if applicable)

4. Current income and expenses assessment

- Monthly Income: € _____
- Monthly Expenses:
 - Housing: € _____
 - Utilities: € _____
 - Transportation: € _____
 - Food: € _____
 - Debt Payments: € _____
 - Other: € _____
- Total Expenses: € _____
- Disposable Income (Income - Expenses): € _____

5. Strategies for increasing savings (e.g., reducing expenses, increasing income)

- Reduce unnecessary expenses (e.g., dining out, entertainment)
- Increase income through additional work or side gigs
- Negotiate lower bills (e.g., phone, internet)
- Explore opportunities for investing or growing savings
- Other: _____

6. Savings allocation (how much to save from each paycheck)

- Goal 1: % of Disposable Income to Save: _____%
- Goal 2: % of Disposable Income to Save: _____% (if applicable)
- Goal 3: % of Disposable Income to Save: _____% (if applicable)

7. Tracking progress (e.g., monthly review of savings)

- Set a monthly savings target for each goal (*Divide your savings goal by the number of months to create a realistic savings target*): € _____
- Choose a savings account: Select an account that aligns with your savings goal, considering factors like interest rates, fees, and accessibility.
- Track your progress: Regularly monitor your savings to ensure you stay on track towards reaching your goal.
- Adjust as needed: Be flexible and adjust your savings plan as circumstances change or unexpected expenses arise.

Step 4: Implementation

Allow time for learners to fill out their saving plans individually.

Encourage learners to seek assistance or clarification as needed.

Step 5: Sharing and feedback

Invite learners to share their saving plans with the group (optional).

Provide feedback and suggestions for improvement based on the completeness and feasibility of the plans.

Step 6: Reflection

Summarize key points about the importance of setting saving goals and developing a saving plan.

Encourage learners to implement their saving plans and adjust them as necessary over time.

TIME VALUE OF MONEY AND INFLATION

Understanding inflation requires grasping the concept of the time value of money, a fundamental principle in finance. The time value of money recognizes that a sum of money today is worth more than the same sum in the future due to its potential earning capacity or purchasing power.

Inflation, a key economic indicator, refers to the sustained increase in the general price level of goods and services over time. As inflation erodes the purchasing power of money, it affects the value of assets, investments, and income streams.

By comprehending the interplay between inflation and the time value of money, individuals and businesses can make informed financial decisions to protect their wealth and mitigate the impact of rising prices on their financial goals. Let's delve deeper into these concepts to navigate the dynamic economic landscape effectively.

What is inflation?

Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year.

Inflation is the rate of increase in prices over a given period. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country. But it can also be more narrowly calculated—for certain goods, such as food, or services, such as a haircut, for example. Whatever the

context, inflation represents how much more expensive the relevant set of goods and/or services has become over a certain period, most commonly a year (IMF, 2023).

Measuring inflation

Consumers' cost of living depends on the prices of many goods and services and the share of each in the household budget. To measure the average consumer's cost of living, government agencies conduct household surveys to identify a basket of commonly purchased items and track over time the cost of purchasing this basket. (Housing expenses, including rent and mortgages, constitute the largest component of the consumer basket in the United States.) The cost of this basket at a given time expressed relative to a base year is the consumer price index (CPI), and the percentage change in the CPI over a certain period is consumer price inflation, the most widely used measure of inflation. (For example, if the base year CPI is 100 and the current CPI is 110, inflation is 10 per cent over the period.)

Core consumer inflation focuses on the underlying and persistent trends in inflation by excluding prices set by the government and the more volatile prices of products, such as food and energy, most affected by seasonal factors or temporary supply conditions. Core inflation is also watched closely by policymakers. Calculation of an overall inflation rate—for a country, say, and not just for consumers—requires an index with broader coverage, such as the GDP deflator.

The CPI basket is mostly kept constant over time for consistency but is tweaked occasionally to reflect changing consumption patterns—for example, to include new hi-tech goods and to replace items no longer widely purchased. Because it shows how, on average, prices change over time for everything produced in an economy, the contents of the GDP deflator vary each year and are more current than the mostly fixed CPI basket. On the other hand, the deflator includes nonconsumer items (such as military spending) and is therefore not a good measure of the cost of living.

The good and the bad

When households' nominal income doesn't rise as fast as prices, they can afford less, leading to a decrease in their real income, which reflects their standard of living. Inflation exacerbates this by unevenly increasing prices, hitting some consumers harder than others.

Inflation also affects those dealing with fixed interest rates. Pensioners with a fixed 5% increase see their purchasing power decline if inflation exceeds that rate. Conversely, borrowers with fixed-rate mortgages benefit from inflation, as long as their income keeps pace. However, lenders lose real income in this scenario.

Deflation, or falling prices, also poses problems, discouraging consumption and stalling economic activity, as seen in Japan's prolonged period of stagnation. During crises like the 2007 global financial crisis, central banks combat deflation by keeping interest rates low to stimulate economic activity.

Most economists advocate for low, stable, and predictable inflation, which can be incorporated into contracts and interest rates more easily, promoting economic growth. Many central banks have adopted inflation targeting as their primary policy objective to maintain this stability.

PURCHASING POWER

Purchasing power refers to the worth of a currency in relation to the goods or services it can purchase. It diminishes with inflation, as higher prices reduce the quantity of goods or services accessible with a unit of money. It's also termed as buying power. In investment, purchasing power denotes the credit amount accessible to a customer based on the securities in their brokerage account.

Understanding Purchasing Power

Inflation diminishes a currency's purchasing power, affecting what it can buy by effectively raising prices. To gauge purchasing power conventionally, one might compare the price of a good or service to a price index like the Consumer Price Index (CPI).

Purchasing power can be understood by imagining earning the same salary as your grandfather did 40 years ago, which would require a significantly higher income today to maintain the same standard of living.

Purchasing power loss or gain reflects how much consumers can buy with their money. It decreases when prices rise and increases when prices fall.

Factors leading to purchasing power loss include government regulations, inflation, and disasters, while gains can result from deflation and technological advancements.

For instance, if laptop prices dropped from €1000 to €500 over two years, consumers' purchasing power would increase, enabling them to buy a laptop and additional goods with the same amount of money.

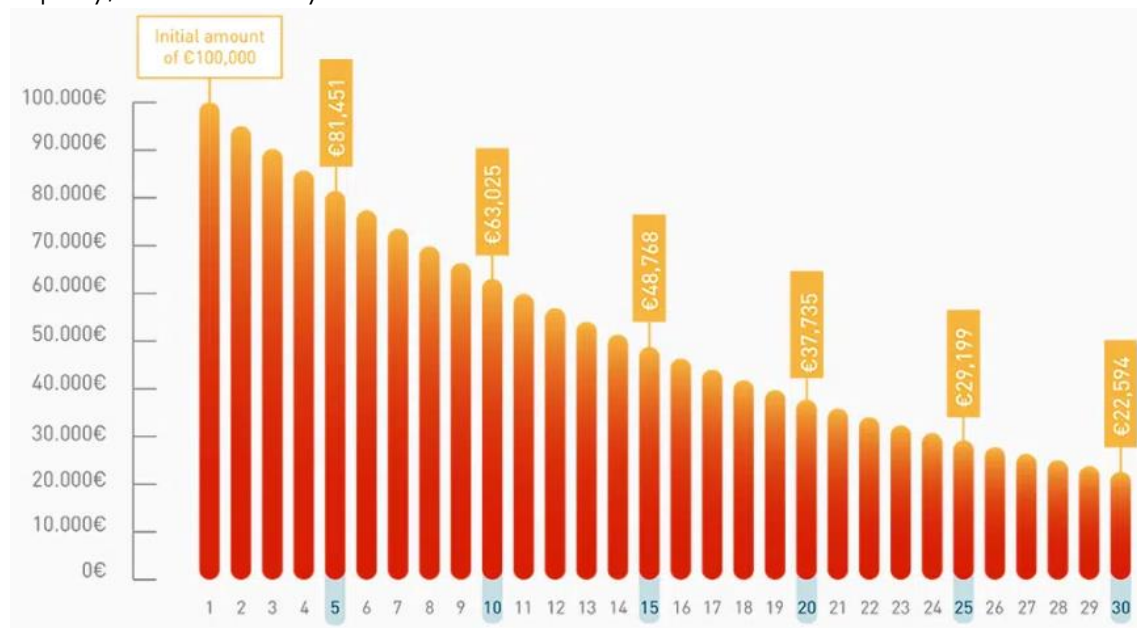
What is Consumer Price Index?

The Consumer Price Index (CPI) tracks changes in prices of specific consumer goods and services over time, serving as a measure of inflation. Data for the CPI

is collected through the Consumer Expenditure Survey conducted by the Census Bureau for the Bureau of Labor Statistics.

Example

As prices climb, your savings lose purchasing power, a slow yet inexorable process represented in the chart below. In 2021, the inflation rate in the Eurozone stood at 5%, according to Eurostat. Using this figure as a reference, we can simulate real purchasing power over time: as you can see, it starts to decline rapidly, and after 15 years it's less than half of what it was at the outset.



Quick calculator of purchasing power

The Quick Calculator of Purchasing Power is a user-friendly tool designed to swiftly assess the purchasing power of a given currency. It allows individuals to input the desired currency and amount, then provides an instant calculation of its equivalent purchasing power in another currency or adjusted for inflation. This tool enables quick comparisons between different currencies or evaluates the impact of inflation on purchasing power over time.

Ask the women a salary or the price of goods in past years, and then calculate how it's equal today.

Calculators are available here:

[Inflation Calculator online: Inflation & Purchasing Power - N26](#)

[Inflation Calculator : Raiffeisen Certificates \(raiffeisenzertifikate.at\)](#)

NOMINAL AND REAL VALUE

"Nominal" and "real" are fundamental economic terms that impact various aspects of our financial lives, from loans to salaries to GDP growth. Let's delve into what these terms mean and why understanding them is crucial.

Consider this scenario: You've held onto 5 euros in your wallet for a decade. Initially, that amount could cover a newspaper, coffee, or bus fare, with some money left over. Fast forward to today, and those 5 euros likely won't stretch as far. Why? Because while the nominal value remains 5 euros, its real value (what you can actually buy with it) changes due to factors like inflation.

Unlike real value, nominal value doesn't account for market conditions. In economics, nominal value reflects current prices, while real value reflects prices over time.

Both terms are applicable not only to money but also to wages, stock prices, and other financial assets. For instance, if you earn a nominal salary of 2,000 euros monthly and inflation is at 4% for the year, your real purchasing power diminishes. Adjusted for inflation, your 2,000 euros now equate to 1,920 euros, resulting in a decrease in your purchasing power relative to a base year. Understanding nominal and real values helps gauge the true worth of financial assets amid changing economic conditions.

Nominal and real values also apply to:

Interest

Interest encompasses both the cost of borrowing money from a bank and the return on your savings or investments. When you invest in a fund, the agreed-upon rate of return represents the nominal interest rate. However, the real interest rate considers additional factors such as fees, expenses, taxes, and inflation. For instance, if you invest €100 at a nominal interest rate of 3% per year, you'd have €103 by year-end. Yet, with inflation at 2%, your investment's real interest rate would only be 1% (nominal interest minus inflation).

GDP

Gross domestic product (GDP) serves as a key indicator of economic development, reflecting the monetary value of goods and services produced within a country or region over a specified period. Nominal GDP relies on current market prices, but inflation-induced price hikes can inflate it, even if actual output remains unchanged.

Real GDP, on the other hand, adjusts for inflation, providing a more accurate assessment of output's relative value over time. It is calculated using a base year's

prices and a GDP price deflator formula to express nominal output in real terms. Real GDP helps determine whether production capacity has expanded or contracted, irrespective of market price fluctuations.

Understanding the distinction between nominal and real values empowers better financial decision-making when interpreting bank statements, returns reports, and financial news.

What is the impact of high inflation and rising interest rates for loans with fixed or variable interest rates?

High inflation and increasing interest rates can lead to higher costs for your variable-rate loans.

The impact of these factors on installment credits, such as mortgages, car loans, and personal loans, depends on whether you have a fixed or variable interest rate.

With a fixed-rate loan, you've agreed to a stable interest rate for a set period, shielding you from market rate fluctuations. Even if interest rates rise, your loan's interest rate remains unchanged, keeping your installments steady.

However, with a variable-rate loan, your interest rate adjusts based on market rates. In times of high inflation and rising bank interest rates, your loan's interest rate will likely increase, resulting in higher installment payments.

INFLATION AND SAVING

What do inflation and rising interest rates mean for my savings?

Inflation may seem advantageous for your savings, but it's crucial to consider the real interest rate.

Storing cash means it remains static in value, neither increasing nor decreasing. However, during periods of high inflation, your purchasing power diminishes. This results in your money being able to buy fewer goods due to rising prices. On the other hand, saving money in a bank account typically leads to growth, as you anticipate receiving higher interest payments.

Yet, in times of high inflation, the interest rates offered by banks might not necessarily keep pace. The compensation you receive may fall short of the inflation rate, leading to a situation where the real interest rate is not always positive. It's essential to assess the actual purchasing power of your savings amidst inflationary conditions.

INFLATION AND PENSION

What does inflation mean for my insurance and private pension?

Inflation can significantly affect your finances, potentially eroding your purchasing power both presently and over time. Before making important decisions regarding your insurance and private pension products—such as pausing contributions, discontinuing coverage, or terminating investments—it's essential to carefully assess your options. These decisions can have lasting implications for your financial well-being.

Ensure you have a comprehensive understanding of your insurance policies and their coverage before taking any action. Remember, the price of the insurance product alone may not be the most critical factor to consider. Seeking advice from a financial expert can provide valuable insights into your current and future needs and help you weigh the potential consequences of your decisions, such as early termination fees or inadequate coverage for your assets.

Here is some easy **advice** to give the appropriate awareness that can easily improve the behaviour.

1. When it comes to insurance products and private pensions, avoid rushing into decisions.

Don't let inflationary pressures dictate your choices regarding essential insurance coverage, like home insurance. Sometimes, foregoing such protection can lead to unforeseen risks. So, it's essential to compare not just prices but also coverage levels to find the right policy for your needs. Before making any significant decisions about your insurance, consider seeking guidance from a financial advisor. Additionally, remember that private pensions are designed for the long term. Saving less now for immediate income could result in insufficient funds for your retirement needs later on.

2. Take a long-term approach to life insurance products and private pensions.

Rather than focusing solely on short-term impacts of inflation, consider the evolving situation over the long haul. Keep in mind that life insurance policies, particularly those tied to investments, are typically intended for medium to long-term investment periods. So, it's essential to adopt a perspective that considers the changing financial landscape over time.

PRIVATE PENSIONS

A personal pension involves making regular monthly payments or a lump sum to a pension provider, who then invests the funds on your behalf. Additionally, family members or others can contribute to your personal pension, and some employers offer group personal pensions for their employees.

Determining the suitability of a personal pension hinges on your ability to save for retirement and the benefits you'll receive from other pension sources. A personal pension may be suitable if you're self-employed, lack access to a workplace pension, have the means to contribute, want to increase your retirement savings, or if your employer offers it as a workplace pension scheme. Stakeholder pensions are worth considering if you anticipate needing flexibility in payment schedules or contribution amounts due to moderate earnings. These pensions offer flexibility within a personal pension framework.

Before selecting a personal pension scheme, carefully consider various factors:

- Contribution rules
- Investment strategies
- Fees charged by the pension provider for setup and administration
- Projected pension benefits

Keep in mind that pension providers typically deduct charges from your pension fund. It's essential to review your pension statements regularly to monitor any associated fees.

Personal pensions offer a flexible and convenient way to save for retirement, allowing individuals to make regular contributions or lump-sum payments to a pension provider. Whether you're self-employed, lack access to a workplace pension, or simply want to boost your retirement savings, personal pensions provide an opportunity to invest in your future financial security. However, it's crucial to carefully consider factors such as contribution rules, investment strategies, fees, and projected benefits before selecting a pension scheme. By staying informed and regularly reviewing pension statements, individuals can ensure they're making the most of their savings and building a solid foundation for their retirement years.

CONCLUSION

In conclusion, this module underscores the critical role of savings in achieving financial stability and security. Beyond merely setting aside funds for emergencies, saving serves as a cornerstone for future financial success and freedom. This module can equip women with the knowledge and tools needed to build and maintain a robust savings plan tailored to their unique circumstances. By instilling discipline and financial responsibility, saving empowers individuals to weather economic challenges, pursue personal and professional opportunities, and achieve long-term goals such as homeownership, education, or retirement. Through education, planning, and consistent effort, women can cultivate a savings mindset and adopt strategic saving practices, thereby enhancing their financial resilience and autonomy for a more prosperous future.

REFERENCES

- The Benefits of Saving Money February 2009 Barbara O'Neill, Ph.D., CFP® Extension Specialist in Financial Resource Management Rutgers Cooperative Extension. Available : [The Benefits of Saving Money \(Rutgers NJAES\)](#)
- Malagon, J. C. (2022). How to start saving and investing. Available: <https://www.mapfre.com/en/insights/economy/how-to-start-saving-and-investing/>
- European Central Bank. What is inflation? Available at: [What is inflation? \(europa.eu\)](#)
- Smith, A., and J. Underwood (2023). What is the 50/30/20 Rule? Available: [What Is The 50/30/20 Rule? – Forbes Advisor](#)
- UNFCU. Budgeting basics. The 50-30-20 rule. Available: [Budgeting basics: The 50-30-20 rule | UNFCU](#)



FinPower

FH JOANNEUM
University of Applied Sciences



Co-funded by
the European Union

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Education and Culture Executive Agency (EACEA). Neither the European Union nor EACEA can be held responsible for them. Project Number: 2022-1-AT01-KA220-ADU-000087985