

SAVINGS AND BUDGETING GETTING STARTED

By setting goals, planning ahead and being smart with your savings and debt strategies - you can actively grow your wealth even from a modest start.

Snapshot

- Start by setting your short, medium and long term goals.
- Be specific and add in realistic timeframes.
- Avoid the common debt traps.
- Your financial adviser can help you develop a budget and establish an effective savings plan to suit you.

Setting goals

Financial goals can generally be divided into three broad categories:

Timeframe	Number of years	Goals
Short-term	0-2 years	A new car or your next holiday
Medium-term	2-5 years	An extended overseas trip or a mortgage deposit
Long-term	5 years or more	Major home renovations or retirement

It helps to write down what you want to achieve over each of these periods. Defining your goals will give you a clearer direction and help you make savings and investment decisions with confidence. It's important to set a specific deadline for each goal. This focuses your mind as well as your savings strategy.

- To determine your deadlines, you will need to know:
 - what your goals are
 - what you've already saved
 - what is a realistic timeframe to reach your goals.

Once your goals are clear, the next step is to work out how much you need to save to reach them. This means developing a budget.

How to budget

Most of us have great intentions when it comes to saving, but somehow we never seem to get around to making things happen. Unfortunately, unless you have the discipline to put together the numbers, you're unlikely to make much headway.

One of the first steps towards reaching any financial goal is to establish a budget. Once your budget is complete, you should have all the information you need to create a savings plan to reach your goals.

Step 1:

Understand your financial position. This involves comparing what you own (your assets) with what you owe (your liabilities or debts). The balance will give you your net worth.

Total assets - Total liabilities = Net worth

See examples of each below:

Assets	Liabilities
<ul style="list-style-type: none">■ Home■ Savings accounts■ Managed funds and shares■ Investment property■ Superannuation	<ul style="list-style-type: none">■ Home mortgage■ Personal loans■ Credit cards

Step 2:

Prepare a budget by writing down your income and expenditure. This will give you a picture of your spending patterns and can help you identify areas where you can cut back your spending and use that money to reduce debt.

Step 3:

Once you have successfully paid off your debts, don't stop there, consider starting a savings plan. A popular way to do this is setting up a regular automatic transfer with a pre-determined amount. This is often described as 'paying yourself first'.

Establishing a savings plan

Successfully building wealth is a commitment you make to yourself. The best place to start could be to establish a savings plan. The key to successful saving isn't having lots of money, it is consistency and discipline. Successful savers don't rely on staying motivated - instead they devise a system to keep their savings plan on track, no matter what.

Many people have their savings deducted directly from their salary and sent to a separate account. If this isn't possible, consider setting up an automatic transfer from your everyday bank account to your savings account. Schedule it to occur the same day your salary hits your account, so you are not tempted to spend it.

How much you decide to save will depend on your personal goals. Many financial specialists suggest 10% of your income (after tax and superannuation contributions) is a good place to start. If this seems like a lot, think about how much money slips through your fingers every week without you even noticing. For example, consider your daily \$3 cup of coffee. Day by day it seems like loose change, but in a year all those coffees cost around \$1,000.

Ways to reduce your debt

There are a number of ways to reduce debt, depending on your personal circumstances. Some useful debt management strategies are shown below.

Pay off non-tax deductible debt first

Interest payments on debt used to purchase assets that produce income, such as a loan for an investment property, are generally tax deductible. On the other hand, interest payments on debt such as your home mortgage, credit card or car loan are generally not tax deductible.

If you have both deductible and non-deductible debt, reducing the non-deductible debt first should minimise the after-tax cost of your interest payments. For example, you may choose to make interest only payments on any deductible debt while you pay off the non-deductible debt as fast as possible.

Don't borrow to fund depreciating assets

Ideally, try to avoid going into debt to pay for depreciating items, such as cars and luxury goods. You'll probably end up paying a lot more than you intended, so before you buy you should consider the total cost of the purchase, including interest repayments.

Pay off high interest credit cards

Interest charged on credit cards is high, so do your best to pay the balance of any credit card debt in full every month. If you have multiple credit cards, you may want to review and consider cancelling them, and then find the cheapest card that suits your needs. Watch out for low interest balance transfer offers as they can have a sting in their tail and many providers introduce much higher interest rates after the promotional period expires.

Always plan for the unexpected

When setting your budget or working out if you can afford a new purchase, check if your debt is manageable by allowing for an interest rate increase on your debt. This builds in a margin to cushion the effect of any sharp increases in interest rates. You should also consider how unforeseen expenses such as major car repairs or a new washing machine would affect your finances.

Ways your adviser can help

- Your financial adviser understands your financial position and can provide advice on how you can grow your portfolio.
- Your financial adviser has experience in building effective savings strategies that help maximise your income and minimise your tax.
- They can implement regular savings plans to help you stay on track in meeting your lifestyle goals whether that is overseas travel, a new kitchen or holiday home.

SPEAK TO US FOR MORE INFORMATION

If you would like to know more about savings and budgeting, talk to your financial adviser. They can give you more detailed information on the best approach for your situation.

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