

Budgeting and debt management

Budgeting: a necessity for us all

Irrespective of how much you earn, a budget is the first and most important step you can take towards putting your money to work for you instead of being controlled by it and forever falling short of your financial goals.

Quite often, people feel empowered once they have taken the time to complete this exercise, as they can finally say "I now know where my hard-earned money goes." This knowledge provides the power and often the motivation to refine current practices and establish strong budgeting habits in the future.

When completing your budget

When putting together your budget, it's important to be honest and set realistic goals.

Once you're in the routine of sticking to a budget, you'll find it easier to identify ways to increase your savings.

Ideally, you should aim to have your income apportioned to:

- **Housing 35%** – Mortgage or rent, rates, repairs, improvements, insurance, and utilities (including electricity, gas, etc)
- **Transportation 20%** – Monthly car repayments, petrol, oil, repairs, insurance, parking and public transportation
- **Debt budget 15%** – Credit cards, personal loans, student loans and other debt payments
- **All other expenses 20%** – Food, insurance, entertainment, prescriptions, doctor and dentist bills, clothing and personal investments, emergency funds
- **Savings budget 10%** – Shares, bonds, cash reserves, art, etc.

Prioritising debt repayment

It is imperative that you review your current debt position, and perhaps review your ability to continue servicing current obligations as the cost of borrowing may rise in the future.

Easy ways to manage debts

Credit cards

Credit card providers often require only very low minimum payments be made. For example, if you owe \$1,000 on a card with 17% interest, making only the minimum monthly payment will see the average user pay \$979 interest and take up to 12 years to repay the original \$1,000 debt.

Introductory rate cards – many providers will offer cut price cards (eg. 6.99% for the first six months). Consider transferring your existing balance (17%) over whilst you attempt to repay it. Caution – purely use this to assist in debt reduction and cancel once debt has been repaid as the rate typically will skyrocket towards 17–18% after the initial six month introductory period.

Your objective should be to minimise the spend on your credit card and repay it in full each month.

Home loan

Changing your payment frequency can assist in managing your mortgage better. Consider changing from monthly payments to fortnightly (resulting in one additional payment being made each year).

Consider a line of credit, where your pay is credited to reduce your debt, potentially resulting in lower interest. As such, any monthly savings are assisting in reducing your debt as long as you keep to your budget.

If you consider changing loan providers it is important to consider any exit penalties or other charges that may apply.

Personal loans generally incur a higher interest rate than home loans, but usually remain cheaper than credit cards and therefore can be used to consolidate and repay credit card debt.

Investment loans can be secured or unsecured against existing assets.

You should always consult a licensed or appropriately authorised financial adviser before making any decisions about restructuring or taking on additional debt.

Let's recap...

So, in summary:

- Preparing a budget is the first step towards achieving your financial goals
- Be honest and realistic in terms of goal setting
- Look for ways to reduce non-essential expenditure
- Prioritise the repayment of non-deductible debt

Enjoy seeing the results of your commitment and hard work (debt and savings) and don't forget to reward your efforts from time-to-time.

It is important to note that you should review your situation regularly (particularly when your circumstances change) and you should always seek professional financial planning advice when restructuring your financial situation.

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