

### Budgeting – the foundation of your financial plan

When was the last time you completed a household budget?

Maybe it was when you applied for a mortgage, prepared yourself for the additional costs of raising children or decided it was time to plan for your financial future. Having a written budget is only half the equation, it is putting it into practice that is the real discipline.

Developing a budget and learning to stick to it is one of the foundations of wealth creation.

Developing your money management habits, identifying needs versus wants and exercising delayed gratification will enable you to increase your long term savings capacity.

In theory, most people know that implementing a budget to help manage cashflow is sound financial planning. However, current research undertaken by MLC reveals that budgeting skills are too often neglected.

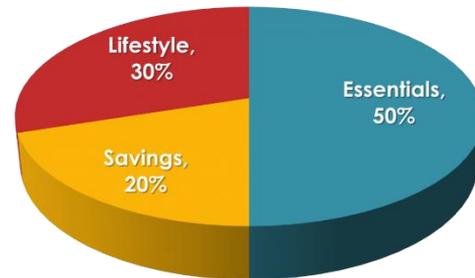
MLC surveyed more than 2,000 Australians as part of a three-part white paper titled 'Australia Today – a look at lifestyle, financial security and retirement'. The research highlighted the following:

#### Budgeting is a lost art

Almost half the people surveyed were spending all of their wages to fund their lifestyle needs:

- 46% admitted they were living 'pay-cheque to pay-cheque' and those with high incomes were not exempt.
- It was found that over one in four of \$150,000 - \$199,000 annual income households and one in five of \$200,000+ households indicated they also they lived 'pay-cheque to pay-cheque'.

### Budgeting basics – the 20 / 30 / 50 rule



The above budget categories provide some helpful 'rules of thumb' to begin thinking about your spending habits. The savings category includes your employer superannuation contributions of currently 9.5%. Don't be discouraged if your budget doesn't fit neatly into the assigned segments, it's designed to function as a target.

There is no magic bullet for successful budgeting and the best budgeting program is the one that works for you.

For some people this means using software like 'MoneyBrilliant' on your phone or computer. This software acts as a financial assistant categorising your savings and expenditure compiled from all your bank accounts and assigns them to expense categories.

For others, it will involve reviewing bank statements and inputting data manually into a spreadsheet in pre-defined categories. Experience says that whatever system you choose it is vital that you make yourself accountable to your spending and savings goals. Have a trusted friend or financial professional help keep you on track.

Budgets are ever evolving and need to be re-assessed at least every 12 months; perhaps a good New Year's project in front of the cricket! Take into account pay increases, changes to expenditure patterns and savings goals. By comparing your budget year on year it becomes easier to identify those sections of your budget that should be increased, reduced or removed.

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## Here are 8 tips to consider

The following budgeting tips are the result of collective wisdom and practical examples of successful budgeting we have seen over the years, in the lives of our clients:

### #1. Use comparison websites for major expense items

Often we get in the habit of using the same utilities provider or insurance company, without considering whether we are getting a good deal. It is good practice to compare policies annually and where a better deal is available use it as a bargaining tool with your existing provider.

### #2. Avoid the credit card trap

Maintain one card only. Cut up the others you don't need!

Credit cards work best for paying regular expenses and then being paid off (in full) at the end of each month. Avoid using credit cards for non-essential purchases that can wait or expenses that you do not have the capacity to pay for, at the moment.

### #3. Define your 'needs v wants'

It is incredible how quickly the definition of 'needs and wants' changes across generations. The latest technology, overseas holidays and eating out at restaurants weekly were once considered luxuries but are now viewed as essential by younger generations.

### #4. Make your goals visible

Without visual reminders of what you are setting out to achieve and having measurable targets along the way, there is every chance your saving goals will fall by the wayside.

Use your phone, calendar and home environment creatively to display your goals visually. A picture of your dream holiday, car or home may provide all the motivation you may need.

### #5. Set yourself savings goals

Don't be afraid to put dollar targets in regular view!

The reward of implementing a budget and sticking to it should result in celebration. Don't forget that reducing debt faster than required is also a very valid goal that can be measured.

There is an old business saying – 'What gets measured gets done'!

### #6. The best things in life are free (or low cost)

Make a list of free recreational activities in your area or activities that involve minimal cost which you enjoy e.g. a cup of coffee in a nice location. Maybe it is going on a picnic, walking around the city, going to the beach or attending free community events in your neighbourhood. Not all your recreational activities need to cost big dollars.

### #7. Don't buy just because its tax deductible

It's easy to justify non-essential expenditure on the basis that it is a tax deductible work expense. If you earn \$60,000, your marginal tax rate is 34.5% (inc. Medicare) and the work item you purchase is worth \$500, then the tax reduction is only \$172. The rest comes out of your own pocket.

### #8. Know what you can claim

Although completing your personal tax return may be easy enough to do online yourself. Many people are not aware of the things they can claim as tax deductions or how much they can claim. This is where the services of a good accountant are helpful. Remember that accounting costs are tax deductible as well.

If you would like to chat further about managing your cashflow don't hesitate to contact us.

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