TAKE CONTROL

Dollars & Cents

A practical guide to budgeting & saving

Abacus Australian Mutuals

What does 'mutual' mean to me?

Mutual financial institutions are credit unions and building societies that are focused on providing benefits for our members, not shareholders. Profits are returned to members through fairer fees, better rates and better service.

Members are both customers and owners, so you have a real say in how your financial institution is run. Each member gets an equal say – one member, one vote.

Here are some other important facts about mutual financial institutions:

- We are run for the benefit of members with the aim of returning profits to members through fairer fees and better service.
- We are complete financial services providers, offering a full range of products and services.
- Deposits with credit unions and mutual building societies are guaranteed by the Federal Government.
- Our members choose us because they receive excellent, personal service and our customer satisfaction is the highest in the market.
- We are built on community involvement; it is what makes us different. We committed to supporting our communities long before it became fashionable.
- We are committed to educating consumers and improving financial literacy through practical actions.
- Despite our different approach, we are regulated to the same high prudential standards as the banks.

Over 4.5 million Australians across metropolitan and regional Australia are already members, so come and join us now.

Abacus
Australian Mutuals

To learn more go to:
www.abacus.org.au

CONTENTS

Introduction

Budgeting. It's a word that makes many people think of rigid rules, tightening your belt and doing without the things you enjoy.

In fact, budgeting can be quite the opposite. It's about knowing how you spend your money, so that you can afford more of the things you like. A budget should be realistic and useful and help you to achieve the things you want out of life. It should also be flexible and adaptable to your changing circumstances.

So, why budget? It's a fact of life that many of us don't know where our money goes and live slightly beyond our means, regardless of the size of our weekly wage. A well-designed but simple budget helps us keep expenses under control, manage unexpected bills and emergencies and lets us use our money for things that give us pleasure.

Budgeting and saving go hand in hand. Careful budgeting makes saving possible and regular saving allows you to plan for the future. It's satisfying to watch your savings increase and rewarding to use your savings for things that make your life more enjoyable.

Budgeting and saving are not hard to do, but take a little planning. This booklet explains the basics of budgeting and saving and gives you the tools you need to get started. Take control of your money and watch your effort pay off.

Where does my money go?

Living from one pay packet to another is a common scenario. You hope there'll be enough money to cover all your expenses, but find that you're down to your last few dollars and pay-day is still days away. If you're hit with a large or unexpected expense, it's sometimes hard to pay the bill.

If your financial situation is described above, you could really benefit from a simple budget. Even if you feel in control of your money, a budget can still help you to improve your financial situation.

But before you try to do a budget, first you need to understand how much you spend each month. By completing this simple exercise (page 6), you'll see if you are truly living within your means, or if you need to make some adjustments.

Jot down roughly (from memory is fine) what you spend on the listed items, followed by what you earn. Next to each item, also note if you normally pay for it with cash or credit.

SPENDING PER WEEK/FORTNIGHT/MONTH

HOUSEHOLD EXPENSES	Amount	Cash/Credit
Rent/home loan repayments	$	
Groceries	$	
Electricity & gas	$	
Water	$	
Phone & internet	$	
Home & contents insurance	$	

CAR/TRANSPORT EXPENSES	Amount	Cash/Credit
Car loan repayments	$	
Fuel	$	
Car maintenance	$	
Car registration & insurance	$	
Public transport	$	

(continued on page 6)

PERSONAL EXPENSES	Amount	Cash/Credit
Work day lunch & coffee	$	
Eating out	$	
Entertainment (e.g. movies)	$	
Magazines & books	$	
Clothes	$	
Toiletries	$	
Gifts	$	

OTHER EXPENSES	Amount	Cash/Credit
Credit card interest	$	
Other loan repayments	$	
Medical	$	
Education expenses	$	
TOTAL SPENDING	**$**	

INCOME PER WEEK/FORTNIGHT/MONTH	
Basic wage	$
Allowances & overtime	$
Other income (e.g. dividends)	$
TOTAL INCOME	**$**

INCOME minus SPENDING	**$**

There are a few important things you can learn from doing this exercise.

1. **Did your spending exceed your income?** If so, your current spending habits could get you into financial trouble and now is a good time to start a budget. If you found that you have some money left over after you've tallied all your expenses, then this is the amount you could be saving. By preparing a budget, you could be saving even more.

2. **How long did you need to think about each item?** Chances are that it took you longer to work out how much you spend on eating out each month than it did to work out your rent. This shows that we generally have less control over our social spending, normally because there's no set pattern. This is one area that could easily be improved by setting aside a certain amount each week or month, and aiming not to spend more than that amount.

3. **Are most of your expenses paid for with credit?** If you are paying most of your expenses on credit and then find that you don't have enough at the end of the month to pay off your credit card bill, then you need to reassess your expenses. Living on credit is not sustainable in the long-term.

TIP: Aim to save at least 10% of your gross income. Put this money aside each pay day and you'll find that you can save for something special.

Preparing your budget

You'll find the Budget Planner on the following pages. The Planner will help you to list all your income and expenses, and at the end, you'll have a reliable budget to work with.

If the Budget Planner seems too difficult for you to work through on your own, drop in to your local credit union or building society branch. A staff member will be happy to help you with your budget.

Step 1: Getting started

Getting started is the hardest part! Grab a pen and a calculator and perhaps make a copy of the planner so you can do a rough draft. Next, choose a time period for your budget (e.g. fortnightly or monthly) and remember to use the same time period for both your income and your expenses.

Step 2: Your income

Start with the income category and fill in each of the entries. Begin with your salary (after tax) and then add any other income. This might include overtime, bonus payments, government allowances, child support payments or other regular income from investments, such as interest, dividends or rent.

TIP: Round all amounts to the nearest dollar.

Step 3: Your expenses

Expenses are grouped into categories, covering the most common expenses in our daily lives. Complete each category by putting an amount next to each item, or leaving it blank if it doesn't apply. When you get to the end of a category, add up all the expenses in that section to come up with a sub-total for that category.

TIP: For items that fluctuate on a monthly basis, such as credit card repayments, take a look at a few recent statements and try to work out an average figure.

Step 4: Your savings

As a starting point, enter a savings figure that is equal to about 10% of your pre-tax income. Try to reduce some of your expenses so that you can manage to save that amount each fortnight or each month.

Step 5: Compare your income and expenses

Add up all of your expenses and your savings then subtract this total amount from your income.

If you have a positive amount, congratulations! You can now look at some different ways of using your savings to achieve your savings goals.

If you have a negative amount, then your budget shows that your expenses are higher than your income. This means you'll need to take a closer look at your budget and look for areas where you can save money. It's easy to do – you just need to know how. You'll find some great ideas for cutting down on spending in the next section.

TIP: Do you have trouble paying large bills when they fall due? You may find these bills easier to manage if you set aside a small amount of money each pay day, which can then be used to pay these bills when they come in. A simple way to manage this is by regular direct debit. Talk to your credit union or building society about organising it.

Step 6: Managing your budget

Keeping track of your expenses is an important part of managing your budget. It's the only way to know if you're sticking to your plan, or if you need to make some adjustments. Write down everything you spend and compare it to your budget every month or so.

TIP: Don't make your budget so tight that it's impossible to keep. It's better to be realistic about what you can cut back and how much you can afford to save.

You also need to revisit your budget about once a year to ensure that your income and expenses figures are still current.

BUDGET PLANNER

INCOME

Salary / wage (after tax)	$
Overtime / Second job	$
Pension or Government allowance	$
Child support or other payments	$
Regular income from investments (e.g. interest, dividends, rent)	$
Other	$
TOTAL INCOME	**$**

EXPENSES – Household

Rent	$
Gas	$
Electricity	$
Water	$
Rates	$
Body corporate fees	$
Telephone & mobile	$
Internet	$
Pay TV	$
Household repairs	$
Furniture replacement	$
Appliance replacement	$
Garden & fences	$
Groceries	$
Fruit & vegetables	$
Meat, chicken & fish	$
Lunches	$
SUB-TOTAL	**$**

EXPENSES – Repayments

Mortgage	$
Car loan	$
Personal loan	$
Credit cards	$
Store card	$
Lay-bys	$
HECS / HELP payments	$
SUB-TOTAL	**$**

EXPENSES – Insurance

Home	$
Contents	$
Car / motorbike	$
Boat / caravan	$
Health	$
Income protection	$
Life	$
SUB-TOTAL	**$**

EXPENSES – Education & Professional

School fees	$
Special tuition (e.g. sport)	$
School books & uniforms	$
Excursions	$
TAFE / University fees	$
Professional subscriptions	$
Union fees	$
Tools / equipment	$
SUB-TOTAL	**$**

EXPENSES – Transport

Fuel	$
Car registration	$
Parking	$
Licence	$
Motoring association	$
Maintenance / repairs	$
Public transport	$
SUB-TOTAL	**$**

EXPENSES – Medical

Doctor	$
Chemist	$
Dentist	$
Physio, chiro etc.	$
Optometrist	$
SUB-TOTAL	**$**

EXPENSES – Hobbies & Entertainment

Movies, concerts etc.	$
Eating out & take-away	$
DVD / music hire & purchase	$
Magazines & newspapers	$
Hobbies	$
SUB-TOTAL	**$**

EXPENSES – Other

Child care	$
Child support payments	$
Pocket money	$
Gifts – Birthdays	$
Gifts – Christmas	$
Gifts – Other	$
Donations	$
Pet food & expenses	$
Alcohol & cigarettes	$
SUB-TOTAL	**$**

SAVINGS

General savings	$
Emergency savings	$
Special purpose savings	$
SUB-TOTAL	**$**

TOTAL INCOME	–
TOTAL EXPENSES	
= NET RESULT	

Trim your spending

Here are some easy ways to trim your spending and bring your budget into line. Remember that budgeting is about taking control of your money and by cutting back on your spending in some areas, you'll have more money for the things you really want.

- Buying lunch every day is costly, so take lunch to work at least two or three times a week. This can save you over $15 a week, which is almost $800 a year.
- Think about how you use ATMs. Take advantage of the fee-free transactions you make and avoid incurring any fees.
- Cut back on some of your luxury items, such as buying coffee, magazines or eating out. But don't be too hard on yourself, or it will be impossible to stick to your plan. A good idea is to cut back on a different luxury each month. That way, you won't miss it for too long, but you'll be consistently saving money.
- Get organised with birthday and Christmas gifts and buy them well in advance. You're more likely to spend more than you planned if you have to buy a gift at the last minute.
- Next time your insurance falls due, get a few quotes from different insurers. You'll be amazed by how much you could save by shopping around – it can be hundreds of dollars. You might also be able to pay monthly instead of one large yearly expense.
- Leave your credit card at home, unless you know that you specifically need it for something. It will make you consider whether you really need to make that purchase. If you do, chances are it will still be there tomorrow.
- Shop around – there's money to be saved just by comparing prices. You could reduce your phone and Internet bills just by switching suppliers. Next time you're making a large purchase, check a few different outlets for the best price.

Debt isn't always bad

If debt is used wisely, it can be an effective way of maintaining your lifestyle and building your standard of living. In fact, many of life's most important purchases, such as a buying a home or car, or going on a special holiday, would not be possible without borrowing. Going into debt for a worthwhile purpose can be sensible if you've budgeted for it and thought it through carefully.

Some other kinds of debt are not so good, including money that is borrowed for impulse buys and items that quickly decrease in value. This kind of debt includes credit card debt and some in-store finance, which generally charge interest rates well above other types of loans.

Borrowing money to pay existing debts is generally not a good idea either, unless you are getting help to consolidate your debts from your credit union or building society or other financial professionals.

Provided that you stay in control of your debt and on top of your repayments, you shouldn't have any problems. Unfortunately, it can be easy to get into trouble, so it's important to understand how it works. It's better to do your research now, than have to repay debts later. Take control and learn to use debt wisely.

TIP: If you are having trouble managing your debts, your credit union or building society can help. Talk to them sooner rather than later.

Credit Cards

There's no doubt that credit cards are convenient – there's no need to carry cash, you can make purchases or pay bills over the phone or Internet and they're useful in an emergency. The problem is that it's easy to let credit cards get out of control - $50 here, $100 there, pretty soon it all adds up and you owe thousands.

Interest charges

Most credit cards give you an interest free period, normally 44 – 55 days, which is great if you pay off the balance in full by the due date each month. If not, you will be charged interest on the outstanding amount until paid in full. Some credit cards, despite advertising interest free days, will deny you interest free days for future purchases if you carry forward an outstanding balance. Make sure you confirm with your provider the details of any interest free arrangements.

Cash advances

Cash advances are costly. Interest is charged from the moment you withdraw the money. The interest rate on cash advances is often higher than the interest rate you pay on purchases, so it's a very expensive way to obtain cash.

Credit limit increase

Before you accept a credit card limit increase you should first think about what the minimum monthly payments would be and whether a lower limit increase might be better for you.

Credit card debt is usually the most expensive type of debt you'll have, so it's important to take control and pay it off as quickly as you can.

If you feel uncomfortable with your credit card debt, seek help from the staff at your local credit union or building society. They can help you work out options for consolidating your debts and paying them off. While you're there, get yourself a copy of *"Credit Wise – a practical guide to managing credit"*.

Remember – if you buy something on credit now, you'll eventually have to pay it back with interest later.

Personal loans

Personal loans are often used for a specific purpose, such as buying a car or going on holidays, and you'll typically have up to 5-7 years to pay off the loan. The interest rate charged on a personal loan is generally lower than credit cards. The loan amount and the repayment amount are fixed so many people find it easier to keep control of this debt.

To save on interest charges, pay off the loan as quickly as possible. Most credit unions or building societies will allow you to make extra repayments or pay out the loan early without penalty.

Home loans

Home loans are a long-term form of borrowing and the rate of interest charged is usually the lowest of all loans.

CASE STUDY

Sarah went a bit overboard with gifts for friends and family at Christmas time. She spent about $500 in total and because she didn't have the cash at the time, she put all the purchases on her credit card. Each month, she paid the minimum repayment requirement of 2.5% and was charged interest at a rate of 16%.

Sarah was shocked when her accountant worked out the true cost of those Christmas gifts. At her current repayment rate, it would take over 6 years to pay for those gifts and she'd be charged over $280 in interest.

Have you considered how much more you are paying for purchases by putting them on your credit card?

There are many different home loan options available and the interest rate and fees vary according to the features of the loan. If you are thinking of buying property, take control and talk to your credit union or building society about a home loan. They will ensure that you get a loan that meets your needs and ensure that you can manage the repayments.

"Bricks & Mortar – a practical guide to buying property" is also a useful starting point if you are planning on buying property. Ask your credit union or building society for a copy.

Why save?

Managing your money wisely and saving some of your income has many benefits.

Day-to-day

- Saving offers you peace of mind knowing that you are able to meet all your current living expenses.
- You'll feel less stressed, not living from one pay-day to the next.
- There's a sense of security knowing that you've got some money set aside to deal with large bills, unexpected expenses or difficult times.
- You can meet your expenses without having to rely on credit, which has to be paid back later, with interest.

Medium term

- As your savings grow, you can pay for larger items that may seem out of your reach. You can go on a holiday, buy a new car or new furniture, without relying only on debt.
- You can even plan to save a deposit to buy your own home.
- A regular savings routine establishes a financial track record, which is important when you apply for a loan.

Long term

- Saving for the long-term means you will have more choices in the future, such as when you retire.
- Investing means putting your savings to work and the goal of investments is to grow over time and provide extra household income.
- Some long-term investments include superannuation, shares and managed funds. If you want to learn more about these topics, ask your credit union or building society for a copy of *"Golden Egg – a practical guide to wealth creation"*.

> **TIP:** Aim to have about 3 months take-home salary set aside for emergencies, unexpected expenses or in case of retrenchment. Once you've saved this amount, you can start saving for other things you want.

Setting savings goals

Clear and relevant goals are important to the success of any plan, and that's also the case for a savings plan. Setting goals is an important part of the budget process, because it will make the outcome of budgeting feel worthwhile.

Goals should be:

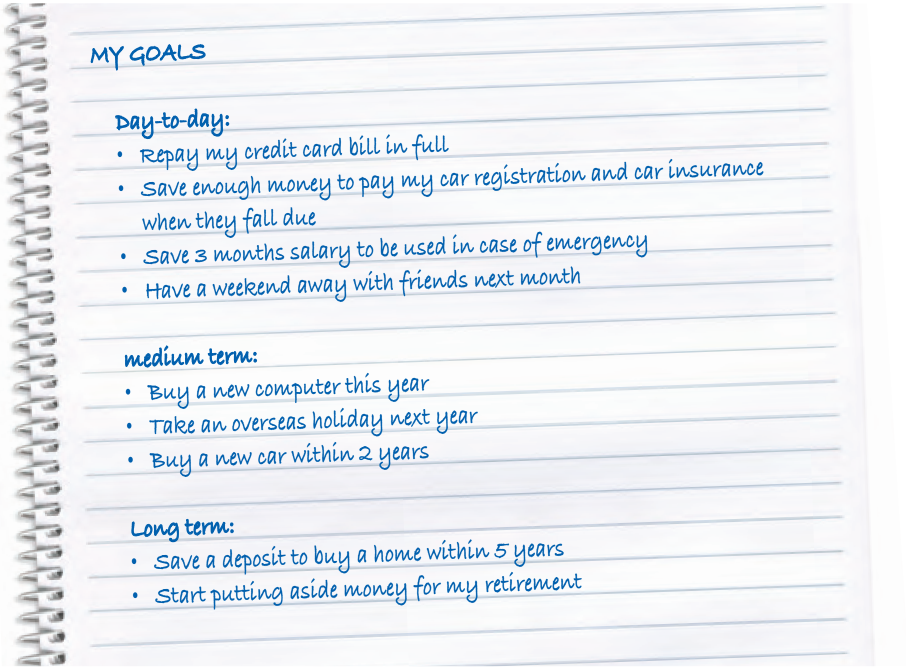
- **Important to you**
- **Realistic & achievable**
- **Simple & clear**
- **Worth your commitment**

Your savings goals will give you an idea of how much to save and help you to stay focused on the end result. Goals help you to monitor your progress and make sure you stay on track. This is particularly important with medium and long term goals, which are normally bigger and take longer to achieve.

Remember that your goals may change over time, as your life and circumstances change. Right now, you may be focused on an overseas holiday, but in a few years, saving a deposit for a home may be more important.

Goals are not set in concrete and can be revisited at any time. However, they do give you an incentive to stick to your budget and to keep saving.

Here are some examples of different kinds of goals:



TIP: Consider drawing up a list of your goals, including day-to-day, medium term and long term goals. Put up your list in a prominent place – it will give you daily motivation and remind you that your effort will be rewarded.

Start saving

You've set your goals, now you need to get started on your savings plan. Look at your goals and work out how much you need to save to achieve your goals.

How does this fit in with your budget? If your budget allows you to save enough to meet your goals, that's great. If not, you may need to revisit your budget and trim some of your spending, so that you can meet your goals.

The most important thing with savings is to ***get started***. It doesn't matter if you start small – it's more important to take control and get into the habit of saving. You can always increase the amount you save each pay period as you get better with your budget and find you can afford to save more.

One of the easiest ways to get started is to ask your credit union or building society to automatically transfer a certain amount into a savings account each pay-day. You won't have to remember to put the money aside and you won't be tempted to spend it if it's not easily accessible.

TIP: If you're new to saving, it's a good idea to start with a small goal – something that can be achieved within 3 months. Set aside 10% of your income each payday and after 3 months, use your savings to pay for your goal. When you've done it once, you can do it again and you'll be able to move on to larger goals.

Ways to help your savings grow

Once you've started saving, it's a good idea to know the different ways to help your savings grow. There are a number of different savings paths to choose, depending on your needs.

Transaction account

A transaction account is a good starting point because you can open one with as little as $1. It lets you take your money out when you want, but generally pays a low rate of interest. You may get extra benefits, such as lower fees or higher interest, if you keep your balance above a specified amount. This type of account might be suitable for day-to-day transactions and short-term savings.

Special purpose savings account

This is an account designed to meet a specific savings goal, such as a Christmas Club account. It offers special incentives, such as bonus interest payments, if you make regular deposits and no withdrawals.

E-savings account

This type of account can pay a higher rate of interest and often there is no fixed term – that means you don't have to leave your money in there for a minimum amount of time. The ways you can access your money are often restricted to Internet or phone banking, so features such as ATM access, in-branch transactions and cheque books are not normally available.

Cash management account

This is a savings account for larger and longer-term savings goals. You will be paid a high rate of interest and there is no fixed term. You will also have access to your money when you want it, using a number of different channels. However, a minimum deposit of $5,000 - $10,000 is normally required. You'll need to maintain a minimum balance at all times to be eligible for the higher interest rate, so you'll need to have existing savings in order to open one of these accounts.

Term deposit

The interest rates paid on term deposits are higher than other accounts, but you must lock your money away for a specified term, anywhere from 30 days to a few years, and you choose the term. You normally get a higher rate of interest the more money you put in the term deposit and the longer you leave it in there. This type of account is ideal for setting aside sizeable sums of cash for a period of time.

Compound interest

When you put your money into a savings account, interest is paid on your savings. By leaving the interest payment in your savings account, you'll earn bonus interest on the interest. This is called compound interest.

Compound interest gives your savings an extra boost with little effort on your part. All you have to do is resist the temptation to withdraw the interest payments from your savings account.

Superannuation

If you are working, your employer must make compulsory contributions to a superannuation fund on your behalf. You can make additional contributions to your superannuation, which will boost your savings further. You can't access savings in your superannuation account until you retire, so it is a long-term savings tool.

Other investments

There are many other investment options available, which can be used to grow your savings. Some examples include the share market, managed funds, property, bonds and debentures. The right investment path for you depends on your financial goals, how much money you have to invest, what sort of returns you want and how much risk you are willing to take.

TIP: There are also risks associated with investing, so if you are planning on going down this path, you should do your research and seek professional advice.

Most of these investments work best over the long-term, so they are not an effective place to park your money short-term.

Practical guidance

Your local credit union or building society can give you practical guidance on budgeting and saving. If you're having trouble managing your finances, they'll help you take control and prepare a budget and get back on track.

If you have a savings goal, credit unions and building societies can give you all the information you'll need to maximise your savings and achieve your goals. They offer a wide range of savings accounts and will have one to suit your needs.

If you plan on investing for the long-term, your credit union or building society can also help by putting you in touch with a registered financial planner.

Your credit union or building society also has a range of booklets that can help you to take control of other aspects of your financial situation. Drop in to your local branch and ask for a copy of the books that are relevant to you.

More information

The following websites also have more information on budgeting and saving.

www.abacus.org.au

www.understandingmoney.gov.au

www.fido.asic.gov.au

NOTE

This booklet has been written to assist Australians to improve their financial literacy. Information within the booklet is generic in nature, not intended as advice and was compiled without taking into account any individual circumstances of the reader. It is recommended that you consult with appropriately qualified professionals, such as accountants, solicitors and financial planners, before making major financial decisions.

While all published information has been checked and was correct at time of publication, you should not rely on the contents without first making your own inquiries, and/or obtaining professional advice tailored to your specific personal circumstances.

This material is made available on the understanding and condition that the publishers, editors and author of this publication are not responsible for the results of any action taken by any person as a consequence of anything contained in the publication.

Abacus
Australian Mutuals

 www.abacus.org.au

Abacus
Australian Mutuals

www.abacus.org.au