Saving in a World of spending

Budgeting allows you to create a spending plan for your money, ensuring you will have enough money for the things you need and the things that are important to you.
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Only 1/3 households prepare a budget.

Budgeting in its most simple form involves balancing your expenses with your income.

If they don't balance and you spend more than you make, you will have a problem!
Financial stress and money management

1/3 of households have less than $1,000 cash on hand to cope with emergencies.

54% of households are struggling to save.

44% of employees worry about finances while at work.

24% of workers are financially stressed.

2m households don’t pay off their credit cards each month.
How do average households spend their money\(^1\)?

60%

Essential Spending
\(~$900\text{p.w.}\)
(covering items such as housing, food, fuel and power, medical and health care, clothing, footwear and transport)

40%

Discretionary spending
\(~$600\text{p.w.}\)
(covering the rest)

What does your spending look like?

\(^1\) Estimates based on 2015 ABS Household Expenditure Survey
The Starting Point – a Spending Log

You can’t improve your financial situation tomorrow if you don’t know where your money is today.

That goes for where you’re spending your money too.

Understand how much you spend each month
# High-level Spending Log

Use ‘best guess’ to begin with

## Living Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Frequency</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage repayment (if you own your home)</td>
<td>$2500</td>
<td>Monthly</td>
<td>$30,000</td>
</tr>
<tr>
<td>Rental payment (if you are renting)</td>
<td>$0</td>
<td>Weekly</td>
<td>$0</td>
</tr>
<tr>
<td>Home - Rates (council, water etc)</td>
<td>$500</td>
<td>Quarterly</td>
<td>$2,000</td>
</tr>
<tr>
<td>Utilities (electricity, gas etc)</td>
<td>$300</td>
<td>Monthly</td>
<td>$3,600</td>
</tr>
<tr>
<td>Phones and Internet</td>
<td>$180</td>
<td>Monthly</td>
<td>$2,160</td>
</tr>
</tbody>
</table>
**Monthly Spending Log**

Get each member of the household to record their spending for each day of the month. Total to obtain household spending for each category. Keep any payment receipts in a folder for checking later.

<table>
<thead>
<tr>
<th>Category</th>
<th>DAY 1</th>
<th>DAY 2</th>
<th>DAY 3</th>
<th>DAY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food &amp; Shopping</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education / Child Care</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Care</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal insurance</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Commitments</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Begin Your Household Budget

Set priorities

- Examine spending and choose to eliminate or reduce that which is not an important spending priority - even small items each week make a big difference over the course of a year such as takeaway food
- Make a conscious effort to put aside money for the future
- Choose to eliminate credit card debt early
Plan Where Your Money Goes – 50%/30%/20% of your net income

**Essentials**
- 50%
  - Housing
  - Utilities
  - Groceries
  - Transportation

**Choices**
- 30%
  - Shopping
  - Eating Out
  - Personal Care
  - Everything Else

**Future**
- 20%
  - Emergency fund
  - Salary sacrifice
  - Pay down debt
  - Retirement fund
Budget for the Future

Create an Emergency Fund

Have at least ONE MONTH take home pay in your fund (separate ‘no-touch’ savings account)

Do this by allocating upfront 10% of net income each pay to create your emergency fund:

- Your fund will help to provide for unplanned or unexpected changes such as loss of income or emergency expense.
- As a guide, you should aim over time to have six months’ net income put aside, so continue to put 10% of net income aside each pay and lock it away for a rainy day.
Budget for the Future

Pay YOU first

Allocate upfront a minimum of 10% of net income each pay for your Future. This could be used to

- Pay down credit card / personal loan debt
- Boost your emergency fund
- Provide for your retirement

So save first, spend later

Net Income

1. Emergency Fund
2. Future Fund

Essentials

Choices
Budgeting for the Essentials

- Items such as housing, food, fuel and power, medical and health care, and transport
- As a guide will be around 50% of your net income
- Set aside a separate account for essentials and draw from that each week. Use a direct credit facility to deposit your pay directly into your account.
- Don’t tap into your credit card to pay essentials
- Schedule bills when they fall due and action on time
- You can take action to reduce the cost of essentials – your home loan interest rate, your utility provider, where you shop
Budget
Insurance as an Essential

- Insurance to help support a family due to unforeseen circumstances
- You or a family member may face illness, disability, accident, loss of life or property damage
- Life Insurance used to cover debts and provide for goals such as supporting your family
- Home & contents insurance
- Car insurance
- Include premiums in your Essentials budget
Budget for Big Ticket Expenses

- Are they an important **Goal** of the household
- **List** of all the big ticket items under consideration. Determine priority level. Are they a **Need** or a **Want** (schedule Needs first)
- Determine **when** you intend to make a big ticket purchase (private school fees now, washing machine replacement 5 years)
- List targeted purchase date /estimated costs of purchase
- Estimate **future monthly commitments** as a result of the purchase e.g. a bigger house may mean extra $1,000 month in mortgage payments.
- Budget for each of these items as part of your **Choices**
Budgeting means making choices.

Beyond the essentials, how you spend your money is almost always about personal choice and it largely determines your financial destiny.

So how do you make choices?

You start with your GOALS.
Why Set Goals?

You will be closer to financial success

Goals reflect the choices you make about your future

Give you direction in life

You take control of your life

You focus on the important things

You will make better decisions

You will make progress

You will be closer to financial success
## Identify Your Life Goals?

Financial Goal setting helps you achieve what you want from life.
Budgeting for your Choices

- Personal choices budget will be around 30% or less of net household income.
- Apart from big ticket items, this will cover items such as holidays, eating out, entertainment, non-essential shopping.
- If you have provided first for Emergency Fund, Future Fund, Essentials including insurance and Big Ticket Items, then you are free to spend the rest!
- Having a budget can be liberating.
Change your spending habits

- YOU will need to change your behaviours to make a change for your benefit (shop for value, plan ahead)
- Ask yourself first whether you are meeting your household goals before you spend (do you need the new car now?)
- Always pay yourself first – set aside funds in advance of spending
- Do non-essential shopping with a debit card linked to your Choices Account
- Have a separate account to save for big ticket items
- Discuss budgeting with your family – communicating is key
Focus on Improving Your Income

- Budgeting for spending is one side of the equation
- Take advantage of the options to grow your income and wealth such as –
  - Placing funds in interest earning accounts with reduced bank fees
  - Seek a tax adviser to assist you each year to improve net income
  - Talk to a financial adviser about income and wealth creation options
  - Look for areas to develop, second income, part-time work, overtime – these may be important areas initially to get on track
Write down your goals if you want results.

Goals are signposts on the highway to the future. They serve as your road map to personal, career and financial success.

By keeping specific goals in view, you can direct your energies toward achieving them.

So, write them down!
Set
SMART Financial Goals

Specific
State exactly what is to be done with the money involved
Set SMART Financial Goals

Measurable
Write the exact dollar amount the goal is for

Specific
Attainable
Realistic/Relevant
Timeline
Set SMART Financial Goals

01 Specific
02 Measurable
03 Attainable
04 Realistic/Relevant
05 Timeline

Attainable
Determine how it can be reached (often determined by a budget)
Set

SMART Financial Goals

Realistic/Relevant

My old car needs replacement and I am able to save $100 each week by not spending money on restaurants each week.
Set SMART Financial Goals

Timeline
Specifically state when the goal needs to be reached

01 Specific
02 Measurable
03 Attainable
04 Realistic/Relevant
05 Timeline
Example of a SMART financial goal results

GOAL
“I want to buy a new car”

SPECIFIC
“I will save the deposit for the new car”

MEASURABLE
“I plan to save $5,000 deposit for the new car”

ATTAINABLE
“I will save $100 each week towards the deposit of $5,000 for the new car”

REALISTIC/ RELEVANT
“My old car needs replacement and I am able to save $100 each week by not spending money on restaurants each week.”

TIMELINE
“Starting now, I will save $100 each week for the next year towards the deposit for the new car”
Financial Goal Will Change Over Time

- Life choices
- Major life events
- Values
- Lifecycle Needs
- Lifestyle Conditions
- Your plans
- Coping with the unplanned
Typical Financial Life Cycle

- **Stage 1**: Basic Wealth Protection
- **Stage 2**: Wealth Accumulation
- **Stage 3**: Wealth Distribution

Years of Age:
- Single
- Marriage
- Start and Raise Family
- Approaching Retirement Years
- Retirement Years

Financial Graph:
- Vertical Axis: $ (currency)
- Horizontal Axis: Years of Age
- Stages of the Financial Life Cycle are denoted with different colors and stages.
Stage 1

Building Financial Security

- Develop emergency savings
- Buy a car
- Purchase insurance
- Save for a home deposit
- Access to finance/mortgage
- Begin investing in retirement
Stage 2

Wealth Accumulation

Have reached peak earning years, is accumulating wealth and approaching retirement

GOALS

- Purchasing a home outright
- Investing to build wealth
- Planning for Retirement
Stage 3

Wealth Distribution

The consumption of wealth, usually during retirement.

**GOALS**

- Having predictable income
- Estate Planning
Tips for Goal Setting

- Have short, medium and long term goals written down and review them monthly or more often.
- Write down actions to achieve your goals.
- Keep re-evaluating your goals. Make sure they are helping you as priorities change.
- Share your goals with others in the household to create accountability and keep you motivated.
- Learn from any setbacks you might have and modify goals as needed.
My top 5 Goals
Financial Wellbeing workbook


- Podcasts
  - Can financial stress impact how we budget?
  - The psychology of spending vs. saving

- How to create a budget video

- Budget Calculator


- Register for module 2: *Creating wealth – investing inside & outside super*