AMP

Managing money

A guide to managing money

February 2022

We all have money coming in and going out, but if you're not on top of your finances you may not be clear exactly when, how much and on what you're spending. Without seeing your cash flow, it's hard to formulate a game plan. And without a budget you can end up operating in the dark, leading to financial stress.

When you start to track the money coming in and out of your bank accounts, you can better prioritise your expenses and potentially make your income work harder. Learning the basics of money management, setting clear goals and being disciplined can help you avoid costly errors and build your wealth.

What's cash flow?

Cash flow is simply a way of measuring how much money is coming into your account (income) and how much is going out (expenses).

It's also important to keep in mind what you own (assets) and what you owe (liabilities), as all four are connected to your financial position. Assets such as savings and property can help to create income, and liabilities such as debt and home loans can contribute to expenses.

If your expenses are more than your income, you'll have a negative cash flow. You can keep track of your cash flow with a budget.

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How to create a budget

If you've never tracked your spending or saving, then making a start can seem a bit daunting. But it only takes a few simple steps to create a budget and start your journey to better money management.

Step 1

Work out how much money you have coming in

Income can come from many sources:

– your pay
– interest on savings
– earnings from investments such as rent from an investment property or dividends from shares
– any government assistance you might receive.

Take the time to understand the money you have coming in, as it will help give you a more accurate view of your finances. You may want to itemise and record each source of income.

Step 2

Track your expenses

In today's fast-paced society we've become increasingly reliant on cashless payments. Tap and pay is easy, convenient and safe. But removing the physical act of exchanging notes and coins can make it all too easy to lose control over how much you're spending.

Seeing where your money is going can help you better understand your expenses. Get started by reviewing your bank and credit card statements, bills and receipts.

It can be helpful to divide your expenses into three categories. Fixed expenses stay the same every month, such as your rent. Variable expenses change, such as the amount you spend on food. One-off expenses might include paying for a celebration or a holiday.

Remember to also consider your less frequent expenses, such as your car registration, home insurance and property rates.

Step 3

Set up your budget

Create a view of your total income and expenses on a weekly, fortnightly, monthly or annual basis. Add your income and expenses, along with the frequency you earn or incur them to set up your budget.

You can use a spreadsheet, or take advantage of a tool like AMP's **Budget Planner Calculator** to save time. There are also many useful apps that can automatically create a personalised budget.

This will give you a clearer view of whether you're saving more than you're spending, or spending more than you're saving.

Tip

Tracking your expenses can be time consuming, particularly for smaller daily purchases like your morning coffee. So it could help to use an online tool like **AMP Money Manager** to gather data from financial institutions and categorise your transactions so you can see where your money's going.

Tony's story

Tony is saving for a car. After tracking his income and expenses with an app, he realises he could easily cut back his spending on takeaway food and nights out. Making those small changes leaves Tony with extra money in his pocket each month that he puts towards his savings goal.

This example is illustrative only and isn't an estimate of the investment returns you'll receive, or fees and costs you'll incur.

Step 4

Put your budget to work

Once you've created your budget, you might want to boost your savings to help you get ahead. Ultimately, you want to be spending less than you earn.

If the difference between what you're earning and what you're spending is uncomfortably small, use your budget to see where you can make a change. You might want to look for ways to cut back on your spending.

You may want to try and set realistic limits on your spending. If you make it too stringent, you may be less likely to stick to it. There might be small changes you can make, like cutting the amount you spend on UberEats or Deliveroo, or larger changes, like finding a cheaper place to live.

If you have extra money left over, you could consider ways to start investing it to work towards your financial goals, depending on your circumstances.

Step 5

Keep your budget up to date

To keep your budget relevant, it's a good idea to review it regularly. As life changes, so will your income, expenses, debts and financial goals.

So set yourself a reminder to review it from time to time—say every six months. It could also be a good idea to review your budget when your personal circumstances change—if you get a pay rise, buy a house, have a baby, or split from your partner.

Pay off your debt faster

Once you have a clear picture of your income and expenses, you can start prioritising how you want to spend your money. Often a good place to start is considering whether you might want to pay off some debt. But not all debt is the same. There's 'good debt' and 'bad debt' and it could be a good idea to get rid of the 'bad debt' first.

Understand 'good and bad' debt

'Good debt' helps you build wealth.
It can help you acquire an asset that will grow in value or generate a long-term income—if you borrow money to purchase your home, invest in a property or buy shares. Added to that, the interest you pay on the debt may be tax deductible.

'Bad debt' doesn't help you build wealth.
It's typically a loan used to pay for day-to-day expenses or something that decreases in value, such as a car. Examples of 'bad debt' include credit card debt, car loans and personal loans.

Consider consolidating your debts

One way to take control of your finances is considering whether you can combine your debts into one loan with one overall interest rate. You may have credit cards, store cards, a car loan and a personal loan with multiple interest rates, so you could decide to roll them all together into your home loan.

Not only can consolidating your debts help you potentially save on interest and fees, it can simplify your finances by reducing multiple repayments into one. But remember, to make this strategy work you generally should maintain the repayment levels you had before consolidating or your 'bad debt' could end up costing you more. That's because failing to maintain the same payment levels may mean you'll take longer to repay the loan, and end up paying more in interest. This might undo any benefits of consolidating, because the key is often to get the debt paid off as quickly as possible.

Automate your debts

You can set up your online banking so when you get paid, a set amount is automatically transferred to repay your debt.

You could also take this further and set up automatic transfers with a specific amount set aside for bills and savings based on your budget.

Here's an example. You set up a separate bank account for paying bills. You then automatically transfer a set amount to this account each month, and have your bills direct debited out of this account. Your system should work on 'auto-pilot' and help reduce the stress of day-to-day money management.

Increase your repayments

It's pretty obvious but paying off more of your outstanding loan can be an effective way to reduce 'bad' debt like credit card debt. Increasing the amount of your monthly repayments, even if it's only by a small margin, can help. Remember, every dollar counts.

If you have a more than one credit card and haven't consolidated your debt, paying off the credit card with the highest interest rate first can generally save you money in interest payments.

Janine's story

Janine recently returned from a month-long European holiday. After spending most of her savings, she now owes $3,000 on her credit card with an interest rate of 18%. Janine decides not to make any other purchases on the card until she pays off the existing debt. The minimum repayment in the first month is $61.00.

Scenario 1
Pay the minimum monthly repayment (2% of owed balance)

If Janine only makes the monthly minimum repayments, it will take her 25 years to pay off, and she'll pay $6,521 in interest.

Scenario 2
Increase the monthly repayment

If Janine increases her monthly repayments to $148, she will pay off the card in two years and pay $541 in interest.

See how much you could potentially save in interest by increasing your monthly credit card repayments with ASIC's Credit Card Calculator.

This case study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur. This case study is based on the following assumption – the minimum monthly repayments is 2% of the balance, which equates to $61 for the first month as it is calculated at the end of the month after interest added.

Pay off your home loan faster

A home loan's usually the largest personal debt most people take on in their life. And, while it could be considered 'good debt' because it's an investment, it's still something that will need to be paid off (and generally, the sooner, the better too). Here are some ways to pay off your loan faster.

Redraw facility

For some loans you can make extra repayments, and then later should you need to access the money, you may be able to redraw it.

Extra repayments

Most variable rate loans generally allow any amount of extra repayments at any time, whereas fixed rate loans either exclude or limit extra repayments.

Offset account

An offset account is an account linked to your home loan that operates like a transaction or savings account. It's usually only available on variable rate loans. The money you have in this account offsets against the amount you owe on the linked loan, and you'll only be charged interest on the difference. That means the lender charges you less interest, because you're only charged interest on the difference between the total loan balance and the amount in the offset account.

Become a smarter saver

Think about why you're saving and write it down. Whatever your goal, having it in black and white on a page can help keep you accountable. You're likely to have a better chance of success if you set realistic and achievable goals.

10 examples of financial goals

Setting SMART goals

S.M.A.R.T goals[1] can be a useful framework for setting achievable goals.

1. **Specific**
   Be specific about what you want to accomplish.
2. **Measurable**
   Know how you're going to measure whether you meet the goal.
3. **Achievable**
   Make sure your goal is attainable and realistic. If it's too hard, you may be discouraged.
4. **Relevant**
   Ask yourself whether the goal is relevant and does it fit into the bigger picture of what you're trying to achieve?
5. **Timely**
   Set a target date to reach your goal.

1 Queensland Government, (2019), Set SMART performance goals.

Fast track your savings

When it comes to saving, there are a number of ways to help you get ahead without necessarily making huge sacrifices to your lifestyle. Simple changes can go a long way.

- **Earn bonus interest**
  Some accounts offer bonus interest on top of the standard rate if you deposit your salary into the account every month.
- **Consider a term deposit**
  Lock your money away for a set period of time in return for a higher interest rate than some transactional accounts. This may be suitable for longer-term savings goals.
- **Take advantage of automation**
  If you're determined to save a certain amount of money each pay packet, consider using online banking to set up automatic transfers from your transactional account to your savings account. You can set the date for the transfer for a day or two after your salary is deposited. This is sometimes called 'paying yourself first'.
- **Redirect part of your pay**
  Ask your employer to transfer part of your pay directly into your savings account.
- **Review your providers**
  Whether it's your electricity bill, phone bill or home loan, make sure you're getting a good deal. Regularly review your providers and compare what you're getting. You can speak to your provider to see if they will offer you ways to save, as you might find you're better off switching.
- **Change your habits**
  Some of your daily habits could be costing you more than you think. Changes like getting your own coffee machine, cutting wastage and bringing your lunch to work instead of buying it every day can add up to a sizeable sum over time.
- **Sell what you don't need**
  Clear out your closets and the garage and sell what you don't need online, at local markets or a garage sale.
- **Don't feel pressured to keep up**
  It's easy to get caught trying to 'keep up with the Joneses' but you may be limiting your own savings success. Keep focused on your goal and resist the urge to spend unnecessarily.
- **Get your partner and family on board**
  Speak to your partner and family about your savings goals. By communicating and agreeing you may give yourself a better chance of reaching your savings goal.

Get started with investing

Once you've put some money aside, it's worth considering ways to put your savings to work. The earlier you start investing, the more time your investment has to ride the ups and downs of the market, giving your money the chance to potentially compound and grow.

How and where you invest will depend on a number of factors, including:

- your goals
- your personal circumstances
- how much risk you want to take on
- how much money you want to invest
- how involved you want to be in the day-to-day management of the investment
- how long you have to invest.

An online tool like the **AMP investment style calculator** can help you determine what level of risk you're comfortable with.

The next step is to start doing your research to find out what options suit your investment style and goals.

Some examples of the investment types include bonus-interest savings accounts, term deposits, managed funds, exchange traded funds (ETFs), shares and property.

The investment option you choose might differ depending on whether you have long-term or short-term goals and your needs and circumstances. For example, a separate savings account where your money is readily accessible might be useful for a short-term goal and a managed fund might be more suitable for a longer-term goal.

If you want to ease in to investing, you may like to explore micro-investing apps. These apps round up your spending and invest the spare change into shares and bonds on your behalf. Be sure to do your research to make sure the app and the provider offering it is reputable and take the time to understand the fees and risks involved to make sure it's suitable for your needs and goals.

Consider boosting your super

If your retirement is a long way off, it can be easy to forget about your super in the hope it will take care of itself. By the time you retire your super will likely be one of your biggest assets, so putting thought into making contributions today may help you achieve the lifestyle you want in retirement.

Taking small steps now to boost your super could make a big difference to your future. It all depends on how much you have already in super and what you'll likely need in retirement.

Here are a few ways to potentially boost your super:

1. Consolidate your super accounts

Having one super account means you have only one set of fees, potentially saving you money over many years. It can also simplify your finances by reducing your paperwork and making it easier to keep track of your money. Before you consolidate, be mindful that there can be fees involved. Also double check you don't lose out on insurance or benefits by rolling out of a particular fund.

2. Make before-tax super contributions

Making voluntary contributions from your pre-tax salary to your super (also known as salary sacrifice) can not only help you boost your super but can also reduce the amount of tax you pay. That's because salary sacrificed contributions are taxed at 15% when received by the fund, which may be lower than your personal marginal tax rate. These types of 'concessional' contributions are capped each financial year and typically you won't be able to access amounts you've contributed to super until you reach a certain age and retire. Here's more information about contribution caps.

3. Make after-tax super contributions

This simply refers to any personal payments you put into your super that you haven't claimed as a tax deduction. These 'non-concessional' contributions' can either be regular payments or a lump sum. Non-concessional contributions are capped each financial year.

4. Review your investment options

Check whether you're invested in appropriate options based on your age, goals, the economy and your level of risk tolerance. If you're unsure, contact your super fund or a financial adviser for guidance. It's worth finding out how your super is invested and reviewing your investment options regularly, to check whether the approach suits you and your goals.

Maxine's story

Maxine is 36 years old and earns $90,000 a year before tax and super. Her current super balance is $80,000 and is invested.

Maxine relies only on her employer's mandatory super contributions to grow her super. If she retires at 67 years old, her estimated super balance is $533,792.

Maxine decides she wants to boost her super to help enjoy a more comfortable retirement, which by ASFA's standard would be $545,000 for a single person.[1] She looks at her budget and decides she can afford to contribute more of her monthly salary to save for her future then speaks to her employer to make salary sacrifice contributions to her super. By sacrificing 5% of her salary monthly, Maxine's super balance will increase by an estimated $166,793 to $700,585 when she retires at 67 years old.

Use ASIC's superannuation calculator to see how extra contributions could impact your retirement.

This example is illustrative only and isn't an estimate of the investment returns you'll receive, or fees and costs you'll incur.

1 Association of Superannuation Funds of Australia, ASFA Retirement Standard, 2021, page 4. The projections above are calculated on ASIC's superannuation calculator using defaults for investment returns, tax and fees, as at 24 May 2021.

Women and money

Did you know the average super balance for women when they retire is around $70,000 less than the average for men?[1] Women are more likely to take a career break as they take time to care for children. They are also more likely to have lower paid or part-time work. It means women in particular need to pay extra attention and plan early to save enough for a comfortable retirement. Making voluntary contributions to your super early in your working life can potentially have a big impact on your lifestyle when you retire.

1 Superguru, 'Women in super'. The Association of Superannuation Funds of Australia, viewed 9th February 2022.

Five habits for good money management

1. Keep track of your money with a budget
2. Spend less than you earn
3. Pay off 'bad debt' first
4. Put your money to work
5. Plan for the future

We're here to help

Find out how we can help you to reach your goals.

Visit **amp.com.au/insights/manage-my-money.**
Or get in touch by calling **13 30 30** or by speaking to your financial adviser.

What you need to know

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