

Quick Facts...

Budgets

In today's tough economic climate, it is more important than ever to budget and establish a savings plan.

This is because budgeting is the best way for you to take control of your finances, save money and plan for the future.

Some times it was easy to get away with a more casual approach to financial planning: you could be sure of earning enough to pay your bills, even if this meant looking for some extra overtime or taking a second job for a while. But those times are rare and wasted if you do not take advantage of them.

A sound budget and a savings plan will help you achieve your immediate needs and long-term financial security.

Few individuals or families know just how they spend their money. They know that at the end of their pay period - weekly, fortnightly or monthly - it is all gone. A budget will change this. It is the direct and sensible approach to personal money management.

Basically, a budget is a financial plan that itemises an individual's or a family's spending and helps accomplish short-term and long-term goals.

Its main purpose is not to get you out of trouble - although it will help. Better still, it will keep you out of trouble in the first place.

By taking the time to sort out your finances and establishing a budget that is both sensible and workable, you will soon be on your way to achieving your goals.

In fact, a budget is really an essential part of everyday life. Without a budget it just is not possible to cope with those unexpected bills and to see at a glance, how you can most easily cut back you're spending.

The ultimate aim of budgeting is to ensure that you can:

- ✓ adequately meet all your financial commitments and
- ✓ have some money left over to save.

Set a savings goal that is within your reach and will not put a strain on your budget. Even if you begin by saving only a small amount each pay period, this will add up over a year to a respectable amount.

Everyone will have his or her own savings target. But, as a general rule, we suggest you aim to save 10 per

cent of your gross annual income: five per cent for short-term aims and five per cent for longer-term intentions. While this may not be practicable now, it is worth aiming to reach this goal in the future - and sooner rather than later.

People with young families should aim to build up an emergency fund equal to three months take-home pay in case of retrenchment or emergencies.

Remember:

- ⊖ Your savings will help you through those difficult times and emergencies;
- ⊖ Savings will free you from day-to-day money worries;
- ⊖ If you have money saved, you can use it in emergencies instead of credit cards (with their high interest charges);
- ⊖ By saving, you will establish a financial track record, which will be important when you apply for a loan for a major purpose (house, land or car);
- ⊖ Your longer-term savings will help you build up income-producing investments for a better, more secure lifestyle;
- ⊖ By saving and investing responsibly, you will contribute towards Australia's future by helping to create a national savings pool to fund our development and reduce our dependence on foreign capital;
- ⊖ A dollar saved is a dollar earned.

Deciding to budget does not mean that you have to cut out spending on discretionary items that are important to your lifestyle.

But you should be realistic about them and become a disciplined shopper (as well as a disciplined budgeter). This will help make your money work better for you. Here are just a few ideas on this important topic:

- ⊖ Consider buying lower priced "generics" or items of a similar nature to your regular purchases;
- ⊖ Switch to less expensive versions of goods or services.
- ⊖ Shop harder for the best possible deals on items you must have;
- ⊖ Avoid buying items that are of limited value to you or your family;
- ⊖ Become a comparison shopper: watch the advertisements and be aware that prices vary from day to day on a whole range of goods from furniture to food;
- ⊖ Watch for genuine sales and specials;

- ⊖ Deal with shops, which offer good service and will take goods back without argument if they are unsatisfactory.
- ⊖ Shop for seasonal specials and stock your freezer. But buy in bulk only when you know you can use everything you intend to buy - otherwise you will have to throw a lot of it out. Waste is costly.
- ⊖ Phase your purchasing of big items like furniture and major electrical goods over three to five years and buy only when you really need and can afford the items;
- ⊖ Think about buying good second-hand items - check-out auctions and garage sales;
- ⊖ If you are holding money in a special savings account, you can often use it to pay for an item - and get a discount for cash;
- ⊖ Buy Australian-made goods in preference to imports - buying Australian helps save jobs and reduces the nation's overseas payments and debt problems.

Try to be as realistic as possible. Do not make the budget so tight and demanding that it will be impossible to achieve your goals. Do not make it too generous - or you will destroy your incentive to budget and save. Be flexible - but disciplined.

Partners should budget together. But involve everyone in your household - tell them about your budget and savings goals and why it is so important to achieve them.

Do not be discouraged if you cannot get your budget to work - try again. Once you have set up a workable budget, you will find that budgeting becomes a habit.

Today is the best day to begin budgeting.

There are two main items to consider: your INCOME and your EXPENDITURE.

In the section headed INCOME, list all your incoming money (after tax).

Expenditure:

When you begin compiling your expenditure, it will be helpful if you have by you all the receipts from last year's bills that you can find.

If you do not have these, keep a detailed list of your spending over the next few months. If you see some items that you can cut back on, note them for future attention.

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If you look after your possessions, they will last longer. Money spent on maintenance to extend life of a costly item can be money saved.

Learn to be a good supermarket shopper. Make up a shopping list - and stick to it. Avoid impulse buying. Once in a while it is OK to buy something you do not really need. But if you let impulse shopping get out of hand it will overload your trolley and destroy your budget.

When you have completed your Budget, add up all your income and expenditure and subtract the expenditure total from the income total. What is left over is your spare money for the year.

As this is a yearly figure, you will need to divide this by 52 to bring it down to a weekly figure, by 26 to make it fortnightly or by 12 to make it monthly. This money is yours to spend or to save; we suggest you save it each pay period.

You may find that you have a shortfall - in fact that you are spending more than you earn.

If this is the case, you will need to go back and reassess your expenditure or, look for ways to increase your income. You may have made a mistake with your calculations. Or you may need to cut down on some area of your spending: entertainment, gifts, clothing, and luxury items.

It is better for you (or your family) to make these decisions, rather than have them taken out of your hands.

This will enable you to see at a glance the payouts you will have to make each month to the nearest dollar. This means you can calculate the minimum amount you need to have available to meet your bills.

Some months you will be more heavily committed to repayments than in other times of the year. Be sure you are adequately covered so you will not be short of money.

You should consider adding a safety margin of 10 per cent to your monthly expenditure to cover inflation and emergencies.

There is a budget tool available is on <http://www.fido.gov.au/fido/fido.nsf/byheadline/FIDO%27s+Budget+Planner?openDocument>