

Budget and Saving

Saving is all about putting money aside to utilise in the future. It is important to be realistic about what you can afford to save and what you can cut back on.

It is unwise to set up such a strict regime that you are left with no pleasures in life. If you are too harsh on yourself, it is unlikely you will continue to save.

A good rule of thumb is to try to save 10% of your net income, but if that is not viable based on your current circumstances, attempting to save something is better than nothing. A good way to save is if you set yourself a goal, which creates an incentive by having something to aim towards. You may wish to start with a small goal, like a holiday. If you succeed, then aim for something bigger such as a car or house.

Where to start

Simple changes to your lifestyle can make a small difference to how much extra money you will have at the end of a week. Some ideas include:

- Making your lunch each day before work. People can spend up to \$10 per day on lunch (which is an incredible \$50 per week).
- Share the cost of petrol by car pooling with work colleagues. Perhaps work out a roster that changes each week so you can share the wear and tear on all your vehicles.
- Cut down on takeaway foods and buy fresh food rather than pre-prepared foods, which are often more costly and less nutritional.
- Instead of purchasing 'brand names', look at some no name brands as an alternative. Often they are cheaper but are not an inferior product.

- When you do your grocery shopping, it is wise to not shop when you are hungry as you tend to purchase things that you would not usually buy. Also restrict your shopping to a weekly rather than daily visit as once again, you may be tempted to buy other products.
- Stop smoking. The cost of cigarettes could be \$8 per day or more which totals \$56 per week (or nearly \$3,000 a year). Not only will this improve your health, you will also save money and be eligible for a lower health insurance premium as you will be treated as a non-smoker.
- Rather than purchasing newspapers and magazines from a newsagent, subscribe to them as they are usually cheaper and you can get them home delivered.
- In addition, don't always buy books brand new. Consider borrowing them from a library or buying them second hand.

There are other savings you can make that will not alter your lifestyle, but will help to save you money. Things to consider include:

- Are you receiving the best possible deal on your car, health, home and contents insurance? Look at your alternatives when each of these become payable to see if you can get a lower premium.
- There may be alternatives to your mobile phone and internet service provider that are better suited to your needs.
- If you have a mortgage, is it still suited to your needs and is it still competitive compared to others on the market? You may be paying a higher interest rate for features that you do not require and it may be wise to re-finance your loan to another provider.
- Consider whether your bank account is appropriate for your needs. What are the bank charges you are paying and do you qualify for a waiver of any fees?
- What is the interest rate like on your credit card and what are the interest free days? There may be something more suitable available on the market than what you are currently using.



How can your savings best work for you?

Once you have worked out how much you can save, you need to work out where you are going to put these savings. You may even wish to arrange an amount to be deducted straight from your wage and paid into a savings account. This way you are less likely to notice that it has been taken out and are not tempted to spend it prior to depositing it into a bank account. Also, if you get a pay rise, why not elect to put these funds directly into a bank account. They will not be missed because you never had them in the first place.

Compound interest

The driving force behind successful savings is compound interest. That is, earning interest upon interest.

Let's say you invested \$1,000 at 10% per year. At the end of the first year, you would receive interest of \$100. If you reinvest this interest, at the end of the second year you would earn interest on \$1,100 being \$110. Your total value would now be \$1,210. Therefore, each year you are earning interest on your original capital and your accumulated returns. The longer you hold the investment, the greater the impact on your balance.

Where should I save my money?

There are so many different options available to you that the list seems endless. However, you need to establish what type of product you want and what is important to you. This may be low fees, high interest, good service or ready access to your funds.

For instance, if you had \$5,000 in a regular bank account, it could be earning as little as \$50 per year in interest (that is 1% pa). However, if this money was invested in a cash management account with an interest rate of 5% pa, the annual interest would be \$250. It is a lot quicker to save when your investment is attracting higher returns due to the effects of compound interest. It is also important to consider the frequency of the interest paid on your savings. Generally, the more often it is paid the better it is, once again due to the effects of compound interest. However, be sure that you are still getting the best interest rate. Often, the rate may be less than if you settle for interest being paid less frequently. For example, an interest rate of 4.95% pa paid quarterly is better than 5.0% paid annually due to compounding.

Types of Accounts

Basic bank account – This type of account generally has no bank fees if you do not exceed the withdrawal guidelines. This account usually has no cheque facility and pays little or no interest.

Transaction account – This account type allows you to use a cheque book, so it is useful for day to day banking. These accounts, however, can have servicing fees for exceeding the number of free withdrawals per month. Sometimes these fees can be waived for pensioners, students or those with a mortgage with the bank.

Savings account – This account aims to encourage savings and as a result, may offer extra features, such as a bonus interest rate if you make no withdrawals, or simply a higher rate of interest than a regular transaction account. The interest rate may also be tiered, increasing as the money in the account escalates.

Cash management account – This kind of account offers many features, however comes at a premium of higher fees. The advantage of these accounts is that they tend to pay higher interest rates, generally being a flat set rate of interest based on the deposit amount.

Cash management trust – This is a pooled investment where your funds are put together with others to invest in a variety of short-term money securities. It is necessary to apply for a prospectus if you want to put money in a cash management trust and there usually is a minimum amount required to open an account. They generally offer cheque book facilities and have a minimum withdrawal limit with penalties for smaller amounts. The interest on a cash management trust is calculated on a daily basis.

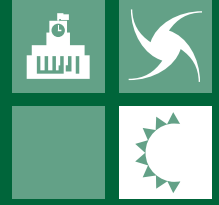
Alternatives to banks

Credit unions and building society costs tend to be lower than those of banks, often with a higher number of free transactions and they are usually more community oriented. Some independent mortgage providers, in order to compete and be more customer-focused, are also offering more financial products than just home loans. Therefore it is important to do some research and to shop around to ensure you are satisfied with your investment.

How can I save on bank fees?

As can be seen by the previous examples of different accounts, most have some sort of fee attached. However, there are ways to minimise the costs you may incur:

1. Reduce your withdrawal fees by limiting the number of withdrawals you make on your account. Don't draw out small amounts every day, but rather try withdrawing a larger amount once a week. If you pay for goods via EFTPOS, ask the retailer if you can also withdraw extra cash as part of the same transaction.



2. Set up direct debits to pay for your bills. This is a convenient way to organise your finances and save on cheque fees as they are treated as electronic withdrawals.
3. Combine your separate savings and transaction accounts into one as this will save on fees and charges.
4. Banking over the internet generally attracts lower and often no charges or fees.

Other options for saving

Whilst depositing excess cash into a bank account or a cash management account is highly recommended, there are also other options for investing surplus cash. These include:

Superannuation is one of the Government's preferred means of encouraging retirement savings and receives valuable tax advantages over other forms of investments including:

- contributions made to superannuation may attract a tax deduction or tax rebate;
- earnings are subject to tax at a maximum rate of 15%; and
- further concessions may be available when used to commence an income stream at retirement.

The important considerations with superannuation are the preservation rules attached to the contributions and earnings. From 1 July 1999, any contributions and growth of superannuation must remain preserved until a condition of release has been satisfied. Preservation age on retirement is 55 years (if the individual was born prior to 1 July 1960), increasing to age 60 (if the individual was born after 30 June 1964).

Contributions can usually be made into superannuation either as pre-tax payments (via salary sacrifice contributions) or after-tax contributions (either as a lump sum undeducted contribution, regular payments or spouse contributions).

Important Notice

The information contained in this fact sheet is of a general nature only. It does not take into account a client's particular investment objectives, financial situation or needs. Before making an investment decision, you should seek professional advice. Chifley Financial Services Limited accepts no responsibility for any loss, cost or expense arising from use of the information in this fact sheet. Chifley Financial Services Limited (ABN 75 053 704 706) is an Australian Financial Services Licensee (AFSL 231148). The information in this fact sheet is current as at July 1 2005.

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