

THE IRISH 30

Financial Wellbeing Part 1

Budgeting, Saving and buying a home

Monday 1st February at 7pm

Budgeting and money management

Understanding your personal income & expenses

Generally, our income is usually easier to plan than our expenses; unless you earn commission, bonuses or you work casually.

Expenses can be trickier as they can come in weekly, fortnightly, monthly, quarterly & even annually.

Ideally, analyse your expenses and set aside **an amount** each Week/FN/Month usually in line with your pay period so that you have the money ready when the bill comes in.

Break expenses up into:

Fixed expenses – rent/mortgage/utilities/rates

Debts – car/personal/credit card

Unexpected – home/car repairs/ health/trip home

Some handy websites for saving and comparing rates:

energymadeeasy.gov.au

greenslips.nsw.gov.au

moneysmart.gov.au

asic.gov.au

ratecity.com.au

canstar.com.au

Track your income

Look at your payslips, understand your Gross & Net pay. Check your superannuation, sick/annual leave entitlements are being recorded.

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Track your spending

Understand your situation; consider using a budget planner (<https://moneysmart.gov.au/budgeting/budget-planner>) to track &/or credit/debit card so all your transactions are listed. This becomes more difficult if you use cash and don't keep receipts or a diary of spending.

Keep any tax deductible expense receipts so you can claim on your tax return.

Pay Slip

A.B.N. 87 124 365 920

Cheque No: eft

Payment Date: 14/12/2017

Pay Period From: 1/12/2017 To: 31/12/2017



GROSS PAY: \$5,416.67

NET PAY: \$4,246.67

DESCRIPTION	HOURS	CALC. RATE	AMOUNT	YTD	TYPE
Holiday Pay	22.5	\$33.33	\$750.00	\$3,873.08	Wages
Sick Pay				\$473.08	Wages
Base Salary			\$4,666.67	\$26,403.84	Wages
PAYG Withholding			-\$1,170.00	-\$6,408.00	Tax
Holiday Leave Accrual	12.5			43.75	Entitlements
Superannuation			\$514.58	\$2,921.25	Superannuation Expenses

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Manage your debt

Pay off debts monthly – credit cards, personal loans, **highest interest rates first.**

Consider 0% balance transfer if you have the discipline to overpay each month & have a large balance that will take longer to clear. Try not to build up your balance again.

Don't forget to repay bad debt not good debt – bad debt is personal debt, good debt is **investment debt** and tax deductible.

Budget planner

This calculator helps you work out:

- where your money is going
- customise item names
- save your results

Budget planner

View : [Annually](#)

Income	\$	Frequency	\$0
Your take-home pay		Weekly	\$0
Your partner's take-home pay		Weekly	\$0
Bonuses / overtime		Annually	\$0
Income from savings and investments		Monthly	\$0
Centrelink benefits		Fortnightly	\$0
Family benefit payments		Fortnightly	\$0
Child support received		Monthly	\$0
Other		Monthly	\$0
Home & utilities	\$	Frequency	\$0
Mortgage & rent		Monthly	\$0
Body corporate fees		Quarterly	\$0
Council rates		Quarterly	\$0
Furniture & appliances		Annually	\$0
Renovations & maintenance		Annually	\$0
Electricity		Quarterly	\$0
Gas		Quarterly	\$0
Water		Quarterly	\$0
Internet		Monthly	\$0
Pay TV		Monthly	\$0
Home phone		Monthly	\$0
Mobile		Monthly	\$0
Other		Fortnightly	\$0
Insurance & financial	\$	Frequency	\$0
Car insurance		Monthly	\$0

Use the Moneysmart Budget Planner to help break down your expenses and understand where your money goes.

Are there areas you can make some savings, were you aware you spent so much on certain items!

Once you understand your income & expenses you can work on saving for your short/medium & long term objectives.

Saving and Goal Setting

Save

Build up an Emergency fund – use a savings account or offset/redraw accounts.

Commit to save/repay a regular amount & stick to it!

Review any existing policy benefits/ premiums & shop around eg Breakdown cover/Car/Health/Home.
Read the Product Disclosure Statement which explains all of the features & fees in detail.

Types of Savings accounts

High interest rate – generally looking for regular deposits into the account or limiting withdrawals;
current highest rate 3% (ages 18-29 only)

Bonus Introductory interest rate – offers a sign up bonus for a few months; current highest rate 1.45%
for 4 months

Term deposit – money is locked away for a minimum 1 month to a few years.
Penalties are applied if accessed earlier.
Current Highest rate 10k @0.3% for 1 month or 1.2% for 3 yrs

Remember – Interest is taxable & is likely to be added to your tax return. If unsure ask your accountant.

Financial Goal Setting

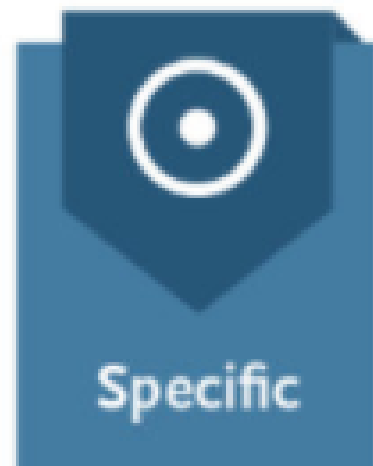
Divide your goals into

Short Term: 0-2 years

Medium Term: 3-5 years

Long Term: 5 years +

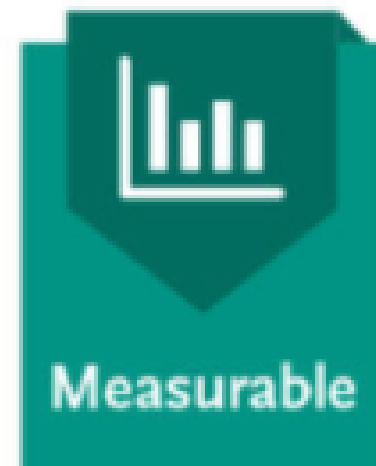
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Specific

What do you want! Just saving is not a goal, you need to save for something – eg to feel more financially secure in case of an emergency is a goal.

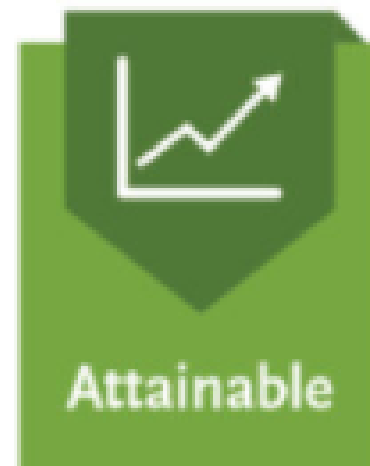
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Measurable

Tracking progress
How much is enough?

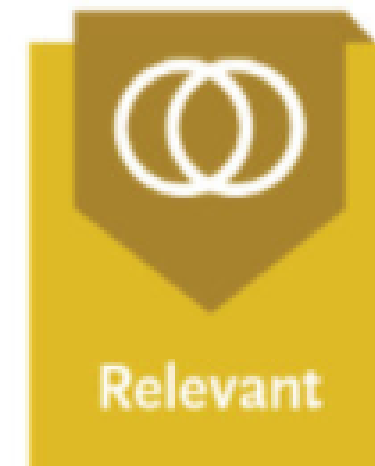
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Attainable

If the goal too ambitious, will you be able to still enjoy life whilst you work towards it or will it drain your motivation as you progress.

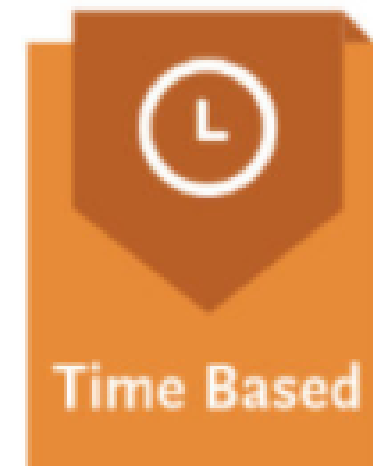
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Relevant

It has to be relevant to you.

T



Time Based

Setting a timeframe is important as it keeps you focused & helps with tracking progress.

Compartmentalise savings goals

Case Study – Objectives & Timeframes

1. Car in 24mths - \$5,200 required + trade in
2. Annual Expenses; Insurance/Rego/Elec/Gas/Rates - \$6,000 coming out at different times throughout the year
3. Holiday - \$4,000 in 12mths
4. School education costs - \$1,800 over 12 months

Eg have 4 separate accounts

1. Car Account - \$50pw/\$100 pf / \$217pm
2. Expenses Account- \$115pw/ \$231pf / \$500pm
3. Holiday Account - \$77pw/\$154pf/\$333pm
4. Education Account - \$35pw/\$69pf/\$150pm

Totals

Save \$277pw/\$554pf/\$1200pm = \$14,400 pa

Allow to build up pay period & ideally do not touch. Can also be used for emergencies if required.

Consider a high interest regular savings account if you don't have a mortgage!

Credit Rating

Important if you require any credit for a home loan, car loan potentially even a credit card!

Determined by a credit reporting agency eg Equifax & Experian who hold a file with your personal credit-related information.

You can get a copy free at various online credit score providers & opt out of their marketing afterwards.

Score is generally 0 – 1200 & is calculated by;

- Amount borrowed
- Number of credit applications made
- If repayments are made on time

Some lenders look negatively on a home loan application if they see online gambling or payments made to TAB from client accounts incl credit cards & it may reduce your credit score.

The higher your score, the less risky you are and the lender will consider you as an applicant.

You are more likely to get a better rate & in some cases a larger loan size.

Lower score affects ability to get a loan and sometimes even a credit card.

It is possible to be declined due to a low score because you have not lived in the country long enough or worked in your job long enough so you don't have a track record. Having a credit card & never using it can be a good idea to build up your credit score. If you use it try to clear it every month. Even non payment of a mobile phone bill can affect your credit score!

Home ownership



First Time Buyers Deposits (FTBs)

If possible it is generally best to have as big a deposit as possible. Eg the best rates are usually given at 20% + Remember there are costs to be paid at purchase (Stamp Duty, legal fees, moving costs) however there are a number of schemes & strategies available to FTBs.

Lenders Mortgage Insurance - (LMI) Protects the bank not the borrower. It is possible to have a smaller deposit approx 10% however the buyer will be charged Lenders Mortgage Insurance (LMI) which can be added to the loan. Max loan is usually 95% of the purchase price including LMI. Sometimes it is useful to pay the LMI if you find the property market is rising quickly as it can be harder to save the extra deposit required. Example - \$1,000,000 expect prices to rise by 10% = \$1,100,000; 20% deposit rises from 200k to 220k so buyer needs to find another 20k if they want to be at 80% Loan to Value (LTV).

Genuine Savings

Lenders like to see 5% genuine savings & may go back 6 months in statements to see how money was saved up to ensure it is not a gift from a family or friend. Gifts are acceptable if genuine savings are in bank account however a Stat Dec is likely to be required to ensure the gift is not repayable.

Guarantors

Useful if there is no deposit or minimal deposit saved however buyer will need to be able to fund any costs when payable. The guarantor will need to have sufficient equity in their own property to be allowed as a guarantor. Guarantor needs to reside and have property in Australia. Effectively allows the borrower to buy for 100% of the purchase price without LMI subject to income assessment on total loan amount. It is a limited guarantee of the deposit only eg 20% but it is secured on their property not the FTB's property. Legal advice is strongly recommended.

Stamp Duty Exemption

Applies to new & existing homes and vacant land where a new home will be built. Stamp Duty is dependent on the price of property, in NSW there is an exemption on Stamp Duty for existing properties purchased up to \$650,000 so no duty is payable. A concessional rate applies between \$650,000 to \$800,000. For new builds property valued less than \$800,000 the full exemption applies & between \$800,000 to \$1,000,000 a concessional rate applies. To be eligible the buyer must not have been on the title of any property in Australia - having a property in Ireland does not matter! **Side issue - credit status history in Ireland does not matter in Australia.**

First Home Owners Grant

\$10,000 towards the purchase price available if a new home is bought or built & no-one has lived in the property before. Purchase price up to \$750,000. Apply via lender, Check eligibility at NSW Revenue.

First Home Super Saver Scheme

Allows buyer to save via their super for their first home. Can pay up to 15k pa into super as a voluntary contribution & then withdraw to buy the home. Max savings is 30k First Home Loan Deposit Scheme
Eligible first home buyers with small deposits - *5% of purchase price* save 10k in LMI

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Servicing and Debt to Income ratio

Lender will assess affordability on every case under responsible lending rules. **Basic salary multiples are not used in Australia.** They assess current income and subtract outgoings and potential mortgage repayments plus they are likely to use a higher interest rate to stress test the application. Eg \$1,000 credit limit on your credit card can reduce your home loan borrowing by \$5,000. Repayment term - usually 30 years unless requested otherwise. Redraw & Offset accounts can help reduce the term and interest payable over the term. Repayment basis; Interest Only (IO) vs Principle & Interest (P&I) Lender will expect the borrower to have a P&I home loan so that the loan is reducing over time. Over 50's may need an exit strategy if they are borrowing past retirement.

Home loan review – interest rates are at an all-time low in Australia. Find out what your interest rate is & compare to other products with your existing lender or the wider market. If you are paying over 3% you are likely to be paying too much – speak to your home loan provider or a mortgage broker.

Consider a Redraw or Offset account if you have a mortgage. Need to check with lender that it is available & there may be annual fees to consider before opening:

Redraw

This allows the borrower to overpay their home loan and take back any overpayments.

- Borrower saves at the mortgage interest rate & reduces interest payable to the lender.
- Overpayment seen as a credit on the account.
- Tax free interest savings but savings are in reduction of interest payable on the home loan not in interest paid to the saver!
- Beware of minimum & maximum withdrawal amounts and frequency allowed.
- Useful if one savings facility is needed.

Offset Account

Just like a savings account. Money sits in a separate account & reduces the interest payable on the home loan at the same rate being charged.

- Money can be moved in/out and it is possible to save as much as the home loan reducing the interest payable to zero.
- Capital repayments will still happen.
- Tax free interest savings but savings are in reduction of interest payable on the home loan not in interest paid to the saver!
- Some lenders offer unlimited offset accounts so ideal for saving strategy above
- Useful for those saving for an anticipated tax bill

Generally lender rates are higher than savings rates so the consumer is generally in a better position by using a redraw/offset facility to a savings account.

Other Considerations

Generally If money is needed within 2 yrs – most likely best to leave in cash. The risks can be too high investing.
3 yrs + then an investment into a multi asset portfolio may be worth looking at but is dependent on the consumer and how they view investment risk.

Investment is broken into different portions of
Shares; Property; Cash & Fixed Interest ideally invested in & outside of Australia.

Seek out professional advice if unsure, use:

*asic.gov.au & search for financial advisers register, check companies you should not deal with

*fpa.com.au – find a planner

*Adviser ratings – find a planner

ANY QUESTIONS??