



your **money** your **future**

FINANCIAL PLANNING NEWSLETTER

financial **snapshot**

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6 ways to reduce your credit card debt once and for all

Here are some tips to start paying off your debt

\$45 billion. That's how much Australians owe on their credit cards.ⁱ

Now, perhaps that's no drama if we're not paying too much to access credit and we're managing to avoid interest charges by paying back what we owe on time.

But we paid a collective \$1.5 billion in fees in 2016-17.ⁱ And we're taking out new credit cards at an increasing rate. Two in five Australians are juggling more than one credit cardⁱ and 300,000 new credit cards accounts were opened over the five years to 2017, bringing the total number of cards in Australia to a staggering 14 millionⁱⁱ.



6 ways to reduce your credit card debt once and for all continued

So given all this it's not surprising that almost one in five of us are struggling with credit card debt.ⁱⁱⁱ

Getting to grips with your existing debt...

If you've realised you might have a problem with your credit card debt, it's time to take back control. Sit down, take a deep breath and work out a step-by-step plan.

- Stop all but essential spending on your credit card. Try and get by without your credit card and use cash wherever possible while you work on your plan. You could even set yourself a challenge not to spend any money for a week!
- It sounds basic, but start by listing **how many cards you have** and what you're paying for them in interest.
- If you have more than one card, start chipping away at the low-hanging fruit. Consider **paying the card with the highest interest rate** off first or if the rates are similar, work on clearing the smallest debt.
- If you can't pay a card off in full, see if you can **pay more than the minimum** each month to reduce your balance more quickly and save on interest. It could be worth setting up a direct debit on your payday to pay a fixed amount.
- Once you've paid off a card, **close the account** and work towards having a single card to help make your finances easier to manage.
- If you feel that your interest rate is too high, you could consider transferring any remaining balance to a **card with**

a lower interest rate or rolling the debt into an existing personal loan or mortgage, these tend to have lower interest and fees. Many providers offer great rates to consolidate, but make sure you pay the card off during any honeymoon period with the new provider so that you don't start accruing interest. Check the fine print—what interest rate will you pay after any promotional period ends? You don't want to just kick the can down the road.

- If all else fails, don't be afraid **to ask for help** from your credit provider. There may be a way you can work out a spending plan that takes into account your financial circumstances.

...make sure you don't build up more credit card debt...

Congratulations. You've consolidated your debt, set up a direct debit, closed a few cards and set yourself well on the way to pay off any remaining debt.

But how do you make sure you don't fall into the same credit trap again? It's all about developing more healthy financial habits.

- **Reduce your credit card limit** to take temptation off the table.
- **Try not to use credit to pay for the basics** like food, groceries and utility bills. See if there are any ways you could adjust your household budget or make savings elsewhere so you're only using credit as a last resort.

- **Avoid cash advances** because they may attract higher interest rates.
- **Be wary of store cards** and any fees you'll pay – they are just another form of credit card.
- **Keep track of your spending.**

...and take advantage of credit card reforms

The good news is that the Government is introducing reforms on 1 January 2019 to help Australians manage their credit card debt.

- You can cancel your card or lower your limit online for all new accounts.
- You won't be charged any back-dated interest.
- And you'll be assessed on your capacity to repay your debt when you ask for an increase.^{iv}

Once the credit card's sorted, it could be time to move on to any other debts you might have. Come and speak to us about taking control of your overall debt.

i Australian Securities & Investments Commission, REP 580 Credit card lending in Australia, July 2018, The credit card market in Australia, section 81, pg. 17

ii Australian Securities & Investments Commission, REP 580 Credit card lending in Australia, July 2018, Snapshot of the market, 2012-17, section 92, pg. 20

iii Australian Securities & Investments Commission, REP 580 Credit card lending in Australia, July 2018, section 99, pg. 24

iv National Consumer Credit Protection Amendment (Credit Cards) Regulations 2018, Schedule 1 – Amendments

6 steps to get your money stuff together

If you're like three out of four Australians, you may have started the year without a proper budget.ⁱ

Research indicates that over a third of us believe budgeting is too much effort and almost one in five Aussies say budgeting takes too much time.ⁱ

Here are some easy wins to keep you on the right track for 2019

1. Work out your goals

If you don't know what you're trying to achieve, you'll never get anywhere. And different goals need different strategies... saving for a new car is very different from building up your retirement income.

Take a few minutes to write down your goals for this year and beyond.

If your goal is to pay for this year's big trip, you'll need to start making some savings to free up some cash.

If your goal is to finance your upcoming wedding, you'll need to think about putting some money away in a fairly low-risk investment option.

If your goal is to buy a house, you'll need to work out where you can afford to live and how you're going to build up a deposit.

And if your goal is to put your kids through school, you'll need to start thinking about a long-term investment plan.

2. Go paperless

You might be the kind of person who enjoys paperwork. But for many of us the age of electronic commerce has been a game changer. Unless you want to, there's no reason to be receiving any bills or statements by snail mail.

You don't have to sort it all out today. Just make a point of every time a bill comes in, follow the simple instructions to go paperless—most suppliers offer an electronic option these days. In a few months the postie will only be stopping at your door with exciting purchases from Amazon.

3. Start a budget

We're all different. Some of us work best off a screen, some of us prefer old fashioned pen and paper.

If an Excel spreadsheet sounds too hard, there are a number of apps that can take the hard work out of paying, saving and spending.

4. Shop around for better deals

You wouldn't willingly pay more for an item of clothing when the store down the road is selling it for less. So when it comes to your home loan, your utility bills or your credit card why shouldn't the same rule apply?

Talk to your providers about whether you're getting the best deal for your particular circumstances. And if not, be prepared to take your business elsewhere.

5. Make a will

It doesn't matter what stage of life you're at, you don't want complications for your loved ones in the event anything happens to you. If your needs are fairly simple, you might want to consider setting up a will online. If your needs are a bit more complicated, your financial adviser, a solicitor or a public trustee can help.

And remember, if you experience major life changes like embarking on a new relationship, starting a family or splitting up with your partner, you need to make sure that your will is up-to-date.

6. Get your tax sorted

If you're the kind of person who's already got their receipts filed in date and alphabetical order, you can skip this bit.

But if you're like many of us, you tend to approach tax time with trepidation. Your receipts are all over the place, you've forgotten the work HR password to retrieve your payslip and you still haven't got around to looking into the Medicare levy surcharge.

It's time to get back to basics. Don't worry about how disorganised you've been in the past, focus instead on getting your affairs in order for the future. Create a simple spreadsheet for your tax receipts to make your next tax return much easier.

You'll be surprised at what difference a few really basic steps can make to your personal finances. A phone call here, an online form there...and before you know it, you'll be well on the way to getting your money stuff together this year and beyond.

If you need help getting your money stuff together, give us a call.

ⁱ <https://corporate.amp.com.au/newsroom/2018/january/new-year--new-financial-resolutions->
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What are the 3 biggest living expenses for households?

We check out the three largest contributors to household spending in Australia and where people would source additional cash if living expenses rose.

If you worked a full-time job in Australia in 1975, the average amount you would've earned a year was about \$7,600, whereas today, that figure would be closer to \$72,000ⁱ, according to research by McCrindle.

That's welcome news, but while we're earning more than what we did in 1975, things are also costing us more. A loaf of bread is 10 times the price, a litre of milk is three times the price, a newspaper is 20 times the price, not to mention petrol has doubled, with house prices in some capital cities up thirtyfold.ⁱ

We check out the largest contributors to household spending today and where people say they would source additional money if day-to-day expenses increased further.

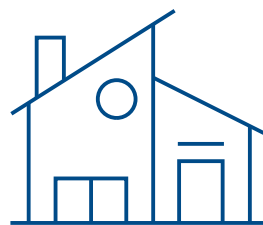
Housing, food and transport

The three largest contributors to household spending in Australia have been the same for many years, according to the Australian Bureau of Statistics (ABS).

Three largest contributors to household spending in Australia

Housing is now the largest contributor at

20%



Source: Australian Bureau of Statistics – Households spending more on the basics

Followed by food

17%



And transport costs

15%



ABS figures reveal three-and-a-half decades ago the largest contributors to household spending were food (20%), transport (16%) and housing (13%), with housing now at the top of that list (20%), followed by food (17%) and transport (15%) respectively.ⁱⁱ

A separate report by Deloitte highlighted that around 37% of Aussies were concerned about their ability to cover expenses, with more than 50% indicating that they expected to pay even more on housing and energy costs going forward.ⁱⁱⁱ

What people would do if costs rose further

When asked, if your day-to-day living expenses increased, where do you think you'd source additional money from, here was the top eight responses in a survey of Australians:ⁱⁱⁱ

1. Reduce luxury spending – 20%
2. Buy fewer groceries – 12%
3. Spend less on transport – 12%
4. Borrow money via a loan or credit card – 10%
5. Draw on savings – 5%
6. Spend less on food delivery and eating out – 5%
7. Cancel subscription services – 4%
8. Cancel streaming services – 3%.

With costs of living continuing to increase, if you are feeling the pinch there is help at hand. We can review your situation and assist you to put in place a plan to get back on top of things.

ⁱ McCrindle Research
– 40 years of change: 1975 to today

ⁱⁱ Australian Bureau of Statistics
– Households spending more on the basics

ⁱⁱⁱ Deloitte Access Economics
– ALDI household expenditure report