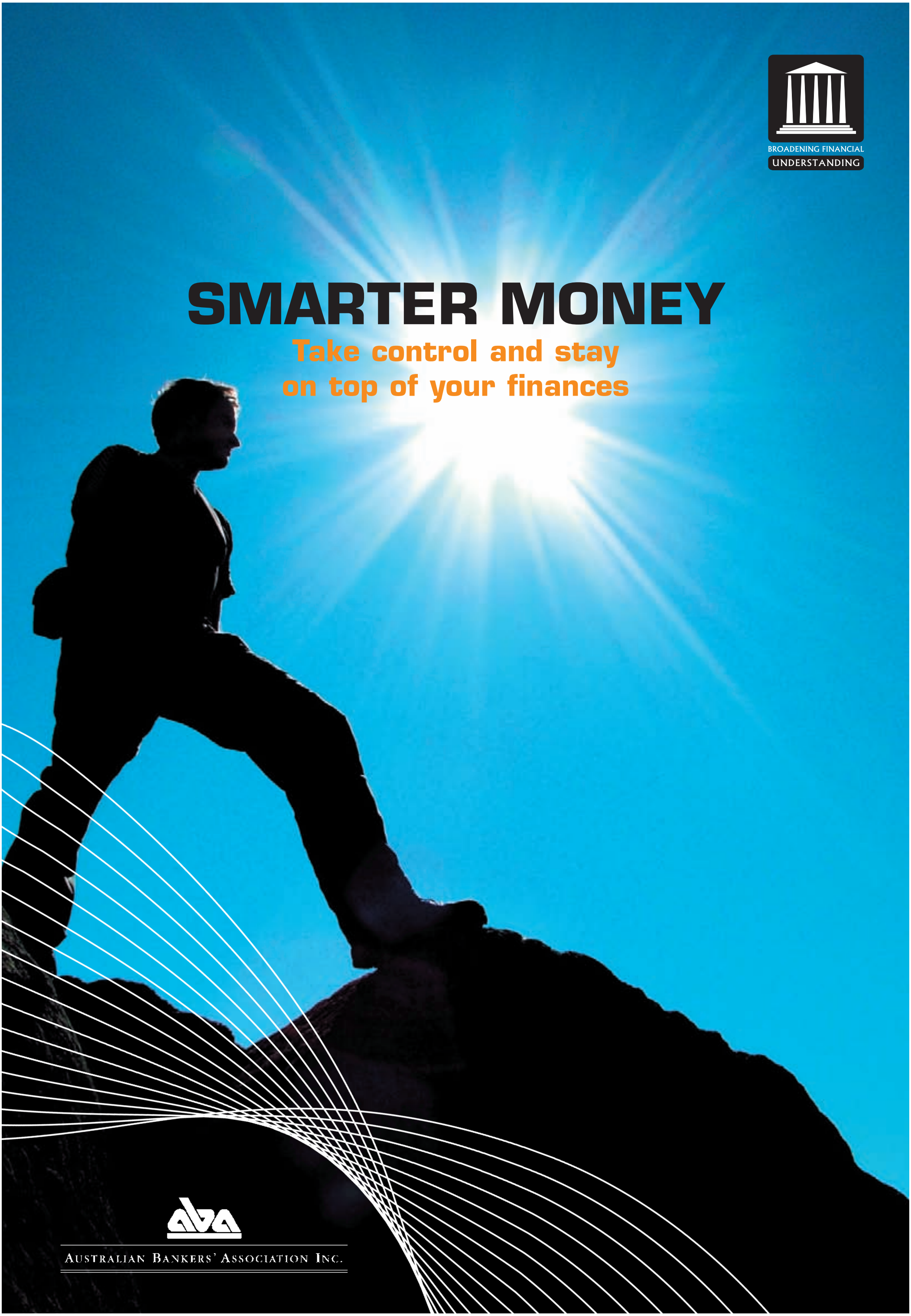

BROADENING FINANCIAL UNDERSTANDING

SMARTER MONEY

Take control and stay on top of your finances

Australian Bankers' Association Inc.

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The current membership of the Forum comprises representatives from:

- Financial Ombudsman Service
- Choice
- Care Inc Financial Counselling Service (ACT)
- Consumer Action Law Centre (Victoria)
- Consumer Credit Legal Centre (NSW)
- Council on the Ageing – COTA Over 50s
- Council of Small Business Organisations of Australia (COSBOA)
- Mission Australia
- Reconciliation Australia
- Victorian Council of Social Services
- Australian Bankers' Association

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CONTENTS

BUILDING GOOD MONEY HABITS

INTRODUCTION

BUILDING GOOD MONEY HABITS

No matter what your financial situation, being good with money is a core life skill. Whether you have a little or a lot, there are some basic practices that can help you take control and stay on top of your finances.

Maybe you are saving up for your first house and are looking for some surefire ways to cut back your expenses. Perhaps you have your first job and want to learn how to accurately budget. Or you may just need help putting some realistic financial goals in place.

Whatever your financial situation, this booklet can help you build good money habits for your day-to-day life and for the long-term. It includes techniques and tools to help you build your skills and assess your attitudes to money.

We've provided a step-by-step guide you can work through to assist you develop important financial and life skills. Or you may choose to dip into a section in isolation.

STEP 1 START WITH A BUDGET

WHY BUDGET?

Budgeting is the process of balancing income and expenditure so that you can manage your finances for a defined period. Doing a budget is simply a matter of noting down all of your income and all of your expenses, and then subtracting your expenses from your income to see what you have left. This is your "disposable income".

Budgets are often thought of as something necessary for individuals or families on modest incomes or for those paying off debt. However, everybody can benefit from a budget, even the most affluent.

A budget can show if you are living beyond your means and spending more than you are earning. You'll be able to see where your money is going and where you could cut back. You can use a budget as a tool to help you save for a financial goal like a car or overseas trip. You can also use a budget to prioritise debt repayments.

TAKING THE FIRST STEP

You can start a budget by simply writing down your income. Remember income can come from many sources, not just your salary or wages. For example, you might also receive dividends from shares you own, rent from an investment property, or board from an adult child. If you receive a government payment, you should also include these payments as income.

The next task is more time consuming: listing your expenses. Writing down your expenses will identify what you are spending in the major expense categories, such as housing, groceries, transportation, utilities, medical/health, insurance, clothing, entertainment, education, travel, etc. It may sound arduous, but the effort can be worth it.

Here are two different methods to list your expenses:

1. KEEP A DAILY DIARY

The most accurate approach is to note down every cent you spend on a daily basis over a three month period. You could simply record your expenses by hand, using a separate page for each week or you could use a spreadsheet. If you can, divide your expenses into the major categories, as this could help you identify areas where you can cut back. If you use this approach, also think about including your annual expenses, for example your insurance premiums. The advantage of this approach is that it allows you to see exactly how much you are spending. If you have never done this before you will probably be astonished by how much you actually spend, and what you actually spend your money on.

2. REFER TO YOUR RECORDS

You could also use your bank records, such as credit card and bank statements, to draw the information from. If you use your credit card to pay for most things and have direct debits set up from your bank account for your regular expenses, this approach can be an effective way to gather information on your expenses. Your credit card in particular will itemise your expenses, such as groceries, restaurants, clothing purchases, etc. The advantage of this approach is that it allows you to begin your budget now without having to collect information over the next few months.

Alternatively, you could use bills, such as utility bills or school charges, to calculate expenses. If you use this approach it is important that you make sure you collect all the information to include in your budget.

TIP

GATHERING INFORMATION ON EXPENSES

Whatever method you use to gather information on expenses for your budget, remember to make sure that you take account of small and large expenses as well as expenses that may be daily, weekly, quarterly or annual. The more information you collect, the less likely you are of being surprised by an unexpected expense.

GETTING THE TIMING RIGHT

It's a good idea to match your budget to your pay period; which may be weekly, fortnightly or monthly. That way you can use your budget to help you manage every income payment effectively.

CONVERTING YOUR NUMBERS

Not all of your income and expenses will be for the same timeframe, so you'll need to convert some of them to make sure your budget figures are accurate. If you pay a certain bill by the month, but your budget is for a fortnight, you might find it easy enough to work out what the fortnightly cost of this bill would be. But some of the conversions might be a bit tricky to do in your head – the conversion guide below will help you to make your budget accurate (and so will a calculator!).

MAKE MY WEEKLY AMOUNTS FORTNIGHTLY

Multiply your weekly amounts by two – the result is the fortnightly amount.

MAKE MY WEEKLY AMOUNTS MONTHLY

Multiply your weekly amounts by 52. Divide the answer by 12 – the result is the monthly amount.

MAKE MY MONTHLY AMOUNTS FORTNIGHTLY

Multiply your monthly amounts by 12. Divide the answer by 26 – the result is the fortnightly amount.

MAKE MY FORTNIGHTLY AMOUNTS MONTHLY

Multiply your fortnightly amounts by 26. Divide the answer by 12 – the result is the monthly amount.

MAKE MY YEARLY AMOUNTS FORTNIGHTLY

Divide your yearly amounts by 26.

MAKE MY YEARLY AMOUNTS MONTHLY

Divide your yearly amounts by 12.

KEEPING A RECORD

The next step is to complete a budget planner. You can fill in the one below, create your own or use one of the many made available by banks and other financial institutions. You can find these ready-made planners online or ask for a printed version from your bank.

REGULAR INCOME

Use this table to write down your regular income.

TYPE OF INCOME	AMOUNT RECEIVED EACH PERIOD
Salary or wage (after tax)	$
Pension or government payment	$
Child support or other income	$
Regular interest from bank deposits	$
Regular income from investments (such as rent from an investment property, distributions from a managed fund, or dividends from shares)	$
Other	$
A. TOTAL INCOME FOR THIS PERIOD	$

REGULAR EXPENSES

Use the table on the next page to write down your expenses. It's also got room to include any savings you set aside, and any regular debt payments. Start by filling in your fixed expenses – they are the ones that don't change from period to period, such as your rent or loan repayments.

Your variable expenses are trickier as they will go up and down. You will need to work out the amount for each period.

We've left some blank spaces at the end of each category in case you need to add any other expenses.

TIP

KEEP YOUR BUDGET ACCURATE

Use after-tax income figures (this may require you to make an adjustment if deductions have not been taken into account), e.g. imputation credits for dividends paid on shares

Do not include irregular income that may not be reliable, e.g. annual performance bonus, gifts of money

Calculate using consistent expense periods, e.g. weekly, fortnightly, monthly.

Household expenses

Rent	$
Repairs	$
Gas	$
Electricity	$
Water	$
Telephone	$
Internet	$
TV (Cable/Satellite)	$
Furniture & appliances	$
Groceries	$
Council rates	$
	$
	$

Personal expenses

Clothes & shoes	$
Hair & beauty	$
Sundries	$
	$
	$

Transport expenses

Car	$
Registration	$
Parking	$
Fuel	$
Repairs/maintenance	$
Public transport	$
	$
	$

Medical expenses

Doctor	$
Chemist	$
Dentist	$
Specialists	$
	$
	$

Insurance

Home & contents	$
Car	$
Health	$
Income protection	$
Life	$
	$
	$

Education

School fees	$
University fees	$
Tuition	$
Books & uniforms	$
Camps & excursions	$
	$
	$

Other expenses

Child care	$
Pet care	$
Gifts & donations	$
Hobbies & sports	$
Audio & visual	$
Subscriptions	$
Movies	$
Restaurants/eating out	$
Alcohol/cigarettes	$
	$
	$

Savings

Personal superannuation contributions	$
Regular savings account installments	$
Regular installments into investments	$
Christmas clubs etc	$
Holiday savings	$
Money for emergencies	$
	$
	$

Debt repayments

Mortgage	$
Car loan	$
HECS payments	$
Credit cards	$
Personal loan	$
Store cards	$
Lay-bys	$
	$
	$

B. Total spending for this period	$

ARE YOU BALANCED?

Now that you've completed the income and expenses tables, you can clearly see how much regular income you receive, and where all that money goes over your chosen period. Using the totals (A and B) from each table, subtract your total expenses from your total income:

Your total income		Your total expenses		Your disposable income
$	–	$	=	$

If your answer is:

- Positive, your income is greater than your expenses. This means you could be saving some money.
- Zero, your income equals your expenses. You may want to consider reducing some expenses in order to build up some savings.
- Negative, your expenses are greater than your income. This means you are living beyond your means and should think about finding ways to cut back on your expenses. The bigger the negative number the more you will need to reduce your spending.

SOME PROS & CONS

A budget is the best way for you to get an overview of your financial position. If you are serious about taking control of your finances it is a step you need to take. You may find some things you weren't expecting and it can help you to establish some savings goals.

When you start the process be aware that it can be time consuming and fiddly translating your day-to-day income and spending into a budget. And you may not like the result. Sometimes it's easy not to know just how much debt you have.

WHAT'S NEXT?

Now that you have a basic idea about your financial situation, you can start to make plans for the future.

STEP 2 PUT YOUR GOALS IN PLACE

If you don't know where you're going, it's impossible to get there! Setting personal financial goals gives you something to work towards.

Goals can be for any amount or purpose. This might include saving for a new television, school fees for your children, unexpected utility bills or a deposit for a new home. They are also likely to be for different timeframes. You might be saving for a holiday later in the year or trying to put more away for your retirement in twenty years.

WHAT WE SAVE FOR...

Here are some of the most common medium and long-term goals:

- Deposit for a home
- Clearing credit card debt
- Personal computer
- A comfortable retirement
- School/university fees
- Car
- Holiday

	Timeframe	Examples
Short-term	Less than 1 year	Holiday
Medium-term	1-5 years	Car, deposit for a home, money for an investment portfolio
Long-term	More than 5 years	Growing your investment portfolio, retirement

Sometimes working out what it is you are striving for can be the hardest step, particularly if you lead a busy life. Try to set aside some time specifically for this purpose. If you have a partner, doing this together will help you agree on your goals and also means you are more likely to both be working towards the same ends.

There is skill in setting clear goals that keep you motivated. Vague or overly ambitious estimates of what you would like to achieve are likely to lead to procrastination and failure to attain your true goals. Using the SMART principles can help.

SPECIFIC	Be clear and ask yourself what, why and how.
MEASURABLE	Establish criteria for measuring progress toward each goal.
ACHIEVABLE	Make them realistic given your current situation, resources and time available.
RELEVANT	Ensure they match your mission or your 'bigger' life objectives.
TIMELY	Set a timeframe for each goal.

Write down your goals in the table below using the SMART principles.

Goal	Amount	Date	Savings target per period

WHAT'S NEXT? Once you have worked out your goals, the next step is to look at ways to save for them.

TIP

SAVE ON BANK FEES

Most of us know that if we withdraw cash from an ATM of our own bank we're likely to pay less in transaction fees. And internet and phone banking are cheaper. But there are many other ways to save. Smarter Banking Make the Most of Your Money includes information on bank fees and ways you can reduce how much you pay.

STEP 3 FIND WAYS TO CUT COSTS

When it comes to achieving your goals, how much you save is more important than how much you earn. If you are spending more than your income, you might want to consider ways you can reduce your expenses.

ARE YOU OVER SPENDING?

Use your budget to gain a better understanding of your spending habits. This will clearly show you where your money is going and where you may be overspending.

Try to identify the areas where you can comfortably spend less. You need to be honest with yourself – what are essentials and what are luxuries? Most of us buy things we don't really need and those unnecessary purchases can really add up.

Here are some tips to get you started:

Ways to cut back	How you could save
Take your own lunch to work	You could save up to $5 (or more) every day you do. Cutting back on your daily cappuccino could also help.
Buy unbranded groceries	They are generally cheaper, especially for basic items.
Put your change into a savings jar at the end of each day	Create a little pot of ready cash and use the money for small personal expenses. Saving what you might otherwise have spent can also show you what expenses are essential and what you can live without.
Use pre-paid cards for your children's mobile phones	Make your kids top up the card themselves if they spend it too fast.
Pay cash	Retailers will often give you discounts on electrical items and furniture if you offer to pay cash on the spot. Try it with other more expensive items too.
Save for your next car and choose a lower-priced model. Then shop around for loan and insurance deals	A big deposit reduces the total purchase price, and you may also get savings on borrowing and insurance costs. The dealer's finance or insurance may cost more. Consider paying off any insurance monthly if there is no penalty. It's usually easier to pay a small amount each month than a large amount once a year.
Use self-catering holiday accommodation	Saves on eating out at cafés, hotels and restaurants.

Source: Some tips from the Australian Securities and Investments Commission, www.fido.asic.gov.au

START OUT SMALL

Even saving a small amount can get you on track. The table below outlines just two of the cost cutting measures from above. As simple as they are, putting them into practice could mean you save around $9,000 over 2 years.

Cost saving	In one week	Over 2 years*
Take your own lunch to work and cut back on your daily muffin and cappuccino.	$50	$5,471
Buy unbranded groceries (or supermarket brands) for standard items, such as bread and milk.	$34	$3,721
TOTAL SAVINGS	$84	$9,192

* The figures used assume interest of 5% pa before tax and calculated on a weekly basis.

HOW MUCH COULD YOU SAVE?

Use the table below to calculate how much you could save in a week or month.

Cost saving	Amount
TOTAL SAVINGS	

WHAT'S NEXT? Take a look at your budget and set yourself some targets for all your expenses.

STEP 4 USE YOUR BUDGET TO PLAN FOR THE FUTURE

Now it is time to work out how much you will spend on expenses over the next year. Use a fresh sheet of paper or a new spreadsheet and set down the amounts, keeping in mind the areas where you could cut back.

Most of us underestimate how much we will spend. It is hard to foresee some of the things we may find we need over the course of a year. For example, you may lose your mobile phone and have to outlay for a new one. Or the price of petrol could go through the roof. One way to overcome this is to increase all of your expenses by 20%. It may seem like a lot, but it's actually about the amount we misjudge on our spending.

To give yourself the best chance of sticking to your budget, put aside some money from each payday for large annual expenses, like your annual holiday, car insurance or Christmas presents.

PLAN FOR SURPRISES

It's also good to expect the unexpected. How would your budget cope if you became ill or lost your job? Earmark a bit of extra cash for those unforeseen circumstances that could throw a spanner in your plan, especially in the first year or so until you can build up an 'emergency cash fund' (see page 16).

As before, add up all your income and expenses and calculate if you will have any money left over at the end to put towards your goals. If not, readjust what you plan to spend until your expenses at least equal your income.

This may mean curbing some of your spending habits, which may take a bit of work on your part. It could be a matter of adjusting your attitude too. Identify any 'unhealthy attitudes' to money you could have, such as spending to make yourself feel better or seeing borrowed money as your own (see page 21).

STICKING TO IT

Track your spending throughout the year against your budget so you can see if you are meeting your targets. This will give you an opportunity to readjust your spending plans for the remainder of the year if you need to.

If you continue to budget over the years, you will get better at knowing your spending habits and finding ways to save.

WHEN SHOULD YOU REVIEW?

You should consider redoing your budget each year or making adjustments when your circumstances change. Below is a list of the situations that could trigger a review.

When you:

- Receive a pay rise
- Are married or divorced
- Have a child
- Start a new job
- Move to or from the city
- Start/continue education
- Purchase a car
- Inherit some money or a debt
- Buy a home
- Get a mobile phone
- Suffer an illness that disrupts your income
- Enter retirement

TIP

BLOWING THE BUDGET?

If you are the sort of person that can't resist an impulse buy, stop and ask yourself these questions before you hand over your money or credit card.

Do I really need it?

Am I buying this to make myself feel better?

Will this blow my budget?

WHAT'S NEXT? Read on for more savings strategies.

Photo: Galina Barskaya

STEP 5 APPLY SOME SAVINGS STRATEGIES

Cutting back is one way to save, but there are also a number of techniques you can use to help you build good money habits.

Whenever you get some money, bank some of it immediately before you have time to think about spending it. This strategy works on the principle that what you don't see you don't miss.

PAY YOURSELF FIRST

Work out the amount you think you can save each pay period and have the money put out of reach, or at least somewhere you can't access it immediately. Ideally, you should aim to save at least 10% of your pay.

You could arrange a direct debit, so the money comes straight out of your pay and into a savings (deposit) account or cash management account. These accounts pay a higher rate of interest, so your savings can grow even faster. Smarter Banking Make the Most of Your Money has information about these accounts and how to establish a direct debit.

TIP

CREATE AN EMERGENCY FUND

Try to build up an emergency fund which you can dip into should the need arise. You should aim to have about three times the amount of your regular take-home pay in the fund. You can then use this money if your car breaks down, or if you become ill and are unable to work. Think about putting this money in a high-interest account as well.

Or you could use the money to reduce other debts, such as a mortgage or personal loan.

MAKE MORTGAGE REPAYMENTS MORE OFTEN

Set up your mortgage repayments fortnightly. By paying more often, you can reduce your interest costs and pay off your mortgage sooner. Many providers have online calculators that will show you how much you could end up saving.

Alternatively, you could consider paying a bit extra each period. And if interest rates rise, you'll be able to absorb the bigger repayments more easily.

Talk to your lender about how to set up these strategies.

SAVE ANY ADDITIONAL MONEY YOU COME INTO

If you receive a bonus, get money back on your tax or come into a windfall, think about saving or investing this money rather than spending it. These one-off payments can really add up over time.

Similarly, if you receive a pay rise, continue to live within your existing budget and increase your savings.

MAKING THE MOST OF YOUR SAVINGS

Once you have some savings in place, you may start to think about what to do with them. You could put them under the mattress, but there are other options. Depending on your goals and the amount of money you have, you could begin investing.

Many Australians choose to invest in property or shares, but you can also think about term deposits or managed funds – some people even invest in alternative investments, such as art or wine – there are literally tens of thousands of options to choose from.

Different investments have different characteristics. Some limit the access you have to your money, some are more risky than others and some have the potential for better returns. What you choose should relate to your personal circumstances and your goals.

A FINANCIAL ADVISER CAN HELP

A financial adviser is in the best position to help you work out the most effective savings strategies for you and provide recommendations about investments which match your financial needs and situation. If you don't have a financial adviser you can speak to your bank about putting you in contact with a financial adviser that can assist you. There is usually a cost involved for seeking advice from a financial adviser, such as a fee or commission. Visit ASIC's FIDO website at www.fido.asic.gov.au or call 1300 300 630 to ask for a copy of the free booklet Getting Advice: A practical guide to personal financial advice, which contains some useful information about getting professional financial advice.

TIP

HAVE A LONG-TERM FOCUS

When checking performance figures on your statement, remember that superannuation is a long-term investment – so focus on at least a five year timeframe when comparing. Using short-term performance (such as the last 12 months) may not be a reliable indicator. But also keep in mind that past performance is no guarantee of future performance.

WHAT'S NEXT? Find out more about good and bad debt.

STEP 6 USE DEBT EFFECTIVELY

In a financial context, debt is an amount of money that is owed to another party. Debt is commonly referred to as a 'loan' or the use of 'credit'. Many people use credit or loans to purchase new goods and services and pay for them later.

Debt can be a convenient way to purchase goods and pay for them over an extended period of time, especially for larger items that we generally can't afford to purchase immediately, such as a home, a car or even a holiday.

Other forms of debt, such as credit cards, allow you 24-hour access to money to shop online and give you access to money for emergencies. Common types of credit include credit cards, store cards, bank overdrafts, personal loans and mortgages. All credit contracts are enforceable by law, and involve a cost – this is the price you pay for being able to make use of the borrowed money. The cost of credit may include interest and other fees.

Mainstream businesses that typically provide credit in Australia include banks, building societies, credit unions, finance companies and some retail stores. Other businesses provide credit, including payday lenders, but usually with much higher charges. It is worth shopping around to find the right product for you. For more information about the different types of credit products, see Smarter Banking Make Credit Work for You.

BE AWARE OF PAYDAY LOANS

A payday loan allows you to obtain money when you are in dire need. Sometimes, these are available to people who have been unable to borrow money through mainstream lenders, such as banks. Think carefully before obtaining one of these loans. You could end up paying extremely high interest rates, in some cases as high as 1000% per year. For more information about payday loans see Smarter Banking Make Credit Work for You.

THE GOOD AND THE BAD

Borrowed money is convenient because it can help us achieve our financial goals, as long as it is managed carefully. When debt is not managed carefully it can have a detrimental impact on your life, and can also have an impact on your ability to be able to borrow again in the future.

Good debt is debt that a person can manage by being able to make repayments according to the terms and conditions of the contract. Bad debt is where a person is not able to manage the repayments.

When you are considering entering a credit contract, such as taking out a loan, make sure you fully understand what fees and charges and rate of interest will apply. There can be significant differences between the charges of mainstream businesses, such as banks, and other businesses, such as payday lenders.

WHAT'S THE BEST WAY TO MANAGE DEBT?

For many of us, borrowing money helps us work towards our financial goals. But from time to time, our debt can become a burden. And for some, it can result in significant financial hardship. The key to ensuring that debt continues to work for you, rather than against you, is careful debt management. Consider these tips for paying off your debts.

- Modify your budget to make sure it accounts for your debt repayments
- Pay off debts with the highest interest rates first, as these can cost you more in the long run
- Credit cards require you to pay a minimum amount each month. Consider paying more money than the minimum required so you can pay off your debt faster and pay less interest
- Think about consolidating your debts if you have more than one, but only do so if it will help you to minimise your overall interest payments and the fees and charges you pay
- Once you've paid off a debt, keep setting aside the repayment amount to help reduce other debts faster or put into a deposit account to help build up your savings
- Speak to a financial counsellor about putting in place a debt management plan.

COMBINE YOUR LOANS INTO ONE AND SAVE

Consolidating your loans could mean you are able to reduce the overall interest rate you are paying and the fees you pay.

In addition, consolidation can also make your credit repayments easier to manage, as you will only need to make a single repayment per month (rather than multiple repayments if you had multiple credit arrangements to repay).

Always remember, the aim of consolidating is to reduce your overall interest rate and the amount you pay in fees and charges. You will need to do your homework and read the fine print to make sure consolidating really will save you money in the long run. You will also need to think about how you manage your consolidated loan and any other forms of credit, such as a credit card.

ASIC's FIDO website has a multi-loan calculator that can assist you choose between various ways of paying off one or more consumer loans. Visit www.fido.asic.gov.au and check the calculator page.

SOME PROS AND CONS

When used effectively, debt provides some real advantages. You are able to purchase expensive items and have the use of them now, rather than waiting until you save up the entire price. A credit card also gives you access to cash in an emergency and is a convenient way to pay for items, especially when you are traveling.

But you need to be aware that debt is not free – interest is what you pay to a lender for the use of the lender's money. There will almost always be fees attached to taking on debt. Also you may get in over your head and be unable to make your repayments, incurring more fees. And depending on the type of loan you take out, repayments can also increase as interest rates rise.

WHAT'S NEXT?

You are your own best warning system. Find out how to look for any signs you could be heading for trouble.

STEP 7 LOOK FOR THE WARNING SIGNS

Photo: Fabrizio Turco

Recognising when you could get into trouble with your finances can allow you to make moves to avert any difficulties. The list below reveals some of the warning signs to watch out for.

- Loan payments, excluding mortgages, but including credit card charges, take up more than 20% of your monthly disposable income.
- You are only paying the minimum amount off on your credit cards each month, or maybe even less.
- You're juggling bills or are unable to pay bills. For example, you apply for another credit card and use cash advances from it to pay an existing card.
- You are unable to make a mortgage repayment or pay rent on time.
- You are at or near the limit on each of your credit cards.
- You regularly go without meals.
- You are unable to make a utility payment.
- You need to sell or pawn possessions to meet your expenses.
- You must work overtime, or take a second job, to cover basic living expenses.
- You have no idea how much debt you actually have.
- You have to seek financial assistance from family or friends or welfare group.
- You inherit a large debt and you are not sure how you will repay it.
- You're temporarily unable to work and have no income protection insurance or savings.
- You have just lost your job, or are fearful that you are about to, and are concerned about how you will pay all your bills.
- You have received a letter or phone call about outstanding bills from a debt collection agency.

IS YOUR ATTITUDE HOLDING YOU BACK?

It is not only situations or behaviours that can get you into trouble – certain attitudes to money can also signal that you could run into difficulties in the future. Read the statements below to see if any of them sound like you.

"Spending to maintain my image is an investment in myself."

"Everyone uses debt to get ahead. If I don't, I'll fall behind."

"If the banks offer to increase my credit limit, then they must think that I can repay it."

"The banks don't need the money – I'll pay them back later."

"I trust him, he won't rip me off. We have a good relationship."

"I won't bother paying this bill and will just go to another provider. They can't force me to pay."

"Buying this makes me feel better about myself."

"Everybody else has one, so I want one too."

IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS

There are no free lunches. Any investment scheme that promises otherwise should be viewed with caution. If you see an investment offering returns that seem too good to be true, it is also likely to be very risky, which could mean you lose your money entirely.

People do get caught out. Every year the Australian Securities and Investments Commission (ASIC) publishes the most outrageous scams for the year in their Pie in the sky awards. You can view the awards at www.fido.asic.gov.au. The website also contains information about the latest scams and tips on what to look out for.

TIP

SIGNS YOU COULD BE IN TROUBLE

Hiding purchases from friends and family, because you know you should not be spending.

When you don't know how much you owe and really don't want to find out.

IF YOU FEEL OUT OF CONTROL

Getting into financial difficulties can be a scary experience. The main thing to do is stay calm.

Financial assistance can be provided by your lender or via a government, welfare or community program. First of all, speak to your lender or credit provider.

It is important for you to contact your creditors (those you owe money for payment of bills or loan repayments) promptly and tell them you are having financial difficulties and want to discuss payment arrangements. This is particularly important if creditors hold security over your home or other assets.

It is best to offer something to each creditor, but only what you can reasonably afford to pay. If you have outstanding credit card debt or loan repayments, try to cover the minimum payment or interest on the loan, as this will reduce any additional charges that may apply to the debt. You can speak to your bank about reducing your credit card limit.

Ask if your lender or credit provider has a financial hardship process and will agree to reduce the interest on your debt until you can get back on your feet. If you are having financial difficulties with your credit arrangement, banks that subscribe to the Code of Banking Practice, with your agreement, will try and help you overcome your financial difficulties, such as develop a repayment plan.

You can also speak to your bank about whether the transaction account you hold can let you vary the maximum daily withdrawal limit to assist you better manage your spending.

GET IN TOUCH WITH A FINANCIAL COUNSELLOR

A financial counsellor may also be able to help you. Trained and qualified financial counsellors can help you get a clear picture of your financial situation and develop some strategies to help you get back in control of your money, whether it's creating effective budgets, working out manageable repayment plans, working with your creditors or addressing a financial crisis caused by a problem with health, unemployment, family break-up or gambling.

To locate a financial counsellor you can call the NSW Credit and Debt Hotline on 1800 808 488 or Consumer Affairs Victoria on 1300 558 181 for referral information. Or you can call your local council to find out whether there is financial counselling available in your area.

Alternatively, the Australian Financial Counselling & Credit Reform Association website contains a list of organisations in each State or Territory that will be able to provide a financial counselling or credit advice service or refer you to the appropriate service. Visit www.afccra.org/counselling.htm.

If you have a dispute with a financial services provider, you can also contact the Financial Ombudsman Service on 1300 780 808. The Ombudsman provides a free and independent dispute resolution service. Before you contact the Ombudsman, you should first contact your bank or financial services provider to see if the dispute can be resolved directly. For information about the Financial Ombudsman Service visit www.fos.org.au.

TIP

MANAGE YOUR SPENDING

Speak to your bank about:

- Choosing an account that matches the way you want to bank
- Checking the limits on your credit and debit cards
- Setting up an electronic transfer so some of your salary goes into a savings account
- Establishing a direct debit for regular expenses, such as utility bills

GLOSSARY OF TERMS

Australian Securities and Investments Commission (ASIC)

ASIC is the independent Australian government body, which enforces and regulates company and financial services laws in Australia to protect consumers, investors and creditors. ASIC reports to the Commonwealth Parliament, the Treasurer and the Minister for Superannuation and Corporate Law.

Budget

A budget is the sum of your income minus the sum of your expenses over a defined period. When you work out your budget you can see if your outgoings are greater than your incomings.

Cash management account

Similar to a transaction account, they can be used for day-to-day banking, such as depositing your pay, or making withdrawals and paying bills. They usually pay higher rates of interest, but most cash management accounts require you to maintain a minimum balance.

Credit

This term has different meanings, depending on the situation. For example, if your account is in credit, that means you have money in your account that is available for you to use. So, if you have $10 in your account, your account is $10 in credit.

It can also mean borrowed money that allows you to obtain goods now but to pay for them later. Typical forms of credit include credit cards, personal loans, overdrafts and home loans.

Debt

Your debt is the amount of money you have borrowed from a bank or other lender.

Direct debit

Sometimes you can authorise a business to take money directly out of your bank account to pay a bill. For example, if you have a telephone bill, you can authorise your telephone company to withdraw money from your account automatically to pay for your bill. Direct debits are very convenient, but rescinding the arrangement requires formal notification to the business.

Disposable income

The amount of after-tax income that is available to divide between spending and personal savings. It is sometimes referred to as your “take home pay”. However, your disposable income is the net result of your income after you have taken account of your expenses.

Dividend

Payment made from a company to its owners (shareholders) from profits made by the company.

Expense

Money you pay out, including for housing, groceries, transportation, utilities, medical/health, insurance, clothing, entertainment, education and travel.

Financial Ombudsman Service (FOS)

FOS is a free and independent dispute resolution service that considers complaints about a financial service including banking, credit, loans, insurance, insurance broking, financial planning, investments, stock broking or superannuation. The Ombudsman is able to investigate disputes and make decisions that are binding on the financial services provider.

Imputation credit

When an Australian resident shareholder receives a dividend, they may also receive an imputation credit for any tax already paid by the company. The shareholder's tax liability can then be reduced by the amount of the tax credit. Also known as franking or dividend imputation.

Income

Money you receive, including your salary or wages, interest from bank accounts, dividends from shares, rent from an investment property or board from an adult child.

Inflation

An increase in the prices of goods and services in the economy.

Managed fund

A type of investment that pools the assets of many investors into a single fund. Usually the investors have a common investment objective and strategy. Managed funds include property trusts, share funds and cash management trusts.

Payday loan

A small short-term loan between paydays, often available to people who are unable to obtain credit through mainstream providers. The loans often come with exceptionally high interest rates and other charges.

Personal loan

A loan available from a mainstream provider, such as a bank, building society, credit union or finance company.

Personal superannuation contributions

The amount that you voluntarily contribute to your superannuation fund from your take home pay. This is in addition to the contributions your employer makes on your behalf. It is sometimes called private superannuation.

Return

The amount of money earned on an investment, usually expressed as an annual percentage.

Risk

The variability of returns from an investment.

Savings (deposit) account

An account often used to save money, perhaps for a holiday or Christmas spending. Depending on the account, if you have a balance above a minimum level you may be rewarded with higher rates of interest. Some savings accounts have a monthly fee with a limit on withdrawals.

Term deposit

An account that offers a higher rate of interest, but 'locks' your money away for a set period. They are a good option if you don't want to touch your savings.

Transaction account

An account that lets you manage your day-to-day deposits and withdrawals. Depending on the account, it may be a basic account or have other account access, such as an overdraft facility. Some transaction accounts may have a monthly fee and may have limited or unlimited free transactions.

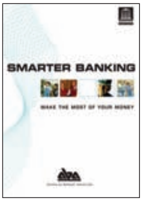
Other booklets in the ABA's financial literacy booklet series

SMARTER INSURANCE
Protect your assets and secure your future

SMARTER INVESTING
Build wealth and secure your future

SMARTER SUPER
Invest in your future and make the most of your retirement

SMARTER BANKING
Make credit work for you



SMARTER BANKING
Make the most of your money

How to order other booklets

The Australian Bankers' Association (ABA) has prepared a number of other financial literacy booklets. If you would like to obtain copies, please contact the ABA.

How to order this booklet

This booklet has been prepared by the Australian Bankers' Association (ABA) and the Good Shepherd Youth and Family Service. If you would like to obtain additional copies, please contact the ABA or Good Shepherd.

Good Shepherd youth & family service

AUSTRALIAN BANKERS' ASSOCIATION INC.

The ABA is an industry association that represents Australia's banks. The banking industry is committed to helping Australians better understand financial services to make more informed choices when it comes to managing money and every day finances.

The ABA website has a Financial Literacy Info Centre which provides information on managing your money, ways of banking, banking products and services, and protecting your money and banking information.

CONTACT US
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Sydney NSW 2000
Freecall: 1800 009 180
Email: reception@bankers.asn.au
Website: http://www.bankers.asn.au

Good Shepherd Youth and Family Service Inc.

Good Shepherd Youth & Family Service works side by side with people who are disadvantaged or oppressed in any way.

The organisation provides a range of services from family counselling to supported accommodation for the homeless; from 'no interest' loans to teenage foster care; and from financial counselling to emergency housing for victims of domestic violence.

The Good Shepherd believes that everyone, regardless of age, sex, culture or religion, has the right to adequate income and shelter, opportunities for education and employment, quality health care and nutrition, and that everyone should be treated with dignity and respect.

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