ASG's Planning Counts guide

A guide to boost your family's financial literacy

Australian Scholarships Group

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About the guide

ASG's Planning Counts guide is designed to help boost your family's financial literacy.

The guide explores a host of important topics such as work-life balance, budgeting, planning for future goals including your child's future education costs, saving and investing, insurance, and many more. It can be read 'cover to cover' – or just the sections you need, when you need them.

ASG's Planning Counts guide is a family support initiative of the Australian Scholarships Group (ASG), in collaboration with Justine Davies.

About the author – Justine Davies

Financial planning is important at any stage of family life. When deciding to start a family, being prepared for anticipated financial commitments can make a significant difference to family finances especially in the early parenting years. Justine Davies is a mother of three children, finance writer, and author of the books, *How to Afford a Baby: the nine-month plan to finance having a child* and *How to Afford a Husband*, both published by ABC Books and available at ABC Shops, ABC Centres, selected bookstores and online or phone 1300 360 111.

A member of the Financial Planning Association, Justine worked as a financial planner for more than a decade before focusing on helping people increase their awareness of financial issues. As a writer, her objective is to increase awareness and promote discussion of day-to-day financial issues. She writes articles across all finance topics from the costs of moving out of home, through to Gen Y money issues, mortgage v. renting, credit card issues, and the price of retirement. She writes a financial blog for **www.news.com.au** and is also a regular on radio stations across the country.

Tips from Justine about how to afford a baby are available from ASG's website: **www.asg.com.au**

About the Australian Scholarships Group (ASG)

For more than 35 years, many thousands of families have used ASG's Education Program™ to help plan for their children's education costs. ASG offers a proven and proactive way to ensure the education dreams parents have for their children can be nurtured and funded.

ASG is a not-for-profit organisation and is Australia's specialist education benefits provider. With more than $A1.6 billion in funds under management, ASG has helped more than 397,000 Member parents nurture and fund their children's education and in the past financial year has supported more than 43,000 students in their secondary or post-secondary education. ASG has returned more than $A1.2 billion in education benefits to Members and their children since its inception.

ASG recommends that parents plan for the future costs of their children's and grandchildren's education.

For more information visit ASG at **www.asg.com.au** or call 1800 648 945.

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2. Your family and money

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Working together

In 1967, The Beatles sang that *All You Need is Love*. Broadcasted to more than 400 million people, the song was a worldwide hit. [1]

While love may indeed be the most important ingredient in most relationships, and particularly relationships within the family, there are other important factors as well. One of the most essential, and potentially contentious, factors can be the family finances.

The first important step towards successful financial planning is to commit to a plan. If you're in a relationship, you'll both have to work to an agreed plan, and encourage your growing children to understand it and respect it too. Sometimes this is easier said than done.

The Australian Government Financial Literacy Foundation released a report in 2007 on how Australians regard and treat money, called *Financial Literacy: Australians Understanding Money*. It showed a staggering 48 per cent of people surveyed found dealing with money stressful or overwhelming. [2]

Chairman of the Australian Government Financial Literacy Board, Paul Clitheroe, said that after many years in the financial industry, this came as no surprise.

"In many surveys on causes of conflict in relationships, money stress is number one on the list," he says. "A primary reason is that the two parties to a couple are coming at the topic of money management from different angles. Depending on the role modelling they have had during their life, their behaviour and attitudes towards money can be quite individual."

A Branch Manager with Relationships Australia, Lola Mashado, regularly counsels couples experiencing financial conflict.

"The old saying from the 1950s was 'when money problems come in the door, love flies out the window'," she says. "How true this is. Perhaps other relationship stress is underlying but when you add the financial stress, which does not go away easily, other problems can surface as well."

Common reasons for various behaviour and attitudes towards money

Upbringing

Our parents' attitude to money when we were growing up can influence our attitudes towards money. "What we learn about money from our parents or caregivers can influence our behaviour," Lola says. "For example, in the husband's family, the mother may have done all the day-to-day finances, so the husband naturally assumes that his wife will be able to take on this role.

"But in the wife's family it may have been her father who always dealt with the money and he may not have talked about it with his kids, so in fact she doesn't know how to go about managing day-to-day finances and assumes that her husband will do it. If they don't sit down and talk about their expectations, they can be in financial crisis before they realise what the problem is", Lola explains.

Today's family units may be more multi-faceted, but the same principles apply.

Environment
The influence of friends and colleagues can also affect how we handle money. If friends are enjoying a financially self-indulgent lifestyle it can be difficult to say 'no' to activities and functions that stretch the budget.

Media
TV, radio, billboards, internet and mobile phones bombard us with advertisements. "Sometimes there can be an unrealistic expectation of our needs versus our wants," Lola says. "Material possessions may be more important to some people than others—this can lead to living beyond their means."

So if your attitude towards money is influenced by a complex mix of factors, is it possible to cooperate with a partner with a very different attitude towards money? The answer is yes, Lola reassures us.

"Communication is the key to resolving conflict," she says. "Without regular, honest communication the underlying causes of the conflict cannot be addressed and resolved. Talking about money-attitudes should happen as early as possible in a relationship."

Tips on working together

Lola offers the following tips for families wanting to work together on their financial goals:

- Talk about money so you can better understand each other's viewpoint.
- For some couples, it might be helpful to set aside a regular time for a money-talk and to look over your bills and income together. This may help both partners to feel that the financial load is shared, and that they are involved and committed to their money plans and goals.
- If both partners keep an active eye on what is happening with their finances then it can prevent issues such as gambling or other addictive behavioural problems staying hidden for a long time.
- Respect your partner's attitudes towards money. They are as valid to him/her as yours are to you.
- Draw a line in the sand. Don't spend precious time regretting the past; instead, look optimistically to the future.
- Don't be afraid to involve an independent third party to mentor your progress and keep you on track.

"And at the end of the day, remember it is never too late to learn how to manage money," Lola says. "Managing your money together can result in financially stress-free living."

Organisations of interest

Australian Government's Financial Literacy Foundation (administered through Australian Securities and Investments Commission [ASIC])
www.understandingmoney.gov.au

Relationships Australia **www.relationships.com.au**

References

1. **http://en.wikipedia.org/wiki/All_You_Need_Is_Love**
2. Australian Government Financial Literacy Foundation, Financial Literacy: Australians Understanding Money Report, 2007, **http://www.financialliteracy.gov.au/media/209293/australians-understanding-money.pdf**

Balancing family and work

'When are you going back to work?' is a question that most parents are asked at some point after having their baby. This is a common query that you will need to answer sooner or later.

For many, the answer is sooner with more than 51 per cent of females with children aged 0–4 years being part of the workforce. [1]

"There are a lot of benefits to be in paid employment, even beyond the money factor," says Susan Turner, Victorian Parenting Coordinator with Sarina Russo Job Access. "A brainstorming session with a group of parents at a workshop highlighted a number of non-financial benefits of paid employment, including increased self-esteem and self-confidence, learning new skills, meeting new people and basically feeling part of the outside world."

Returning to work after starting a family is not an easy decision, even with both financial and non-financial benefits. There are a number of important considerations for you to think about – in particular, finding the right balance between work and family.

Deciding to work

Earned-salary versus costs of working

Extra income can certainly help the family budget. For many families this income may be vital. But earned-salary attracts its own range of lifestyle costs to take into consideration, some of which are outlined below.

Child care fees

Even with the Australian Government's Child Care Tax Rebate, the fees associated with formal child care can take a large portion of a your take-home pay.

Loss of family assistance

An increased family income may mean that some means-tested family assistance benefits, such as Family Tax Benefits A & B and child care benefits, are no longer available. You can calculate your eligibility on the Family Assistance website – www.familyassist.gov.au

Working costs

These include 'incidentals' which can add up significantly. They include petrol, clothes, lunches, parking, etc. "In most cases parents are immediately financially better off by working," Susan says. She encourages families to look beyond the immediate salary and keep a long-term vision. "By working now, parents are building their skills set and increasing their potential to earn more down the track."

How will the children cope?

The discussion paper, *Can't Buy Me Love*, released by The Australia Institute in 2004, found that most young people surveyed wanted more time with their parents rather than more money [2]. However, children also valued the money and security brought by their parents' jobs. The main predictor for a happy family relies on having parents who were happy in their careers and who were able to balance their family-time and work-time well.

Is family and work balance achievable?

With a commitment from both partners and some planning, family and work balance is definitely achievable. The amount of household chores won't change but there will be less time for you to do them. "If you have a partner, then it's a good idea to sit down with them and write a list of household tasks," Susan says. "In an ideal world, these would be divided equally and tasks given to every member of the household including the children."

Will the personal benefits outweigh the personal stress?

Money aside, it is overall quality of life that is important. While juggling work and family can lead to stress, being in paid-employment can also have some positive self-esteem benefits for you, including:

- an outside focus on non-child-related topics and even the opportunity to progress professionally.
- a boost to your self-esteem, where you are part of a professional team and your opinions are valued, people listen and you actually get paid for it!
- greater enjoyment during time with your kids. With less time with them, parents tend to really appreciate their time with their children.

Finding employment

Once the decision to return to the workforce is made, the next question is 'how do you find appropriate employment?' Whether parents are returning to a previous role or starting a new job, it is important to find a job that meets your financial and personal needs.

Susan encourages parents to get professional advice upon returning to work. "Accessing a professional service can be invaluable for parents re-entering the workforce," she says. "It can help parents locate child care in their area, assess their work skills and locate necessary training services for them. It can provide information on job opportunities that are available, assist with job applications and provide ongoing support."

Susan advises that all parents, even those who have been out of the workforce for a long time, have a range of skills that employers value. "There are two types of skills that employees need," she explains. "There are the technical skills required for a particular job, which may be something such as typing or certain qualifications. Then there are the employability skills, such as time management, self-management, initiative, communication skills, safety consciousness and teamwork. These employability skills are all part of being a parent and they are just as valuable in the workforce as they are at home.

Once you find your ideal job, you may find yourself competing with applicants who have more recent work experience than you. Executive General Manager of Recruitment Solutions, Lorraine Christopher, has the following tips for parents wanting to improve their marketability.

Identify the skills and experiences you have gained during your 'time-out'

Consider any volunteer work you have done and what skills you've gained from it. Perhaps you were involved in organising events, even on a small scale, which may have provided you with skills (administrative, organisational, etc.) that could well be transferable to the workplace.

Do your research

Do some research into the area you hope to work in before applying for positions. Do you intend to work in the same field you were working in before your career break? If so, consider how it has changed. Have procedures and equipment changed? If you are moving into a different field, consider any new skills you may need to learn. You will be in a much stronger position to attain the job you want by having this knowledge.

Update your technical skills
Even in a short time, there can be significant advances in areas such as IT. Consider taking a short course to learn new skills required for your desired position.

Plan your approach
Put yourself in your potential employer's shoes, particularly as he or she might want to know why you took a career break. Think about your career, why you took time-out and why you want to re-enter the workplace—as well as your future ambitions.

Professional presentation
Make sure your CV and application forms are as effective as they can be in communicating your skills and experience. Employers read resumes in seconds, not minutes, so it needs to impress immediately. Consider getting some professional help to compile your resume.

Paid employment can be a great way to boost the family finances. And a little careful preparation can help ensure that it is an enjoyable experience for everyone.

Organisations of interest

The Australian Bureau of Statistics (ABS) **www.abs.gov.au**

Sarina Russo Group **www.sarinarusso.com.au**

Family Assistance Office **www.familyassist.gov.au**

Recruitment Solutions **www.recruitmentsolutions.com.au**

References

1. Australian Bureau of Statistics (ABS), 4102.0 Australian Social Trends 2009, **www.abs.gov.au**
2. Barbara Pocock and Jane Clarke, Can't buy me love? Young Australians views on parental work, time, guilt and their own consumption, The Australia Institute, 2004, **http://www.barbarapocock.com.au/documents/cant_buy_me_love_summary.pdf**
3. Australian Bureau of Statistics (ABS), 4102.0 Australian Social Trends March 2009, **www.abs.gov.au**

Teaching children about money

It is widely recognised that children learn from positive role modelling. While as parents we know the importance of teaching our children such things as good manners through leading by example, financial management can sometimes be overlooked in our hectic lives.

Paul Clitheroe is very enthusiastic about teaching our youngsters good money skills. As Chairman of the Financial Literacy Foundation Advisory Board, he has contributed significantly to the promotion of financial literacy, both through the Understanding Money website and the 2007 benchmark research report, *Financial Literacy: Australians Understanding Money.*

"In the *Financial Literacy: Australians Understanding Money* report, it was found that positive role models are a key way to improving financial literacy," Mr Clitheroe says. "This holds true for both adults and children."

The report also found that almost 90 per cent of young people go to family for financial information and that 85 per cent of young people felt that learning more about saving money was important at this stage in their lives. [1]

So we know that parents play a key role in their children's financial education, and we also know that children want to learn. "When teaching your children good money management skills, don't tell them what to do," Paul says. "They learn from role models, so show them by your actions."

To be positive role models it may be necessary to improve your own money management skills first. Having open and honest communication within the family about money will help remove emotion from the family finances—this will help children see money in a factual way. See the *Working together* section in this guide for some tips on family financial teamwork.

Tips for helping children learn about money

Paul offers the following strategies for helping children to learn about money.

- Be open about finances with your children at an age appropriate level. Talk positively to each other about money and savings as part of daily conversation.
- Make money visible. In these times of credit and EFTPOS, children may not be aware of the financial transactions that are occurring around them every day. Use cash for purchases wherever practical.
- Children need to learn by experience rather than being told how to handle money. Keep a watchful eye and allow them to learn for themselves at a pace that interests them.
- Tap into your child's interests to help them learn about money. Paul uses the example of his 11-year-old son who loved a particular soft drink. He suggested to his son that he should perhaps buy some shares in the company. His son was amazed that he could buy shares in something so tasty and it motivated him to learn more about shares.
- Don't make money a conversational burden. "Be prepared to talk about money in ways and at times when the child wants to be involved," Paul says. If your child asks you to buy something, "Don't just say no—give them a short explanation as to why it's not achievable that day." Paul says.

Helping children learn about money through guidance and role modeling will help to make good financial management a way of life.

Organisations of interest

Australian Government's Financial Literacy Foundation (administered through Australian Securities and Investments Commission)
www.understandingmoney.gov.au

References

1. Australian Government Financial Literacy Foundation, Financial Literacy: Australians Understanding Money Report, 2007, statistics quoted from Appendix, **http://www.financialliteracy.gov.au/media/209293/australians-understanding-money.pdf**

ASG's Planning Counts guide

3. The budget

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Compiling a budget

Having a budget is the most important thing that you can do to take better control of your finances. A written budget is an important tool for anyone, especially for parents, with the lifetime cost of providing a modest but adequate lifestyle for a child estimated at between $257,106 and $339,802. [1]

To help prepare for the cost of children and the myriad of expenses that every household incurs during daily life, we will look at the step-by-step process of putting together a budget and keeping it on track.

What is a budget?

A budget is simply a written document comparing what you earn with what you spend over the course of a year.

To effectively complete a written budget, it is important to understand the different types of income and expenditure.

Income: everything that is earned. This includes wages/salary, commissions, bonuses, share dividends, interest on savings, regular overtime, government benefits and tax refunds.

Fixed expenses: necessary items, that do not tend to vary over the course of a year. They include items such as mortgage repayments, rent, rates, utilities, insurance premiums, petrol and car costs.

Regular expenses: costs that are necessary but the cost can be controlled to an extent. Examples include clothing, home maintenance, groceries, appliances and medical expenses.

Discretionary expenses: items incurred by choice and tend to have no set dollar amount. Examples include gifts, entertainment, hobbies and subscriptions.

Putting the budget together

In the *Tools* section of this guide, there are a couple of templates you may use. For this exercise, print out a copy of the budget template and familiarise yourself with it. When you are ready to put together your budget, see below for a list of useful tips to help you along the way.

- Use three months of bank statements and allocate each item of income and expense from these statements into your budget in the relevant 'monthly' column. By the end of this exercise, three of your 12 monthly columns should be complete.
- Include any annual income into your budget. For example, tax refunds, share dividends, and bonuses.
- Don't forget to include any annual or six-monthly expenses. For example, half-yearly insurance bills, annual membership fees, annual registrations.
- The next step is to add up each line of your budget template and get an approximate annual figure for that line. For many of your expenses this will involve adding the three months recorded and multiplying that total by four.

SPECIAL NOTES:

- For any annual expenses paid in the recorded three months, you simply need to transfer that amount to the 'totals' column.
- Any annual amounts identified should be recorded in the 'totals' column of your template.

Once you complete the above exercise, you will have a realistic written budget—something many Australians do not have. Well done!

Keeping it real

A budget is a very powerful financial tool – but only if you use it. Otherwise, it is simply another piece of paper. To get the most from your budget, use it to manage your money in the following ways.

- Work out whether your cash flow is positive or negative
  Positive cash flow is when you earn more than you spend. Negative cash flow is when you spend more than you earn. To work this out, subtract your 'total expenses' from your 'total income'.
- Hey big spender
  A budget means you can see where you may be overspending. Common areas to overspend are entertainment, gifts, clothing and groceries.
- Track your expenses
  A written budget helps you ensure that expenses are on track. Once every few months, note every expense incurred over four weeks. Compare this to your monthly budget totals to ensure that you are on track.
- Plan ahead
  A budget enables you to see any large expenses coming up and gives you the chance to plan ahead. An annual insurance bill of $1200 is much easier to afford if $100 is put aside monthly.
- Start saving
  A well-maintained budget can help you save for large long-term expenses such as a new car, house extension, school fees or a holiday. Knowing how much money should be left over at the end of each month means you can set up a regular savings plan without leaving yourself short of funds. See the *Planning your future goals* section for more guidance.

Cost cutting tips

Once you have a budget and know how much you spend, there are some very effective ways to save money. Try some of these 'pain-free' ways to boost your bank balance.

- Take lunch to work
  It's an easy—and nutritious—way to save money. Taking your lunch four days per week could save more than $1200 a year.
- Make your own coffee
  Skip buying a morning coffee and make one at work instead. At $3 per day, this could save you more than $700 a year.
- Stop smoking
  Do it for health reasons anyway, but it will also save you money. Cutting out just one pack per week could save more than $500 each year.

- Car pool
  Consider driving to work with a colleague, potentially cutting hundreds of dollars from your yearly transport expenses. Many small and large employers support car-pooling and assist with parking expenses.
- Make a shopping list
  Know what you need before you hit the shops. According to a survey by The Australia Institute, more than $5.3 billion dollars is spent on wasteful food consumption every year. [2]
- Buy cheaper brands
  Generic brands are a great way to save money on the grocery bill.
- Ask for a discount
  Many stores offer a discount for cash. Next time you buy something, ask what type of discount the store can offer. You could be pleasantly surprised!
- Talk to your bank
  Mortgage and loan repayments are often a big part of our expenses. Ask your bank manager if there is a cheaper and better package. Even a one per cent interest saving on a standard mortgage could save you several thousand dollars each year.
- Keep talking to the bank
  Talk to your bank manager about bank accounts and credit/debit cards that would suit your type of usage—this will help keep unnecessary fees to a minimum. Also, avoid overdrawing on your account as overdrawn fees can be hefty.
- Put your personal insurance through superannuation
  Ask your financial planner about putting your life, temporary and permanent disability and income protection insurance through your superannuation fund. The cost is then deducted from your superannuation balance which could mean saving several hundred dollars.
- Bundle your insurances together
  Consolidating your insurances with one provider may entitle you to a discount on premiums.
- Think outside the shopping square
  Buying gifts, clothes and many other items during sales, second-hand or at craft and farmers' markets can save a lot.
- Pay your bills on time
  Ensure that your bills are paid on time to take advantage of discounts and avoid extra charges.
- Make the most of tax deductions
  Set up a folder marked 'tax' and ensure you file all your receipts during the year, this can save you time, money, and effort at tax time.
- Take advantage of free activities
  Museums, art galleries, playgrounds, parks, botanic gardens, swimming pools, libraries and a whole host of council-funded activities are among many that are free or cheap. *ASG's "Mum, Dad, I'm Bored…?" – A parents guide to entertaining children* provides some great free and cheap activities for children. This guide can also be downloaded from ASG's website **www.asg.com.au** There are countless other ways to cut back your expenses. They are limited only by your time, imagination and enthusiasm.

References

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2. Baker, D, and Hamilton, C, Wasteful Consumption in Australia, The Australia Institute, 2005, **https://www.tai.org.au/documents/downloads/DP77.pdf**

Dealing with debt

Debt is a fact of life for many Australians. The Reserve Bank of Australia (RBA) credit and lending figures for April 2011 indicated that we have accumulated $1767.7 billion of debt. [1] Between September 1990 and September 2008, Australian household debt went from almost $190 billion to $1.1 trillion in real terms. Although most debt was incurred to buy houses it still shows a signicant growth in Australian debt levels. [2]

Is this a bad thing? That may depend on what type of debt you hold.

Types of debt

Debt can be broadly defined as owing money. But not all debt is the same, it can be good or bad, depending on whether it is working for you or against you. In a positive economic climate, debt can help you achieve goals of home ownership, business ownership and building wealth. But misuse of debt can cause financial hardship.

Worthwhile debt
This type of debt usually enables you to increase your wealth. For example, the mortgage on your home or an investment loan. Over time, you expect the value of the items purchased with the borrowed money to be greater than the cost of the initial loan. Some of the types of purchases that usually lead to increased wealth in a positive economic climate include:

- a mortgage over your place of residence
- an investment loan to purchase property
- a loan to purchase or expand a business
- a loan to fund study or training to enhance your career.

Lifestyle debt
Conversely, lifestyle debt is debt that decreases, rather than increases, your wealth. Most consumable items purchased with debt would fall into this category. Some common examples of bad debt include:

- credit card debt
- money owed on store cards
- personal loans used to purchase lifestyle items
- goods purchased on interest-free terms.

Having either form of debt is not necessarily a problem, provided you can afford to pay back the interest costs and capital over time.

Making debt work

Debt can be a fantastic tool for building wealth if managed appropriately and accumulated in a positive economic environment. Whether it is to buy your own home or to invest in income-producing assets, if used wisely, debt can help achieve professional and financial goals.

Debt can help you build your wealth if it is used wisely. But it is important to control your debt, rather than let your debt control you. Keep in mind the following tips before 'signing on the dotted line'.

Consider your situation
Before borrowing money consider your current personal situation, including your employment and income security. You need to be confident that any significant lifestyle or financial changes that may be on the horizon will not impact on your ability to repay your debts.

Don't overextend

Never borrow more than you need and always allow yourself an income 'safety buffer'. If buying a house, remember that you will have other house-related expenses in addition to the mortgage repayments.

Shop around

Interest rates can vary significantly, so it is important to do your homework before committing to a loan. For example, on a 25-year $300,000 mortgage, the difference between a seven per cent and six per cent interest rate could be more than $56,000 in interest repayments. [3]

Manage your debts

If you have multiple debts, concentrate on paying off the most expensive ones first. Generally this will be your personal debt with the highest interest rate, followed by other personal debts (including your mortgage), followed by your investment loans.

Pay off your loans as quickly as possible

The simple truth is that paying your loans off faster can save you thousands of dollars in interest payments over time. For example, making minimum repayments on a $5000 credit card debt at 18 per cent could cost you more than $13,000 in interest. By increasing your repayment to $150 per month, you will repay the balance within four years, paying less than $2000 in interest. [4]

By making fortnightly repayments of $1061 onto a 25-year $300,000 mortgage, at seven per cent interest, you could reduce your loan term by almost four years and save more than $71,000 in interest costs. [5]

Organisations of interest

Reserve Bank of Australia **www.rba.gov.au**

Australian Government's Financial Literacy Foundation (administered through Australian Securities and Investments Commission [ASIC]) **www.understandingmoney.gov.au**

ASIC's consumer website **www.fido.gov.au**

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2. Australian Bureau of Statistics (ABS),Australian Social Trends, Vol. 4102.0, 2009, **http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features60March%202009**
3. Figures calculated using the Mortgage Calculator on the Money Smart website **www.moneysmart.gov.au**
4. Figures calculated using the Credit Card Calculator on Money Smart website **www.moneysmart.gov.au**
5. Figures calculated using the Mortgage Repayment Calculator on the Understanding Money website **www.understandingmoney.gov.au**

Planning for your future goals

French author and journalist, Antoine de Saint-Exupery, said, "A goal without a plan is just a wish".

Whether it is a new car, an overseas holiday, a bigger house or simply a better wardrobe, we all have unfulfilled wishes. What turns those wishes into goals and eventually into achievements is having a written plan.

Write down your goals in a way that makes them easy to budget for and easy to understand. Follow this step-by-step plan to make your goals achievable. In the Tools section of this guide, there is a *Future Goals Savings Plan* template which you may use. Alternatively, you can just draw up your own with the following steps.

Step 1. Work out a timeframe

In a world of instant gratification it is tempting to want everything immediately. Though the reality is 'affording' goals takes time and money, so planning ahead for a realistic timeframe is the first step to achievement.

Ideally, divide your goals into short, medium and long-term. The following periods may be used as a guide:

- Short-term = one to two years.
- Medium-term = three to six years.
- Long-term = seven to ten years and beyond.

For example:

10-year plan

Timeframe	Activity
Short-term	
Two years	Overseas holiday
Two years	Furniture
Medium-term	
Four years	House deposit
Four years	Car upgrade
Long-term	
Eight years	House renovations
Eight years	Swimming pool

Whatever your goals are and how many there are, the important thing to remember is to be realistic about when you can meet the costs of your goals.

Step 2. Work out a cost

Once you have a timeframe around your written goals, the next step is to work out the likely cost of achieving your goals. For short-term goals, this should be fairly straightforward, as the cost will be incurred in the near future. Medium and long-term goals may be more difficult to determine, as prices may rise in the intervening time.

The Reserve Bank of Australia (RBA) has the long-term goal of keeping inflation within two to three per cent per annum [1]. So as a 'rule of thumb', when working out the future cost of a goal, add an additional three per cent for each year between now and when you will incur the cost.

For example, a car upgrade that would cost $9000 today might cost an additional 12 per cent (or $1080) in four years.

It is not a perfect science – you will not always know what the cost of something is going to be, particularly for the bigger items, but by adding a buffer for inflation you can make an educated guess.

For example:

10-year plan

Timeframe	Activity	Cost $
Short-term		
Two years	Overseas holiday	$4000
Two years	Furniture	$2000
Medium-term		
Four years	House deposit	$20,000
Four years	Car upgrade	$10,000
Long-term		
Eight years	House renovations	$30,000
Eight years	Swimming pool	$20,000

Step 3. Work out a savings plan

Now that you have a timeframe for achieving each of your goals, and have made an educated guess about the likely cost of each of your goals, it is time to start putting money aside so you can afford them.

To do this, add another column to your goals list, and calculate the monthly savings required between now and when you want to achieve your goal. As a guide see the table below:

Year	= Months	Year	= Months
1	12	6	72
2	24	7	84
3	36	8	96
4	48	9	108
5	60	10	120

Upgrading a car in four years at a cost of $10,000 means saving $10,000 over 48 months, or $208 per month. For example:

10-year plan

Timeframe	Activity	Cost $	Monthly savings needed
Short-term			
Two years (24 months)	Overseas holiday	$4000	$167 per month
Two years (24 months)	Furniture	$2000	$83 per month
Medium-term			
Four years (48 months)	House deposit	$20,000	$417 per month
Four years (48 months)	Car upgrade	$10,000	$208 per month
Long-term			
Eight years (96 months)	House renovations	$30,000	$313 per month
Eight years (96 months)	Swimming pool	$20,000	$208 per month

An alternative plan

You do not necessarily need to start saving for all of your goals immediately; you might decide to save for your short-term goals now and achieve these before turning your attention to your medium-term and long-term goals. In this instance, your savings timeframe might follow the format shown below.

Savings now	Savings in two years	Savings in four years
To achieve holiday and furniture	To achieve house deposit and car upgrade	To achieve renovations and swimming pool
$249 per month for two years	$1250 per month for two years	$1042 per month for four years

Other ways of funding goals

- put any tax refund aside to pay for a particular goal
- earmark any salary bonuses for specific goals
- use share dividends or investment property income
- cash an investment.

The earlier you start saving the more likely it may be that you will achieve your goals.

Life is unpredictable and may involve many financial challenges along the way. Having a regular savings plan in place helps to provide some protection against these challenges and will set you on the path towards making your wishes come true.

Organisations of interest

Reserve Bank of Australia **www.rba.gov.au**

References

1. Reserve Bank of Australia (RBA), Monetary policy, **http://www.rba.gov.au/MonetaryPolicy/about_monetary_policy.html**

Saving for education

General Manager, Development of the Australian Scholarships Group (ASG), Frida Kordovoulos says, "Education enables children to fulfil their potential. The outcomes of unfulfilled potential are felt not only at the individual level but also at the family, community and national level".

One important goal for most parents is providing their children with a great education. The definition of a great education will differ from family to family and from child to child, but invariably, whichever educational path is chosen, it will cost money.

What does it cost?

According to the Australian Bureau of Statistics, education costs have increased by approximately 28 per cent over the past five years [1] – almost double the general inflation figures.

Recent ASG estimates of education costs indicate that the parents of a child born in 2011 can expect to pay more than $80,000 for a public school education and more than $400,000 for a private school education from pre-school to secondary school, with a systemic (for example, Catholic schools) education falling in between [2].

"These costs represent the upper ranges that parents can reasonably expect to pay," Frida says. "They include not only tuition fees, but many of the other costs associated with education."

"These other costs are all part of a well-rounded education," Frida says. "It is unfortunate that education costs continue to increase but some of the factors that influence increasing education costs include teacher and support staff salaries, technology, infrastructure, maintenance, insurance and taxes (land), smaller class sizes, administration, security and safety costs. These are all necessary increases and help to contribute towards a good quality education system for our children."

Parents wanting to work out schooling or university costs for their children can use ASG's online education costs calculators at **www.asg.com.au** to estimate these costs. Using the calculators is free and no personal information is collected.

Some of the common costs that need to be added to the bottom line include:

Tuition fees and levies
This includes total basic tuition costs as well as other annual fees, charges, levies and fundraising contributions.

Books and stationery
Items essential to children's study include stationery, textbooks, school bags, art and craft materials, sports and music equipment and other items depending on the age and year level of each child.

Clothing
In particular, school-related special clothing requirements such as the basic school uniform for summer and winter, shoes, sports uniform, and other items depending on the age and year level of the child.

Incidentals
Incidental costs cover class outings and camps, as well as private tuition that may be required. It also covers the cost of music lessons, instrument purchases, coaching, and other optional classes such as gym, drama, art or dance classes.

Travel
This involves the cost of getting to, and from school.

Computer and internet
As education becomes increasingly technologically based, computer costs such as the purchase or rental of a desktop computer and/or laptop computer, software applications and programs, computer levies and internet access costs at home become increasingly necessary.

Why plan ahead?

"All the evidence points to education becoming more expensive for parents in the long-term," Frida says. "Just as inflation pushes up the costs of other goods and services, the cost of education continues to rise. ASG encourages parents to plan for their children's education just as they would plan for other important events during their families' lives."

There are a number of options out there to help parents plan for their children's education. ASG's Education Program™ offers parents a proven and proactive way to ensure the education dreams parents have for their children can be nurtured and funded. ASG is Australia's leading friendly society specialising in education benefits.

ASG's Education Program™ allows parents to regularly contribute small amounts for their children's education. Through the fund, this may allow them to benefit from the effect of compound interest and specific tax advantages allowed for educational scholarships under the Tax Act.

"The main thing to keep in mind is not to dip into your education savings for other expenses or items," she says.

Parents can agonise over the choice of public or private education, but to a certain extent the type of educational path that they choose will be dependant a range of needs of the child and the family. Irrespective of your decision, the important thing is to have the financial freedom of choice.

"Parents often praise that ASG provides them with the discipline to help them make regular contributions towards their education dreams for their children," Frida says. "ASG offers an education benefits program beginning from around $11 per week depending on the age of the child at enrolment. It does not require a lump sum payment to start. Depending on individual taxation circumstances, the program can also offer tax advantages. Parents and relatives wishing to send their children to independent schools will need to contribute extra amounts to meet their education funding goals.

The school years are critical to children's development, so having a financial plan in place to provide the education that best suits is an important part of helping them to realise their potential.

For further information please see the *Planning your future goals* and *Thinking about investment* sections of this guide.

Organisations of interest

Australian Bureau of Statistics **www.abs.gov.au**

Australian Scholarships Group **www.asg.com.au**

References

1. Australian Bureau of Statistics, CPI Index, **www.abs.gov.au**
2. Australian Scholarships Group, Education Costs and Savings Estimates, **www.asg.com.au**

ASG's Planning Counts guide

4. A helping hand

Australian Scholarships Group

Solving financial problems

Sometimes despite our best intentions we can find ourselves in financial difficulty, with more expenses than income. As noted in Chapter 1, the Australian Government's *Financial Literacy: Australian's Understanding Money* report found that almost 48 per cent of adults find dealing with money stressful and overwhelming. [1]

"Many Australians are worried about making ends meet," says Tony Devlin, coordinator of Moneycare, a division of the Salvation Army.

"In surveys, money stress is consistently one of the top concerns among adults. Unfortunately many people are embarrassed to admit that they are in financial trouble and can be reluctant to seek help."

So what causes financial difficulty, what can be done about it, and how to best avoid it happening again?

How it can happen

There are many reasons why people may find themselves in financial difficulty. "Sometimes the problems are long term, caused by a gradual build-up of debt," says Tony. "Other times there is a specific event such as an unexpected job loss or pregnancy that has caused a cash-flow problem. Either way the sooner the problem is addressed, the more likely the situation can be turned around."

Tony lists a number of life events that are common triggers for financial difficulty:

Job loss
Losing a job, particularly for the main breadwinner in a family, can cause a financial crisis. "A number of families live week-to-week—the sudden loss of income for a month or two can be enough to cause some families to default on their loans."

Relationship breakdown
Separation can cause emotional and financial turmoil. Even when the separation is amicable, there are unavoidable expenses as assets are divided and new living arrangements are made.

Pregnancy
"A pregnancy that is unexpected or inadequately planned for can cause financial difficulty," Tony says. "Not only is there likely to be a period of reduced income there are also the increased living expenses that a child brings, which need to be factored into the budget."

Addiction
Whether gambling, drugs, alcohol or something else, addiction can result in social, emotional and financial crisis.

Overwhelming debt burden
"'Debt' is easy to access, and can be a financial disaster if not managed well", Tony says.

Family illness
As well as the medical costs, family illness can also mean lost income for both the patient and possibly a carer.

Inability to budget
"Sometimes people are just unable to manage," Tony says. "They consistently spend more than they earn, leading to a spiralling debt problem. Often they have simply never been taught how to manage money.

While this list is not exhaustive, Tony says that regardless of the individual reason for financial difficulty, the important thing is to commit to working through it.

"Most people can successfully work through their financial problems once they have been shown how," he says. "It is a matter of providing the knowledge and tools they need to succeed."

What you can do

The hardest step is admitting the need for help. Overcoming that barrier enables the search for solutions to begin.

"There is a wealth of education and assistance available," says Delia Rickard, Senior Executive Leader Consumers and Retail Investors for ASIC. "There are some common actions for consumers to take to begin turning their financial situation around," she says.

Put together a budget
"Putting together a proper budget is the first thing to do," Delia says. "Having a written budget makes it easy to identify any areas where you might be spending more than you think and might be able to cut back your expenses". Refer to the *Compiling a budget* section of this guide for more help.

Prioritise your bills
"There are always bills that need to be paid straight away, but in terms of your debts, once you have met your minimum repayment requirements, concentrate on paying off the higher interest rate debts first," she says.

Contact your creditors
"This is particularly important if you think that you might be unable to make your mortgage repayment or unable to meet the repayment requirements of any debt," Delia says. "It is not in the interest of a creditor to have a client default—many organisations are willing to negotiate a repayment schedule if you are unable to make a lump sum payment to clear a debt."

Delia encourages people to sit down and objectively assess their situation before meeting with their financial services provider.

"Before the appointment, have a realistic idea of whether your financial crisis is a short-term or long-term issue," she says. "For example if you are in-between jobs and have a temporary cashflow problem, then that is likely to be a short-term issue. If it is short-term then when you meet with your financial services provider you should be able to negotiate a repayment scheme with them."

A long-term issue may relate to the level of debt you are in. When meeting with a financial services provider you may be able to develop a long-term plan to get out of the debt, or increase your wealth.

Consider debt consolidation

A potential option is to consolidate all loans into one. However, Delia warns there are a number of traps to be aware of. "The FIDO website has some excellent education on this issue," she says. "We quite often see people refinancing their loans without taking into account the long-term interest rate, fees and other costs of refinancing. By the time they have paid these fees any financial benefit of the consolidation and refinance has been stripped away."

Contact Centrelink

Depending on your individual situation you may be eligible for some government benefit. You can telephone Centrelink on 13 6150 or access their online services at **www.centrelink.gov.au**

Getting advice

Professional advice can make the difference between turning your finances around or the crisis continuing.

There are many free, independent and unbiased financial counselling services available throughout Australia. A financial counsellor can assess your situation, help you understand your finances, explain how to negotiate with creditors and any legal procedures and help you put a plan in place. "We usually see clients over a number of sessions," says Moneycare's Tony Devlin. "Each financial counselling organisation will differ slightly in how they provide their services, but unravelling the reasons behind the client's financial situation can be complex and time intensive."

Staying ahead

Once you have successfully turned your financial situation around, how do you avoid making the same mistakes again?

"It's so important to live within your means," Delia says. "Rather than relying on credit, save up to buy consumer goods, the same way that our mums and dads did. And once again, do a written budget. Having a good written budget enables you to prioritise your spending between necessary and discretionary items."

But the most important strategy to stay ahead of the financial eight ball is to educate yourself. "There are a range of excellent educational tools on ASIC's consumer website **www.fido.gov.au** including loan and credit card calculators," Delia says. "Using the calculators to determine how much that credit card debt will cost you over time can be a great motivator for not using the credit card unnecessarily."

Ultimately, staying financially ahead involves understanding and monitoring your situation.

Financial progress involves putting in place the many strategies that have been outlined in this guide.

Having a written budget and concrete goals to strive for, proactively saving and having good debt management policies in place, as well as the safety nets of estate planning and insurance will all give you a solid financial foundation to hold you in good stead throughout your life.

Organisations of interest

Australian Government's Financial Literacy Foundation (administered through Australian Securities and Investments Commission) **www.understandingmoney.gov.au**

The Salvation Army: Moneycare **www.salvos.org.au**

The Australian Securities and Investments Commission consumer website (FIDO) **www.fido.gov.au**

Centrelink **www.centrelink.gov.au**

References

1. Australian Government Financial Literacy Foundation, Financial Literacy: Australians Understanding Money Report, 2007, **http://www.financialliteracy.gov.au/media/209293/australians-understanding-money.pdf**

Financial counselling services

There are a number of free financial counselling services that are available in Australia. The Australian Financial Counselling and Credit Reform Association website lists the contact details for financial counselling associations based in each state. Some of these contact details are outlined below.

Please refer to the AFCCRA website for up-to-date listings:
www.afccra.org

ACT
Care Financial Counselling Service: (02) 6257 1788
Salvation Army Moneycare: (02) 6247 3635
Lifeline Gambling and Financial Counselling: (02) 6247 0655

New South Wales
Credit and Debt Hotline: 1800 808 488
Financial Counsellors' Association of New South Wales: 1300 914 408

Northern Territory
Somerville Community Services:

- Darwin: (08) 8920 4100
- Katherine: (08) 8972 5100
- Palmerston: (08) 8931 6200

Alice Springs Financial Counselling Service: (08) 8951 8000
Tangentyere Council Financial Counselling Service: (08) 8951 4257

Queensland
Financial Counsellors Association of Queensland: (07) 3321 3192
Financial First Aid: 1300 370 255

South Australia
Uniting Care Wesley Adelaide: (08) 8202 5180
Northern Community Legal Service: (08) 8281 6911
South Australian Financial Counsellors Association website:
www.safca.info

Tasmania
Anglicare Financial Counselling Service: 1800 243 232
Consumer Credit Solicitor, Hobart Community Legal Service:
1800 232 500

Western Australia
Financial Counsellors Hotline: 1800 889 364
Financial Counsellors Resource Project: (08) 9221 9411
Consumer Credit Legal Service: (08) 9221 7066
Financial Counsellors Association of Western Australia: (08) 9325 1617

Victoria
Consumer Affairs Victoria: 1300 55 81 81
Consumer Action Law Centre: (03) 9629 6300
Financial and Consumer Rights Council: 1800 007 007 or 1800 149 689
MoneyHelp: 1800 149 689

ASG's Planning Counts guide

5. Are you eligible?

Australian Scholarships Group

Navigating government benefits

Child-related government benefits can be a big financial help to families, particularly with the cost of living continuing to rise. While comprehensive information about every benefit is outside the scope of this guide, below is an overview of the main government benefits and tips on making the claim process easier.

Centrelink General Manager, Hank Jongen says, "The most important thing a person can do is to contact us on 13 61 50 to find out what assistance may be available to them based on their personal circumstances".

Main benefits

For more information on any of the benefits listed below, or to see a detailed list of all benefits please refer to the Australian Government's Family Assistance website **www.familyassist.gov.au**

All figures quoted below are sourced from Family Assistance and Centrelink.

Baby Bonus

This is a payment by the Australian Government to help you with the costs of a new baby or adopted child.

- **Amount paid:** $5294.
- **Payment:** 13 fortnightly installments.
- **Eligibility:** An adjusted taxable income of $75,000 or less in the six-month period following the baby's birth/adoption and the child must be in your care for at least 35 per cent of the time.
- **Tip:** A claim must be lodged within 52 weeks of the child's birth or adoption. If you are eligible for Paid Parental Leave then you cannot receive the Baby Bonus as well.

Paid Parental Leave

This is paid to working primary carers of a child born or adopted on or after 1 January 2011.

- **Amount paid:** National Minimum Wage rate, currently at $570 per week before tax.
- **Payment:** Over a maximum of 18 consecutive weeks.
- **Eligibility:** maximum individual income of $150,000 per year.
- **Tip**: This payment is made within the child's first year of birth or adoption. This payment will affect other family benefits such as the Baby Bonus and the Family Tax Benefit Part B, which you cannot receive while receiving the Paid Parental Leave, but you may be eligible for it when the Paid Parental Leave payment stops. This payment is considered taxable income so may affect your eligibility for other payments such Family Tax Benefits Part A also.

Family Tax Benefit Part A

This is an ongoing fortnightly payment to help families with the cost of raising children.

- **Amount paid:** For one child under 13 years, the maximum payment rate at the moment is $5018.75 per annum.
- **Payment:** These are fortnightly payments to eligible families.

- **Eligibility:** The level of income you can earn before you stop receiving any assistance depends on your situation–currently the income cut-off rate for one child under 18 years is $1,335.90. The child must be in your care for a minimum of 35 per cent of the time. For a family with a child aged 16 – 20, that young person must have obtained a Year 12 certificate or equivalent, or be undertaking full-time study in an approved course of education or training that will assist or allow them to obtain a Year 12 certificate or equivalent.
- **Tip:** how much you get will depend on your family income and the number of dependant children you have and their age.

Family Tax Benefit Part B

This is extra assistance for families with one main income.

- **Amount paid:** Currently the maximum rate of Family Tax Benefit B is $4004.05 per annum.
- **Payment:** These are fortnightly payments to eligible families.
- **Eligibility:** Sole parents will receive the maximum rate of payment provided their income is $150,000 or less per annum and the child is under five years of age. Primary earner's income must be $150,000 or less. The lower-earning parent can then earn up to $4745 before the benefit gets reduced by 20 cents in the dollar of extra income earned, until it reaches nil.
- **Tip:** You may be eligible for this benefit irrespective of whether you receive any Family Tax Benefit Part A.

Child Care Benefit

This payment helps with the cost of approved or registered child care. This is different to the Child Care Tax Rebate.

- **Amount paid:** The current rate for a non school-age child in up to 50 hours of care per week is $3.68 per hour or $184 per week. Payment rates for school-age children are 85% of the non school-age rate.
- **Payment:** "You can choose to either have this paid directly to the child care centre in the form of a fee reduction or you may claim a lump sum benefit after you have submitted your tax return for the relevant financial year," Hank says.
- **Eligibility:** If your family income is $37,960 or less you may be entitled to the maximum rate of the Child Care Benefit.
- **Tip:** For approved care, this benefit is a means-tested payment and depending on your family income it will reduce to nil.

Child Care Rebate

If you receive the Child Care Benefit for approved child care, you may be eligible to receive the Child Care Rebate. The Child Care Rebate covers 50 per cent of the out of pocket expenses for approved child care. Total child care fees do not include administrative fees, your child care service charges such as registration fees or late payment fees.

- **Amount paid:** The maximum rebate amount per child is $7,500 pa, which can be paid quarterly or annually.

- **Eligibility:** To receive the Child Care Rebate, you need to be eligible for the Child Care Benefit. You and your partner (if you have one) must also meet the Child Care Benefit Work, Training, Study Test requirements during the week while the approved child care was provided. While the rebate is not means tested, families must meet a work test.
- **Tip:** you cannot receive the Child Care Rebate for registered care; only for approved care (see below for an explanation of the two different types of care). "It's important to remember that while there is no income test for this payment, the child care must be approved care," Hank says.

What is approved child care?
Approved child care is provided by child care services approved by the Australian Government to accept the Child Care Benefit on your behalf. This means that you pay less money out of your own pocket. Approved child care includes outside school hours care, family day care, vacation care, long day care, in home care, and some occasional care services. You can ask your child care service if they are approved.

What is registered child care?
Registered child care is child care provided by grandparents, relatives, friends or nannies who are registered as carers with the Family Assistance Office. In some circumstances it can also include care provided by individuals in private pre-schools, kindergartens and outside school hours care services. Carers or teachers in these services must be registered with the Family Assistance Office.

The Child Care Benefit for registered child care is paid at a flat rate and is not income tested. The Child Care Benefit is limited to 50 hours of registered child care per week for each child. However you and your partner need to meet the work, training, study test requirement at some time during the week to be eligible for the Child Care Benefit for that week.

Maternity Immunisation Allowance
This is a payment for each child aged 18 months to five years of age, who is fully immunised or has an approved exemption from immunisation.

- **Amount paid:** $251 – if both payments are qualified.
- **Payment:** The payment is usually made in two parts of $125.50 each.
- **Eligibility:** The child must be fully immunised or have an approved exemption from immunisation.
- **Tip:** It is not family income tested. You must have care of the child for at least 35 per cent of the time. You will have to qualify separately for each payment.

Education Tax Refund
To help families meet the cost of educating their children for the future.

- **Amount paid:** Up to 50 per cent of $794 in educational expenses for each child undertaking primary school studies and up to 50 per cent of $1588 for each child undertaking secondary school studies in the 2010–2011 period.

- **Payment:** Payments are made upon application.
- **Eligibility:** Parents entitled to Family Tax Benefit Part A, or whose school children receive Youth Allowance or similar payment, will be able to claim a 50 per cent tax refund.
- **Tip:** Further information on this benefit can be found on the government's Education Tax Refund website: **www.educationtaxrefund.gov.au**

Further information

The benefits explored in this section of the guide are the main benefits for which you are likely to be eligible in the first few years after having your children. "There is also other assistance available such as Rent Assistance, Health Care Card, Large Family Supplement and Multiple Birth Allowance," Hank says. "You don't need to do anything to claim this assistance – this is worked out when you claim Family Tax Benefit Part A."

Making the claim process easier

Navigating the various government benefits can feel a little overwhelming. However, the Family Assistance Office offers the following to help the claim process easier.

Decide how and when you want to get paid
The Family Tax and Child Care Benefits can be paid fortnightly, quarterly or annually. Opting to have these benefits paid annually after the lodgement of your tax returns can help to avoid potential overpayments.

Estimate your family income as accurately as possible
Again, this can help to avoid overpayments. It is important to be aware of what constitutes family income. This information is available from the Family Assistance Office.

Use the family assistance calculators
There are online calculators available on the Family Assistance website to enable families to calculate their possible entitlements, and the likely effect on those payments for any change in circumstances.

Lodge your claim on time
If receiving annual Family Tax Benefit or Child Care Benefit payments, ensure that you lodge your claim within two years of the year for which you are claiming.

Notify the Family Assistance Office as soon as your family circumstances change
Changes that may need to be notified of include; changes of employment, income, marital status, address, shared care arrangements and children starting school.

Lodge your tax return on time
Ensure that your tax returns are lodged on time.
Make the most of the available services.

The Family Assistance Office offers useful publications, fact sheets and staff to help you understand the available benefits. Contact them on 13 61 50, or via **www.familyassist.gov.au** Alternatively, make an appointment with an officer at your nearest Medicare or Centrelink branch.

State-based benefits

In addition to the above federal benefits, there are a number of parent-related state benefits that may be available. The majority of these relate to education and transport. The benefits offered vary from state to state. For more information on benefits specific to your state you should contact your relevant government organisation.

Organisations of interest

The Australian Bureau of Statistics (ABS) **www.abs.gov.au**

Sarina Russo Group **www.sarinarusso.com.au**

Family Assistance Office **www.familyassist.gov.au**

Recruitment Solutions **www.recruitmentsolutions.com.au**

Balancing work and family references Australian Bureau of Statistics (ABS), 4102.0 Australian Social Trends 2008, **www.abs.gov.au**

Barbara Pocock and Jane Clarke, *Can't buy me love? Young Australians views on parental work, time, guilt and their own consumption*, The Australia Institute, 2004, **http://www.barbarapocock.com.au/documents/cant_buy_me_love_summary.pdf**

Australian Bureau of Statistics (ABS), 4102.0 Australian Social Trends March 2009, **www.abs.gov.au**

ASG's Planning Counts guide

6. Thinking ahead

Australian Scholarships Group

Protecting your future

Insurance payments may help to alleviate financial stress, protect lifestyles and businesses. Having adequate insurance protection is always important, but even more so when you have a dependent family. Some of the most common areas of insurance relate to possessions and individuals.

Possessions

Possessions are covered by general insurance and include things such as home, content and cars. Statistics released by the Australian Prudential Regulation Authority (APRA) show that the private sector insurance industry pays out around $96.4 million in claims each working day. Despite this, the Insurance Council of Australia (ICA) estimates 23 per cent of all Australian households, do not have any home or contents insurance in reference to the Australian Bureau of Statistics (ABS), [1]

"Even for those with insurance, very few regularly check to ensure they have the right level of insurance," says ICA General Manager, Paul Giles. "Often it is until disaster strikes that people realise they are under-insured."

Key insurances that should be considered

- **Home and Contents Insurance**
  This protects your house from loss or damage and your contents from burglary, vandalism and some natural disasters.

  How much is enough?
  Your home should be insured for the full replacement value. (Preferably have it valued annually as house values may increase). You should also make a thorough list of contents and insure for replacement value.

- **Vehicle insurance**
  When a vehicle is registered, the registered owner is required to take out Compulsory Third Party (CTP) insurance. This covers personal injuries to third parties. However, you may also want comprehensive insurance, which will cover accidents, theft and damage to your car, and damage to any vehicle you have a collision with.

  How much is enough?
  To an extent this will depend upon your budget. You may insure on replacement value or market value. Exactly what you insure for as well as the amount of excess that you choose, will affect the premium you pay.

- **Household workers insurance**
  This covers a home owner for the cost of injuries sustained by household workers.

  How much is enough?
  These policies do not generally have a set sum insured; the insurer will cover all necessary expenses. It is an inexpensive insurance to have—approximately $20 per annum—but can provide peace of mind.

With all insurances, small details in policy wording can make a big difference, so visit a general insurance specialist to work through exactly what is right for your situation.

Tips on choosing contents cover

"The Australian general insurance industry is one of the most competitive in the world," Paul says. "We encourage consumers to shop around for a policy that best suits their needs." Some simple strategies that consumers can use to help make their general insurance cost-effective include:

- **Shopping around**
  Premiums can vary so research the products on the market before selecting a policy.
- **Multi-policy discount**
  Many insurance providers offer discounts on premiums when several policies are held with the same company. Ask if you would be eligible for a discount by bundling your home, contents and car insurance under the one provider.
- **Consider your excess**
  The excess is the cost that you must meet from your own pocket before your insurance kicks in. The higher your excess, the cheaper your insurance premiums.
- **Read the policy document**
  Not all general insurance cover is the same. Read the policy document before you apply for the insurance cover to ensure that you are taking out the most appropriate cover.
- **Calculate the cover you need**
  Carefully assess the level of insurance cover you need and review this regularly to ensure that it meets your needs.

Personal insurance

Insuring yourself is even more important than insuring your possessions. Your life, health and income are all assets that are vital to achieving your lifestyle and financial goals.

"All the rhetoric means nothing unless the family and business managers sit down and work out where the next dollar is really going to come from, week after week, when the income runs out," says Ms Sue Laing of The Risk Store. "That's the simple reality." And with more than $3 billion paid out to Australians in claims in 2008 and increasing each year [2], it is a financial safety net that is worth having.

Key personal insurances that should be considered

- **Life insurance**
  Life insurance pays a lump sum of money to your beneficiary or beneficiaries in the event of your death.

  How much is enough?
  At the very least, the lump sum should be sufficient to pay out all debts, including the mortgage. It should also provide a lump sum for child care, education and other living expenses for the surviving family members.

- **Total and Permanent Disability insurance (TPD)**
  TPD pays you a lump sum if you become totally and permanently disabled and unable to work again.

How much is enough?
As with life insurance, the sum insured should ideally cover your debts and provide a lump sum of money to use for living expenses for yourself and your dependants. You may also need to consider allowing funds to pay for ongoing medical expenses.

- **Trauma insurance**
  This pays you a lump sum upon diagnosis of a specified illness or medical event. What is covered will vary from policy to policy, but the main events commonly covered are stroke, cancer or heart disease. The specific policy may also cover several dozen other things such as major burns, organ transplant, loss of speech and more.

  How much is enough?
  Ideally, you should have sufficient cover to extinguish your debts. You may also want a cash buffer to meet medical costs and alleviate financial stress during recuperation.

- **Income protection**
  A vital insurance—how would you survive without an income? Income protection covers part of your salary (commonly 75 per cent), if you are unable to work due to illness or injury.

  How much is enough?
  To help ease the financial burden of income loss, you should insure to replace as much of your income as possible (75 per cent). You will also need to choose a waiting period (the amount of time that you must be off work before you can begin claiming a benefit).

Tips on choosing personal insurance

"There are a couple of common traps that people fall into when taking out personal insurance policies," says Financial Ombudsman Service (FOS), Trevor Slater. Trevor says the following strategies can help ensure you get the right type and amount of cover:

- **Seek professional advice** "With regards to life insurance, people are often underinsured," Trevor says.
- **Disclose everything** Most personal insurance applications request a full medical history. Omitting something, accidently or not, could lead to a future claim being denied.
- **Read the policy document** "You might have discussed a few different insurance options with your adviser," Trevor says. "Check to make sure that you have the cover you thought you were applying for."
- **Ask questions** "It is a complex area," Trevor says. "Don't hesitate to put up your hand and ask your financial planner or insurance provider about anything that isn't completely clear to you."
- **Review and notify** Regularly review your cover to ensure that it remains relevant to your needs. Don't forget to notify your insurance provider if your circumstances change (for example, changes of employment, taking maternity leave or moving overseas), because this may affect your eligibility.

The cost of insurance cover will inevitably impact on your budget. However, the value of the safety net that it provides for your entire family is invaluable.

Organisations of interest

The Insurance Council of Australia **www.insurancecouncil.com.au**

The Risk Store **www.theriskstore.com.au**

Financial Ombudsman Service **www.fos.org.au**

References

1. Insurance Council of Australia, 2007 Year in Review, **www.insurancecouncil.com.au**
2. The Risk Store, 2008 Industry statistics, **www.theriskstore.com.au**

Planning your estate

Estate planning is another safety net that is vital for your family's future protection and security.

While many people view estate planning in terms of having a Will, it involves far more than this.

What is estate planning?

"It is a lot more than simply doing your will," says former NSW Public Trustee, Peter Whitehead. "Estate planning could actually be called life planning; it involves spending time considering your future and determining how you would look after yourself or make provisions for your family if your circumstances change. It is essential for all Australians—failing to prepare can really leave your personal circumstances in a mess," he says.

It is not only the division of your assets that can be put at risk by not planning ahead. A lack of estate planning can impact on the running of your business, the welfare of your children and the decision-making capacity of your relatives.

"Doing some research and putting the right plans in place can bring great peace of mind," Peter says. "Having clear instructions eases the pressure of uncertainty around what your family members would want."

Main points to consider

The Will
There are no statistics on the number of people in Australia who die without a Will each year; the uniform industry answer is simply 'lots'.

"Making a Will is part of good life planning," Peter says. "A legal Will is the tool you use to distribute your assets, nominate guardians for your children and set in place a trust to manage any ongoing financial bequests."

Power of Attorney
"This is an important part of estate planning and deciding who holds a power of attorney over you needs careful consideration," Peter says. "It can often involve onerous legal and financial responsibilities as well as a lot of trust."

A Power of Attorney may be general—which gives your attorney the power to conduct any financial transactions that you could perform, or it may be specific-limited to one or two specific tasks. It may be for a set timeframe or an indefinite period.

Powers of Attorney can be useful for a range of reasons including :

- Taking care of your business affairs in your absence
- Completing mundane financial tasks such as banking or transferring money, or making all financial decisions for you in the event of your mental incapacity.

"Setting up a Power of Attorney is an important decision," Peter says. "And there are definite benefits in planning ahead and appointing Powers of Attorney. I have seen family conflict and stress because a loved one has developed a mental illness and no enduring Power of Attorney had been put in place."

Advance care directive
An advance care directive is a document that instructs both healthcare professionals and family members of your wishes for future medical care.

When families go though the trauma of potentially losing a loved one, having a directive in place can go a long way. It can ease the stress and pressure on relatives who may be called to make difficult medical decisions on your behalf.

The legal status of an advance care directive may vary between states.

Insurance and superannuation
While insurance and superannuation are to provide a future benefit to you during your lifetime, they can both also be significant components of your estate planning process.

The previous section, *Protecting your future*, deals with the types of insurance and levels of cover you need to consider. In this section, from an estate-planning viewpoint, the important thing is to ensure that you nominate a beneficiary— that is, name the person(s) to whom your funds should be directed to in the event of your death.

Putting it in place

There are two main options for putting your estate planning in place—making an appointment with a professional or 'doing it yourself'.

With a Will kit costing about $30 and available at most post offices or online, there is no doubt that 'doing it yourself' is a quick and cheap option. And for people with very straightforward situations this may be an appropriate course of action.

The Law Institute of Victoria (LIV) recommends seeking legal advice when drawing up your Will, particularly if people have children and/or property.

"People should be clear about what they want before they consult a lawyer," says the LIV president Steven Stevens. For example, people cannot bequeath their share of a jointly owned property, bank account or car—it transfers to the surviving owner. And superannuation does not form part of an estate.

"We encourage people to consult a solicitor because people often don't anticipate a range of scenarios, such as their beneficiaries dying first," he says. "It's quite a technical area of law and it is easy for people to get it wrong."

Steven estimates that it will cost about $500 for a solicitor to complete a Will for a couple with straightforward finances. The LIV offers a free referral service so people can find a lawyer and get a quote for the work before deciding whether to do it themselves or use a lawyer.

"People think that estate planning is all about dividing up your assets in the event that something happens to you," Peter says. "But the real benefit of estate planning is that it helps to protect your most valuable assets of all—your family."

Organisations of interest

NSW Trustees and Guardian **www.pt.nsw.gov.au**

Law Institute of Victoria **www.liv.asn.au**

Thinking about investment

Once your family has set goals, modified spending and put in place plans for future security, it is time to start thinking about investment. Successful investing involves having a good understanding of the main asset classes that are available to invest in and being aware of the main risks of investment.

What to invest in

While there are many thousands of investment products available, they will fall into at least one of four main types of asset classes; cash, fixed interest, property and shares.

Cash

A cash investment is when you lend your money in return for payment of interest and the main characteristic is an interest-paying investment, which does not provide capital growth. Common cash investments are:

- **At-call cash account:** This is an account where you deposit money with an institution for an agreed interest payment. You can withdraw your money at any time.
- **A cash management trust:** These may also be at-call or may have a specified time delay between requesting a withdrawal and receiving the funds. They may involve a higher level of investment risk than an at-call account.
- **A mortgage offset account:** While not traditionally included in a list of investments, this is a form of tax-effective cash investment. The funds deposited are deemed to reduce your mortgage balance and hence, reduce the interest charged on your mortgage accordingly.

Fixed interest

Fixed interest investments also pay a return via interest and do not involve capital growth. However the funds tend to be invested for a set timeframe or for a longer term. The level of investment risk associated with a fixed interest investment can vary from capital guaranteed, in the case of government bonds, to a relatively high level of risk such as shares on the stock market. Common fixed interest investments are:

- **Government bonds:** This involves lending your money to the government for a set period of time at a set interest rate. The principal and interest are government guaranteed.
- **Term deposits:** You deposit money with an institution for an agreed interest payment for an agreed period. Institutions that offer term deposits are regulated by the Australian Prudential Regulations Authority (APRA) and are a low risk investment.
- **Debentures and unsecured notes:** These are offered to investors through a prospectus and are issued by a company wishing to raise money. Some debentures can be high risk and the Australian Securities and Investments Commission (ASIC) has released a free guide called *Investing in debentures?* It is available free from FIDO, ASIC's consumer website at www.fido.gov.au or by calling ASIC's Infoline on 1300 300 630.
- **Mortgage trusts:** Although they sound more like a property investment, mortgage trusts are also a form of cash lending and are also offered via a prospectus. Some mortgage trusts are registered, which means they hold an ASIC licence and are regulated by ASIC. However some schemes are unregistered and are not regulated at all.

Property

Property is a popular form of investment in Australia. The return on property investment will usually be a portion of interest (in the form of rental return) and a portion of capital growth (as the value of the property investment grows). Property may be invested in directly or through a managed fund. The main types of property investment include:

- **Your own home:** As well as being the place you live in, your own home is also a property investment.
- **Residential property:** Residential property can include houses, units and serviced apartments.
- **Commercial property:** Includes industrial, office and retail spaces.
- **Property trusts:** These may be listed on the stock exchange or unlisted (private investments). Property trusts pool the money of a number of investors to purchase mainly commercial property.
- **Managed funds:** A managed fund also pools your money with that of other investors. You will be provided with a product disclosure statement prior to purchase and upon purchase will be allocated 'units' in the managed fund, which can be bought or redeemed, usually with little restriction. A managed fund can also give you exposure to international property investment, which may otherwise be impractical to consider.

Shares

Purchasing shares is purchasing a slice of ownership in a company. The return will usually be company earnings, in the form of dividends, and potential capital growth over time. Shares may be purchased directly or through a managed fund and the main types of investment include:

- **Australian listed shares:** Coles, Woolworths, ANZ and Telstra are a few well-known examples of listed shares. Stock exchange listed shares are a liquid asset, meaning that they can usually be bought and sold easily.
- **Unlisted shares:** You may have the opportunity to buy shares in an unlisted Australian company. It may even be the company for which you work. The basic principal is the same as for listed shares—you are purchasing a slice of ownership in the company.
- **International listed shares:** Purchasing shares listed on an international market can provide exposure to some of the largest companies in the world. However you need to consider currency fluctuations when investing overseas. A rising Australian dollar can reduce the value of your overseas held investments, while a falling Australian dollar can increase the value. This is separate to the rise or fall based on business performance.
- **Managed share funds:** Like property-based managed funds, share-based managed funds pool your money with that of other investors. You will be provided with a product disclosure statement prior to purchase, and upon purchase will be allocated 'units' in the managed fund, which can be bought or redeemed, usually with little restriction.

Within the abovementioned general investment types are many other investment terms, such as exchange traded options, stapled securities, hedge funds, futures, agricultural schemes and warrants. Most common types of investments will fall into either one or a combination of cash, fixed interest, property or shares.

What to look out for

Understanding the asset classes is the first step; you must then decide how to select an investment product.

Finding independent information about investing can be difficult, however the Australian Government has set up a consumer website via the Australian Securities and Investments Commission (ASIC) to provide financial tips and safety checks for investors. The website is www.fido.gov.au

“The service is free, independent and updated regularly,” explains Senior Executive Leader for Financial Literacy and Consumer and Retail Investors for ASIC, Delia Rickard. “It includes tools like a risk and return calculator to help you assess investment risk and questions you should ask yourself before you make any investment decision.”

ASIC has released a free booklet on investing basics entitled *Investing between the flags*. You can dowload it from the FIDO site or call their infoline on 1300 300 630 and they will send you a free copy. It is full of information on how to invest with relative safety.

Key investing tips from ASIC

- Anything you put your money into should suit you and meet your goals.
- No one can guarantee the performance of any investment. You may lose some or all of your money if something goes wrong.
- The rate of return offered is not the only way to assess the risk of an investment.
- ‘High return means high risk’ is a familiar rule of thumb—but some investments, even if they seem to offer relatively modest returns, can be extremely risky.
- Take your time and do your research before deciding where to invest your money.
- You are taking a big risk if you put all your money into one investment. Spreading your money between different investment types (diversification) reduces the risk of losing everything.
- Consider seeking professional advice from a licensed financial adviser. Investment is an important tool in improving your future financial security. Understanding the products you invest in is crucial to developing the right strategies for long-term financial success.

For more information visit ASIC’s consumer website **www.fido.gov.au** or phone ASIC’s Infoline on 1300 300 630.

Organisations of interest

The Australian Prudential Regulations Authority (APRA)
www.apra.gov.au

The Australian Securities and Investments Commission consumer website (FIDO) **www.fido.gov.au**

ASG's Planning Counts guide

7. Tools

Australian Scholarships Group

Annual budget template

ASG's Planning Counts Guide - Annual Budget Template													
INCOME													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Salary - H													
Salary - W													
Dividends/Interest													
Overtime/Bonus													
Other													
TOTAL													
EXPENDITURE													
FIXED													
Mortgage/Rent													
Repayments - personal loan													
Repayments - credit card													
Repayments - other													
Rates													
Insurance - home													
Insurance - contents													
Insurance - car													
Insurance - other vehicles													
Insurance - health													
Insurance - personal													
Insurance - other													
Electricity													
Gas													
Solar													
Petrol													
Vehicle registration													
Vehicle maintenance													
Licence													

ASG's Planning Counts Guide - Annual Budget Template continued													
EXPENDITURE continued													
FIXED continued													
Donations													
Gym/Club memberships													
House cleaner													
Gardener													
Dry cleaning													
Regular savings													
REGULAR													
Groceries													
Clothing													
Taxis/public transport													
Furniture													
Appliances													
Home maintenance													
Chemist													
Subscriptions													
Medical costs													
Vet fees													
Bank fees													
DISCRETIONARY													
Bank fees													
Gifts													
Entertainment													
Hobbies													
Take away													
Sport													
Holidays													
Other													
TOTAL													
OVERSPEND													
UNDERSPEND													

Future goals savings plan

ASG's Planning Counts Guide - Future Goals Savings Plan							
Timeframe	Activity	Cost $	Weekly Savings Required	Monthly Savings Required	Target Year	Number of Years to Save	Amount Per Year
Short term 1–2 years							
Medium term 3–6 years							
Long term 7–10 years							

ASG's Planning Counts guide is provided to families as a family support initiative of the Australian Scholarships Group (ASG). ASG is a not-for-profit organisation and Australia's specialist education benefits provider. As a not-for-profit organisation, ASG Members share the benefits.

ASG offers a proven and proactive way to ensure the education dreams that parents have for their children can be nurtured and funded.

For more information about ASG and its range of education and parenting support initiatives visit **www.asg.com.au** or call 1800 648 945.

ASG's Planning Counts guide – Published 2011.