



# Budgeting

Whatever stage in life you're at, making a plan for your money is a good way to help you feel in control. Here are some steps you can take to manage your money.

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## Make a budget

A budget can help you identify what's coming in and what's going out. The budget spreadsheet tool on the ASIC Moneysmart website is an easy-to-use tool which can help you achieve this. Another way of budgeting is to go through a quarterly bank statement, track what's being spent, and then compare this with your take home pay over the same time.

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## Determine if you are in surplus or deficit

Once you've made a budget, you should be able to determine if you have a surplus (you have money left over) or a deficit (you are spending more than you earn).

If you have a surplus, congratulations! You may want to think about where this extra money goes – for example, placing extra funds on your mortgage or saving.

If you have a deficit, don't panic! At least you now know where your money is going, and you can now take action.

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## Prioritise your payments and hold yourself to account

From your budget, you can dive a bit deeper into your expenses, and determine what's essential and what's a luxury.

Essentials may include:

- Rent or mortgage payments.
- Council rates and body corporate fees.
- Electricity, gas, water and phone.

Luxuries may include:

- Multiple streaming subscriptions.
- Dining out extensively.
- Buying coffee at work every day.

You may wish to consider reducing spending on luxuries such as dining out or reducing your number or streaming subscriptions to free up spare money. This can be used to repay debt or save for a rainy day.

Importantly, there's no right or wrong. Your priorities are likely to be different to other people, however being honest with yourself is very important because no one else will hold you accountable to your budget.

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## Set up an emergency fund

An emergency fund is money you put aside to cover unexpected costs, such as medical costs, repairs or maintenance to your home. An emergency fund provides a safety net, so you don't have to go into debt if something happens to you or your family.

Keeping an emergency fund allows you to have peace of mind that if something goes wrong, such as losing your job, you'll have money to live on.

There's no right or wrong amount to set aside, however one rule of thumb is to set aside enough cash to cover three months of ordinary expenses.

Keeping the funds in a separate interest-bearing bank account (or mortgage offset account) may reduce the temptation to spend it. You can make regular payments to your emergency fund by setting up a regular payment from your main bank account.



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## Keep debt under control

If you have debts such as personal loans, buy now pay later bills, car loans or credit cards, keep on top of them by making a list of all your debts. Your list can include how much you owe, the minimum repayment, the interest rate and when the payment is due. Totalling how much you owe may be confronting; however, this is the first step to taking control.

Work out what you can afford to repay from your budget –making regular and realistic repayments can help you keep on track. Aiming to repay debt with any surplus cash flow is one way to reduce debt. Other considerations for repayment of debt include:

The interest rate on the debt – repaying debt with the highest interest rate first may assist in reducing the overall level of debt you are in sooner.

Fees for early repayment – the lender may require that you pay a fee for early repayment. Some car loans have ‘balloon payments’ which are lump sums payable at the end of the loan. You can check the with the lender and the loan documents.

Another strategy is to ‘snowball’ your debt. You start small, and pay off your debts one by one, starting with the smallest debt first. The sense of achievement in paying off a debt in full may assist in encouraging you to keep going. This is great for paying off credit card

or personal loan debt.

If you have a home loan, you may benefit from shopping around for a lower interest rate.

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## Appreciate the value of money and develop a savings attitude

Most of us need to work hard for our wages. Taking some time to reflect on the effort that goes into generating your income may help you to value your money more. Some people prefer to pay for items in cash where possible, to instil this mindset.

Learning the value of money can be a confronting, but it’s a valuable lesson to learn. The old expression of ‘a dollar saved is a dollar earned’ is as true today as it ever was.

Saving regularly may help you avoid money problems in future. Setting yourself a goal with a timeframe and dollar amount may help you focus on saving. For example: I want to save \$500 per month so I have an emergency fund of \$6,000 in 12 months’ time.

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