

LECTURE 8 – MASTER DEBT 1

G'day. Here, we are going to have a look at how we can try to master debt.

First point is, avoid the attitude of keeping up with the next-door neighbor or I suppose in today's terms, "keeping up with the Kardashians". It is impossible. There is always someone that's going to have more. They might also have more debt issues. There is no point in trying to do that as it will just build up into financial stress.

Restructuring your debt is definitely an option if you've currently got a home loan where you've got some equity in that. And if you're at your wit's end when it comes to your credit cards and other debts and you do have the option to consolidate, you could potentially bring the debt on your credit card that might be at say, 16%. Putting it down to a home loan, as low as, you know, 3.94% at the moment in the Australian environment. That could be a good option for you.

What I would encourage you not to do is consolidate your debts into the lowest interest and then just continue doing what you used to do. You'll end up exactly where you were in the past.

If it's consolidating your credit card debt into the lowest credit card or there is a deal that gives any balance transfers interest free for the first 6 months, that's fine. You still need to cut up all the rest, just keep the one, but you have still got to change the way that you utilize your cards and the way that you budget.

And last of all, for this part of the course, is you need to prepare and keep a very boring budget, but what I've seen with clients, that once they get into the budget and they are within that space and live within their means, stress is lifted. They feel so much more comfortable and they can see themselves moving forward as they reduce debt and get on top of their finances.

So, a couple of budgeting tools here on the Moneysmart website.

You can setup an account to have an online option or you can just click the excel version.

And you can store on your home computer.

UNDERSTANDING CREDIT CARDS

You have an option to set this up at annually, quarterly, monthly, weekly. I would recommend whenever you receive your pay, whether it's on a weekly basis or a fortnightly, that's what I would set this at.

I want people to break things down rather than saying, "Oh, I get \$60,000 per year", which leaves \$45,000 after tax and you try to work out a budget based on \$45,000. It won't work.

You need to break it down into small pieces.

If you get a fortnightly pay, do it on a fortnightly basis. If it's weekly, do it on a weekly basis and then start to break it down.

We know what our mortgage or our rent is. So, put that in.

Council rates if you own the home. You know what that is approximately each year. Take the total amount, divide it by 52 if it's weekly. If it's on a fortnightly basis, divide it by 26.

What you can start to do is, even though Council rates might only be due on a quarterly basis, you know on a fortnightly or a weekly basis that you need to put aside 'X' amount of dollars.

You might have a separate bucket for those expenses and have direct debits going across, so there are no nasty surprises. And that will help us making sure that we don't need to lean on the credit cards like we may have done in the past.

There may be some certain expenses in here that you might decide, "Well, I can do without those, moving forward." Obviously, that's for you to consider.

It's a simple excel spreadsheet, but really powerful and it will allow you to track a lot of your expenses against your income and know exactly where you're at.

And it will tell you whether you're spending more than what you're making or whether you're in surplus, which is where you should be aiming for.

I'll just get rid of that one and get back to the presentation.

There is another newer app that's out called 'Track My Spend' and again it's from 'Moneysmart'.

And as it's an app on the mobile phone, you can really start to track your spending as you go along.

You'll be able to link accounts or manually put in your spending.

It will allow you to set a budget on a weekly or fortnightly basis and really consider your spending as you go along.

A good analogy might be that it's very similar to counting calories if you're on a diet. That you will think about what you put in your mouth because you're counting the calories. We're just suggesting you count your spending in the same manner and when it's not on credit card, it's your own cash, it's coming out of your bank account via your debit card, you're going to think pretty hard about what you're going to spend.

This is a free App. These are all free resources. Hit up iTunes or Google Play and you can grab this and have a look at it. It's really good stuff.

We'll cover off some other ways to master debt in the next part of the course.

Thanks for listening. We'll see you in a second.