

Managing your financial future – in black & white



Chapters...

Growing your wealth – in black & white



Managing your debt – in black & white



Why super is important – in black & white



Protecting your lifestyle (insurance) – in black & white



Understanding estate planning – in black & white



Planning for retirement – in black & white

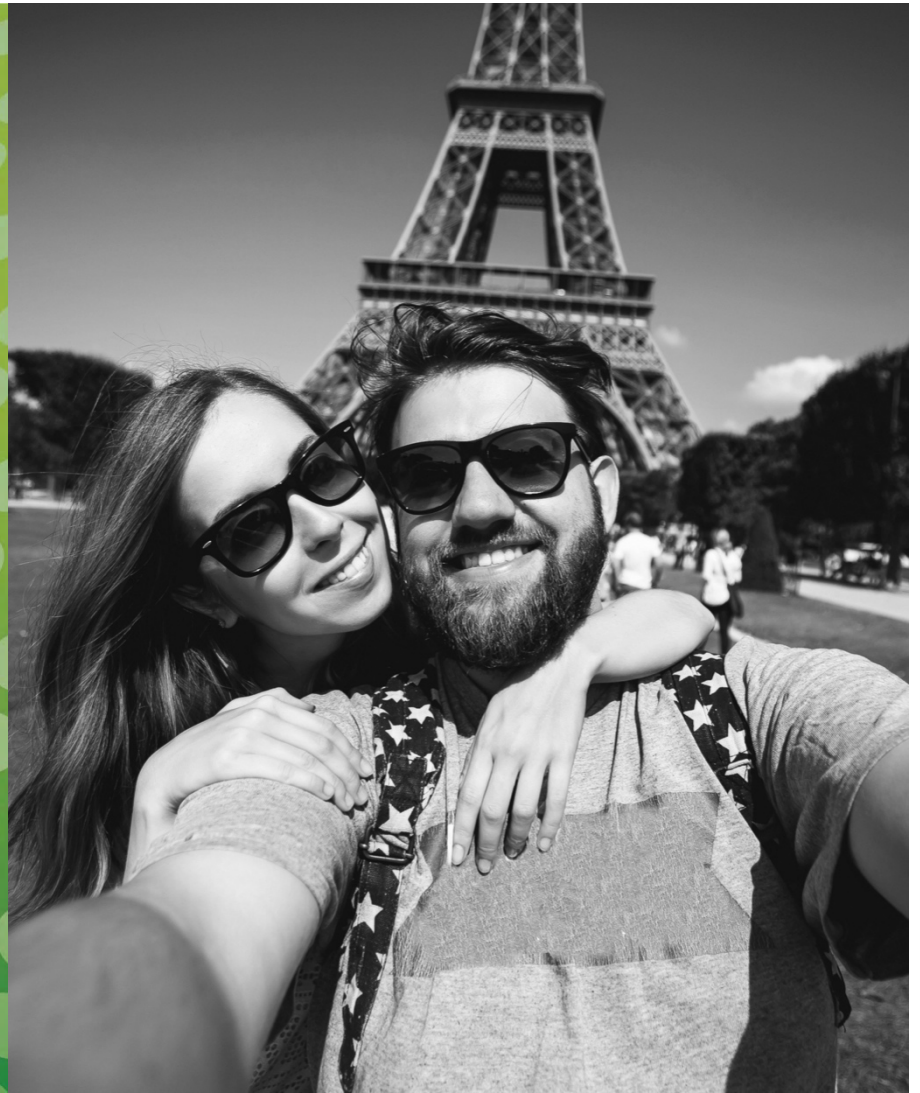


Managing your debt – in black & white



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Important notice

Any advice in this presentation has been prepared without taking into account your objectives, financial situation and needs. You should consider whether it is appropriate having regard to your personal circumstances before making any financial decisions.

If you are considering acquiring a financial product you should obtain the relevant product disclosure statement before making any decision.

Any information about taxation in this presentation is factual information or general advice only and does not consider the application or interpretation of any taxation laws to your personal circumstances. If you require taxation advice you should seek advice from a registered tax agent or a registered tax (financial) adviser.



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Financial Literacy: Test

You borrow \$100 from the bank at an interest rate of 3 percent a year on interest only terms. After 5 years, how much would you still owe?

- A. More than \$100
- B. Exactly \$100
- C. Less than \$100
- D. Don't know



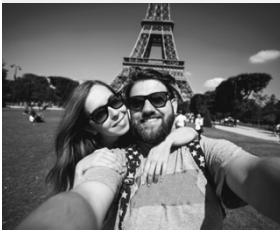
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Financial Literacy: Test

The best way to manage credit card debt is:

- A. To consistently pay part of the amount owed every month
- B. To not pay every month but pay lump sum using my bonus at the end of the year
- C. To pay the full amount owed for that month
- D. To take up a personal bank loan to pay the credit card debt in full



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Agenda



Understanding debt



Investment loans



Personal debt & credit cards



Summary



Mortgages & home loans



Questions

Understanding debt



Borrowing basics



WHAT AM I BORROWING MONEY FOR?

- Something I need?
- Something I want?
- Helping someone else?



IS BORROWING MY BEST OPTION?

- Other options?
- Use savings
- Alternative methods such as lay-by



HAVE I CHECKED MY CREDIT HEALTH?

- What is my credit rating?
- Capacity to repay new borrowings



CAN I AFFORD THE REPAYMENTS?

- Interest rate rises
- Unexpected expenses
- Financial emergencies



IS NOW THE RIGHT TIME TO BORROW?

- Job security
- Family situation
- Health



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Good debt v Bad debt

Good debt



“Good” debt has lower interest rates and is considered an investment for the future

- Buying a home
- Education
- Investment
- Business
- Real Estate

Bad debt



“Bad” debt has higher interest rates and can often be prevented with smart use of money

- Credit Card
- Cash advances
- Vehicle
- Consumer debt
- Payday loans



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Good debt v Bad debt

<u>Good debt</u> Opportunities
Leverage into investments
Can provide tax benefits
Can produce income

<u>Bad debt</u> Opportunities
Short-term solution
Make use of rewards/loyalty points
Debt recycling

Considerations

- Interest rate fluctuations
- Investment income unpredictable
- Market fluctuations

Considerations

- Long-term debt trap
- False sense of security
- Paying for things no longer needed



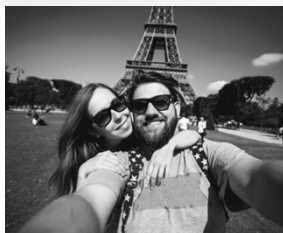
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Interest



Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. **Interest** rates are typically noted on an annual basis, known as the annual percentage rate (APR).



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Too much debt?



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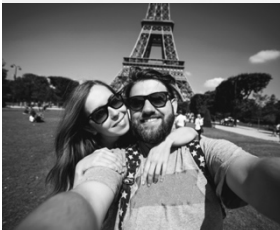
Personal debt & credit cards



Managing personal debt

5 GOLDEN RULES FOR MANAGING DEBT:

- 1 Total up all your debts
- 2 Prioritise your debts
- 3 Set a budget
- 4 Consider refinancing or debt consolidation
- 5 Get urgent help if you need it



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Interest rates



Variable rate

Rates can/will vary
both up & down
Flexible



Fixed rate

Interest rate locked in
Generally for a set
term (up to 5 years)
Inflexible



Partially-fixed rate

Split loan facility –
variable/fixed
Less flexible



Introductory rate

Honeymoon rate
Generally short-term
(up to 2 years)



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Credit card debt

- Credit card debt in 2017 = \$32 billion up from \$6 billion in 1995
- \$4,279 average debt per card-holder
- \$5.5 billion current total interest payments p.a.
- \$736 current interest payments per card-holder p.a.
- 27 years: average time to pay off credit card debt
- Banks get a return of up to 14.74% from credit cards that are paying interest

Source: <https://www.moneysmart.gov.au/borrowing-and-credit/credit-cards/credit-card-debt-clock>



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Credit card debt

5 reasons why people get into credit card debt:

- 1 Impulsive spending behaviour
- 2 Bad spending habits
- 3 High living expenses relative to income
- 4 Poor planning (saving to spend)
- 5 Lack of personal financial discipline



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Reducing personal debt



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Mortgages & Home Loans



Types of home loans



Principal & Interest

Most common / popular loan option
Repays the principal borrowed + interest
Flexible



Interest Only

No repayment of principal, only interest
Generally fixed term
Inflexible



Fixed Rate

Interest rate locked in
Generally for a set term
Inflexible



Variable Rate

Rates can/will vary both up & down
Flexible



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How much to borrow?



Affordability

Amount you can afford to borrow



Savings

Deposit saved



Costs

Fees and charges including stamp duty, legal fees etc.



Purchase price

Amount you can spend on a property

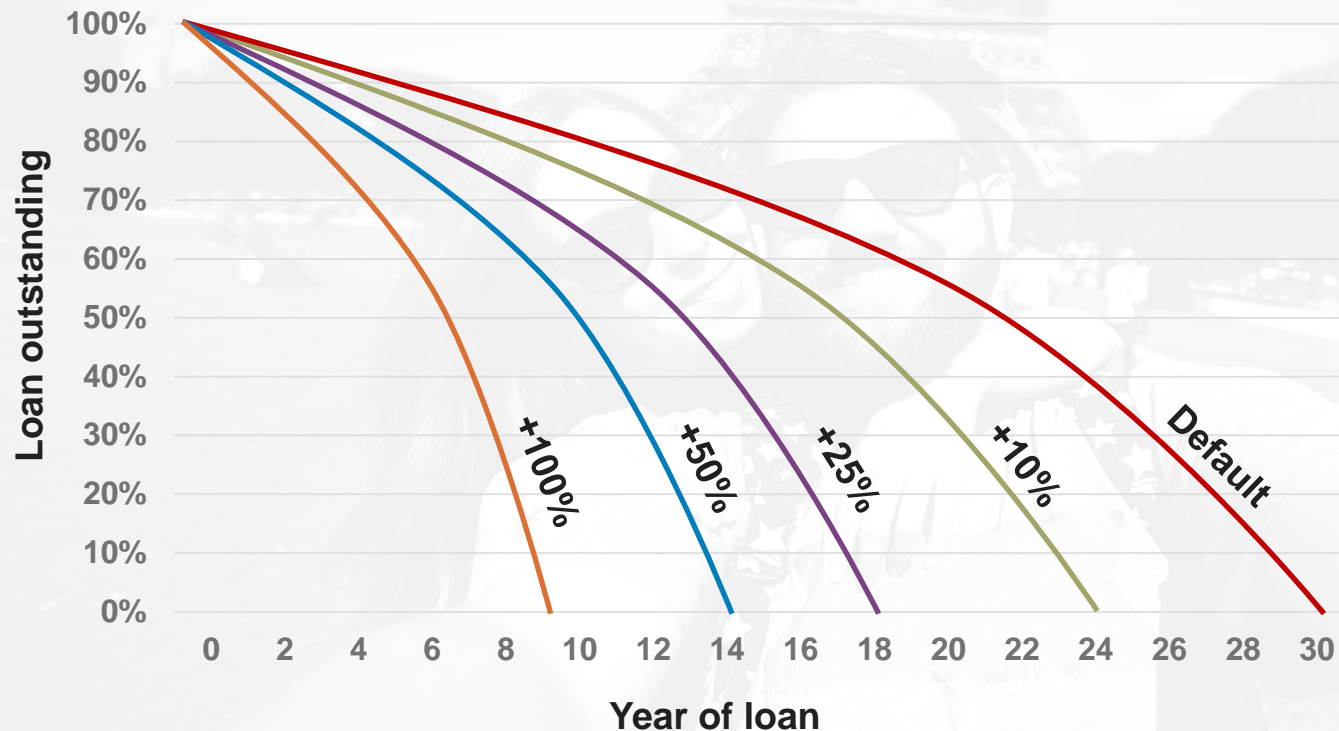


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Mortgage reduction

The effect of paying more than the minimum (default) off a home loan:



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Investment loans



Borrowing to invest



Investment Property

Gearing strategy
Income – rental
Growth potential
Stamp duty
Management and maintenance



ETFs

Gearing strategy
Diversification
Broad range of assets
Flexibility
Fees & charges



Share Portfolio

Gearing strategy
Income – dividends
Growth potential
Brokerage



Managed Funds

Gearing strategy
Diversification
Broad range of assets/markets
Flexibility
Fees & charges



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Gearing

Negative Gearing



Investment income is **less** than interest and expenses

Interest and investment costs can be tax deductible, which may reduce the overall tax payable on other income.

Positive Gearing



Investment income is **greater** than interest and expenses

Less tax-effective than negative gearing but interest and investment costs can be tax deductible against investment income. However, the income generated will be subject to income tax.



Shares

Property

ETFs

Managed Funds



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Gearing



Investment Property

Positive or negative gearing
Income and expenses
Property management and maintenance



Margin Loans

Using shares &/or managed funds as security to borrow to invest



Margin calls

Loan to valuation ratio dropped below a certain level



Leverage

Ability to utilize existing assets for further borrowing / purchases



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Associated risks

Interest rate risk



- Loan interest rates rise
- Increase borrowing costs
- Reduce returns for investors

Capital risk



- Value of investment falls
- Sale of asset may not cover outstanding debt
- Do you have a contingency plan?

Income risk

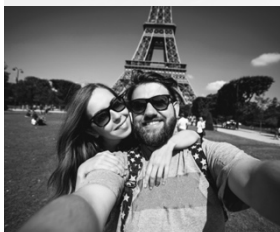


- Loss of income due to sickness/injury
- What if I lose my job?
- Will I be able to cover the repayments?

Investment income risk



- Reduction of income from investment
- Potential cash-flow implications
- Increase out of pocket expenses



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Debt restructuring



Consider consolidating debts into one loan for a lower interest rate and a more structured way to pay back what you owe



Mortgage Offset – using a savings account to offset interest payable on a home loan



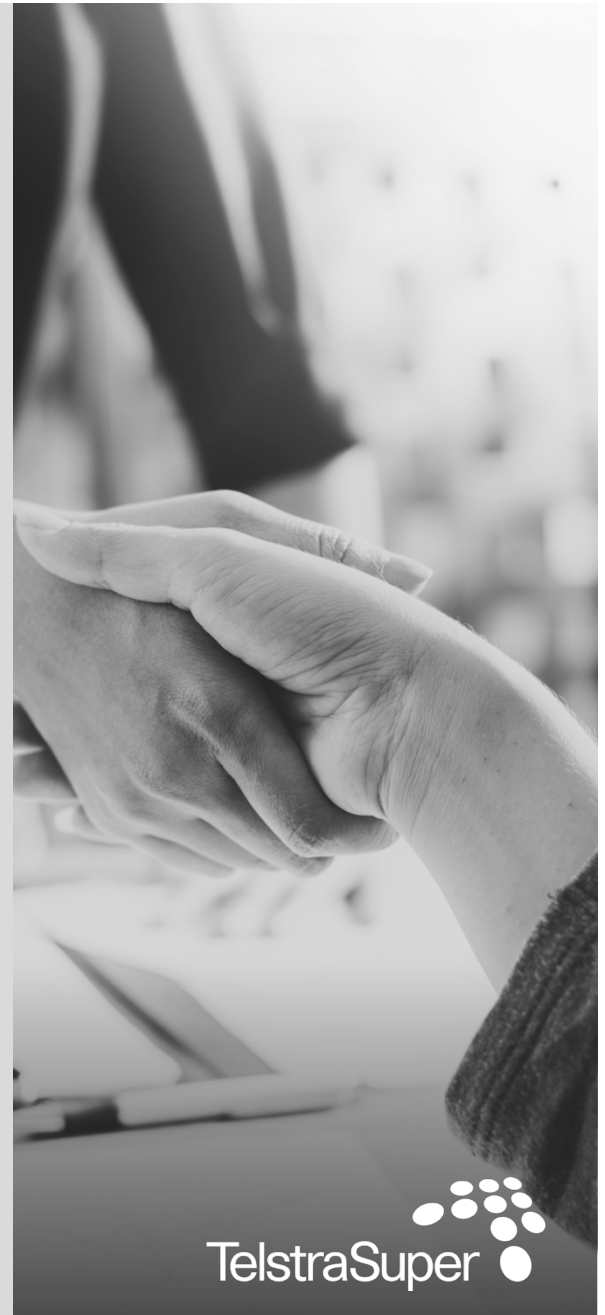
Increase loan repayments



Adopt a debt management plan



Cash flow management



Summary



Keep on track

1

UNDERSTAND YOUR DEBT

How much do I owe?
What interest rate am I paying?

2

ELIMINATE BAD OR UNNECESSARY DEBT

See how much you'll save by repaying your debts faster.

3

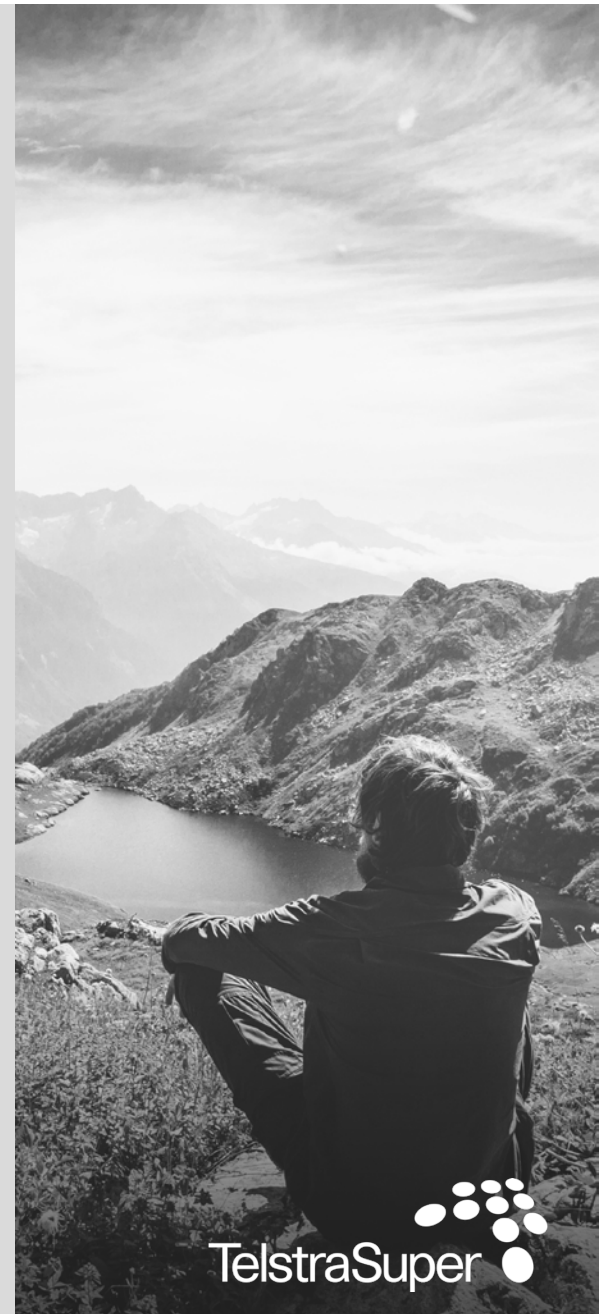
BORROW WISELY

What am I borrowing for?
Is it the right time to borrow?
Do I have other options?

4


SEEK ADVICE

Navigate the financial advice process with confidence.




Useful tools

 TrackMySPEND app

 ASIC Moneysmart website:
www.moneysmart.gov.au/

 www.investors.asn.au

 ATO app


 1300 033 166

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Thank you



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Why superannuation is important – in black & white

