

Means to a happy end



LIVING WITHIN YOUR MEANS MIGHT SOUND LIKE A LUXURY ONLY PREVIOUS GENERATIONS COULD MANAGE, BUT THAT DOESN'T HAVE TO BE THE CASE. WE MEET TWO FAMILIES WHO DISCOVERED MORE TO THEIR MONEY WITH SOME SIMPLE PLANNING.

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For their twins' third birthday, Richelle and James Fowler held a party at their home. It wasn't luxurious but there was plenty of food, helium balloons, games with prizes and party bags for every child. The twins got the gifts they wanted, too. For Richelle and James, it marked a turning point in their lives.

"We paid for the party out of our savings," Richelle says. "It sounds small, but it's a massively important parenting goal to provide for your children with money earned and saved, not borrowed."

The twins' first birthday was a different story. Held in a park and combining a naming ceremony, the couple had to ask friends and family to provide the food, had a friend make the birthday cake as a birthday gift, and instead of presents, asked guests to gift money so they could afford to continue the twins' swimming lessons. "We had to scrimp and borrow to have the party. I did some work for the woman who owned the hire company so we could afford it. It was a huge stress. It was 40 degrees on the day and I only had money for one bag of ice."

James is a stay at home dad and also carer to Richelle, who suffers from a neurological disorder similar to Parkinson's disease. While she has a part time job as a function coordinator at a golf club, she also receives a part-time pension, and James receives a carer's pension, making sorting their income out confusing at the best of times.

"It was a full-time job trying to stay on top of our finances," Richelle says. "We were living pay to pay, trying to manage my income plus our different Centrelink payments. When I went on maternity leave, it got even more confusing because some payments stopped and other payments started."

It wasn't for lack of trying. The pair had set up a monthly budget and did their best to stick to it. "You know what it's like with kids, it kept getting more expensive. An unexpected bill would come in and we were constantly negotiating payment terms because we could never afford to pay things upfront."

Things went from bad to worse when Richelle was

on maternity leave and they got behind on a payment arrangement with their electricity company and debt collectors got involved. James was rushed to hospital and they found themselves with a \$900 ambulance bill, at the same time Centrelink informed them they'd been overpaid and had to pay back a large sum.

"I thought, I can't handle any more of this. We weren't living. We were just trying to survive."

It was James who suggested they get professional help with their budgeting – after a friend told them how the MyBudget service had helped them. Richelle made the call. "I thought we should be able to do it on our own, but when I spoke to them, they were so understanding, I burst into tears and said, 'Please help us.'"

Working with a personal budgeting specialist, the pair established a long-term, flexible budgeting system that took into account every expense, from utilities to haircuts and holidays. "We now look at the money we have coming in and all the commitments we have going out and we know exactly how much we have to live on, not just this week but for the whole year."

The budgeting service manages payment of all the bills and savings, giving the couple access to a set amount of spending money. "The first six weeks were really hard because I had to learn to give up control. It took that long to feel it was working, that we were actually catching up with our bills and having money to live off. Now when we get a new bill, I just call them and it's taken care of. In the past, I would have been in tears."

The couple have learnt to control random spending, making sure their expenses are covered first, and are on their way to building up their savings to provide the things for their family that not so long ago, they could only dream of. "We want to be able to buy their Christmas presents and take family holidays. It's little things like being able to take them to the museum and not worry if they want food, or for them to be able to go to other kids' parties. Before, the thought of three birthdays in one weekend was nauseating because there was no way we could afford three presents." **1**

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To look at Leanne and Daniel Martin in their cosy home today, their four-year-old son Brock playing on his trampoline, it’s hard to believe that it wasn’t so long ago they were living with Daniel’s family, and barely making ends meet.

The pair had each brought considerable debt into their relationship – Daniel’s significant debt was a hangover from an expensive car hobby he indulged in during his twenties. It all seemed manageable until they found themselves expecting a baby, and considering moving interstate.

While living in Western Australia with little savings, they were financially unstable, with Leanne’s limited employment opportunities, and Daniel’s shifting between various jobs. They moved to Adelaide, and to get on their feet, lived with Daniel’s family. Shortly after the birth of their son, Daniel was offered the opportunity within his company to work at a South Australian mine site; however, it wasn’t until Brock turned one that they were able to move into a rental property of their own. Even so, money was still tight on one income, and they were struggling to service their debts and other financial commitments.

“We would often fight about money, mainly how we’d find the money to pay bills, or why we didn’t have enough in savings to buy a bigger ticket item or visit friends and family interstate”, Leanne says. “I know Daniel felt the pressure, providing for me and our son, as well as dealing with the guilt that he had created the debt for us.”

Like the Fowlers, Leanne and Daniel felt they should get out of their financial problems on their own. They tried ‘the envelope’ method, which involves putting money for expenses into envelopes. “In our case, it didn’t work. We’re both impulse spenders and, if we knew the money was there, we’d often use it on bill-free weeks. We were always paying bills late, and never had any savings.”

A chat with a professional budgeting service proved much more successful. “We looked at what we could actually achieve on our income with a long-term budgeting plan, and it was a pleasant surprise.”

The service took control of paying the bills and saving a portion of Daniel’s income, leaving the couple with a set amount of spending money each pay period to cover weekly living expenses. They looked at where they could make savings on their expenses, such as reducing the levels of their insurances, cutting back on personal appointments, and saving fees by having bills paid on time.

“We were never really big on going out a lot, we never had a luxurious lifestyle so we didn’t have to cut back on a lot of ‘extras’. It was about creating savings for us to fall back on if we needed it, and reducing the impulse spending. It was more of a mental shift in realising that just because spare money is there, you don’t have to spend it,” Leanne says. “For me, it’s like having a chocolate bar in the fridge – if it’s there I’ll eat it, but Daniel can let it sit there for a week. One thing we have learned about savings is that it must be treated as another bill. If you wait to see what you have left at the end of your pay, it’s difficult to get ahead with your savings. If you pay it as a top priority bill from the start, you can see it climbing steadily every month”.

With impulse spending and late-payment fees removed from the equation, Leanne and Daniel found their money going much further. “We were able to make double payments on our debts, plus we saved for a house deposit and paid for our wedding,” Leanne says. “We’ve learnt to save for the things we want and we don’t have a credit card any more. We’re expecting another baby this year, which means I’ll be on maternity leave, and the assistance will be vital in helping us get us through it.”






THE DEBT TRAP

The Fowlers (above) and Martins are not alone. Australians owe \$1.8 trillion in private debts, or the equivalent of \$80,000 per person, making us one of the world's highest debt-burdened nations. In the 1970s, average household debt represented about 30 percent of disposable income, a ratio that steadily increased throughout the eighties before an astronomical ascent. From 1994 to 2004, our average household debt more than doubled, from 60 to 130 percent. By 2014, it reached 177 percent, where it continues to hover.

Where does all of this private debt come from? Most experts tie it back to the rapid influx of 'ma and pa' investors into the property market in the 1990s. Banks and other lenders were aggressively marketing investment loan products, which resulted in thousands of home owners using the equity in their properties to secure other debts. This resulted in booming house prices and, consequently, bigger mortgages for everybody.

Aside from mortgage debt, Australians also have a heavy crush on consumer credit. Our combined credit card balance attracting interest is worth more than \$32 billion. As a nation, we're paying the banks more than \$5.4 billion in credit card interest annually. That's before we include car loans, cash loans and other forms of personal borrowing.

MyBudget's Tammy May says no one is immune to the problems that can come with personal debt. "There is often a misconception that debt and consequent financial stress are an affliction of low income earners. That is not always the case. Debt stress can occur across all income strata. After all, there is a general rule that the more people earn, the more they spend."

But must we take debt for granted? Is financial stress a fact of modern life or can we do something about it? Professor Robert Cummins, author of Australian Unity's Wellbeing Index 2015, says that the 'golden triangle of happiness' is strong personal relationships, financial control, and sense of purpose. "Wellbeing rises consistently with household income up to about \$100,000... However, the power of money to affect wellbeing lies in its capacity to alleviate stress and create an environment for happiness," he writes. "Accordingly, people can achieve normal levels of wellbeing even with low income, so long as they feel in control of how they spend it." 



TAMMY MAY'S TIPS FOR DEBT REDUCTION

Budgeting is the surest way to work out how much of your income can be used for debt reduction and how to apply it effectively. Owner of MyBudget Tammy May says people are usually amazed at how quickly they get ahead once they start budgeting. When it comes to debt reduction, she says it's important to choose a strategy that feels right for you.

Big hitter While meeting your minimum payments on other debts, focus all spare cash on paying down the debt which has the highest rate of interest. This strategy fast tracks debt reduction by minimising the amount of interest you pay.

Snowball While meeting your minimum payments on other debts, put extra money towards the smallest debt first regardless of the rate of interest it attracts. The snowball strategy gets its name because it gathers momentum as smaller debts are paid off and the repayments are applied to larger debts. This approach can be very motivating.

Feel good While meeting your minimum payments on other debts, apply extra funds to those debts that make you feel the worst, often money owed to family and friends. This can be an excellent way to get motivated and rebuild stressed relationships.

GET HELP

Financial counselling

There are a range of free financial counselling services available through community organisations, community legal centres and some government agencies. Call the free hotline 1800 007 007 to find a counsellor in your area. The ASIC website also has a range of tools online to help you budget, track your spending, manage loans and savings.

>> moneysmart.gov.au

MyBudget

This local company was set up by Tammy May, who while working at a legal firm, saw the difficulties clients were having getting on top of their finances. The service offers a free, no-obligation consultation to develop your personal budget plan, and if you sign up they can help take care of your money for you.

>> mybudget.com.au

Keep an eye on: MyMoneyZen

Local sisters Kylea and Lauren have created an online course and software to help you manage your money. It's currently at crowdfunding stage, and if all goes well, is set to be launched in June. >> mymoneyzen.com