How to budget and manage cashflow

Having a budget can make all the difference to having an affordable lifestyle.

The ability to budget is a very useful skill. Not only can you track where your money is going – you can also take control of your financial future.

Budgeting is a big part of retirement planning, helping you distinguish essential and non-essential spending. While this financial disciple takes commitment, it's a skill we can help you acquire.

How to start a budget

You just need to track your spending for a set period. Seeing just how much you spend on things like take away food, a morning coffee, magazines, etc. can be quite an eye opener.

Basic budgeting

There are plenty of ready-made budget planners available (check out the one on ASIC's website **www.moneysmart.gov.au**). Start by entering your spending details - the results may surprise you. Comparing your bank balance at the beginning and end of each month will give you a good idea of total spending while the budget planner shows where the money went.

The finer points

Budgets are a bit like diets; too strict they don't last, too easy you don't get the result you want.

Accounting for every last dollar isn't the point: the main aim is to discover whether you're spending more than you're earning. You may even find you have spare cash flow that could be put to better use.

The most effective budgets also have some flexibility. If possible, factoring in a buffer for emergencies will help stop unexpected expenses like car repairs or medical bills blowing out your budget. The same goes for building in some rewards for good management and commitment.

Creating a savings plan

Once you've tracked your spending for a few months, and reviewed your priorities, consider setting yourself some savings goals.

The secret to successful saving is consistency. Even small amounts, if saved regularly, add up and can significantly boost your wealth thanks to compounding investment and the opportunity for capital growth.

Having a goal in mind will help you focus on making the most of your income. And if your savings are deducted from your pay packet before you get it, you may not even notice the difference.

Time Frame	Savings Suggestions
Short-term — 1 to 2 years	A holiday, a new car
Medium-term — 3 to 5 years	A deposit to purchase a property
Long-term — 5 years plus	Your retirement savings

Saving specifically for retirement

It's never too early to start saving for your retirement. Starting early and saving regularly will help you make the most of your salary while you're working. It may be worth considering how you can change your spending habits so you're able to spend less and save more.

There are other things you can do to boost your retirement savings. For example, as you get closer to retirement, consider moving some of your 'rainy day' money into super. This money will keep growing in a tax advantaged environment until you're ready to retire.

Working out how much you'll need to fund the lifestyle you want when you finish working can be challenging. That's where your budget comes in. Review it and consider your current living costs. Can you see areas that will change once you retire?

For example, you may want to take a luxury holiday annually, or buy a new car every few years. Perhaps you want to renovate your home. It also pays to consider the costs of any interests or hobbies you have, or want to get into. Once you have an idea of what you want to do, you'll be in a better position to work out how much money you'll need each year to make it happen. Asking yourself these questions is essential to setting yourself up for the retirement you want.

Annual leave and delaying retirement

Most people get most of their income from a salary while they're working. But your retirement income is likely to come from multiple sources, such as income streams and earnings drawn from your retirement savings, social security and/or a part time job. So deciding when you'd like to retire and start using your savings is a big deal.

Delaying retirement, even briefly, can have advantages. For starters, every year you keeping working is one more year before you need to dip into your retirement savings – and the older you may be before they run out.

Delaying retirement until the new financial year may also work in your favour. If you expect your taxable income to be much less in retirement, you may save tax on any accrued annual and long serve leave paid out as a lump sum in the next financial year. This is compared to if it was paid in the same financial year when you receive nearly a full year of salary.

Rather not get your accrued leave payments as a lump sum? Fine – simply delay your (official) retirement by using up your accrued leave first. Plus, you'll still be entitled to employer super contributions to help further boost your retirement savings while you're using up your leave. You won't get them if you take your leave as a lump sum on retirement.

Tax, tax, tax...

We all have to pay it but your financial planner can show you strategies to reduce your tax bill and boost your super savings while you're working.

Salary sacrifice or diverting part of your income to super before tax is another way of building retirement assets and reducing tax.

It's even more important to minimise the amount of tax you pay on your income when you retire and don't have a regular salary. Super concessions allow tax-free income after age 60 and concessionally treated income before 60 from taxed super funds. This means some traditional income sources such as fixed interest investments like term deposits are generally fully taxable and may be less attractive in retirement.

Finally, whether you're retiring before or after age 60, your financial planner will be able to share a range of options for you to consider. These include super income streams that can provide a regular income and can help you manage tax.

We're here to help

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Locate us

Visit over 40 offices around Australia for help with your super account, including setting up your account online.
aware.com.au/locations

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