

10 Simple Ways

to

SAVE MONEY



By **CRAIG LYONS**

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IF AUSTRALIANS ARE SO WEALTHY, THEN WHY DO WE NEED TO SAVE?

There's a boom in millionaires in Australia. We're the wealthiest country in the world with 1.25 million millionaires, according to *Credit Suisse (October 2014)*. Really? But what about those Americans? It's true the US boasts the largest number of *ultra wealthy*, which is a group of people who can brag about their \$50 million in wealth. But 29% of the US population has less than \$10,000. By comparison only 6% of Australians fall into the low end of the wealth continuum. So while the US may top us in the *ultra wealthy* category, we certainly best them when you look at our typical household.

So if Australia is the wealthiest country in the world, and we're all worth \$289,000, then why are so many of us strapped for cash? According to *ING Direct* 18% of Australians spend more than they earn each month. And the *Bureau Of Statistics* says that personal savings in the fourth quarter of 2014 dropped down to 9%. (In 1973 personal savings was just short of 21%.) The answer lies in the fact that much of our wealth is tied to our real estate, instead of our savings accounts. And if real estate values dip, then so does our wealth.

It's tough to sell a little piece of your house or flat every time you need some ready cash, which is why financial planners obsess about keeping an *emergency fund* with a minimum level of liquid assets. We tend to suggest a good savings account, instead of the mattress or a sock drawer. But you need to make sure the account has no withdrawal restrictions, so you can always get quick access when you need it. The rule of thumb is to keep at least \$500-\$1,000 in your *emergency fund* to cover unexpected repairs on your car or house. Plus enough to cover 3 months of living expenses in case your job is made redundant, or you're a self-employed person who becomes ill.

EXERCISE #1

How Much Do You Need In Your Emergency Fund:

- ❖ How much would you need to cover 3 months of living expenses in case of an emergency? Now add an extra \$500 to \$1,000. This is the amount you should keep in your **emergency fund**.
- ❖ How much do you have today in your **emergency fund**?

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Knowledge is power! Now that you know where you stand, you also know what actions to take to get where you want to be.
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ACTION ITEM #1

Fattening Up Your Emergency Fund:

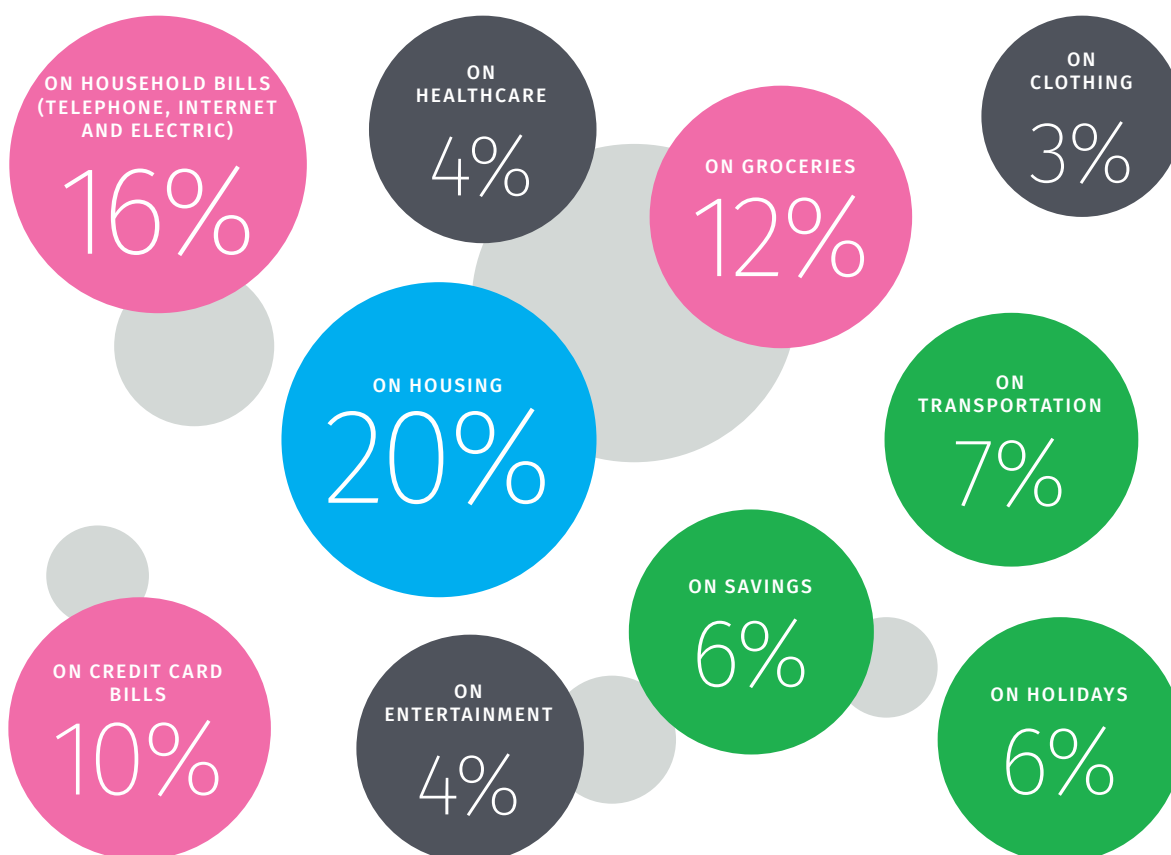
- ❖ Open a liquid bank account that's ear marked as your **emergency fund** or **rainy day fund**. It's a good idea to keep this account separate from the account you use for monthly expenses. You don't want to be tempted to dip in with every good intention of returning the money later. You'd be embezzling from yourself and your family.
- ❖ Transfer money from another account, or determine how much to deposit each week to get the balance up to at least \$500 plus a 3-month safety cushion.
- ❖ **Start sleeping more soundly at night!**



DO YOU KNOW WHERE YOUR MONEY GOES?

Do you track your spending each month? Very few people do, so don't beat yourself up if you don't carry a notebook and pencil in your purse or pocket. **Remember that knowledge is power.** Do yourself a favor and track your spending for just one month. Make it easy on yourself. Download an app. There's a good one called **TrackMySPEND** from **MoneySmart**. You can find it at www.moneysmart.gov.au Or if you enjoy the simple life, then buy a small notebook and carry a pencil. Don't get hung up on the method. The point is to give yourself the gift of a clear picture.

You might be surprised to see how your spending compares to your neighbors and friends. **ING Direct** conducted a research study on our collective spending habits. Here's what they found:



ACTION ITEM #2

Track Your Spending For Just One Month:

- ❖ Buy a small notebook or download a tracking app.
- ❖ Track your purchases for one month. I promise it will go by quite quickly. The devil is in the detail, so be honest with yourself and include all those tiny items like a stick of gum.
- ❖ At the end of the month review your diary, and identify any places where you short change yourself to death.

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Knowledge is power! Now that you know where you stand, you also know what actions to take to get where you want to be.

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THE ENORMOUS VALUE OF COMPOUNDING! WHY DON'T OUR SCHOOLS TEACH OUR CHILDREN?

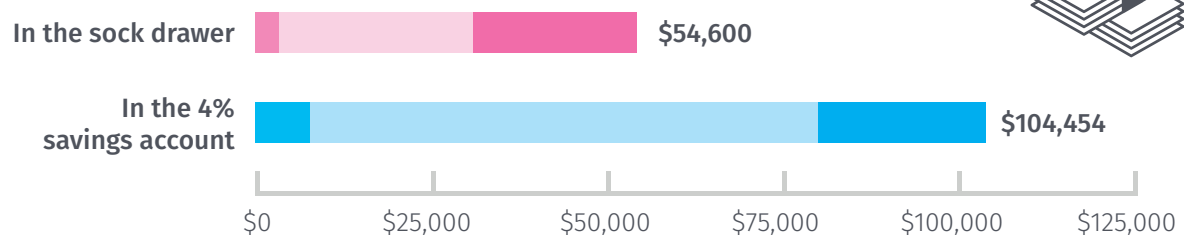
I'm a financial planner, so I'm going to get a little dry for a minute; but I promise you'll be happy you learned about this concept. It's called **compounding**. Some people call it **the disciplined approach**, which sounds tedious and painful. I like to think of it as **making your money work for you**.

Compounding is what happens when you start earning interest on your interest.

Let me give you three scenarios:

- ❖ One option is to say I know I'll be earning lots more money in the future, so I'll be able to catch up by making large deposits to a retirement account starting in 10 or 20 years.
- ❖ A second option is to save \$35 every week for 30 years (into the sock drawer). If you multiply that out you'll have **\$54,600 in the sock drawer**.
- ❖ A third option is **the disciplined approach** where you religiously put \$35 every week into an account that earns 4% annual interest. After 30 years you'll have **\$104,454 in the account**.

\$35 every week for 30 years





This huge increase from the second option to the third option (**while saving the same \$35 each week**) is due to **compounding**. The deposit you make today will earn interest this year, and then next year you start earning interest on the prior year's interest. And then the next year you earn interest on interest on interest. Can you see how this will snowball?

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Compounding interest turns \$54,600 worth of deposits into \$104,454 worth of savings. And remember this example is based on \$35 a week, or \$5 a day. That's the price of a cup of coffee at Starbucks. Would you give up a designer cup of coffee for \$104,000?

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Here's where the discipline comes in. Every missed deposit reduces the effect of the compounding, and you can't make it up with a double deposit next week. Once it's gone it's gone forever. The value of compounding is so strong that I believe we should teach this concept in every school as part of basic personal financial management.

THIS ISN'T GREECE. IT'S NOT AN AUSTERITY PLAN. LET'S MAKE IT A GAME!

I hope I'm not sounding like a killjoy who's trying to turn your life into a miserable existence. There's a psychology to saving. If it sounds unpleasant, then you won't stay motivated.

Here are three psychological tricks that I find helpful:

- ❖ First, you **need something tangible to work toward**. Otherwise you're floating free without a rudder. Let's call it a reward. If we call it a goal the process already starts to sound unpleasant. Your reward could be financial peace-of-mind, an extra special holiday for the family, university education for your children, secure retirement for you and your spouse, or an extra car or motorcycle that's just for play. Choose something that gets you excited.
- ❖ Second, you need to **stay the course over time**. The best way to maintain your momentum is to make it fun. Turn the process into a game. Find a funny little pleasure in all the small wins along the way. Start to take pride in being smart enough never to pay full price. Embrace the concept that a bargain is a joy in life. And be sure to stop along the way to give yourself a pat on the back and a little treat.
- ❖ Third, **find yourself an accountability partner**. This is your partner in crime. It's a strange phenomenon that we'll disappoint ourselves before we'll disappoint someone else. So if you work with a partner, you're much more likely to succeed. This could be a friend, a spouse, or even a professional that you report to at regular intervals.

And remember that saving is like paying yourself and your family (tax free). We all need to watch out for the sneaky ways we drain our own bank accounts, and at the same time keep watch for ways to keep it fun. Now let's start to look at some ways to start saving that will really add up fast.

SIMPLE WAYS TO SAVE AT WORK

SIMPLE WAY TO SAVE #1

The \$11,000 Lunch

According to consulting firm **Urbis** we spend on average \$230 each week on lunch and coffee at work. That's a whopping \$11,000 per year. Think about how much you could save if you brought your lunch to work 3 times a week, and skipped the designer coffee. Keep reminding yourself it's a \$104,000 cup of coffee. Even an **ultra wealthy** American wouldn't waste that much money on a flat white. There's safety in numbers, so find an office buddy and bring your lunches on the same days. Try to get away from the office to eat in a park and relax for a while. If you sit alone at your desk, then you're less likely to make this strategy work.

Remember the effect of compounding with \$35 each week? Think about how much you'd have in your account if you saved \$115 each week by bringing your lunch to work.

Working space to calculate your savings for one month and for a full year. How many hours would you have to work to earn this much money? Remember your savings are after-tax earned dollars! Now transfer your savings amounts to Page 21.



SIMPLE WAY TO SAVE #2

The \$500 PINT

Alcohol is one of the most expensive items in our weekly food and drink basket, especially in a bar or restaurant. The mark up is almost obscene. Most restaurants just break even selling food, and the majority of their profit comes from liquor and alcohol sales. Tourist guidebooks warn travelers to brace themselves for the price of a pint in Australia. I know one waitress who actually drags her feet putting her food order into the kitchen, because she knows she can sell her tables an extra round when she comes by to apologize for the kitchen. It seems like a small thing – until the bill arrives.

We all understand that it's important to join in with work colleagues and maintain office camaraderie; but think of what you could save if you enjoyed a single beer at a leisurely pace, instead of chugging a second and third round. If a pint costs you \$10 and you cut back by one pint per week, then you just saved \$500 over the course of a year.

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SIMPLE WAYS TO SAVE ON FOOD

We spend on average 12% of our income on food. This is the number three expense after housing and household utility bills for Internet, telephone and electricity.

SIMPLE WAY TO SAVE #3 At The Grocery Store

Next time you come home from grocery shopping take a look at the receipt. Add up what you spent on junk food, sugary drinks and treats. These foods are all extremely high in sugar, and they tend to be expensive. Cutting back on sugar is a healthy alternative, and you'll see big savings at the register.

Another great option is buying generic brands or store brands, instead of a recognizable consumer brand name. ***The quality is the same!*** The brand name is more expensive, because someone has to pay for all that advertising. There's no reason for you and your family to be footing that bill. Some of my friends swear by **Aldi** and **Costco Wholesale** for bulk purchases of staples. They save thousands of dollars each year.

Stock up on soft drinks, power bars, bottled water and anything else you might buy from a vending machine, news agent or convenience store. The clue word is convenience, and it means you pay a premium. My wife and I buy a 24-pack of water (600ml) for \$7 at our local grocery store. That's 29 cents per bottle. Our local news agent and convenience stores charge \$2 to \$3. So we save at least \$1.70 every time we carry our own bottle of water. That translates to \$622 at the end of the year if we substitute a carry water for a convenience water once per day. Think of what you're throwing away when you buy 2 or 3 waters a day from a vending machine at work.

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SIMPLE WAY TO SAVE #4

Head Games, The Psychology of Shopping

There's a psychology to saving, and a psychology to grocery shopping. Here are a few head tricks to control over spending without sacrificing on quality:

- ❖ Always eat a healthy snack before you go to the grocery store. You won't be tempted to buy snack foods if you're not hungry.
- ❖ Always take a list to the grocery store, and stick to it. Even a few impulse purchases can really add up. Beware of the check-out line. That's where the grocery stores stock the shelves with magazines, soft drinks and candy bars. These are all small ticket items with high mark-ups that go into their pocket. This is another area where you can short change yourself during the year.
- ❖ Take a trip around the periphery of the store first. Grocery chains tend to position healthier foods and staples on the outskirts of the store layout, and put more junk food on the inner aisles. You won't be tempted to impulse purchase if your cart is already full of good, healthy food items.

SIMPLE WAYS TO SAVE AROUND YOUR HOME

SIMPLE WAY TO SAVE #5

Don't Just Clear The Clutter, Sell The Clutter

You'd be amazed at the value of all that old stuff in the garage and attic when you take the time to add it up. And one man's trash is another man's treasure. Make it a family affair. Some garage sales can generate thousands of dollars over a weekend.

Start by doing a little research. Take a few hours on a Saturday morning to check out some garage sales in your area. You'll get a good sense of what kinds of things sell well, and you'll see the prices people are charging.

Advertise in your local paper or online boards to get the word out, and make sure you include all the important information. You'd be surprised how many people leave out details like the date, the start and finish time, and the address. Be sure to make it neat and professional. A sloppy sign implies sloppy merchandise. Some people find a theme attracts more buyers. One person increased his turnout by calling it a "Geek Garage Sale". He put all his geeky stuff like old board games on one table, and people bought all his other stuff while they were browsing.

You can also post items on an auction website like eBay, but that takes a little more expertise.

After the sale be sure to donate the left over items to a local charity to keep it out of the landfill. Many charities will pick up your donation.

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SIMPLE WAY TO SAVE #6

Shop Around For Big Ticket Purchases

Some of the biggest savings come from big ticket items like electronics and home appliances. There are a number of great online resources for comparing prices for different manufacturers and different stores. One of my favorites is a website called **Getprice.com** at www.getprice.com/au

Not too long ago my wife and I needed a new fridge. We searched around online for the best price on our model, and then went to Masters to make our purchase. Another advantage of these large businesses is that they offer the best price, or they'll match a competitor's lower price. Plus they add on a further 10% discount. So we got the lowest price available, and an extra 10% off. Didn't we feel better that day!

There's definitely a best time of year to buy almost everything. For example, the new models for home appliances arrive in September and October, so it's a great time to get a deal on last year's model. And car dealers are normally clearing out their inventory in the fall to make way for new models. If your air conditioner is on its last leg, then buy a new one in winter when it's cold and demand is low. The price will also be low.

This is an area where it pays to do your homework, because you can really save big.

SIMPLE WAY TO SAVE #7

Controlling Household Utilities

We spend 16% of our income on household bills like telephone, Internet and electric utilities. This is the number two category after housing payments.

We found three big ways to save:

- ❖ I thought my wife was being a little cheap when she suggested replacing our cable premium channels and subscription movie rental services with checkout from the local library. But she was right. The library has a great selection; and you can reserve a CD, instead of searching the stacks for what's available. We're saving \$500 a year on premium channels that we hardly ever watched. Start keeping your eyes peeled for small monthly charges for services you don't use very often. It adds up quickly.
- ❖ Contact your local utility company or search online for tips to reduce your gas and electric bill. My local utility estimates a 3% savings for every degree you adjust the aircon either up or down in hot or cold weather. So if you lower the thermostat by 5 degrees, you'll save 15%.
- ❖ Consider converting to solar energy. Only about 10% of homes are fitted out, and there may still be government rebates available. Every state has different rebate levels, so you should visit your state government website for the details. Regardless of the rebates the benefits of solar energy could outweigh the installation cost over time, because the monthly bills are lower when compared to electricity.

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SIMPLE WAYS TO SAVE ON FINANCES

SIMPLE WAY TO SAVE #8 ATMs & Credit Cards

Use Fee-free ATMs

When you get cash from an ATM that doesn't belong to your bank you pay an additional fee. It's a small fee of about \$2, but it can add up. One cash withdrawal per week with a fee adds up to \$104 for the year. This is another payment you make for convenience. So pay yourself \$104 for mapping out the ATMs that belong to your bank.

Reduce Your Credit Card Interest Payments

Interest payments will kill you faster than cholesterol, so consolidate outstanding credit card balances with a zero interest offer. Numerous banks are offering 0% interest on balance transfers for 6-24 months. Check the fine print to understand all the terms, and then calculate how much you'll save. Look for offers with no annual fee, and create a schedule to make sure you pay the balance in full before the 0% interest rate expires.



If you carry a \$10,000 balance on a credit card with an 18% interest rate, then you pay the bank \$1,800 each year. If you find a 0% balance transfer offer with no annual fee, and you're able to pay down the balance before the offer expires; then you just found a big chunk of money. Don't you feel clever!

Use A Rewards Credit Card

(If You Can ALWAYS Pay The Balance In Full Each Month)

There are plenty of rewards credit cards where you earn points every month that you apply towards free airline tickets, cash back, or points towards discount offers in their program catalog. Most cash back cards provide 1.0% to 1.4% at the end of each year. So you would earn \$10-\$14 each month for every \$1,000 you spend on your card. This can turn into \$120-\$168 at the end of the year.

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Warning: Be careful with rewards credit cards. If you don't pay the balance in full each month, then they can cost you more than the value of the reward.

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Do your research first. Check out a website like [Finder.com](http://www.finder.com) at www.creditcardfinder.com.au/australian-reward-credit-cards. They show different credit cards side-by-side, so you can compare benefits and terms like annual fee, interest rate and introductory offers.

Try to find offers with no annual fee. The interest rates for rewards cards are high with rates in the 18% to 20% range being fairly common. But the interest rate doesn't matter if you **ALWAYS pay the balance in full each billing cycle**. And that's the trick to making rewards credit cards work for you.

Working space to calculate your savings for one month and for a full year. How many hours would you have to work to earn this much money? Remember your savings are after-tax earned dollars! Now transfer your savings amounts to Page 21.

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SIMPLE WAY TO SAVE #9

Insurance For Health, Home & Car

Insurance is another area where you want to do your homework before you make a hasty decision. Premiums add up over the course of 12 months, and it's a big hassle to change from one insurance carrier to another. Healthcare has gotten especially tricky as we all try to decipher the new government initiatives designed to get Australians covered by private health insurance.

iSelect.com at www.iselect.com.au is a good resource to help you compare options. This is only one of many good resources for information on all types of insurance, but they claim to be the most visited insurance comparison site in the country.

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SIMPLE WAY TO SAVE #10

Financial Planning

A good financial planner is an invaluable partner, because they bring you ready expertise on the economic and financial systems. Plus they stay on top of all the changes in the markets as well as new government regulations. For most people there just aren't enough hours in their day to be a financial expert on top of everything else in their hectic lives. A financial advisor can also act as your accountability partner to keep your savings and investments on track.

When you choose a financial consultant be sure to read the fine print and understand any hidden management fees. Some advisers charge trailing commissions, which are ongoing fees that can cost you hundreds of dollars a year. One of the benefits of working with **Bright Future Financial** is that we give those trailing commissions back to our clients. We think that money should stay in your pocket, right where it belongs.

Working space to calculate your savings for one month and for a full year. How many hours would you have to work to earn this much money? Remember your savings are after-tax earned dollars! Now transfer your savings amounts to Page 21.



CONCLUSION

Managing your home and your finances is just like running a small business with income, expenses, budget constraints, and annual taxes. You're literally the CFO of your home enterprise. There's a reason they used to call it *home economics*, and I for one think we ought to resurrect that term.

It's a big job, and when the job is well done it comes with big benefits. Healthy finances translate to fewer worries, less stress and more sleep. It's no joke that sound financial health can actually translate into sound physical health.

Why don't you give some of these money saving tactics a try, and then reach out and share your successes as well as any other methods that work well for you. We're all in this boat together, and we're always looking to build out a better list.

If you're looking for solid financial planning, please don't hesitate to reach out to **Bright Future Financial** (brightfuturefinancial.com.au). We offer a complimentary, comprehensive financial analysis to everyone in our community. Our mission is to help our clients reap long-term financial benefits.



PULLING IT ALL TOGETHER

Working space to add up all your savings from all your different savings methods. How many hours would you have to work to earn this much money? Remember your savings are after-tax earned dollars! Contact us at Bright Future Financial, and we'll calculate the compounded savings amount. Remember the \$104,000 designer coffee?

