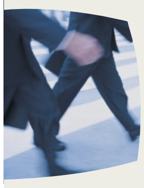

No. 2 | November | 2016

Bucks & Dough

IDEAS, NEWS AND THOUGHTS TO BUILD YOUR MONEY KNOWLEDGE

Why is saving money such a difficult task, we should all know what we earn ? That amount just has to be more than what we spend, simple……..or is it?

Budgeting is Tough, who's accountable?

Believe me I've been there when the bill comes in and you dread opening it because you already know you don't have the money to pay for it. We then beg or borrow (hopefully not steal!) the money to get us through to next time…..

How do you stop spending money on things that are not absolutely necessary? It is natural to want to satisfy that need for instant gratification than saving to achieve the things that are really important.

The secret is you (and your partner) need to be truly accountable to someone else. The problem can be solved for as little as a dollar. Go to the newsagent now and buy a small pocket notebook. This book needs to be small enough for you to carry everywhere. Now every time you buy something you enter the object and the amount you spent into the book. No doubt reading the entries in the book in a weeks time is going to be an interesting event but "so what ?" I hear you say, you can justify everything on the page. Or can you? Now you might be able to justify it to yourself but can you justify this spending to someone else. This is where accountability comes in. You need a friend, but probably not one that sympathizes with you too much. They are the ones who are going to read this book! It has all of sudden become more difficult to justify that car magazine or double choc muffin. Saving money is just like losing weight or exercising, it is not easy to do by yourself. We need the personal trainer. Your friend has become your trainer. They don't need to be a financial expert just astute enough to understand your dilemma and be

prepared to tell you the facts.

My accountant read my book for me when I was starting out and he gave me one more piece of advice to assist the process. Before you purchase anything and enter it into your book you must answer yes to the following three questions:

- Do I really need this?
- Will I still need it tomorrow?
- Is purchasing this item getting me to where I want to be?

Good luck and happy saving!

Seminars at your workplace

Most of you will remember me from my PSS, CSS and PSSap seminars that I ran around the country, and I have not stopped this service by jumping ship to my own business. I have just completed a series of six seminars for the Department of Education and Training titled "Women and Finance" and we attracted consistently good numbers to the auditorium which was very reassuring! The final day of questions and answers certainly was challenging but at the same time very rewarding. If you believe some financial literacy seminars or workshops would be well received at your workplace let me know. I run these as a free service and I am happy to cover any appropriate topic that is required.

New Contribution Caps—Beware

The May budget certainly created a storm with the proposed changes to superannuation. Much of the furor was around the $500,000 lifetime after tax cap which has now been defeated and replaced by a watered down version of the existing rules where from July 1 2017 it is proposed that only $100,000 per annum ($300,000 using the bring forward rule) can be added to your super fund as an after tax (non concessional) contribution.

I am more surprised by the lack of discussion around the new proposed cap for concessional contributions (ie salary sacrifice). Currently the cap is $35,000 for those effectively over 50 years of age and $30,000 for those under. From July 1 2017 it is proposed to drop this cap down to $25,000. for all ages. On the surface this sounds OK as how many of us could afford to give up $25,000 of our salary each year to put into super? The cap however includes all the employer contributions as well.

Take someone on a salary of $100,000 receiving the standard Super Guarantee contribution of 9.5% ($9,500), this has to be subtracted from the cap meaning a cap of only $15,500. For Commonwealth Public Servants who are a large percentage of my clients the situation is worse. For someone in the PSSap the employer contribution is 15.4% ($15,400) hence an effective cap of $9,600.

In the past members of the PSS and CSS had the benefit that the only amount they needed to deduct from the caps was the productivity amount generally 3% ($3,000 in our example). In the budget however it was announced that not only would this amount be taken into account but also a notional value equivalent to what those scheme contributions were really worth. Now at the time of this newsletter, the details are not known but I will keep you up to date as the information becomes available. If the government decides to use numbers similar to those currently utilized by some departments I have seen which is above 16% plus the productivity then you could expect to have to deduct nearly 20% of your salary from the cap. Hence our client on $100,000 would have to subtract approximately $20,000 from the new cap of $25,000 meaning they could only sacrifice up to $5,000 from next year. The comment has been the changes will only impact the 'fat cats' but as you can see from my examples many moderate tax bracket people will certainly have to salary sacrifice a great deal less with these rules. How do you become a self funded retiree if you can only salary sacrifice less than $5,000 in a year? I'll keep you posted.

What is in your share portfolio?

Many of my clients have shares but not because they spent time investigating the market , deliberating and choosing what they believe was the best company on the Australian stock market. Nor do they own a well balanced diversified portfolio of fifteen different stocks. They own shares in just one company like AMP or IAG shares simply because they received the shares for free following demutualization of the companies many years ago.

I ask the question what is their intention with the keeping of these shares? The usual response is that because they got them for nothing they might as well hang on to them indefinitely. Does this really make sense? Yes they were free but they have a monetary value and if you were to go out and buy some shares would you rush out to buy AMP or IAG as your first choice? No? Then why hang on to them? Why not use the money for something you do believe is working for you. Will these shares make 20% for you this year, if not would it be better to sell the shares to clear the debt on the credit card?

Selling shares is not that difficult as many brokers will offer one off sale transactions with a minimum of fuss, just make sure you choose one that will sell them at market value and is not offering you a discounted transaction cost because they are actually paying you under the current available price for your shares. Daily prices are available on the ASX website.

You may trigger a capital gain from the sale of the shares which will have to be paid at tax time. Hopefully you have kept good records of the transactions over time especially if you have participated in a dividend reinvestment plan as each parcel of new shares provides new shares at a new purchase price. Visit the website of the company and follow the links to the shareholders information for historical pricing. You may need an accountant to assist you with the necessary completion of your tax return.

You may wish to time the selling of the shares in a year where you are working less hours (because of the possibility of a lower applicable tax bracket). These issues make it more complicated but they should not be the main reason for hanging on to the shares. The alternative is to consider purchasing further shares and use these shares as the starting point of your diversified portfolio, however consider your situation, current market environment , the risks and alternatives.

Booking your Meeting

Booking your meeting with me has just got much simpler. Simply go to my website www.themoneystudy.com.au and on the home page click on the link "One on One coaching" this will take you through to a page giving you a choice of a face to face meeting in my office in Canberra or an online session which can me held remotely for those outside of the ACT. Clicking on the booking buttons will open an online calendar. Simply scroll through until you find a date and time to suit you. Submit it and you will be sent a confirmation email, Remember I am more than happy for you to bring your partner, there is certainly no extra costs for this.

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