CASHFLOW MANAGEMENT

Budget your way to financial wellness

Effective management of income and expenses

tribel advisory

If you add up all the income you earn in your lifetime, you'll be surprised how much it can amount to. An annual income of $70,000 can translate into a cumulative amount of $3.5 million[1] after 35 years. That's a sizable fortune. However, the requirements of daily life means your income will dissipate via such things as taxes, loan repayments and living expenses so what is left over will only be a fraction of this. Nevertheless, you have the ability to influence what you spend on and how much to spend. Effective cashflow management is the cornerstone to achieving financial wellness.

[1] Assuming income increases by 2% each year. Amounts are before tax is deducted.

Mastering the psychology behind your spending habits and behaviours

Some people seem to be very good at managing their money while others struggle with it. A lot boils down to habits and behaviours around money, which may have been shaped by personal experiences, family upbringing, personal tastes and outlook in life. It's important to recognise your own personal psychology on money so that you have the right support to make it work for you.

Status quo bias
Why we prefer to make no choice at all

Mental accounting
Why we mentally put money into different buckets and spend

Discounting the future
Why we fail to make decisions for our future selves

Optimism bias
Why we adopt an overly rosy view

Our plans at a glance

Expense Tracking & Budgeting Plan

Help you setup and manage your expense budget so you can be in control of your cashflow while maximising your income surplus.

1. Mapping out your current income and expenses
2. Minimising your tax obligations
3. Setting targets for each expense category
4. Tracking and reviewing your expenses

1. Mapping out your current income and expenses

The first step in taking control of your finances is to work out how much income you receive from all sources and where the money is spent.

1. Choose a time period

- Weekly, fortnightly or monthly – to track your income and expenses.
- You'll need to map this out for the full year.

2. Input your income for each time period

- Includes your salary and any investment income.

3. Input your fixed expenses

- These are regular expenses you know in advance e.g. rent, council rates, loan repayments...etc.

4. Input your variable expenses

- These are regular expenses that you don't know the exact amount e.g. groceries, clothing, entertainment...etc.
- You'll need to map this out for the full year.

5. Input any planned expenses

- These are generally one-off expenses you intend to spend in the future e.g. holiday, car purchase.

6. Deduct your expenses from your income

- Ideally there is a surplus.

2. Minimising tax obligations

A good way to improve your income surplus is to explore ways to reduce your tax obligations. The diagram below illustrates 3 avenues to achieve this.

Assessable income

Reduce assessable income by deriving exempt income (those not assessed for tax purposes) and/or having income derived from entities on a lower tax rate

Taxable income

Reduce taxable income by taking advantage of allowable tax deductions

Tax payable

Reduce tax payable by taking advantage of tax offsets or rebates

3. Setting targets for each expense category

Once you map out your current income and expenses and have the right setup to minimise your tax obligations, the next step is to set targets for each expense category. This is typically achieved by setting up a budget.

Common expense categories can include:

Entertainment | Groceries | Transport & Auto | Insurance & Financial | Home & Utilities

Budgeting for adversity

In your current expenses and budget, its most likely you allocated money for car insurance, private health insurance and home and contents insurance. But what if you got injured or became ill and can't work? What if you pass away, will your family be ok?

Unfortunately, adversity can strike any time, usually when we least expect it. Therefore, it's important to budget for these contingencies. Common strategies can include setting aside money for:

Cash reserve

This can be used for emergencies and unexpected expenses.

Life insurance

Provides a lump sum of money if you pass away.

Income protection insurance

Provides a regular income if you cannot work due to illness or injury.

Trauma insurance

Provides a lump sum of money if you are diagnosed with an illness or condition.

Total and permanent disability insurance

Provides a lump sum of money if you suffer an illness or injury which causes permanent disability.

Budgeting for wealth creation and the future

In your budget, it's important to allocate money for things that you need in the future. For example:

- Future retirement – when you can no longer work or don't want to work
- Planned expenses – whether for a holiday, buying new car or new home

Setting aside money for such thing as retirement is most beneficial when it's done early, as the example below shows:

Bronwyn

Bronwyn starts her retirement planning at the age of 30. Based on her budget, she worked out she can save $200 per month into her retirement savings plan. If she saved every month until age 65 she would put in a total of $84,000 of her own money. If the rate of return on her investments is 7% per annum (compounded monthly), she will accumulate a total of $360,210.92 at age 65.

$84K → 35 years → $360K

Brenda

Brenda, on the other hand delays her retirement planning until age 55. She budgets to save $1,000 per month into her retirement savings plan. If she does this until age 65 she would contribute a total of $120,000 of her own money. If the rate of return on her investments is 7% per annum (compounded monthly), she will accumulate a total of $173,084.81 at age 65.

$120K → 10 years → $173K

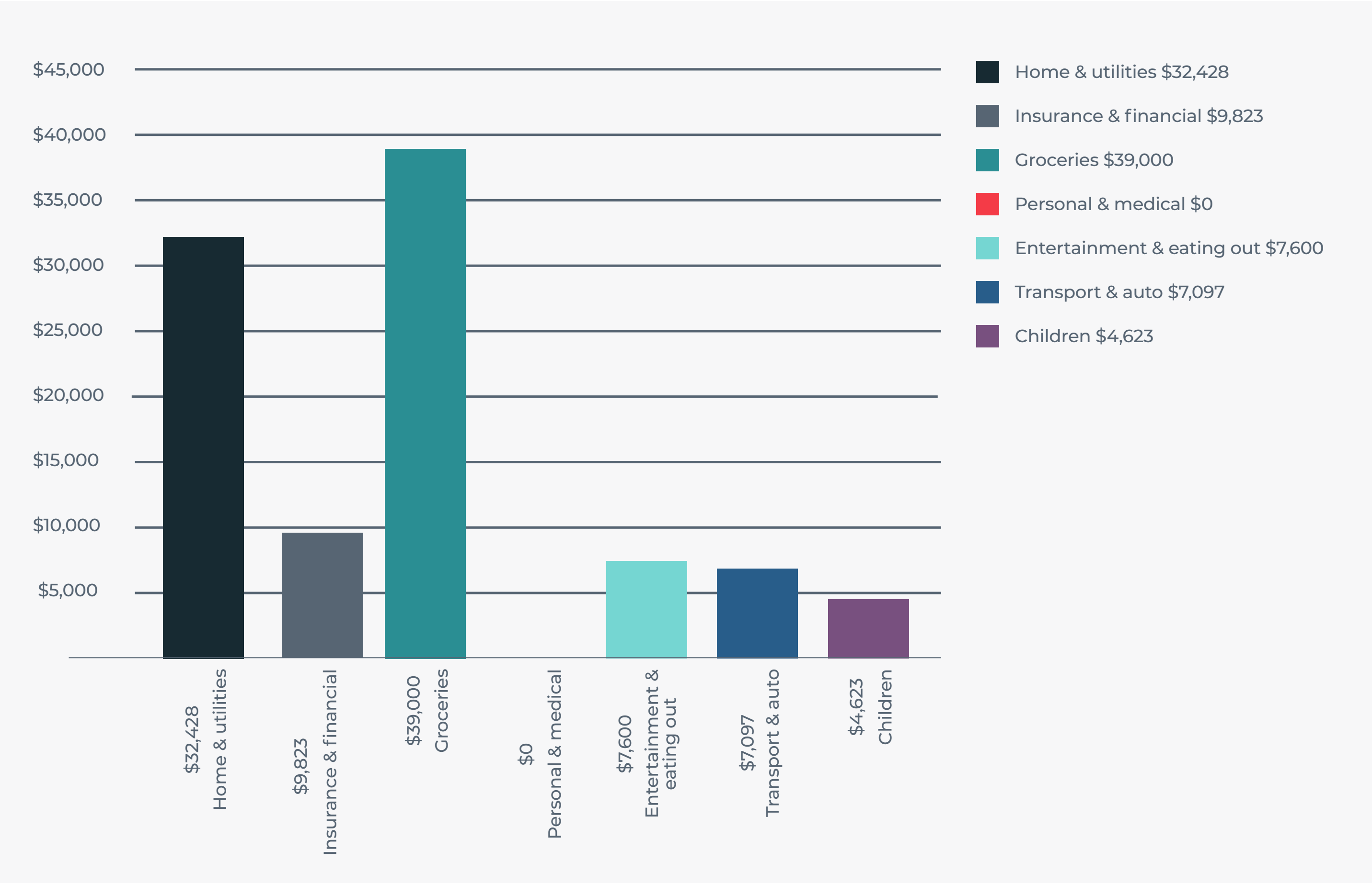
Even though Brenda is investing a higher monthly amount and a higher total amount, her accumulated savings at age 65 is less than half of Bronwyn's. The key difference here is the power of compounding. By starting earlier, Bronwyn has allowed her money to be invested for longer and therefore working much harder for her. It therefore pays to start earlier – quite literally.

Consider setting up a regular savings plan via direct debit from your bank account to ensure the process is automatic without you needing to remember each time.

4. Tracking and reviewing your expenses

After you have set up your budget you need to track your expenses in each category. You should have an estimate of what you have in each category at all times. There are a range of tools and apps available to help you with this.

On a periodic basis, at least monthly, review your expenses versus budget. Make adjustments to your spending if required. Using reports like the below can help.



Get in touch with Tribel

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