

MONEY WEEK 2022

FINANCIAL ADVICE NZ

Live within your means

We all know that we need to live within our means. If we are not aware of what 'our means are' that's when things can get tricky and hard to sustain. With credit card debt increasing and buy now pay later options everywhere it can be difficult to keep a real track of your cashflow.

A good habit

Every year you should prepare a budget. This is not an easy or fun task but it helps you reset for the coming year. It is helpful if you monitor last year's budget and see how you have done. Did you blow it? Where you surprised at how much you spent on non-essentials? Some years when doing a budget there are big changes and other times small tweaks. But one sure thing is the cost of living increases each year. Getting into the habit of resetting your budget will also encourage you to look at your costs, such as your online subscriptions, and your shopping habits, more closely. It is amazing the money that we can waste in this digital age.

Your budget and cashflow

There are many online budget tools available, or you can use a good old-fashioned spreadsheet, or even a notebook. Make sure you use a method of budgeting that you enjoy – some people love spreadsheets while others love an app they can use on their phone.

If you record all your expenses in detail and total up the amount at the end, you have a good chance of understanding your cashflow position. Then calculate all your regular income and subtract your expenses to see if you have a surplus cashflow or if you are, in fact, in the red! If you are in the red, don't give up – keep making adjustments until you get into a positive cashflow situation.

Target paying off bad debt first with the surplus

Once you go through this exercise you can start putting your surplus cash to good use, such as putting it into savings, increasing your repayments, or clearing debt. Try not to get ahead of yourself and blow that extra money. Think about your financial goals!

If you have any credit card debt or personal loans it would be ideal to pay these off first because they are forms of credit that attract a higher interest rate.

Then consider saving for your emergency fund, increasing your KiwiSaver contributions, or adding to your holiday account. Have goals planned for short term, medium term and long-term, as we covered in our Money Week No 1 article.

What if you are in the red?

- cellphones on expensive plans or new models that are not required
- that bargain in a sale or upgrading to a newer version of something that is not broken and still works – such as TV's
- online entertainment accounts – how many do you need?
- buying your lunch and a coffee when you can use food from home
- using the car instead of using (cheaper) public transport
- Uber Eats as a lazy option to walking to your local takeaway or making 'takeaways' at home

Essential expenditure can also be reviewed for areas to reduce your spending such as:

- your electricity supplier
- bank accounts that incur fees
- mortgage repayments, which can be structured differently
- groceries sourced from cheaper supermarkets, buy in-season items and reduce pre-packaged foods, visit local markets for cheaper vegetables and fruit

Making some of these changes can be fun and really rewarding – especially if you feel like you are getting ahead.

Once you are in the habit of reducing your outgoings, check your progress after three months to see how this has impacted on your cashflow. You should see some difference, so keep it up and lock in your good spending habits.

Stay the course with your budget and cashflow, and if you have a few glitches get back on track as soon as you can. Remember, small habits can grow to achieve great goals over time.