

Investment Concepts – Set and maintain a budget

A key to building wealth is saving. Setting a budget is about finding a balance between income and expenses and deciding what's important so you have money left over to save.

How it works

The best way to start taking control of your finances is to do a budget (or expenditure plan). A budget is simply a tool to help you identify your income and expenses. It shows if you are spending more or less than you can afford, and it can help you determine your capacity to save for future goals.

There are two sides to a budget – income and expenses. When putting your budget together, you should try to identify all regular payments over a full year.

- Income payments include salary, pension income, dividends, distributions, rental income and interest. You can use the after-tax amount of income or you can include an allowance for tax in your expenses.
- Expense payments include mortgage repayments, rent, bills, car costs, public transport costs and general living expenses.

To help identify your income and expenses, it can be useful to look through your pay slips, bank and credit card statements, bills, receipts and even your shopping docket. Use your best guess if there's anything you can't find or if amounts vary across the year. Your budget will probably need to be adjusted over time until all your income and expenses are captured.

Budget results

Once your budget is complete, you can identify your disposable income. Your disposable income is the total of your income less the total of your expenses.

- If your disposable income is negative, it means you are spending more than you earn. You should review the expenses side of your budget to see if there is anything you can cut back on or cut out altogether. Talk to your financial planner about strategies to help reduce your expenses.
- If your disposable income is positive, it means you have capacity to save. You could consider setting up a regular savings plan with your surplus income to help increase savings to be used for your future goals.

Even if you have surplus income it might be worth looking for further savings. The budget gives you an opportunity to look through your expenses and identify which items you need for basic living and which are extras that you could cut back on to increase savings. It is important that you don't cut out all of your extras because a budget that's too rigid won't work.

For your budget to be effective, it should be used in conjunction with a regular savings plan. The savings plan should direct your disposable income into an account that is appropriate for your goals and objectives. For some people, this may be a savings account.

Ongoing budget review

Your budget should be reviewed on a regular basis (this might be every 6 to 12 months) to ensure it continues to reflect your current income and expenses. It should also be reviewed if there are significant changes to your income or expenses, such as changing jobs, or buying a new house or car. Regular reviews will help your budget stay on track and help you achieve your savings goals.

Benefits

These may include:

- Setting a budget may help improve your cash flow and may help increase your savings capacity.
- Taking charge of your money can help you feel more secure and in control of your finances.
- A budget allows you to plan ahead to help meet your goals.

Risks, consequences and other important things to consider

These include:

- Starting a budget for the first time can be difficult but it does get easier as you go along. Once your budget is set up, ongoing updates are much easier.
- ASIC have an online budget planner that you can use located at [MoneySmart.gov.au](https://www.money-smart.gov.au).

Version: 3.0

Issue date: 01 July 2021

Important information:

This document has been prepared by Actuate Alliance Services Pty Ltd (ABN 40 083 233 925, AFSL 240959) ('Actuate'), a member of the IOOF ('IOOF') group of companies ('IOOF Group'), for use and distribution by representatives and authorised representatives of Actuate, Godfrey Pembroke Group Pty Limited, Consultum Financial Advisers Pty Ltd, Bridges Financial Services Pty Limited trading as MLC Advice and Australian Financial Services Licensees with whom any IOOF Group member has a commercial services agreement.

Information in this document is of a general nature only and does not take into account your objectives, financial situation or needs. You should seek personal financial, tax, legal and such other advice as necessary or appropriate before relying on the information in this document or making any financial investment, insurance or other decision. If this document is provided to you in conjunction with a Statement of Advice ('SOA'), any personal financial advice relevant to the financial planning concept/strategy referred to in this document will be contained in that SOA.

Information in this document reflects our understanding of relevant regulatory requirements and laws etc as at the date of issue, which may be subject to change. While care has been taken in preparing this document, no liability is accepted by Actuate or any member of the IOOF Group, nor their agents or employees for any loss arising from any reliance on this document.

If any financial product is referred to in this document, you should consider the relevant PDS or other disclosure material before making an investment decision in relation to that financial product.