

# Debt, Savings or Super

## Top Destinations for your Tax Cut

For most Australians, the July tax cuts mean an extra \$15 - \$20 per week in our pockets. Here are some easy ways that you can turn this cash into so much more.

It isn't hard, the most important thing is to get started now!

### 1. Think about some plastic surgery

18-24 year olds carry an average of over \$5000 in personal debt. Primarily, mobile phone and credit card debt, which is reaching epidemic proportions amongst young people. Unless you pay off the plastic in full each month, you will soon discover that credit card and/or mobile phone debt can be both difficult to manage and quickly spiral out of control. This can cause real problems and heartache down the track, especially when you want to borrow money for bigger purchases such as a car or your first home.

Managing personal debt levels is also a problem for households, families and older Australians. Living off the plastic is expensive!

Unlike a mortgage, this kind of debt is often referred to as 'bad debt' because it is not used to purchase assets that increase in value.



### 2. Put a 'Hex' on your HECS

There's no such thing as a free education any more. As most young Australians are now discovering, you spend at least three years of your life studying and struggling financially to graduate with a piece of paper and a pile of debt. HECS-HELP and FEE-HELP are the Government loan schemes that assist students who want to study at University. 43% of 18-24 year olds carry a HECS debt, which can take many years, even decades to clear.

For most students education debt is a part of life. Compulsory repayments kick in when you start earning at least \$41,595. Until that time the debt remains and actually increases by CPI each year.

#### So what can you do?

1. Pay an additional \$60 a month (4 x \$15) off your credit card. Paying the monthly minimum just doesn't cut it - your small debt could take years to pay off and actually cost you thousands.  
*Is that new outfit really such a bargain when you pay double or triple the actual purchase price because of high interest? And take the scissors to at least one card!*
2. Make pre-payments towards your mobile phone bill, investigate changing plans or buying pre-paid credit.  
*This way you make sure you are chatting to your friends, not the debt collectors.*
3. Make extra payments to reduce any personal debts such as a car loan. Not only will it be yours sooner, but your extra \$15 could save you thousands in interest. Paying off debt early means more money in your pocket.  
*Just check that your lender doesn't charge penalties for early or extra repayments.*

#### So what can you do?

Use your tax cut to make additional payments to your HECS debt and reduce it as quickly as possible. If you make a lump sum voluntary payment of at least \$500 you will receive a 10% bonus repayment.

*This means you'll be HECS free sooner - less paperwork and less dealings with the Government, that's got to be worth more than \$15 a week.*

### 3. Turn \$15 into \$3000 (or more)

We all have dreams and goals that we want to achieve, whether it's going on a holiday, starting a share portfolio, buying a new car or owning our own home. Realising these dreams almost always involves money.

You could save in an online bank account, term deposit or you can work your money harder by direct investing. If you're keen on this idea, but not sure where to start, an easy option is an investment (managed) fund. Investing is NOT only for people who already have lots of money!

The great thing about investment funds is that you get to pick what you invest in, for example, Property, Australian or International shares, Sustainable investments, or a mixture of these. You get the choice without the hassle and professional fund managers who look after the funds for you.

#### So what can you do?

Just get going! Open that online account or consider direct investments. Some investment funds will let you start investing with \$0 up-front and \$20 a week. So, after three years you could have an investment account with a balance of around \$3000\*

*Not bad for money you probably would have spent on going out to lunch.*

### 4. Save yourself up to \$77,068 in mortgage interest

Owning your own home may be the 'great Australian dream', but nowadays paying off your mortgage can be a nightmare. With interest rates up, mortgages are bigger than ever. If you are a homeowner, how can you pay your home off earlier?

Simply using just \$15 as an extra repayment on your mortgage can save up to \$77,068 over the term of your loan and you could own your home more than three years sooner\*\*.

#### So what can you do?

Just call your bank – it's easy to arrange. If your bank does not allow you to make extra repayments directly into the loan, ask them about opening up an interest off-set account

### 5. Get Super on your Radar

The earlier you start saving in super, the better. Albert Einstein is attributed with saying that one of the most powerful forces on earth is the effect of compound interest. He is believed to have considered it the greatest invention of the twentieth century - even better than E=MC2.

But, let's be honest...if you're in your 20's (or 30's) now, paying extra into super that you won't be able to get your hands on for 40 years or so is probably not that appealing. If you can take a long-term view of your financial future (we will all turn 65 one day) – super is one of the best options available.

#### A Super Sum from the Government

If you earn less than \$60,342 p.a. then you could even benefit from the Co-contribution scheme, where the Government will match your contributions with up to \$1.50 for every \$1.00 you put into super, depending upon your income level. It's that easy!

### 6. Secret women's business

Extra contributions are a particularly good idea for younger women, because many of you will spend time in and out of the workforce raising a family. While you're doing this, you will miss out on the compulsory superannuation paid by your employer.

If or when you return to the workforce, it may be in a part time or casual capacity, unless of course something big changes and women don't have to have the babies anymore!

It won't entirely replace what super payments would be contributed to your account if you were not on maternity leave or were still working full time, but it will help.

*All of the strategies above are easy to implement and are a great way to get ahead. Send your tax cut to the right destination. Clearing debt, building savings or loading up your super will turn your tax cut into so much more.*

#### So what can you do?

1. Call your Industry Super Fund to find out more about making voluntary contributions to your super account and accessing the Co-Contributions Scheme.
2. Talk to your employer or Industry Super Fund about salary sacrifice. Depending on your own financial or industry super fund situation, you may be able to sacrifice extra to super without noticing the difference in your pay packet... Salary sacrifice contributions are taken out before tax. Just be aware salary sacrifice contributions are not eligible for the Government Co-Contributions.

### Weekly savings from the tax cuts 2008/09

Taxable Income p.a	From 1 July 2008	From 1 July 2009
\$25,000	8.65	11.54
\$30,000	8.65	11.54
\$35,000	20.19	25.96
\$40,000	20.19	25.96
\$45,000	20.19	25.96
\$50,000	19.23	25.00
\$55,000	15.38	21.15
\$60,000	11.54	17.31
\$65,000	11.54	14.42
\$70,000	11.54	14.42
\$75,000	11.54	14.42
\$80,000	21.15	24.04
\$85,000	21.15	25.96
\$90,000	21.15	27.88
\$95,000	21.15	29.81
\$100,000	21.15	31.73

Industry Fund Financial Planning:

1300 138 848  
 iffpp.com.au

\*Based on investing \$20 per week continuously for 36 months, with no withdrawal and rates of return 8%. \*\*Calculation based on an extra weekly repayment of 15 for the full term of the loan, on a 30 year loan of \$300,000, at 8.89% interest rate. This information leaflet is intended to provide information of a general nature only. It has been prepared by IFFP (a division of Industry Fund Services Pty Ltd (IFS), ABN 54 007 016 195, AFSL 232514) without taking into account your personal objectives, financial situation or needs.