

The No.1 mistake made in tax returns is omitting income, says accountant and author Adrian Raftery. The ATO is expected to data-match 500 million financial transactions this year

MONEY

## QUESTIONS TO ASK YOURSELF

- Do you know what your monthly net income and actual expenditure is?
- What are the top five fixed expenses each month and how can they be reduced?
- What are the top five discretionary expenses each month and how can they be reduced?
- Do you have income insurance or savings put aside to protect yourself should you be without a steady income?

Source: KeyInvest



# Time for fiscal check-up

It's vital to take a hard look at your money to determine what sort of condition you're in, writes **Anthony Keane**

JUST AS January is a popular time to resolve to get physically fit, the start of a new financial year is a great time to work on your financial fitness.

Giving yourself a financial health check can help you see potential problems before they spiral out of control and also help you plan how to increase your wealth in the year ahead.

So how do you do it, and what do you look for?

### ARE YOU BLEEDING?

If you are spending more than you earn, your finances are haemorrhaging and need to be fixed before it becomes fatal.

Grab your bank and credit card statements and write down everything you earned and spent over the past month or two for a quick snapshot of your situation.

Financial strategist Theo Marinis says there are two types of debt.

"Short-term debt like credit cards make you financially sick, while long-term debt such as a home mortgage generally puts you in robust financial health," he says.

Marinis says people with more than two credit cards are in danger of suffering from "credit obesity".

"Close some accounts now

by transferring all your debt to a card which offers low interest on balance transfers and start paying the balance off urgently while you are in the interest rate-protected period," he says.

"Destroy the old cards. You may need to see a counsellor who can act as a financial fitness coach."

KeyInvest managing director Ian Campbell says if your expenses have increased more than 10 per cent in proportion to your income, it's time to make some changes.

### STRESS LEVELS

Financial stress leads to emotional stress and a host of other nasties.

Campbell says an excessive mortgage is a common cause of problems.

"Mortgage repayments that represent more than 40 per cent of your household income are a warning sign," he says.

"High credit card and personal debt is another area to address quickly before it gets out of control and the true cost of raising and educating children is often grossly underestimated by families.

"The most important strategy is early detection. By identifying and addressing any emerging financial stresses

early, you can better position yourself for the future."

Campbell says people who are finding it tough to meet repayments should not be afraid to talk to their bank.

"It's much better to get on the front foot early than wait for the bank to come to you."

William Buck senior financial adviser Janine Williamson says many people live to the balance in their bank accounts.

"If money is there, they will spend it," she says.

"If you want to pay more off your mortgage or can't seem to save, set up direct debits so money is debited out of your account before you can spend it. Whatever is left is yours, guilt-free."

### HOME LOAN HEALTH

Williamson says people should check how much they owe on their mortgage, compare it with how much they owed this time last year, and ask questions if the result is not good.

"Check the interest rate you are being charged and make sure it is competitive with other lenders," she says. "If you are paying monthly, change to fortnightly payments. The extra over the year can make a huge difference in the long run. "If possible, try to increase

your repayments at least once a year."

Bourke Shaw Financial Services principal Lawrence Orlando says a home loan should be reviewed every year.

"Structuring a home loan with the use of an offset account and investing equity in a managed fund of blue-chip Australian shares may enable you to pay off your loan sooner than regular methods would allow," he says.

### CHECK YOUR VISION

A vital part of your financial health check is setting goals.

"To understand what you want tomorrow, you need to plan to get there. Unless you have a plan of action in place you are chasing your tail," Orlando says.

Goals should be broken down into short, medium and long-term. "Write them down and put them somewhere you can regularly see them. Remember, out of sight, out of mind," he says.

Next comes strategy. How will you reach your goals? Break it into bite-sized chunks and revisit your goals every six or 12 months.

### HAVE YOU PROTECTION?

Reviewing your personal insurance requirements is one of the most important things you can do for yourself and family.

"How much death cover do you have? Is it enough to pay

out debts and support your family if you are not around?" William Bucks' Williamson says. "What about if you get sick? How do you continue paying your mortgage and live if you don't have an income?"

"Everyone working should have income protection insurance, which replaces up to 75 per cent of your income if you can't work due to sickness and injury.

"Unfortunately things happen - don't regret what you should have done," she says.

Personal insurance may be cheaper than you'd think and often can be bought within your superannuation fund, which helps to avoid a cash drain on household finances.

### SUPER STRENGTH

People with several superannuation funds should consider consolidating into one.

"This has the potential to reduce costs and more importantly make it easier for you," Williamson says.

Small extra payments to super today can work wonders for your financial health in the future, says Theo Marinis.

"Have you picked up any free money available to you through the Government's superannuation co-contribution?" Marinis says.

"If you earn less than \$31,920 in 2011-12, any extra money you put into super will be matched dollar for dollar by

Canberra up to \$1000 and pro rata after that to \$61,920. This benefit is really useful for partners who work part time."

Higher earners can salary sacrifice up to \$25,000 if under 50 and \$50,000 if older each year to reduce the tax they pay on their wage and boost their nest egg, Marinis says.

### GET IN SHAPE

Most people have no idea how their money is being spent, and the simple way to combat this is to create a budget planner.

Marinis suggests sitting down with two clean sheets of paper. "On the first, write down any assets you may have, such as the house, shares, a car, furniture or superannuation - and celebrate these achievements," he says.

"Below that, write down any debts and the approximate annual interest you pay. For example, credit cards 20 per cent, mortgage 7.5 per cent and personal loans 9.5 per cent.

"On the second page, write down what your income is per week or fortnight.

"Then list all the costs you have, including your debt repayment, food, entertainment and transport, and compare the two.

"You will now have a very clear understanding of where you are financially."

Only when you understand your finances can you work out a way to improve them.