

TIDY FINANCES = HAPPY HOUSEHOLD

The cost of living these days and getting on top of debt is a major household undertaking, if you are to get it right.

Understand the costs to stay alive!

Shop around and save lots each year on your power, gas, telephone, insurances, loans and mortgages. You can use a broker for the insurances and mortgages but you are on your own to do the utilities. Banks approve loans assessing what you have left over after all your outgoings once a loan is approved. They use standard expenditure minimums based on cost of living figures. One bank's are Rates \$83 pm, Fuel Light & Power \$134 pm plus \$26 pm for each additional borrower, Car Expenses, including Insurance, Registration etc, are calculated at \$280 pm with Living Expenses a whopping \$893 pm for a couple plus \$165 pm for each additional child.

A word on Eftpos cards – don't use them all the time for little amounts – get a dollop of cash out for the small purchases or you'll pay heaps in bank charges.

Remember life doesn't go in even dollar amounts. There is always an emergency expense, like the car, friends visiting, holidays etc.

Those Humbug Credit Cards

A typical interest rate on these is 19.95%. Bank minimum repayments mean it takes 9 years to pay off \$8,000. A long time to pay for your groceries! Interest will cost you \$9,303.81! Keep your limit and hence your temptation at a minimum and pay off the balance each month. A great tool for managing finances but damaging if misused.

How many debts do you have?

It has been shown that most people cannot cope with more than 3 or 4 different debts and more than this is likely to see financial trouble brewing. If you have your own home get a **short** term loan against this at lower interest rates for things like furniture, cars etc. Avoid H/P wherever possible. If you take H/P look at all the figures and see what that new item is really costing.

How much do you leave over for Saving?

New Zealanders are among the worst savers in the developed countries. Hence one reason our mortgage rates are higher. In July you will be offered KiwiSaver, which will give you the chance to have some money when you retire by compulsorily putting away 4% of income. With compound interest this will build up a tidy nest egg over time.

The path to trouble – your choice

- Borrowing to pay off other debts – except a disciplined consolidation
- Long term finance for short-term items eg cars, fridges, carpets etc only last so long. Don't finance them longer than their use by date.
- Using credit card to pay for necessities because you don't have the cash.
- Too many credit cards. Two is enough and better one only, with small limits.
- Can only afford to pay minimum on credit cards. Best to use credit free period and pay off each month. If not, pay double the minimum payments.
- Spend time to work a budget and if necessary put all the money to be allocated to expenses into a No.2 Account from which all automatic payments for rates, insurance, mortgage etc go.
- Avoid more than 35% of gross income being used for all debt payments. If on over \$100,000 pa you may get away with about 50%, but life won't be worth living.

Resources

www.sorted.co.nz
www.consumer.org.nz
www.mortgagehelp.co.nz

Readers enquiries can be directed to:



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