



## Getting Resolutions Write On Track

**Successful people often say writing down their goals proved a powerful tool in actually achieving them.**

Indeed, urban myth has it that in 1953 only three per cent of graduating Yale seniors wrote down their goals – and this three per cent went on to accumulate more personal financial wealth than the other 97 per cent combined. Certainly setting financial goals at the start of each year, and writing them down in black and white, serves as a valuable checklist and reference point. If you can see your goals on paper, they become more meaningful and achievable.

Another secret to successful new year resolutions is not to have too many and to make them realistic enough so they are not all broken by February.

The reality is grandiose resolutions are difficult to implement and sustain, so concentrate on small changes that will have a big financial impact over time.

Here are some tips to get your debt position and balance sheet in better shape for 2013 and beyond.

### **Mortgage savings**

You may not realise that by changing mortgage repayments from monthly to fortnightly, you can cut years off your home loan. Say you have a 25-year \$400,000 home loan at 6.5 per cent interest. Paying fortnightly is the equivalent of 13 months' payments a year rather than 12, which will cut more than four years off your mortgage.

And what if you were to forgo your daily cappuccino and muffin, putting that money towards your mortgage? That extra \$150 a month could knock three years off your home loan.

If you combined the above strategies, you would slice six years and four months off your mortgage.

A further tip is to consider maintaining your current level of mortgage repayments should the Reserve Bank drop interest rates again. This also will help pay your mortgage off faster.



## Good versus bad debt

Another smart tactic is to recognise the difference between good and bad debt. Interest on 'good debt' is tax deductible, while 'bad debt' interest is not. What's the difference? Good debt includes borrowings for investment in shares, property or a business. Bad debt may include your home mortgage, your credit card and personal loans.

Consider taking out an interest only loan for your good debt and then use the savings from the lower repayments to accelerate repayments of your bad debt.

## Saving strategies

On the other side of the debt coin are savings. The classic way to increase savings is to take the money out of your account as soon as you are paid. Again, it is important to be realistic and not too ambitious about how much you hope to save – if the amount is too big, your strategy can become unstuck very quickly.

The new year is a good time to focus on retirement savings, as money cannot be salary sacrificed into super retrospectively. If you want extra contributions to go in this financial year, now is a good time to start planning. Take care when thinking about extra contributions as breaching the \$25,000 concessional contributions cap can mean extra tax. It is best to talk to us *before* you decide how much to salary sacrifice.

## Business tips

Business owners need to be aware of how powerful a discount for prompt payment can be. For instance, if your business is offered a two per cent discount for payment within 10 days (rather than paying the full amount within 30 days), you are actually being offered an effective return of 37.2 per cent<sup>1</sup> a year. In this instance, it may even be worthwhile paying by credit card to benefit from the offered discount.

[1] Calculation for this figure:  $2 / (100-2) \times 365 / (30-10) = 2/98 \times 365/20 = 37.2\%$

Of course, make sure you pay your credit card in full on the due date. Just another example of how little changes can make big differences.

## Expenditure

New year also offers an opportunity to look at your expenditure. Is your private medical insurance still relevant to your needs and could you get a more competitive premium elsewhere? Review your excess, as this could lower your premium. Consider paying annually rather than monthly, to get rate protection and an upfront payment discount. Most funds increase their premiums on April 1 each year. Attention to detail can reap solid rewards.

Write a checklist of all your resolutions. This gives you an opportunity to cross off those you have achieved, and this in turn can spur you on to further goals and wealth growth.

Come and talk with us. We can walk you through what you could achieve in 2013 just by making some small changes.



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