Future proof

Six easy steps to a debt-savvy household

DIANA JENKINS

WHILE many debt-stressed Australians would welcome a magic wand to wave when it comes to bad debt, there isn't one, but there are practical steps you can take to avoid the dreaded backslide into bad habits.

Here are six tips for keeping your debt-free household far from the sinkhole.

1 Talk to the experts

You don't always have to spend money to make money – you can seek free advice at any time, including when you're ready to capitalise on all your hard work.

The Australian Securities and Investment Commission's (ASIC) consumer website Money Smart is full of free information. Head to moneysmart.gov.au or ask your local community centre about financial counsellors.

If you're starting to grow savings, consider investing in a talk with a financial planner. The Financial Planning Association of Australia (FPA) is a good place to start.

2 Protect your home and other assets

Every family household has its own non-negotiable priorities, but you can establish firm foundations by keeping your primary assets secure.

The ABS reported in July 2019 that the main contributors to household wealth continue to be property and, increasingly, superannuation, 'with average household super balances nearly doubling over the past 12 years.'

If you're a beneficiary of such growth, you may feel ready to diversify your investment portfolio or be considering taking out a loan for investment purposes.

As reported in Monday's MoneysaverHQ, when the Reserve Bank announced the current low cash rate of 0.5 per cent earlier this month, most banks passed that saving to mortgage customers as an interest rate drop of up to 0.25 per cent. So bricks and mortar continue being solid in more ways than one.

Debt-proofing can be as simple as not borrowing if you're already debt-free, or not adding to residual debt if you're working toward debt freedom. If you are looking to borrow, always check ASIC Connect's professional registers online.

3 Hit the books

Don't be surprised if checking your bank balance whets your appetite to learn more about how to make your money work harder. Chris Smith, founding partner of VISIS, a private wealth company, recommends a little dry reading.

"There are some very good books out there by renowned advisers. They offer good value at very little cost," Mr Smith said.

4 Understand tax

Mr Smith nominated greater tax education as one of his top tips for debt-proofing. What tax lacks in excitement it more than makes up in benefit – if you do your homework. Mr Smith said it's likely most households can make additional savings and gains simply by improving their own knowledge of the taxation system.

"Understand how tax works on income," he said. "A lot of people don't know basic tax principles or how to structure their debts appropriately in the first place."

Once you have that additional tax know-how, review your budget with fresh eyes.

5 Reward yourself

It sounds counter-intuitive, but if you've managed to improve your financial position enough to be in the enviable position of having some room to move, it may be time for a treat.

There's no need to go overboard, but market lender SocietyOne spokesperson Melissa Cicero said setting aside a specific amount can help fight the urge to splurge and help you stay on track.

"Allocate some fun spending into your or your family's budget," Ms Cicero said. "You can spend this on anything, guilt free."

6 Don't look back

If you have paid off all or most of your debt, the only way is up if you keep up the good work. The period after debt-busting is the prime time to start saving.

"Start saving that money you were so used to paying off your loans, credit cards and even mortgages. You've already learned to live without that cash each pay," Ms Cicero said.

Pros and cons of debt consolidation

PATRICK TADROS

ARE you juggling multiple debts and repayments between several credit cards?

Unless you've joined the circus, one small error could lead to late payment fees and other penalties.

A solution may be to pay off or cancel one of your cards.

Alternatively, you can combine your debts into one single loan, says Thirdview director and financial adviser Peter Foley.

He believes the biggest benefit of debt consolidation is the potential to make big savings on your interest.

"You can check your balance in one place and get some good reductions to your interest rates," he said. "This means more money in your pocket."

Mr Foley said a debt consolidation loan puts you more in control, and two thirds of Australians agree, according to new data commissioned by MoneysaverHQ in partnership with SocietyOne.

"Whether it's a mortgage, credit card or personal loan, consolidating your debts is a good way to throw all of your liabilities into one bucket so you can easily manage and track," Mr Foley said.

While rolling our consumer debts into one simple loan makes good sense, a whopping 82 per cent with personal or household debt have never taken out a debt consolidation loan, the research found.

Financial adviser James Gerrard believes the reason is many of us simply haven't looked into the option.

"Most people have no idea that banks and finance companies will approve a loan to enable them to roll all existing debt into a new single loan," he said.

But Mr Gerrard warns that there are traps if you don't understand how debt consolidation works.

"Make sure that the interest rate on the consolidation loan is lower than the average interest rate on all your current debt," he said.

Mr Gerrard urges that borrowers should read the fine print and check for extra fees or prepayment penalties, which could undermine savings. They should also avoid making multiple loan inquiries that could dent their credit score.

It's essential to do the calculations to determine if debt consolidation is right for you. And if you do consolidate and get your finances under control, be sure not to fall back into bad financial patterns.

Staying in control of your finances is the key to avoiding financial stress.

BENEFITS OF ROLLING YOUR DEBT

- Deal with one lender;
- Less paper work;
- One monthly repayment;
- Potentially lower interest rate;
- Save on loan fees.