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Make the Most of What You've Got

Should you live for today or for tomorrow? Should you take a holiday on a Pacific Island or pay off the car loan?

When it comes to managing your money, it is hard to find the right balance and Lyn McMorran, President of the Institute of Financial Advisers (IFA) says there is no absolutely right or wrong answer. "The right answer for you depends primarily on what your priorities are."

Most people earn between \$1 million and \$2 million in their lifetime but manage to save very little of what they earn. McMorran says the problem is not our income, it's what we spend.

As Charles Dickens said, "Annual income twenty pounds, annual expenditure nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds, nought and six, result misery."

So how can we make the most of what we earn?

McMorran says there are five key principles to stick to:

- Take control of your money and control your life
- Spend less than you earn
- Set aside a percentage of every dollar of your income and live off the rest
- Let time and compound interest work for you

- Invest in yourself – especially your skills and qualifications

In practice this means paying off debt and focusing on saving. According to the IFA this includes joining a subsidised superannuation scheme such as Kiwisaver, paying off high cost short term debt, creating an emergency cash fund, paying off your home mortgage as soon as possible and establishing a long term savings plan.

That may sound difficult right now, but the best way to start managing your money is to draw up a budget says McMorran. Your budget will consist of your income less your expenses which include fixed and variable costs and discretionary spending. (See *table below illustrating this*)

“Remember that in the long run even the fixed costs like your house and car are choices that you make and if they cost too much, you can change that,” says McMorran. “How much you spend on the discretionary items is also your choice, which means that how much you have left over for saving is entirely your decision.”

McMorran offers some money management tips:

- Watch your cash expenses – cash from ATMs can add up very quickly
- Beware of luxuries dressed as necessities
 - Many items are choices
 - How much you buy is a choice, clothing is a good example
- Aim to spend no more than 90% of your income – this allows you to pay for some of the big-ticket items
- Beware of spending creep as your income rises
- Give yourself a credit card haircut
- Never spend more than \$100 on anything without taking 48 hours to think about it

McMorran says to make the most of what you’ve got a good motto is “Make it, Save it, Spend it!”

YOUR BUDGET

Income Less Expenses

- Essential Fixed Costs
- Essential Variable Costs
- Discretionary Expenses

= **Surplus** 😊 / **Deficit** 😞

Essential Fixed Costs	Variable Costs	Discretionary Expenses
<ul style="list-style-type: none">• Rent/mortgage• Insurance• Car registration/WoF• Other loan payments• Rates/water	<ul style="list-style-type: none">• Food• Power/gas• Petrol• Car repairs• Telephone	<ul style="list-style-type: none">• Alcohol/cigarettes• Meals out, coffee• Books, magazines• Gifts• Donations• Clothing• Entertainment• Holidays• Pets

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