BRYCE HOLDAWAY & BEN KINGSLEY

Get Rid of Your Credit Card Worries Once and for All

EXTRACTS FROM MAKE MONEY SIMPLE AGAIN

nine
helpful tips
in running
your finances
the SMARTS way

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This publication is an extract from our best seller book, Make Money Simple Again.

Curated to focus on the Credit Card aspect of Money SMARTS.

www.makemoneysimpleagain.com.au

THE CREDIT CARD ACCOUNT

Unless you have been living under a ginormous (and obviously lightweight) rock… you know what a credit card is.

Basically, when it comes to using a credit card, there's a whole bunch of opposing myths and beliefs out there, so much so that sometimes it's hard to know what to believe. Some people grew up in households where a Credit Card was on par with the devil — little more than an evil plan devised by the big banks… a plastic trap to get you to spend more. While others among us grew up in a household that wouldn't function without a credit card! And, of course, then there's those who are so deep in credit card debt that they can barely see a glimpse of light in their debt hole, which is hollowing out further and further with every passing day.

But no matter your upbringing, and whatever current you're currently in, it's important to know that, at the end of the day, the credit card is just a card. It's **NOT YOUR MONEY** but if you know what you're doing, you can actually use it to benefit your cashflow position.

Let us explain more…

It provides you with a credit limit. You are free to spend up to this limit, but at some future date it needs to be paid back. For the record, it's also technically a bank account.

Within our Money SMARTS system, the credit card is very important, but very restricted, function is to only pay bills (no "spending money" here please). Why? **Because the credit card's true purpose, within our system, is to actually make us money.**

Yes, you read that correctly!

WHO ARE WE?

But first, why should you be reading this extract from us?
Well, here's a bit about us.

Ben Kingsley is the Founder & Managing Director of 2018, 2017 and 2016 BRW Fast 100 Companies, Empower Wealth, Chair of Property Investors Council of Australia (PICA), and co-founder of LocationScore, A Qualified Property Investment Advisor (QPIA), Ben is also a Licensed Finance Advisor, holds a Diploma of Finance and Mortgage Broking Management, and a Diploma of Business, and is awarded as the 2014 and 2015 Property Investment Advisor of the Year. Empower Wealth was also awarded the Property Advisory Firm of The Year in 2018.

Bryce Holdaway is also a partner of Empower Wealth, co-founder LocationScore, a leading residential property research platform, and Co-Host of Escape from the City on ABC, Location Location Location Australia on Foxtel's Lifestyle Channel and Relocation Relocation Australia. A qualified Buyers Agent and Financial Planner, Bryce holds a Bachelor of Commerce (Accounting), Real Estate Agent Licence and Diploma in Financial Services (Financial Planning).

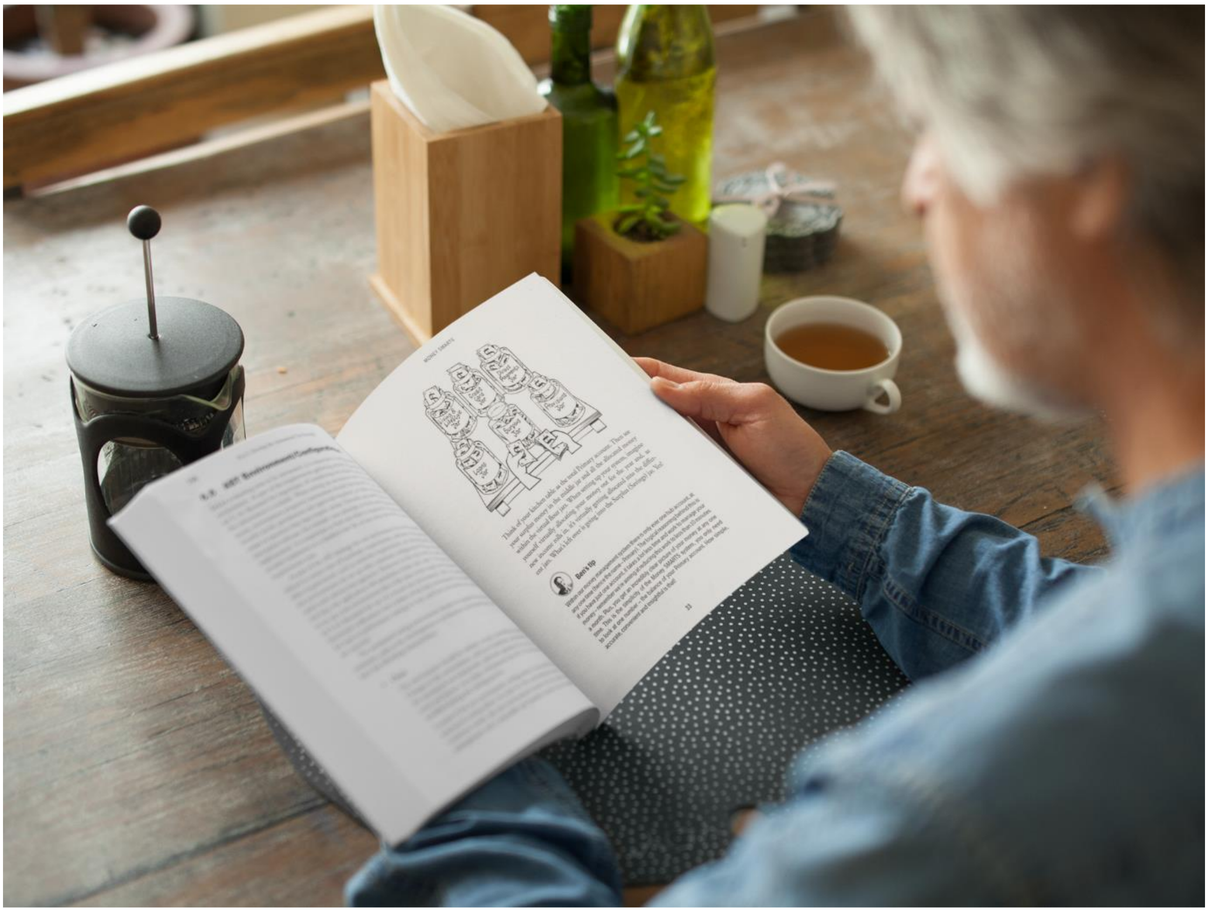
On top of that, we host of Australia's No.1 Property Podcast, The Property Couch and authored best sellers book, The Armchair Guide to Property Investing and Make Money Simple Again.

So basically, in a nutshell, we are just a couple of blokes who wants to break down the complexity of property investing and present it to you in a simple and easy-to-digest concepts!

We are also featured in all this and more!

THE TEACHING

Nine Helpful Tips in Running your Credit Card Account



Credit Card account (bank account)

As you have heard us mention earlier in this book, Australians have a massive problem with credit card debt. It keeps growing and growing and growing, as we don't seem to be paying much of it back. So, you might be wondering, if Australians have a problem with credit cards, why are they part of our Money SMARTS system?

Well, if handled properly, they make money for you, and we're not talking about their loyalty or rewards schemes here. We are talking about using credit cards that offer a 55-day interest-free period. You get to use the bank's money (or the credit card provider's money) to pay your bills, leaving your money in your offset account or savings account, saving you or making you money – along with any loyalty or rewards offerings too!

Of course, there's one rule:

YOU MUST pay the rolling balance off every month.

You must do so religiously – no ifs, buts or maybes. Have we made ourselves clear? Because otherwise you will be charged interest and this will cost you more than you make.

Helpful tips in running your Credit Card account

You will notice that we have more tips to help you run your Credit Card account because, frankly, this is the account most people struggle with.

Tip #1

Don't use your credit card for Living & Lifestyle expenses, avoid this at all costs.

Just don't do it.

We told you earlier, in the event that you have to access money for a living and lifestyle expense, take it from the Primary account directly. We're telling you, speaking from years of experience based on our own use and lots of feedback from others who use our Money SMARTS system, falling into the habit of using your credit card for general spending instead of its intended purpose will render the system useless in capturing surplus money. **Please follow the RULES!**

Tip #2

Pick the right card. If you stick to the Money SMARTS system you will never pay interest again on a credit card, so in reality the quoted interest rate being charged on the card is irrelevant. In saying that, look for a card that has up to 55 days interest free:

–– doesn't charge any annual fees or other fees;

–– has the ability to 'auto sweep' or direct debit from your Primary account to repay the rolling balance (explained below);

–– potentially offers loyalty or rewards points.

Note: If you have a professional mortgage package, then included in the annual package fee, you usually get free offset accounts, no annual fees on credit cards, etc., and most importantly the 'auto sweep' feature – so check that out as a starting point.

Tip #3

Check it is a full 55-days interest free – not 'up to' 55 days.

These cards work like this: on the same day of every month the account is ruled off, recording your purchase activity and you are issued a statement. That statement will show you your purchases, any interest charges for that period (this will never show up after you implement our system), your outstanding balance, the minimum repayment required and the due date you are required to make that payment.

If the provider gives you 25 days to pay it, this is added to the 30-day monthly ruled off period, making up the total 55 days. Hence it's only up to 55 days, because you'd need to make every purchase on the first day of the new period to get all this money interest free for the full 55 days.

Tip #4

Work out what balance you have to pay.

You pay the statement balance, which is effectively the balance of all the purchases you have made within that 55-day interest free window. It's not the overall balance of debt against the card and it's certainly not the minimum balance.

Tip #5

Use the automatic repayment sweep feature (auto sweep).

We highlight the importance of never missing a payment of the rolling balance of your card, so you never pay any interest, but as humans, we sometimes forget things. When it comes to paying our credit card bill on time 'auto sweep' fixes that.

If your credit card is from the same bank where your Primary account is held, then this 'auto sweep' feature will automatically make the repayment on your behalf, without you prompting – it's just a case of set and forget.

If your credit card is from a different bank, then you will need to set up an ongoing monthly direct debit, whereby your credit card provider will charge the Primary account each month to repay the card. You need to make sure that this credit card provider can automatically adjust the direct debit amount each month, because it's never going to be the same amount each month and a set figure isn't going to work properly.

If they can't set this up, switch credit card providers to one that is willing to do it properly.

Tip #6

Set up direct debit payments or BPAY, to the actual credit card account. In the interests of saving time, this is a smart thing to do.

Note 1: Some service providers will accept payment from a credit card via a direct debit authorisation or BPAY, but they may treat this as a cash advance, resulting in surprise fees and interest charges. So, make sure you check how the payment will be treated with your credit card provider.

Note 2: When setting up direct debit or BPAY payments for the first time, it's good to submit the form a couple of weeks earlier than the payment is due to give the service provider plenty of time to process the request. Double-check the payment went through the first time you make an automated payment.

Tip #7

You may not be trusted with a credit card. If you have demonstrated or continue to demonstrate poor decision making by racking up high debts on credit cards, then you can't be trusted with this type of credit. Sorry, but your Money SMARTS system isn't going to feature a credit card option. It's for your own good, for now. You will use our system, but instead of paying bills on your credit card, you will pay them directly from the Primary account.

Tip #8

Never, never, take cash out (a cash advance) on a credit card – never ! Why, you ask? Because they charge hefty fees for the privilege, and now you have your Money SMARTS set up you will never need to access other people's money, because you will have your own!

Tip #9

We classify credit card spending under 'regular spending'.

We have covered off the bank accounts but Figure 3.2 is a visual guide of how they work. So now it's time to understand a bit more about the flour jars that live within the Primary account and the roles they play.

If you're currently watching our video series, *The Money Saving Hacks The Banks Don't Want You To Know About*, then **stick around till the last video** because we'll tell you where to get Figure 3.2 and heaps more!

REAL STORIES

Ashley and Vanessa

“Just as we felt we were on top of our finances, another bill would come along or the car needed to be fixed or we would glance at our slowly increasing credit card debt. We both just never felt as though we could ever break the cycle of fortnight to fortnight living.

ASHLEY & VANESSA'S STORY

Featured Users of Money S.M.A.R.T.S.

1) **What was the problem you were having before you discovered Money S.M.A.R.T.S.?**

Before we adopted the Money S.M.A.R.T.S system we regarded ourselves as good savers, as we learnt more about the Money S.M.A.R.T.S we realised how bad our discretionary spending actually was.

We would make a rough calculation of how much we would spend in the fortnight and what bills needed to be paid and then the rest would be 'savings' in our redraw facility. The biggest problem we found was, we would spend more than we had 'calculated', then redraw money back or worse we would spend on our credit card, which we never paid back.

2) **What did the frustration feel like as you were trying to solve your problem without Money S.M.A.R.T.S.?**

Just as we felt we were on top of our finances, another bill would come along or the car needed to be fixed or we would glance at our slowly increasing credit card debt. We both just never felt as though we could ever break the cycle of fortnight to fortnight living.

We tried many different ways in which to help our financial situation, although we would always end up in the same cycle of living the pay to pay lifestyle of first week living like kings/queens, then the next week living like scavengers!

3) **What was different about Money S.M.A.R.T.S.?**

The difference we found with Money S.M.A.R.T.S was that it simplified the way in which we would spend our money. It gave us set perimeters in which our money was to be used, while also allowing the money that wasn't needed at a particular time to be working hard for us to help reduce our biggest debt.

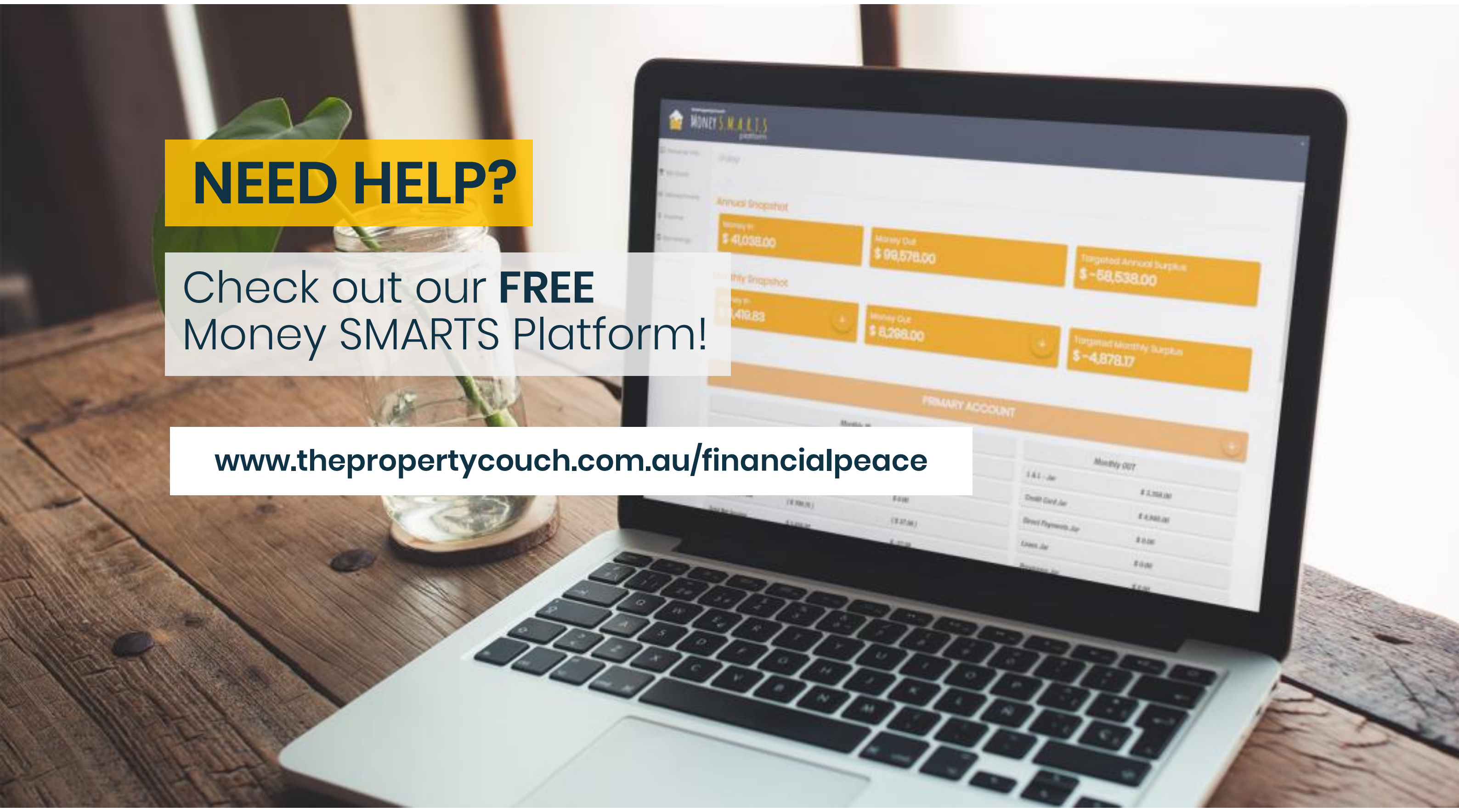
Once we adopted the Money S.M.A.R.T.S system our whole perception of how spending and saving was turned on its head. We started to understand the concept of surplus money working for us, using the ‘banks money’ for 44 days without charge and allowed us to stop living from pay to pay.

4) Take us to the moment when you realised Money S.M.A.R.T.S. was actually working to solve your problem.

We both believe the moment we realised that Money S.M.A.R.T.S was working to solve our financial woes was when our first big bill rolled in and that direct debt was set up the confidence that the money was there and no interest would EVER be charged against it.

5) Tell us what life looks like now that your problem is solved or being solved

Since implementing the Money S.M.A.R.T.S system has allowed us to look into the future that is past our fortnightly pay cycle. We both don’t stress about our finances anymore, we can discuss our financial future with some clarity knowing that the Money S.M.A.R.T.S keeps us under control while also giving us flexibility when our life circumstances change.



CASE STUDY

Credit Card Debt Disaster

How to recover quickly from a debt hole

DOs

Where to start and what accounts to set up

DONT's

What expenses and spending habits that need to stop

NEXT

6 future 'potential' money outcomes

CASE STUDY 1:
CREDIT CARD DEBT DISASTER

How to recover quickly from a debt hole

Money backstory

Meet Jenny, she's 26 years old, a single professional, living on the fringe of a capital city. She shares a flat with a girlfriend. She studied communications and marketing at university and now has a good job as a Marketing Associate.

Jenny's network of friends are similar to her with good jobs and good incomes. She is in the prime of her socialising life; her generation sees work and personal time as a bit like one and the same thing, which means life is hectic, with the work-hard-play-hard mantra. But Jenny is enjoying life.

The extra costs of living independently – her busy social calendar, eating out several nights a week, keeping her wardrobe on trend, a quick decision to take an overseas holiday on credit, and purchasing a new car recently – have put pressure on Jenny's finances.

As her money story worsened, Jenny avoided facing it by putting things on credit to help her continue her life journey. Yet her financial situation is one where she is moving further into the red and unless she takes action it is only going to keep getting worse. She may even reach the point where she can't even cover her minimum credit card costs leading to financial peril at such a young age.

Here is a high-level view of Jenny's money story right now:

Income: Gross wage Take home income	 $78,000 $55,783	Cash in bank	$2,600
Total expenses	$53,996	Debts owing: Credit card 1 Credit card 2 Credit card 3 Credit card 4 Store card 1 HECS-HELP Car loan	 $2,500 $3,000 $4,000 $5,000 $3,500 $25,000 $22,000
Current annual surplus	$1,787	Total debts	$65,000

Jenny's story is familiar to many people of her age who are trying to navigate young adulthood without any financial plan, money management system or professional guidance. She, along with tens of thousands of other Australians who find themselves in similar credit card or personal debt situations have a choice:

- Do nothing: hoping that their money worries will all magically go away (which they won't); or
- Take action: take the steps necessary to break the shackles of the debt burden they currently carry and get back in control of their money (back into the black!).

Implementing Jenny's Money SMARTS 7-step process

READY… Steps 1 and 2 – Gather and Sort

Motivation

Jenny is ready to try our Money SMARTS system. She has now admitted to herself that she has let her credit card situation get the better of her, she also knows within herself that she has self-discipline, self-control and can take herself out of her comfort zone and follow rules. Jenny understands this because she has got herself through university, which requires self-discipline, self-control and also to follow the rules – and she left home to live independently, which certainly takes any young person out of their comfort zone. So, if she puts her mind to it, Jenny knows she will be able to once again be the master of her money.

Jenny's message on her fridge reads:

I'm adopting Money SMARTS because it's time to take back control of my money.

STEP 1. Gather

Jenny gathered her past six months of payslips, bank statements, credit card and store card statements, and went about recording her expenditure within the categories laid out in the Money SMARTS tables. This is what she learnt about her money.

Money in

Monthly income record	Jenny
Gross income	$6,500
Estimated tax payable	$1,494
HECS-HELP payable	$358
Net (after tax/take home) income	$4,649
Total net monthly income	$4,649

Current cash position:

- Savings of $2,600 (in two separate bank accounts, she's left one open out of laziness – not anymore!)

Current assets:

- Car: $24,000 (bought for $28,000 six months ago – that's new cars for you, ouch!)
- Personal/household goods: $3,000
- Superannuation balance: $37,000

Money out

Existing expenses workings/notes:

During the gather process, Jenny was surprised by the amount she was paying for gas and electricity. So she called the providers and asked them for a better deal or she would leave. Guess what? Jenny got 5% off their rates. She also got a further 5% off by setting up a direct debit to pay her bills, which worked out to be better than if she paid her bill by credit card. (Her flatmate owes her dinner for doing such a great job saving her money too!)

STEP 2. Sort

Table 1 shows how Jenny sorted her expenses using the Money SMARTS virtual flour jar categories, how she sorted payment frequencies and what she categorised as essential and discretionary.

Existing debts workings/notes:

Jenny has a car loan of $22,000 @ 6% interest rate. Her monthly repayments are $425 (the period remaining on the loan is 4.6 years).

She has credit card/store card debts of $18,000 – paying minimum repayments as follow:

- Credit Card A $2,500 @ 13.5% monthly repayments of $50
- Credit Card B $3,000 @ 14.5% monthly repayments of $60
- Credit Card C $4,000 @ 21.9% monthly repayments of $80
- Credit Card D $5,000 @ 22.5% monthly repayments of $100
- Store Card A $3,500 @ 19% monthly repayments of $70.

She also has a HECS-HELP debt of $18,000. (Repayments are 5.5% of her gross salary.) This works out as $165 being taken out of her pay per fortnight.

Table 1 – Recording expenses

Expense items	Essential	Discre-tionary	Payment frequency	Money SMARTS category
Groceries and non-alcoholic bev.	$100	$10	Weekly	Living & Lifestyle
Personal care	$27	$5	Weekly	Living & Lifestyle
Household soft furnishings	$4	$0	Weekly	Living & Lifestyle
Fares	$14	$0	Weekly	Living & Lifestyle
Dining out/takeaway	$85	$15	Weekly	Living & Lifestyle
Entertainment	$30	$5	Weekly	Living & Lifestyle
Sport and recreation	$17	$0	Weekly	Living & Lifestyle
Alcohol and tobacco	$80	$20	Weekly	Living & Lifestyle
Water and sewerage	$30	$0	Quarterly	Via Credit Card
Electricity	$150	$0	Quarterly	Via Credit Card
Gas	$75	$0	Quarterly	Via Credit Card
Phone (fixed and mobile)	$60	$0	Monthly	Via Credit Card
Internet	$30	$0	Monthly	Via Credit Card
Health insurance	$90	$0	Monthly	Via Credit Card
Car registration	$800	$0	Yearly	Via Credit Card
Car insurance	$600	$0	Yearly	Via Credit Card
Fuel	$60	$0	Monthly	Via Credit Card
Parking and tolls	$10	$0	Weekly	Via Credit Card
Bank fees	$100	$50	Yearly	Primary Direct
Rent	$200	$0	Weekly	Primary Direct
Credit card 1	$50	N/A	Monthly	Loans
Credit card 2	$60	N/A	Monthly	Loans
Credit card 3	$80	N/A	Monthly	Loans
Credit card 4	$100	N/A	Monthly	Loans
Store card	$70	N/A	Monthly	Loans
Car loan repayments	$426	N/A	Monthly	Loans
Clothing and footwear	$1,250	$250	Yearly	Provision For
Gifts	$300	$200	Yearly	Provision For
Donations	$0	$50	Yearly	Provision For
Medical and healthcare	$720	$0	Yearly	Provision For
Car maintenance	$500	$0	Yearly	Provision For
Household appliances and tools	$100	$100	Yearly	Provision For
Furniture	$200	$100	Yearly	Provision For
Holidays	$1,000	$2,000	Yearly	Provision For

SET… Steps 3 and 4 – Calculate and Banking

STEP 3. Calculate

It's time to calculate and bring all the numbers together to give Jenny a clear financial picture so she can get underway with her Money SMARTS system (see Table 2).

In Jenny's case, the income is a very straightforward calculation.

Table 2 – Calculating income

Income sources (money in)	Jenny
Yearly PAYG wages (gross – before tax)	$78,000
Any tax adjustment (HELP debt)	-$4,290
Total yearly net income (take home)	$55,783
Average monthly income	$4,649

Next Jenny calculates the annual figures in the virtual flour jar categories, then she breaks these down into monthly amounts – and weekly in the case of the Living & Lifestyle jar – (see Tables 3 to 7).

Table 3 – Living & Lifestyle calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Groceries and non-alcoholic beverages	$100	$10	Weekly	$5,720	Living & Lifestyle
Personal care	$27	$5	Weekly	$1,664	Living & Lifestyle
Household soft furnishings	$4	$0	Weekly	$208	Living & Lifestyle
Fares	$14	$0	Weekly	$728	Living & Lifestyle
Dining out/takeaway	$85	$15	Weekly	$5,200	Living & Lifestyle
Entertainment	$30	$5	Weekly	$1,820	Living & Lifestyle
Sport and recreation	$17	$0	Weekly	$884	Living & Lifestyle
Alcohol and tobacco	$80	$20	Weekly	$5,200	Living & Lifestyle
Yearly total				$21,424	
Weekly allocation – (7 day float)				$412	

We start with the Living & Lifestyle account. This is a critical part for Jenny because it allows her to separate the money she is going to spend to continue living her life, from the money she is trying to save to get rid of that troublesome existing bad debt she has accumulated over the past couple of years. Over the full year Jenny estimates she will spend $21,424 which, as we can see from the workings above has been broken down into our very important weekly allowance – her 7 day float of $412.

Jenny has decided to pay this amount to herself every Thursday, just before she does her big grocery shop for the full week. She can use the remaining money for the expense items she wants to spend her money on for the rest of the week. Her priorities are right. She is focusing on the basic items first – like good cheap food – then working down her list of spending items in terms of what's most important to least important. If she has a bigger social weekend than usual, then she is going to need to battle through to the next pay day (the following Thursday). She must resist the apple of temptation not to overspend, but if she takes the mindset that once this money runs out there is simply no more for that week, she will win this game and master her money management habits forever!

Here are the other flour jar calculations.

Table 4 – Credit Card calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Water and sewerage	$30	$0	Quarterly	$120	Via Credit Card
Electricity	$150	$0	Quarterly	$600	Via Credit Card
Gas	$75	$0	Quarterly	$300	Via Credit Card
Phone (fixed and mobile)	$60	$0	Monthly	$720	Via Credit Card
Internet	$30	$0	Monthly	$360	Via Credit Card
Health insurance	$90	$0	Monthly	$1,080	Via Credit Card
Car registration	$800	$0	Yearly	$800	Via Credit Card
Car insurance	$600	$0	Yearly	$600	Via Credit Card
Fuel	$60	$0	Weekly	$720	Via Credit Card
Parking and tolls	$10	$0	Weekly	$520	Via Credit Card
Yearly total				$5,820	
Monthly average				$485	

Table 5 – Direct Payments calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Bank fees	$100	$50	Yearly	$150	Primary Direct
Rent	$200	$0	Weekly	$10,400	Primary Direct
Yearly total				$10,550	
Monthly average				$879	

Table 6 – Loan calculations

General list of expenditure/ spending (money out)	Essential	Payment frequency	Yearly	Money SMARTS category
Credit card 1	$50	Monthly	$600	Loans
Credit card 2	$60	Monthly	$720	Loans
Credit card 3	$80	Monthly	$960	Loans
Credit card 4	$100	Monthly	$1,200	Loans
Store card	$70	Monthly	$840	Loans
Car loan repayments	$426	Monthly	$5,112	Loans
Yearly total			$9,432	
Monthly average			$786	

Regular spending workings/notes:

Jenny is going to try to implement the full Money SMARTS system and continue to use one of the credit cards to take advantage of the 55-day interest-free period to help her retire the overall debt quicker. But when she gets underway, if she finds herself spending on expense items that aren't listed to be paid within the Credit Card jar, then she will need to pivot and close the credit card down. This will mean she can only spend this money via direct payments from the Primary account.

After completing this exercise, Jenny was somewhat surprised by the amount she was spending in this discretionary area. She even realised that if she wanted to cut back on some of her discretionary spending she could capture more surplus money.

Table 7 – Provisionings calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Clothing and footwear	$1,250	$250	Yearly	$1,500	Provision For
Gifts	$300	$200	Yearly	$500	Provision For
Donations	$0	$50	Yearly	$50	Provision For
Medical and healthcare	$720	$0	Yearly	$720	Provision For
Car maintenance	$500	$0	Yearly	$500	Provision For
Household appliances and tools	$100	$100	Yearly	$200	Provision For
Furniture	$200	$100	Yearly	$300	Provision For
Holidays	$1,000	$2,000	Yearly	$3,000	Provision For
Yearly total				$6,770	
Monthly average				$564	

Annual provisioning workings/notes:

Jenny has chosen to track her clothing and footwear and her gifts spending as opposed to adding it to her weekly Living & Lifestyle allowance. This means she'll be able to better monitor spending on these items and it will help stop her from overspending in these areas.

She has also decided not to use her credit card for any Provisions spending. She is trying to train herself to move away from the reliance on credit cards, as it's not her money. Her focus right now is to pay off her existing credit card and store card debt first. Good move.

Primary account calculations

So what have we learned? Quite a lot really, but let's 'unpack' it to make it even easier to understand.

Over the course of the next 12 months, here is what Jenny will spend her money on (see Table 8).

Jenny's overall expected spending will be $53,996. This is broken down into $47,226 for expected regular spending and $6,770 for planned provisions spending.

Jenny's yearly spend on Living & Lifestyle is $21,424. What she plans to spend on credit card is $5,820 and she might just pick up some rewards points along the way. She will pay $10,550 directly from this account to suppliers from the virtual Direct Payments jar. Her loan payments will be $9,432 for the year and finally she has set aside $6,770 in the Provisions jar for the year.

Table 8 – Primary account calculations

Primary account	Money in	Money out	
		Expected regular spending	Planned provisions spending
Income	$55,783		
Living & Lifestyle jar		$21,424	
Credit Card jar		$5,820	
Direct Payment jar		$10,550	
Loans jar		$9,432	
Provisionings jar			$6,770
Totals	$55,783	$47,226	$6,770
Targeted yearly surplus	$1,787		
Targeted monthly surplus	$149		

Does Jenny have a money surplus? Yes, she does.

Jenny acknowledges that she doesn't have a huge surplus for the year, as living independently on a single income and having an active life isn't super easy. Yet she is focused and committed to take a different course, a course which actually requires her to live off her own money rather than the bank's. She understands it requires her to make some sacrifices to get back to financial peace. She is committed to trapping that surplus.

Jenny's targeted yearly surplus is $1,787, and when you break that down it's a monthly target of $149. This represents 3.2% of her take home income. With this trapped surplus money, Jenny's plan is to recover quickly from this debt disaster by paying down her credit cards and store card debt as soon as possible.

Note: Once Jenny has paid off all her credit card debt, she can start to think about what she will do with her future surpluses.

STEP 4. Banking

It's time now to get the banking set up ready for action.

Primary bank account

Jenny has two bank accounts. She needs to:

- Pick the best high-interest 'at call' savings account with no account keeping fees for her money to flow in to. It also must have the convenience of internet banking and a smartphone app, for the new tech age. (Note: Jenny has no mortgage, so there's no option for a 100% offset account.)
- Transfer all her money into this new Primary account and close any remaining accounts.
- Tell payroll at her work to pay her salary into her new Primary account.
- Set up all her direct payments – her direct debits and auto sweep to pay for the one credit card she is going to keep.
- Transfer all surplus money she can trap into one credit card to pay down debt.

Living & Lifestyle bank account

Jenny needs to set up a new bank account for her Living & Lifestyle money. This has to be another fee-free bank account, which might also earn some interest on the way. It must have all the standard features of the new tech age too. When setting up this account Jenny requested a debit card (Visa, Mastercard or other), which allowed her to transfer her weekly allowance of $412 into it.

Credit Card bank account

Jenny needs to:

- Have just the one credit card moving forward – this is very important. She will endeavour to pay most of her bills from this card and certainly no living and lifestyle spending.
- Keep one card with the maximum interest-free days period, and the ability to make auto-sweep payments against her Primary account.
- Cut up the credit cards/store card she is no longer going to use and inform the providers to close off the limit for future

purchases on these cards. Once she pays these off, they will be completely closed down.

She doesn't have to worry about the interest rate charged on the card she selects, as she will no longer be paying interest on her new spending.

In Jenny's case, given her current circumstances, she just might need to keep an eye on the balance of her Primary account to ensure she has the money to cover the monthly sweep until things improve for her.

GO! Steps 5, 6 and 7 – Check-Up, Tweaks and Rollover

The 'rubber is about to hit the road' for Jenny as she embarks on her new era of becoming money fit.

STEP 5. Check-Up – Reporting: (Yep, 10 minutes a month!)

In our example, let's assume Jenny has passed her first month.

Yearly picture – example	
Expected income	$55,783
Expected regular spending	$47,226
Planned provisions spending	$6,770
Targeted yearly surplus	$1,787
Monthly allocated provisions spending	$564
Targeted monthly surplus	$149

Flour jars breakdown	Regular spend	Provisions spend
Living & Lifestyle	$21,424	
Credit Card	$5,820	
Direct Pay	$10,550	
Loans	$9,432	
Provisionings		$6,770
Sub totals	$47,226	$6,770
Overall spending total		$53,996

Jenny has $40 left over in her Living & Lifestyle account, so she transfers this money into her credit card to help pay it down quicker. She realised that if she left it in the Living & Lifestyle account, she would spend it. Clever lady!

Now it's time to login to her banking to access the monthly statements of her Primary account and her credit card. She casts her eyes over the statement to see if there are any suspicious transactions and there are none to be found.

As she works through the check-up monthly checklist she follows the process to enter the balances of the Primary account and the active Credit Card account into her reporting table.

The next step is to record any transaction that relates to a Provisionings item (see Table 9 overleaf).

In Jenny's case, yes, this month she bought a gift for her Mum for her birthday for $75. So she records this date, amount and description against her gift allocation of $500. Her end of month balance now shows $425 remaining for the rest of the 11 months of this annual cycle for this tracked item.

After month one, Jenny is doing well, she has managed to save an extra $40 for the month via her conscious spending in her Living & Lifestyle account on top of the money she planned to capture.

Jenny has held up her end of the agreement so far by only spending what she said she would from a living and lifestyle perspective, and she didn't put any extra 'temptation' spending on her credit cards. That's a big step in the right direction. Her conscious spending these days, as opposed to her unconscious spending decisions of the past, is the reason she is making progress to get back on track – well done, Jenny!

Table 9 – Provisions spending – record keeping

Provisions expense items	Planned provisioned amount	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Yearly remaining provisionings
Clothing and footwear	$1,500	$0												$1,500
Gifts	$500	$75												$425
Donations	$50	$0												$50
Medical and healthcare	$720	$0												$720
Car maintenance	$500	$0												$500
Household appliances and tools	$200	$0												$200
Furniture	$300	$0												$300
Holidays	$3,000	$0												$3,000
Total	$6,770	$75	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$6,695

Table 10 – Check-up reporting table

	Starting balance	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Primary account balance	$2,600	$2,600											
Credit card balance	$18,000	$17,725											
Cash position	-$15,400	-$15,125											
Change in cash position		$275											
Rolling change in cash position	$0	$275	$275	$275	$275	$275	$275	$275	$275	$275	$275	$275	$275
Provisionings spent		$75											
Monthly allocated provisions spending		$564	$564	$564	$564	$564	$564	$564	$564	$564	$564	$564	$564
Yearly remaining provisionings total	$0	$489	$1,053	$1,618	$2,182	$2,746	$3,310	$3,874	$4,438	$5,003	$5,567	$6,131	$6,695
Accumulated actual surplus		-$214											
Monthly actual surplus		-$214											
Targeted monthly surplus		$149	$149	$149	$149	$149	$149	$149	$149	$149	$149	$149	$149
Rolling targeted surplus	$0	$149	$298	$447	$596	$745	$894	$1,042	$1,191	$1,340	$1,489	$1,638	$1,787
Monthly excess surplus		-$363											
Accumulated excess surplus	$0	-$363	-$363	-$363	-$363	-$363	-$363	-$363	-$363	-$363	-$363	-$363	-$363

STEP 6. Tweaks

Having just started, Jenny doesn't need to make any tweaks immediately, but some of the things she needs to look out for are:

- Getting into the rhythm of her new weekly allowance and making sure this 7 day float lasts the full seven days. (This is true for any new user of our system.) If Jenny is running low with a day or two before her next allowance hits, she needs to make do with what's in the cupboard to push through. We don't want any slippage or conscious overspending please.
- As we will see in the upcoming scenario options Jenny has in front of her, if she wants to recover quicker from her current debt position, then the tweaking will consist of potentially consolidating her debt into one overall personal debt and trapping some additional discretionary spending too for the best outcome.
- Jenny should always be looking to reduce spending where she can, and if she can maintain this reduction in spending, she can tweak her yearly plan.

STEP 7. Rollover

There is still a way to go to the annual rollover but Jenny now understands what needs to happen at the end of the 12 months. Furthermore, in her circumstances she can't afford to spend money she hasn't got. That is what got her into trouble in the first place. She can't go off and buy any tickets to go on a holiday she can't afford. In fact, she would be better off banking her holiday money for this year to get rid of the bad debt she built up and then save for a holiday the following year. Jenny might still decide to take a short weekend break, which will come from the holiday provisioning set aside, to relax, but she will be far more relaxed without all that debt! Plus she will be a year closer to having paid off her car loan, as there will be even more surplus cashflow once this debt is also cleared.

Jenny will be ready to work through the rollover checklist when the year is up, or if there are any major changes to her Money SMARTS plans that warrant her to reset her overall numbers for a new 12-month period.

Jenny's future 'potential' money outcomes

The story is improving for Jenny. There is light at the end of the tunnel, and in this next section of Jenny's case study we want to showcase several possible outcomes.

This is where we get to have a bit of fun modelling Jenny's numbers into the future to demonstrate Jenny's exciting transformation to becoming money fit. Here we are going to look at six scenarios to showcase the financial impact of what Jenny can achieve for herself:

- Scenario 1: The Baseline (do nothing approach).
- Scenario 2: Debt Snowball Approach (paying off the smallest debt balance to highest debt balance).
- Scenario 3: High–Low Approach (paying off highest interest to lowest interest debt balance).
- Scenario 4: High–Low Approach plus trapping $50 a week from discretionary spending.
- Scenario 5: Debt Consolidation Approach (combining all debt leaving her one personal debt to pay off).
- Scenario 6: Debt Consolidation plus trapping $100 a week from discretionary spending.

In running these scenarios, in addition to information Jenny has already shared, the following assumptions are made:

- The high-interest savings account is paying 3% interest
- This model starts on October 2018
- Income and expenses are indexed at 3% annually
- Credit card and store card debts are paid at 2% monthly minimum repayments.

Scenario 1: The Baseline (do nothing approach)

If Jenny didn't implement Money SMARTS at all and just continued to make her 2% minimum repayments on her credit card and other loans this is her baseline/do nothing scenario.

- Jenny would be debt free in over 60 years!
- The amount of interest she would pay is: $77,814 (just madness!).

Scenario 2: Debt Snowball Approach

Using Money SMARTS, but paying down debt using the well-liked principle of the Debt Snowball Approach (paying off the smallest amount of debt to the highest debt).

- Jenny would be debt free in 60 months.
- The amount of interest she would pay is: $9,729.

Scenario 3: High–Low Approach

Using Money SMARTS, but paying down the most expensive debt first right down to the least expensive debt.

- Jenny would be debt free in 55 months
- The amount of interest she would pay is: $7,673.

Scenario 4: High–Low Approach plus trapping $50 a week

Using Money SMARTS, but paying down the most expensive debt first right down to the least expensive debt, and trapping an extra $50 per week of discretionary spending.

- Jenny would be debt free in 35 months
- The amount of interest she would pay is: $4,510.

Scenario 5: Debt Consolidation Approach

Using Money SMARTS and consolidating her debt (via balance transfer) into one credit card to the value $18,000 with an interest rate of 19.99%. This offer comes with a 6-month interest-free period (not trapping any additional discretionary spending).

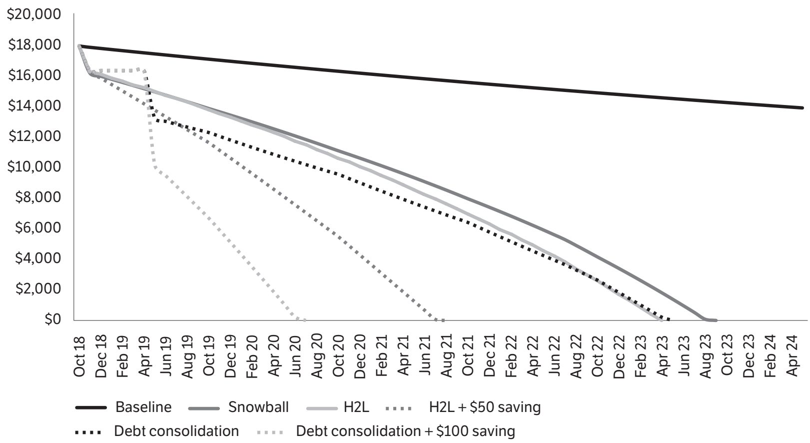
- Jenny would be debt free in 56 months
- The amount of interest she would pay is: $6,009.

Scenario 6: Debt Consolidation plus trapping $100 a week

Using Money SMARTS, consolidating her debt (via balance transfer) into one credit card to the value of $18,000 with an interest rate of 19.99% and Jenny trapping an additional $100 per week of discretionary spending (this offer comes with a 6-month interest free period).

- Jenny would be debt free in 22 months
- The amount of interest she would pay is: $1,260.

Here are Jenny's pay-down options illustrated in a graph.



We can clearly see from the graph just how much difference finding that extra $50 or $100 a week would make to Jenny clearing her credit card debt. It would make a world of difference.

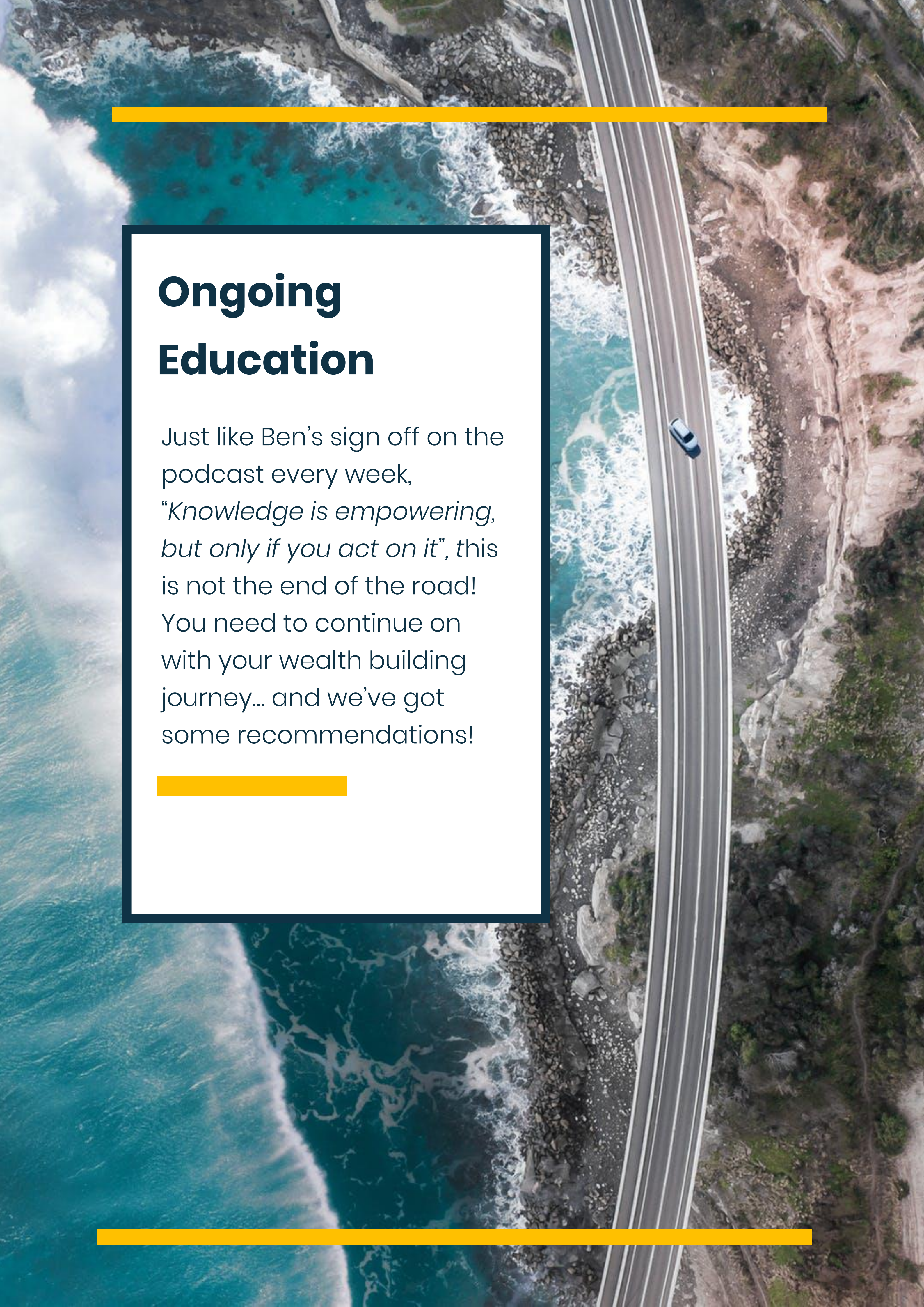
You can also see what happens when the 6-month interest-free period kicks in with a couple of the lines on the chart. During this interest-free time, Jenny is better off keeping her money in her high-interest savings accounts as she will be making money for herself, while no additional interest is being charged. Then just before the 6-month interest-free period is up, she would transfer a lump sum of money from her Primary account into her credit card to start reducing the interest costs. She would leave $1,000 in her Primary account to manage any direct payments or emergency spending.

Conclusion

Here is what Jenny's interest savings look like in summary:

Scenarios	Interest amount paid	Interest amount saved	Repayment timeframe
1. The Baseline (Do Nothing Approach)	$77,814	$0	60 years
2. Debt Snowball Approach	$9,729	$68,085	60 months
3. High–Low Approach	$7,673	$70,141	55 months
4. High–Low Approach Plus Trapping $50 a week	$4,510	$73,304	35 months
5. Debt Consolidation Approach	$6,009	$71,805	56 months
6. Debt Consolidation Plus Trapping $100 a week	$1,260	$76,554	22 months

By looking at these numbers and the potential time saved for Jenny to get back on her feet – she should be super motivated to reset her financial future and trap and pay that additional surplus into her credit card to eliminate this debt once and for all. You can do it Jenny!



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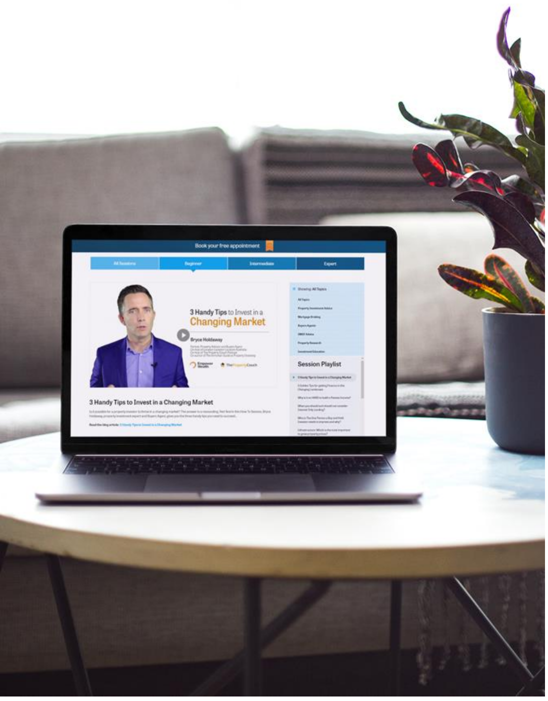
ONGOING EDUCATION



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