MAKE MONEY SIMPLE AGAIN

#1 BUSINESS BESTSELLER

A no B.S. money system that works!

#1 BUSINESS BESTSELLER

Financial peace in LESS than 10 minutes a month

Bryce Holdaway and Ben Kingsley

BEST-SELLING AUTHORS

If you're interested, here's what to expect from the rest of the book:

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PREFACE

So why is this book different?

Because it will give you a simple solution to take control of your money and give you financial peace in less than 10 minutes a month. What follows is a best-practice money management solution using a simple 7-step process that will show you how to make effective and lasting changes to the way you manage money under your roof. It will change your life forever.

This is not another book offering you false hope that all it takes to get on top of your money woes is to simply set a budget, stick to it, resist temptation and your bank balance will magically grow and all your problems will be miraculously solved.

To be honest, a book like that would be a total waste of your time because budgets *alone* simply DON'T work!

Each year we get to help thousands of people manage their money better by adopting our simple framework, which works for you no matter if you're a university student earning casual wages or CEO of a listed company on a big salary. It doesn't discriminate.

It works for everyone.

To get the most out of this book we encourage you to do these three things:

1. Read the book and understand the simple framework we teach
2. Add your personal numbers (your income and outgoings) within the framework
3. Learn to spend less than you earn and trap this 'surplus' so that you can enjoy financial peace forever.

Financial peace was much simpler in our grandparents' era. There was a cash economy back then and the rules were very clear; if you didn't have the cash, you didn't spend the money!

Fast forward to the present, and the stark contrast is that we rarely use cash, we routinely 'tap and go' and, as a collective, we seem to have become totally immune to the fact that we're spending money at record levels – that isn't ours – due to the easy access we have to credit cards. Can you see your grandparents shaking their heads and wondering how we got so far off track?

And we call it progress... really?

But here's the cool part, it's still possible to combine the wisdom of the previous generation with the 21st-century way of transacting our money. If you can follow the simple system you'll read about in this book, you'll see that the principles our grandparents used back in their day can still be applied today. We'll show you how to combine the best of both worlds.

We want you to get your financial peace back.

We want to Make Money Simple Again.

We think you do too.

PART IV
MONEY SMARTS IN ACTION

We have four great case studies to share with you, to help in rounding out your knowledge and understanding to become a Money SMARTS expert. These case studies can also be used as a model of sorts, giving you a head start in working out the specifics in setting up your Money SMARTS system... Which one do you best relate to? They are:

1. Credit card debt disaster – How to recover quickly from a debt hole
2. Rapid home deposit-builder – How to super-charge your way into your own home sooner
3. Mortgage and debt free – How to slash and burn your mortgage
4. Wealth-builder – How to super-charge your surplus money.

Depending on your own current financial position, there may be one case study that best relates to you. We get that, feel free to skip straight to the case study you are most interested in. Our only advice here is that we still encourage you to double back and read each case study, as you can sometimes find 'gold' in unusual places.

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).

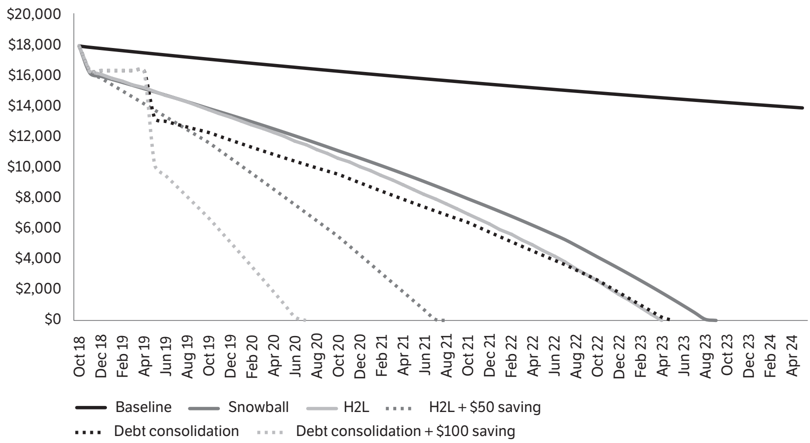
- Jenny would be debt free in 56 months
- The amount of interest she would pay is: $6,009.

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!

BRODIE & JESS'S STORY

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

The biggest problem we had was trapping our surplus, but we didn't see this as a problem at the time. Being DINKs (Double Income, No Kids) meant we were "free" to do whatever we liked with our excess cash. It was often the "treat yourself" mentality when it came to financial decision making, so if we wanted something and had the money for it, there wasn't much stopping us from buying it. Our bank accounts welcomed the transition from Uni to full time employment, so we made some lifestyle changes including swapping our Mi Goreng Instant Noodles for Surf 'n Turf. It's safe to say we've enjoyed ourselves along the way but now that we're planning for our financial future, we're beginning to understand just how much of an impact this unnecessary spending is having on our future prosperity.

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

The first step that Jess and myself took was to establish a stake in the ground of just where our money was going (the engineer in me relished the opportunity to spreadsheet it too). Sifting through all of our incoming and outgoing transactions just left us baffled as it appeared we were not saving any money whatsoever. Granted, there were some larger one-off expenses amongst the transactions including proposing to Jess (she said yes!), having an engagement party and a fairly substantial holiday, but still, the regular dining out expenses alone would give the Duke and Duchess of Cambridge a run for their money (all puns intended).

We were now aware of our spending habits and would be able make adjustments to keep spending at a reasonable level right? Wrong! It didn't quite work like that. We certainly took a step in the right direction by consciously monitoring our spending on a day-to-day basis but our method was still flawed. Since ALL of our spending went through the Credit Card and was auto swept when the balance was due, the temptation was always there to buy things we didn't necessarily need because we could simply "pop it on the card". We didn't have the correct account structure in place to limit our discretionary spending and prevent this from happening

Temptation was also hard to resist because we hadn't yet developed a clear direction on how much we needed to be saving and why we were trying to save money in the first place. We were just saving until there was something else we wanted to spend money on.

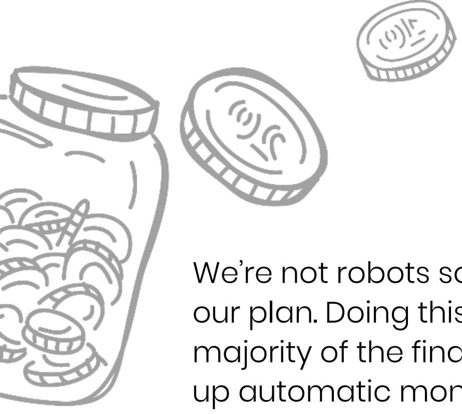
What was different about Money S.M.A.R.T.S.?

The key change we've made since learning about Money S.M.A.R.T.S is outlining what we're saving for and developing an appropriate Strategy. After sitting down with a qualified professional, we've developed a financial plan with clear direction around how we can achieve what we want in life. This was an eye opening experience because in doing so, we realised that we can do everything we want in life without going back to a Mi Goreng diet. Our long term plan (40 years) included a big holiday every couple of years, our wedding, house renovations, kids, new cars, buying a dream home and purchasing 3 investment properties along the way. Frankly, we were a tad ambitious with what we pitched to Paul but when we worked through the numbers, it was clear that these ambitions are really achievable without being leveraged up to our eyeballs. Our plan provisioned for large interest rate rises and healthy cash buffers so we can rest easy knowing we're able to weather the storm if it rolls in.

From a high level, creating this plan essentially ticked the box on Strategy and Timelines, which is only part of the Money S.M.A.R.T.S system, but what we didn't realise until later was that our Mindset had fundamentally changed. This changed everything!

Rather than being focused on all the luxuries we could afford today, we directed our attention towards the future benefits we could create, not only for ourselves, but for our future family. Understanding the long term benefits of investing our surplus, rather than spending it, was a huge motivating factor (similar to Eye of the Tiger in Rocky). The philosophy of "Useful Belief" is something that Ben and Bryce have discussed with Chris Helder on the podcast (Episode 113 a quick search tells me) and it really strikes true here. The belief that what we're doing is in our future best interests is ultimately what drove our attitude change.

With this new knowledge, we couldn't wait to get the wheels in motion on our strategy then sit back, relax and reap the benefits down the track. You might gauge from the enthusiasm here that the Application of our strategy was relatively straight forward and you'd be correct. Once we were in the right frame of mind the Application was something we wanted to do, rather than something we felt like we had to do.



We're not robots so we need the Resources in place to help us remain on track with our plan. Doing this is so easy in 2018 since they have an app for that! A good majority of the financial structure can be organised on our banking apps so setting up automatic money transfers, limits on our cards and creating new accounts were a piece of cake. When it comes to tracking your progress, it's instant and right at your fingertips.

At the end of the day though, the proof will be in the Surplus pudding.

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

There are parts of Money S.M.A.R.T.S we've had in place for years now and they've really served us well. We've always used our Credit Card productively to utilise the interest free period then fixed up the balance on the due date (thanks to the banking robots on our app). All our regular bill payments are direct debited from the Credit Card so we don't miss any (thanks again robots) and our money has always been centred in our offset account linked to the primary home loan which certainly helps keep money in our pocket, not the banks. These fundamentals have helped us get this far in life which we're absolutely stoked about but Money S.M.A.R.T.S shows us there are finer details we can adopt to become financially independent for life.

We're relatively new to the FULL Money S.M.A.R.T.S experience but there are already clear signs that we're heading in the right direction. The most immediate change has been our Mindset toward spending and saving. It's not that we've completely turned off the desire to blow all our cash on a brand new 55" 4K OLED TV (I'm a sucker for JB HiFi sales), but more the fact that we know we can have all of these things and more if we're patient and stick to our Strategy.

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

Even though we're only in the early stages of executing our 40-year plan, it's all happening for us. As we write this, we're working through our mortgage broker to free up equity in our home and move forward with purchasing our first investment property. In parallel to this, we've engaged a financial planner to assess our insurances and superannuation which is another crucial part of our strategy and something we've only recently taken an interest in (sounds boring but you might surprise yourself).

Once our finance is fully approved, then we've got our Buyers Advocate ready to unleash her fury and find us a cracking property to outperform the market for the many years to come. Because we've got a solid team on our side, we can take a back seat and focus on other important things like planning for our wedding and booking the honeymoon.

It's safe to say we're in an exciting phase of our plan at the moment, but as we get down the track, the excitement will naturally wear off. Whether this happens or not, we're confident that the mechanisms (and robots) we have in place will keep us on course to achieve those big ticket items on our bucket list.

A final message.

It's not going to mean much coming from us because our journey is just beginning but we've spoken to a number of people about their investment journeys and they all say the same thing so don't take it from us, take it from them. "Wish we'd started sooner" is what we've heard a lot. In fact, don't take my word for it, go talk to friends, family, colleagues and others who may have a bit of experience to pick their brain. You might find a similar response to the one I had.

At the tender age of 29 (Jess is 28 for a few more months and likes to remind me) we're not starting early by any stretch but we can now say we've started and that's the most important step in realising our potential to become exactly what we want to become.

CASE STUDY 2:
RAPID HOME DEPOSIT-BUILDER

How to super-charge your way into your own home sooner

Money backstory

Meet Samantha and Robert, they are a couple, both 28 years old renting a flat close to the city for $1,600 a month. They both earn solid incomes of $72,000 and $80,000 in their respective jobs. For the past couple of years they have been enjoying the freedom and spoils of inner city living and this is where a lot of their discretionary spending has been going.

Now they are getting closer to 30, so they are starting to think about the next stage of life and getting serious about saving for a deposit for their own home. They have a very modest amount of savings and usually any surplus in the past few years has gone towards paying off their car loan and a couple of good overseas holidays, leaving their bank balance a little flat. On a positive note, however, they haven't gone mad on credit, so they don't have a lot of debt to pay off before they start to build up their deposit war chest.

Samantha and Robert are targeting a sizeable deposit of $100,000 to help them secure a property in the area they want to live, which is close to the city. In their case study, once we run through the 7 steps, we want to look at the positive financial impact implementing Money SMARTS will make to their dream of buying their own home by exploring the following scenarios for them.

- Scenario 1 – Snail's pace savings
- Scenario 2 – A trapped extra $250 per week
- Scenario 3 – A trapped extra $500 per week
- Scenario 4 – Surprise option.

Here is a high-level snapshot of Sam and Rob's money story right now:

Income:		Cash in bank	$13,600
Gross wage	$152,000	Debts owing:	
Take home income	$117,526	Credit card 1	$1,000
Total expenses	$104,388	Credit card 2	$4,600
		Store card 1	$200
Current annual surplus	$13,138	Total debt	$5,800

As you will learn when we review the tables in this case study, there is a reasonable amount of discretionary spending in their numbers, which means there is real potential for Sam and Robert to cut back on some of their spending. You can also see they do have some savings, so by paying off their credit card and store card debts immediately they get a quick win, without any risk of a cashflow crisis.

It's time to categorise their money using the Money SMARTS tables.

Implementing Sam and Robert's Money SMARTS System – 7 Step Process

READY… Steps 1 and 2 – Gather and Sort

Sam and Rob have gathered their past six months of bank statements and credit card statements. Up until now they have been operating separate bank accounts with separate spending money, and they have only combined funds for shared expenses like renting, utilities, food, etc. Given they are living together and have been for almost two years now, they are really in a de facto relationship. Couple this with their plans to buy a home together, and we can regard their relationship at this point as very serious. So, it's now time they got serious about their money management too. The easiest and best outcome in our view is for them to combine their money in the pursuit of this big rock in the jar for them.

Ben and Bryce's tip

Every now and then we come across or hear stories about couples in solid relationships, even married couples, who keep their money separate. While there might be justification in some very extreme cases for doing this, it just doesn't allow you to make your combined money work harder for you and improve your overall outcome. If you are determined to keep your money separate, for whatever reason, the good news is that you can still use our Money SMARTS system. If you want to track separate surplus (savings) amounts, then pretend you have two new virtual jars – so you still have all your money flowing into the Primary account, but at the end of the month you just record the result on a spreadsheet, or if your bank doesn't accommodate multiple 100% offset accounts against the one mortgage, you can transfer the surplus amounts into each one of your accounts.

On the spending side, if you each want your own little spending allowance account, then set them up within the Living & Lifestyle jar and each week you will get this amount allocated to each of you into a separate (additional) spending account in the joint Living & Lifestyle account. Each to their own, but it will add extra administrative work for you both, so our advice is to try one account first, and each week take out your own spending money in cash from an ATM and that should solve the problem of having multiple spending accounts.

Motivation

We already eluded to Sam and Rob's motivation earlier. They want to save for a deposit to get onto the property ladder. This goal can be reached by taking a slow road or a quick road depending on just how motivated they are!

The motivational message on Sam and Rob's fridge reads:

We're adopting Money SMARTS because we're over paying off someone else's property and we want a place we can truly call ours!

STEP 1. Gather

Money in

Monthly income record	Sam and Rob combined
Gross income	$12,667
Estimated tax payable	$2,872
Net (after tax/take home) income	$9,795
Total net monthly income	$9,794

Current cash position:

- Savings of $13,600 in two separate bank accounts, but now they are combining their money (and power!)

Combined assets:

- Car: $32,000
- Personal/household goods: $20,000
- Superannuation balance: $90,000

Money out

Existing expenses workings/notes:

We highlighted this earlier, but during the gather and sort stages, it's fair to say Sam and Rob were very surprised by the amount of money they were spending on 'nothing'. This is going to change and we will highlight the changes as they occur in the tables.

STEP 2. Sort

Table 1 shows how Sam and Rob sorted their expenses using the Money SMARTS virtual flour jar categories, how they sorted payment frequencies and what they categorised as essential and discretionary.

Table 1 – Recording expenses

Expense items	Essential	Discre-tionary	Payment frequency	Money SMARTS category
Groceries and non-alcoholic bev.	$180	$20	Weekly	Living & Lifestyle
Personal care	$23	$5	Weekly	Living & Lifestyle
Household soft furnishings	$6	$0	Weekly	Living & Lifestyle
Fares	$16	$0	Weekly	Living & Lifestyle
Dining out/takeaway	$200	$300	Weekly	Living & Lifestyle
Entertainment	$30	$62	Weekly	Living & Lifestyle
Sport and recreation	$30	$0	Weekly	Living & Lifestyle
Alcohol and tobacco	$50	$200	Weekly	Living & Lifestyle
Gambling and lotto	$0	$20	Weekly	Living & Lifestyle
Water and sewerage	$50	$0	Quarterly	Via Credit Card
Electricity	$100	$0	Monthly	Via Credit Card
Gas	$45	$0	Monthly	Via Credit Card
Phone (fixed and mobile)	$80	$20	Monthly	Via Credit Card
Internet	$40	$10	Monthly	Via Credit Card
Health insurance	$165	$0	Monthly	Via Credit Card
Car registration	$850	$0	Yearly	Via Credit Card
Car insurance	$740	$0	Yearly	Via Credit Card
Fuel	$155	$25	Monthly	Via Credit Card
Parking and tolls	$40	$10	Weekly	Via Credit Card
Bank fees	$100	$50	Yearly	Primary Direct
Rent	$1,600	$0	Monthly	Primary Direct
Credit card 1	Paid off	N/A	Monthly	Loans
Credit card 2	Paid off	N/A	Monthly	Loans
Store card	Paid off	N/A	Monthly	Loans
Clothing and footwear	$2,150	$250	Yearly	Provision For
Gifts	$800	$200	Yearly	Provision For
Donations	$150	$50	Yearly	Provision For
Medical and healthcare	$1,560	$0	Yearly	Provision For
Car maintenance	$500	$0	Yearly	Provision For
Household appliances and tools	$300	$100	Yearly	Provision For
Furniture	$600	$100	Yearly	Provision For
Holidays	$2,500	$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. Table 2 calculates Sam and Rob's income position.

Table 2 – Calculating income

Income sources (money in)	Samantha	Robert
Yearly PAYG wages (gross – before tax)	$72,000	$80,000
Yearly net income (take home)	$56,143	$61,383
Total yearly net income	$117,526	
Average monthly income	$9,794	

Next Sam and Rob calculate their regular spending as allocated to each flour jar category.

If you take a look at Table 3, you can't miss the amounts they are spending each year on lifestyle: $26,000 on dining out and takeaways, $13,000 on alcohol and tobacco and finally entertainment at just under $5,000.

You can see how much they have declared as discretionary spending within their Living & Lifestyle jar. If you total this all up it's $59,384 a year or $1,142 a week! Of course, if they decide to reduce any of their discretionary spending within the Living & Lifestyle jar, then their weekly allocation would also change immediately to a lower amount (maybe lower by $600 in Sam and Rob's case – just saying!).

Note: In the scenarios at the end of this case study we showcase the potential of trapping $500 of this amount each week to add to their home deposit. Stay tuned!

Table 3 – Living & Lifestyle calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Groceries and non-alcoholic beverages	$180	$20	Weekly	$10,400	Living & Lifestyle
Personal care	$23	$5	Weekly	$1,456	Living & Lifestyle
Household soft furnishings	$6	$0	Weekly	$312	Living & Lifestyle
Fares	$16	$0	Weekly	$832	Living & Lifestyle
Dining out/takeaway	$200	$300	Weekly	$26,000	Living & Lifestyle
Entertainment	$30	$62	Weekly	$4,784	Living & Lifestyle
Sport and recreation	$30	$0	Weekly	$1,560	Living & Lifestyle
Alcohol and tobacco	$50	$200	Weekly	$13,000	Living & Lifestyle
Gambling and lotto	$0	$20	Weekly	$1,040	Living & Lifestyle
Yearly total				$59,384	
Weekly allocation – (7 day float)				$1,142	

Looking at Table 4, there is a little bit of discretionary spending here, but nothing too out of whack. Still, it shouldn't stop Sam and Rob from at least comparing offers in the market for the best deals for all of these expense items. Also, their fuel costs are a little high, can they reduce their car use in any way and get some exercise in the process?

Table 4 – Credit Card calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Water and sewerage	$50	$0	Quarterly	$200	Via Credit Card
Electricity	$100	$0	Monthly	$1,200	Via Credit Card
Gas	$45	$0	Monthly	$540	Via Credit Card
Phone (fixed and mobile)	$80	$20	Monthly	$1,200	Via Credit Card
Internet	$40	$10	Monthly	$600	Via Credit Card
Health insurance	$165	$0	Monthly	$1,980	Via Credit Card
Car registration	$850	$0	Yearly	$850	Via Credit Card
Car insurance	$740	$0	Yearly	$740	Via Credit Card
Fuel	$155	$25	Monthly	$2,160	Via Credit Card
Parking and tolls	$40	$10	Weekly	$2,600	Via Credit Card
Yearly total				$12,070	
Monthly average				$1,006	

There's nothing really to see in Table 5, although cheaper banking would be possible in our view; again, if they shopped around they might find a better deal, remembering they need a high-interest savings account – the highest possible, with no fees!

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	$1,600	$0	Monthly	$19,200	Primary Direct
Yearly total				$19,350	
Monthly average				$1,613	

Sam and Rob have $13,600 cash on hand and their credit card and store card debts total $5,800. So now that they are setting up Money SMARTS they are in a position to clear all this debt from the very start. This will still leave them with $7,800 as their current cash position and this is ample to cover monthly fluctuations and any cashflow emergencies that may pop up. They will still keep one card open (the one with the best number of days of interest-free credit), so their savings can continue to build in their high-interest Primary account, and they can use the card providers' credit interest free!

Although there are only nil balances in Table 6, we include it for completeness.

Table 6 – Loan calculations

General list of expenditure/ spending (money out)	Essential	Payment frequency	Yearly	Money SMARTS category
Credit card 1	Paid Off	Monthly	$0	Loans
Credit card 2	Paid Off	Monthly	$0	Loans
Store card	Paid Off	Monthly	$0	Loans
Yearly total			$0	
Monthly average			$0	

Now for the Planned Provisions spending. Rob and Sam can see further opportunities to achieve their $100,000 home deposit target quicker! Once again, if they tally up the discretionary portion here it totals $2,700 a year. When every dollar counts, they need to decide just how important this spending is when the time comes to spend it. They could take a bit more short-term pain for long-term gain, maybe?

Table 7 – Provisionings calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Clothing and footwear	$2,150	$250	Yearly	$2,400	Provision For
Gifts	$800	$200	Yearly	$1,000	Provision For
Donations	$150	$50	Yearly	$200	Provision For
Medical and healthcare	$1,560	$0	Yearly	$1,560	Provision For
Car maintenance	$500	$0	Yearly	$500	Provision For
Household appliances and tools	$300	$100	Yearly	$400	Provision For
Furniture	$600	$100	Yearly	$700	Provision For
Holidays	$2,500	$2,000	Yearly	$4,500	Provision For
Yearly total				$11,260	
Monthly average				$938	

Primary account calculations

So, what have Sam and Rob learned?

- Do they have a money surplus? Yes, they do.
- All trapped surplus income will quickly become a pile of money for their deposit.
- The more they focus on trapping the discretionary spending the better the picture will look. (Our scenario outcomes below totally support this.)
- They no longer have any outstanding debt, but will use the credit card wisely now.

Table 8 – Primary account calculations

Primary account	Money in	Money out	
		Expected regular spending	Planned provisions spending
Income	$117,526		
Living & Lifestyle jar		$59,384	
Credit Card jar		$12,070	
Direct Payment jar		$19,350	
Loans jar		$0	
Provisionings jar			$11,260
Totals	$117,526	$90,804	$11,260
Targeted yearly surplus	$15,462		
Targeted monthly surplus	$1,289		

Let's 'unpack' this now to make it even easier to understand.

STEP 4. Banking

It's banking set-up time.

The Primary bank account

Combining their banking, Sam and Rob need to:

- Choose either one of their current bank accounts – so long as it pays a high interest and doesn't have any fees, they can add the other person, so it becomes a joint bank account. If the interest paid isn't high enough, they can shop around for a better deal. Our experience is the smaller banks tend to offer the more attractive deals as they need to compete on price instead of branding and scale.

- Transfer the funds from the other account over into their new 'Primary account' and then close the old account off, (or they might consider making this account their Living & Lifestyle account maybe? Again, they need to look at cost and convenience).
- Inform both their payroll offices that they need to start paying their salaries into this Primary account.
- Contact their property manager to set up a new direct debit for their rent to be paid from this account if it's a new one, and to set up their other direct payments via direct debits.
- Set up the weekly transfer to their Living & Lifestyle account.

The Living & Lifestyle bank account

Sam and Rob need to either keep their other account open or set up a new bank account for their Living & Lifestyle money. They also need to apply for two debit cards (one each) linked to this account.

The Credit Card bank account

They need to settle on one card they already have or shop around for a new card with better terms.

It must have the ability to auto-sweep and this needs to be set up with the Primary account – this is critical, remember?

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

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

Yearly picture – example	
Expected income	$117,526
Expected regular spending	$90,804
Planned provisions spending	$11,260
Targeted yearly surplus	$15,462
Monthly allocated provisions spending	$938
Targeted monthly surplus	$1,289

Flour jars breakdown	Regular spend	Provisions spent
Living & Lifestyle	$59,384	
Credit Card	$12,070	
Direct Pay	$19,350	
Loans	$0	
Provisionings		$11,260
Sub totals	$90,804	$11,260
Overall spending total		$102,064

Are you paying attention? If you are, you will have noticed that the targeted yearly and monthly surpluses have increased from the original high-level snapshot at the start of the case study from $13,138 to $15,462. The reason for this is Sam and Rob have paid out their credit and store card debt, which released more surplus money.

We have fast forwarded to the middle of the year to see the progress Sam and Rob have been making.

At the half-way point of their Money SMARTS year, they are tracking above the overall target that they set themselves by more than $8,283. It looks like the message has really hit home and they have cut back heavily on their discretionary spending and significantly adjusted their Living & Lifestyle spending – as per the scenarios presented below.

They have also spent just over half of the money they had provisioned for $6,321 of $11,260 (see Table 9 overleaf and Figure 1 below).

Sam and Rob are smashing it in trapping their targeted monthly surplus each month. As you can see from Figure 1, most months they have trapped more than their target.

Figure 1 – Tracking the monthly surplus

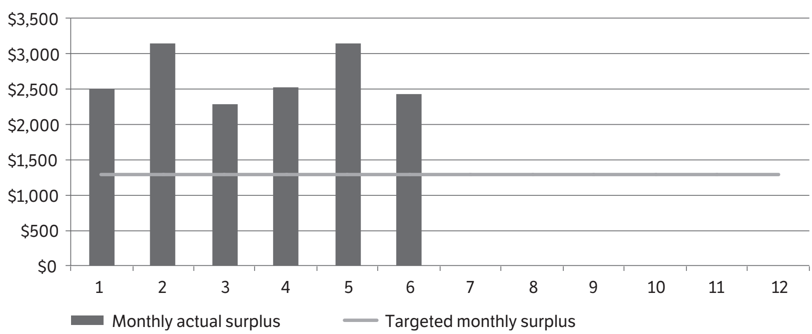


Table 9 – Provisions spending – record keeping

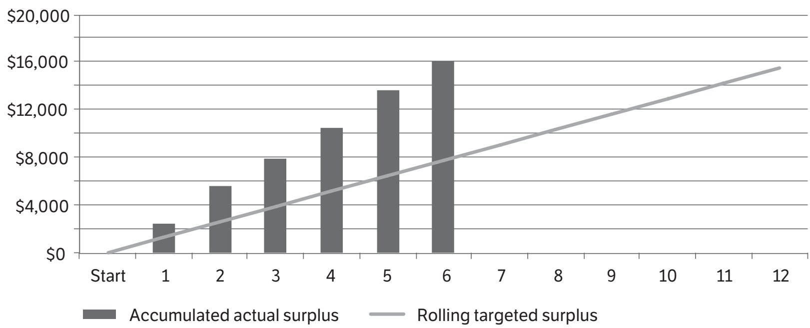
Provisions expense items	Planned provisioned amount	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Yearly remaining provisionings
Clothing and footwear	$2,400	$0	$380	$0	$440	$190	$0							$1,390
Gifts	$1,000	$0	$250	$170	$0	$0	$90							$490
Donations	$200	$0	$0	$50	$0	$30	$0							$120
Medical and healthcare	$1,560	$120	$0	$120	$0	$200	$120							$1,000
Car maintenance	$500	$0	$0	$0	$475	$0	$0							$25
Household appliances and tools	$400	$160	$0	$0	$0	$45	$0							$195
Furniture	$700	$0	$699	$0	$0	$0	$0							$1
Holidays	$4,500	$0	$1,400	$0	$0	$0	$0							$3,100
Total	$11,260	$280	$2,729	$340	$915	$465	$210	$0	$0	$0	$0	$0	$0	$6,321

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	$7,800	$11,865	$14,755	$16,287	$18,833	$22,698	$25,743						
Credit card balance	$0	$900	$2,440	$1,100	$1,090	$1,345	$1,238						
Cash position	$7,800	$10,965	$12,315	$15,187	$17,743	$21,353	$24,505						
Change in cash position		$3,165	$1,350	$2,872	$2,556	$3,610	$3,152						
Rolling change in cash position		$3,165	$4,515	$7,387	$9,943	$13,553	$16,705	$16,705	$16,705	$16,705	$16,705	$16,705	$16,705
Provisionings spent		$280	$2,729	$340	$915	$465	$210						
Monthly allocated provisions spending		$938	$938	$938	$938	$938	$938	$938	$938	$938	$938	$938	$938
Yearly remaining provisionings total	$0	$658	-$1,132	-$534	-$511	-$37	$691	$1,629	$2,568	$3,506	$4,444	$5,383	$6,321
Accumulated actual surplus	$0	$2,507	$5,647	$7,921	$10,454	$13,590	$16,014						
Monthly actual surplus		$2,507	$3,141	$2,274	$2,533	$3,137	$2,424						
Targeted monthly surplus		$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289	$1,289
Rolling targeted surplus	$0	$1,289	$2,577	$3,866	$5,154	$6,443	$7,731	$9,020	$10,308	$11,597	$12,885	$14,174	$15,462
Monthly excess surplus		$1,218	$1,852	$985	$1,244	$1,848	$1,135						
Accumulated excess surplus	$0	$1,218	$3,070	$4,056	$5,300	$7,148	$8,283	$8,283	$8,283	$8,283	$8,283	$8,283	$8,283

And because most months they have been exceeding the target, you can see in Figure 2 the accumulated result shows them above their rolling targeted surplus – over $8,000 above.

Figure 2 – Tracking accumulated monthly surplus



STEP 6. Tweaks

Sam and Rob are doing super well, so much so it's clear they tweaked to reduce their discretionary spending big time.

STEP 7. Rollover

There's nothing to roll over for now, they are doing great, but now they have a taste for it, they could do even better, especially looking at the potential scenarios below.

Sam and Rob's future 'potential' money outcomes

Let's look at some scenarios now. Sam and Rob want a rapid home deposit – as we are seeing evidence of above – not steady as she goes. Let's build out the scenarios to see just how quickly they could reach their goal of a $100,000 home deposit.

Our general assumptions used to forecast these results are:

- They have a high-interest savings account paying 3% interest
- This model starts on October 2018
- Income and expenses are indexed at 3% annually
- All existing debts were wiped out in October 2018.

Scenario 1 – Snail's Pace Savings

This looks at Sam and Rob doing nothing to change the status quo, and living more for today than for their future. All they do is pay out their personal debt, but they keep their current spending program going and get organised using Money SMARTS.

Scenario 2 – A Trapped Extra $250 per week

In this scenario Sam and Rob are able to trap an extra $250 of discretionary spending per week to put to their deposit war chest.

Scenario 3 – A Trapped Extra $500 per week

In this scenario, Sam and Rob are getting serious. They are going to really cut back on spending today for far better spoils tomorrow by trapping an extra $500 of discretionary spending per week. Now that's making some proper sacrifices to achieve their 'Rapid Home Deposit' goal.

Scenario 4 – Surprise Option

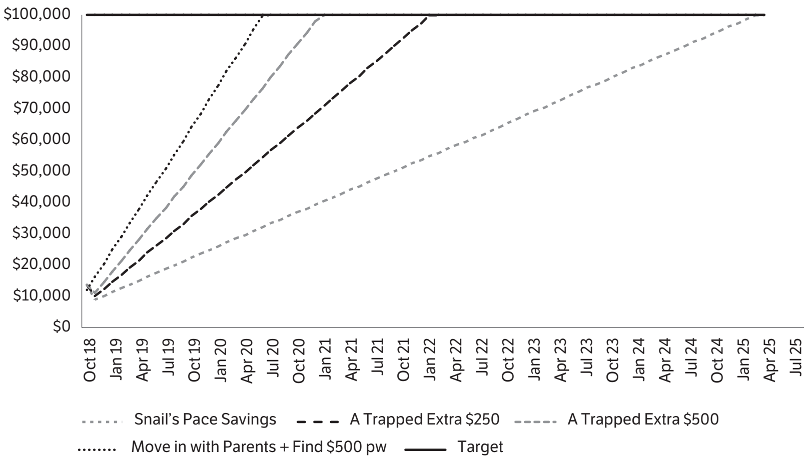
Here we go, in scenario 4 they are moving in with the folks! Their current rent was $1,600 a month ($370 a week). Under the deal, Sam and Rob are going to pay Sam's parents board of $800 a month as well as contribute 50% of what they are spending on utility bills (gas, electricity, internet and water now total $106 per month), which traps another $10,876 per year to add to the bottom line!

The results

- **Scenario 1 – Snail's Pace Savings**
  Samantha and Robert hit their $100,000 home deposit target in March 2025.
- **Scenario 2 – A Trapped Extra $250**
  Samantha and Robert hit their $100,000 home deposit target in February 2022.
- **Scenario 3 – A Trapped Extra $500**
  Samantha and Robert hit their $100,000 home deposit target in January 2021.

- **Scenario 4 – Surprise Option: Home with the Folks!** Samantha and Robert hit their $100,000 home deposit target in July 2020.

You can see the impact each additional trapped surplus makes to their overall story in the graph. (The dip in the Snail's Pace savings story is that under this model the credit card debt is paid out over time, instead of paying the total upfront – a bit of a worst-case scenario.)



Conclusion

Wow, Sam and Rob could reach their target as early as July 2020 with some big sacrifices, and that's only 1 year and 9 months, and they could be in their home shortly after that – that's focus, commitment and power saving!

Scenarios	Time saved
1. Snail's Pace Savings	None!
2. A Trapped Extra $250	3 years and 1 month
3. A Trapped Extra $500	4 years and 2 months
4. Surprise Option – Home with the Folks!	4 years and 8 months

RICK, LAUREN & HARRY'S STORY

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

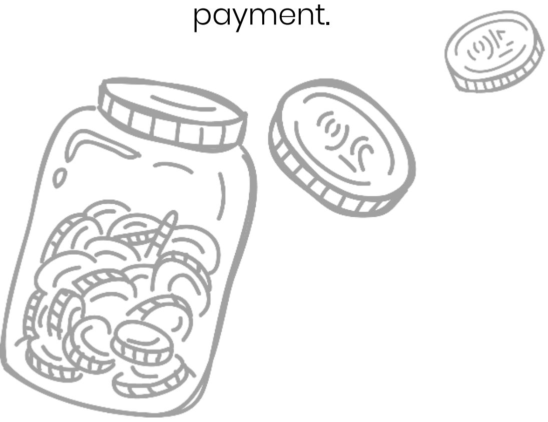
Before my wife & I were introduced to Money S.M.A.R.T.S, we found it extremely difficult to have clear visibility on our outgoings & incomings. With multiple bank accounts in circulation paying household bills & trying to manage everyday living & lifestyle expenses there was little transparency. As a growing family, we had a clear goal of saving up for our family home so we knew we had to try something different.

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

Parting with your money without truly understanding the impact of that purchase decision was the reason our goal felt out of reach. Life temptations exist everywhere & ease of transaction it, as simple as tap & go, so there was no discipline in how we spent our money including paying bills on a regular basis & by what bank account. There was also a level of expectation that my wife & I had an individual bill covered but that was not always the case. Remembering to pay a bill felt like a job itself!

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

The key to implementing Money S.M.A.R.T.S is the simplicity behind the model & execution. There was no more ambiguity of who pays for what & how much money we had left to contribute to our goal. We are extremely time poor people so setting up regular direct debit payments & from what primary account certainly eased the tension on our extremely busy lives without having to worry about missing a regular payment.



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

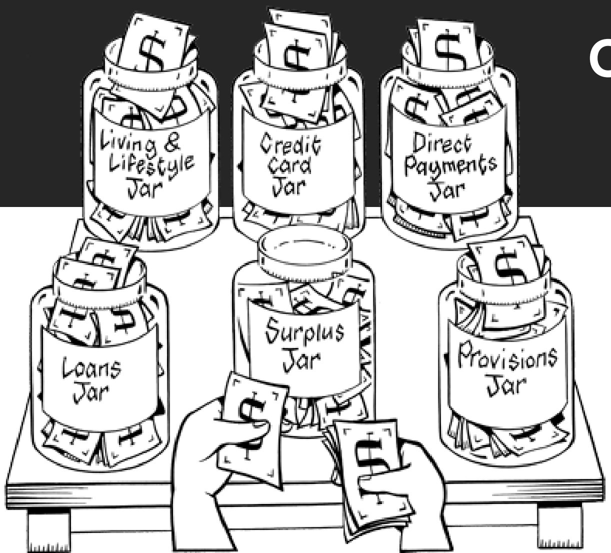
We actually measured how long it took to save the same amount of money post implementing Money S.M.A.R.T.S - we saved the same amount in literally half the time in our old ways of managing our personal finances. Our mindset completely shifted. It felt like a weight off our shoulders had been lifted because we now have clear visibility that the right account was being used for the right payment.

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

Direct debits have been set-up across all our bill payments – so need to worry there! We now have a weekly payment to our living & lifestyle joint account meaning this our budget – no more overspending or if we got close we simply cut back on unnecessary items. It doesn't mean I don't have my regular coffees it simply means it's budgeted for! It's all about implementing discipline & driving a behavioural change – in the early stages it can take time before you feel comfortable, so stick with it!

MORE STORIES IN THE BOOK!

Success leaves clues! There are **9 other stories** like this in the book. If you're keen, grab a copy at **www.ThePropertyCouch.com.au/books**!



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CASESTUDY

CASE STUDY 3: MORTGAGE AND DEBT FREE

How to slash and burn your mortgage

Money backstory

Meet Theo and Julie, they are a couple in their mid-30s living anywhere in Australia and they want to be debt free – in particular they want to be rid of their biggest debt of all, their mortgage. They both have solid jobs and a handy monthly surplus – thanks to pretty reasonable spending habits.

They bought their first property in 2017 for $820,000 and although they have seen some nice short-term growth, their current mortgage debt stands at $620,000 – hence their desire to destroy this non-deductible debt! If they continue to only make the minimum repayments, their expense bill would be well over $1 million, making that house cost them a lot more to buy than just the $820,000 plus purchasing costs!

Theo and Julie want to slash and burn this debt while interest rates are still quite low based on historical measures. Although for this model we have actually increased the mortgage interest rate to reflect a more realistic picture, as longer term interest rates are likely to be higher than current levels.

How quickly can they achieve this dream and what can they do to accelerate this outcome? Once they have set up Money SMARTS they can consider the following scenarios:

- Scenario 1 – Slow and Slower Approach
- Scenario 2 – High–Low Debt Approach using Money SMARTS
- Scenario 3 – High–Low with $100 extra p/w using Money SMARTS
- Scenario 4 – Debt Consolidate Approach using Money SMARTS
- Scenario 5 – Debt Consolidate with $100 extra p/w using Money SMARTS.

Here is a high-level snapshot of Theo and Julie's money story right now:

Income:		Cash in bank	$17,800
Gross wage	$180,000	Debts owing:	
Take home income	$134,986	Mortgage	$620,000
Total expenses	$116,343	Car loan	$20,272
Current annual surplus	$18,643	Total debt	$640,272

Theo and Julie are disciplined credit-card users – there's no balance owing on any cards.

As you will learn when we come to the tables, there is a reasonable amount of discretionary spending in their numbers and that means real potential if they decide to cut back on some of this spending. You can also see they do have some savings.

Time to categorise their money using the Money SMARTS tables.

Existing debts notes:

Theo and Julie have a mortgage of $620,000 @5.5% interest per annum. This means the minimum monthly repayments are $3,581 (the original 30-year loan term was set up in June 2017 – full term loan would be 360 months taking the date to June 2047).

They have a car loan of $22,272 @ 7.99%. Monthly repayments on the car loan are $811 (and the period remaining on the loan is 2.29 years).

Ben's tip

If you do ever look to consolidate a car loan debt, just be mindful that some car loan contracts might have a penalty for early repayment before the full term. Try to avoid these types of contract but, if you can't, you are still more than likely better off paying it out rather than incurring the interest costs over the full term. You might also be able to pay the bulk of the loan down to a very small remaining balance and ask them to reset the remaining payments to this amount to avoid any penalties while still saving a lot of interest.

Implementing Theo and Julie's Money SMARTS System – 7 Step Process

READY... Steps 1 and 2 – Gather and Sort

Based on their sensible spending, tight use of credit cards, and the value of their property compared to their mortgage (indicating they had a great sized deposit), Theo and Julie appear to be a bit more money conscious than most. This is further backed up by their desire to kill off this mortgage.

However, we have spotted a mistake that Julie and Theo are making that is commonly made – even by those people who have some idea about money management – and that is how they have set up their banking. Here's a look at the different bank accounts they are holding:

- Account 1: Everyday account with a balance of $7,100 (100% offset – Primary account)
- Account 2: Emergency account with a balance of $5,000 (high-interest account)
- Account 3: Christmas account with a balance of $1,200 (high-interest account)
- Account 4: Holiday account with a balance of $4,500 (high-interest account).

We'd be perfectly happy with this set up if these were all 100% offset accounts pointing at the mortgage, but only one of these accounts, the everyday account #1, is an offset account. And where's the Living & Lifestyle account?

In Theo and Julie's case, as is often the case, people and households stash pockets of money away in high-interest accounts as a way of organising their money and because they can't trust themselves. It's a way of hiding their own money from themselves!

Bryce's tip

The right behavioural change around money is learning to trust yourself with it and being in control of it, not in hiding it away because you can't trust yourself. This is a life skill you need to learn because at some point in the future you are going to come into contact with a lot of money, it's called your super, and if you haven't learned to behave well around money by then, or you still can't be trusted with your own money, that story won't end well.

By the way, earning this interest on the multiple high-interest accounts is making the government happy too, as Theo and Julie are going to pay around 30% to 40% in tax of what they earn in interest. If your money is in an offset account, you don't earn any interest remember, but you save interest payable and the government hasn't worked out a way to tax us on this yet!

Theo and Julie now know this is not the way to go – as you have been learning throughout this book.

The sorting process begins and we remind Julie and Theo why they are embarking on becoming money management experts: to make money simple again!

Motivation

The motivational message on Julie and Theo's fridge reads:

We're adopting Money SMARTS to stop making the bank money and start creating our own great memories.

STEP 1. Gather

Money in

Monthly income record	Theo and Julie combined
Gross income	$15,000
Estimated tax payable	$3,776
Net (after tax/take home) income	$11,224
Net monthly investment income	$25
Total net monthly income	$11,249

Current cash position:

As we learned earlier, Julie and Theo have four separate accounts with a balance totalling $17,800.

Combined assets:

- Home: $900,000
- Cars: $59,000
- Direct shares: $5,000 (Julie)
- Personal/household goods: $65,000
- Superannuation balance: $210,000

Money out

Existing expenses workings/notes:

Theo and Julie are on top of most of their expenses, so let's help them get it all sorted out and look at what spending is essential and what is discretionary (see Table 1).

STEP 2. Sort

We can see from Theo and Julie's firm assessment of their spending that there is still a bit of wriggle room in terms of their 'non-negotiable' spending (essential) as opposed to their 'we'd like to do' (discretionary) spending. Doing this exercise has identified the potential to trap some more money, which we will highlight in the next step of calculating.

Table 1 – Recording expenses

Expense items	Essential	Discre-tionary	Payment frequency	Money SMARTS category
Groceries and non-alcoholic bev.	$220	$20	Weekly	Living & Lifestyle
Personal care	$30	$9	Weekly	Living & Lifestyle
Household soft furnishings	$7	$0	Weekly	Living & Lifestyle
House and garden maintenance	$2	$0	Weekly	Living & Lifestyle
Fares	$28	$0	Weekly	Living & Lifestyle
Dining out/takeaway	$150	$30	Weekly	Living & Lifestyle
Entertainment	$15	$13	Weekly	Living & Lifestyle
Sport and recreation	$28	$0	Weekly	Living & Lifestyle
Alcohol and tobacco	$40	$30	Weekly	Living & Lifestyle
Water and sewerage	$80	$0	Quarterly	Via Credit Card
House and content insurances	$950	$0	Yearly	Via Credit Card
Electricity	$120	$0	Monthly	Via Credit Card
Gas	$60	$0	Monthly	Via Credit Card
Phone (fixed and mobile)	$140	$30	Monthly	Via Credit Card
Internet	$60	$0	Monthly	Via Credit Card
Pay TV and music subscriptions	$15	$0	Monthly	Via Credit Card
Health insurance	$200	$0	Monthly	Via Credit Card
Life insurance	$100	$0	Monthly	Via Credit Card
Professional fees	$350	$0	Yearly	Via Credit Card
Car registration	$1,600	$0	Yearly	Via Credit Card
Car insurance	$1,500	$0	Yearly	Via Credit Card
Motoring organisations	$260	$0	Yearly	Via Credit Card
Fuel	$130	$0	Monthly	Via Credit Card
Parking and tolls	$40	$0	Weekly	Via Credit Card
Local government rates	$300	$0	Quarterly	Primary Direct
Bank fees	$400	$0	Yearly	Primary Direct
Home mortgage repayments	$3,581	N/A	Monthly	Loans
Car loan repayments	$811	N/A	Monthly	Loans
Clothing and footwear	$2,000	$0	Yearly	Provision For
Gifts	$800	$200	Yearly	Provision For
Donations	$200	$50	Yearly	Provision For
Medical and healthcare	$1,200	$0	Yearly	Provision For
Car maintenance	$1,200	$0	Yearly	Provision For
Household appliances and tools	$250	$50	Yearly	Provision For
Furniture	$500	$0	Yearly	Provision For
Holidays	$5,500	$500	Yearly	Provision For
Emergency fund	$0	$0	Yearly	Provision For

SET... Steps 3 and 4 – Calculate and Banking

STEP 3. Calculate

Bring on the number-crunching! First, let's calculate the income (see Table 2).

Table 2 – Calculating income

Income sources (money in)	Theo	Julie
Yearly PAYG wages (gross before tax)	$70,000	$110,000
Yearly investment income (share dividends, etc)	$0	$300
Any tax adjustment	$0	-$350
Yearly net income (take home)	$54,833	$80,153
Total yearly net income	$134,986	
Average monthly income	$11,249	

You can see a little bit of income coming from Julie's small share portfolio, and the tax adjustment that will reduce their net income – we'll be using these in their model and scenario forecasts.


Ben and Bryce's tip

It's important to only include net income and not gross income in your numbers. If you include gross income, you are going to overstate the actual income (money in) you have available and this will lead to overstating your potential surplus. Then what a lot of people make the mistake of doing is increasing their spending levels, assuming that this money is theirs. Now some of you very clever money managers will know that you still get gross investment income from time to time and it still needs a home – yes, the Primary account. But when the tax office comes calling, you are going to have to hand some of it over to them at some point after the end of the tax year. This is why in the calculate step we recommend you strip out the estimated tax impact (or if you have a possible tax refund, you add this expected amount in) to get a more conservative cashflow picture against which to work out your planned spending.

Next, Theo and Julie calculate their regular spending as allocated to each flour jar category (see Table 3). Theo and Julie have identified several non-essential expense items that they were choosing to spend money on in their previous lifestyle – this is a good place to trap some additional surplus. A quick tally of this amount shows that just in this Living & Lifestyle jar alone, they could trap an extra $102 per week. (This traps enough – an extra $100 per week – for two of our scenario models that we demonstrate later for Theo and Julie.)

Table 3 – Living & Lifestyle calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS Category
Groceries and non-alcoholic beverages	$220	$20	Weekly	$12,480	Living & Lifestyle
Personal care	$30	$9	Weekly	$2,040	Living & Lifestyle
Household soft furnishings	$7	$0	Weekly	$350	Living & Lifestyle
House and garden maintenance	$2	$0	Weekly	$80	Living & Lifestyle
Fares	$28	$0	Weekly	$1,440	Living & Lifestyle
Dining out/takeaway	$150	$30	Weekly	$9,360	Living & Lifestyle
Entertainment	$15	$13	Weekly	$1,440	Living & Lifestyle
Sport and recreation	$28	$0	Weekly	$1,440	Living & Lifestyle
Alcohol and tobacco	$40	$30	Weekly	$3,640	Living & Lifestyle
Yearly total				$32,269	
Weekly allocation – (7 day float)				$621	

As we've said, these guys are good at keeping their bill spending down (see Table 4). Based on their own assessment, they feel they could maybe get their phone bills down when they next come out of contract, given the pricing wars going on in the telco sector – but that's about all they can change.

Table 4 – Credit Card calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Water and sewerage	$80	$0	Quarterly	$320	Via Credit Card
House and content insurances	$950	$0	Yearly	$950	Via Credit Card
Electricity	$120	$0	Monthly	$1,440	Via Credit Card
Gas	$60	$0	Monthly	$720	Via Credit Card
Phone (fixed and mobile)	$140	$30	Monthly	$2,040	Via Credit Card
Internet	$60	$0	Monthly	$720	Via Credit Card
Pay TV and music subscriptions	$15	$0	Monthly	$180	Via Credit Card
Health insurance	$200	$0	Monthly	$2,400	Via Credit Card
Life insurance	$100	$0	Monthly	$1,200	Via Credit Card
Professional fees	$350	$0	Yearly	$350	Via Credit Card
Car registration	$1,600	$0	Yearly	$1,600	Via Credit Card
Car insurance	$1,500	$0	Yearly	$1,500	Via Credit Card
Motoring organisations	$260	$0	Yearly	$260	Via Credit Card
Fuel	$130	$0	Monthly	$1,560	Via Credit Card
Parking and tolls	$40	$0	Weekly	$2,080	Via Credit Card
Yearly total				$17,320	
Monthly average				$1,443	

Julie and Theo may seem to be paying quite high bank fees at $400 a year (see Table 5), but most professional packages that banks offer have this level of once-a-year fee. It usually includes a suite of benefits such as a discount off their standard variable and fixed home loan rates, no other account-keeping fees on any accounts, a waiver of the annual credit card fee for their credit card options and some banks also offer rewards programs. So, in some cases you can set up your total Money SMARTS banking structure with just the one bank. We still think it's best to shop around using a mortgage broker as there are a lot of other things to consider when banking, such as interest rate pricing, borrowing power, credit policy, offset functionality, credit card auto-sweep, hidden fees, refinance fees, customer service, internet banking and smartphone apps, etc.

Table 5 – Direct Payments calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Local government rates	$300	$0	Quarterly	$1,200	Primary Direct
Bank fees	$400	$0	Yearly	$400	Primary Direct
Yearly total				$1,600	
Monthly average				$133	

There's just the mortgage and the car loan for team Theo and Julie (see Table 6). In Scenario 4 later in the chapter, we explore whether there is any tangible financial benefit for them to consolidate their car loan into their mortgage, leaving them only one debt to worry about. So, which is better?

Ben's tip

Whenever you do explore the idea of consolidating your debts, don't just do it to make things easier. You should do it because there is sufficient financial benefit, either in interest savings or the ability to release additional surplus money with which to invest, so long as this investment would give you a superior return over that of paying down the original debt. People who aren't good with managing their money should avoid extending any debt obligations over a longer period, because often they end up paying more interest on the loan than they would have if they had just stuck with the shorter, but higher interest rate debt.

Table 6 – Loan calculations

General list of expenditure/ spending (money out)	Essential	Payment frequency	Yearly	Money SMARTS category
Home mortgage repayments	$3,581	Monthly	$42,972	Loans
Credit card 1	$0	Monthly	$0	Loans
Credit card 2	$0	Monthly	$0	Loans
Car loan repayments	$811	Monthly	$9,732	Loans
Yearly total			$52,704	
Monthly average			$4,392	

Now let's look at the planned provisions spending (see Table 7). Julie and Theo have a little bit of wriggle room in the planned provisions spending, mainly in terms of the holiday and gift expense items. They don't need an emergency fund because they are going to build up a serious amount of cash in their offset account.

Table 7 – Provisionings calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Clothing and footwear	$2,000	$0	Yearly	$2,000	Provision For
Gifts	$800	$200	Yearly	$1,000	Provision For
Donations	$200	$50	Yearly	$250	Provision For
Medical and healthcare	$1,200	$0	Yearly	$1,200	Provision For
Car maintenance	$1,200	$0	Yearly	$1,200	Provision For
Household appliances and tools	$250	$50	Yearly	$300	Provision For
Furniture	$500	$0	Yearly	$500	Provision For
Holidays	$5,500	$500	Yearly	$6,000	Provision For
Emergency fund	$0	$0	Yearly	$0	Provision For
Yearly total				$12,450	
Monthly average				$1,038	

Primary account calculations

So, what have Theo and Julie learned from setting up their Money SMARTS?

- Do they have a money surplus? Yes, they do.
- They have a pretty good handle on most of their money, it's just time to tidy up the whole banking thing.
- It's important that they don't overstate income that they might have to pay tax on later. In Theo and Julie's case, there's not a lot of investment income, but for others with sizeable passive investment income streams, getting a better grip on this is very helpful for your planning and eventual outcome.
- They will continue to trap surplus money in their 100% offset Primary account to reduce their interest costs (there's no need to put it into the mortgage loan itself).
- They can go a bit harder on paying down debt if they want to tighten their purse strings some more.

Table 8 – Primary account calculations

Primary account	Money in	Money out	
		Expected regular spending	Planned provisions spending
Income	$134,986		
Living & Lifestyle jar		$32,269	
Credit Card jar		$17,320	
Direct Payment jar		$1,600	
Loans jar		$52,704	
Provisionings jar			$12,450
Totals	$134,986	$103,893	$12,450
Targeted yearly surplus		$18,643	
Targeted monthly surplus		$1,554	

STEP 4. Banking

It's time to set up the banking.

The Primary bank account

Theo and Julie need to:

- Ask the bank if they can convert their other accounts into 100% offset accounts linked to the mortgage account. If not, they must transfer the money out and close off these accounts. Their Money SMARTS is going to do the tracking job for them, as they aren't going to be tempted to overspend now – they have a plan, a system and targets to hit.
- Stop calling this account their everyday account – they must start calling it the Primary account, because it could get confusing given their Living & Lifestyle account is really their 'everyday' account.
- Tell their payroll office to pay their wages and share investment income into their Primary account (everyday account) if they aren't already doing this.
- Check to see if the auto-sweep facility is set up to pay off their credit card each month.
- Set up the weekly transfer to the Living & Lifestyle account (In Theo and Julie's case this amount will be $621 per week).

The Living & Lifestyle bank account

If their bank does allow for multiple offsets accounts pointing at their mortgage, great!, Julie and Theo can set up a new one called Living & Lifestyle. If not, then they can still use the same bank, especially if they have a professional package as it should not have any fees. They also need to apply for two debit cards (one each) linked to this account.

The Credit Card bank account

Julie and Theo had two credit cards – one that came with their professional package mortgage and the other was from a third party. They now need to settle on which card is going to be their active card (it's more likely they will choose the card linked with their bank and mortgage).

Now, Theo and Julie are good with money, so they have the option to keep the second card for emergencies or anytime they might sneak over their active card's limit, but only if there are no fees and they still pay the balance off every month when they do their check-up.

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

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

Yearly picture – example	
Expected income	$134,986
Expected regular spending	$103,893
Planned provisions spending	$12,450
Targeted yearly surplus	$18,643
Monthly allocated provisions spending	$1,038
Targeted monthly surplus	$1,554

Flour jars breakdown	Regular spend	Provisions spend
Living & Lifestyle	$32,269	
Credit Card	$17,320	
Direct Pay	$1,600	
Loans	$52,704	
Provisionings		$12,450
Sub totals	$103,893	$12,450
Overall spending total		$116,343

Theo and Julie's targets are set – they have a targeted monthly surplus of $1,554 and a targeted yearly surplus of $18,643.

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	$2,000	$321	$0	$49	$233	$67	$213							$1,117
Gifts	$1,000	$180	$0	$245	$190	$25	$0							$360
Donations	$250	$0	$0	$50	$10	$0	$0							$190
Medical and healthcare	$1,200	$0	$0	$0	$320	$0	$0							$880
Car maintenance	$1,200	$0	$0	$0	$625	$0	$0							$575
Household appliances and tools	$300	$99	$0	$0	$120	$0	$0							$81
Furniture	$500	$0	$0	$469	$0	$0	$0							$31
Holidays	$6,000	$0	$0	$0	$2,800	$0	$0							$3,200
Emergency fund	$0	$0	$0	$0	$0	$0	$0							$0
Total	$12,450	$600	$0	$813	$4,298	$92	$213	$0	$0	$0	$0	$0	$0	$6,434

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	$17,800	$22,066	$25,239	$27,819	$30,032	$30,523	$33,567						
Credit card balance	$0	$1,620	$1,378	$1,412	$4,297	$1,328	$1,490						
Cash position	$17,800	$20,446	$23,861	$26,407	$25,735	$29,195	$32,077						
Change in cash position		$2,646	$3,415	$2,546	-$672	$3,460	$2,882						
Rolling change in cash position		$2,646	$6,061	$8,607	$7,935	$11,395	$14,277						
Provisionings spent		$600	$0	$813	$4,298	$92	$213						
Monthly allocated provisions spending		$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038	$1,038
Yearly remaining provisionings total	$0	$438	$1,475	$1,700	-$1,561	-$616	$209	$1,247	$2,284	$3,322	$4,359	$5,397	$6,434
Accumulated actual surplus	$0	$2,209	$4,586	$6,908	$9,496	$12,011	$14,068						
Monthly actual surplus		$2,209	$2,378	$2,322	$2,589	$2,515	$2,058						
Targeted monthly surplus		$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554	$1,554
Rolling targeted surplus	$0	$1,554	$3,107	$4,661	$6,214	$7,768	$9,321	$10,875	$12,429	$13,982	$15,536	$17,089	$18,643
Monthly excess surplus		$655	$824	$768	$1,035	$961	$504						
Accumulated excess surplus	$0	$655	$1,479	$2,247	$3,282	$4,243	$4,747	$4,747	$4,747	$4,747	$4,747	$4,747	$4,747

In Theo and Julie's check-up we have fast-forwarded six months to check in and see how they are going. At the half way point of their first Money SMARTS year, they are tracking above the overall target that they set themselves by over $1,600.

Looking at the two graphs below you can see that Theo and Julie are pretty steady and consistent when it comes to their regular spending from month to month. This would indicate they haven't yet experienced a big month of bills, but more steady bills each month. Of course, this can change from month to month as we have highlighted previously, but it should then balance itself out over the course of the year if you don't introduce any regular spending that you didn't plan or account for over the year.

Figure 1 – Tracking the monthly surplus

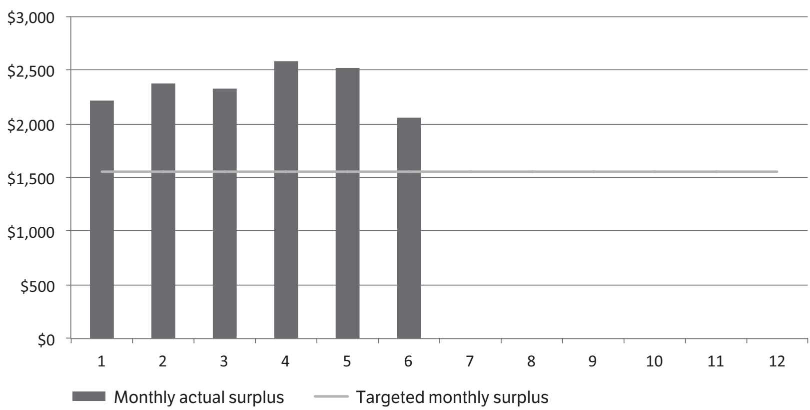
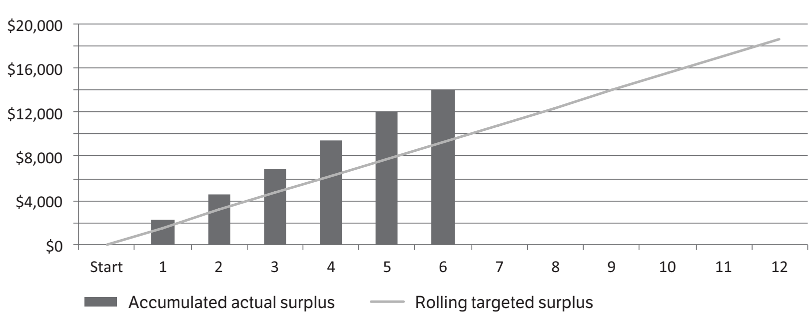
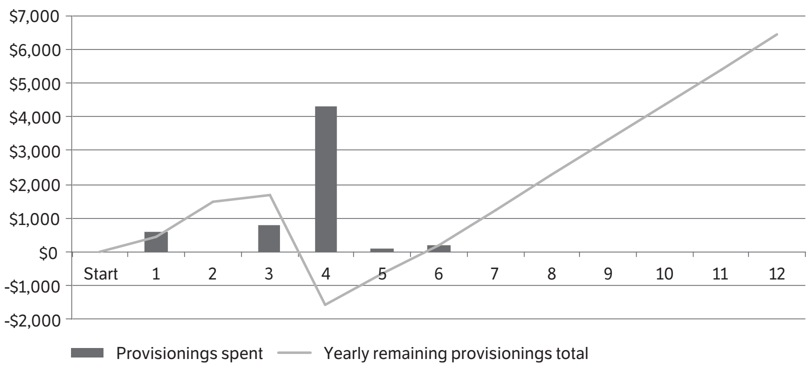


Figure 2 – Tracking the accumulated rolling targeted surplus



When it comes to the smoothness of spending within the planned provisionings spent, the story is a lot different. You can see from the tables – and it's clearly highlighted in Figure 3 – in month four, Theo and Julie spent almost $4,300. To spend that amount in one month was perfectly okay for them, when you understand their cash position at that time was over $25,000. So, although their yearly remaining provisionings total went into the negative by $1,561, over the next couple of months this adjusted itself back into the black when provisions spending returned to less extreme levels. This will always happen over the course of the year, so long as you don't introduce spending that you hadn't planned for.

Figure 3 – Provisions spending



STEP 6. Tweaks

There are no real tweaks for Julie and Theo to make. They are a little ahead of schedule and if this continues they will continue to save more on interest.

STEP 7. Rollover

We suspect it's going to be business as usual for Theo and Julie when the yearly rollover comes about. Their only consideration is whether they want to challenge themselves to trap a little more surplus. Maybe a couple of the scenarios below will give them a bit of motivation!

Theo and Julie's future 'potential' money outcomes

It's scenario time again! What scenarios could Theo and Julie consider?

- Scenario 1 – Slow and Slower Approach no Money SMARTS
- Scenario 2 – High–Low Debt Approach using Money SMARTS
- Scenario 3 – High–Low with $100 extra p/w using Money SMARTS
- Scenario 4 – Debt Consolidate Approach using Money SMARTS
- Scenario 5 – Debt Consolidate with $100 extra p/w using Money SMARTS.

The general assumptions used to forecast these results are:

- All income is growing at 3% per year
- All expenditure is growing at 3% per year
- Savings in the bank are earning 3% interest a year
- Taxation rates are current as at 2018-19
- The mortgage interest rate is 5.5% for owner-occupied property
- Capital growth of owner-occupier property expected to be 7% per year.

Scenario 1 – Slow and Slower Approach

Yes, we can feel a yawn coming on that will last for years! In this scenario, Theo and Julie are looking at just making the minimum repayments on their car loan and their mortgage, seeing out both of their full terms (in months and years!). In addition – and this is important because we aren't using Money SMARTS in this example – it's actually set up so that all surplus trapped is spent. Yes – that means no surplus or savings in the modelling, so what they will be left with is just the $17,800 in the offset account. It's like they lost all their ability to manage money other than just paying off their loans over time.

What this scenario is going to demonstrate is exactly how much interest they will pay over this looonnnng period.

Scenario 2 – High–Low Debt Approach

Money SMARTS is switched on and 'engaged'. Julie and Theo are trapping that set targeted surplus, firstly to wipe out the car loan (high interest debt) and then tackle the mortgage beast (the low-cost debt)! Theo and Julie have their money mojo back. It's just a matter of how quickly they are going to pay out this debt and how much interest they are going to save.

Scenario 3 – High–Low with $100 extra p/w

Again, using Money SMARTS and continuing on from Scenario 2, just how much of an impact will an extra $100 a week make to their bottom line?

Scenario 4 – Debt Consolidate Approach

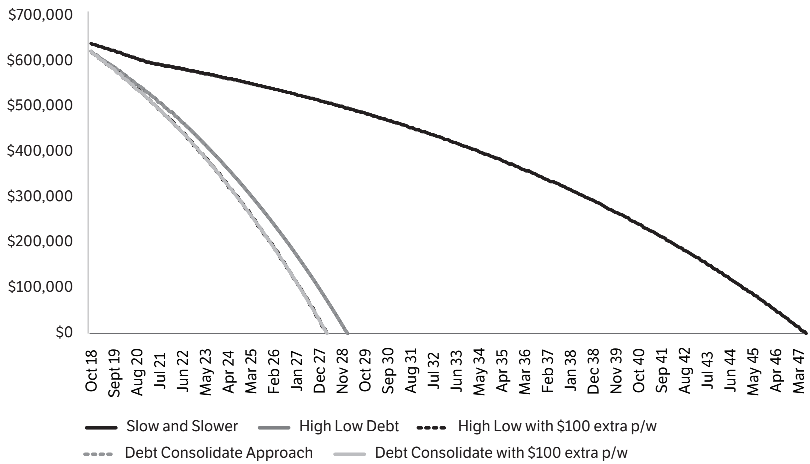
Still using Money SMARTS, but this time we are pivoting a little bit to model whether there is any benefit to consolidate the car loan into the mortgage or not.

Scenario 5 – Debt Consolidate with $100 extra p/w

Continuing on from Scenario 4, we add an extra $100 a week to see what it does to the numbers.

The results of the scenarios

The graph shows the results of the scenarios.



You are probably thinking 'Why are some of the lines missing on the chart?'. Well, they're not. The table below shows more clearly, there isn't a lot of difference in choosing to consolidate debt or focus on paying highest to lowest debt – just a few hundred dollars in favour of consolidating it into the mortgage. Yet, you could lose this if you had any exit costs breaking the car loan. So, the message here is, debt consolidation isn't an automatic decision, it's more of a case-by-case decision to see if there is value in doing it. If you don't stick to a disciplined approach to paying off that debt quickly it might cost you more interest in the long run.

Scenarios	Time saved	Interest paid	Interest saved
1. Slow and Slower	None!	$617,424	$0
2. High–Low Debt	18 years and 6 months	$206,086	$411,338
3. High–Low with $100 extra p/w	19 years and 4 months	$187,704	$429,720
4. Debt Consolidate Approach	18 years and 6 months	$205,714	$411,710
5. Debt Consolidate with $100 extra p/w	19 years and 4 months	$187,399	$430,025

We all know that if you take forever to pay off your mortgage debt it gets expensive, but did you see that figure coming? $617,424, that's a lot of money going to the bank!

But that's not happening, right? Theo and Julie want to 'slash and burn' their debt and we can see the different progress they could make based on the amount of surplus money they trap in their Primary account.

Conclusion

The numbers tell a story of real opportunity. If Theo and Julie maintain the rage against their mortgage, the results are clearly worth it. They can then start dreaming about what they are going to do with all this extra money they were once paying in interest.

CASE STUDY 4: BUILD WEALTH

How to super-charge your surplus money

As we close out the book with our final case study, and you are reaching out for your Certificate of Completion awarded for becoming an expert money manager, we thought we'd up the ante. You see, we figured you have navigated the waters pretty well up until now, and you understand the importance of trapping your surplus money, so in this case study we put all that money to work for you to build wealth.

In the scenarios section (towards the end of the case study), we give our couple in their mid-forties a choice – pay down debt with their surplus money or buy an investment property with it.

What will be the outcome? Which money decision will work harder for our couple?

So, here goes, let's put you to your final money test.

Money backstory

Meet Emma and Brett, they are a couple in their early forties living in suburbia with their twin girls – Jamie and Amy – aged nine. Brett is a school teacher and Emma works in the medical industry.

Overall, they have a good monthly surplus after covering the costs of running a family of four.

They bought their property about seven years ago and it's now worth around $800,000. They have a mortgage against their property of $480,000.

It's time for them to start thinking about building up their nest-egg for their retirement, because they know their super on its own won't be enough. That's why they want to explore two scenarios. Should they keep paying down their debt and then put their surplus into savings and super? Or should they use the equity in their home and buy an investment property with the current surplus money they are capturing using Money SMARTS?

- Scenario 1 – Pay off the mortgage using Money SMARTS
- Scenario 2 – Invest in property and pay minimum off mortgage using Money SMARTS.

Here is a high-level snapshot of Emma and Brett's money story right now:

Income: Gross wage Take home income	 $200,000 $149,034	Cash in bank	$13,600
Total expenses	$112,622	Debts owing: Mortgage	$480,000
Current annual surplus	$36,412	Total debt	$480,000

Brett and Emma have a very healthy combined household income and they are showing a solid monthly surplus. Their cash in the bank is only $13,600 because they have been paying extra into their mortgage each fortnight. This is an ample buffer for any unexpected money events once they start their Money SMARTS system. This amount will continue to build up in the Primary account, which is liquid cash if they need it, yet it still saves them interest charges every day – a win/win.

Existing debts notes:

Brett and Emma have a mortgage of $480,000 @5.5% interest per annum. They are paying minimum monthly repayments of $2,847.

Implementing Brett and Emma's Money SMARTS System – 7 Step Process

READY... Steps 1 and 2 – Gather and Sort

Emma and Brett used a good mortgage broker when they took out their home loan. He had done the right thing by setting them up with a 'Professional Package' and told them about the benefits of putting their money into an offset account. They had followed their broker's advice and all their cash is held in this 'Primary account'.

The only thing their broker didn't explain to them, nor introduce them to, was the concept of separating their weekly spending money and using the power of their 55-day interest-free credit card to its maximum. That was about to change.

Motivation

Brett and Emma have just one thing left to do as they sort their expense items and that is to decide on their motivational message to themselves. They decide on:

We're adopting Money SMARTS so we never have to worry about having enough money again.

STEP 1. Gather

Money in

Monthly income record	Emma and Brett combined
Gross income	$16,667
Estimated tax payable	$4,247
Net (after tax/take home) income	$12,420
Total net monthly income	$12,420

Current cash position:

As we have established, Emma and Brett have $13,600 in their offset account.

Assets:

- Home: $800,000
- Cars: $48,000
- Personal/household goods: $85,000
- Superannuation balance: $295,000

Money out

As you can see from Table 1, outside of the little wriggle room they have given themselves for things like a holiday, clothing and presents to trap more surplus, there is a sizeable provisioning allocation for future education expenses for Jamie and Amy. They are only in primary school now, so the costs are lower than their increased costs when they get into high school. However, as Emma and Brett are looking to invest in a property, we need to be mindful of this increased cost to ensure they can hold the property for the long term. This means that there could be an additional $6,000 saved for the next three years before the girls start high school, or because they have allocated this money, it could be used for music lessons, pony club, tutoring, etc.

The other approach they could take here is, instead of accounting for this money as an expense item under provisioning, they could just let it flow into surplus money (savings) and make a note that within the overall surplus money amount, this money is for the girls' education. It's their call.

STEP 2. Sort

Table 1 – Recording expenses

Expense items	Essential	Disc	Payment frequency	Money SMARTS category
Groceries and non-alcoholic bev.	$300	$20	Weekly	Living & Lifestyle
Education – out of pocket	$8	$0	Weekly	Living & Lifestyle
Personal care	$14	$0	Weekly	Living & Lifestyle
Pets	$20	$0	Weekly	Living & Lifestyle
Household soft furnishings	$13	$0	Weekly	Living & Lifestyle
House and garden maintenance	$7	$0	Weekly	Living & Lifestyle
Fares	$14	$0	Weekly	Living & Lifestyle
Dining out/takeaway	$60	$0	Weekly	Living & Lifestyle
Entertainment	$23	$0	Weekly	Living & Lifestyle
Sport and recreation	$23	$0	Weekly	Living & Lifestyle
Reading materials	$7	$0	Weekly	Living & Lifestyle
Alcohol and tobacco	$50	$0	Weekly	Living & Lifestyle
Gambling and lotto	$6	$0	Weekly	Living & Lifestyle
Water and sewerage	$190	$0	Quarterly	Via Credit Card
House and content insurances	$1,100	$0	Yearly	Via Credit Card
Electricity	$130	$0	Monthly	Via Credit Card
Gas	$85	$0	Monthly	Via Credit Card
Phone (fixed and mobile)	$120	$0	Monthly	Via Credit Card
Internet	$80	$0	Monthly	Via Credit Card
Pay TV and music subscriptions	$15	$0	Monthly	Via Credit Card
Health insurance	$230	$0	Monthly	Via Credit Card
Life insurance	$134	$0	Monthly	Via Credit Card
Income protection insurance	$236	$0	Monthly	Via Credit Card
Professional fees	$300	$0	Yearly	Via Credit Card
Car registration	$1,600	$0	Yearly	Via Credit Card
Car insurance	$1,300	$0	Yearly	Via Credit Card
Motoring organisations	$260	$0	Yearly	Via Credit Card
Fuel	$120	$0	Monthly	Via Credit Card
Parking and tolls	$12	$0	Weekly	Via Credit Card
Local government rates	$1,350	$0	Yearly	Primary Direct
Current education/school fees	$6,000	$0	Yearly	Primary Direct
Bank fees	$400	$0	Yearly	Primary Direct
Home mortgage repayments	$2,847	N/A	Monthly	Loans
Clothing and footwear	$2,750	$250	Yearly	Provision For
Future education spend	0	$6,000	Yearly	Provision For
Gifts	$1,800	$200	Yearly	Provision For
Donations	$500	$0	Yearly	Provision For
Medical and healthcare	$1,440	$0	Yearly	Provision For
Car maintenance	$2,000	$0	Yearly	Provision For
Household appliances and tools	$700	$0	Yearly	Provision For
Furniture	$1,500	$0	Yearly	Provision For
Holidays	$3,500	$1,000	Yearly	Provision For

SET… Steps 3 and 4 – Calculate and Banking

STEP 3. Calculate

It's time now to crunch the numbers (see Table 2) and calculate Emma and Brett's income. With no investments currently, their income story is very straightforward.

Table 2 – Calculating income

Income sources (money in)	Brett	Emma
Yearly PAYG wages (gross before tax)	$90,000	$110,000
Any tax adjustment	$0	-$3,132
Yearly net income (take home)	$67,933	$81,101
Total yearly net income	$149,034	
Average monthly income	$12,420	

Next up, they categorise the flour jar allocation for their regular spending (see Table 3).

Table 3 – Living & Lifestyle calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Groceries and non-alcoholic beverages	$300	$20	Weekly	$16,640	Living & Lifestyle
Education – out of pocket	$8	$0	Weekly	$400	Living & Lifestyle
Personal care	$14	$0	Weekly	$720	Living & Lifestyle
Pets	$20	$0	Weekly	$1,040	Living & Lifestyle
Household soft furnishings	$13	$0	Weekly	$700	Living & Lifestyle
House and garden maintenance	$7	$0	Weekly	$350	Living & Lifestyle
Fares	$14	$0	Weekly	$720	Living & Lifestyle
Dining out/takeaway	$60	$0	Weekly	$3,120	Living & Lifestyle
Entertainment	$23	$0	Weekly	$1,200	Living & Lifestyle
Sport and recreation	$23	$0	Weekly	$1,200	Living & Lifestyle
Reading materials	$7	$0	Weekly	$360	Living & Lifestyle
Alcohol and tobacco	$50	$0	Weekly	$2,600	Living & Lifestyle
Gambling and lotto	$6	$0	Weekly	$300	Living & Lifestyle
Yearly total				$29,348	
Weekly allocation – (7 day float)				$564	

Why have Brett and Emma got such a strong money surplus? Because they run a real lean spending program. There is no discretionary allocation other than some treats each week from their supermarket shop.

What does this mean if they were to overspend? Well, again, to overspend they would have to consciously decide to take money from their Primary account (or if they want to be ridiculed by us, from their credit card!), because once this weekly float is gone, it's gone. They are meant to wait until next week. (Remember – there are rules to Money SMARTS.)

If they do decide to overspend on one of the Living & Lifestyle expense items what should happen is:

- By way of example, there is a mega jackpot of $30 million in lotto this week and they want to spend more than the $6 they have allocated on gambling and lotto for that week. If they spend, say, $24 on a ticket, then that means no ticket for the next three weeks, right? Or if they still wanted to play each week then they could cut back their grocery spend for those weeks to make up the difference.
- If it's a more sizeable number and you 'must' spend it that week, then if you pay for it from the Primary account, simply reduce next week's transfer amount into the Living & Lifestyle by that amount. If it's a bigger amount, you might need to repay it over a series of weeks.

Ben's tip

Effectively, your Living & Lifestyle jar is a bucket of money that, if you get into a regular routine with spending, takes care of itself, but you do have the option to juggle a little bit here and there if you get caught out. But please don't make it a habit where you are constantly re-jigging your numbers each week (that's not a 10-minute-a-month system!).

Emma and Brett are lean in the credit card calculations because they have their eyes on the prize of owning an investment property (see Table 4). And, given these expenses are all bills… well, when was the last time you overpaid a bill? You pay the due amount and that's all.

Table 4 – Credit Card calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Water and sewerage	$190	$0	Quarterly	$760	Via Credit Card
House and content insurances	$1,100	$0	Yearly	$1,100	Via Credit Card
Electricity	$130	$0	Monthly	$1,560	Via Credit Card
Gas	$85	$0	Monthly	$1,020	Via Credit Card
Phone (fixed and mobile)	$120	$0	Monthly	$1,440	Via Credit Card
Internet	$80	$0	Monthly	$960	Via Credit Card
Pay TV and music subscriptions	$15	$0	Monthly	$180	Via Credit Card
Health insurance	$230	$0	Monthly	$2,760	Via Credit Card
Life insurance	$134	$0	Monthly	$1,608	Via Credit Card
Income protection insurance	$236	$0	Monthly	$2,832	Via Credit Card
Professional fees	$300	$0	Yearly	$300	Via Credit Card
Car registration	$1,600	$0	Yearly	$1,600	Via Credit Card
Car insurance	$1,300	$0	Yearly	$1,300	Via Credit Card
Motoring organisations	$260	$0	Yearly	$260	Via Credit Card
Fuel	$120	$0	Monthly	$1,440	Via Credit Card
Parking and tolls	$12	$0	Weekly	$600	Via Credit Card
Yearly total				$19,720	
Monthly average				$1,643	

Again, there's no discretionary amount in the direct payments calculations, it's all committed spending (see Table 5).

Table 5 – Direct Payments calculations

List of expenditure/ spending	Essential	Discre- tionary	Payment frequency	Yearly	Money SMARTS category
Local government rates	$1,350	$0	Yearly	$1,350	Primary Direct
Current education/ school fees	$6,000	$0	Yearly	$6,000	Primary Direct
Bank fees	$400	$0	Yearly	$400	Primary Direct
Yearly total				$7,750	
Monthly average				$646	

There's just the mortgage to account for in the loans jar calculations (see Table 6), and maybe an investment loan and the credit card rolling balance soon.

Table 6 – Loan calculations

General list of expenditure/ spending (money out)	Essential	Payment frequency	Yearly	Money SMARTS category
Home mortgage repayments	$2,847	Monthly	$34,164	Loans
Credit card 1	Paid off	Monthly	$0	Loans
Yearly total			$34,164	
Monthly average			$2,847	

Now for the planned provisions spending (Table 7).

Table 7 – Provisionings calculations

List of expenditure/ spending	Essential	Discre-tionary	Payment frequency	Yearly	Money SMARTS category
Clothing and footwear	$2,750	$250	Yearly	$3,000	Provision For
Future education spend	$0	$6,000	Yearly	$6,000	Provision For
Gifts	$1,800	$200	Yearly	$2,000	Provision For
Donations	$500	$0	Yearly	$500	Provision For
Medical and healthcare	$1,440	$0	Yearly	$1,440	Provision For
Car maintenance	$2,000	$0	Yearly	$2,000	Provision For
Household appliances and tools	$700	$0	Yearly	$700	Provision For
Furniture	$1,500	$0	Yearly	$1,500	Provision For
Holidays	$3,500	$1,000	Yearly	$4,500	Provision For
Yearly total				$21,640	
Monthly average				$1,803	

We noted earlier the tight ship and the future educational provision.

Primary account calculations

So, what have Brett and Emma learned?

- Do they have a money surplus? You bet they do – a nice surplus and they can put it to work.
- Their offset account is up and running, they just need to tidy up some of the banking.
- They have decided to allocate a fair amount of money for the kids' future education or they can use it now for extracurricular activity – as they have included it, they can spend it if they want to.

Table 8 – Primary account calculations

Primary account	Money in	Money out	
		Expected regular spending	Planned provisions spending
Income	$149,034		
Living & Lifestyle jar		$29,348	
Credit Card jar		$19,720	
Direct Payment jar		$7,750	
Loans jar		$34,164	
Provisionings jar			$21,640
Totals	$149,034	$90,982	$21,640
Targeted yearly surplus	$36,412		
Targeted monthly surplus	$3,034		

STEP 4. Banking

So, there's just the banking to set up now.

The Primary bank account

Emma and Brett need to:

- Give their offset account the nickname 'Primary account'.
- Set up their credit card with an auto-sweep facility.
- Set up the weekly transfer to the Living & Lifestyle account (in Emma and Brett's case this amount is $564 per week).

They already have their incomes flowing into this account – tick!

The Living & Lifestyle bank account

Here they need to open a new account with their existing bank and nickname it 'Living & Lifestyle'. They also need to apply for two debit cards (one each) linked to this account.

The Credit Card bank account

They already have this in existence so all they need to do us set up automatic payments from this card/account.

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

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

Yearly picture – example	
Expected income	$149,034
Expected regular spending	$90,982
Planned provisions spending	$21,640
Targeted yearly surplus	$36,412
Monthly allocated provisions spending	$1,803
Targeted monthly surplus	$3,034

Flour jars breakdown	Regular spend	Provisions spend
Living & Lifestyle	$29,348	
Credit Card	$19,720	
Direct Pay	$7,750	
Loans	$34,164	
Provisionings		$21,640
Sub totals	$90,982	$21,640
Overall spending total		$112,622

Emma and Brett's targets are set. They have a targeted monthly surplus of $3,034 and a targeted yearly surplus of $36,412.

Let's fast-forward 12 months to see the progress they have made (see Table 9 overleaf).

Reviewing the result for the year on the check-up reporting table (see Table 10 on page 229), we see Brett and Emma ended up with an excess surplus of $11,043 to add to the targeted yearly surplus of $36,412.

We can see few things have happened with a couple of expense items. First, Brett and Emma didn't spend much on future education; the girls only started weekly swimming lessons, which they chose to allocate this money to. This meant they trapped a further $4,560.

They gave up (overspent) $800 on car maintenance as one of the cars had an unexpected breakdown. There was also a little bit of overspending on presents and furniture.

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	$3,000	$89	$430	$67	$129	$320	$240	$0	$138	$329	$640	$320	$180	$118
Future education spend	$6,000	$0	$0	$0	$0	$0	$0	$240	$240	$240	$240	$240	$240	$4,560
Gifts	$2,000	$90	$140	$0	$67	$25	$90	$400	$700	$340	$60	$80	$90	-$82
Donations	$500	$100	$50	$0	$0	$50	$200	$0	$0	$50	$0	$0	$0	$50
Medical and healthcare	$1,440	$120	$0	$120	$0	$200	$120	$60	$85	$0	$140	$190	$0	$405
Car maintenance	$2,000	$0	$0	$0	$700	$0	$900	$0	$0	$1,200	$0	$0	$0	-$800
Household appliances and tools	$700	$499	$0	$0	$0	$0	$0	$0	$0	$199	$0	$0	$0	$2
Furniture	$1,500	$0	$1,299	$0	$0	$0	$0	$240	$0	$0	$0	$0	$0	-$39
Holidays	$4,500	$0	$0	$0	$0	$0	$3,200	$0	$0	$0	$0	$0	$900	$400
Total	$21,640	$898	$1,919	$187	$896	$595	$4,750	$940	$1,163	$2,358	$1,080	$830	$1,410	$4,614

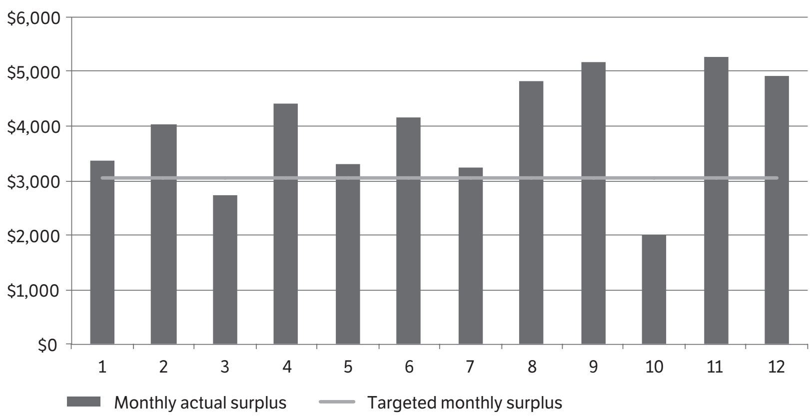
Table 10 – Check-up reporting table

	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	$21,880	$28,437	$31,897	$37,355	$40,873	$46,043	$46,839	$51,231	$56,791	$61,008	$63,667	$69,976	$75,089
Credit card balance	$0	$2,289	$1,837	$2,934	$1,123	$1,780	$1,375	$1,649	$1,732	$1,322	$1,267	$1,328	$1,140
Cash position	$21,880	$26,148	$30,060	$34,421	$39,750	$44,263	$45,464	$49,582	$55,059	$59,686	$62,400	$68,648	$73,949
Change in cash position	$0	$4,268	$3,912	$4,361	$5,329	$4,513	$1,201	$4,118	$5,477	$4,627	$2,714	$6,248	$5,301
Rolling change in cash position		$4,268	$8,180	$12,541	$17,870	$22,383	$23,584	$27702	$33,179	$37806	$40,520	$46,768	$52,069
Provisionings spent	$0	$898	$1,919	$187	$896	$595	$4,750	$940	$1,163	$2,358	$1,080	$830	$1,410
Monthly allocated provisions spending	$0	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803	$1,803
Yearly remaining provisionings total	$0	$905	$790	$2,406	$3,313	$4,522	$1,575	$2,438	$3,079	$2,524	$3,247	$4,221	$4,614
Accumulated actual surplus	$0	$3,363	$7390	$10,135	$14,557	$17861	$22,009	$25,264	$30,100	$35,282	$37273	$42,547	$47455
Monthly actual surplus	$0	$3,363	$4,028	$2,745	$4,422	$3,305	$4,148	$3,255	$4,837	$5,182	$1,991	$5,275	$4,908
Targeted monthly surplus	$0	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034	$3,034
Rolling targeted surplus	$0	$3,034	$6,069	$9,103	$12,137	$15,172	$18,206	$21,240	$24,274	$27309	$30,343	$33,377	$36,412
Monthly excess surplus	$0	$328	$993	-$290	$1,387	$270	$1,113	$220	$1,802	$2,147	-$1,044	$2,240	$1,873
Accumulated excess surplus	$0	$328	$1,322	$1,032	$2,419	$2,690	$3,803	$4,023	$5,826	$7973	$6,930	$9,170	$11,043

On the positive side of the ledger, they saved on clothing, donations, medical bills, household appliances and holidays, so this surplus money lives in their Primary account and as part of the rollover, we class this as 'consolidated' income.

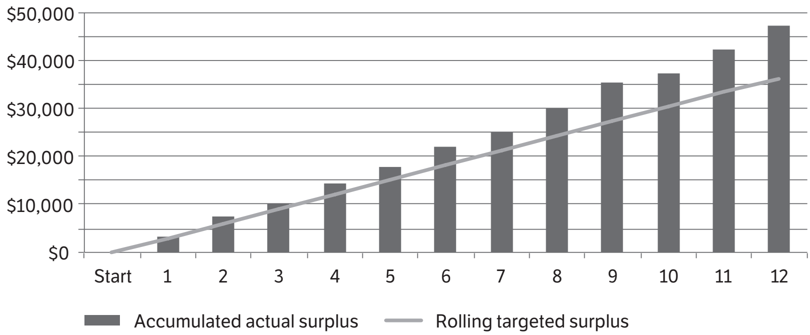
Brett and Emma's monthly activity is a bit up and down, which is consistent with how some households run when they get 'lumpy' bills from month to month and if they irregularly pay them via their provisions spending (see Figure 1). However, the good news is it all should work itself out over the course of the 12-month period (see Figure 2). You can see they've had a solid result for the year in trapping that surplus money.

Figure 1 – Tracking the monthly surplus



You can see from Figure 2 that this is a solid result for the year in trapping that surplus money.

Figure 2 – Tracking the rolling targeted surplus



In a typical year, when you would spend all of your planned provisionings spend, the yearly remaining provisionings total line (see Figure 3) would make its way back to zero. In Brett and Emma's case it didn't because they didn't spend all the money they planned to.

Figure 3 – Provisions spending

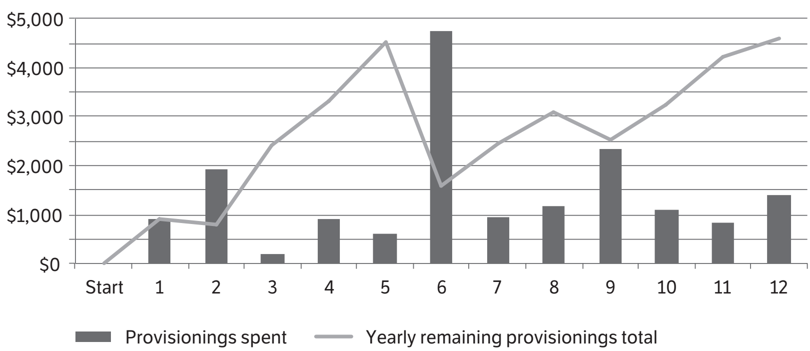
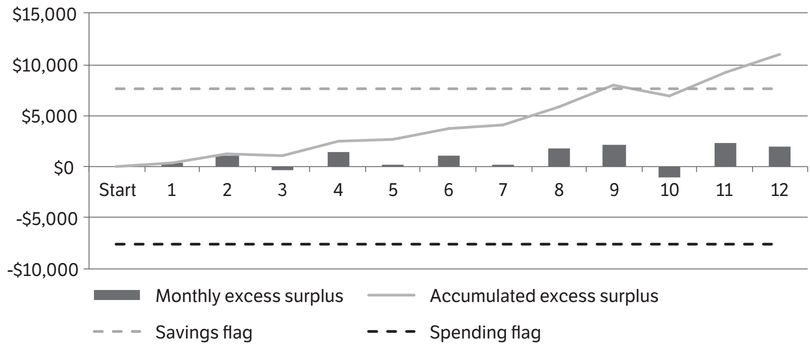


Figure 4 overleaf highlights the months when Emma and Brett were able to trap an excess regular spending surplus, resulting in a overall yearly surplus of $11,043. This is over and above the savings they made by not spending what they planned to spend within their virtual provisionings jar.

Figure 4 – Tracking the monthly excess surplus/deficit



STEP 6. Tweaks

There are no tweaks for this couple during the year – everything is under control.

STEP 7. Rollover

Brett and Emma have come to the end of the year and it's now time for them to revisit the full rollover checklist. Here are the big questions they need to consider:

- How is their weekly allowance holding up?
- Are their bills going up or down?
- Are they paying too much interest?
- How's their provisionings jar looking?

Emma and Brett's future 'potential' money outcomes

Okay, it's time to look at what buying an investment property does to Emma and Brett's story. We are back in the present day now, so put the full year review (above) to the back of your mind. We are now at the starting point of rolling out Money SMARTS for these two scenarios:

- Scenario 1 – Pay off the mortgage using Money SMARTS
- Scenario 2 – Invest in property and pay the minimum off the mortgage using Money SMARTS.

We will make the following general assumptions:

- All income is growing at 3% per year
- All expenditure is growing at 3% per year
- Savings in the bank are earning 3% interest a year
- Taxation rates are current as at 2018-19
- The mortgage interest rate is 5.5% for owner occupied property
- There is owner-occupier property capital growth of 7% per annum.

Scenario 1 – Pay off the mortgage

In this scenario, Emma and Brett will be using Money SMARTS and trapping the targeted yearly surplus of $36,412 again. It's assumed this will be the target surplus each year for the 20-year projection they are running. Once the owner-occupied mortgage is paid out, the surplus money is then put into a high-interest savings account earning 3% interest a year.

Scenario 2 – Invest in property and pay the minimum off the mortgage

Still using our Money SMARTS in this scenario, Brett and Emma are buying an investment property to the value of $550,000. They continue to trap all additional surplus money and place it in the 100% offset primary account, which is linked to the owner-occupier mortgage first.

Can they afford it, remembering they have a monthly surplus of $3,034?

Here are the conservative 'back of envelope' calculations (without considering depreciation or negative gearing benefits which would make the property even cheaper to hold).

	Workings	Per month
Money in: Rent	(3.5% yield = $19,250 x 92% occupancy. $17,710/12)	+$1,476
Money out: Property management fees Mortgage interest Annual upkeep provision	 ($17,710 x 7.7%. $1,364/12) ($583,000 x 6% interest = $34,980/12) ($550,000 x 1.5% = $8,250/12)	 -$114 -$2,915 -$688
Total out		-$3,717
Result		-$2,241

Even without the any negative gearing or depreciation add-backs, which would improve the cashflow story significantly, Emma and Brett are comfortably able to afford to buy a property at this value.

Note: If you don't have this level of surplus, you could always reduce the value of the purchase price and look for properties that provided higher yielding returns – it's about getting the balance right for your circumstances which is what we have done here with Brett and Emma.

Here are the additional financial assumptions we make when considering the investment property:

- Acquisition costs are 6% of the purchase price
- Capital growth forecast is 7% per annum
- Expected rental yield is 3.5% per annum
- Property management fees are 7.7% per annum
- Occupancy rate is 92% (we have allowed 4 weeks vacancy each year)
- No depreciation has been factored in
- There are ongoing holding costs of 1.5% of the value, indexing at 3% each year
- They are borrowing 106% of the value using equity from their own home
- The investment property is bought 50/50 in Brett and Emma's personal names
- Negative gearing and positive gearing is in play (save tax early and then pay tax later!).

Scenario results

The graph shows the results of each scenario.

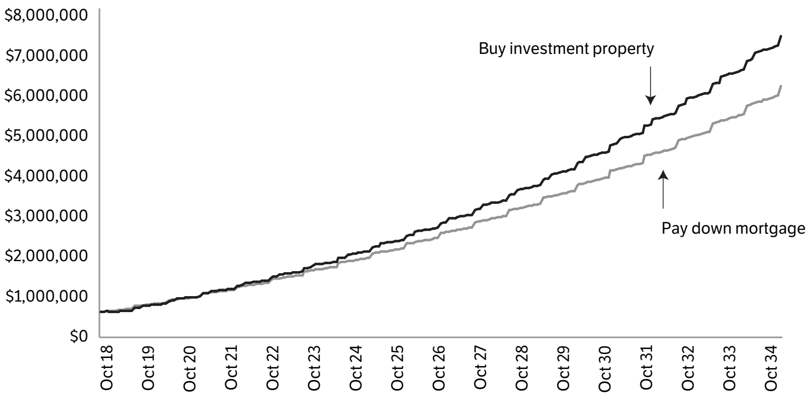


Table 11 shows the results side by side after 20 years. The start date is October 2018 and the end date is October 2038.

Table 11 – Comparison of scenario results

Pay down mortgage	Buy investment property
Home mortgage fully offset by November 2025	Home mortgage fully offset by September 2027. Investment loan fully offset by August 2033
Net wealth position: $6,255,188 In present day value terms: (no inflation of 3%) $3,463,346	Net wealth position: $7,510,083 In present day value terms: (no inflation of 3%) $4,158,151
Passive income: ($1,139,954 x 3% = $34,199	Passive income: ($527,258 x 3%) + rental income ($67,411) = $80,211

Conclusion

Put your hand up if you want almost $700,000 (in today's dollar terms) extra in net worth in 20 years' time; plus a handy overall passive rental income per year that is just over $46,000 higher than if you didn't invest. That's a nice little supplementary income to their superannuation to boost their overall retirement story for their future financial peace.

If Emma and Brett decide now to buy an investment property, they can afford it and it will help transform their financial future for the better if done well.

We think Brett and Emma are ready to go shopping once they talk to their mortgage broker and a property investment adviser to get some professional advice about their options.

Our final words of encouragement

Congratulations on getting to this point – you now have the knowledge and understanding you need to achieve your own feeling of financial peace. We encourage you to use this book as a reference guide and refer to it often.

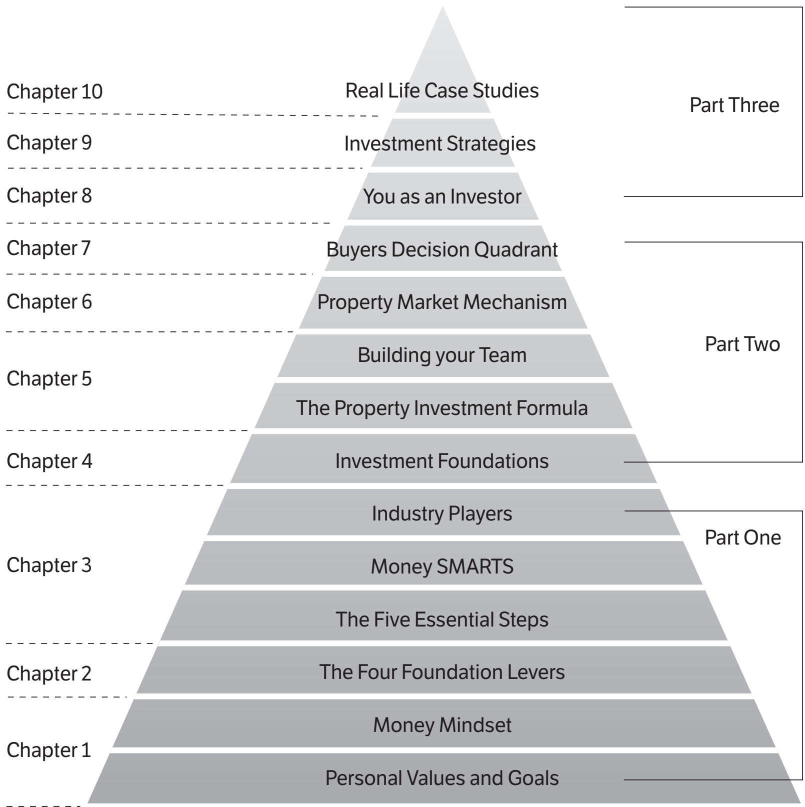
Remember, we were once beginners too. We understand that when you start using a new system, there is a period of adjustment that naturally occurs before it becomes second nature and you really benefit from it. We want to assure you that even if you stumble at first when you are implementing these principles into your own life, if you persist, you too will master the concepts in this book and be able to truly manage your money in less than 10 minutes per month.

So, what's next?

After you master Money SMARTS, where does having your money management under control fit into your overall wealth building strategy? Well, as this book was written specifically as a prequel to our best-selling book, *The Armchair Guide to Property Investing*, the logical next step is for you to look at creating a self-funded retirement by investing your new-found surplus. With that in mind, take a look at the framework that we built in our previous book showing you the steps you need to follow to retire on $2,000 per week by building a property portfolio.

You can see from the diagram overleaf that we included a section on the Money SMARTS banking system in Chapter 3. However, it became very evident, soon after the release of that book in 2016, that we needed to offer people more information on the basics of money management (not just the banking set up) – which is why we dig a lot deeper in *Make Money Simple Again*. Without a strong foundation in money management, your investment efforts will be like building a house on sand. So, the 7 steps in the Money SMARTS system explained within these pages belong underneath the pyramid.

They provide the foundation for anyone looking to build real wealth for the future.



If you're like us and believe that building a property portfolio is part of the answer to your self-funded retirement, then we'd encourage you to read our sequel book *The Armchair Guide to Property Investing* and start building your own wealthier tomorrow.

We'll leave you with these final words: knowledge is 'empowering', but only if you act on it. As one of our favourite authors, Jim Rohn, says:

> *'Success is nothing more than a few simple disciplines, practised every day'.*

Over to you.

WATCH THIS VIDEO TO LEARN MORE!

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platform

Yep, we do mention this a few times in our book, but we'll say it again here too… as part of our overall crusade to help as many Australians manage their money better to achieve financial peace, we have established a FREE Money Management platform. This means that, yep, you can set up and use this to assist in taking responsibility of your own money. If you're interested, just click below to create an account!

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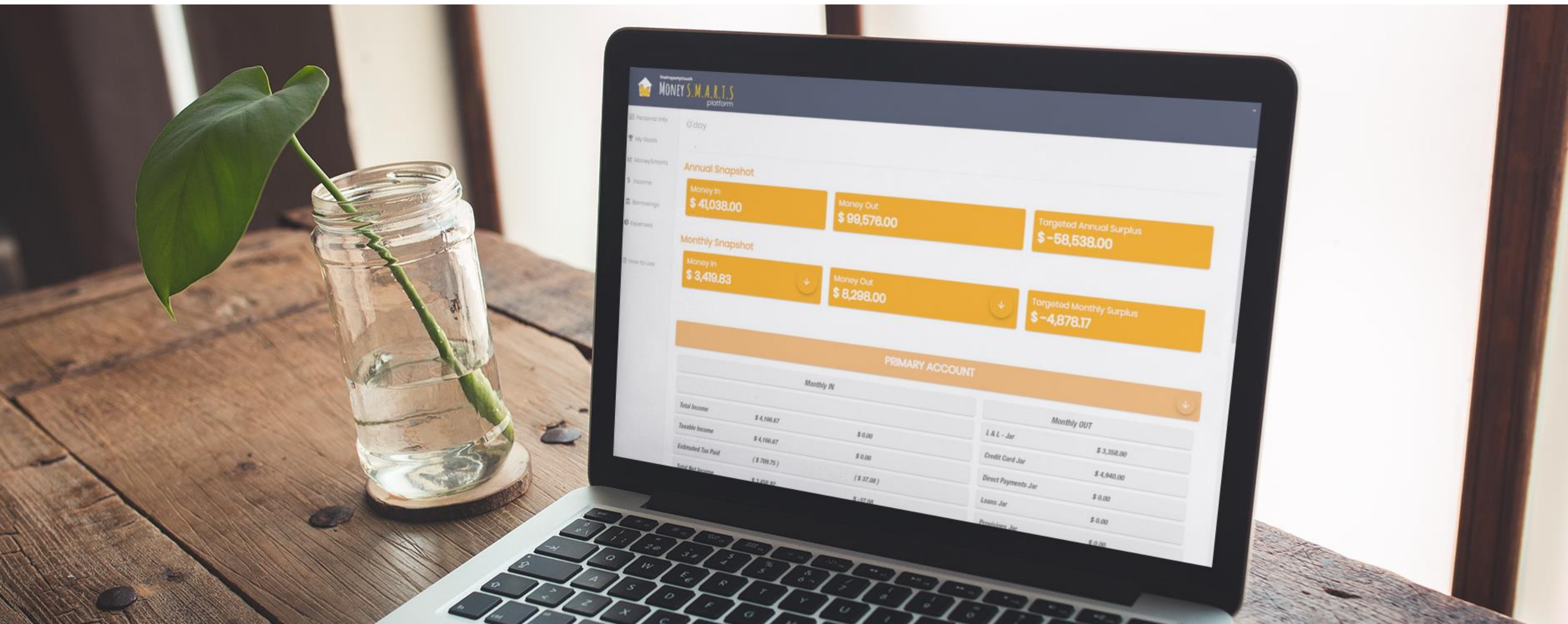
What this really means for you is…

You'll get an accurate snapshot into where EXACTLY you're spending your hard earned money and how this is affecting your overall wealth position.

It's secure, free to use and no-obligation as well!

To give you an idea of what to expect, this is a quick glimpse of what you'll see in your own dashboard (keep in mind, this doesn't reveal the power of the Money SMARTS section!)



THANK YOU!

Hope you find this chapter helpful and if you'd like to get the full copy of the book, just go to www.ThePropertyCouch.com.au/books.

And there's a discount on us too! Just use this code:

CASESTUDY