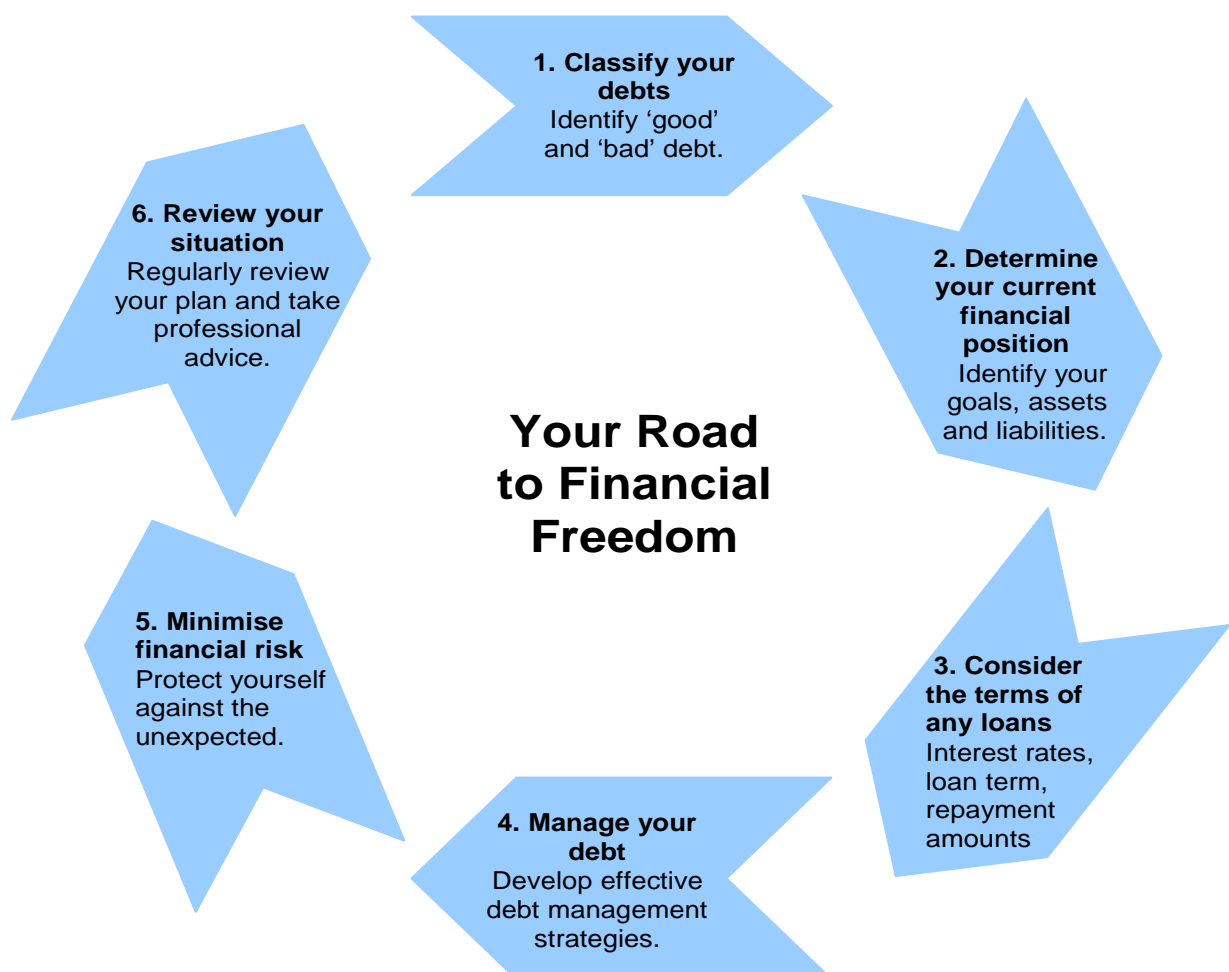


## DEBT MANAGEMENT

### **Debt – a fact of life**

With the average Australian household spending 2.3% more than they earn every year, debt is an issue for almost everyone. Of course, not all debt is bad. With good budgeting, well managed debt can be a very effective means of creating wealth. A review of the structure and management of your debt is fundamental to achieving your lifestyle goals.

Debt should always be considered as part of a long term financial strategy, but knowing where to start can be daunting, but following 6 basic steps can help with effective debt management.



### **Step 1 – classify your debt**

The first step to using debt effectively is to classify your different types of debt.

- ⇒ **Good Debt** is when you borrow to invest and your investment is producing an income. The potential benefit is that the interest you pay on the debt might be tax deductible e.g. loan for an investment property.
- ⇒ **Bad Debt** is when you borrow but the value of your purchase diminishes over time or your investment does not produce an income and the interest is not tax-deductible e.g. car loan.

### **Step 2 – Determine your current financial position, identify your goals**

Think of your current position, what assets do you have - home, shares, investment property - what liabilities do I have – mortgage, credit cards, personal loans – what are my biggest expenses – can I reduce or save on these.



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You now need to work out your financial goals over the short, medium and long term and will need to establish budgets to match your income and expenses.

## **Step 3 – Consider the terms of your loans**

Having established your short, medium and long term goals, it's time to think about the cost and structure of your loans.

- How much do I need to borrow?
- What are the best interest rates?
- What security will I need against the loan and am I tying up assets unnecessarily?

## **Step 4 – Manage your debt**

There are a number of strategies to help manage debt more effectively

- Debt Consolidation – combine your debts to a loan with the lowest interest rate thereby releasing cash flow.
- Recycling debt – if you receive a lump sum, you might simply invest it but by 'recycling' debt you might be better off. e.g. Repay 'bad' debt with the funds and re-borrow to invest, thereby creating a 'good' debt.
- Asset Management – there are potential tax advantages to be gained by considering the ownership of a particular asset. If an asset produces net income or is sold at profit, it is better that the asset be 'owned' by a person with little or no other income. This reduces the tax payable and improves cash flow, which can be directed to pay off 'bad' debt. If you are borrowing to invest, then the loan is best 'owned' by the person in the highest marginal tax bracket, as they can potentially benefit from using interest on the loan as a tax deduction.

## **Step 5 – Minimise financial risk**

Risk management is all about making sure you have the right strategies in place to protect you should the unforeseen happen.

### *Life and Total Permanent Disability Insurance*

– will help to financially protect your family and your wealth creation, should the worst happen.

### *Trauma/Crisis Insurance*

– will help to cover the costs of recovery from serious conditions like heart attack or cancer.

### *Salary Continuance/Income Protection*

– will give you an income should you become sick and be unable to work through illness or injury.

## **Step 6 – Review your position**

Once you have your financial strategies in place, (this should be carried out by a recognized licensed financial planner) they need to be regularly reviewed along with your financial position.

- Revisit your goals – do they still meet your objectives.
- Review your strategies – are they still achieving the goals you set.
- Revisit your budget – has your situation changed or do you need to make adjustments.
- Legislation changes – these may impact your plans so be prepared to revise your financial plan.

## **Your Road to Financial Freedom**

By following these steps you could soon be on the road to improving your financial position but please remember the suggestions made are not based on just your personal financial situation, objectives or needs. Before making any financial decisions you should seek professional advice from a recognized/licensed financial planner and your Tax Accountant. We also provide Tax advice through our associated business – Tax & Accounting Advisors.

At Financial Milestones, our goal is to help you manage your debt effectively so you can achieve financial independence and peace of mind. If you would like to know how to get on the path to wealth creation and pay off your debts faster, please contact us for an appointment for a free debt health check-up.

Financial Milestones can offer you, your family and business a total financial solution to help you save time and money and help achieve your financial goals.