

Getting on top of debt

Rising living costs and the possibility of an increase in interest rates has debt counsellors talking about 'mortgage stress'. Reserve Bank figures show that the average Australian household is paying about 12% of their income in interest payments alone and they owe about 160% of their combined gross income. How does your level of debt compare to the average?

If you are feeling the pinch, what can you do to risk-proof your family's finances? Sadly there is no magic formula and it all comes back to budgeting, discipline and living within your means. Here are five tips to help you get on top of your debts.

Know your debts

Debt counsellors say many people don't understand their loans – the conditions, interest rates, limits and opportunities. Is your loan 'good debt' – where you are borrowing money for investment purposes or 'bad debt' – where the borrowings are for personal consumption (such as your mortgage, car loan and credit cards)? Interest on loans for investment is tax deductible whereas interest on personal loans is not.

Plan how you spend

Once you understand where you are now you can plan to improve your position. The B word (Budget) is a vital starting point. Define your commitments (the expenses you must pay), necessities (what you need) and discretionary spending (what you would like). Small savings will add up over time. You may limit your spending by limiting the number of credit and store cards you hold or by reducing the credit limits.

Consolidate and avoid the trap

If you have several loans consider consolidating them into your mortgage or into one personal loan. Then focus on paying that loan off. It is critical to keep up the same level of repayments otherwise you end up paying more interest over the longer term of the loan.

Get ahead with a buffer

If you have the chance, try to get ahead of your loan repayments – for instance, by paying your tax refund, overtime or holiday pay into the loan. This means you will have a buffer if interest rates rise or your circumstances change.

Ask for a better deal

Your lender wants to get their money back and if you are a long-term customer you may find you can get a better deal just by asking. If you are having trouble making repayments discuss it with your lender – they will prefer to negotiate a new deal that have to foreclose on your loan. Like all problems – you need a plan to solve them. Talk to your adviser about getting on top of your debts.

This article has been written by Words Unlimited based on information available at the time of writing. * Disclaimer: The information in this article reflects iPlan Financial Services Pty Ltd ABN 70 122 979 140 / AFSL 311824 understanding of existing legislation, proposed legislation, rulings etc as at the date of issue. While it is believed the information is accurate and reliable, this is not guaranteed in any way. The information is not, nor is it intended to be comprehensive or a substitute for professional advice on specific circumstances.

IPLAN FINANCIAL SERVICES AUSTRALIA PTY LTD | Level 1, 4 Park Road | PO Box 1969 Milton Qld 4064
Ph: 13000 IPLAN (1300 047 526) | Fax: 07 3368 3998 | www.iplan.net.au

iPlan Financial Services Australia Pty Ltd ACN: 106 591 833 as trustee for the iPlan Australia Trust ABN: 58 928 175 252 is a Corporate Authorised Representative and Credit Representative of iPlan Financial Services Pty Ltd ABN: 70 122 979 140 AFSL/ACL No. 311824

