# UNLEASH THE POWER OF DISPOSABLE INCOME

ACUMEN WEALTH MANAGEMENT

QUARLES
BUSINESS & FINANCIAL STRATEGISTS

# Introduction

Have you started to feel a slight pinch in the hip pocket when it comes to finding disposable income?

Within this ebook you will learn to indentify and wield disposable income to your advantage - this can be helpful at any stage of your life, whether it's during your prime, starting a family or leaning into retirement.

With a total of almost 100 years of experience, we at Quarles and Acumen Wealth have outlined our exact techniques we use to help clients grow their wealth and become closer to living life stress free in financial bliss.

So what are you waiting for? Are you ready to take the first step to improving your financial life?

Then let's jump into it!

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# 01: What Is The 50/30/20 Budgeting Rule?

**When it comes to building and maintaining wealth, budgeting is an important foundation block.**

By sitting down and completing a budget, you create a snapshot overview of your personal financial statement. In doing so, you give yourself the opportunity to gain a better understanding of the movement of your money – inflows and outflows. Moreover, this information can be used to assess your existing financial situation and devise appropriate plans aimed at achieving your financial goals and objectives, such as paying down debt and saving and investing for the future.

There are many subtle rules and behaviours we live our lives by. Consequently, whether you are relatively new to the concept of budgeting, or an old hand at it, you may have heard about the 50/30/20 budgeting rule*.

In a nutshell, this budgeting rule can often be a useful starting point regarding budgeting and managing your money, as it provides a rough guide to how much money should be allocated towards your needs, wants and savings. For example:

50% allocated towards needs, such as rent or minimum home loan repayments, transportation, groceries, minimum credit card and car/personal loan repayments, general and personal insurances, private health insurance, education, utilities, phone and internet, etc.

30% allocated towards wants, such as daily coffee, eating out, shopping, entertainment (e.g. subscription services, such as Netflix), hobbies, holidays, etc.

20% allocated towards savings, such as emergency funds, savings accounts (e.g. saving for a new car or a housing deposit), additional debt repayments, as well as investments inside and/or outside of superannuation.

Do you know what percentage you are currently allocating towards your needs, wants and savings? If yes, has this percentage remained constant or altered over time with changes in your personal circumstances, such as starting a family or receiving a pay rise?

# Budgeting Rule

Here is a simplistic example of the budgeting rule applied to two individuals, one receiving an after-tax income of $52,000 p.a. and the other receiving an after-tax income of $104,000 p.a..

| 50/30/20 BUDGETING RULE – SCENARIO 1 | | | | | |
|---|---|---|---|---|---|
| **Allocation** | **Expenditure (rounded to the nearest dollar)** | | | | |
| ***What*** | *Weekly* | *Fortnightly* | *Monthly** | *Quarterly* | *Annually* |
| **50% Needs** | $500 | $1,000 | $2,167 | $6,500 | $26,000 |
| **30% Wants** | $300 | $600 | $1,300 | $3,900 | $15,600 |
| **20% Savings** | $200 | $400 | $867 | $2,600 | $10,400 |
| **TOTAL** | **$1,000** | **$2,000** | **$4,334** | **$13,000** | **$52,000** |

| 50/30/20 BUDGETING RULE – SCENARIO 2 | | | | | |
|---|---|---|---|---|---|
| **Allocation** | **Expenditure (rounded to the nearest dollar)** | | | | |
| ***What*** | *Weekly* | *Fortnightly* | *Monthly** | *Quarterly* | *Annually* |
| **50% Needs** | $1,000 | $2,000 | $4,333 | $13,000 | $52,000 |
| **30% Wants** | $600 | $1,200 | $2,600 | $7,800 | $31,200 |
| **20% Savings** | $400 | $800 | $1,733 | $5,200 | $20,800 |
| **TOTAL** | **$2,000** | **$4,000** | **$8,667** | **$26,000** | **$104,000** |

Please note: As there are 52 weeks in a year, not 48 (i.e. four weeks x 12 months), the monthly expenditure has been calculated by multiplying the weekly expenditure by 4.334 (52 weeks / 12 months).

# 02: How Do I Make Informed Decisions?

**Making informed decisions on how to spend your money can be difficult for a variety of reasons, such as, but not limited to your beliefs on money and your money personality.**

By breaking up your spending into the above basic categories (and the allocated percentages that go with them), you may find it helpful for several reasons. For example:

# Category 1: Percentages

**These percentages aim to help create a balance between your obligatory and discretionary costs, and funds required to achieve your financial goals and objectives.**

It emphasises the importance of not only consciously and proactively allocating funds to savings, but also not overextending yourself when it comes to your needs and wants (i.e. living within/below your means and stopping the cycle of living pay cheque to pay cheque).

This last point can be especially pertinent when considering the impact that upward interest rate movements can have on your ability to continue to service debt repayments and the potential flow-on effects of this regarding other areas of your spending (i.e. the requirement to tighten the belt, so to speak).

# Category 2: Distinguish Between a Need and a Want

**It can force you to consider the distinction between a need and a want at a personal level, as well as introduces you to the concept of 'upgrading' (e.g. a decision to purchase an upgraded version of a need, such as buying a Mercedes, as opposed to a more economical Toyota).**

By understanding the distinction between the two, you can begin to assess what really matters to you and exercise financial discipline where appropriate. Nonetheless, due to the simplicity of the budgeting rule, certain shortcomings can arise, especially when considering your own personal circumstances. Examples of shortcomings can include:

# *Excessive Spending*

For high-income earners, the 50% and 30% allocation towards needs and wants may leave the door open to excessive or unnecessary spending to the detriment of your savings. For instance, these individuals may be negating the ability to allocate additional funds towards savings, which could facilitate reaching financial goals and objectives much more quickly.

With this in mind, 'lifestyle creep' (i.e. increasing your standard of living as your income goes up) needs to be appropriately managed with one foot in the present (enjoying life now) and the other in the future (making sure you can continue enjoying life when retired).

## *Commitment*

For low to middle-income earners and/or those living in an expensive area, the 50% allocation towards needs may prove difficult to adhere to. These individuals may not have the luxury of only spending half of their after-tax income on needs, such as housing and bills. Consequently, this may affect other areas, such as the 20% allocation towards savings.

If you are struggling to fund your needs, wants and/or savings, it's vital to openly and honestly assess your spending – and not be influenced by, or rely on, credit cards and other forms of financing to get by. This may require some difficult decisions so that moving forward your outflows are appropriately aligned with your inflows.

Please note: To a certain extent, these two points regarding high and low to middle-income earners are highlighted in the tables displayed above.

# 03: Where Do I Go From Here?

**When you are first starting out, rules of thumb, like the 50/30/20 budgeting rule, can be a useful rough guide for decisions regarding budgeting and managing your money.**

However, as you can see by its potential shortcomings, it's still important to seek professional advice so that your existing financial situation can be appropriately assessed and leveraged to achieve your financial goals and objectives.

Lastly, when it comes to budgeting in general, it's important to highlight something that was previously mentioned. A budget is a snapshot overview of your personal financial statement at a given point in time and is only as accurate as the information that has been inputted into it. Consequently, a budget needs to be regularly reviewed so that:

- The information that's used is an accurate reflection of the movement of your money.
- You make sure that you are sticking to the budget that you have set for yourself.

Tracking your spending is a great way to facilitate this process.

# 04: How Do I Find My Household Expenditure?

**Have you started to feel a slight pinch in the hip pocket when it comes to the availability of disposable income?**

Identifying and using disposable income appropriately can be helpful at any stage of life, whether that be during your wealth accumulation or retirement years. By completing or reviewing an existing budget, you can gain a better understanding of the movement of your money (inflows and outflows) and areas where disposable income may lie.

# 05: How Do I Itemise My Expenditure

**According to the Australian Bureau of Statistics' most recent Household Expenditure Survey 2009-10*, the average household expenditure for Australians was roughly $1,236 per week in 2009-10.**

This is approximately $1,429 per week when broadly indexed for CPI/inflation to June 2017. Your individual circumstances may necessitate expenditure above or below this figure.

At this point, the above mentioned $1,429 per week is not very insightful; however, by drilling down further into the primary and (if you like) secondary levels of household expenditure, you can begin to see where spending habits lie. With more detailed information, it becomes easier to assess whether adjustments can be made.

Based on the average spending habits in 2009-10, the weekly figure of $1,429 is broken down into primary level expenses below.

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| AUSTRALIAN BUREAU OF STATISTICS*<br>HOUSEHOLD EXPENDITURE SURVEY, AUSTRALIA | | |
|---|---|---|
| ***Household expenditure categories (goods and services)*** | ***Total goods and services expenditure ($)*** | ***Total goods and services expenditure (%)*** |
| Current housing costs (selected dwelling) | 258 | 18.0 |
| Domestic fuel and power | 38 | 2.6 |
| Food and non-alcoholic beverages | 236 | 16.5 |
| Alcoholic beverages | 37 | 2.6 |
| Tobacco products | 15 | 1.0 |
| Clothing and footwear | 51 | 3.6 |
| Household furnishings and equipment | 68 | 4.7 |
| Household services and operation | 78 | 5.5 |
| Medical care and health expenses | 76 | 5.3 |
| Transport | 223 | 15.6 |
| Recreation | 187 | 13.1 |
| Personal care | 28 | 1.9 |
| Miscellaneous goods and services | 135 | 9.4 |
| **Total** | **1,429** | **100.0** |

This can be further broken down into secondary level expenses, as shown below.

| AUSTRALIAN BUREAU OF STATISTICS*<br>HOUSEHOLD EXPENDITURE SURVEY, AUSTRALIA | | |
|---|---|---|
| ***Household expenditure categories (food and non-alcoholic beverages)*** | ***Total food and non-alcoholic beverages expenditure ($)*** | ***Total of food and non-alcoholic beverages expenditure (%)*** |
| Bakery products, flours and cereals | 23.60 | 10 |
| Meat (excluding fish and seafood) | 28.73 | 12 |
| Fish and seafood | 5.65 | 2 |
| Eggs and egg products | 1.62 | 1 |
| Dairy products | 17.41 | 7 |
| Edible oils and fats | 1.98 | 1 |
| Fruits and nuts | 14.40 | 6 |
| Vegetables | 15.83 | 7 |
| Condiments, confectionary, food additives and prepared meals | 26.24 | 11 |
| Non-alcoholic beverages | 18.49 | 8 |
| Meals out and fast foods | 72.75 | 31 |
| Other food and non-alcoholic beverages | 9.27 | 4 |
| **Total** | **235.96** | **100.0** |

If you are unsure about how to break down your spending habits, consider tracking individual transactions via your receipts and bank statements over a period – this will help you to get a sense of how you spend your money.

# 06: How Do I Evaluate My Expenditure?

**Once you have a detailed overview of your household expenditure, it's time to assess whether adjustments can be made. Below we've highlighted several areas that may be worth considering.**

## Needs / Necessities and Wants / Luxuries

Making a judgement on what are your needs and wants can vary through your lifetime and may depend on many factors. Overall, fundamental needs that seem universal include clean water, nutritious food, shelter and the capacity to acquire these.

Although, we are not advocating you cut out all want expenses (as enjoying life is also important!), it's vital to remember the distinction between the two. By understanding the difference, you can assess what really matters to you and exercise financial discipline in areas where you may be living in excess.

## Utility Bills

Keeping the lights on, staying comfortable during the seasons, meal preparation, refrigerating perishables, bathing, and washing clothes, are important household needs; however, this doesn't necessarily mean that adjustments can't be made here or there to save money.

For example, in one of our more recent articles, 'Electricity bills: Time to get wired', we discussed becoming more energy-savvy by taking the time to better understand the 'sum of all the parts' in terms of the individual cost of each appliance (as well as their energy rating and optimal energy saving usage) that you utilise in your household.

## Reviewing Your Services

Paying bills for the services you receive can often seem like a continuous process. These can be for utilities, car insurance, home and contents insurance, gym membership, mobile and internet plan, magazines and publications as well as digital streaming (e.g. Netflix, Stan, and Foxtel Now).

Evaluating your existing service providers with competitors may help you assess whether there is a similar quality, but cheaper alternative available – and in terms of subscriptions, whether you are actually using these.

GST now applies to digital streaming services - dubbed the "Netflix Tax - and will most likely mean an increase in your subscription cost moving forward.

# Food Waste

According to a recent report^, Australians waste over $10 billion worth of food annually, which roughly equates to $1,100 per annum ($21 per week) for each household.

It's important to note that this is more than just food waste being placed in the bin – it's also hard-earned money, disposable income potential, which could have been directed towards other areas.

For further information on ways to reduce your food waste, please read our article, 'Tips for Reducing Food Waste and Saving Money' or watch our video, 'Saving You Money and Food Waste'. One of the top tips is to shop wisely – plan meals and buy only as much food as you need.

# Click to Download the Budget Calculator Spreadsheet

Click to
download the
budget spreadsheet
to help gain a better
understanding of the movement
of your money (inflows and outflows) and
areas where disposable income may lie.

Once you've completed your assessment, if you do find areas where disposable income potential may exist and want to use this for investment purposes, talk to us. We can help you to move forward.

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## General Advice Disclaimer

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