



Budgeting for financial well-being

Financial Well-being Program
12 Nov 2020

tribel

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Agenda

1. Getting started – the budgeting process
2. Being aware of your cognitive biases
3. Budgeting for adversity
4. Budgeting for the future

How do you know where your money is spent?

I have no idea what you're talking about!!!



According to a 2018 study by Ubank:

- 86% of Australians are unaware of how much they spend each month.
- Some 82% don't know what their mortgage rate is.
- The most common reason given as to why people don't know their monthly expenses accurately, is that it's too hard to calculate the expenditure.
- 59% of Australians admit their current financial situation causes them stress or loss of sleep.

Looking at your lifetime earnings

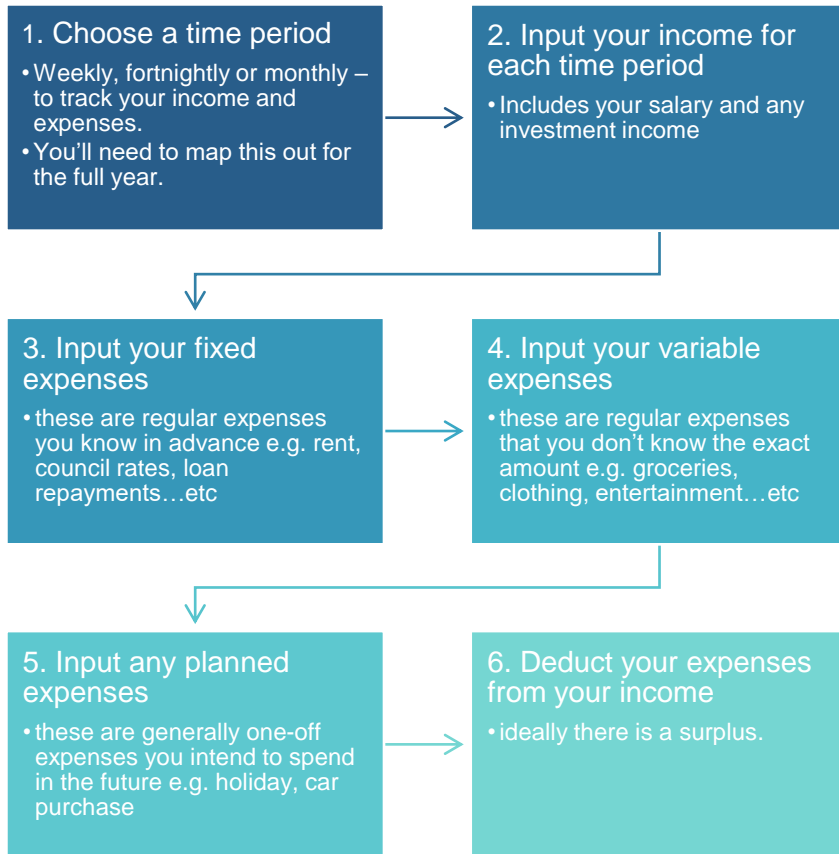
- If you add up all the income you earn in your lifetime, how much will it be?
- Example – you're currently 30 years of age, earning \$70,000 gross income (before tax). How much would you have earned cumulatively by age 65, assuming income increases by 2% each year?



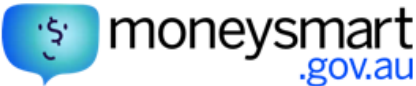
Accumulated Earnings: \$3,499,613

Its boring but it works – setting up a budget

- A budget will help you **allocate** your money wisely to the things that are important to you and your family
- **Map** out how much money you earn per period
- **Confirm** where your money is currently being spent on
- At a minimum, you **spend less than what you earn**



Setting up your budget – inputting your income

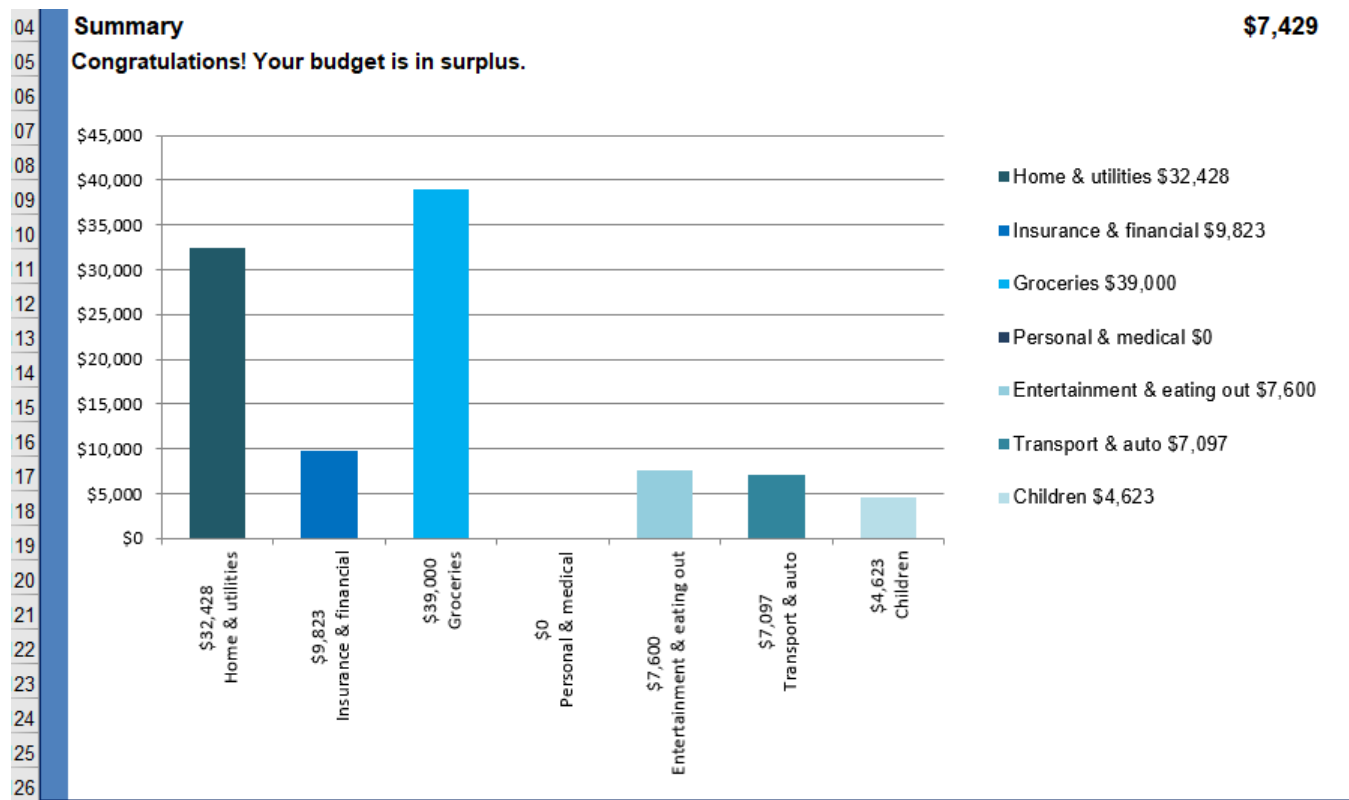
	A	B	C	D	E	F	G	H
2	Budget planner							
3	This calculator helps you work out:							
4	<ul style="list-style-type: none"> • where your money is going 							
5	<ul style="list-style-type: none"> • customise item names 							
6	<ul style="list-style-type: none"> • save your results 							
7								
8	Budget planner							
9							View :	Annually
10	Income		\$	Frequency	\$108,000			
11	Your take-home pay		\$5,000.00	Monthly	\$60,000			
12	Your partner's take-home pay		\$4,000.00	Monthly	\$48,000			
13	Bonuses / overtime			Annually	\$0			
14	Income from savings and investments			Monthly	\$0			
15	Centrelink benefits			Fortnightly	\$0			
16	Family benefit payments			Fortnightly	\$0			
17	Child support received			Monthly	\$0			
18	Other			Monthly	\$0			

Inputting your expenses based on each category

19	Home & utilities	\$	Frequency	- \$32,428
20	Mortgage & rent	\$2,500.00	Monthly	\$30,000
21	Body corporate fees		Quarterly	\$0
22	Council rates		Quarterly	\$0
23	Furniture & appliances		Annually	\$0
24	Renovations & maintenance		Annually	\$0
25	Electricity	\$109.00	Quarterly	\$436
26	Gas	\$453.00	Quarterly	\$1,812
27	Water		Quarterly	\$0
28	Internet	\$15.00	Monthly	\$180
29	Pay TV		Monthly	\$0
30	Home phone		Monthly	\$0
31	Mobile		Monthly	\$0
32	Other		Fortnightly	\$0
33	Insurance & financial	\$	Frequency	- \$9,823
34	Car insurance (comprehensive & CTP)	\$156.90	Monthly	\$1,883
35	Home & contents insurance		Monthly	\$0
36	Personal & life insurance		Monthly	\$0
37	Health insurance	\$141.00	Monthly	\$1,692
38	Car loan	\$520.66	Monthly	\$6,248
39	Credit card interest		Monthly	\$0
40	Other loans		Monthly	\$0
41	Paying off debt		Monthly	\$0
42	Savings		Monthly	\$0
43	Investments & super contributions		Monthly	\$0
44	Charity donations		Monthly	\$0
45	Other		Monthly	\$0
46	Groceries	\$	Frequency	- \$39,000
47	Supermarket	\$500.00	Weekly	\$26,000
48	Butcher	\$80.00	Weekly	\$4,160
49	Fruit & veg market	\$100.00	Weekly	\$5,200
50	Fish shop	\$50.00	Weekly	\$2,600
51	Deli & bakery		Weekly	\$0
52	Pet food	\$20.00	Weekly	\$1,040
53	Other		Monthly	\$0
54	Personal & medical	\$	Frequency	\$0
55	Cosmetics & toiletries		Monthly	\$0
56	Hair & beauty		Monthly	\$0
57	Medicines & pharmacy		Monthly	\$0
58	Glasses & eye care		Monthly	\$0

69	Entertainment & eating-out	\$	Frequency	- \$7,600
70	Coffee & tea		Weekly	\$0
71	Lunches bought		Weekly	\$0
72	Take-away & snacks		Weekly	\$0
73	Cigarettes		Weekly	\$0
74	Drinks & alcohol	\$100.00	Weekly	\$5,200
75	Bars & clubs		Monthly	\$0
76	Restaurants	\$200.00	Monthly	\$2,400
77	Books		Monthly	\$0
78	Newspapers & magazines		Monthly	\$0
79	Movies & music		Monthly	\$0
80	Holidays		Annually	\$0
81	Celebrations & gifts		Monthly	\$0
82	Other		Monthly	\$0
83	Transport & auto	\$	Frequency	- \$7,097
84	Bus & train & ferry	\$50.00	Weekly	\$2,600
85	Petrol	\$40.00	Weekly	\$2,080
86	Road tolls & parking	\$40.00	Weekly	\$2,080
87	Rego & licence	\$337.00	Annually	\$337
88	Repairs & maintenance		Annually	\$0
89	Fines		Monthly	\$0
90	Airfares		Annually	\$0
91	Other		Monthly	\$0
92	Children	\$	Frequency	- \$4,623
93	Baby products		Monthly	\$0
94	Toys		Monthly	\$0
95	Babysitting		Monthly	\$0
96	Childcare		Monthly	\$0
97	Sports & activities		Monthly	\$0
98	School fees	\$385.25	Monthly	\$4,623
99	Excursions		Monthly	\$0
100	School uniforms		Monthly	\$0
101	Other school needs		Monthly	\$0
102	Child support payment		Monthly	\$0
103	Other		Monthly	\$0

Looking at the overall position



Useful apps and tools to help track your expenses

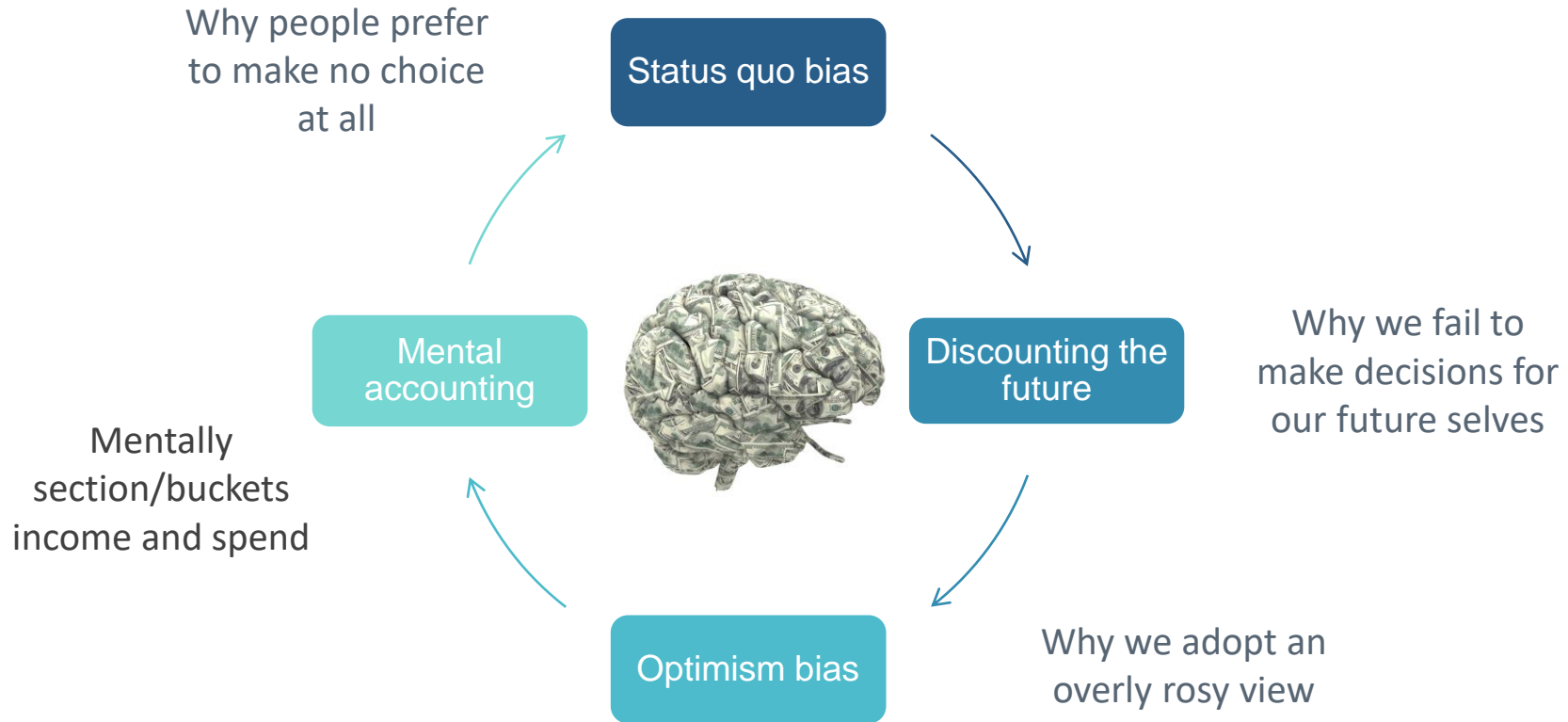
After you have set up your budget you need to track your expenses in each category. You should have an estimate of what you have in each category at all times. This will help to prevent you from overspending.

Item	ASIC's Track My Spend	Fortune City	Pocketbook
			
Cost	Free	Free	Free
Budgeting	✓	✗	✓
Manual expense tracking	✓	✓	✓
Custom categories	✓	✓	✓
Is literally a game	✗	✓	✗
Automatic transactions via bank sync	✗	✗	✓
Import transactions via CSV	✗	✗	✓

Confront your budget with the following questions

1. Are you happy with the amount you are saving?
2. Is there scope to cut back on some expenses?
3. Have you allocated money for a “rainy day” or when something goes wrong?
4. Have you allocated money for the future?

Cognitive biases behind your spending habits and behaviours



Status Quo Bias

A warm, golden-hour photograph of a family walking along a beach. A woman in a white top is on the left, a young child in a light blue shirt is in the center, and a man in a white t-shirt is on the right. They are walking away from the camera towards the water's edge. The sun is low on the horizon, creating a strong backlight and a hazy, orange-tinted atmosphere.

- We have an **inbuilt bias to avoid change** and prefer to stick to how things are.
- We are lazy and often have limited time to research alternatives
- Due to our uneasiness with change, people may resist making decisions about their finances that change the current state of things, even if they're beneficial in the long run

Despite a loss of trust following the financial crisis in 2008

Just 4% of UK Customers switched banks

Put simply, we avoid change and prefer to stick with what we already have.

Discounting the future

- People tend to focus on today rather than think about what tomorrow might bring. This is why it is easy to have good intentions but not follow through
- We tend to want things now rather than later



Imagine you were offered:

- **\$100 today** or
- **\$105 tomorrow**

Most people would take \$100 today

In contrast, if you were offered:

- **\$100 in 3 months** or
- **\$105 in 3 months and 1 day**

Most people take \$105 and wait extra day

*Strotz, R. (1955 -1956) "Myopia and inconsistency in dynamic utility maximisation" Review of Economic Studies 23, no 3, 165 – 180

*Thaler, Richard T., (1991). 'Some Empirical Evidence on Dynamic Inconsistency' in Richard H. Thaler, ed.. Quasi Rational Economics. New York: Russell Sage Foundation, 127-33.

Optimism Bias

- We have a tendency to overestimate our likelihood of experiencing good events in our lives, and underestimate the likelihood of suffering from negative events in our lives

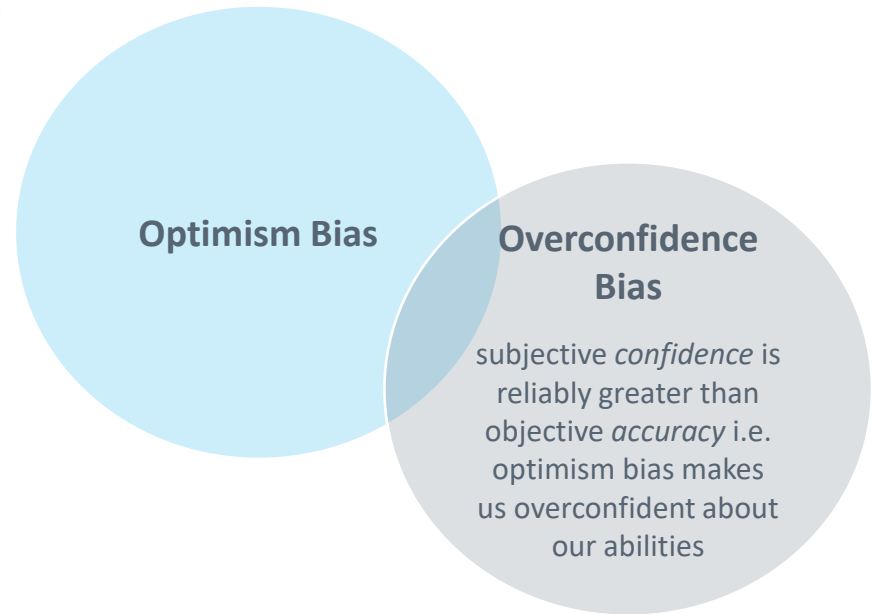
Our optimism is driven by two mechanisms, in turn driving overconfidence

Confirmation Bias

Essentially, we learn more from positive information supporting our optimism than from contradictory information; optimistic people's attention is also drawn to **positive information** and they think it applies more to them

Bias in Imagining the Future

if we are optimistic, we tend to engage with more positive thoughts of the future than negative – dreaming! **Dreaming** of winning the lottery can sustain us even when we know we are unlikely to win.



Predicting the probability of future events

Research by neuroscientist Tali Sharot and her colleagues at UCL asked people their likelihood of experiencing a number of adverse life events such as divorce, death of a family member, cancer

Initially, participants estimate their chance as

10%



Then, they are told the actually likelihood is

30%

So what do participants adjust their answer to?

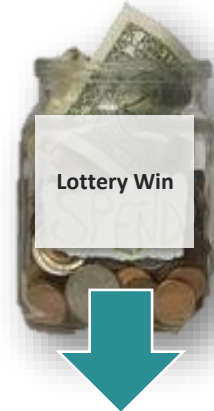
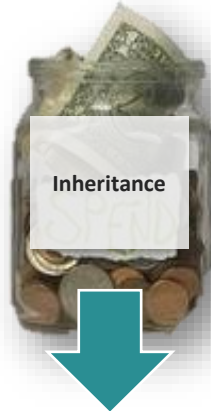
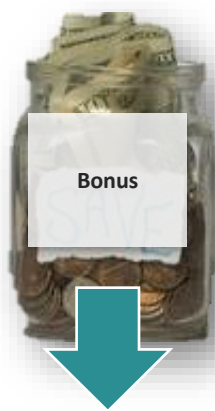
Sharot, T., Korn, C.W., Dolan, R.J., "How unrealistic optimism is maintained in the face of reality" Nature Neuroscience, October 2011c

Mental Accounting

- People carry around different running money tabs in their heads. People may have, for example, an 'entertainment account'
- We compartmentalise income and spend from different mental accounts

Mental accounting; means we tend to spend differently depending on where the money has come from; this is not always a good thing!

We have different 'pots' of money, a compartmentalisation method that can be good for controlling spend



But, people often treat, use and mentally account money in different ways depending on its origin, for example, if it is '**earned money**' or '**found money**' or '**gifted money**'

Budgeting for adversity

In your budget, how much have you allocated money for:

- Car insurance
- Home and contents insurance
- Cash reserve or emergency fund

But what if you got injured or became ill and can't work?

What if you pass away, will your family be ok?

It won't happen to me...

Quick Stats

- **1,146** people were killed in road related deaths, over 3 people a day
- **36%** of fatal crashes occur in major cities
- Single vehicle accidents made up **45%** of fatal crashes in 2018

Disclaimer: Data on this website was sourced in October 2019 from the latest available data from bitre.gov.au. Auto & General Services Pty Ltd does not guarantee the accuracy or completeness of the data and accepts no liability whatsoever arising from or connected in any way to the use or reliance upon this data.

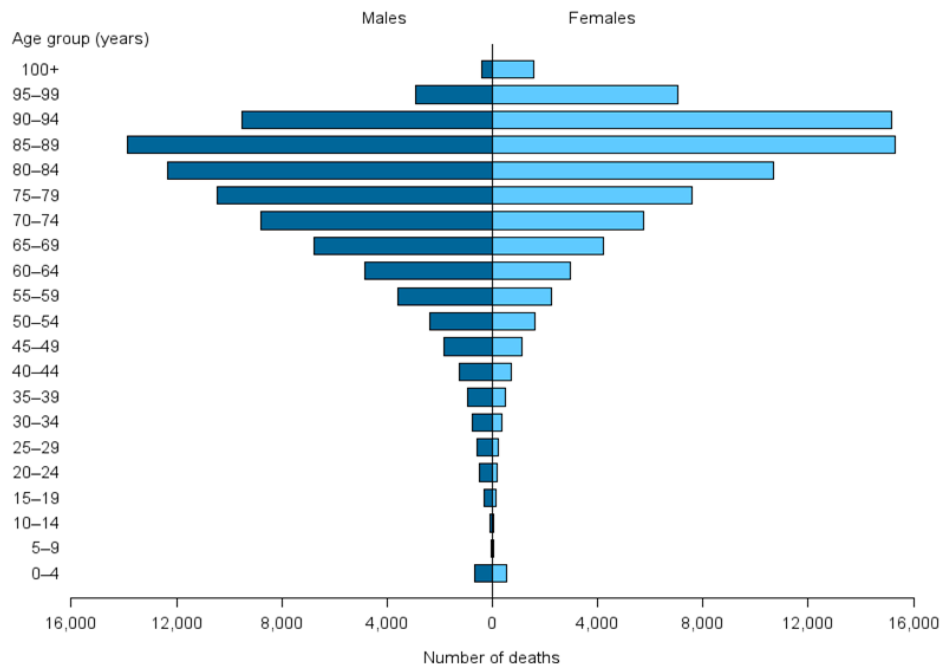
145,000 new cancer cases are estimated to be diagnosed in 2020

Source: Australian Institute of Health and Welfare (AIHW)

Diabetes contributed to 11% of Australian deaths in 2018 (16,700 deaths) (underlying or associated cause)

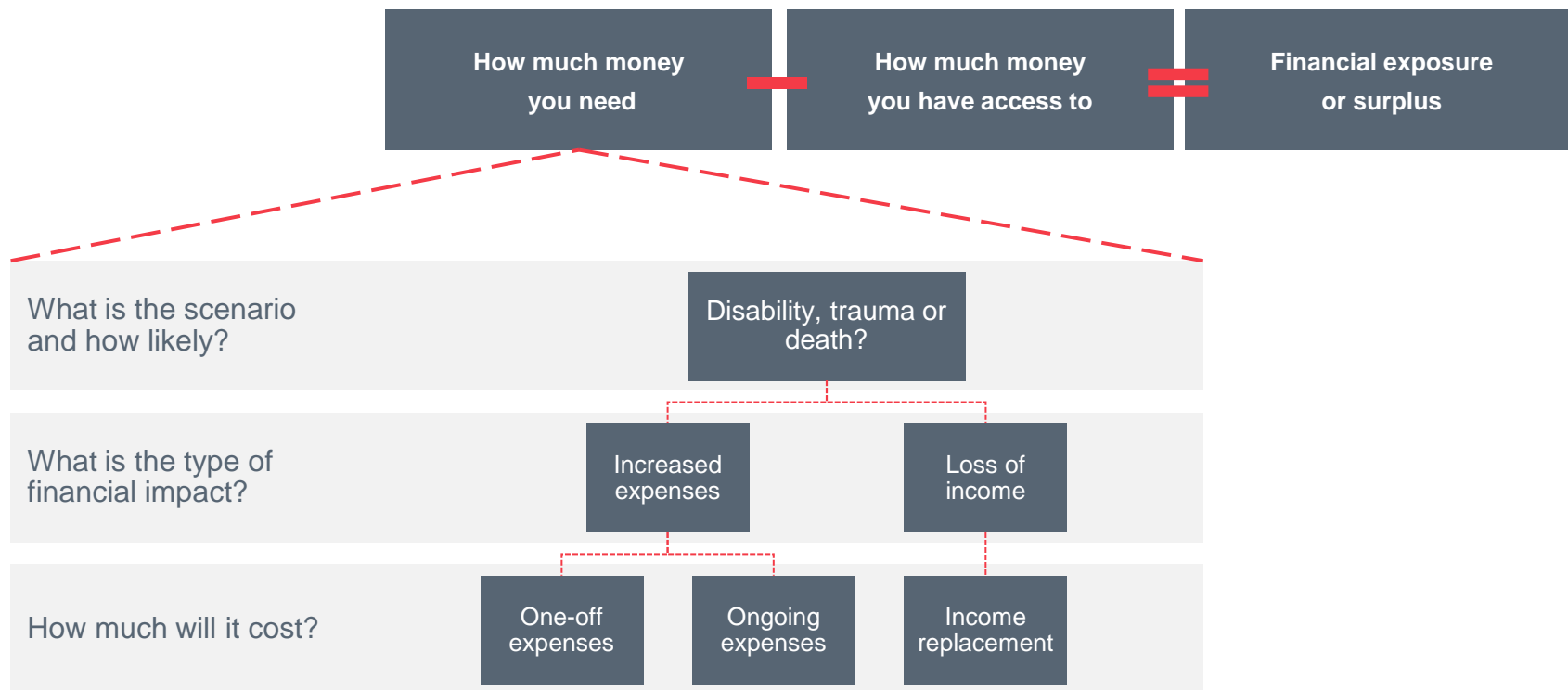
There were more than 1.2 million hospitalisations for CVD in 2017-18 (11% of all hospitalisations)

Figure 2.1: Deaths by sex and age group, 2017



Source: AIHW National Mortality Database ([Table S2.1](#)).

How to work out your financial exposure



Different types of insurance...



Budgeting for the future

In your budget, how much have you allocated money for:

- Future retirement – when you can no longer work or don't want to work
- Planned expenses – whether for a holiday, buying new car or new home

Case study – why starting early has its advantages

- Bronwyn starts her retirement planning at the age of 30.
- Based on her budget, she worked out she can save **\$200 per month** into her retirement savings plan.
- Assume she does this until age 65 which means she would put in a total of **\$84,000** of her own money.
- If the rate of return on her investments is 7% per annum (compounded monthly), she will accumulate a total of **\$360,211** at age 65.
- Brenda, on the other hand delays her retirement planning until age 55.
- She budgets to save **\$1,000 per month** into her retirement savings plan.
- Assume she does this until age 65 which means she would put in a total of **\$120,000** of her own money.
- If the rate of return on her investments is 7% per annum (compounded monthly), she will accumulate a total of **\$173,085** at age 65.

Even though Brenda is investing a higher monthly amount and a higher total amount, her accumulated savings at age 65 is less than half of Bronwyn's. The key difference here is the power of compounding. By starting earlier, Bronwyn has allowed her money to be invested for longer and therefore working much harder for her. It therefore pays to start earlier – quite literally.

Some final tips

- After you have set up your budget you need to track your expenses in each category. You should have an estimate of what you have in each category at all times. This will help to prevent you from overspending.
- If you sit down for a few minutes each day you will find that you spend less time then you would if you put it all off until the end of the month. Tracking your expenses each day will allow you to know when to stop spending.
- After you have followed your budget for a month, you may find that you can cut back in a few areas, while you need more money in others. You should keep tweaking your budget until it works for you.
- You should evaluate your budget every month going forward. This will help you adjust your spending as your life changes and your spending increases in different areas.

About Tribel...

- Tribel was previously the financial advice business owned by Aon which has since been spun out via a management buyout.
- We are a national financial advice firm with offices in Sydney, Brisbane, Melbourne, Perth, Adelaide, Newcastle, Bathurst and Mackay.
- Tribel has a team of 40, with over 15,000 clients and funds under advice of approximately \$1 billion+.
- We provide cashflow management, debt management, risk management, wealth creation, retirement planning and estate planning
- We service a broad range of clients from individuals, families, SME owners and Corporates.

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Thank you

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