



Be better WITH MONEY

Your finances just got a whole
lot more straightforward

We're not easily confused here at *WH* (except by the appeal of labiaplasty) but when these two pieces of research landed on our desks we were scratching our heads: 1) Women are "better" with money than men, according to new research by lovemoney.com. We keep better track of our spending and are less likely to build up debts through loans and credit cards. And 2)...

By Emma Anderson / Photography by Kent Matthews

HAIR & MAKE-UP: CAROLYN TRAVAGLIA; STYLING: NATASHA KAKOURATOS; MODEL WEARS LEVY'S VEST; STAPLE SKIRT & TANK; DOTTI SHOES; DIVYA BANGLES; PAUL FRANK GLASSES;



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*Ears to
your wealth*

Australian women retire, on average, with \$63K in super, compared to \$136K for men, making us way more likely to face financial hardship in the future. What the?

Of course, a huge reason for this is that we're far more likely to interrupt our working lives to have children (for ways to compensate financially for this, read on), but there's more to it than that. The Australian Financial Literacy Foundation has found that even though women are highly confident in their ability to save, budget and deal with debt, many of us hold attitudes and beliefs that can get in the way of better money management. For example, 52 per cent of women find dealing with finances "overwhelming" and 23 per cent think that nothing we do will make a big difference to our financial situation.

"I think the main problem we women have is simply believing in ourselves – we tend to put ourselves down for no good reason, even though we have the skills" says Justine Davies, *WH* money expert, financial advisor and author of *How to Afford a Baby* (\$27.95, ABC Books). Clearly it's time to develop some financial faith.

Firstly, what are you aiming for, money wise? If you're thinking "vast wads of cash", you're actually on the wrong track. Tom Rath and Jim Harter, the authors of *Wellbeing: The Five Essential Elements* (\$35.95, Gallup Press) did extensive research in 150 countries and found that wealth accumulation on its own isn't what makes us content. In fact, a large income doesn't have even half the impact on your wellbeing that "financial security" does, they found.

"People with thriving financial wellbeing are satisfied with their overall standard of living, don't worry about money in their everyday lives, and have confidence in their financial future," write the authors. "Financial security is possible for people across the range of income levels." Excellent news. Unless you're feeding P. Diddy tastes on a nurse's salary, that is. ▶

SAVING WELL

The best way to prevent worrying about money? Having savings to fall back on. Yet a recent ING report found almost 22 per cent of Aussies have none. Bad news, says Davies. "Everyone needs a nest egg of money to take the stress out of the unexpected." And there's no better time to start than now. Here's how:

SET A (REALISTIC) GOAL

A recent study revealed people who aimed to save a lot (and set tough goals) actually saved less over time than people who aimed to save smaller, more manageable amounts. Stick to this guide from Davies: "A good rule of thumb is to save 10 per cent of whatever you earn. As soon as you get paid put it in a separate account. From there you can decide whether to invest it, pay it off your mortgage or reduce any other debt."

AUTOMATIC FOR THE PEOPLE

Don't rely on yourself to squirrel away money weekly. You're far too fallible (no offence). Rath and Harter found that people who established default systems like direct debits successfully reduced daily worries about money. Why? It's an easy way to feel more organised. And as Sue Jackson, founder of msmoney.com.au, adds "The first thing we often do when feeling out of control with our money is spend it." Doh.

FIGURE OUT YOUR PRIORITIES

Not convinced you earn enough to save? "There are only two ways to improve your situation: earn more, or spend less," says Davies. "First, work out where your money goes. Get three months' worth of bank statements and go through them, purchase by purchase. If they're already cut to the bare minimum, think about ways to increase your earnings. Could you put your hand up for a promotion, or negotiate a payrise with your employer?"



Your next FINANCIAL MOVE

WH MONEY EXPERT JUSTINE DAVIES ON HOW TO SAVE FOR ANYTHING

START HERE

Do you regularly save at least 10% of your salary?

NO

You need a budget

The best way to ensure you spend less than you earn is to have a written budget and track your expenses – that way you can nip any sneaky spending habits in the bud. Go to understanding.money.gov.au and fill out the online budget calculator. From bank fees to insurance costs, gifts and food – you might get a shock at how much some things are costing you.

Start a repayment plan
On a \$10,000 credit card debt at 18% interest, you could end up paying more than \$30,000 in interest if you only make minimum repayments. Ouch. Set yourself a realistic timeframe and put at least 10% of your salary (more, if you can afford it!) towards paying it off.

YES

Do you pay off your credit card in full every month?

NO

Take more risks

The longer your savings timeline, the more risk you can take with your money. For savings goals of 10 years plus, get advice on growth funds containing shares and property. Take an interest in where your super is invested – it could make tens of thousands of dollars difference to your nest egg. See a financial planner and visit fido.gov.au for great information.

Ah, go on – live a little!

YES

Do you want to build a tidy nest egg, treat yourself to something outrageous or be able to retire early?

NO

Plan carefully

Calculate how much the time off will cost you and make sure your savings are on track to cover it. That may mean boosting the amount you save from 10% to somewhere around 20%. If it's for a baby, see p80 for more tips.

YES

Are you planning on taking extended time off work, for a baby, travel, study or just for the heck of it?

Do you have an emergency fund of 3-6 months' income?

NO

Check out the government benefits

To avoid paying mortgage insurance you'll need a minimum deposit of 20% of the house price. Not achievable? Aim for at least 10%. Look into the First Home Saver Account at homesaver.treasury.gov.au. The government will contribute up to 17% on top of what you save. Bonus!

Are you thinking of buying a home down the track?

YES

NO

SPENDING WELL

You've heard it before: bring your lunch, ditch the daily coffees... And sure, spending less helps. But we like to think of it as spending smarter. For example, Rath and Harter's research found that people who didn't just spend on themselves, and who bought experiences over material possessions, had thriving financial wellbeing. So no denying yourself a holiday. Some other good spending moves:

THE TRADE-OFFS

When you face a financial decision, consider what it means for you, says Dr Sheena Iyengar, a professor at Columbia Business School in the US. "The trade-offs can't just be numbers – you have to understand them emotionally too." So consider what buying that \$2000 lounge means to your life: will you have to give up the hairdresser and limit dining out? Be as clear as possible to help make more rational decisions.

DON'T FEAR DEBT

Not all debt is bad. "Good debt" increases your wealth and 'bad debt' doesn't," says Davies. "If it enhances learning and earns qualifications – such as HECS – or buys an asset which increases in value – like a mortgage – it's generally 'good' debt. If it's a debt for consumer goods (say, a car loan) it's generally 'bad' debt." Pay off the "bad" stuff first – as Davies points out, it usually attracts a higher interest rate.

RESIST BEING STEREOTYPED

Women are often accused of "squandering" more money than men, which is unfair, says Jackson. "In fact, we make between 75

and 85 per cent of all household purchases," she says. "Also, while this is a generalisation, it costs more to be a woman," she says. "We need more products – make-up, haircare, clothes, etc – than most men. There needs to be an understanding of this in a couple to avoid stress, accusations and feelings of guilt." Too right. ▶

"THE FIRST THING WE OFTEN DO WHEN FEELING OUT OF CONTROL WITH MONEY IS SPEND IT"

MODEL WEARS MINK PINK TOP.

INVESTING WELL

Sure, investing can be risky, but it doesn't have to be. In fact, "the biggest risk is not to invest, as over the long term, inflation will eat away at future savings," says Paul Do, financial expert and author of *I Buy Houses: The Property Investor's Handbook* (\$34.95, ibhb.com.au). Here, his strategy for making the most of the current financial market...

LOOK BACK IN TIME

The housing and share markets move in cycles, says Do. "When one's booming, look at the other – there may be more opportunity there." Right now, the housing market is high (you may have noticed). "The best way to look at house price evaluation is to look at the ratio of median house price to average income," says Do. "In the '60s it [median house price] was four times the average income; in the '80s that increased to six times; now it's about eight times." Ouch. "The share-price index, however, is about two-thirds of what it was two years ago," says Do. "So when you compare to historical levels, shares are a better option to invest in."

THINK LONG TERM

Of course, you can't decorate shares, or bring up a family in them. Houses have a strong emotional appeal, so if you're looking to buy, it makes financial sense to get one you'll have for a while. "It's unlikely we'll see a crash in the market because of relative demand and supply," says Do. "But you might get a situation where prices plateau or go sideways for the next few years."

ENJOY RENTING

If you don't own a house – and can't afford to right now – it can feel like you're wasting time and money. But

with a change of perspective, things look a bit rosier. "The fear of missing out and prices continually rising is unfounded when you look at the long term and when you compare to other countries," says Do. "Given the real estate market is overpriced and the share market is underpriced compared to historical levels, it wouldn't be a bad idea to rent for the next five to 10 years and invest excess money in the stock market." Work out the difference in rent you pay each week and the interest you'd pay on a mortgage, then invest that amount in the stock market. In 10 years' time, the value of those shares might be greater than a small property.

STAY SENSIBLE

If you're looking at buying into the stock market for the first time, start small, then build up, suggests Do. And don't just buy one lot of stock. "Invest in an index fund that covers the whole market. This smooths out volatility in stock prices," he adds. And whether you're buying shares, property or redoing your kitchen, stick to something you can afford. "If a major purchase such as a home or a car creates a burden of debt that makes you uncomfortable, it's likely to do more damage than good for your overall wellbeing," say Rath and Harter. So keep it sensible, people.



Brain drain

Our grey matter can get us in the red... here, three traps to avoid

1 Credit card anaesthesia
Economist Richard Thaler describes credit cards as "decoupling devices" – they separate the joy of your purchase from the (greater) pain of the repayment. Our recommendation: feel the pain by paying in cash. You'll probably spend a lot less.

2 Overspending because we're sad
A study in *Psychological Science* found that people who'd watched a sad video were prepared to spend nearly *four times* more money on a bottle of water than a control group. The researchers found that the temporary sadness triggered more "self focus", leading to overspending. Key lesson: don't shop after a bad day.

3 Being fooled by a "bargain"
Take this example from Barry Schwartz, author of *The Paradox of Choice**: a shop that sold a bread maker for \$279 added a deluxe version for \$429. They didn't shift many deluxe ones, but sales of the cheaper one doubled. So don't compare a product to a more expensive version of itself to decide if it's worth it – compare it to your life without the product to figure out if you actually need it. ▶

63 PERCENTAGE OF WOMEN WHO THINK THEY HAVE THE ABILITY TO INVEST, COMPARED TO 75% OF MEN

SOURCE: THE AUSTRALIAN FINANCIAL LITERACY FOUNDATION

So... YOU'RE HAVING A BABY

Bringing up children can be a serious wake-up call, financially. For one thing, the little tykes are expected to cost just over \$384K to rear, according to Federal Government estimates. (Other estimates put the figure closer to \$1 million for two children.) "It's essential that couples have a financial and emotional strategy for when kids come along," says Jackson. Here, a few pointers:

START SAVING – NOW

"Once you and your partner have decided to try for a baby, start saving around 20 per cent of your combined income to put towards maternity leave," says Davies. "Keep saving until you stop working."

PLAN YOUR SUPER

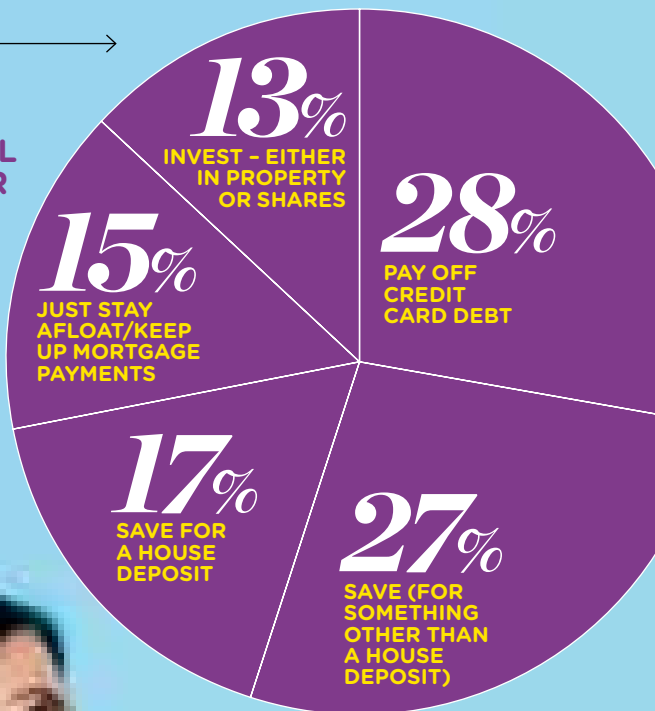
Stopping work means your retirement savings lose out too. "Figure out a plan for your super," says Jackson. "You could be more aggressive to make up the shortfall – either in choice of fund or extra contributions – talk to your partner about super splitting." Look into the superannuation spouse contribution tax offset: if you're earning less than \$10,800, your partner can pay up to \$3000 into your super fund, giving him a tax offset of 18 per cent. Well worth it.

BONE UP ON THE PPL

The Paid Parental Leave Scheme (PPL) provides eligible parents with \$570 a week for up to 18 weeks. But you need to meet certain scheme requirements (go to familyassist.gov.au for more info). And, Davies warns, this is fully funded by the government, so don't let your employer tell you otherwise!

FOR MORE ON PPL, A LOWDOWN ON INSURANCE, YOUR GUIDE TO HAGGLING LIKE A MAN (SERIOUSLY!) AND MORE FINANCIAL STUFF, LOG ON TO womenshealthmag.com.au AND TYPE IN "MONEY"

WHAT'S YOUR FINANCIAL GOAL FOR 2011?*



WANT A BABY? START SAVING 20% OF YOUR COMBINED INCOME, PRONTO

*BASED ON A WH/ONLINE POLL OF 478 VOTES. MODEL: WEARS MINK PINK TOP; SUPRE SHORTS; HANKIKIN JACKET; BELLE BLOUX BAGS.