

Media article

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Three-step approach to getting your finances sorted

The Retirement Commission is encouraging New Zealanders to follow a three-step approach to getting their finances sorted:

1. Set your financial goals and write them down.
2. Do a realistic budget you want to stick to.
3. Pay off your mortgage or other debts as fast as you can, and understand what rising interest rates mean for you.

"Sometimes staying on top of your finances can simply be a case of understanding the basics. Getting these right will help you stay in control and give you the confidence to make good decisions now and for the future," says Retirement Commissioner Diana Crossan.

1. Write down your financial goals

One of the keys to getting sorted on money matters is to make financial goals and write them down. Research shows that people who write down their goals are much more likely to achieve them.

There are different types of goals - paying off your credit card or saving for a holiday (short term), saving for a house deposit (medium term) or saving for retirement (long term).

If you don't have any savings consider setting up an emergency savings fund. This will give you the security of knowing that when the unexpected happens, you have a financial cushion. How much you save in your emergency fund depends on your circumstances. The Retirement Commission recommends saving at least 8 weeks income or about \$3000 - \$5000.

If you have long term goals in mind, Retirement Commissioner Diana Crossan says it's never too soon to start saving for retirement. "Even if your retirement is a long way off, the financial decisions you make today can have a major effect on your lifestyle in the future."

"On the flipside it's also never too late to start saving. However, the longer you leave it, the bigger the dent the necessary savings will make in your income."

When planning for your retirement consider how much you expect to have by 65. You can use Sorted's Quick retirement calculator (at www.sorted.org.nz) to help you work out how much you might need for retirement.

And remember, there are a number of options for saving for your retirement, including:

- Private savings including income from private pensions, workplace pensions, investments, annuities and cash deposits.
- Keep working in retirement - you may be able to work part time, or continue your own business.
- Inheritance - inheritance cannot necessarily be relied upon as circumstances can change quickly so be conservative in your estimates.

2. Do a realistic budget

A budget is a tool to help achieve your goals. Budgeting allows you to control your money by setting a plan to achieve your financial goals. Whether you're saving for a holiday, a house deposit, paying off your credit card, mortgage, or just focusing on getting by with what you've got, a budget can help.

Sticking to your budget is a challenge almost all budgeters face. The key to success is being disciplined. It might take a few months to settle into your budget, and over time it is likely to require adjustments.

You can do the Budget calculator at www.sorted.org.nz which makes it easy, and then save it in your own confidential plan, so you can track your progress.

And remember with compound interest, small amounts add up, whether you're paying interest on money you've borrowed or you're earning interest on your savings. To work out how quickly you can achieve your goals use the Goal machine calculator at www.sorted.org.nz.

3. Pay off your Mortgage

With sixty-eight percent of New Zealanders owning their own home, New Zealand has one of the highest rates of home ownership in the developed world. Financial experts are predicting interest rates will increase over the next few months. So depending on whether you have a fixed or floating mortgage, rising interest rates make your mortgage and therefore home ownership more expensive.

To work out how rising interest rates might affect the size of your debt and how quickly you can pay it off, use the Loan repayment calculator at the Retirement Commission's Sorted website www.sorted.org.nz.

If you're considering buying your first home or an investment property soon, Sorted's Get out of debt calculator will help you work out how much you can afford and how much interest you will pay on your mortgage.

For more information visit www.sorted.org.nz. Sorted is packed with helpful information and interactive tools and calculators to help you manage your finances and get ahead.

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