

Personal financial management Saving, investing and Super

Rebekah Brown and Christina Marth

rebekahb@unimelb.edu.au,
christina.marth@unimelb.edu.au



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Intended learning outcomes – personal financial management



1. Interpret a cash-flow budget in order to monitor personal finances and diagnose behaviours that undermine financial security.
2. Explain and apply the principle of compounding
3. Describe financial strategies to assess and manage debt
- 4. Demonstrate an understanding of saving and investing strategies on a limited budget, as well as the benefits of setting up one low-cost superannuation fund, in order to increase financial security.**

The money that will 'grow' for you – compound interest revisited

'Compound interest is the eighth wonder of the world. **He who understands it, earns it**; he who doesn't, pays it.'

Albert Einstein



Saving account

- online saving accounts have interest rates of ~5% at the moment
- Are typically linked to your everyday account & money can be moved in and out easily (without fees)
- Try to set up your finances so that you have at least some money not being spent on daily expenses (by earning more or spending less)
 - Remember your 'smile' money for longer-term goals like overseas travel
- This money should be earning interest for you!



Example 1

| month | start amount | with 5% (compound) interest |
|-------|--------------|-----------------------------------|
| 1 | \$ 150.00 | \$ 157.50 |
| 2 | \$ 157.50 | \$ 165.38 |
| 3 | \$ 165.38 | \$ 173.64 |
| 4 | \$ 173.64 | \$ 182.33 |
| 5 | \$ 182.33 | \$ 191.44 |
| 6 | \$ 191.44 | \$ 201.01 |
| 7 | \$ 201.01 | \$ 211.07 |
| 8 | \$ 211.07 | \$ 221.62 |
| 9 | \$ 221.62 | \$ 232.70 |
| 10 | \$ 232.70 | \$ 244.33 |
| 11 | \$ 244.33 | \$ 256.55 |
| 12 | \$ 256.55 | \$ 269.38 |

$\$269.38 - \$150 = \$119.38$ interest earned

Example 2

| month | start amount | with 5% (compound) interest |
|-------|--------------|-----------------------------------|
| 1 | \$ 150.00 | \$ 157.50 |
| 2 | \$ 307.50 | \$ 322.88 |
| 3 | \$ 472.88 | \$ 496.52 |
| 4 | \$ 646.52 | \$ 678.84 |
| 5 | \$ 828.84 | \$ 870.29 |
| 6 | \$ 1,020.29 | \$ 1,071.30 |
| 7 | \$ 1,221.30 | \$ 1,282.37 |
| 8 | \$ 1,432.37 | \$ 1,503.98 |
| 9 | \$ 1,653.98 | \$ 1,736.68 |
| 10 | \$ 1,886.68 | \$ 1,981.02 |
| 11 | \$ 2,131.02 | \$ 2,237.57 |
| 12 | \$ 2,387.57 | \$ 2,506.95 |

$\$150 * 12 = \$1,800$

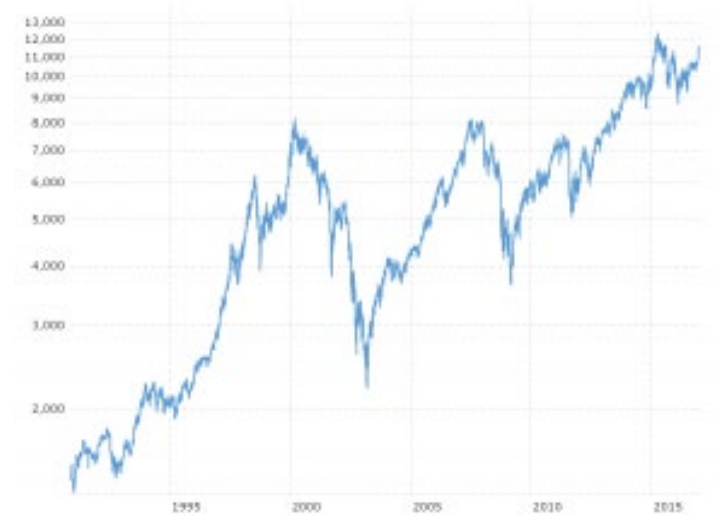
$\$2,506.95 - \$1,800 = \$706.95$ interest earned



Investing

The average stock market return has been about 10% per year for nearly the last century

- You can start investing as little as \$5
- BUT: shares should be a longer term investment (think at least 5-10 years)
- The trick: buy low-cost index funds and ‘forget’ about them for a few years



Example

| YEAR | investment | starting amount | with 10% interest |
|------|------------|-----------------|-------------------|
| 1 | \$1,000 | \$1,000 | \$ 1,100.00 |
| 2 | \$1,000 | \$ 2,100.00 | \$ 2,310.00 |
| 3 | \$1,000 | \$ 3,310.00 | \$ 3,641.00 |
| 4 | \$1,000 | \$ 4,641.00 | \$ 5,105.10 |
| 5 | \$1,000 | \$ 6,105.10 | \$ 6,715.61 |
| 6 | \$1,000 | \$ 7,715.61 | \$ 8,487.17 |
| 7 | \$1,000 | \$ 9,487.17 | \$ 10,435.89 |
| 8 | \$1,000 | \$ 11,435.89 | \$ 12,579.48 |
| 9 | \$1,000 | \$ 13,579.48 | \$ 14,937.42 |
| 10 | \$1,000 | \$ 15,937.42 | \$ 17,531.17 |

Total investment = \$10,000

Total earned = \$ 7,531.17

| YEAR | investment | starting amount | with 10% interest |
|------|------------|-----------------|-------------------|
| 11 | \$ - | \$ 17,531.17 | \$ 19,284.28 |
| 12 | \$ - | \$ 19,284.28 | \$ 21,212.71 |
| 13 | \$ - | \$ 21,212.71 | \$ 23,333.98 |
| 14 | \$ - | \$ 23,333.98 | \$ 25,667.38 |
| 15 | \$ - | \$ 25,667.38 | \$ 28,234.12 |
| 16 | \$ - | \$ 28,234.12 | \$ 31,057.53 |
| 17 | \$ - | \$ 31,057.53 | \$ 34,163.29 |
| 18 | \$ - | \$ 34,163.29 | \$ 37,579.61 |
| 19 | \$ - | \$ 37,579.61 | \$ 41,337.57 |
| 20 | \$ - | \$ 41,337.57 | \$ 45,471.33 |
| 21 | \$ - | \$ 45,471.33 | \$ 50,018.47 |
| 22 | \$ - | \$ 50,018.47 | \$ 55,020.31 |
| 23 | \$ - | \$ 55,020.31 | \$ 60,522.34 |
| 24 | \$ - | \$ 60,522.34 | \$ 66,574.58 |
| 25 | \$ - | \$ 66,574.58 | \$ 73,232.04 |
| 26 | \$ - | \$ 73,232.04 | \$ 80,555.24 |
| 27 | \$ - | \$ 80,555.24 | \$ 88,610.76 |
| 28 | \$ - | \$ 88,610.76 | \$ 97,471.84 |
| 29 | \$ - | \$ 97,471.84 | \$ 107,219.02 |
| 30 | \$ - | \$ 107,219.02 | \$ 117,940.93 |

Total investment = \$ 10,000

Total earned = \$ 107,940.93



Super

- The good news is that if you earn money in Australia, 10.5% of your salary (11% from July 2023) is already being invested for you through your super



Some things to consider



<https://www.ato.gov.au/individuals/super/growing-your-super/keeping-track-of-your-super/>

Super

- Stick with one super fund (combine super funds if you have multiple)
 - Make sure you haven't lost super funds along the way
- Choose an ultra-low cost super fund (remember compound interest!)
<https://www.ato.gov.au/Calculators-and-tools/YourSuper-comparison-tool/>
- Remember: the super you earn today will work much harder for you than the super you earn in 30 years



Super as a temporary visa holder

- If earned super in Australia while on a temporary visa, you can apply to have this super paid to you as a departing Australia superannuation payment (DASP) after you leave.
- If it has been six months or more since you left Australia, your visa has ceased to be in effect. If you have not claimed DASP, your super fund will transfer your super money to the ATO as unclaimed super money.
- Check here for details: <https://www.ato.gov.au/individuals/super/in-detail/temporary-residents-and-super/super-information-for-temporary-residents-departing-australia/>



Take home messages



You don't need a lot of money to save/ invest some of it



Long-term investments are likely to give a great return on your money



Compound interest is working harder the longer it is left alone



With your super, you already have an investment portfolio. Make sure you check the fees of your super account



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**REMEMBER: Smart financial decisions can be made by anyone.
You do not need to be a financial expert for any of this!**

Do you want to learn more?

