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6 SIMPLE METRICS TO GAUGE YOUR FINANCIAL HEALTH

How do you know if your finances are on track? Does it feel like you're treading water each month, or do you have plenty left over after the bills are paid to spend as you wish?

Financial health is an important part of our lives. When we take care of our financial health we can better manage financial stress and achieve our financial goals.

Fortunately, there are some measures you can use that might give you a clearer idea of how your finances are faring — and how far you have to go to reach your goals. We've compiled just a few of these below.

Your ability to meet every day commitments

One of the key components of financial health is your ability to meet everyday commitments like paying your bills and making loan repayments. To do so you will need to understand your spending in other words know where your money is going. You should be able to track your spending by looking at your bank statements and via your bank's internet banking. Your financial planner could also help you to build a budget planner to assist you with better understanding of where you spend your money. Once you know what you are spending your money on, you can focus on saving.

Your net worth

This is one of the more straightforward ways to get a read on your financial health. You can calculate your net worth by adding the value of all the assets you own (such as savings, investments and property) and then subtracting any debts (such as your mortgage, credit card debt and student loans).

If you have a mortgage, don't be discouraged if your net worth is negative. Mortgage debt is widely considered to be 'good debt' thanks to its potential to generate future value, either through capital appreciation or rental income.

While your net worth might fluctuate every now and then as a result of big-ticket purchases or fluctuations in the share market, it should ideally be trending up over time. Knowing this number might give you an idea of how much debt you can afford to take on, what you can afford to spend, and when you might be able to retire.

Your debt-to-income ratio

Another vital sign worth monitoring is your debt-to-income (DTI) ratio, which essentially spells out how much available income is going towards servicing your debts. You can calculate yours by dividing your total monthly debt payments by your gross monthly income. The higher it is, the greater your debt burden.

You'll likely hear this measure come up in talks with mortgage lenders. As part of their efforts to gauge borrowers' creditworthiness, banks and lenders will look at DTI ratios (among several other factors). If they decide that yours is too high, it could signal risk and ultimately affect your ability to get your application over the line.

Your current rate of savings

Keeping tabs on how much you save each month as a percentage of how much money you earn can help you understand whether you're spending money responsibly or living beyond your means.

A common rule of thumb suggests saving 25% of your income, but for many people this might not be helpful. For example, high income earners and those who have their hearts set on retiring early might be in a position to save much more. Meanwhile, those whose budgets are already stretched thin might have to settle for a more modest target.

If you're struggling to meet your savings goals, there are a few things you can do that might bring them within reach. Think about setting up automatic transfers to your savings account, and scan your bank statements for insights into what you're spending money on and what you can afford to cut out.

Resilience to cope and recover from unexpected financial events.

How many months' worth of emergency funds does you have? Car breaking down, job loss and medical scares can occur at any time, and it pays to have money set aside to help cushion the blow if misfortune were to strike. A good rule of thumb is to have enough in your emergency fund to cover three to six months' worth of living expenses, but you might aim to have more — just for extra peace of mind.

As an aside, it's often a good idea to keep your emergency fund in a separate account to your savings, ideally one that also has a high interest rate. This can help reinforce the idea that it's only for emergencies and discourage you from dipping into it unless you really need to.

Your superannuation balance

When it comes to saving for retirement, super is likely to be your most obvious measure of financial health. But this number alone won't mean much unless you take into account your age and what type of lifestyle you want in retirement. If you're still at the start of your career, a lower super balance is to be expected, and any dips due to market performance may not be as concerning compared to someone older whose account has less time to recover.

If you're well into your career and feel that your super balance isn't where it should be, there are some things you can do to get it looking healthier. For example, you might enter a salary sacrificing arrangement with your employer, or make extra contributions from your take-home pay (which you might be able to claim as a tax deduction by submitting a Notice of Intent form to your super fund).

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START THE NEW FINANCIAL YEAR STRONG WITH THIS EOFY CHECKLIST

As the 2023-24 financial year winds down, many Australians are finding they have plenty of financial upkeep to do.

Below, we run through some upcoming changes you should be aware of, as well as a few tips for staying on top of your finances at this time of year.

The super contribution caps are increasing

The super contribution caps are increasing on 1 July this year, meaning that Australians will have more scope to boost their retirement savings by making extra contributions.

The annual cap for concessional contributions will go up from $27,500 to $30,000, while the cap for making non-concessional contributions will increase from $110,000 to $120,000.

Concessional contributions include the compulsory super payments made by employers, contributions made as part of salary sacrifice arrangements, and voluntary contributions that are claimed as tax deductions. They are generally taxed at 15%, which is lower than the marginal tax rates that apply on most incomes.

If you're thinking about putting some of your take-home pay or savings into your super and claiming this as a tax deduction, just remember to submit a Notice of Intent form to your super fund. This should be done before you complete your tax return, before 30 June of the following financial year, or before you move money out of the super fund (whichever comes first).

And if you haven't maxed out your concessional contribution caps over the previous five years, you might be able to carry them forward to increase your cap this year. To be eligible to do this, your total super balance will need to be less than $500,000 at 30 June of the previous financial year.[1]

Other super news

Also on 1 July, the minimum amount of super that employers have to pay their workers (known as the Superannuation Guarantee rate) will increase from 11% of employees' ordinary time earnings to 11.5%. These increases are scheduled to continue until the SG rate reaches 12% on 1 July 2025.

As for the general transfer balance cap, which is the total amount of super you can transfer to a tax-free retirement phase account, this will remain unchanged at $1.9 million. This figure is periodically indexed in line with inflation, and the December quarter didn't return a CPI high enough to justify raising it by the usual $100,000 increment.

Keep in mind that your personal transfer balance cap may be less than the general transfer balance cap. You can find out your personal cap through the ATO portal within myGov.

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The stage three income tax cuts to take effect

The much heralded stage three tax cuts will take effect from 1 July, meaning you might find yourself with some spare cash in your pocket once they kick in. For many Australians, the extra take-home pay will go straight to their savings account or mortgage. But if your situation allows it, it might be worth using that extra cash to top up your super.

Getting your documents ready for tax season

Disorganisation can be a costly trait come tax time. Whether you lodge your taxes yourself or with the help of an accountant, try to round up as many relevant documents as you can so you can maximise the deductions available to you. Some of the documents you'll need when preparing your tax return include:

- Income statements
- Information about any rental income, interest and dividends
- Mortgage statements
- Receipts for work-related expenses
- Documents relating to the buying and selling of property or shares A
- copy of last year's tax return

When this year's tax return is done and dusted, think about how you might organise the above documents so you're not left scrambling next year. Some people use a binder, while others play to their strengths by going digital. That might mean keeping track of things using a spreadsheet or scanning and uploading documents with your phone. The Government has an app called MyDeductions that might assist with this process.

Review your insurance cover

The new financial year is also a good time to look over any insurance policies you have in place to make sure they're still suitable. This goes doubly so if your circumstances have changed over the last year. For example, if you've had a child, your list of beneficiaries might be in need of an update. And if you've recently paid off your mortgage, seen your income change, or your children are now financially independent and have moved out of the family home, you might decide to change the level of cover you have.

Think about making a spouse super contribution

If your spouse has an annual income of less than $40,000 and their super balance is falling behind, you might be able to top up their account and claim a tax offset on the amount contributed. Under current rules, a tax offset of up to 18% (a maximum of $540) can be claimed on the first $3,000 you contribute to their super, so long as you both meet the eligibility criteria. Speak to your adviser about this strategy.

Sources
1 ATO – Concessional contributions cap

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THE FINANCIAL SCAMS TO WATCH OUT FOR IN 2024

Australians lost a total of $477 million to scams last year, according to the Australian Competition and Consumer Protection (ACCC), with the majority of victims falling in the over-65 category. But there is some good news: year-on-year losses were down by $92 million, suggesting the government's tougher approach to tackling scams is beginning to pay off.

Stemming the tide completely will be a tall order, but there are things everyday Australians can do to protect their finances and their sensitive information. The first step, as is often the case, is to be aware. Below are a few common ploys used by scammers.

Bank impersonation scams

Ever received an urgent-sounding message from your bank, but couldn't help but feel that something about it was off? Chances are your instinct was right.

These days, fraudsters can 'spoof' existing phone numbers, or make a text message appear in the same thread as actual conversations you've had in the past. This allows them to dress up attempts to extract money or information as legitimate communications from banks and other organisations.

Scammers will typically start by claiming your account has been compromised, then give you a phone number to call to set things right. Those who call might be pressured to hand over their personal details and bank passwords, or even urged to transfer their funds into another account.

Online marketplace scams

Spend enough time on online marketplaces and you'll quickly learn they can be a haven for fraudsters. For newcomers who aren't familiar with their tactics, a good rule of thumb is to be suspicious of buyers who offer convoluted instructions for receiving payment.

Scammers might encourage you to sign up for certain payment platforms, then send emails or texts requesting payment to "activate" them. They might also claim they've accidentally overpaid you and ask for the excess amount to be transferred "back" to them. Do your best to filter these users out.

Scams that claim to assist with cost of living

Cost of living pressures have hit many Aussies hard, and cyber criminals often count on financial stress, if not outright desperation, to increase both the number and vulnerability of potential targets.

Some fraudsters are now claiming they can help people access their super early by moving it to a self- managed fund. By pretending to be a financial adviser and initiating the rollover of funds, they might be able to dip their hands in and make off with some or all of your retirement savings.

Fake delivery alerts

The popularity of online shopping has opened up new avenues for cybercriminals, who have taken to impersonating Australia Post and other delivery services in elaborate bids to harvest personal data.

A common scheme involves texting people out of the blue, claiming a parcel of theirs couldn't be delivered, and directing them to an official looking website where they'll be asked to provide their details.

In cases like these, the ACCC urges consumers to avoid clicking on any links, as they'll most likely result in the theft of sensitive information. Instead, you should rely on the official app of the delivery service you used for information about your parcel.

Pig butchering scams

Pig butchering scams, as the name evocatively suggests, involve "fattening up" a victim by luring them into a digital relationship — often initiated via social media, a dating app, or a "wrong number" text message. Once enough rapport has been built up, the scammer will begin spruiking dodgy investment opportunities, often with the promise of massive returns.

Scammers sometimes go to great lengths to make their operation look legitimate, including creating trading platforms, apps, and message groups with seemingly bustling communities. Vulnerable people can invest thousands of dollars before the scammer pulls the rug out and makes off with their money.

Remote access scams

This type of scam starts with a message from someone claiming to be from a bank, telco or other recognisable organisation. They will say they've identified an issue with your computer or device and ask you to download software that will grant them remote access, supposedly to get to the bottom of things.

If alarm bells weren't already going off in your head, they should be now. Going through with this can allow the person on the other end of the line to commit identity theft, fraud, or potentially even access your bank account and drain your savings.

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Ways to stay safe

Both the tactics used by scammers and the technology available to them are constantly evolving. But common sense and a healthy dose of scepticism are often a good defence. To help protect yourself against scams like the ones mentioned, keep the following tips in mind:

- Understand that you're more likely to fall victim to a social hack (the exploiting of human weaknesses and errors) than a digital hack
- If you receive an urgent sounding message, don't make any rash decisions. Scammers are hoping to prompt quick action by creating a sense of urgency
- If you're unsure if a message is genuine, contact the organisation via the number on their website, not the one provided in the text message
- Avoid clicking on links in texts or emails
- Service providers generally don't ask for personal information or passwords in their communications, so take any requests of this kind with a grain of salt
- If you're selling an item online, check a buyer's profile for signs they might not be who they say they are and be wary of buyers who ask you for a payment
- If you're buying an item online, don't send any money until you've inspected the item in person
- If you're worried you've lost money to a scam, contact your bank immediately so they can assist.

Sources

1 ScamWatch
2 ACCC

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Important Information