

Debt Management

DEBT MANAGEMENT

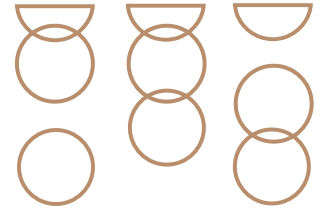
The process of effectively managing your debt can lead to financial benefits.



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Disclaimer: The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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The process of effectively managing your debt can lead to financial benefits. By reducing your debt, you can reduce the amount of interest you pay, ultimately saving you money. Once you've successfully paid off your debts, you can further enhance your financial well-being by redirecting the repayment amount towards savings. Here are some key advantages and strategies for debt management:

Benefits

1. **Increased Wealth Potential:** Paying off your debts opens up opportunities to grow your wealth.
2. **Lower Interest Payments:** Managing your debt results in reduced interest expenses.
3. **Lightened Financial Burden:** Effective debt management eases your financial load.

How it works

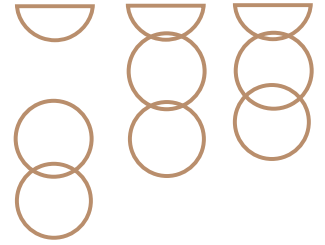
The cost associated with debt encompasses the interest paid over the loan's lifespan and loan-related fees. Minimising these costs can yield significant savings, allowing you to expedite debt repayment and bolster your saving capacity. Strategies to reduce overall debt costs include making extra payments, consolidating debts, prioritising repayment of high-interest debt, and addressing non-deductible debt before deductible debt.

Making additional repayments

Increasing your loan payments, even by a small amount, accelerates debt elimination and lowers interest expenses. Windfalls like tax refunds or bonuses can be channeled towards your loan. Consider placing extra payments in an offset account or redraw facility for reduced interest costs and the flexibility to access funds if needed. If your loan lacks these features, explore options to add them through your provider.

Debt consolidation

Consolidating multiple debts into one loan reduces costs as you only incur account fees for a single loan. Furthermore, if you combine higher-interest loans (e.g., credit cards and personal loans) with a lower-interest home loan, you'll save on interest expenses. To implement this strategy, increase one loan facility (e.g., your home loan) and use the funds to pay off other debts. Ensure that you continue making the same total loan repayment after consolidation to avoid prolonging repayment and incurring more interest. Maintain a budget to prevent accumulating additional debts.



Prioritising High-Interest Debt Repayment

Different loans usually have varying interest rates, with credit card loans typically having the highest rates, followed by personal loans and home loans. Focusing on repaying the highest-interest loan first can lead to savings compared to servicing all loans simultaneously. It's crucial to keep up with required repayments on all loans while allocating surplus income towards the higher-interest loan.

Addressing Non-Deductible Debt

Non-deductible debt includes loans used for non-income-producing assets like a primary residence or personal expenses. These debts should be paid off quickly since you don't qualify for income tax deductions on their interest. To expedite non-deductible debt repayment, consider using surplus income for additional payments, switching to fortnightly payments, or adjusting deductible debt repayments to interest-only to increase surplus income for non-deductible debt repayment.

Key Considerations

- **Check for Fees and Penalties:** Before modifying your loan, review potential fees and penalties.
- **Loan Terms and Conditions:** Some loans may not permit extra repayments, so verify with your loan provider.
- **Insurance Coverage:** Ensure you have adequate life insurance to cover loan repayments in case of income loss due to death or illness.
- **Consult with an Accountant:** Seek advice from your accountant before making changes to investment-related borrowings.

By implementing effective debt management strategies, you can achieve financial stability and pave the way for future financial growth.

References

You may wish to refer to the following websites for further information about debt management:

- www.moneysmart.gov.au
- www.ato.gov.au