5.9 MILLION AUSTRALIANS LIVE FROM PAY TO PAY!

CAN YOU BREAK THE 'PAY TO PAY' CYCLE?

According to mental health support organisation, Beyond Blue, financial worries impact our physical and mental wellbeing and potentially lead to further financial stress.

An alarming number of Australians are living from pay to pay. It could be you or someone close to you and they may desperately need help.

With this in mind, this article explains how poor money management leads to cashflow issues. We provide guidance and generic case studies on how you (or your adult children) may be able to break the 'pay to pay' cycle and take control of their finances.

Disturbingly, they are not alone…

A study by Deloitte between November 2021 and January 2022 **surveyed over 14,000 people worldwide between the ages of 19 to 39.**

The results were alarming:

- **over 30%** of respondents indicated that they did not feel financially secure, while
- **nearly 50%** lived from pay to pay. [**47% of millennials** (born 1983–1994) and **46% of Gen Zs** (born 1995–2003)]

All said cost of living was their number one concern – ahead of climate change and unemployment.

It would be easy to assume these are people earning lower wages, but that's not always the case.

Below we will discuss two scenarios that typically play out when meeting new clients who are motivated to improve their financial situation.

Meet Jodi (Your 20 something adult child)

Despite earning a good salary as an IT specialist, payday doesn't always align with the due dates on Jodi's bills. This results in the occasional week when she needs a little extra to tide her over.

Jodi doesn't have a lavish lifestyle, she rents a one bedroom apartment close to the city, enjoys a monthly facial treatment and has her nails done. She also has two streaming subscriptions and a gym membership on monthly payment plans.

Every now and then, Jodi would borrow $100 from her parents. She's good for it and always paid it back. FYI – her situation is not uncommon to most parents.

Meet Aaron (In his 30s and his spending is out of control)

Physiotherapist Aaron has a cashflow issue. He loves technology and can't resist any new gadget, even if he doesn't need it. Additionally, he has an active social life involving weekends away, dining out, theatre and concerts.

Consequently, Aaron's credit card is maxed out and he has lost track of his Buy Now Pay Later (BNPL) plans.

After making his minimum monthly repayments, Aaron is forced to live on credit until next payday.

When his clapped out car died it needed replacing. This was a massive wakeup call to Aaron when we could not find even one finance company who would accept his loan application.

Aaron felt trapped with no way to break the 'pay to pay' cycle. The worry kept him awake at night and began affecting his work.

Back to Jodi

With reasonable concern and worry, Jodi's parents introduced her to us to see how we might help her situation. The way she was traveling they could not see a path for her standing on her own two feet as an independent adult. They were particularly worried about her never being able to save enough deposit for her own place.

Conversations to have with yourself

When we work with clients like Jodi and Aaron, who are keen to get ahead financially and save for a home or investment property, we suggest they identify areas where they can save money and develop a realistic and manageable budget for themselves.

When they have done this and can prove regular savings, we can reconsider whether they now meet the criteria for a home loan.

Jodi looked at her budget and decided to:

- cancel one streaming subscription, potential savings $15 per month ($180 pa)
- reduce her monthly facials to bimonthly, potential savings $140 every two months ($840 pa)
- rent with a friend, potential savings of $160 per week ($8,320 pa) and possibly up to an additional $750 pa by sharing utility bills

She calculated that if she made these savings, within the first year she could potentially accrue over $10,000.

Also, Jodi is hoping with this budget she will no longer need to borrow from her parents.

We look forward to reviewing her situation again in 12 months.

When clients like Jodi see the potential of their savings plan, they are typically also more motivated to look at additional cost savings (such as taking lunch to work, spending less on clothes and shoes) to increase the deposit they are now saving for their first home.

Aaron's situation was slightly different.

As debt was his main concern, he decided that he will sell his unused gadgets online to repay some of his debt and also reduce the number of weekly outings and holidays to minimise his spending.

Does it really work?

Any plan must be able to be committed to and workable. Spending patterns need to change to see results. It seems hard at first, but with a proactive approach and a few sacrifices along the way, many people can see the difference within a few months.

Final message

The simplicity of internet shopping, despite good intentions, means it is very easy to build up debt without realising it. Any wonder Finder.com.au reports that 46% of Australians live from pay to pay! That's nearly half the population.

Quite scary.

As always, before doing anything you do not understand and before making dramatic financial changes, please obtain professional advice with those qualified to provide guidance on any financial decisions you are wanting to make.

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